Better Accounting for the Taxpayer's Money:

Resource Accounting and Budgeting in Government

A CONSULTATION PAPER

BETTER ACCOUNTING FOR THE TAXPAYER'S MONEY:

RESOURCE ACCOUNTING AND BUDGETING IN GOVERNMENT

Presented to Parliament by the
Secretaries of the Treasury
by Command of Her Majesty.

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Foreword

The Government is committed to a continuing programme of radical improvement in the way the public sector manages itself. Only by taking a progressively more business-like approach can the Government continue to bear down on the cost to the taxpayer of delivering public services whilst improving service standards through the Citizen's Charter. The proposals set out in this Green Paper are a further significant step in this direction.

The changes described in this Paper are a major undertaking - probably the most important reform of Civil Service accounting and budgeting arrangements this century. Some of Mr Gladstone's reforms will now be allowed a well-earned retirement. The proposals are firmly based on improvements in accountancy practice and financial control that have taken place decades ago in most other large organisations. To implement the changes successfully will require the development of new skills, and commitment and leadership from managers at all levels in the Civil Service.

Resource accounting will enable managers in departments to evaluate the cost of using capital and current resources on an equivalent basis. It will strengthen cash management in departments. Crucially, it will also provide a much better means than we have ever had for setting departmental objectives and outputs in terms of resources used. Taxpayers will be better able to see what they are receiving for their money and to judge what value for money they are getting.

Accruals accounting, which lies at the heart of resource accounting, is already established in many parts of the public sector, including the nationalised industries, executive agencies and the National Health Service. Substantial benefits will follow its extension throughout government departments.

The benefits of resource accounting apply not only to the management of departments, but also potentially to the wider perspective of the overall planning, management and control of public expenditure. So the Government is asking for views in this Green Paper on the options for taking forward resource budgeting, including the implications for reporting to Parliament, as well as its proposals for introducing resource accounting.

The development of resource accounting and budgeting will represent a significant improvement in public sector financial management techniques, based on principles first laid down in the Financial Management Initiative in 1982. It will require a substantial change in the way departments are run, in the accounting and information systems they use, and in their working methods and culture. I believe, however, that it is only by bringing the quality of financial analysis and decision making up to the standard of the best in the public and private sectors that we can achieve continued improvement in the efficiency and effectiveness of the services delivered by government.

I look forward to responses from all those – in Parliament, government, business and the professions – with an interest in the ideas set out in this Green Paper.

Kenneth Clarke MP

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Executive Summary

Proposals and Further Consultation

0.1. This Green Paper follows the Chancellor of the Exchequer's announcement in the November 1993 Budget of the Government's decision to introduce resource accounting throughout central government. After a consultation exercise involving all departments, the Government now proposes

- to implement resource accounting in the majority of departments by 1 April 1997 and in all departments by 1 April 1998;
- that the first year in which resource accounts are published and laid before Parliament will be 1999-2000;
- in principle, to introduce resource budgeting across government;
- to consult on how a resource based Public Expenditure Survey would work in practice;
- that, subject to meeting the target dates above for introducing resource accounting, and the results of further consultation, the first Survey on a resource basis would be carried out in the year 2000;
- to consult Parliament and others on how expenditure might be controlled on a resource basis and on the consequent reporting arrangements; and
- that the consultation period will last until 31January 1995. The Government will publish its detailed proposals for resource budgeting, and the implications for Parliament, as soon as possible thereafter.

Benefits of Resource Accounting and Budgeting

0.2. The development of resource accounting and budgeting should provide a number of benefits:

For departments

- more accurate and relevant management information with which departments can cost the resources that they use, and match them with the outputs they deliver; and
- better informed decisions on the balance between current and capital expenditure, taking into account the opportunity cost of capital and its consumption over time.

For the public sector as a whole

- improvements in the way in which government conducts its public expenditure planning and control procedures at all levels;
- facilitating the development of cash control at a higher level than hitherto, whilst keeping tight control of public spending as a whole; and
- in line with other initiatives, contributing to the further development of a strategic approach to managing the Civil Service, in line with the principles of the Financial Management Initiative.

For the economy as a whole

- better information for formulating economic policy and preparing National Accounts on the value and use of fixed assets and capital consumption in the public sector; and
- the possibility of a reduction in the public sector's call on funds by promoting better use of resources.

Resource Accounting: Main Features

0.3. Resource accounting provides the opportunity for departments to link the full costs of resources consumed by departments to their objectives and outputs.

0.4. It is recommended that the framework of accounting principles and conventions for resource accounting in departments should be based on UK Generally Accepted Accounting Practice, in particular the accounting and disclosure requirements of the Companies Act (1985) and accounting standards, supplemented where appropriate to accommodate the particular requirements of central government. This should ensure broad consistency with accounting practice in the rest of the public sector and the private sector.

