Alignment (Clear Line of Sight) Project

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If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558
Fax: 020 7270 4861
E-mail: public.enquiries@hm-treasury.gov.uk

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1 Executive Summary

1.1 The Treasury's November 2008 Memorandum[1] to the Public Accounts Committee, Treasury Committee, Liaison Committee, Procedure Committee and Modernisation Committee outlined the Government's emerging thinking on how it might best deliver its commitment in the July 2007 Green Paper *"The Governance of Britain"* (Cm 7170) to simplify the Government's financial reporting to Parliament, ensuring that it reports in a more consistent, transparent and straightforward fashion at all three stages in the process – on plans, Estimates and expenditure outcomes.

1.2 The November 2008 Memorandum made clear that the Government was not at that stage seeking the Committees' approval of the individual proposals described in the Memorandum, since it was intended that the Government's formal proposals would be the subject of a further, more detailed Memorandum to the Committees planned for early 2009. The Government is grateful for the comments received from the Public Accounts Committee[2], Treasury Committee[3] and Liaison Committee[4] indicating endorsement of the broad aims and underlying principles of the project outlined in the November Memorandum, while making some further comments and suggestions, notably in relation to the role of Parliament in providing authority for expenditure by the Executive. Annex A to this Memorandum addresses the specific points raised by the Committees, which have helped to inform the continued development of the Government's proposals. The Government welcomes in particular the Treasury Committee's acceptance that the benefits of alignment will warrant the parliamentary control over expenditure totals being on a net of income, rather than gross, basis, subject to the new Estimates providing appropriate levels of information relating to income.

1.3 This further Memorandum to the Committees – which updates and subsumes the November 2008 Memorandum – sets out the Government's formal proposals for achieving better alignment between budgets, Estimates and accounts and simplifying and streamlining Government's financial reporting documents, thereby improving Parliament's ability to scrutinise planned and actual expenditure. The proposals reflect further discussions since November with departments, House of Commons and National Audit Office (NAO) officials and the Financial Reporting Advisory Board (FRAB), as well as the results of an external consultation exercise with key stakeholders outside of government during the autumn. The Government's proposals also take account of the Committees' comments on the November Memorandum. Subject to Parliament's agreement, the Government is aiming to begin a phased implementation of the proposals outlined in this Memorandum from April 2010. To meet this timetable, the Government would be grateful for Parliament's agreement to its proposals by no later than July 2009.

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1 Available at http://www.hm-treasury.gov.uk/d/clear_line_of_sight_memorandum.pdf and http://www.publications.parliament.uk/pa/cm200809/cmselect/cmliaisn/memo/hmtreasy/m1.htm

2 Letter of 18 December 2008 from the PAC Chairman to the Chief Secretary to the Treasury.

3 Treasury Committee's First Report Session 2008-09 *"Administration and expenditure of the Chancellor's departments, 2007-08"* (HC 35), published on 23rd January 2009.

4 Letter of 18 December 2008 from the Liaison Committee Chairman to the Chief Secretary to the Treasury.

Why change is desirable

1.4 Under current arrangements, there are a number of different systems for presenting Government expenditure. The Government uses budgets to plan what it will spend; it then presents Estimates to Parliament for approval; and finally, after the year-end, it publishes resource accounts. There are two main issues with these arrangements:

i. there is significant misalignment between the different bases on which financial information is presented to Parliament; and accordingly

ii. Government financial documents are published in different formats, and on a number of different occasions during the year, making it difficult to understand the links and inter-relationships between them.

1.5 Against this background, the Government's "vision" for the alignment project is:

"to create a single, coherent financial regime, that is effective, efficient and transparent, enhances accountability to Parliament and the public, and underpins the Government's fiscal framework, incentivises good value for money and supports delivery of excellent public services by allowing managers to manage".

Advantages of the new system

1.6 The Government endorses the Liaison Committee's view that the alignment project is "potentially an historic development in the long story of Parliament's scrutiny of government finances"[5]. Delivering the vision for the project will bring a number of benefits for both Parliament and Government. It will mean:

- A simpler system, with a single set of numbers, which is more transparent, more comprehensible and easier to use, and which improves public debate and understanding through enhanced scrutiny of government spending.
- Better government through improved democratic involvement for, and accountability to, Parliament and the public.
- A significantly enhanced ability by government to maintain firm control over public spending, while not altering the way the fiscal rules are defined.
- Building into the system the right incentives to deliver better value for money.
- A more coherent presentation of financial reporting documents that meets the needs of government and Parliament, is consistent with best practice in the private sector and does not create complexity elsewhere.
- A rationalisation of the number of occasions each year on which Government presents financial reporting documents to Parliament, resulting in greater coherence and comprehensibility in the Government's reporting to Parliament.
- A financial regime which is burden-reducing for departments and promotes greater administrative efficiency, thereby enabling departments to focus on making substantive improvements to the value for money of their spending.

[5] House of Commons Liaison Committee Second Report 2007-08 *Parliament and Government Finance: Recreating Financial Scrutiny"* (HC 426), published on 21st April 2008.

1.7 Taken together, this ambitious programme of change delivers the recommendations of both the Liaison Committee[6] and the Treasury Committee[7] that the Government should provide Parliament with better and more coherent financial information.

Key changes needed to deliver better alignment

1.8 Consistent with the vision for the project, and following extensive consultation with internal and external stakeholders, the Government is now able to confirm the key changes that it considers are necessary to deliver a better aligned framework; these are summarised below. The main change since the December 2008 Memorandum, reflecting concerns expressed by the Comptroller and Auditor General (C&AG), relates to the configuration of financial reporting documents under alignment. The Government's main proposals are that:

- All non-voted expenditure and income within budgets should be brought within the coverage of Estimates presented to Parliament.
- Parliamentary controls in Estimates should be on a net of income (rather than both gross and net) basis, corresponding with budgetary controls, but with details of income shown in the Estimates, and appropriate safeguards in place so that firm control is maintained over the use of income by departments.
- The Estimates and accounting boundaries of the departmental 'families' should be extended to accommodate non-departmental public bodies (NDPBs) and other bodies classified to the central government sector, bringing their expenditure plans within the scope of parliamentary approval. This will require primary legislation, and the Treasury is making every effort to identify a suitable legislative vehicle. The legislation will include explicit provision that consolidation of NDPBs and other bodies into departmental accounts and Estimates will not change the status of these bodies, or their relationship with the department sponsoring them. The purpose of this is to ensure that the independence of NDPBs is not compromised, and that they are not subject to any additional control as a result of consolidation.
- The budgeting concepts of near-cash and non-cash should be removed from budgets, so that there is a single Resource Departmental Expenditure Limit (DEL) budget.
- Parliamentary controls over government spending should be aligned with the Treasury's budgeting controls, consistent with the Treasury Committee's recommendation.
- Resource accounts should, as far as practicable, be based on International Financial Reporting Standards (IFRS), as adapted for the public sector context. The Government's proposals in this Memorandum have, where appropriate, been agreed in principle by the independent Financial Reporting Advisory Board (FRAB).
- The number of departmental and HM Treasury expenditure documents should be reduced to just three "publication events" each year, without any loss of important information. The Treasury's November 2008 Memorandum suggested that departments' Main Estimates should be published as part of a combined "Departmental Report and Accounts" in June. The C&AG expressed concerns about the implications for his audit of departments' accounts of producing a combined Resource Account and Main Estimate in June. The Government's revised proposals

[6] HC 426.

[7] Treasury Committee Sixth Report Session 2006-07 *"The 2007 Comprehensive Spending Review: Prospects and Processes"* (HC 279), published on 25th June 2007.

take account of the C&AG's concerns. They will also allow Parliament to have much earlier sight of provisional Estimates numbers before the start of the financial year. The Departmental Reports and Accounts published in June will set out provisional spending allocations for the following year, on a basis consistent with the current year's Estimates, and these plans will form the basis of the Main Estimates for the following year. Select Committees will therefore have the opportunity to scrutinise departmental spending plans well in advance of the start of the next financial year.

Conclusion

1.9 Improving parliamentary scrutiny of Government spending will require radical change, but there are significant benefits to be gained. The Government believes that the proposals set out in this Memorandum represent a coherent set of reforms which, if implemented as a single package, would achieve significantly better alignment between budgets, Estimates and accounts and a substantial streamlining of the Government's financial publications. The Government has adopted an inclusive approach in developing these proposals, and all stakeholders in the project – including those external to Government, notably representatives of the House of Commons and the NAO – are to be commended for working collaboratively to balance the potential difficulties associated with change with the aim of achieving a better aligned framework.

1.10 The Government believes that its proposals would deliver the major prize of making its financial reporting more transparent and accountable, consistent with the wishes of Parliament, and would thereby enable more effective parliamentary scrutiny of public spending. The Government proposes to begin a phased implementation of the new framework described in this Memorandum from April 2010. To achieve this deadline, the Government would be grateful for Parliament's agreement to its proposals by no later than July 2009.

2 Context

2.1 The remaining sections of this Memorandum outline in more detail the Government's detailed proposals for how its commitment in Cm 7170 to simplify its financial reporting to Parliament can best be delivered.

2.2 A key role of Parliament, and of the House of Commons in particular, is to provide legislative authority for Government spending, and to hold Government to account for expenditure and the collection of taxes and the raising of income. The April 2008 report by the House of Commons Liaison Committee *"Parliament and Government Finance: Recreating Financial Scrutiny"*[1] usefully defined the purpose of financial scrutiny by the House of Commons as being:

- to make the Government's financial decisions transparent, including the relationship between its stated priorities and its funding decisions;
- to engage bodies and individuals outside Parliament and give them the opportunity to comment;
- to have the opportunity to influence the Government's financial decisions;
- to hold the Government, individual departments and other public bodies to account for their financial decisions and financial management; and thereby
- to contribute to an improvement in the quality of departments' financial decisions and management and improved value for money in public services

2.3 Under current arrangements, there are a number of different systems for presenting Government expenditure. The Government uses budgets to plan what it will spend; it then presents Estimates to Parliament for approval; and finally, after the year end, it publishes resource accounts. There are two main issues with these arrangements, which are explained in more detail in this Memorandum:

- there is significant misalignment between the different bases on which financial information is presented to Parliament; and accordingly
- Government financial documents are published in different formats, and on a number of different occasions during the year, making it difficult to understand the links and inter-relationships between the bases on which financial information is presented.

2.4 The Government has already implemented a number of significant changes over recent years in the way in which financial information is reported, with the aim of making the public expenditure system more transparent. These changes have included:

- the publication of three year spending plans, following each Spending Review, linked to the achievement of clear objectives set out in Public Service Agreements;

[1] HC 426

- the implementation of Resource Accounting and Budgeting (RAB), which brought the highest standards of the private sector into financial reporting by the public sector and aimed to create new value for money incentives for departments. The implementation of International Financial Reporting Standards (IFRS) in 2009-10 will build on this; and
- significant improvements in the closure of departmental resource accounts, so that the accounts are available much earlier in the year. This has enabled an increasing number of departments to publish combined Departmental Reports and Resource Accounts before the summer recess, providing more coherent information about the department's spending.

2.5 Building on these improvements, and recognising the importance of financial scrutiny by the House of Commons, the Government announced in Cm 7170 that it would simplify its reporting to Parliament, with the aim of making it easier to understand how Government has used the resources voted to it, and thus to hold Government to account. The alignment project has, accordingly, involved addressing misalignments between budgets, Estimates and accounts and seeking ways to simplify and streamline the configuration of financial reporting documents presented to Parliament.

2.6 This Memorandum sets out the Government's conclusions on how the objectives set out in Cm 7170 can best be achieved, against a set of underlying principles which have been applied in determining the most appropriate way forward to achieve alignment in individual cases.

3 The Vision and the Challenge

3.1 As noted earlier, the Government's "Vision" for the alignment project in delivering its commitment in Cm 7170 to simplify its financial reporting to Parliament is:

"to create a single, coherent financial regime, that is effective, efficient and transparent, enhances accountability to Parliament and the public, and underpins the Government's fiscal framework, incentivises good value for money and supports delivery of excellent public services by allowing managers to manage".

3.2 Delivering this Vision will bring a number of benefits for both Parliament and Government, as outlined in paragraph 1.6 above.

3.3 This major programme of change is fully consistent with the recommendations of both the House of Commons Liaison Committee in HC 246, and of the Treasury Committee in HC 279, that the Government should provide Parliament with better and more coherent financial information. It is also in line with similar conclusions in the Hansard Society's July 2006 report *"The Fiscal Maze: Parliament, Government and Public Money"*, and with proposals for improving parliamentary scrutiny of Government spending in a press notice issued by the Committee of Public Accounts (PAC) in July 2006[1].

The Challenge

3.4 Government's and Parliament's control and scrutiny of public spending is currently managed against a variety of frameworks:

- National Accounts – which are an integrated set of economic accounts covering the whole of the economy. These accounts are produced by the Office for National Statistics (ONS), in accordance with the European System of Accounts (ESA) 1995. National Accounts are used to determine fiscal performance.
- Budgets – which are defined by the Treasury and used to control public spending. Budgets are allocated by the Treasury in Spending Reviews and reported on to Parliament at successive Pre-Budget Reports (PBRs) and Budgets. Certain elements of budgets are aligned to National Accounts definitions. Others, such as those introduced with the move to full Resource Accounting and Budgeting (RAB) in 2003-04, relate to commercial-style accounting concepts and are designed to improve value for money incentives in departments.
- Supply Estimates – which seek annual parliamentary authority for the expenditure of individual departments, following the plans announced in Spending Reviews. Estimates are largely, if not entirely, aligned to generally accepted accounting practice (GAAP) accounting definitions, rather than to National Accounts, although they do not encompass all of the departmental expenditure and income that would be accounted for under GAAP. There are significant differences between Estimates

[1] Committee of Public Accounts Press Notice *"Improving Financial Scrutiny"*, 3rd July 2006.

and budgets: around a third of departmental spending in budgets is not included in Estimates, and about a sixth of what is included in Estimates is not in budgets.

- Resource accounts – which report departments' actual spending during a particular financial year, following UK GAAP, as adapted for the public sector. This means that there are some substantial differences compared with budgets and National Accounts. The Government announced in Budget 2008 its commitment to prepare financial statements for government departments and other public sector entities, from 2009-10, using International Financial Reporting Standards (IFRS), adapted as necessary for the public sector.

3.5 These frameworks have developed in different ways over the years for good reasons, since they serve different purposes. However, the result is significant misalignment between the different frameworks, with only about two thirds of government expenditure fully aligned across budgets, Estimates and resource accounts.

3.6 Current misalignments can broadly be broken down into two categories:

- Differences in the various boundaries – i.e. the entities and spending included in budgets, Estimates and accounts – covering both:
    - different types of income and expenditure within the budgets, Estimates and accounts boundaries – for example, payments from the National Insurance Fund (NIF) and Consolidated Fund Standing Services (CFSS), which are covered by separate legislation and are included in budgets and resource accounts, but not in Estimates;
    - different treatment of entities within the respective boundaries – for example, non-departmental public bodies (NDPBs). NDPBs' spending scores in budgets, but it is the grant-in-aid paid to these bodies which scores in Estimates and resource accounts.
- Differences in the policies – specific transactions are often treated differently between the three frameworks. Examples include capital grants, provisions and other non-cash items within budgets.

3.7 Table 3.A summarises the current resource misalignments between budgets, Estimates and resource accounts, in the context of total departmental resource spending plans for 2008-09 of £489 billion. This analysis reflects the outcome of a detailed "baselining" exercise carried out with departments, which has provided assurance that all current misalignments have been identified.

Table 3.A: Current resource misalignments by amount

		Not In		
	£bn	Budgets	Estimates	Resource Accounts
	Budgets		129	58
In	Estimates	86		0
	Resource Accounts	82	67	

Source: 2008-09 Plans as at August 2008 excluding expenditure by the Devolved Administrations

3.8 The main items within each of these totals are as follows (there are, in addition, a large number of smaller expenditure and income items):

Table 3.B: Breakdown of Table 3.A

Misalignment	Main items	£bn
In Budgets not Estimates (£129bn)	Non-voted expenditure (e.g. Consolidated Fund Standing Services and payments from National Insurance Fund)	75
	Resource spending by NDPBs	35
	Utilisation of provisions	22
In Budgets not Accounts (£58bn)	Resource spending by NDPBs	35
	Utilisation of provisions	22
In Estimates not Budgets (£86bn)	Grants in aid to NDPBs	40
	Grants to devolved bodies	47
	Capital grants	19
	NHS contributions	-19
In Accounts not Budgets (£82bn)	Grants in aid to NDPBs	40
	Grants to devolved bodies	47
	Capital grants	19
	NHS contributions	-19
In Accounts not Estimates (£67bn)	Non-voted expenditure (e.g. Consolidated Fund Standing Services and payments from National Insurance Fund)	75
	Consolidated Fund Extra Receipts	-7

3.9 External stakeholders have commented that they find the present system overly complex, and that it is difficult to understand the different sets of expenditure numbers and how they relate to each other. The Treasury Select Committee recommended in HC 279 that:

"the Government set itself the ambition to replace the current system of authorisation based primarily on Estimates with one linked more clearly with the public expenditure planning and control system, so that the House of Commons would eventually be in a position to consider and, should it so choose, authorise Departmental Expenditure Limits and an annual total for Annually Managed Expenditure, giving greater relevance to subsequent consideration of expenditure in excess of such limits requiring subsequent approval."

3.10 In addition, government spending documents presented to Parliament are published in different formats, and on a number of occasions during the financial year, making it difficult to understand the links and inter-relationships between them. A list of current spending documents published by departments and the Treasury, split between Spring/Summer and Autumn/Winter publications, is shown in Table 3.C.