0.5. It is proposed that one consolidated set of resource accounts should be prepared by each department. This would include the assets and liabilities of its executive agencies including Trading Funds.

0.6. Resource accounting provides information for a wide range of potential users. The information will be valuable for Parliament and the public at large. But it will also be of great value to departments and their agencies, at all levels, in developing their plans and managing their resources.

Resource Budgeting: Main Features

0.7. Taking the further step of introducing resource budgeting would change the public expenditure control total to an accruals basis. This would be entirely consistent with maintaining firm control of public expenditure expressed as a proportion of Gross Domestic Product (GDP), which is also measured in accruals terms. Any move to resource budgeting should be accompanied by continuing firm control over cash, reflecting the Government's responsibility to manage its own cash flow and borrowing. But cash control could be exercised at a less detailed level.

0.8. Resource budgeting would allow departments to plan internally and be controlled externally on a consistent basis. It should also improve the quality of decision making on the allocation of resources between departments as well as within them.

0.9. A resource based Public Expenditure Survey and control regime would provide the opportunity to develop a more rational basis for the treatment of capital spending.

0.10. Resource budgeting opens up the possibility of changing the basis of Parliamentary as well as administrative control of public expenditure.

Chapter 1 The Basis of the Changes

Introduction

1.1. The Budget Speech on 30 November 1993 included an announcement that a paper would be published on the introduction of accruals-based resource accounting by departments, and its implications for the way expenditure is planned and controlled, and money is sought from Parliament.

1.2. The Government believes that it would be desirable in principle to build on the introduction of resource accounting by changing the current public expenditure planning and control arrangements to reflect the introduction of resource accounts. Since this would be a further major step, the consultation period will be used to discuss the proposals with Parliament and other relevant parties before final decisions are taken on how to proceed.

Definition

The term "resource accounting" covers a set of accruals accounting techniques for reporting on the expenditure of UK central government, comprising departments and their executive agencies including Trading Funds, and a framework for analysing expenditure by departmental objective, relating this to outputs wherever possible. "Resource budgeting" covers planning and controlling public expenditure on a resource accounting basis.

Why the changes?

1.3. At the heart of the changes are proposals which, when linked to robust departmental management information systems, will provide information for better management decisions so that government departments improve the use of their resources to fulfil their objectives. These changes will put further emphasis on what departments produce rather than on what they have available to spend. In doing so the proposals signal the Government's intention to carry forward its strategic approach to planning, management and control, within a framework which continues to deliver firm control of public expenditure.

1.4. These proposals are not being put forward in isolation. They originate from the basic principles of sound financial management laid down in 1982 in the Financial Management Initiative. They also underpin other initiatives taken since then, including Next Steps and the Citizen's Charter.

1.5. As part of the Next Steps initiative, accruals accounting has already been adopted for executive agencies within central government, building on well established principles from commercial accounting procedures. It has also been introduced, or is being considered, in most other parts of the public sector. What is now proposed is to apply resource accounting, which includes the accruals concept, coherently to the whole of central government, and not just its executive agencies.

1.6. A change of this size will require new systems and additional skills both for those operating the systems and for managers and staff who use the information provided. There will inevitably be costs in developing systems and in providing the necessary training. But many of these costs would in any event have been incurred as part of a continuing process of updating systems and skills. The Government believes that the costs and risks associated with the development of resource accounting will be justified by the benefits outlined elsewhere in this Green Paper.

Other Opportunities from Resource Accounting

1.7. In addition to the overall benefits summarised above, the proposed changes will provide the opportunity for a number of specific improvements in the management of public expenditure.

Across government

1.8. At the aggregate level, resource accounting will

- provide a better basis for the treatment of capital;
- encourage improved use of capital by creating an opportunity to develop a more systematic approach to capital charging; and
- make comparison of services provided across the public sector and with the private sector more straightforward.

Within departments

1.9. Resource accounting will give departments the opportunity to develop their data collection and management systems. The results will give departments better information on the cost of the services they provide, and the mix of resources required to meet their aims and objectives.

For the economy

1.10. Resource accounting should give rise to additional benefits for the management of the economy as a whole by offering the possibility of reduced borrowing through identifying, and then disposing of, underutilised fixed assets, and through the better management of working capital. There will also be improved information on the stock of fixed assets and capital consumption to assist the Central Statistical Office in preparing the National Accounts.

Resource Budgeting

1.11. The introduction of resource accounting opens up the opportunity of introducing resource budgeting. This would mean that

- the process of planning public expenditure, for government as a whole and for departments individually, would be better informed;

- pressure for spending at the end of the financial year (the "year-end surge") would be reduced;

- control of expenditure would be more soundly based, since managers would have more relevant information;

- the procedures for deciding on the level of capital would be improved; and

- the effectiveness of the top-down approach to the Public Expenditure Survey, would be enhanced by providing for better informed choices between spending options.

1.12. At the departmental level, resource budgeting would

- allow for more effective organisation and planning of the relationship between departments, their executive agencies and the other bodies (such as non-departmental public bodies (NDPBs), with which they are linked) by aligning internal budgetary planning and control arrangements;

- encourage departments to focus on the services and other outputs which they deliver, rather than on the inputs which they consume; and

- allow departments to plan internally and be controlled externally on the same basis.

Control

Cash control

1.13. A central priority for the Government is to keep tight control on public spending. The additional information provided by resource accounting and budgeting would assist this objective. Cash constraints would continue to apply to both planning and control to ensure that the Public Sector Borrowing Requirement (PSBR) remained within planned limits.

1.14. But resource budgeting would give the opportunity for aggregate control of cash to be at a less detailed level than hitherto, since the detailed planning and control figures in the control total could be in resource terms.

Estimates

1.15. Whilst it would be possible to continue to seek Parliamentary authority and report back on the present cash basis, with a different resource-based budgeting system within government, this would potentially be a more complicated system. Information available from resource budgeting would provide Parliament with the opportunity to authorise expenditure using resource-based Estimates. The Government would then report to Parliament on the basis of resource accounts, supplemented with cash information.

Capital

Limitations of present system

1.16. While the present cash accounting system has served government well over many years, there are limitations to the information which it provides on capital. With cash accounting, spending on what is used over many years is recorded only when the money is spent. No subsequent account is therefore taken of whether the asset is still in use, has reached the end of its useful life, or has been sold.

Identifying cost of capital as it is used

1.17. One of the most important single changes in the proposed system is the improved treatment of capital. Resource accounting allocates the cost of providing capital over its expected useful life, and gives the opportunity to charge directly for its use on this basis. A move to resource accounting and resource budgeting should improve the quality of decision-taking on new capital investment and the use of existing capital assets. There would be a sharper focus on the desirable balance between capital and current expenditure and a better understanding of such matters as the costs of neglecting maintenance.

Link with the Private Finance Initiative

1.18. Where capital projects are financed outside government under the Private Finance Initiative, and the risk passes to the private sector, the relevant assets will not appear on the departmental balance sheet. There will however be an entry in the Operating Cost Statement in respect of charges arising from the department's use of the assets.

Wider Context

1.19. This initiative can be seen as a further step in a process of government financial management reform, focusing on value for money and improved accountability, which has been in progress for a number of years. It is not an isolated event. Other parts of the public sector have already introduced similar accounting and budgeting arrangements, and technological developments are helping to make the changes easier and cheaper. It is intended that other methods of improving the management of the public sector could then build on the additional information available. Among these are systematic capital charging and improved links between resources and, where it is possible to define them, output measures.

1.20. The proposals in this consultation paper also build on experience of developments elsewhere in the world. Other Governments are discussing ways of using accruals accounting to achieve similar objectives. Among countries with similar constitutions, New Zealand has moved furthest in introducing accruals accounting and budgeting, linked closely to financial management reforms including output-based performance contracts. Other countries (for example Australia, Iceland, Canada, and Sweden) are moving in a similar direction. A detailed survey of accruals accounting by governments in other countries was published by the Organisation for Economic Cooperation and Development in June 1993*.

Parliament and the Public

1.21. None of these potential changes in accounting would affect the underlying principles of Ministers' accountability to Parliament. Indeed, the additional information would assist Parliamentary scrutiny as well as providing the opportunity for greater depth in policy analysis and review.

1.22. The introduction of resource accounting would give those used to dealing with private sector financial information an opportunity to understand the government's accounts more easily. A set of illustrative accounting formats is provided at Annex A.

* OECD "Accounting for what?: the value of accrual accounting to the public sector" OCDE/GD (93) 178, PARIS 1993.

Chapter 2 Resource Accounting and Audit

Introduction and Summary of the Proposals

2.1. This Chapter describes the principles of resource accounting in more detail, and deals with the main technical accounting issues. The Government proposes that the first year of resource accounts for all departments will be 1998-99, with the first set of published figures being those for 1999-2000. The 1999-2000 accounts would be the first departmental resource accounts to be laid before Parliament.

Key features of resource accounting

2.2. The key features of resource accounting are

- a coherent accounting framework to fulfil a range of requirements from low level management information to high level financial reports;
- use of accruals accounting techniques, to provide a more accurate measurement of resources consumed;
- a financial reporting structure to match resources used to departmental objectives, and linking these objectives, wherever practicable, to quantified measures of output and performance;
- accounting for the use of capital and current resources consistently, in terms of resources consumed;
- provision of essential cash accounting information;
- a system for reporting accruals accounting information to Parliament and the public; and
- auditability of the main financial statements (Operating Cost Statement, Balance Sheet and Cash Flow Statement: see Annex A Schedules A to C).

Who is it for?