Table 3.C: Spending documents presented to Parliament by Departments and HM Treasury

Publication	Date Published
Spring/Summer publications	
Main Estimates	Apr/May (5 weeks after Budget)
Supplementary Budgetary Information (SBI)	Apr/May (5 weeks after Budget)
Public Expenditure Statistical Analyses (PESA)	Apr/May (5 weeks after Budget)
Departmental Reports	May (just after Main Estimates)
Summer Supplementary Estimates	June
Departmental Resource Accounts	June/July
Public Expenditure Outturn White Paper (PEOWP)	July
Autumn/Winter Publications	
Winter Supplementary Estimates	November
Vote on Account	November
Spring Supplementary Estimates	February
Statement of Excesses	February

3.11 Commenting on the complexity of the current system of parliamentary authorisation of public spending, the Treasury Committee recommended in HC 279 that the Government:

"… commit itself to working with select committees of the House of Commons, the National Audit Office and other interested parties to improve the clarity, consistency and comprehensibility of the documents placed before the House of Commons to seek authorisation for expenditure and to report on that expenditure."

3.12 The Government undertook, in its response to HC 279[2], to take this recommendation forward as part of the alignment project.

[2] Treasury Committee Seventh Special Report Session 2006-07 *"The 2007 Comprehensive Spending Review: Prospects and Processes: Government Response to the Committee's Sixth Report of Session 2006-07"* (HC 1027) published on 15th October 2007.

4 Underlying principles in developing better alignment

4.1 In order to deliver the vision for the alignment project, the Government has established a number of 'top down' principles which have been applied in developing an appropriate way forward to achieve alignment in individual cases, consistent with there being no overall weakening of parliamentary control and scrutiny. The principles are that:

- Alignment should not be pursued if the results are likely to be manipulable, or if doing so risks causing serious damage, bearing in mind that the different purposes of the various frameworks may lead to the conclusion that different treatments may, in certain cases, be legitimate.
- Alignment will not change the National Accounts, nor the way in which they measure economic or fiscal performance. There will be no increased residual risk to fiscal control – although the places where risk is managed, and the nature of the mitigations, may change.
- Flexibility may be needed in certain areas to achieve alignment:
  - For budgets, while the overriding need is to maintain firm control over public spending while incentivising value for money, it may be possible to achieve this in different ways in order to achieve better alignment.
  - For Estimates, the aim should be to align with whatever is needed in budgets to control public spending, consistent with the requirements of Parliament.
  - For resource accounts, if it is not desirable in the context of alignment to implement IFRS strictly in specific areas, it may be possible to achieve alignment in other ways through seeking adaptations to IFRS – in limited cases and subject to the agreement of the Financial Reporting Advisory Board (FRAB) – while still satisfying its overall intentions.
- It is unlikely to be possible to achieve full alignment in all areas, given the different purposes for which the different frameworks have developed, for good reasons, over the years. In the absence of full alignment, the aim should be to ensure that any necessary reconciliation is kept as simple as possible.

4.2 The Government's proposals in this Memorandum have been developed in a way that is fully consistent with these principles. The results are summarised in the next section.

5 Key changes needed to deliver better alignment

5.1 Consistent with the vision and underlying principles for the alignment project, the Government is now able to confirm the key changes that it considers are necessary to deliver a better aligned framework; these are summarised below. The main change since the November 2008 Memorandum, reflecting concerns expressed by the Comptroller and Auditor General (C&AG), relates to the configuration of financial reporting documents under alignment. The main proposals are that:

a) All non-voted expenditure and income within budgets should be brought within the coverage of Estimates.

b) Parliamentary controls in Estimates should be on a net (rather than both gross and net) basis, to line up with budgetary controls, with details of income shown in the Estimates and appropriate safeguards in place so that firm control is maintained over the use of income by departments.

c) The Estimates and accounting boundaries should be extended to accommodate NDPBs and other bodies classified to the central government sector.

d) The budgeting concepts of near-cash and non-cash should be removed from budgets, so that there is a single Resource DEL budget.

e) Parliamentary controls over government spending should be aligned with the Treasury's budgeting controls, consistent with the Treasury Committee's recommendation.

f) Resource accounts should, as far as practicable, be based on IFRS, as adapted for the public sector context. The Government's proposals in this Memorandum have, where appropriate, been agreed in principle by the independent Financial Reporting Advisory Board (FRAB).

g) The number of departmental and HM Treasury expenditure documents should be reduced to just three "publication events" each year. The Treasury's November 2008 Memorandum suggested that departments' Main Estimates should be published as part of a combined "Departmental Report and Accounts" in June. The C&AG expressed concerns about the implications for his audit of departments' accounts of producing a combined Resource Account and Main Estimate in June. The Government's revised proposals take account of the C&AG's concerns by removing any risk that the resource accounts would be constrained to a set timetable by the need to publish the Main Estimates by a particular date.

5.2 The underlying rationale for these changes is explained in more detail at Annex B to this Memorandum, and Annex C explains how the Government proposes to resolve the remaining significant areas of "generic" misalignment reflected in Table 3.A[1]. Illustrative Estimates and resource accounts consistent with the Government's proposals are at Annex D, including some options for the Estimates format, on which Parliament's view would be welcome. A suggested

[1]There are also a number of department-specific issues, which have been resolved in discussion with the departments concerned.

"protocol" between Government and Parliament, governing the handling of changes to the budgeting rules, is at Annex E.

5.3 The Government's proposals are the result of full consultation with departments and other central government bodies. They have also benefited from detailed discussions with key external stakeholders, including the House of Commons Scrutiny Unit, Select Committee Clerks and other parliamentary officials, as well as the NAO, the ONS, the Chartered Institute of Public Finance and Accountancy (CIPFA), the Better Government Initiative and the FRAB, all of whom have served on the Steering Committee and Project Board, and have made a valuable contribution. This has been crucial to the success of the project, as the work has proceeded. The Government has also conducted an external consultation exercise with key stakeholders outside of Government. The Government very much welcomes the constructive engagement, and immense contribution, of all parties involved in taking forward this important reform. The inclusive approach that the Government has adopted is intended to ensure that the outcome is accepted by all parties, and is sustainable.

5.4 The changes outlined above meet the Government's vision for the alignment project outlined in paragraph 1.5 above. The Government believes that these proposals represent a coherent set of reforms, which should be regarded as a single "package". Achieving better alignment between budgets, accounts and Estimates, and streamlining the Government's financial publications, inevitably requires radical change, but there are very significant benefits to be gained. These benefits will be considerably weakened if only part of the changes needed are adopted, and significant continued misalignments are tolerated within the system.

5.5 If implemented, the Government's proposals would mean that budgets and Estimates would be fully aligned for the generality of departments. The only outstanding misalignment in respect of Estimates presented to the Westminster Parliament[2] would relate to the block grants paid by two departments (the Ministry of Justice and Northern Ireland Office) to the Devolved Administrations (DAs), reflecting the unique circumstances of those bodies. The budgeting framework would, moreover, be considerably simplified.

5.6 Although some misalignments with resource accounts would remain, these would be in only a very limited number of areas, consistent with the underlying principles governing the project. Since the number of remaining misalignments would be significantly reduced, this would make the necessary reconciliations much fewer and simpler than at present. The Government's proposals which impact on the accounting rules have already been agreed in principle by the independent Financial Reporting Advisory Board (FRAB).

5.7 The impact of the proposed changes on the current areas of misalignment compared with the position shown in Table 3.A is summarised in Table 5.A.

[2]There is a further area where Estimates may turn out retrospectively to be misaligned with budgets, in respect of certain Prior period Adjustments (PPAs), which are discussed in more detail at Annex F. However, this potential misalignment would not generally occur in Main Estimates.

Table 5.A: Revised resource misalignment by amount

	£bn	Not In Budgets	Estimates	Resource Accounts
In	Budgets		0	0
	Estimates	0		0
	Resource Accounts	19	19	

5.8 With the exception of the block grants to the DAs mentioned above, residual reconciliations between budgets/Estimates and resource accounts would remain in respect of two areas only[3]:

i. Capital grants to the private sector, local authorities and public corporations (amounting to around £19 billion in 2008-09); and

ii. Any occasional Prior Period Adjustments resulting from errors, omissions or changes in accounting policy that have been instigated by departments themselves, rather than by changes in the Government Financial Reporting Manual – although these have occurred only very rarely in recent years.

5.9 The rationale for these two continuing misalignments is explained in more detail at Annex F.

5.10 Prior to implementation of the new framework, the Government will establish a Code so that, as different frameworks develop over time, there is a process in place for looking at changes across the piece in order to monitor, and maintain, alignment.

5.11 If, however, the "package" of changes outlined above were not implemented in full, with the result that budgets and Estimates were not fully aligned for the generality of departments, and there were further continuing misalignments between Estimates and accounts, the position would immediately become much more complex. In such circumstances, the benefits for Parliament and the public would be significantly reduced, since more reconciliations would be needed between budgets and Estimates, and between Estimates and resource accounts. That is why the Government is proposing these changes as a single package.

5.12 The implications for alignment would be particularly severe if misalignments remained which affected the majority of departments. If, for example, NDPBs were not consolidated in departments' Estimates and resource accounts, this would result in a continuing misalignment, for all departments with NDPBs, between budgets and Estimates/accounts; or if it did not prove possible to secure agreement to moving to net control in Estimates, this would result in a continuing misalignment, for all departments, between budgets/accounts and Estimates.

[3] The Treasury's November 2008 Memorandum indicated that there might be a third area of continuing misalignment between budgets, Estimates and accounts, in respect of non-budget income that is included in resource accounts (specifically, fines and penalties surrendered to the Consolidated Fund). However, this misalignment has since been resolved along the lines explained in Annex C. There may occasionally be some non-budget income which is surrendered to the Consolidated Fund but shown in resource accounts, e.g. windfall gains. We are exploring the treatment of tax credits in HM Revenue and Customs' accounts, to establish whether this will lead to a further misalignment. In addition, the Government has made a number of recent announcements in relation to the banking sector. The ONS, with Eurostat, will decide the classification of action taken in terms of the impact on public sector finances. The Government will then consider treatment within the public spending framework, in the light of ONS' decisions.

6 Legislative implications and next steps

6.1 Primary legislation is needed to enable the consolidation of NDPBs' expenditure into departments' Estimates and accounts.

6.2 The advice provided by Parliamentary Counsel is that power should be sought, through primary legislation, to consolidate NDPB expenditure into both the Estimate and the resource accounts for each department. The Treasury is making every effort to identify a suitable opportunity to introduce such legislation; however, the timing remains uncertain. This may mean that it may not be possible to implement all of the changes in 2010-11, although changes not dependent on legislation could still be implemented then.

6.3 It is intended that the legislation will include explicit provision that consolidation of NDPBs and other bodies into departmental accounts and Estimates will not change the status of the consolidated bodies or their relationship with the department sponsoring them. The purpose of this is to ensure that the independence of NDPBs is not compromised, and that they are not subject to any additional control as a result of consolidation.

6.4 The Treasury is also in discussions with Parliamentary Counsel about the legislative position regarding the proposed move to net control in Estimates. In addition, as the Liaison Committee has noted, it will also be necessary to consider the implications of the Government's alignment proposals for Supply legislation (Consolidated Fund and Appropriation Acts), and for the relevant Standing Orders of the House. The Treasury is discussing these issues with the House of Commons authorities and the NAO.

Next steps

6.5 Subject to Parliament's approval of the Government's proposals, including of the legislation needed to achieve alignment described above, the Government's aim is to begin a phased implementation of the new spending framework from April 2010. This would enable some dry running of the new system to be carried out during 2010-11, and it may also be possible to begin to introduce certain aspects of the new spending framework in that year, with Parliament's agreement. Dry running seems a sensible approach when major changes to the spending framework are being implemented.

6.6 In order to achieve this, the Government would be grateful for Parliament's agreement to its proposals by no later than July 2009, to allow sufficient time for the necessary preparations to be put in hand and completed. Pending Parliament's decision, and in order to allow the April 2010 start date – if acceptable to Parliament – to be delivered, the Government proposes now to embark, in parallel, on implementation planning during the first half of 2009.

7 Summary and conclusions

7.1 This Memorandum has set out the Government's detailed proposals for delivering its commitment in the July 2007 Green Paper *"The Governance of Britain"* to simplify its financial reporting to Parliament by better aligning budgets, Estimates and resource accounts and streamlining the financial reporting documents it presents to Parliament.

7.2 There is a substantial prize and opportunity here in terms of making Parliament's processes more meaningful and giving Parliament a proper and rewarding basis for scrutiny. Specifically, the current reforms aim to:

- modernise the public spending system to make it more accountable and transparent, enabling the Government to improve the way it manages the public finances and allowing Parliament to scrutinise public spending more effectively;
- simplify the reporting of public finances by reforming the way in which Government publishes budget and accounting information, making it more efficient and easier to understand; and
- improve the way that public spending is managed by bringing spending control in line with the way that departments manage their business and giving greater incentives for value for money.

7.3 As noted in the Treasury's November 2008 Memorandum, the Government very much welcomes the support that Parliament has given, and continues to give, to the alignment project. This was evidenced, for example, by the Liaison Committee in HC 426, which stated:

"We regard removing complexity from the Government's financial system as fundamental to improving financial scrutiny, as well as to improving financial management in Departments. The Alignment Project offers the possibility of achieving this. In revising the basis of Parliament's financial control and the system of reporting to Parliament, it is potentially an historic development in the long story of Parliament's scrutiny of government finances."

7.4 The Liaison Committee further commented that the alignment project was "highly ambitious", noting that:

"… it is likely to result in proposals for changing the whole basis of Parliament's financial control, shifting this to a system based on the controls currently used in budgets (Departmental Expenditure Limits, or DELs, and Annually Managed Expenditure, or AME, together with the Net Cash Requirement), and for a recasting and consolidation of the entire range of reporting documents".

7.5 In commending the alignment project to the House, the Committee concluded:

"We emphasise the magnitude of the prize which is potentially available: a comprehensible and coherent system of planning, authorising and reporting government expenditure, making it possible for the House and select committees to scrutinise the Government's finances far more effectively."

7.6 The Government reiterates its full support for the Committee's views in all respects.

7.7 The Government acknowledges the views expressed by the PAC, Treasury Committee and Liaison Committee that an improvement in the clarity of information reported to Parliament will only fully serve its purpose if Parliament is then able to make effective use of the information through more effective scrutiny of Estimates, informed by regular presentation before the summer recess of departments' outline spending plans for the next financial year and by making available the information needed for effective consideration of expenditure by the House. The Government believes that its proposals for the reconfiguration of financial reporting documents outlined in Annex B will go a long way to meeting the Committees' concerns, by providing Parliament with information (as part of the combined "Departmental Annual Report and Accounts" in June) about spending allocations for the following year, in advance of the summer recess. This will allow Select Committees to question departments about their plans well in advance of the presentation of the following year's Main Estimates.

7.8 The alignment project is not seeking to change the process through which Parliament authorises Government spending plans, but to make it easier for Parliament to understand and challenge departments on their plans. As the Government's response[1] to the Liaison Committee's April 2008 report on Financial Scrutiny noted, this is an issue which Parliament itself may wish to consider in the context of the project, perhaps through the Modernisation or Procedure Committees, both of whom have received the November Memorandum. In particular, the Government will be happy to consider ways in which the revised documents might best facilitate parliamentary scrutiny.

7.9 The Government further acknowledges that possibly the most contentious issue for Parliament is the proposed move to net control in Estimates. However, the Government believes that Parliament's ability to scrutinise Government expenditure and income would be enhanced, rather than reduced, through different, more effective ways of oversight than have been exercised in the past. The rationale for this is explained more fully in Annex B. Should Parliament, however, continue to vote budgets on a gross basis, the voted control limits would be significantly different from those applied by the Treasury. This continued misalignment would weaken the coherence and comprehensibility of the new regime, would not meet other recommendations of Parliament and would mean that alignment could not happen in any meaningful way. The Government is therefore particularly grateful for the Treasury Committee's acceptance that the benefits of alignment will warrant the parliamentary control over expenditure totals being on a net of income, rather than gross, basis, subject to the new Estimates providing appropriate levels of information relating to income.

7.10 The Government invites Parliament to agree to the detailed package of proposals set out in this Memorandum, which are fully consistent with the views expressed previously by various Parliamentary Committees. As indicated above, the Government would welcome Parliament's agreement to its proposals by no later than July 2009, to enable a phased implementation of the new framework to begin from April 2010.

[1] Liaison Committee Third Special Report Session 2007-08 *"Parliament and Government Finance: Recreating Financial Scrutiny: Government and National Audit Office Responses to the Committee's Second Report of Session 2007-08"* (HC 1108) published on 23rd October 2008.

A Issues raised by the Public Accounts, Treasury and Liaison Committees

A.1 While welcoming the broad aims and principles of the alignment project outlined in the Treasury's November 2008 Memorandum, the letters of 18 December 2008 from the Chairs of the Liaison Committee and Public Accounts Committee to the Chief Secretary to the Treasury, and the Treasury Committee's January 2009 report on the administration and expenditure of the Chancellor's departments in 2007-08 (HC 35), raised a number of issues for further consideration.

A.2 These issues (*shown in italics*), together with the Government's response, are summarised below.

Liaison Committee

The proposals for better financial reporting and scrutiny need to be part of a process for consideration of Estimates in the House of Commons which allows the House, informed by its Committees, to understand the information submitted in a timely way, enabling appropriate consideration on the floor of the House

A.3 The alignment proposals will allow Parliament to have much earlier sight of provisional Estimates numbers before the start of the financial year. The Departmental Reports and Accounts published in June will set out provisional spending allocations for the following year, on a basis consistent with the current year's Estimates since, under alignment, budgets will be aligned with Estimates. These plans will form the basis of the Main Estimates for the following year. Select Committees will therefore have the opportunity to scrutinise departmental spending plans well in advance of the start of the next financial year.

A.4 The Treasury will continue to discuss with the relevant House authorities the detailed proposals for the information needed by Parliament, and for the consideration of expenditure by the House, set out in the Liaison Committee's April 2008 Report on Financial Scrutiny (HC 426).