2.3. Resource accounting will be of use

- to assist managers in departments in planning and controlling the use of resources within departments;
- more widely within Government, in particular in the Public Expenditure Survey (see Chapter 3); and

- to Parliament and the public as an explanation of how resources have been used, and will be used. This is also discussed in Chapter 3.

What are the benefits?

2.4. The introduction of accruals accounting will have significant benefits, above all more accurate and relevant information on capital consumption. This should lead to improvements in the use of existing assets and future investment decisions. But resource accounting is more than just accruals accounting. It brings with it a framework to capture costs and to match these to departmental objectives and (where appropriate) outputs, and to transmit this information to the relevant management level within a department.

2.5. With a better understanding of the full cost of their operations, departments will be better placed to make decisions on the allocation of resources consistent with their overall priorities. For example:

- decisions about whether to provide a particular service in- house or through an external contractor or consultant will be facilitated, since the cost of the various options will be easier to compare;
- monitoring performance against objectives will be easier;
- with better information on working capital, control of cash flow will be more effective; and
- the development of charging systems will be facilitated as better accounting information is provided.

Accruals accounting in the public sector

2.6. The introduction of accruals accounting will bring the accounts of central departments into line with other parts of the public sector where accruals accounts are already in place: the National Health Service, nationalised industries, executive agencies, most NDPBs, and local authorities. Annex C contains a brief overview of the accounting systems used in these areas.

Detailed Requirements

Financial statements

2.7. It is proposed that resource accounts in the public sector should comprise the following financial statements for each department (examples are illustrated at Annex A, Schedules A to C):

- Operating Cost Statement (Schedule A) – showing resources consumed during the year net of departmental income from customers;

- Balance Sheet (Schedule B) – the draft format shows assets and liabilities balanced by an analysis of capital employed and provisions. Capital employed represents investment by the taxpayer in the net assets of the department, and as such provides useful information. An alternative (simplified) presentation would be to omit the bottom half of the balance sheet, leaving a Statement of Assets and Liabilities only. Views are sought on these and other possible presentations; and

- Cash Flow Statement (Schedule C)- analysing the cash outflow, distinguishing between capital and current flows as well as showing the sources of finance.

2.8. Additionally, departments should produce

- Main Objectives Analysis (Schedule D) – an analysis based on the Operating Cost Statement, showing the cost of resources consumed by main departmental objective, with additional data on outturn against budget,

and will be strongly encouraged to produce

- Output and Performance Analysis (Schedule E) – comparing the full costs of delivering a department's main objectives - as defined in Schedule D above - with the outputs achieved. It is for consultation whether the Statement should include properly attributed outputs of NDPBs and other outside bodies linked to the department.

Publication

2.9. The Operating Cost Statement, Balance Sheet, and Cash Flow Statement will be published and laid before Parliament. The Main Objectives Analysis and Output and Performance Analysis might be attached or published elsewhere, for example in the Departmental Report.

Audit

2.10. Until such time as the cash-based Appropriation Accounts may be replaced by any other form of reporting to Parliament, they will continue to be prepared and audited as at present. The first full set of departmental resource accounts, prepared for financial year 1998-99, will not be published by departments nor will they be laid before Parliament by the Treasury. However, it is proposed that the Comptroller and Auditor General (C&AG) should be invited to audit these accounts, in the course of his audit of departmental Appropriation Accounts, and to report his audit opinion to departments.

2.11. The Treasury proposes to use its existing powers to direct departments to prepare resource accounts for the financial year 1999-2000 and thereafter. The C&AG would as a result be required to conduct a certification audit of these new resource accounts ie Schedules A-C of Annex A. These accounts will then be presented to Parliament. The audit status of Schedules D and E will be part of the consultation process.

2.12. In introducing the new arrangements the Government will maintain established standards of propriety and regularity. The Committee of Public Accounts will continue to perform its constitutionally important function of examining departmental Accounting Officers on the basis of reports from the C&AG. The introduction of resource accounting will not affect the C&AG's ability under current powers to conduct value for money studies under the National Audit Act 1983.

Link to Departmental Objectives and Outputs

2.13. Resource accounting will give departments a clearer picture of the input costs of their activities. There are considerable attractions to taking this process one stage further and including an explicit link between a detailed analysis of input costs according to departmental objectives and outputs, as Schedules D and E at Annex A illustrate. Output and Performance Analyses on the lines of Schedule E would be easier to propose in the case of departments (or agencies) which deliver services to third parties than those primarily providing policy advice to Ministers. But even in the latter case, departments should develop a systematic analysis of their aims and objectives and associated costs.

Capital Charging

2.14. The opportunity cost of capital used by departments is already recognised in departmental investment appraisals, but there is currently no systematic basis for recording the overall cost of capital taken up by departments. One means of exposing this opportunity cost more fully, and sharpening the incentives on departments to extract the best value from their use of capital, would be to introduce capital charging. This might take the form of either

(i) extending present arrangements (for example in the NHS) by charging for fixed tangible assets in specific areas of the public sector. Such charges would comprise depreciation and the cost of the capital invested in the assets concerned; or

(ii) systematic arrangements for charging for the cost of the total capital employed in each department.