Parliament will need clarity as to the respective responsibilities of Accounting Officers of non-departmental public bodies and the respective expenditure items to which those responsibilities relate; and to be satisfied that there is no reduction in the independent position of those bodies

A.5 The proposal to consolidate non-departmental public bodies (NDPBs) into Estimates and resource accounts does not materially alter the responsibilities, or the relationships, of Accounting Officers. The Departmental Accounting Officer will be responsible for the accuracy of the consolidated accounts, but will not be responsible for propriety, regularity or value for money in relation to expenditure by NDPBs, which will remain the responsibility of the NDPB Accounting Officer. A note to the Estimates and resource accounts will set out the respective responsibilities of the Accounting Officers (see draft at Annex I), and make clear that, by signing the accounts, there is no implication of increased control by the Departmental Accounting Officer of transactions within NDPBs.

A.6 The status of NDPBs is determined largely by the legislation that created them. Most executive NDPBs are created as independent bodies with a set of responsibilities and powers, and the legislation usually empowers the Secretary of State to provide grant in aid (subject to conditions) to finance the activities of the NDPB. In some cases, NDPBs are also required to act independently (in deciding on the fair allocation of funds, for example). Legislation establishing NDPBs also states (in virtually every case) that the body created is not a Crown body, so that the NDPB has a different status to departments and executive agencies. It is not envisaged that any of these distinctive features will change under alignment: NDPBs will continue to be separate corporate entities with statutory responsibilities.

A.7 Consolidation of NDPBs into Estimates and resource accounts will require primary legislation, and the Treasury is making every effort to identify a suitable legislative vehicle. The legislation will include explicit provision that consolidation of NDPBs and other bodies into departmental accounts and Estimates will not change the status of these bodies or their relationship with the department sponsoring them. The purpose of this is to ensure that the independence of NDPBs is not compromised, and that they are not subject to any additional control as a result of consolidation.

Parliament will need to be satisfied that the proposed changes provide sufficient safeguards governing the use of departments' income to support their expenditure

A.8 Moving to net voting will offer a number of significant benefits, notably in terms of fully aligning parliamentary controls with Treasury controls over departmental spending, and maintaining incentives on departments to seek best value for money by maximising income where appropriate to do so. The Government is proposing a number of robust safeguards to ensure that firm control is maintained over the use of income by departments. These include:

- the extension of the ambit of the Estimate to cover income, thereby giving formal parliamentary and legislative control over categories of income that may be retained by departments;
- the provision of full information in the Estimate about expected levels of income, which Parliament would be able to compare to actual outturn reported in the resource accounts. Where the level of income has deviated above a set level, the department will be required to provide an explanation in the accounts; and
- the audit of the resource account by the NAO will include the regularity of the income raised, and the application of that income for approved purposes.

A.9 A fuller explanation of the safeguards is given in Annex B to this Memorandum. As a result of the new arrangements proposed under alignment, Parliament will have more, and better, information about income than at present. The Government would, of course, be happy to participate in a review of the practical implications and effectiveness of the move to net voting, should Parliament decide to initiate such a review in the light of experience.

Parliament will need to be assured that the plans for the parliamentary timetable, publications and the voting of Estimates are workable, do not lead to any genuine loss of information and enable better scrutiny: the House may expect a clear separate published budget document, published early in the financial year (or, even better, before the beginning of the year)

A.10 As noted earlier, the alignment proposals will allow Parliament to have much earlier sight of Estimates numbers before the start of the financial year. The Departmental Reports and Accounts published in June will set out provisional spending allocations for the following year, on a basis consistent with the current year's Estimates since, under alignment, budgets will be aligned with Estimates. These plans will form the basis of the Main Estimates for the following year[1]. Select Committees will therefore have the opportunity to scrutinise departmental spending plans well in advance of the start of the next financial year.

[1] The timing of the presentation of Main Estimates to Parliament is determined by the timing of the Budget.

Parliament will need to be able to understand and control what types of expenditure are covered in voting DEL and AME limits, as recommended by the Treasury Committee, and to be able to agree reductions, as well as increases, to the totals

A.11 Annex E to this Memorandum contains a suggested protocol between Government and Parliament regarding how and when changes to the definitions and treatment of spending may be reflected in the Estimates. It is proposed that Parliament should be formally consulted whenever a change is made which would add or remove a category of expenditure from a voted limit. Parliament would be notified when a category of expenditure was moved between voted limits (ie between DEL and AME, or between resource and capital). This would relate only to framework changes made before the beginning of a financial year; in-year changes would require parliamentary approval through a Supplementary Estimate.

A.12 The circumstances in which reductions in Estimates may be made will need to be reviewed under alignment. At present, negative Estimates – ie a reduction in one or more of the limits voted by Parliament – are allowed only in limited circumstances:

- where a machinery of government change transfers some, or all, provision from one department to another; or
- where a department funds an increase in spending in one Request for Resource (RfR) by reducing provision in another RfR.

A.13 Since it is possible for budgets to be reduced in other circumstances, or for the overall budgetary spending limit to be reduced, alignment of Estimates with budgets needs to allow for Estimates to seek reductions in previously voted limits. The structure of Supply legislation (Consolidated Fund and Appropriation Acts) will also need to be reviewed to ensure that this covers the possibility of an overall reduction in Supply. The Treasury is discussing the potential implications of these changes with the House of Commons authorities and the NAO.

Consideration will need to be given to the consequences for the Consolidated Fund and Appropriation Acts and timetable, which may involve changes to Standing Orders No 54 and 55.

A.14 As indicated above, the Treasury is discussing with the House of Commons authorities and the NAO the potential implications of the proposed changes for Supply legislation and Standing Orders of the House.

It would be helpful if the fuller Memorandum could give a clear indication of how the total number of control totals for Parliament will alter under the proposals

A.15 Annex B to this Memorandum notes that, overall, the total number of control limits for Parliament is expected to be roughly the same as at present (at around 200), with the removal of separate controls over income broadly offset by an increased number of controls over expenditure.

A.16 More importantly, in all cases, Parliament would be voting on the same limits used by both Treasury and departments to manage public expenditure, rather than on separate Request for Resources (RfR) totals. In line with good financial management practice, departments would then be voted set resource and capital budgets, and be expected to live within them, by making decisions themselves about reallocating resources between priorities, as necessary. This is also in line with international practice – the majority of legislatures in the developed world vote the budget, rather than alternative control totals.

Public Accounts Committee

Improving the clarity of information reported to Parliament will only serve its purpose if Parliament is then able to make effective use of the information. Consideration of the Estimates *on the floor of the House should be informed by regular presentation before the summer recess of the Government's outline spending plans for the next financial year.*

A.17 As noted above in response to the Liaison Committee's comments, the alignment proposals will allow Parliament to have much earlier sight of provisional Estimates numbers for the following financial year, before the summer recess. The Departmental Reports and Accounts published in June will set out provisional spending allocations for the following year, on a basis consistent with the current year's Estimates since, under alignment, budgets will be aligned with Estimates. These plans will form the basis of the Main Estimates for the following year. Select Committees will therefore have the opportunity to scrutinise departmental spending plans well in advance of the start of the next financial year.

Treasury Committee

The Treasury should consider not only the presentation and authorisation of expenditure but also the way in which the revised documents might best facilitate parliamentary scrutiny

A.18 The Government will be happy to consider ways in which the revised documents might best facilitate parliamentary scrutiny.

We acknowledge that the requirements of the alignment project mean that it is not possible for parliament to maintain control over gross totals. We are concerned that without adequate levels of information regarding income, parliament's authority may be diminished. We recommend that the new estimates provide appropriate levels of information relating to income. We do not wish to impose an unreasonable administrative burden on the departments and hope that a pragmatic solution can be adopted

A.19 The Government welcomes the Committee's acknowledgement that the requirements of the alignment project mean that it would not be practicable for Parliament to maintain direct control over gross expenditure totals. As noted above, as a result of the new arrangements proposed under alignment, Parliament will in practice have more, and better, information about income than at present. Estimates will show expected levels of income (resource and capital) in at least the same level of detail as at present: in voting DEL on a net basis, Parliament would therefore be fully aware of the level of income anticipated. In addition, the ambit of the Estimate will be extended under alignment to cover income, thereby giving formal parliamentary and legislative control for the first time over categories of income that may be retained by departments. Resource accounts will disclose actual income received, which can then be compared to the levels anticipated in the Estimates, and Select Committees will be able to challenge departments on any significant change.

B Rationale for key changes needed to deliver alignment

B.1 The Government believes that the proposals set out in this Memorandum represent a coherent set of reforms which, if implemented as a single package, would achieve significantly better alignment between budgets, Estimates and accounts and a substantial streamlining of the Government's financial publications, thereby improving Parliament's ability to scrutinise planned and actual expenditure. These benefits will be considerably weakened if only part of the changes needed are adopted, and significant continued misalignments are tolerated within the system.

B.2 This Annex explains the rationale for the key elements of the Government's proposals for a better aligned spending framework set out in this Memorandum. Annex C then explains how the Government proposes to resolve other significant current areas of misalignment.

a) All non-voted expenditure and income within budgets is brought within the coverage of Estimates

B.3 The current position is that, in addition to the expenditure voted annually in Estimates, the Treasury operates additional controls over expenditure which Parliament has given separate standing legislative authority to take place without further authorisation. This can be either particular types of expenditure called Consolidated Fund Standing Services, or expenditure financed from specific Funds other than the Consolidated Fund (eg the National Loans Fund and the National Insurance Fund).

B.4 The problem with the current misalignment is that the numbers presented to Parliament in Estimates are usually very different from both the budgeting figures contained in departmental reports and the outturn data in resource accounts, making it difficult for Parliament to understand and scrutinise departments' expenditure effectively.

B.5 The Government's proposed approach is to widen the coverage of Estimates to include spending that is not currently voted annually through the Estimates process because it is covered by separate legislation. To preserve the current statutory (and constitutional) position, the Estimate would be separated into two parts, distinguishing between the elements which require annual parliamentary and legislative authority (the voted element) and those which are included for information only (the non-voted element). The non-voted amounts would be clearly identified, so that the Estimate did not seek authority for either the non-voted resource requirement, or the associated cash. The Estimate would make clear which elements were to be voted, and which were already subject to separate legislation.

B.6 The key benefit of this change is that the expenditure shown on the face of the Estimate would line up with the Treasury's controls over government spending, thereby reducing complexity and making Parliament's role in scrutinising expenditure more meaningful and effective. In practice, the Estimates of the Department for Work and Pensions and HM Revenue and Customs would be the most affected by this change; most departments have no, or only small amounts of, non-voted expenditure.

b) Parliamentary controls in Estimates are on a net (rather than both gross and net) basis, to line up with budgetary controls, with details of income shown in the Estimates and appropriate safeguards in place so that firm control is maintained over the use of income by departments

B.7 In the Government's view, Parliament's ability to scrutinise government expenditure and income would be enhanced, rather than reduced, through different, more effective ways of oversight than have been exercised in the past. This would allow Parliament to apply meaningful scrutiny and control of public spending, in the secure knowledge that comprehensive and effective safeguards are in place. Should Parliament continue to vote budgets on a gross basis, the voted control limits would be significantly different from those applied by the Treasury. This continued misalignment would weaken the coherence and comprehensibility of the new regime, would not meet the recommendations of Parliament and would mean that alignment could not happen in any meaningful way.

B.8 Under present arrangements, the treatment of income can be very different in budgets, Estimates and resource accounts:

- Budgets are set net of any income the department receives that is classified as being within budgets. Subject to a number of safeguards set by the Treasury, a department may retain such income, and any additional income of a similar kind it generates, and spend it.
- In Estimates, Departments can normally retain the income (and related cash) only if they have sought and obtained the authority of Parliament to "appropriate it in aid" of related spending. Parliament therefore places limits on both net expenditure and on income (thereby controlling gross spending also).
- The Operating Cost Statement (OCS) in a department's resource accounts includes all of its operating income that falls within the departmental boundary (ie income generated in pursuit of its activities or as part of managing its affairs), and makes no distinction between income which may or may not be classified as within budgets, or which may or may not be appropriated in aid of the Estimate.

B.9 The practical difficulties with the current misalignment arise from the fact that parliamentary and Treasury controls over departmental spending are not aligned, thereby weakening public expenditure control, and departments may in some circumstances be required to curtail the level of service, or make inefficient savings in other programmes, to meet a temporary shortfall in income.

B.10 The proposed approach is for Parliament to vote Estimates on a net basis, consistent with the treatment in budgets, supported and underpinned by a range of safeguards (described below), which are designed to ensure that firm control is maintained over the use of income. A full explanation of gross data, including details of planned operating and non-operating income, would continue to be included in the Estimate for information. It should be stressed that that this proposal is concerned only with departmental income, and has no implications for tax revenues, which Parliament would continue to approve directly through Finance Bills.

B.11 The proposed approach carries a number of significant benefits:

- It lines up parliamentary controls with Treasury controls over departmental spending. This is not only clearer and simpler for departments to operate, but also reinforces control over spending and enables Parliament to vote Departmental Expenditure Limits (DEL) and Annually Managed expenditure (AME), as recommended by the Treasury Select Committee in HC 279. Should Parliament continue to vote budgets on a gross basis, the voted control limits would be significantly different from those applied by the Treasury, thereby weakening the coherence and comprehensibility of the new regime, and not meeting the recommendations of Parliament.

- It will maintain incentives on departments to seek best value for money by maximising income, subject to appropriate safeguards and constraints on setting charges, or maintaining demand-led services. For departments operating demand-led activities which are solely or largely financed through income, the current arrangements can be problematic to manage. The proposed approach would mean that departments could deal with increases in demand arising after the Supplementary Estimate without having to curtail the level of service or make sub-optimal savings in other programmes.

- It means a much clearer presentation of outturn in resource accounts. If Estimates continued to be controlled on both a gross and net basis, there would need to be a proliferation of columns in the Statement of Parliamentary Supply in resource accounts, compared with what would otherwise be the case (see Annex D), which would be difficult for the reader to follow.

B.12 As noted earlier, the Government would ensure that robust safeguards are in place, so that firm control is maintained over the use of income by departments. This will mean that Parliament will have more information than at present, as well as additional controls on income through the ambit of the Estimates. The safeguards include the following:

- The Estimate will continue to show, for information purposes, expected levels of income (resource and capital) in the same level of detail as at present. In voting DEL on a net basis, Parliament would therefore be fully aware of the level of income anticipated. Resource accounts would disclose actual income received, which could then be compared to the levels anticipated in the Estimates, and Select Committees would be able to challenge departments on any significant change.

- There will be a like-for-like comparison between a department's budget and its Estimate. This would mean increased transparency and enable more meaningful scrutiny by Parliament of a department's performance. The resource accounts will provide a detailed comparison between Estimates provision and audited outturn. Where the level of income actually generated deviated from the Estimates forecast by more than 10 per cent, or £500,000, whichever was higher, the note to the accounts would provide an explanation.

- The ambit in Part I of the Estimate will be expanded to include a description of all types of income a department may use to finance its expenditure. This means that any categories of income not properly described in the ambit could not be retained by the department, so departments could not generate funds from new sources which Parliament had not approved. The income element of the ambit would need to be broken down into a similar level of detail as the expenditure element – ie sufficient to provide assurance that the income is properly described. This would replace the existing footnote to the 'Analysis of Appropriations in Aid' note to the Estimate. This approach would give formal parliamentary and legislative control over categories of income.

- The audit of the departmental resource accounts by the NAO would include the regularity of income raised, and the application of that income for approved purposes. The NAO would be in a position to verify that the income was of a type previously notified to Parliament in the ambit of the Estimate.

- Virement of income will be subject to increased scrutiny. Subject to Parliament's agreement to Estimates being presented net of allowable income (see Annex B), reallocation of the benefit of negative DEL/AME income from one Estimates section to another will be subject to careful scrutiny by the Treasury, and will only be allowed where the income has an appropriate relationship to expenditure in the section into which it is being vired. A more detailed explanation of the Government's proposals for the virement rules under alignment is at Annex G.
- There are already restrictions on departments' ability to raise revenue through fees and charges. Charging for public services normally requires specific and explicit parliamentary authority. These restrictions will continue, with some adjustments to modernise the way that fees and charges can be structured.
- As part of the budgeting framework, the Treasury will retain control over the type of income that could be retained by departments, which will be consistent with the controls applied by Parliament. At present, there are no types of income that departments can retain within budgets which could not be allowed by Parliament to be appropriated in aid within the Estimate. The rules applied are the same, and this would continue. In any case where a department generates revenues such as taxes, and is legally obliged to pay them to the Consolidated Fund, the budgeting treatment is consistent and classifies this as a non-budget item.

B.13 These safeguards are intended to address any risks that departments might raise income of a type, or at a level, which was unacceptable to Parliament, and are intended to be considered alongside the significant benefits of the proposed change outlined above, in terms of:

- lining up parliamentary controls with Treasury controls over departmental spending;
- increasing incentives on departments to seek best value for money by maximising income where it is appropriate to do so; and
- providing a much clearer presentation of outturn in resource accounts.

B.14 Examples of the practical implications of the proposed move to net control are at Annex H.

c) The Estimates and accounting boundaries are extended to accommodate NDPBs and other bodies classified to the central government sector

B.15 The current position is that, while advisory NDPBs and tribunals are within the scope of the Vote, the majority of NDPB expenditure is channelled through executive NDPBs, and this expenditure is included in budgets but is not within the scope of the Estimate or departmental resource accounts. Instead, the grant in aid paid to NDPBs is voted by Parliament and included in the resource accounts.

B.16 The misalignment of NDPBs is one of the largest differences between voted expenditure and budgets, and is one of the main reasons why there is inconsistency between the aggregate measures. The practical impact of this is that it is difficult for Parliament to understand, and scrutinise, departments' expenditure effectively, as well as making departmental financial management unnecessarily complex. Changing the way in which Parliament votes funding for NDPBs is important, not because it is administratively neater, but because there is an important question of accountability for public money. Parliamentary scrutiny of expenditure plans and outturns can never be effective if the controls applied by government are different from those exercised by Parliament.