2.15. Resource accounts will yield an aggregate figure for the capital employed by departments in carrying out their activities, which would permit the introduction of a charge for the cost of their total capital employed on the model of (ii) above, using either a notional charge or a cash charge. The resource budgeting model at Figure 3, and the accounting formats at Annex A, have been prepared on the basis of an overall notional charge, for illustrative purposes.

Accounting Principles, Policies and Techniques

2.16. The Government starts from the presumption that the accounting principles and conventions to be adopted for resource accounting should follow UK Generally Accepted Accounting Practice (UK GAAP) in particular the accounting and disclosure requirements of the Companies Act (1985) and accounting standards. This approach should give broad consistency between central government and other parts of the public sector, and more widely with the private sector. Such a framework would provide a comprehensive set of accounting standards against which auditors could scrutinise departmental accounts.

2.17. However UK GAAP may need to be supplemented in some respects to derive a framework of accounting principles appropriate to the requirement of central government. The Treasury intends to publish accounting guidance as a supplement to UK GAAP where necessary. The aim would be to produce a resource accounting reference manual for use by departments and their auditors. This might considerably simplify departmental Accounts Directions. Government Accounting will be amended when and where appropriate to take account of resource accounting.

2.18. Annex B sets out a draft outline framework of suggested accounting policies and principles which departments could use to develop resource accounting. Further work will be needed to flesh this out. There are also a number of difficult technical questions, on which comments would be welcome. These include accounting for long term government liabilities, such as pensions, and difficult categories of asset, such as heritage assets, defence materiel (front line military equipment) and physical infrastructure such as roads.

Accounting systems

2.19. Accruals accounting systems which provide management information throughout the year as well as year-end accounts are likely to yield the best overall return in terms of improvements to financial management in departments, because they will build a direct link between internal and external budgeting and accounts. Whilst technically it might be possible to produce accruals accounts from a cash-based accounting system by year-end adjustment, this should only be contemplated as an interim "fall-back" position, since it would be unlikely to yield many of the potential benefits described earlier in this chapter.

Control by departments of their cash flow

2.20. Resource accounting will require a more systematic approach to recording debtors and creditors, which will allow departments to plan and control cash flow more effectively than under a purely cash-based accounting system. At present, cash flow is mostly controlled at the end of the payment process; more comprehensive information on debtors and creditors should help departments to forecast cash flow difficulties, and to take remedial action well in advance (for example by rescheduling purchases).

Defining the departmental boundary

2.21. Consolidated resource accounts would be prepared for each whole department by consolidating the accounts of each of its individual accounting units. These would comprise the "centre" of the department and its executive agencies, including Trading Funds. Defining the boundary of the department in this way ensures that it corresponds to the responsibilities of its principal Accounting Officer (see **Figure1** below).

2.22. It is not proposed that constitutionally independent bodies such as NDPBs, nationalised industries and local authorities should be brought within the scope of the consolidated departmental accounts, even though they may be financially linked to the department. To consolidate their assets and liabilities on a departmental balance sheet would be misleading, in that ownership of the assets and liabilities is not vested in the department. Grants, loans and other forms of support to these bodies will be treated as third party transactions and identified in the relevant departmental resource accounting schedules.

2.23. The structure of resource accounts as set out in this Paper, and their future development, will be consistent with their possible use as the basis for the Public Expenditure Survey.

Whole of Government Resource Accounts

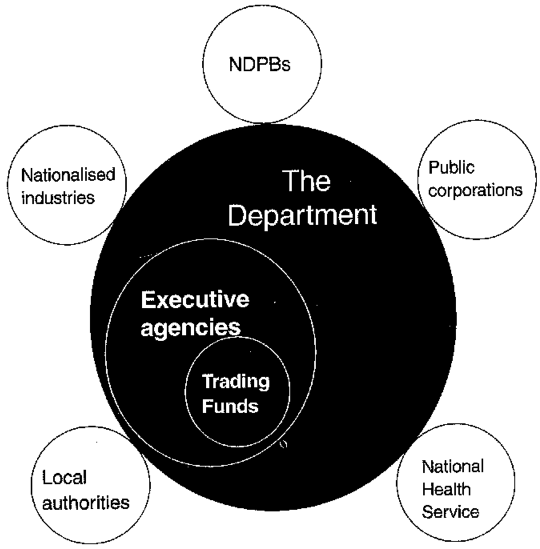
2.24. It is not clear whether aggregate resource accounts for the whole of Government would be of practical value, given the differences between the various departments and other parts of government which they would add together. The Government does not therefore intend to produce an aggregated set of departmental resource accounts.