B.17 The proposed approach, for which the FRAB has expressed full support, is to consolidate the expenditure of NDPBs and other central government bodies into departmental Estimates and resource accounts. This reform would mean giving better information to Parliament and enabling Select Committees to scrutinise expenditure more effectively.

B.18 There are also significant practical advantages. NDPBs' net expenditure is already part of departmental budgets, and departments have responsibility within the existing financial management regime for ensuring that total spend (including budgets delegated to NDPBs) is within the agreed limits. At the same time, departments have to ensure that voted expenditure is within its separate limit. If the two mechanisms were aligned, with NDPBs' expenditure shown in Estimates on a net basis[1], reflecting the current position, financial management in departments would be simplified.

B.19 It should be stressed that the distinctive characteristics of NDPBs will remain unchanged as a result of consolidation. NDPBs will continue to be separate corporate entities with statutory responsibilities. They will continue to be independent in their executive decision-making in accordance with those responsibilities. What will change is the accountability to Parliament for the use of the funds. Parliament will not be voting funds to NDPBs: Parliament will continue to vote funds to the department, but with a requirement that the expenditure of the department and its NDPBs does not exceed the voted limit (which, under the proposals, will be the budget). It will be the department's responsibility to ensure that it makes arrangements – through, for example, NDPB framework documents – for aggregate expenditure to be within the total authorised. Although departments will need to ensure that NDPB expenditure is within voted limits, those controls are not new; they already exist as a consequence of the budgeting framework. The major change is that the controls will now be used not only to meet budgetary limits, but also to provide parliamentary accountability. NDPBs will, of course, continue to prepare their own accounts, and present them to Parliament.

B.20 To confirm that the division of responsibilities between Departmental Accounting Officers and NDPB Accounting Officers will not change under alignment, it is proposed that the Statement of Accounting Officer Responsibilities in departmental resource accounts should be extended to make clear that, by signing the accounts, there is no implication of control by the Departmental Accounting Officer (DAO) over transactions within the NDPB. The DAO will be responsible for the accuracy of the numbers in the consolidated account, but not for the regularity, propriety and value for money of the NDPB's own expenditure. A draft of the revised Statement of Accounting Officer Responsibilities is at Annex I.

B.21 There is, however, one area where the Departmental Accounting Officer may face an additional responsibility. At present, if an NDPB overspends, there are no consequences for the sponsor department in terms of parliamentary accountability. In future, an overspend could in theory lead to an Excess Vote, as well as a DEL breach, if the overspend by the NDPB were not offset by underspends elsewhere. However, as NDPBs have very rarely caused DEL overspends, it is likely that Excess Votes resulting from their actions will be similarly rare.

B.22 In determining which bodies should be consolidated in departments' resource accounts, it is proposed to follow the central government sector classification as defined by the Office for National Statistics (ONS). This will enable the highest degree of alignment to be achieved, while ensuring that all material bodies that should be consolidated into department accounts under the relevant IFRS criteria (IAS 27) would be consolidated. The Financial Reporting Advisory Board (FRAB) has agreed in principle to this approach.

[1]There are a few instances of NDPBs financing all of their expenditure from negative budgetary income (eg levy funded bodies). It is therefore proposed that all NDPBs must have at least a token £1,000 within a section of the Estimate and that the ambit must either mention the NDPB by name or refer to a category of NDPBs (eg 'museums and galleries').

d) The budgeting concepts of near-cash and non-cash are removed so that there is a single Resource DEL budget

B.23 As a consequence of the introduction of full Resource Accounting and Budgeting in 2003-04, a number of new concepts were introduced into budgets and the Estimates presented to Parliament, namely: depreciation, cost of capital charges, impairments and provisions. These changes were intended to incentivise departments to maximise the use of their asset base, as the full cost of holding assets was for the first time recognised in budgets; and to budget for the long-term consequences of their decisions through the creation of provisions. However, these items do not score (or do not score in the same way) in National Accounts. To protect the fiscal position, the concepts of near-cash and non-cash were created in budgets in 2004-05, with these items ringfenced within resource DEL as a separate non-cash budget.

B.24 The practical difficulty with the current position is that, while these items are, in theory, aligned in budgets, Estimates and resource accounts, the ringfenced treatment reduces incentives on departments to secure best value for money by maximising the use of their assets and budgeting for the long term consequences of their decisions.

B.25 The proposed approach is to dispense with the ringfences for the majority of departments and the separate budgeting concepts of near-cash and non-cash, by including depreciation, impairments and provisions in Resource DEL or AME and removing cost of capital charges from budgets altogether. The rationale for these changes is explained more fully in Annex C. The Financial Reporting Advisory Board (FRAB) has, where appropriate, agreed to these proposals in principle. In addition to improving value for money incentives, these changes will simplify significantly the budgetary control system, the presentation in Estimates, and the relationship between the different control frameworks, while allowing public spending to be controlled in other ways and ensuring that departments continue to have appropriate incentives to manage their assets effectively.

e) Parliamentary controls over government spending should be aligned with the Treasury's budgeting controls

B.26 The current position is that, for each department, Parliament authorises:

- Net resources in one or more Requests for Resources (RfRs) – over half of departments have only one RfR
- Operating Appropriations in Aid (AinA) for each RfR
- Total non-operating AinA for the whole department
- The total Net Cash Requirement.

B.27 The problem with this is that parliamentary controls over departments' spending are not aligned with Treasury controls, resulting in departments having to monitor and control their spending against a range of limits, thereby weakening effective public spending control.

B.28 The proposed approach is for Parliament to authorise each department's budgetary control limits, plus its overall voted cash requirement[2]. The parliamentary control limits would therefore be the department's:

- Resource DEL
- Resource Departmental AME

[2] Administration cost limits would also remain in place, and would continue to relate only to the department's administration. Although, as now, they would not be a voted limit, a breach would nonetheless lead to an Excess Vote.

- Capital DEL
- Capital Departmental AME
- Net Cash Requirement

B.29 It is envisaged that, under the new arrangements, the total number of control totals for Parliament will be roughly the same as at present (at around 200), with the removal of separate controls on income being broadly offset by an increased number of controls over expenditure.

B.30 This approach is reflected in the illustrative Estimates and resource accounts at Annex D. To ensure that the information provided to Parliament is not reduced by comparison with the present position, it is suggested that expenditure within each of these limits should be broken down in broadly the same level of subhead detail as at present. In addition, it is proposed to establish a protocol between government and Parliament governing the types of changes to the budgeting regime on which Parliament would be consulted. A draft of such a protocol is at Annex E.

B.31 The proposed approach will offer significant benefits by bringing parliamentary and budgeting controls into line, mutually reinforcing each other. It will also radically simplify the process for budgeting, voting and accounting for departmental spending, with benefits for departments and the Treasury, as well as for Parliament.

B.32 It is also worth noting that the circumstances in which reductions in Estimates may be made under present arrangements will need to be reviewed under alignment. At present, negative Estimates – ie a reduction in one or more of the limits voted by Parliament – are allowed only in limited circumstances:

- where a machinery of government change transfers some, or all, provision from one department to another; or
- where a department funds an increase in spending in one Request for Resource (RfR) by reducing provision in another RfR.

B.33 Since it is possible for budgets to be reduced in other circumstances, and even for the overall budgetary spending limit to be reduced, alignment of Estimates with budgets needs to allow for Estimates to seek reductions in previously voted limits. The structure of Supply legislation (Appropriation Acts) will also need to be reviewed to ensure that this covers the possibility of an overall reduction in Supply. The Treasury is discussing the potential implications of these changes with the House of Commons authorities and the NAO.

f) Resource accounts are, as far as practicable, based on IFRS as adapted for the public sector context

B.34 Consistent with the Government's commitment in Budget 2008, the resource accounting rules have, as far as practicable, been aligned with IFRS, adapted as necessary for the public sector context. The result is that the accounting proposals in this Memorandum are fully IFRS-compliant, with one exception, relating to the treatment of impairments (explained more fully at Annex C). The Financial Reporting Advisory Board (FRAB) has agreed in principle to the necessary adaptation to IFRS.

g) The number of departmental and HM Treasury expenditure documents is reduced to just three "publication events" each year

B.35 As illustrated in Table 3.C above, there are currently a large number of distinct but related spending publications, published sporadically throughout the financial year, which have significant overlap in terms of content.

B.36 The practical difficulty with the current arrangement is that, since the publications follow the different spending frameworks, it can be difficult for the reader to understand the links and inter-relationships between them.

B.37 The proposed approach is to consolidate the existing range of departmental and Treasury publications into three main "publication events" each year. The Government's proposals have been revised since the Treasury's November 2008 Memorandum to take account of concerns expressed by the C&AG about the implications for his audit of departments' accounts of producing a combined resource account and Main Estimate in June. Reflecting the C&AG's concerns, the Government proposes instead that the three "publication events" should be as follows:

1. The Main Estimates booklet and Public Expenditure Statistical Analyses (PESA) presented to Parliament by the Treasury in April/May (5 weeks after the Budget[3]).

2. A "Departmental Report and Accounts", published by each department in June, giving a coherent view of the department's forward plans, set in the context of the previous year's spend and performance. The June document would provide a review of the previous year, and a forward look, on progress against the department's:

   a) Public Service Agreements (PSAs) and Departmental Strategic Objectives (DSOs); and
   b) Expenditure – ie outturn (resource accounts) for the previous year[4], budget plans looking forward (currently in the Departmental Report), and a summary of the Main Estimate for the current year. The June document would include outline spending plans for the next financial year, on a basis consistent with the current year's Estimate, as requested in the PAC Chairman's 18 December 2008 letter to the Chief Secretary to the Treasury. Subject to Parliament's agreement to the proposed June document, the Government will also review and update the existing core requirements for departmental reports to ensure that these meet the recommendations of the Liaison Committee's April 2008 report (HC 426) on the information needed by Parliament for effective consideration of expenditure by the House.

3. A (single) Supplementary Estimates booklet presented to Parliament by the Treasury in January, which would also incorporate the Statement of Excesses for the previous year and the Vote on Account for the following year. Alongside this, a set of "mid-year" departmental reports might be developed, over time, as the Liaison Committee has suggested. This might give a provisional view of spend and performance for each department during the current financial year, including a summary of the department's Supplementary Estimate, together with an update of the department's provisional spending allocations for the following year; and, potentially in the longer term, a set of interim accounts, in line with private sector practice.

B.38 Thus, the proposed suite of spending documents to be presented to Parliament by departments and the Treasury under alignment is summarised in Table B.1.

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[3] The timing of the presentation of Main Estimates is determined by the timing of the Budget.

[4] There are no plans to change the statutory deadlines for the preparation and submission of resource accounts: the June date for publication of the Departmental Report and Accounts is an administrative deadline.

Table B.1: Suite of spending documents presented to Parliament under alignment

Published by:	April/May	June	January
Departments		Single document incorporating: Departmental Report Resource Account Summary Main Estimate	
HM Treasury	Main Estimates booklet PESA		Supplementary Estimates booklet also including: Vote on Account Statement of Excesses

B.39 This would result in a significant simplification compared to the position set out in Table 3.C, as illustrated in Table B.2.

Table B.2: Spending documents presented to Parliament under alignment

Publication	Date Published
April/May publications	
Main Estimates	Apr/May (5 weeks after Budget)
Public Expenditure Statistical Analyses (PE SA)	Apr/May (5 weeks after Budget)
June publications	
Departmental Reports and Accounts	mid-June
Autumn/Winter publications	
Supplementary Estimates, Vote on Account & Statement of Excesses	January

B.40 These proposals, which offer considerable benefits in terms of greater coherence, transparency and simplicity of reporting documents, as well as reducing the administrative burden on departments, build on developments achieved over recent years. Departments have already made significant improvements in the quality and timeliness of their resource accounts, notably as a result of the "faster closing" initiative. 16 departments – around a third of the total – successfully published combined Departmental Reports and Resource Accounts for 2007-08. The Financial Reporting Advisory Board (FRAB) has confirmed that it is supportive of the proposal to continue with the practice of departments merging their Resource Accounts with their Departmental Reports, and to aim, over time, for these combined documents to be published in June[5].

B.41 Moreover, alongside the Government's proposals for better aligning budgets, Estimates and resource accounts, this approach would mean that it would be possible to cease production of the Supplementary Budgetary Information (SBI), as the information contained in it would be redundant, since budgets and Estimates would by then be aligned. The Public Expenditure Outturn White Paper (PEOWP) would also no longer be needed in its present form, since departments' audited outturns for the previous financial year would already have been published in the June documents, although there could be value in producing in June instead a summary statement of departments' final outturns for the previous financial year, together with their end-year flexibility (EYF) entitlements going forward.

B.42 The Government's proposals would also result in a single Supplementary Estimate round each year, rather than potentially three[6] as at present (Summer, Winter and Spring). This would assist in streamlining financial management in departments by rationalising the basis on which they present Supplementary Estimates to Parliament into a single opportunity to review their in-year requirements, rather than having several rounds at successive points during the year. Having this Supplementary marginally earlier in the year than the current Spring Supplementary round would also reduce the burden on departments during the busy end-of-year reporting period in February/March.

B.43 This proposal therefore offers considerable benefits in terms of improved coherence, transparency, simplicity and comprehensibility of the Government's spending documents presented to Parliament. The Government is also giving further consideration with departments and other stakeholders, including the House authorities and the NAO, to how best to simplify and modernise the language and terminology used in its financial reporting documents.

B.44 Achieving the proposed new framework will, however, require a fundamental change in the way accounts are completed, and the underlying systems are configured and used. To facilitate implementation of the new arrangements, it is proposed to introduce the changes on a phased basis, reflecting the varying degrees of progress departments have made in terms of rationalising and streamlining their spending publications over recent years. The Treasury and departments will discuss and agree individual transition plans, similar to those agreed on "faster closing". In setting targets, it is not the intention to constrain the level and time available for the audit process.

[5] There may be instances where Departmental Reports and Resource Accounts might be published separately, for example if the NAO was not ready to approve the accounts, or if a particular select committee strongly preferred to receive the Departmental Report before mid-June.

[6] The Summer Supplementary round has generally fallen into disuse in recent years.

C Proposed treatment of other significant current areas of misalignment

C.1 This Annex explains how the Government proposes to resolve the remaining significant areas of current misalignment.

C.2 These misalignments can broadly be broken down into two categories:

- Differences in the various boundaries – ie the entities and spending included in budgets, Estimates and accounts – covering both different types of income and expenditure within the budgets, Estimates and accounts boundaries and different treatment of entities within the respective boundaries; and
- Differences in the policies – specific transactions are often treated differently between the three frameworks.

C.3 This Annex examines the main outstanding misalignments within each of these categories, and sets out the Government's proposals for change. The two categories of expenditure where it is proposed that there should be continuing misalignment are discussed in Annex F.

Boundary issues

Departmental Unallocated Provision

C.4 At the start of a financial year, departments are encouraged not to allocate their DEL fully against their programmes and to hold some provision back to deal with unforeseen pressures that subsequently emerge, including their known contingent liabilities. This is known as the Departmental Unallocated Provision (DUP). The current position is that, although included within budgets, the DUP is not included within the Estimates.

C.5 The proposed approach is to include the DUP in the resources for which approval is sought in the Estimates (separately identified and ringfenced), but not the related cash until the provision is allocated for a specific purpose. This has the benefit of aligning the Estimates with the budget, without anticipating parliamentary approval. This is because, until the DUP is allocated for a specific purpose, it will be removed from the department's Net Cash Requirement, so that no cash provision is voted to the department in respect of DUP prior to take-up. This treatment is consistent with the principle that provision is not made available in Estimates "in advance of need".

C.6 When the provision is allocated to a specific purpose during the course of the year, a department would need to seek authority, through a Supplementary Estimate, to move the provision to the relevant part of the Estimate, as well as approval for the associated cash.

C.7 Annex D shows how this proposed change would impact on Estimates. There is a separate line in Part II for the DUP, but this provision is removed in the resource to cash reconciliation.

Public Corporations

C.8 Public corporations (PCs) are bodies controlled by government (or by another PC) that are market bodies – ie their income comes mainly from trading activities. PCs take various forms, including statutory bodies, Company Act companies and trading funds.

C.9 At present, most PCs are controlled in budgets on an external finance basis[1] – ie through their transactions with the parent department. This is in line with treatment in Estimates and resource accounts, with the exception of capital grants to PCs and equity withdrawals from PCs (both of which score in capital budgets but in the OCS in resource accounts) and public corporation market borrowings (which are re-routed via the departmental budget but do not appear in resource accounts or Estimates). However, there are a very small number of PCs whose profit/loss and capital spend score against the department's resource and capital budgets. The different treatments of PCs are summarised in Table C.1 below.

Table C.1: Current budgeting treatments of public corporations

	Resource Budget	Capital Budget
External finance basis	Cost of capital charge in respect of PCs	Capital grants paid to PCs
	Subsidies paid to PCs	Net lending to PCs
	Less Interest and dividends received from PCs	PCs' market and overseas borrowing (including on balance sheet PFI)
		Less equity withdrawals from PCs
Non-external finance basis	Cost of capital charge in respect of PCs	Capital expenditure of PCs net of book value of sales of capital assets
	Subsidies paid to PCs	
	Less profit/ plus loss of PCs	

C.10 The proposed approach is for all PCs to be controlled in future on an external finance basis. This will be a change to the budgeting treatment only, to bring it into line with existing treatment in Estimates and resource accounts. The treatment of capital grants to, and equity withdrawals from, PCs will be consistent with the treatment of capital grants to the private sector (see Annex F). Market borrowing of public corporations does not feature in Estimates and resource accounts, as it is outside the departmental boundary, but does score in the departmental capital budget to control the impact of such borrowing in national accounts. Although this will remain a potential misalignment, very few instances of such borrowing have been recorded in recent years.