Consolidated Fund

2.25. The Consolidated Fund and the National Loans Fund set out the Exchequer's net cash position which is critical to the control of the PSBR and the related funding operations. Resource accounting will not therefore change the way in which the accounts of the Consolidated Fund and National Loans Fund are prepared; and information will continue to be published in its present form.

Figure 1

The Departmental Boundary



Tax revenue

2.26. Tax revenue is accounted for in the Consolidated Fund on a cash basis, and in the FSBR using statistical forecasts of anticipated receipts. In both cases the present reporting methods are considered to be the most appropriate, bearing in mind the uses to which the relevant information is put. The revenue departments do however supplement this with details on the collection of outstanding tax, which may feature in their resource accounts (as at Annex A, Schedule E).

Implementation

Timetable

2.27. As a result of the work so far, the Government has concluded that resource accounting should be introduced in all departments from 1998-99. But some departments may be able to implement resource accounting a year (or more) earlier, and will derive benefits from an earlier start. Publication of resource accounts would not be a requirement until the 1999-2000 accounts, to allow departments to address any system difficulties which might arise in preparing accounts for the earlier year. The first (and subsequent) sets of published accounts would be laid before Parliament.

2.28. Although this timetable represents a demanding target for such a potentially far-reaching reform, it builds on existing work. For example, work has been in progress in all departments on the preparation of fixed asset registers to a common standard since 1992; and many departments have had experience of introducing accruals accounts in their executive agencies since the introduction of the Next Steps initiative in 1988.

Costs

2.29. Likely costs fall into three main categories:

- **System changes**
  The information technology requirements of resource accounting systems will be for the most part standard accounting applications, such as Purchase Ledger and General Ledger packages. But they may need to be tailored to departmental requirements. The Treasury will be issuing technical guidance for departments to use in drafting system specifications to common standards.

- **Management time**
  The introduction of resource accounting in departments will require a significant commitment of management time from the most senior levels downwards.

- **Training**
  Staff training is of critical importance. There will need to be investment of time in building up expertise in departments at all levels, both in the technical aspects of resource accounting and budgeting, and more generally to meet the wider changes in management culture.

2.30. The extent to which departments may incur additional costs as a result of the proposals in this Paper will depend on the extent to which these proposals fit existing plans for system replacement and upgrading. The implementation timetable has been chosen to minimise the additional cost of these proposals. Departmental proposals will be subject to detailed appraisal of the options, in advance of procurement.

2.31. The Treasury will continue to coordinate efforts across government departments to ensure that the introduction of resource accounting is achieved as cost effectively as possible, for example by sharing of relevant technical information and experience, and issuing guidance where appropriate.

Northern Ireland

2.32. The Northern Ireland Department of Finance and Personnel exercises certain Treasury responsibilities in respect of the Northern Ireland Civil Service and accordingly will have direct responsibility for the introduction of resource accounting in Northern Ireland departments.

Chapter 3 Resource Budgeting

Introduction and Summary

3.1. This Chapter looks at whether and how public expenditure planning and control arrangements might be changed to work satisfactorily with - and to receive maximum benefit from - the introduction of resource accounting. It would be possible to derive all the necessary information on cash from resource accounting systems to support the current cash based planning and control arrangements and stop there. But there are arguments for going further by adopting the principles of resource budgeting, which departments will use for their own internal management purposes, in the Public Expenditure Survey and in-year control arrangements.

3.2. The Government believes that it would be both possible and desirable in principle to take this further step since it would allow public resources to be managed and accounted for on a coherent basis at all levels. Such a move would therefore contribute to the Government's overall economic policy objectives, as well as reinforcing financial management at all levels.

3.3. The main issues and some of the possible ways forward are described below. Further work on the details, in consultation with other interested parties, is needed before final decisions can be taken on how to proceed.

What is meant by "Planning and Control Arrangements?"

3.4. The expression "planning and control arrangements" refers to two systems; administrative and Parliamentary. The systems and the relationship between them are described in Annex D. The term "resource budgeting" is used to cover possible changes to both administrative and Parliamentary procedures.

General Principles

3.5. Any consideration of the case for changing the current basis of the public expenditure planning and control arrangements must take as its starting point an identification of the objectives of the systems as they stand. The current arrangements

- help the Government to achieve its macroeconomic objectives;
- support the Government's microeconomic objectives for improving the performance of the public sector;
- provide a systematic basis for planning public expenditure, in a way which supports decision making on the appropriate allocation of

resources both within and between departments in accordance with government priorities;

- ensure that firm control over public spending is maintained;

- provide a means of ensuring that expenditure is monitored and controlled in-year; and

- provide Parliament with the information it needs to fulfil its constitutional role of approving expenditure by the Executive.

3.6. The Government believes that new arrangements for planning and controlling aggregate public expenditure will need to fulfil the key objectives described above. There may also be benefits to be gained from the new systems, for example by improving the way in which these key objectives are met.