[1] Including all Self Financing Public Corporations – Royal Mail Holdings plc, BNFL, CDC, Crown Estate, Channel 4, Royal Mint, Tote.

C.11 The proposed removal of the cost of capital charge from budgets (see below) will also impact on the financial transactions between departments and their PCs. Currently, departments are required to incur a cost of capital charge in respect of their PCs, in both resource accounts and against their budgets. This charge is then offset by means of a return from the PC (as interest or a dividend). The Treasury will explore the impact on the existing performance management framework for departments and their PCs of the removal of the cost of capital charge from budgets. Alternative approaches may include calculating and applying internal rate of return targets to PCs, to ensure that the correct incentives remain. This will be considered as part of the Operational Efficiency Programme (OEP), announced by the Chief Secretary to the Treasury in July 2008.

Devolved Administrations

C.12 Two Westminster departments (the Ministry of Justice and the Northern Ireland Office) include voted grants to the devolved administrations (DAs) within their Estimates. These grants are also in the departments' accounts, but are outside their budgets.

C.13 Achieving full alignment would mean the Westminster Parliament voting the spending of the DAs, but this would not meet the alignment principles since it is clearly incompatible with the DAs' unique constitutional position and would not therefore meet the requirements of Parliament. The proposed approach is to include the grant payments to the DAs as separate "non-budget" voted items within the Ministry of Justice and Northern Ireland Office Estimates and resource accounts. This would result in a misalignment, for these two departments alone, between budgets and Estimates/accounts. This approach is reflected in the mock-ups at Annex D.

Policy issues

Capital support for local authorities

C.14 Capital support for local authorities is made in various forms:

- Capital grants;
- Supported Capital Expenditure (Revenue), or SCE(R); and
- PFI credits.

Capital grants

C.15 Capital grants to local authorities are currently treated in the same way as capital grants to the private sector and to PCs – discussed more fully in Annex F. The proposed approach is to continue to treat capital grants to local authorities in the same way as other capital grants – that is, as capital in budgets and Estimates and as resource in departmental accounts – for the reasons explained in Annex F.

Supported Capital Expenditure (Revenue), or SCE(R)

C.16 SCE(R)s are permissions for local authorities to charge expenditure to the capital account based on a rationed amount of capital. They are, in effect, a mechanism for influencing the distribution of revenue grant in the local government settlement. The capital expenditure implied by the amount of the SCE(R) scores in capital DEL, and the local government settlement scores in resource DEL. Capital spending arranged solely by the local authority scores in capital AME.

C.17 Central government has provided capital support for local authorities previously through what were known as Credit Approvals. The value of the credit approval reflected the amount of expenditure. Most credit approvals were financed through revenue provision made available in the local government settlement. In April 2004, the prudential scheme was introduced, and the aggregate credit limit of local authority capital abolished. Credit approvals were therefore no longer needed to regulate the rate at which new capital expenditure was undertaken. However, central government continued to support a given level of capital expenditure, resulting in SCE(R), which operates under the same broad principle as credit approvals. The current situation is that local authorities are free to borrow as long as it is affordable when measured against the prudential code.

C.18 At present, SCE(R) is included in capital budgets, but does not score in either Estimates or resource accounts. The proposed approach is to include SCE(R)s in the capital requirement in the Estimates, but to remove them in the net cash requirement. This would align budgets and Estimates and continue to protect the fiscal position. The mock-ups in Annex D reflect this by showing SCE(R)s on the capital side of the Estimate, which are then removed in the resource to cash reconciliation.

PFI credits – off balance sheet projects

C.19 PFI credits (for off-balance sheet PFI projects) reflect the capital value of a project to be financed by the private sector partner. PFI credits do not score in budgets, Estimates or resource accounts, and there is therefore no misalignment between the three frameworks, and no change is required.

Profit & loss on disposal of assets

C.20 The current position is that the book value of assets disposed of, together with any profit or loss, is treated as a benefit to the capital budget, and is shown on the capital side of the Estimate. This is in line with National Accounts treatment. In the resource accounts, the profit or loss is treated as resource, in line with UK GAAP/IFRS treatment.

C.21 The proposed approach is to score the profit or loss to the resource budget and on the resource side of the Estimate, to align with resource accounting treatment. The book value will continue to be treated as a capital benefit. The scale of profit and loss recorded by departments is already very small, as UK GAAP encourages departments to revalue assets regularly, and this will continue, reinforced, under IFRS. This approach would retain all the existing value for money incentives, as departments will still be able to retain the full proceeds of asset sales. Given the likely small scale of profit or loss, it is unlikely that the existing incentive will be significantly changed by the move to resource DEL. The fiscal position would be protected by imposing a maximum limit on profits retained, above which a department would need to consult the Treasury. In practice, however, this should be extremely unusual.

Single use military equipment

C.22 Single use military equipment (SUME) is defined as weapons, and equipment which supports and delivers such weapons – for example, warships, submarines, fighter aircraft, tanks, missile carriers and launchers. At present, SUME is treated as capital in resource accounts, Estimates and budgets. However, for the National Accounts, SUME is classed as current spending, with fiscal risk borne jointly by the Treasury and the Ministry of Defence.

C.23 Changes are currently being made to the treatment of SUME, which will result in these assets being treated as capital in the National Accounts. However, this is unlikely to be incorporated into a new European System of Accounts (ESA) until 2014. In the light of this, the proposed approach is to retain the current treatment of SUME, and the necessary reconciling adjustment for National Accounts, until the expected change to ESA in 2014, when full alignment with National Accounts will be achieved.

Near-cash and non-cash

C.24 As a consequence of the introduction of full resource budgeting in 2003-04, a number of new concepts were introduced into budgets and Estimates – namely, depreciation, cost of capital charges, impairments and provisions. These changes were intended to give departments better incentives to maximise the use of their asset base, as the full cost of holding assets was recognised in budgets, and to budget for the longer-term consequences of their decisions through the creation of provisions. However, these items do not currently score (or do not score in the same way) in National Accounts. As a result, these items were ringfenced within resource DEL as a separate non-cash budget, to protect the fiscal position by preventing funds from being switched from non-cash into near-cash spending.

C.25 Although these items are aligned in budgets, Estimates and resource accounts, the ringfenced treatment reduces incentives on departments to secure best value for money. The proposed approach is to remove the concepts of near-cash and non-cash from budgets. In addition to improving value for money incentives, this will significantly simplify the budgetary control system, the presentation in Estimates and the relationship between the different control frameworks. However, different controls will need to be put in place to protect the fiscal position, with some arrangements specific to particular departments.

Depreciation

C.26 The current position is that depreciation scores as a non-cash cost in budgets, Estimates and resource accounts. Depreciation costs are ringfenced in budgets, reflecting the fact that the Office for National Statistics (ONS) currently uses its own model to determine economy-wide, and public sector, depreciation data, rather than using the data collected by Treasury and departments in accordance with GAAP. This means that, in National Accounts, GAAP depreciation is subtracted from public spending totals and the ONS depreciation measure is added in.

C.27 The Treasury and the ONS are working together to move to using GAAP/IFRS depreciation numbers in the National Accounts. This would enable the removal of the ringfence in budgets for the majority of departments, and allow depreciation to be treated like any other resource cost. This would have significant benefits in terms of both simplicity and transparency for departments and Parliament and improved fiscal control. It should also promote improved value for money, as departments will have a greater incentive to reduce depreciation costs by maximising the use of their assets, in order to release funds for spending on other priorities.

Impairments

C.28 Impairments are recognised where the recoverable amount of a fixed asset falls below its carrying amount. Impairments score in the resource budget alongside the depreciation charge, and are separately identified. Impairments also need to be identified by type of asset and reason as, from 2007-08, some charges score to DEL and some to AME. Where fixed asset investments or current asset investments are impaired, the impairment scores in Resource DEL as a non-cash charge.

C.29 The budgeting treatment depends on the cause of the impairment, which is split into six categories, across DEL and AME, and provides support for departments' management decisions. Essentially, this ensures that DEL is at risk for impairments that arise from a clear consumption of economic benefit, or other factors when these should be within the control of the department, for example loss or damage resulting from normal business operations. Where the department has no control over the event that caused the impairment (eg a catastrophe or general price movements), DEL is not impacted and the charge is scored to AME.

C.30 The treatment in the Resource Accounts is that where there is a clear consumption of economic benefit, the impairment is taken to the OCS. This will usually result in a treatment that is consistent with the budgeting treatment. However, under IFRS, if there is a remaining revaluation reserve, this is to be utilised first. This will cause a misalignment between the budgeting and accounting treatment.

C.31 The proposed approach is to score impairments to the resource DEL or resource AME budget as now, depending on whether they arise from a clear consumption of economic benefit. Consistent with the removal of the concepts of near-cash and non-cash, impairments in DEL will no longer be ringfenced for the majority of departments. To regain the alignment between budgets, Estimates and accounts, we have proposed to the Financial Reporting Advisory Board (FRAB) that there should be an adaptation to the IFRS-based Financial Reporting Manual (FReM) to allow all impairments that are caused by a clear consumption of economic benefit to be scored to the OCS. To ensure that the outcome as reflected in the reserves figures on the balance sheet is consistent with the requirements of IAS 36, we have further proposed that the balance on any revaluation reserve to which the impairment would have been charged under IAS 36 should be transferred to the general fund. The FRAB has agreed in principle to this approach.

Provisions

C.32 A provision is a liability which, although it is clear that the liability exists, nevertheless involves some uncertainty about either the amount or the timing of the payment. The current position with regard to the treatment of provisions is complex, and attempts to balance the need to make provision for the long-term consequences of decisions taken now, against the short-term cash consequences when payments are actually made. For the majority of provisions (by number but not by value), the costs score in non-cash DEL when the provision is created, and in near-cash DEL when the provision is utilised.

C.33 A small number of provisions which are large and volatile are dealt with differently. They score in non-cash AME when created, and in near-cash DEL when utilised. This recognises that, in this minority of cases, the department has little scope to influence the value of the provisions, and insufficient capacity to absorb the cost of movements.

C.34 In deciding on a suitable approach for the future, the Government considered that there was a balance to be struck between the need to protect the fiscal position (determined by utilisation of provisions) and the management of long term costs (measured by the creation of new provisions or the adjustment of existing provisions). Although there are a number of ways in which provisions could be dealt with in the future, none allows the objective of achieving alignment, while creating incentives to take account of long term costs and protecting the fiscal position, to be fully delivered.

C.35 Following extensive discussion and consultation with departments and external stakeholders, the Government has concluded that the best way of balancing the competing objectives is to score provisions to AME when created, and then, when they are utilised, the value of provisions utilised would be reversed out of AME and scored in DEL. New arrangements will be introduced within AME to ensure that the creation of provisions is properly controlled.

C.36 The Government believes that this approach protects the fiscal position, while retaining a focus on long term costs. It means that the treatment of provisions is consistent, with one set of rules applying in all cases, and it creates full alignment between budgets, resource accounts and Estimates. The FRAB has confirmed that it agrees in principle with this approach.

Cost of capital charges

C.37 There is a cost to government from holding assets. In economic terms this is the opportunity cost of not undertaking an alternative investment. In financial terms, it could be the interest government incurs on borrowing to finance investment. To ensure that the full cost of services is reflected in resource accounts and budgets, this opportunity cost has in recent years been devolved to departments as a cost of capital charge (CoCC), which scores as a current cost in departments' budgets, Estimates and resource accounts.

C.38 The Treasury carried out a wide-ranging consultation about the effectiveness of the cost of capital charge with internal and external stakeholders in 2007. There was a clear consensus in favour of change, in recognition of the fact that, although the cost of capital charge was an important step when first introduced, other incentives, such as retaining the proceeds of asset sales, have now become more significant in promoting improved asset management. The proposed approach is, therefore, to remove the cost of capital charge from budgets, Estimates and resource accounts. The Financial Reporting Advisory Board (FRAB) has agreed in principle with this proposal.

C.39 Other ways of strengthening incentives to manage the balance sheet are being explored through the Operational Efficiency Programme (OEP), announced by the Chief Secretary to the Treasury in July 2008. One of the OEP's workstrands is assessing the incentives, initiatives and strategies which support effective asset management in the public sector. The OEP is expected to report in Budget 2009. Trading funds and bodies subject to fees and charges guidance would retain cost of capital charges for management accounting and fee setting purposes.

Non-budget income that is included in resource accounts

C.40 There is currently different treatment in budgets, Estimates and accounts of fines and penalties collected and surrendered to the Consolidated Fund. This income appears in accounts (in most cases), but not in budgets or Estimates.

C.41 We propose to separate this income (which departments effectively collect as agents for the Consolidated Fund) into a separate trust account in each of the departments affected, and to record in that trust statement the totals collected and paid over. This will not only provide full alignment for these transactions, but will also provide better accountability for the amounts concerned. The Treasury is discussing the issues arising from this proposal with the departments concerned.

D Illustrative Estimates and resource accounts under alignment

D.1 This Annex contains illustrative Estimates and resource accounts consistent with the Government's proposals outlined in this Memorandum, including some options for the Estimates format, on which Parliament's views would be welcome. The illustrations reflect discussions with departments and external stakeholders, including the NAO and parliamentary officials. The Financial Reporting Advisory Board (FRAB) has agreed in principle to the proposed format of the Statement of Parliamentary Supply (SoPS) in resource accounts under alignment.

D.2 The mock-ups for the fictitious 'Department Purple' are purely illustrative and do not represent complete Estimates or resource accounts: there will be other tables and notes to be added, which are not included here. They do, however, contain the key elements of Estimates and accounts which will be affected by the Government's proposals, and illustrate a number of the more interesting transactions under alignment. Omission from the mock-ups does not mean that the particular category of transaction will necessarily no longer appear in Estimates or accounts.

D.3 The following pages show what Department Purple's Estimate would look like under the proposed new system. The aim has been to simplify, as far as possible, the supporting notes to the Estimate in particular, without losing any important information. Some of the key features in the mock-up are highlighted below.

D.4 The broad overall structure of the Estimates has been retained, and many of the proposed changes to the existing format are a necessary feature of aligning Estimates with budgets. The opportunity has also been taken to suggest a number of further changes, described below, which provide information more relevant to aligned publications and remove, or consolidate, some of the existing tables or notes, as appropriate. In a number of instances, lines have been included in the tables and notes, for illustrative purposes, even where no data are shown; in practice, those lines would be omitted from departments' published Estimates.

D.5 The commentary below should be read in conjunction with the illustrative Estimate for Department Purple which follows.

Introduction

D.6 This is essentially unchanged. The Introduction to Supplementary Estimates, in particular, should be shorter under alignment, since there will be little, if any, need to explain differences between movements in the Estimate and the budget.

Part I

D.7 This provides the key information that the House of Commons will subsequently be asked to vote, and which will appear in the Appropriation Act. Requests for Resources (RfRs) are replaced with budgetary limits (Departmental Expenditure Limits and Annually Managed Expenditure, split by resource and capital). Both of the budgetary limits will, where necessary, be split between that element which requires voted authority through the Supply process, and that which has separate legislative authority (such as Consolidated Fund Standing Services), and so is 'non-voted'[1]. The Net Cash Requirement will continue to be voted as at present.

D.8 Rather than an ambit for each RfR, there is now an ambit for each relevant budgetary limit (including any 'non-budget' spending, where applicable). Each ambit covers both resource and capital spend for that budget. This reflects the view that resource and capital DEL budgets are likely to cover the same areas of spending, whereas DEL and AME will often cover different areas of spending.

D.9 In addition, the ambit now includes income relating to each of the budgetary categories. This is linked to the proposed move to voting expenditure net of budgetary income, and is intended to help safeguard Parliament's interests by specifying, and including in the Supply legislation, the areas of income that may be retained by the department. The income section of the ambit replaces the footnotes describing income that previously appeared in the 'Analysis of Appropriations-in-Aid' note to the Estimate.

Part II: Subhead detail

D.10 The Part II table provides a detailed breakdown of spending within the separate voted limits. **Two possible structures for this table are illustrated below, on which Parliament's views would be welcome**[2]. The first (option A) involves relatively minor changes compared with the existing structure. The second (option B) suggests changing the breakdown of information to better reflect parliamentary controls under the alignment proposals, and is the Government's preferred approach.

D.11 Some features apply to both options:

- Sections are grouped by budgetary limit (DEL, AME and any non-budget) and, within each budgetary limit, by 'Voted' or 'Non-voted' and 'Central government spending' or 'Support to local authorities' (both applicable to DEL and AME only).
- A 'Net Total' column (column 9) has been added for capital expenditure, consistent with that for the resource budget; this better reflects the fact that capital will now be voted as a separate limit.
- Income data (columns 5 and 8 in option A; columns 3, 4 and 8 in option B) is shown with a minus sign.
- The lettering of the sections (A, B, etc) does not restart (as it did previously for each RfR) with each voted limit, but continues through the table. This should make identification of sections easier as there is only one section A, etc.

D.12 The differences between options A and B are:

- Resource columns: option A leaves these unchanged from the current structure[3]. Option B removes the 'Other Current' and 'Grants' programme split but, more usefully, provides a split for income between administration and programme. Given that administration budgets are controlled separately, and in view of the proposed restrictions on virement of income, this breakdown is much more relevant in the context of alignment.

[1] Exceptionally, any voted spending outside of budgets will also be shown in Part I – this is usually expected to include only grants to the devolved administrations.

[2] The two options shown are based on the view that the Part II tables should continue to be provided in A4 portrait paper size, and reflect the limitations on the amount of information that this approach can accommodate.

[3] If this option were chosen, it might be sensible to merge the 'Other Current' and 'Grants' programme spend columns (columns 2 and 3), and to identify grant payments through the section breakdown, if necessary.