The Policy Framework: Macroeconomic Policy Implications

General Government Expenditure

3.7 The Government's objective is expressed in terms of General Expenditure (GGE), excluding privatisation proceeds, as a proportion of Gross Domestic Product (GDP). GGE is used as the numerator in this key ratio because it is a good measure of the Government's impact on the economy. Because it is a concept based on the National Accounts, it also facilitates international comparisons. GGE is an accruals concept, although the quality of the GGE data on accruals is less satisfactory than if accruals accounts were available for central government departments. The introduction of such accounts should therefore improve the measurement and control of GGE.

3.8. There are some differences between GGE and the public expenditure Control Total (see Figures 2 and 3 below)*. Changing the basis of the Control Total to a full resource cost basis will have the effect of moving some elements of GGE which are outside the current control total (adjustments for non-trading capital consumption (depreciation) and the cost of capital) within the resource based Control Total. GGE itself would be unchanged.

3.9. This suggests that moving to a resource based control total would help to achieve the Government's expenditure objective, expressed in terms of a GGE:GDP ratio, by focusing control more precisely on the relevant figures.

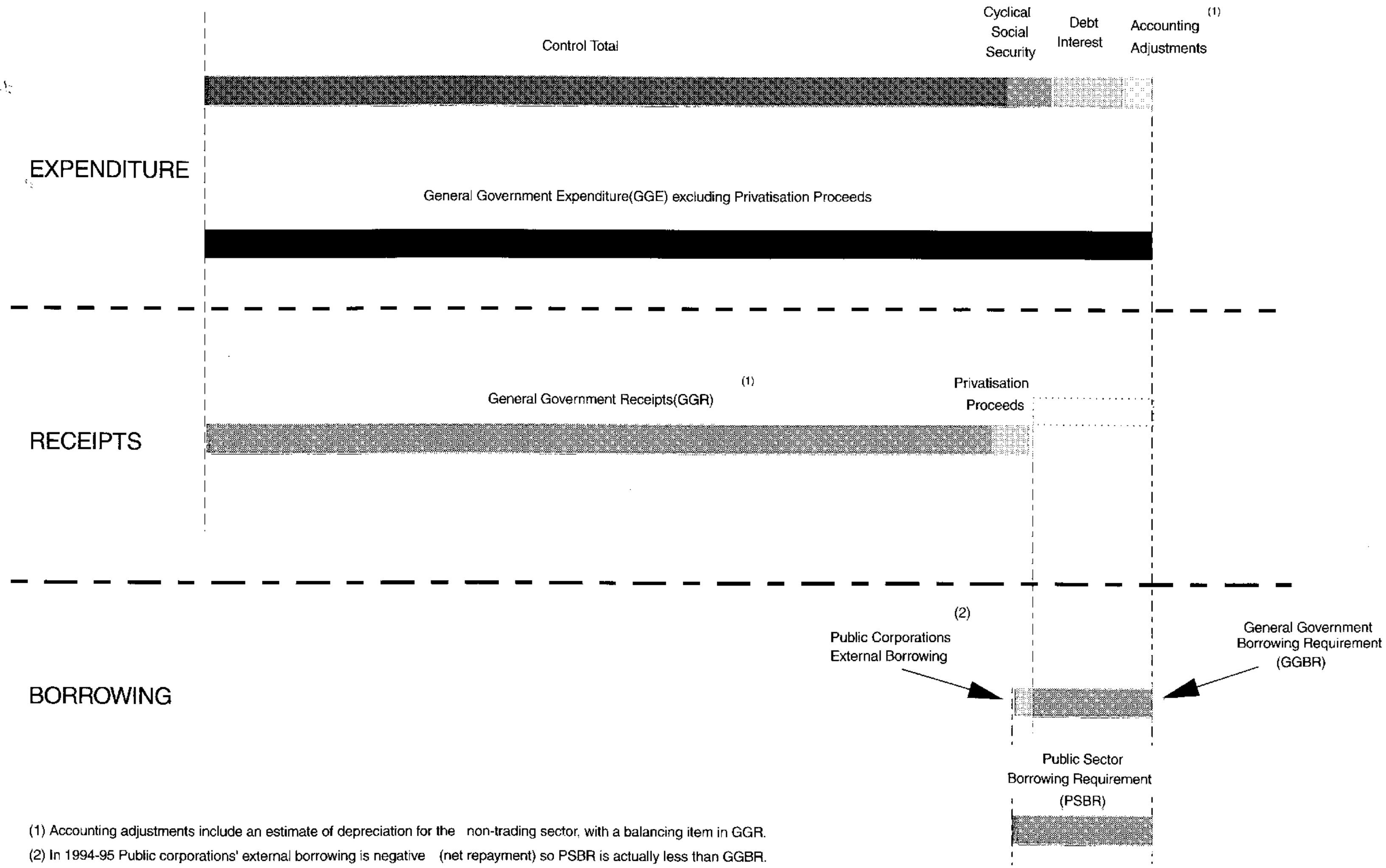
PSBR and cash control

3.10. The Government's fiscal objective is expressed in terms of the PSBR which is a cash concept. The Government publishes detailed spending plans, and detailed tax proposals together with a forecast of the revenue expected to be raised. The PSBR is, in broad terms, the difference between these. The

* For further details, see for example Appendix B of the Statistical Supplement to the Financial Statement and Budget Report 1994-95, CM 2519.