- Prior year comparator columns: option A again leaves these unchanged, providing final provision for the previous year and audited outturn for the year before that. However, this provides comparative data for resources only, and ignores capital. Option B provides comparative data for the previous year only (final provision), but does so for both resources and capital. Again, option B better reflects the voted budgetary limits under alignment.

The Government believes that option B better reflects the new parliamentary controls under alignment, but would also welcome Parliament's views on which of the two options for the Part II: Subhead detail table it would prefer.

If option A were chosen, should the 'Other Current' and 'Grants' programme spend columns nevertheless be merged, and grant payments identified through the section breakdown, if necessary?

Under either option, should the 'Central government spending' and 'Support to local authorities' shoulder-headings be retained or removed? (Removal of the headings would have the advantage of allowing spending on the same functional activity to be brought into the same section, in circumstances where it is financed partly by the department itself and partly through local authorities).

Part II: Resource to cash reconciliation

D.13 This table identifies the adjustments needed to establish the cash consequences of the voted budgetary limits. The changes to this table are minimal. Some adjustments to remove non-cash resource costs are no longer required (eg cost of capital charges), and some new ones are added (eg Departmental Unallocated Provision).

D.14 Rows have been added to remove the budget spend of NDPBs and replace this with the cash grant-in-aid. This reflects what is often a legislative requirement that the department pays grant to the NDPB.

D.15 A new section has been added to remove the cash related to non-voted budgetary spending (Consolidated Fund Standing Services and other central Funds, such as the NIF and the NLF) that has been included in the total resource or capital requirement in the Estimate.

Part III: Consolidated Fund Extra Receipts

D.16 This table provides details of income (and related receipts) that the department must surrender to the Consolidated Fund. The proposed move to voting budgets net of income should greatly reduce the number and amount of CFERs. The Part III: CFER table, and the 'Analysis of CFERs' note, have been slimmed down to reflect the expected reduction in the types of CFERs. They still allow for the possibility of non-budget CFER income, but this is expected to be rare, with many tax-type revenues now moved into Trust Statements. 'Excess cash to be surrendered' is the only CFER category that is likely to remain relatively commonly used.

Forecast Operating Cost Statement (FOCS) & Reconciliation tables

D.17 Two possible structures are illustrated below, on which Parliament's views would be welcome

Separate tables

D.18 Under option A, the FOCS shows the forecast accounting details, splitting resource spending between administration and programme costs. The main change to this table reflects the move from a split by RfRs to a split by budgetary limits. The table concludes by providing a breakdown of Net Operating Cost by budgetary provision and any reconciling items that are in the OCS but outside of budgets.

D.19 The reconciliation tables for current and capital expenditure provide an explanation of the differences between the various spending controls. The purpose of the alignment project is, of course, to reduce these differences as far as possible, and the reconciliations are therefore now much simpler. The adjustment from the Net Resource Requirement in the Estimate to the resource budget is limited to voted non-budget items (grants to the devolved administrations and any prior period adjustments) and, exceptionally, any CFERs in the resource budget. The adjustment from the resource budget to the Net Operating Cost (accounts) adds in capital grants (because these are treated as capital in budgets but resource in accounts), grants to the devolved administrations (because they are outside of the budget altogether), and any CFERs that are treated as income in the accounts (expected to be rare). The adjustment then removes any Departmental Unallocated Provision (which should apply to the plans year only).

D.20 The capital reconciliation table, from the Estimate to the budget, is extremely unlikely to have any adjustments, and would appear only if an adjustment were needed. The only adjustment that might occasionally occur relates to CFERs treated as negative budgetary income.

Combined tables

D.21 Alignment provides an opportunity to simplify these tables further – as illustrated in option B. The reduction in the number of misalignments between the spending controls means it is possible to combine the FOCS with the resource reconciliation table. The mock-up provides an example of what a combined table might look like. It simply moves from the Net Operating Cost data to adjust to the resource budget, and then to the Net Resource Requirement in the Estimate. Provided there was no exceptional adjustment necessary for capital, this would then be the only table necessary.

> Parliament is asked to indicate which of the two options – separate or combined FOCS and reconciliation tables – it prefers.

Explanation of Accounting Officer responsibilities

D.22 This identifies responsibility and accountability to Parliament for the expenditure in the Estimate. The main changes to the Note are to remove references to RfRs and provide for additional Accounting Officers and NDPB Accounting Officers to be separately identified.

Analysis of Income

D.23 This Note provides a more detailed breakdown of forecast income. It is substantively more detailed than the previous 'Analysis of appropriations-in-Aid' note. The main changes are:

- the footnotes (descriptions of the areas of expected income) have been removed and replaced with 'Income ambits' in Part I of the Estimate;
- the different categories of income are now further sub-divided by specifying the sections in the Part II: Subhead detail table under which each category falls; and
- the figures are now shown with a minus sign.

Analysis of Consolidated Fund Extra Receipts

D.24 This Note provides a more detailed breakdown of forecast income to be surrendered to the Consolidated Fund. The format of the note is essentially unchanged, but it is expected to be required much less frequently under alignment.

DEL and Administration Budgets

D.25 This Note has been deleted, as the alignment of Estimates with budgets makes it redundant.

NDPB Note

D.26 This is a new Note, replacing the present 'Grant-in-Aid' note. It provides information on NDPBs' spending (resource and capital), and on the amount of cash (grant-in-aid) each NDPB receives, as well as where it appears in the Part II: Subhead detail table.

Accounting policy changes

D.27 This Note provides details of any changes to the department's accounting policies since the last Estimate. The mock-up provides examples of the sort of changes in accounting policy that might appear. It also provides an example of a Prior Period Adjustment (PPA) that does not need to be voted, since it results from a retrospective change in accounting standards. The PPA notifies Parliament of the impact on figures for the previous two years. Only PPAs resulting from accounting standards changes would appear here; those resulting from errors or from department initiated accounting policy changes would need to be voted.

Cash which may be retained to offset expenditure

D.28 This is a statement of the total amount of cash from income the department expects to receive. It therefore needs to reflect movements in debtors and creditors. In practice, this figure has invariably been the same as the total of operating and non-operating appropriations-in-aid. Under alignment, and net Estimates, this note should no longer be required.

Other notes

D.29 Other notes to the Estimates will continue to appear as appropriate. These include:

- Expenditure resting on the sole authority of the Appropriation Act;
- Expenditure in the form of adjustable advances;
- Gifts;
- Staff benefits;
- Contingent liabilities; and
- International subscriptions.

Department Purple

Introduction

This Estimate covers the planned budgetary expenditure of Department Purple (including its associated offices: The Administration College; the Council for Improved Public Services; the Partnership Foundation). All expenditure is identified as being either within the Departmental Expenditure Limit (DEL) or departmental Annually Managed Expenditure (AME); and, where necessary, as non-budget. Not all departmental budgetary expenditure requires parliamentary authorisation through an Estimate, as some spending has separate legislative authority. In such cases, the Estimate shows the voted/non-voted split within the budget.

2. The expenditure is broken down between resource and capital, and resource provision is further sub-divided between administration and programme spend.

3. The net cash requirement is shown as a single total, and is not split by DEL/AME or any other budgetary limits.

4. Symbols are explained in the introduction to this booklet.

Department Purple

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Part I

		Resource	Capital	Cash
Departmental Expenditure Limit		5,349,762,000	1,114,225,000	
	Of which:			
	Voted	*5,349,670,000*	*1,114,225,000*	
	Non-Voted	*92,000*	-	
Annually Managed Expenditure		2,028,226,000	-	
	Of which:			
	Voted	2,028,226,000	-	
	Non-Voted	-	-	
Total Net Budget		7,377,988,000	1,114,225,000	
	Of which:			
	Voted	*7,377,896,000*	*1,114,225,000*	
	Non-Voted	*92,000*	-	
Non-Budget Voted Expenditure		-	-	
Net cash requirement				7,549,279,000

Amounts required in the year ending 31 March 2009 for expenditure by Department Purple on:

Departmental Expenditure Limit:

Expenditure arising from: administration of Department Purple HQ and associated offices; provision of development services; operation of support establishments; spending by NDPBs (The Administration College, The Partnership Research Foundation, The Research Trust and The Council for Improved Public Services); Grant to the Office of Strategic Development; Wider Markets Initiatives; improved public communication; Section 345 grants to Local Authorities; research into partnership working and other innovative delivery mechanisms; and associated non-cash items.

Income arising from: sales of publications and consultancy services through wider markets initiatives; training courses related to development services; royalties from patented delivery mechanisms; interest on loans to crime prevention groups; gun control licence fees.

Annually Managed Expenditure:

Expenditure arising from: pensions; disability benefits; and associated non-cash items.

Income arising from: sales of services (training, consultancy) related to maladministration; pension contributions from staff and previous employers.

Department Purple will account for this Estimate.

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	Net total	Allocated in Vote on Account	Balance to complete
Departmental Expenditure Limit			
Resource:	5,349,670,000	2,407,352,000	**2,942,318,000**
Capital:	1,114,225,000	501,401,000	**612,824,000**
Annually Managed Expenditure			
Resource:	2,028,226,000	912,702,000	**1,115,524,000**
Capital:	-	-	-
Net cash requirement	7,549,279,000	3,397,176,000	**4,152,103,000**

Part II: Subhead detail – Option A

£'000

	2008-09 Budget									2007-08 Final Budget Provision	2006-07 Final Budget Outturn
	Resources						Capital				
	Admin	Programme Other Current	Programme Grants	Gross Total	Income	Net Total	Capital	Income	Net Total	Net Total Resources	Net Total Resources
	1	2	3	4	5	6	7	8	9	10	11
Spending in Departmental Expenditure Limits (DEL)											
Voted expenditure	1,284,140	4,890,842	35,704	6,210,686	-861,016	5,349,670	1,140,225	-26,000	1,114,225	4,681,928	4,168,452
Central Government spending											
A Department Purple administration	301,401	639,979	-	941,380	-48,220	893,160	15,134	-100	15,034	843,184	599,025
B Provision of development services	118,000	1,597,180	-	1,715,180	-643,940	1,071,240	284,811	-15,900	268,911	988,595	904,716
C Partnership Studies	59,350	91,600	-	150,950	-20,500	130,450	500	-	500	100,230	96,111
D Grants to improve public communication	-	5,000	-	5,000	-	5,000	156,000	-	156,000	5,000	9,208
E Developing wider markets	26,000	301,100	-	327,100	-2,479	324,621	3,000	-	3,000	302,929	277,789
F Research into innovative delivery mechanisms	499,210	211,122	35,644	745,976	-88,577	657,399	-	-	-	664,100	589,400
G Operation of support establishments	18,960	111,798	-	130,758	-	130,758	35,500	-	35,500	145,273	115,542
H Administration law enforcement & criminal justice	84,826	1,500,015	-	1,584,841	-55,000	1,529,841	436,000	-10,000	426,000	1,121,858	1,106,926
I The Office for Strategic Development	-	161,842	-	161,842	-	161,842	-	-	-	258,924	233,709
J Better communication	7,393	2,054	60	9,507	-2,300	7,207	-	-	-	2,057	191
K Other development expenditure	19,000	122,122	-	141,122	-	141,122	47,250	-	47,250	124,978	112,980
L Departmental Unallocated Provision	150,000	25,000	-	175,000	-	175,000	40,000	-	40,000	-	-
Support for Local Authorities											
M Lupin Valley Council - SCE (Revenue)	-	-	-	-	-	-	122,030	-	122,030	-	-
N Section 345 Grants	-	122,030	-	122,030	-	122,030	-	-	-	124,800	122,855

Part II: Subhead detail – Option A (contd)

£'000

	2008-09 Budget									2007-08 Final Budget Provision	2006-07 Final Budget Outturn
	Resources						Capital				
	Admin	Programme Other Current	Programme Grants	Gross Total	Income	Net Total	Capital	Income	Net Total	Net Total Resources	Net Total Resources
	1	2	3	4	5	6	7	8	9	10	11
Non-voted expenditure	-	92	-	92	-	92	-	-	-	89	85
Central Government spending											
O Office for Strategic Development - CEO salary (CFSS)	-	92	-	92	-	92	-	-	-	89	85
Spending in Annually Managed Expenditure (AME)											
Voted expenditure	-	2,193,046	-	2,193,046	-164,820	2,028,226	-	-	-	2,231,779	1,503,741
Central Government spending											
P Public Sector Pension Scheme for staff not covered elsewhere	-	526,380	-	526,380	-98,220	428,160	-	-	-	843,184	599,025
Q Non-Discretionary Payments for maladministration		1,666,666	-	1,666,666	-66,600	1,600,066	-	-	-	1,388,595	904,716
Non-Budget spending											
Voted expenditure	-	-	-	-	-	-	-	-	-	-	-
R Grants to Devolved Administrations	-	-	-	-	-	-	-	-	-	-	-
S Prior Period Adjustment	-	-	-	-	-	-	-	-	-	-	-
Total voted in Estimate	*1,284,140*	*7,083,888*	*35,704*	*8,403,732*	*-1,025,836*	*7,377,896*	*1,140,225*	*-26,000*	*1,114,225*	*6,913,707*	*5,672,193*
Total non-voted in Estimate	-	*92*	-	*92*	-	*92*	-	-	-	*89*	*85*
Total for Estimate:	1,284,140	7,083,980	35,704	8,403,824	-1,025,836	7,377,988	1,140,225	-26,000	1,114,225	6,913,796	5,672,278

Part II: Subhead detail – Option B

£'000

	2008-09 Budget Plans									2007-08 Final Budget Provision	
	Resources						Capital				
	Gross		Income		Net		Gross	Income	Net	Net Resources	Net Capital
	Admin	Prog	Admin	Prog	Admin	Prog					
	1	2	3	4	5	6	7	8	9	10	11
Spending in Departmental Expenditure Limits (DEL)											
Voted expenditure											
Central Government spending											
A											
B											
C											
D etc											
Support for Local Authorities											
M etc											
Non-voted expenditure											
Central Government spending											
O											
Spending in Annually Managed Expenditure (AME)											
Voted expenditure											
Central Government spending											
P											
Q											
Non-Budget spending											
Voted expenditure											
R											
S											
Total voted in Estimate											
Total non-voted in Estimate											
Total for Estimate:											

Part II: Resource to cash reconciliation

£'000

	2008-09 Provision	2007-08 Final Provision	2006-07 Final Outturn
Net Resource Requirement	7,377,988	6,913,796	5,672,278
Net Capital Requirement	1,114,225	659,700	739,127
Accruals to cash adjustments			
Adjustments to remove non-cash items:			
Depreciation	-57,867	-53,839	-52,308
New provisions and adjustments to previous provisions	-286,620	-273,547	-101,924
Departmental Unallocated Provision	-215,000	-	-
Supported capital expenditure (revenue)	-122,030	-100,000	-112,810
Prior Period Adjustments	-	-	-
Other non-cash items	-412	-328	-314
Adjustment for NDPBs:			
Remove voted resource and capital	-1,761,214	-1,389,620	-1,364,555
Add cash grant-in-aid	1,549,148	1,340,988	1,329,675
Adjustments to reflect movements in working balances:			
Increase (+) / Decrease (-) in stock	-	-	6,545
Increase (+) / Decrease (-) in debtors	-	-	-26,200
Increase (-) / Decrease (+) in creditors	-125,447	29,383	35,264
Use of provisions	76,600	113,307	94,544
Total accruals to cash adjustments	-942,842	-333,656	-192,083
Spending in the budget but cash outside Supply			
Consolidated Fund Standing Services	-92	-89	-85
Other central Funds	-	-	-
Total cash outside Supply	-92	-89	-85
Excess cash to be CFERd	-	-	-
Net Cash Requirement	7,549,279	7,239,751	6,219,237

Part III: Extra receipts payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Ministry and is payable to the Consolidated Fund (cash receipts being shown in italics):

£'000

	2008-09 Provision		2007-08 Provision		2006-07 Outturn	
	Income	*Receipts*	Income	*Receipts*	Income	*Receipts*
Non-budget amounts collectable on behalf of the Consolidated Fund	-18,975	*-18,975*	-24,436	*-24,436*	-35,145	*-36,142*
Excess cash receipts to be surrendered to the Consolidated Fund	-	-	-	-	-	-
Total	-18,975	*-18,975*	-24,436	*-24,436*	-35,145	*-36,142*

Forecast Operating Cost Statement – Option A

£'000

	2008-09 Provision	2007-08 Provision	2006-07 Outturn
Gross Administration Costs	1,134,140	1,011,539	970,632
Less:			
Administration Resource DEL income	-257,097	-205,653	-185,316
Net Administration Costs	877,043	805,886	785,316
Gross Programme Costs	7,330,684	7,027,546	5,704,989
Less:			
Programme Resource DEL income	-603,919	-541,334	-447,226
Programme Resource AME income	-164,820	-159,302	-153,801
Programme Resource Non-budget income	-	-	-
Consolidated Fund Extra Receipts*	-18,975	-24,436	-35,145
Net Programme Costs	6,542,970	6,302,474	5,068,817
Total Net Operating Cost	7,420,013	7,108,360	5,854,133
Of which:			
Resource DEL	*5,174,762*	*4,682,017*	*4,168,537*
Resource AME	*2,028,226*	*2,231,779*	*1,503,741*
Non-budget	-	-	-
Capital grants	*236,000*	*219,000*	*217,000*
*Consolidated Fund Extra Receipts**	*-18,975*	*-24,436*	*-35,145*

* These lines are included for illustrative purposes only: instances of non-budget CFER income are expected to be rare.

Notes to the Main Estimate – Option A (contd)

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

£'000

	2008-09 Provision	2007-08 Provision	2006-07 Outturn
Total Resources (Estimate)	7,377,988	6,913,796	5,672,278
Adjustments to remove non-budget elements:			
Grants to devolved administrations (MoJ and NIO only)	-	-	-
Any occasional prior period adjustments	-	-	-
Total Resource Budget	7,377,988	6,913,796	5,672,278
of which:			
Departmental Expenditure Limits (DEL)	*5,349,762*	*4,682,017*	*4,168,537*
Annually Managed Expenditure (AME)	*2,028,226*	*2,231,779*	*1,503,741*
Adjustments to include:			
Capital grants (net of related EU contributions)	236,000	219,000	217,000
Grants to devolved administrations (MoJ and NIO only)	-	-	-
Consolidated Fund Extra Receipts in the OCS*	-18,975	-24,436	-35,145
Adjustments to remove:			
Departmental Unallocated Provision (resource)	-175,000	-	-
Net Operating Cost (Accounts)	7,420,013	7,108,360	5,854,133

* This line is included for illustrative purposes only: instances of non-budget CFER income are expected to be rare.

Reconciliation of capital expenditure between Estimates and Budgets

£'000

	2008-09 Provision	2007-08 Provision	2006-07 Outturn
Total Capital (Estimate)	1,114,225	659,700	739,127
Adjustments to include:			
Any capital related Consolidated Fund Extra Receipts	-	-	-
Total Capital Budget (Budget)	1,114,225	659,700	739,127
of which:			
Departmental Expenditure Limits (DEL)	*1,114,225*	*659,700*	*739,127*
Annually Managed Expenditure (AME)	-	-	-

Forecast Operating Cost Statement & Reconciliation to Resources in Budgets/Estimates – Option B

£'000

	2008-09 Provision	2007-08 Provision	2006-07 Outturn
Gross Administration Costs	1,134,140	1,011,539	970,632
Less:			
Administration Resource DEL income	-257,097	-205,653	-185,316
Net Administration Costs	877,043	805,886	785,316
Gross Programme Costs	7,330,684	7,027,546	5,704,989
Less:			
Programme Resource DEL income	-603,919	-541,334	-447,226
Programme Resource AME income	-164,820	-159,302	-153,801
Programme Resource Non-budget income	-	-	-
Consolidated Fund Extra Receipts*	-18,975	-24,436	-35,145
Net Programme Costs	6,542,970	6,302,474	5,068,817
Total Net Operating Cost	7,420,013	7,108,360	5,854,133
Of which:			
Resource DEL	*5,174,762*	*4,682,017*	*4,168,537*
Resource AME	*122,030*	*124,800*	*122,855*
Non-budget	*92*	*89*	*85*
Capital grants(net of related EU contributions)	*236,000*	*219,000*	*217,000*
*Consolidated Fund Extra Receipts**	*-18,975*	*-24,436*	*-35,145*
Adjustments to include:			
Departmental Unallocated Provision (resource)	175,000	-	-
Adjustments to remove:			
Capital grants (net of related EU contributions)	-236,000	-219,000	-217,000
Grants to devolved administrations (MoJ and NIO only)	-	-	-
Consolidated Fund Extra Receipts in the OCS*	18,975	24,436	35,145
Total Resource Budget	7,377,988	6,913,796	5,672,278
Of which:			
Resource DEL	*5,349,762*	*4,682,017*	*4,168,537*
Resource AME	*2,028,226*	*2,231,779*	*1,503,741*
Adjustments to include non-budget elements:			
Grants to devolved administrations (MoJ and NIO only)	-	-	-
Any occasional prior period adjustments	-	-	-
Total Resources (Estimate)	7,377,988	6,913,796	5,672,278

* These lines are included for illustrative purposes only: instances of non-budget CFER income are expected to be rare.

Notes to the Main Estimate

Explanation of Accounting Officer responsibilities

In accordance with the Government Resources and Accounts Act 2000 the Treasury has made the following Accounting Officer appointments for the expenditure within this Estimate.

Principal Accounting Officer	Charles Dickens, Permanent Head of the Department
Additional Accounting Officers	Dorothy L Sayers John Grisham
NDPB Accounting Officers	Scott Adams (The Administration College) Virginia Woolf (The Council for Improved Public Services) Henry James (The Partnership Research Foundation)

Charles Dickens, as the Principal Accounting Officer of Department Purple, has personal responsibility for the proper presentation of the department's resource accounts as prescribed in legislation, or by the Treasury, and their transmission to the Comptroller and Auditor General. The Principal Accounting Officer, as the permanent head, remains in general overall charge of Department Purple.

The responsibilities of an Accounting Officer are set out in Chapter 3 of *Managing Public Money*. In essence, these responsibilities include a personal responsibility for the propriety and regularity of the public finances for which they are answerable; for keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the available resources. In addition, the Accounting Officer must ensure that there is a sound system of internal control to support the achievement of the organisation's policies, aims and objectives, and should regularly review the effectiveness of that system.

In accordance with *Managing Public Money* requirements, the relationship between the Principal Accounting Officer and the Additional Accounting Officer(s), and with their Ministers, together with their respective responsibilities, is set out in writing. Similarly, the relationship between the Principal Accounting Officer and the NDPB Accounting Officer(s) is set out in writing.

Notes to the Main Estimate *(contd)*

Analysis of Income

	2008-09 Provision		2007-08 Provision		2006-07 Outturn	
Resource DEL						
Administration						
Sale of goods and services	-140,800		-130,240		-103,544	
Of which:						
Section A: Department Purple administration		*-48,220*		*-40,005*		*-40,150*
Section B: Provision of development services		*-92,580*		*-90,235*		*-63,394*
Income from training courses	-27,720		-19,588		-18,572	
Of which:						
Section B: Provision of development services		*-25,420*		*-17,468*		*-16,827*
Section J: Better communication		*-2,300*		*-2,120*		*-1,745*
Royalties	-88,577		-55,825		-63,200	
Of which:						
Section F: Research into innovative delivery mechanisms		*-88,577*		*-55,825*		*-63,200*
Programme						
Sale of goods and services	-412,575		-350,248		-312,996	
Of which:						
Section B: Provision of development services		*-334,596*		*-276,889*		*-226,744*
Section C: Partnership studies		*-20,500*		*-10,429*		*-7,800*
Section E: Developing wider markets		*-2,479*		*-*		*-*
Section H: Administration, law enforcement & criminal justice		*-55,000*		*-62,930*		*-78,452*
Interest and dividends	-58,700		-55,421		-	
Of which:						
Section B: Provision of development services		*-58,700*		*-*		*-*
Section E: Developing wider markets		*-*		*-55,421*		*-*
Licence fee income	-132,644		-135,665		-134,230	
Of which:						
Section B: Provision of development services		*-132,644*		*-135,655*		*-134,230*
Total Resource DEL	**-861,016**		**-746,987**		**-632,542**	
Resource AME						
Sale of goods and services	-66,600		-70,150		-85,244	
Of which:						
Section Q: Non-discretionary payments for maladministration		*-66,600*		*-70,150*		*-85,244*
Pension contributions	-98,220		-89,152		-68,557	
Of which:						
Section P: Public sector pension scheme for staff not covered elsewhere		*-98,220*		*-89,152*		*-68,557*
Total Resource AME	**-164,820**		**-159,302**		**-153,801**	
Total Resource Income	**-1,025,836**		**-906,289**		**-786,343**	

Analysis of Income (contd)

£'000

	2008-09 Provision	2007-08 Provision	2006-07 Outturn
Capital DEL			
Sales of assets	-16,000	-37,650	-12,490
Of which:			
Section A: Department Purple administration	*-100*	*-14,200*	*-*
Section B: Provision of development services	*-15,900*	*-*	*-*
Section H: Administration, law enforcement & criminal justice	*-*	*-23,450*	*-12,490*
Loan repayments	-10,000	-11,200	-
Of which:			
Section H: Administration, law enforcement & criminal justice	*-10,000*	*-11,200*	*-*
Total Capital DEL	-26,000	-48,850	-12,490
Capital AME			
Total Capital AME	-	-	-
Total Capital Income	-26,000	-48,850	-12,490

	2008-09 Provision	2007-08 Provision	2006-07 Outturn
Capital DEL			
Sales of assets	-16,000	-37,650	-12,490
Of which:			
Section A: Department Purple administration	*-100*	*-14,200*	*-*
Section B: Provision of development services	*-15,900*	*-*	*-*
Section H: Administration, law enforcement & criminal justice	*-*	*-23,450*	*-12,490*
Loan repayments	-10,000	-11,200	-
Of which:			
Section H: Administration, law enforcement & criminal justice	*-10,000*	*-11,200*	*-*
Total Capital DEL	-26,000	-48,850	-12,490
Capital AME			
Total Capital AME	-	-	-
Total Capital Income	-26,000	-48,850	-12,490

Notes to the Main Estimate *(contd)*

Analysis of Consolidated Fund Extra Receipts

£'000

	2008-09 Provision		2007-08 Provision		2006-07 Outturn	
	Income	*Receipts*	Income	*Receipts*	Income	*Receipts*
Law enforcement	18,975	*18,975*	24,436	*24,436*	35,145	*36,142*
Total	18,975	18,975	24,436	24,436	35,145	36,142

Notes to the Main Estimate *(contd)*

Non-Departmental Public Bodies

£'000

Section in Part II: Subhead Detail table	Body	Resources	Capital	Grant-in-aid
Section B	The Administration College	1,071,240	152,700	1,065,330
Section C	The Council for Improved Public Services	102,500	500	95,630
Section F	The Research Trust	245,994	-	202,578
Section K	The Partnership Research Foundation	141,030	47,250	185,610
Total		1,560,764	200,450	1,549,148

Notes to the Main Estimate *(cont)*

Accounting Policy changes

1. From this financial year the following changes to accounting policy have been implemented:

   i) the capitalisation threshold has been increased to £5,000 for single items, and to £10,000 for bulk purchases. The effect of this is to move up to £200,000 of expenditure from capital DEL into resource (administration) DEL in the current year.

   ii) IFRS standard [xxx] results in up to £200,000 of creditors being moved into provisions. This cost has been absorbed within the resource DEL budget.

Prior Period Adjustments

Voted

2. There are no Prior Period Adjustments that need to be voted within the Estimate.

Non-voted

3. The implementation of IFRS standard [xxx], relating to the calculation of the discount rate for pensions provisions, affects the level of initial provisions and subsequent unwinding. The impact for the current year is to increase resources in Annually Managed Expenditure (AME) provisions by £1,135,000 and to increase the unwinding of the provision (a benefit to resource AME) by £280,000. This appears in section P in the Part II: Subhead Detail table. The Prior Period Adjustment in respect of the previous 2 years is shown in the following table:

£'000

Reason	2007-08	2006-07
Move to IFRS standard [xxx] impacting on pensions provisions	245	219
Total	245	219

Notes to the Main Estimate *(contd)*

Other Notes to be provided as required:

Expenditure resting on the sole authority of the Appropriation Act
Expenditure in the form of adjustable advances
Gifts
Staff Benefits
Contingent Liabilities
International Subscriptions

Resource accounts: mock-up of proposed structure

D.30 The main impact in terms of changes to the format and content of the resource accounts as a result of the Government's proposals is on the Statement of Parliamentary Supply, or SoPS. The SoPS is the record of outturn against the control limits in the Supply Estimate.

D.31 The mock-up below provides the two primary schedules (SoPS and Operating Cost Statement) that are impacted by alignment, on a basis consistent with the Government's proposals in this Memorandum.

D.32 Changes to other schedules and notes in the accounts should be relatively minor, and will flow naturally from the changes illustrated below.

Statement of Parliamentary Supply and Operating Cost Statement
Summary of Resource Outturn 2008-09

	Estimate	Outturn	2008 - 09 £000 Net Total Outturn compared with Estimate: saving/(excess)	2007 - 08 £000 Outturn
Resource Requirement				
Voted				
Resource Departmental Expenditure Limit	5,349,670	5,341,742	7,928	4,673,900
Resource Departmental Annually Managed Expenditure	2,028,226	1,331,447	696,779	1,535,000
Non Voted				
Consolidated Fund Standing Services (Resource Departmental Expenditure Limit)	92	92	0	0
Total Resource Requirement	7,377,988	6,673,281	704,707	6,208,900
Capital Requirement				
Voted				
Capital Departmental Expenditure Limit	1,114,225	1,075,525	38,700	621,100
Capital Departmental Annually Managed Expenditure	0	0	0	0
Total Capital Requirement	1,114,225	1,075,525	38,700	621,000
Voted Net Cash Requirement	7,549,279	6,624,068	925,211	6,314,451

Adjustments to reconcile Resource Outturn to Operating Cost Statement

	2008-09 £000 Outturn	2007-08 £000 Outturn
Total Resource Requirement Outturn	6,673,281	6,208,900
Capital grants to external bodies	100	89
Net Operating Cost (see below)	6,673,381	6,208,989

Consolidated Operating Cost Statement

	2008-09 £000 Core Department		Core Department and Agencies		Core Department, Agencies and Non-Departmental Public Bodies (NDPBs)		2007-08 £000 Core Department	Core Department and Agencies	Core Department, Agencies and NDPBs
	Staff costs	Other costs/ (Income)	Staff costs	Other costs/ (Income)	Staff costs	Other costs/ (Income)			
Administration costs	826,000	102,200	865,000	103,220	995,000	163,220	957,005	958,120	1,158,120
Programme costs	0	5,923,124	0	5,925,154	0	6,535,886	5,024,024	5,027,034	6,075,154
Operating income	0	(48,220)	0	(48,220)	0	(1,020,725)	0	0	(1,024,285)
Total costs	826,000	5,977,104	865,000	5,980,154	995,000	5,678,381			
Net operating cost		6,803,104		6,845,154		6,673,381	5,981,029	5,985,154	6,208,989

For the year ended 31 March 2009

E Draft protocol governing changes to definitions and treatments of spending

E.1 This Annex sets out a suggested protocol between Government and Parliament regarding how and when changes to the definitions and treatment of spending may be reflected in the Estimates.

E.2 It is the responsibility of the Treasury to determine the budgeting regime by which departments' spending plans are set and controlled. In accordance with longstanding constitutional practice, important changes in the customary form of the Estimates should not be made without the prior approval of the relevant committees of the House of Commons[1].

E.3 Aligning the Estimates with the budgetary treatment of spending means that a new protocol is needed setting out how and when Parliament will be consulted before budgetary changes are reflected in the Estimates. Such a protocol would ensure that, in the normal course of events, significant changes to budget definitions as defined below are subject to prior agreement with Parliament.

E.4 If exceptional circumstances arose in which the Government announced significant changes to budgets without prior consultation with Parliament, it would mean that the Estimates could not follow such changes unless and until Parliament had agreed them. It would be for Parliament to take a view on whether the format of Estimates should follow that of budgets. Any such change made in advance of parliamentary approval would therefore once again lead to a misalignment between budgets and Estimates, and should be avoided.

E.5 This Annex does not seek to define what constitutes a 'significant' or 'important' change – this will remain a matter of judgement in individual cases, as at present, and subject to informal discussion between the Treasury and parliamentary authorities. It rather seeks to establish a formal protocol that clearly identifies the circumstances in which the Treasury will either inform, or seek agreement from, Parliament in advance of changes to policy, content or structure affecting the Estimates.

E.6 It is proposed that the conditions that must be followed before changes to budget definitions can be reflected in Estimates are as follows:

- <u>Changes involving movements into or out of the budgeting boundary</u> – eg where a category of expenditure (perhaps depreciation or provisions) is removed from budgets entirely. Incorporating such changes into the Estimates would be subject to parliamentary approval, as they would involve changes to the overall level of spending that Parliament is being asked to approve. Other than in exceptional circumstances, the Treasury would only seek to make such changes from the start of a financial year, and would write to Parliament at least three months in advance (ie no later than the end of the preceding calendar year). Although the Treasury would give as much time as possible for Parliament to consider and approve the request, a response would be needed no later than two months before the start of the financial year.

[1] Erskine May, Parliamentary Practice, 23rd Edition, page 863

- Changes to the treatment of spending within the budgeting boundary – eg where a category of expenditure is moved from DEL to AME, or from the resource budget to the capital budget. Other than in exceptional circumstances, the Treasury would only seek to make such changes from the start of a financial year, and would formally notify Parliament at least three months in advance (ie no later than the end of the preceding calendar year). Such changes would not require formal parliamentary approval, as they would not alter the overall content of the Estimates, but would instead present the information differently. The Treasury would therefore notify Parliament in advance of the planned change but would not seek formal agreement before proceeding.

- Changes to the structure or format of the Estimates – eg merging or splitting columns of data. Decisions on whether such changes are important enough to require parliamentary agreement will remain a matter of judgement, and subject to informal discussion between the Treasury and parliamentary authorities (primarily the National Audit Office, the Public Bill Office and the House of Commons Scrutiny Unit, as appropriate). Questions to be considered in reaching such a judgement might include:

  - would the change involve the provision of less information than at present;
  - is the information available elsewhere; and
  - has the information previously been, or is it likely to be, of particular political/parliamentary interest.

F Detailed explanation of continuing misalignments

F.1 This Annex explains the rationale for the two categories of expenditure where the Government is proposing that misalignments should continue, with the result that reconciliations will be needed between the Statement of Parliamentary Supply (SoPS) and the Operating Cost Statement (OCS) in departments' resource accounts, as illustrated at Annex D[1].

F.2 To recap, the principles which have been applied in assessing an appropriate way forward to achieve alignment in individual cases are that:

- Alignment should not be pursued if the results are likely to be manipulable, or if doing so risks causing serious damage, bearing in mind that the different purposes of the various frameworks may lead to the conclusion that different treatments may, in certain cases, be legitimate.
- Alignment will not change the National Accounts, nor the way in which they measure economic or fiscal performance. There will be no increased residual risk to fiscal control – although the places where risk is managed, and the nature of the mitigations, may change.
- Flexibility may be needed in certain areas to achieve alignment:
    - For budgets, while the overriding need is to maintain firm control over public spending while incentivising value for money, it may be possible to achieve this in different ways in order to achieve better alignment.
    - For Estimates, the aim should be to align with whatever is needed in budgets to control public spending, consistent with the requirements of Parliament.
    - For resource accounts, if it is not desirable in the context of alignment to implement IFRS strictly in specific areas, it may be possible to achieve alignment in other ways through seeking adaptations to IFRS – in limited cases and subject to the agreement of the Financial Reporting Advisory Board (FRAB) – while still satisfying its overall intentions.
- It is unlikely to be possible to achieve full alignment in all areas, given the different purposes for which the different frameworks have developed, for good reasons, over the years. In the absence of full alignment, the aim should be to ensure that any necessary reconciliation is kept as simple as possible.

[1] Annex C explained that the proposed approach to Supported Capital Expenditure (Revenue) was to include SCE(R)s in the capital requirement in the Estimates, but to remove them in the net cash requirement, thereby aligning budgets and Estimates and continuing to protect the fiscal position. The reason this would not result in a reconciliation between the SoPS and the OCS is because SCE(R)s are included in neither the net resource requirement in Estimates, nor in the OCS in resource accounts.

F.3 The two categories of expenditure where it is proposed, in the light of these principles, that there should be continuing misalignment are:

- Capital grants to the private sector, local authorities and PCs; and
- Prior period adjustments.

Capital grants to the private sector, local authorities and PCs

F.4 Capital grants to the private sector, local authorities and PCs (amounting to around £19 billion in 2008-09) are currently treated as resource expenditure in the resource accounts and Estimates, reflecting UK GAAP/IFRS requirements, as these grants do not create an asset on the departmental balance sheet. However, they are treated as capital in budgets, reflecting National Accounts treatment, which measures the impact of spending across the economy.

F.5 The proposed approach is that these grants should be treated as capital in budgets and in Estimates (included as part of a voted capital DEL total), but should continue to be treated as resource expenditure in resource accounts. Although this leaves a misalignment, alternative solutions which would allow full alignment would not meet the criteria above:

- treating these grants as capital across all frameworks would mean that the assets created as a result of these grants would be placed on the balance sheets of individual departments, despite being in the ownership of the private sector. This would not reflect reality and would also be clearly incompatible with UK GAAP/IFRS treatment;
- treating these grants as resource across budgets, Estimates and resource accounts would create a significant fiscal risk, as the grants would continue to be capital in National Accounts for the purposes of measurement of fiscal performance. It would also not reflect the reality that the spending is made for the purpose of creating an asset for the public good, and that the recipients of the grant are restricted to spending it for capital purposes.

F.6 Although not achieving full alignment, the proposed approach has a number of benefits:

- it aligns budgets and Estimates, enabling Parliament to vote DEL totals;
- it protects the fiscal position by aligning budgetary and Estimates treatment with National Accounts;
- it is the option preferred by departments as promoting the most effective budgetary management of these types of grants by them and the organisations that receive them; and
- the misalignment with resource accounts can be mitigated by a clear reconciliation in Schedule 1 of the resource accounts.

F.7 The Financial Reporting Advisory Board (FRAB) has confirmed that it is content in principle with this approach, which is illustrated in Annex D.

Prior Period Adjustments

F.8 Prior period adjustments (PPAs) are material adjustments applicable to past years and arise from changes to accounting policies or from the correction of fundamental errors. Whilst PPAs are relatively rare, they can be significant in terms of value. The most recent PPA related to the introduction of FRS 17 amounting to around £35bn in 2003/04. Under IFRS, PPAs will be required for material, rather than fundamental, errors.

F.9 The current position is that resource requirements related to PPAs are sought in Estimates in the year in which they are identified, in order to obtain the spending authority that would otherwise have been sought previously. This approach obviates the need to re-open resource accounts that have already been closed and allows parliamentary approval for any changes in resources financed by Estimates due to the adjustments. The consequence is that Estimates for a particular year may be used to authorise expenditure for a previous year. PPAs do not feature in budgets, which are restated for the year(s) of the error, or in the OCS of the department's resource accounts for the year in question.

F.10 The proposed treatment of PPAs in future would depend on their cause:

- PPAs arising from a change of accounting policy brought in by a new or modified accounting standard would no longer be voted, but would instead appear as a Note to the Estimate. The Note would report the reason for the change and the impact on data for up to the previous five years.
- However, where a PPA results from an error in previous recording, or an accounting policy change that was initiated by the department itself, or otherwise resulted from a departmental decision, it is proper that the department should seek parliamentary authority for the provision that should have been sought previously. Forcing alignment would not meet the above criteria, since it would be inconsistent with the requirements of Parliament. It is therefore proposed that such PPAs should continue to be included within voted Supply in the current year's Estimate.

F.11 The Financial Reporting Advisory Board (FRAB) has expressed its agreement in principle with this approach, which will create alignment in respect of PPAs resulting from a change in accounting policy brought in by a new or modified standard, whilst continuing to provide Parliament with the necessary information; but will result in a misalignment in respect of errors and changes initiated by the department, on which Parliament will continue to have the opportunity to vote.

G Proposed new virement rules under alignment

G.1 This Annex sets out the Government's proposals for how virement rules would apply under alignment.

G.2 Virement relates to the reallocation of provision in the Estimates without the need for a Supplementary Estimate to obtain the necessary authority. Virement reallocates underspends on one part of the Estimate to cover overspends on another part of the Estimate. Virement is allowed only within voted limits (currently Requests for Resources, or RfRs), and cannot be used to amend the limits set by Parliament.

G.3 Departments currently have delegated authority to vire provision between the programme subheads within the same section of the Estimate, or to vire from the administration subhead into a programme subhead within the same section of the Estimate. Treasury approval is required for any other virement. The Treasury must ensure that any virement approval does not infringe Parliament's control over expenditure. For example, the Treasury does not agree virement where the amounts are significant in relation to the Estimate as a whole, or where the expenditure might be viewed as novel or contentious. The Treasury may not, under any circumstances, agree to virement of resource between voted limits (RfRs) or where the expenditure would not be covered by the ambit.

Are virement rules necessary?

G.4 Although Parliament votes spending limits at a relatively high-level, the Part II: Subhead detail table within the Estimate that is presented to Parliament for approval provides a detailed breakdown of expenditure within each RfR into separate sections representing specific functional areas. Parliament has delegated to the Treasury the authority to allow virement within, and between, these sections, provided it is appropriate to do so.

G.5 One of the main benefits of virement is that it removes the need for a department to seek a Supplementary Estimate simply to authorise a relatively minor and uncontentious switch of provision within an Estimate. The alignment project provides a useful opportunity to review the value, and effectiveness, of the current virement rules. Following discussions with departments and other stakeholders in the project, including the NAO and Parliament, it is proposed that these rules are updated to reflect the proposed revisions to the structure and content of the Estimates.

Changes to parliamentary controls under alignment

G.6 Although there will be differences for individual departments, the proposed changes to the structure and content of Estimates under alignment should not significantly affect the overall level of freedoms and controls. Departments currently have between one and five RfRs (the majority of departments have only one RfR), plus voted limits on the net cash requirement and operating and non-operating income. If Parliament votes budgets net of income there will be a maximum of five voted limits (Resource DEL; Capital DEL; Resource AME; Capital AME; and the net cash requirement), though many departments have no AME expenditure and some have no capital DEL either. This new structure has the following benefits:

- Parliament will be controlling the same totals as the Treasury uses to manage and monitor public expenditure, rather than the more arbitrary RfR limits;
- This is in line with good financial management practice. Departments are set separate resource and capital budgets and are expected to manage within them, reallocating resources between priorities as necessary. This is also in line with international practice – most legislatures in the developed world vote the budget.

Proposed virement rules under alignment

G.7 In the light of the above, this section sets out the proposed new virement rules, reflecting discussions with key stakeholders inside and outside of government. Most of the bullets below replicate the existing virement controls, amended as necessary to reflect the alignment of Estimates with budgets. However, bullet (vi) delegates a greater degree of authority to departments by giving them more flexibility to vire provision between sections without seeking Treasury approval, subject to certain restrictions; and bullet (ix) adds a virement control over use of income to reduce net spending within a section (reflecting the proposal that Estimates are voted net of income). Parliamentary approval is sought to these changes to the existing virement rules, to better reflect the way that departments manage public expenditure. It is useful to consider the virement proposals alongside the mock-ups of the Estimates under alignment (Annex D). In particular, if Parliament votes budgets net of allowable income, the structure of the Part II: Subhead Detail table is an important factor in supporting information necessary for the virement rules to be applied effectively.

(i) Virement applies only to voted provision. Under alignment, the Estimates will, where relevant, include non-voted budgetary spending by the department. The Part II: Subhead detail table of the Estimate will identify sections, as appropriate, by: voted DEL; non-voted DEL; voted AME; non-voted AME; and, exceptionally, any 'Non-budget' expenditure that must be voted (eg grants to the devolved administrations).
A department could not seek to vire provision from a non-voted section into a voted section, as this would increase voted expenditure above the limit set by Parliament; such a transfer could only be achieved through a Supplementary Estimate. However, if a department wanted to increase spending on a non-voted section by making savings in a voted area of spending, it could do so without the need for changes to the Estimate (though this should be included if a Supplementary Estimate were being presented for other reasons).

(ii) Virement cannot take place between voted budgetary limits (planned to be: Resource DEL; Capital DEL; Resource AME; Capital AME). Virement can only take place within these limits. (This is similar to the current restriction on virement between RfRs.) Movements of provision between such limits would require both the budgetary cover and a Supplementary Estimate.

(iii) There can be no virement between resource and capital provision. This is line with Treasury budgeting rules, and reflects the fact that these will become separate voted limits for resource and capital (capital provision is not directly voted at present and therefore virement between resource and capital has previously not been an issue).

(iv) Virement can only cover activities clearly authorised in the Estimate. Provision can only be vired into expenditure covered by the relevant ambit. The virement would also normally be to an existing section within the voted limit, although the opening of a new section could be agreed by the Treasury where appropriate.

(v) Departments may not vire if the amount is significant in relation to the Estimate as a whole, or if the expenditure might be viewed as novel or contentious. Parliament should be asked to approve any such reallocation of provision.

(vi) Departments should be allowed to vire freely between programme sections, within administration sections, and from administration to programme subheads (both with and between sections), provided these are within the same voted limit, subject to certain restrictions. This is a change from the present arrangements, recognising that departments should be given the flexibility to manage within their voted budgets to reflect changing priorities, and subsequently report their performance to Parliament. In reality, it would be unusual for the Treasury to refuse virement in these circumstances now, unless the expenditure was significant in relation to the Estimate as a whole, or if the expenditure might be viewed as novel or contentious. Those restrictions will remain in place (see bullet (v) above), and the virement of income (see bullet (ix) below) will be subject to specific Treasury authority. There may be circumstances where Treasury sets a particular ringfenced budget within DEL and may want to require that virement in and out of that section would need specific Treasury approval.

(vii) Virement from programme into administration subheads will still require Treasury approval and can only be agreed if the departmental administration budget has sufficient cover. Although the administration cost system remains under review by the Treasury, at present Ministers have taken the view that it is an important part of the control framework and should remain in place. Parliament has also expressed considerable interest in administration costs. Given that departments cannot move funds from programme into administration within DEL, it seems right that the same virement rules apply in Estimates.

(viii) There can be no virement from a Departmental Unallocated Provision (DUP) section. Where the department has included a section for (DUP), this section will be voted but the department will not be able to vire this provision into any other section and will need a Supplementary Estimate to make it available. This reflects the fact that a DUP section is not asking for provision for specific spending and the provision sought in this section is removed in the reconciliation to the net cash requirement. In reality, there is no change here for departments. At present, departments would usually draw down DUP into a section within the Estimate in a Supplementary Estimate. The only change is that the resource provision for the DUP, but not the cash, will now appear in the Main Estimate.

(ix) Virement of income will be subject to particular scrutiny. Subject to Parliament's agreement to Estimates being presented net of allowable income (see Annex B), reallocation of the benefit of negative DEL/AME income from one Estimates section to another will be subject to careful scrutiny by the Treasury, and will only be allowed where the income has an appropriate relationship to expenditure in the section into which it is being vired.

G.8 Table G.1 summarises the proposed virement arrangements under alignment, compared with the current position.

Table G.1: Summary of comparisons between current and proposed virement rules

Issue	Virement rules Current	Proposed
Virement between voted limits	Not allowed	Not allowed
Virement between resource and capital	Not relevant, as capital is not subject to separate controls	Not allowed, as capital forms a separate limit
Virement between different high-level objectives	Not allowed where these form separate Requests for Resources	Allowed where these are within the same part of the budget, unless significant in relation to the Estimate as a whole, or novel or contentious
Delegated authority to departments to vire within the same section	Allowed	Allowed
Virement between sections	Allowed, with Treasury authority	Allowed
Virement into administration budgets	Only allowed where there is no breach of the administration budget	Only allowed where there is no breach of the administration budget
Virement from Departmental Unallocated Provision	Not relevant, as DUP is not voted	Not allowed
Virement where amounts are large or spending is novel or contentious	Not allowed	Not allowed

H Examples of the practical implications of net control

H.1 This Annex gives some examples of the practical implications of the proposed move to net control in Estimates.

Department with unexpected income near year-end

H.2 There are a number of departments that rely on income either to meet all of their costs (eg regulatory bodies such as Postcomm), or to meet costs for a specific activity (eg Passport Agency spending within the Home Office). At present, the department can only retain this income to offset against related spending if it has been anticipated and is within the appropriations-in-aid limit provided for in the Estimate.

H.3 The last opportunity to amend the limit on appropriations-in-aid is at the spring Supplementary Estimate stage, which departments must complete by end-January. Any income above the level approved by this time must be surrendered as a Consolidated Fund extra receipt (CFER). The treatment as a CFER does not, however, change the budgetary treatment (which will remain as negative DEL in the examples given above) and, all other things being equal, the department will carry forward the DEL benefit through end-year flexibility and increase expenditure in the following financial year.

H.4 This can cause difficulties for a department where an unexpected increase in demand for services increases costs that are offset by income in budgetary and accounting terms but where the income, and related cash, must be surrendered to the Consolidated Fund. In such cases the department has currently to find offsetting savings within voted expenditure in order to avoid an Excess Vote. This can result in departments being required to make short-term management decisions which result in poor value for money.

H.5 The proposed move to net Estimates would mean that income of a type already included in the Estimate could be retained even if the amount was higher than that forecast by the department. This would allow the department to meet its additional costs from the directly related income without requiring short-term and potentially inefficient cost saving to be found from elsewhere.

Department seeking to maximise income to increase spending

H.6 Where income is classified as negative DEL in budgets, the department has an incentive to maximise such income in order to generate additional DEL spending power. Income generated from the provision of goods or services is, where the associated costs are in DEL, normally treated as negative DEL. Any body providing a service to customers, such as the National Audit Office providing an audit service, may well seek to maximise such income either by increasing charges, or by extending its customer base and moving into new markets.

H.7 This incentive is not significantly different under the current treatment of income or under the proposed net treatment. The department obtains the DEL benefit under either scenario (provided Parliament approves the subsequent Estimate provision), though there will be a timing difference where, under current rules, the department does not have the necessary authority to appropriate the income in aid of the Estimate.

H.8 This approach would only present a problem if the department sought to charge more than was appropriate for the service, or if it focussed on revenue generating activity to the detriment of higher priority issues. The safeguards that prevent such actions would be the same under net treatment of income as they are at present.

H.9 The amount that a department can charge for a service depends on the market conditions. Where it is operating in a competitive market, the department can select its own pricing structure and seek a commercial return. However, departments do not usually operate under such conditions and are usually providing regulatory services of one kind or another. In these circumstances, the department will usually require primary legislation authorising the activity and the charging mechanism. Managing Public Money requires that the department sets the charge so as to recover the full costs of the service, but not to generate a profit. This applies equally under the present and the proposed systems.

H.10 The budgeting rules also restrict a department's ability to maximise income inappropriately. Where the amount of income generated by a department exceeds 20% above that anticipated in the Spending Review, it must consult with the Treasury about whether any of this income may still be treated as negative DEL.

H.11 Finally, Public Service Agreements and DSOs focus departmental priorities, and therefore reduce the likelihood of a department diverting resources to other areas inappropriately.

Inefficiencies masked by costs being met by income

H.12 This is linked to the example above. Where the department is able (as it is under both the existing and the proposed scenarios) to offset 100% of its costs in providing a service through the charges applied, there is a risk that inefficiencies will arise because the department has no financial incentive to address them.

H.13 Again, the proposed move to net treatment of income does not materially affect the safeguards. Managing Public Money requires that performance is monitored in areas financed by fees and charges to consider, among other things, whether the activity is still appropriate and whether efficiency and effectiveness can be improved. Routine reviews should take place at least once a year and more fundamental reviews at intervals appropriate to the activity.

I Draft Statement of Accounting Officers' Responsibilities

I.1 This Annex sets out below a suggested draft Statement of Accounting Officers' Responsibilities, in relation to the illustrative consolidated resource account for Department Purple and its sponsored non-departmental and other arm's length public bodies (see Annexes B and D).

STATEMENT OF ACCOUNTING OFFICERS' RESPONSIBILITIES IN RELATION TO THE CONSOLIDATED RESOURCE ACCOUNT OF DEPARTMENT PURPLE AND ITS SPONSORED NON-DEPARTMENTAL AND OTHER ARMS LENGTH PUBLIC BODIES

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed Department Purple to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental *[and other arms length]* public bodies designated by order made under the GRAA by Statutory Instrument 20XX no XXXX (together known as the 'departmental group', consisting of the department and sponsored bodies listed at note xx to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and the departmental group and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows of the departmental group for the financial year.

In preparing the accounts, the Accounting Officer of the Department is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental *[and other arms length]* public bodies;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the department as Accounting Officer of the department. The Accounting Officer of the department has appointed the Chief Executives *[or equivalents]* of its sponsored non-departmental *[and other arms length]* public bodies as Accounting Officers of those bodies. The Accounting Officer of the department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the department or non-departmental *[or other arms length]* public body for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

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