Figure 2

Expenditure, Receipts and Borrowing
Showing Control Total, GGE and PSBR



(1) Accounting adjustments include an estimate of depreciation for the non-trading sector, with a balancing item in GGR.

(2) In 1994-95 Public corporations' external borrowing is negative (net repayment) so PSBR is actually less than GGBR.

Government also publishes projections of the likely path of the PSBR over the medium term, but, because the revenue side of the account is not subject to direct control, these are subject to a margin of uncertainty.

3.11. The PSBR is also significant because the Government is responsible for managing its own cash flow, and for ensuring that operations in the money markets to finance the PSBR run smoothly. This would continue to be the case even if the Government were to express its fiscal stance in terms of the General Government Financial Deficit (GGFD) which is the measure of the government deficit used for the Maastricht Treaty economic convergence criteria.

3.12. A resource-based Control Total with no additional constraint on cash would increase the margins of uncertainty surrounding the PSBR. This could have implications for the determination of fiscal policy. A move to resource budgeting would therefore have to be accompanied by continuing control over cash flow, although not necessarily with the same degree of central control over detail.

3.13. The relationship between measures of government expenditure, receipts and borrowing is shown at Figure 2.

Microeconomic Considerations

Better value for money

3.14. Improving value for money in those services best provided by the public sector is an important part of the Government's supply side policies. The principles laid down in the Financial Management Initiative in 1982 were designed to facilitate improvements in the efficiency and effectiveness of public sector management.

Consistency of budgeting systems

3.15. The better information available from resource accounting should help to improve the quality of decision making at departmental level. Moving to resource budgeting should offer a similar improvement in the arrangements for overall planning and control of public expenditure. Because it also offers the possibility of changing the basis of the administrative control regime, departments will be able to plan and be controlled on the same basis. The consistency of departments' internal budgeting systems with the overall system of budgetary allocation and control within government is a key objective of the proposals in this document.

3.16. The Government believes that a move to resource budgeting, involving the introduction of a resource based Control Total supported by a cash constraint would be consistent with its overall economic policy objectives. Because it would also involve a closer alignment of the Control Total with

GGE, (whilst retaining adequate safeguards in relation to cash control) and the provision of better information to support improved decision making, it would also be desirable in principle.

What Could Aggregate Resource Budgeting Involve?

Practicalities

3.17. The Government has considered the practicalities - how the planning and control processes might be adapted-and has identified a number of possibilities. These are described below.

Different basis for the Control Total

3.18. Departmental resource accounts will include the full input costs (including depreciation and the cost of capital taking account of changes in working capital) of the resources consumed by the department in support of its overall objectives. For the planning and control processes to take these costs into account, they have to be reflected in the control aggregate that these processes are designed to deliver. Resource budgeting would therefore involve changing the composition of the Control Total. This is illustrated in Figure 3 below. It shows that there would be a small increase in the Control Total as depreciation was reclassified, with a corresponding reduction below the line, and the cost of capital was added above the line, again with a corresponding reduction below. GGE would be left unchanged. Control would thus be exercised over a slightly greater proportion of GGE than at present.

3.19. The Control Total at column two of Figure 3 would equate to the totals for current and capital spending shown on Schedule D of Annex A.

A resource based Survey

3.20. The annual Public Expenditure Survey currently reviews the cash plans of each Government department. Since the plans reflect cash outlays during the year, all cash (whether spent on current goods, services and grants or on capital assets) scores equally against the departmental total; is equally subject to the top down Survey process introduced in 1992; and is interchangeable in that departments have freedom to allocate resources to current or capital budgets.

3.21. But if current budgets were to include both depreciation and the cost of capital (see paragraphs 2.14-2.15 above), the distinction in economic terms between the current use of resources and capital investment would become clearer. It would then be possible, though not essential, to set separate objectives for current and capital spending. A resource based Survey could thus differ from the present cash based Survey in two important respects:

- the full cost of resources consumed would be taken into account; and

- a sharper distinction could be drawn between current and capital spending.

Figure 3

Possible Changes to the Control Total

Cash based Control Total	*Resource based Control Total*
Departmental programmes (1) (excluding cyclical Social Security)	Departmental programmes (excluding cyclical Social security, but including depreciation and cost of capital (2))
+ EC Spending + LASFE + Reserve	+ EC Spending + LASFE + Reserve
= Control Total	= Control Total
+ Cyclical Social Security + Central Government Debt Interest + Accounting Adjustments (3)	+ Cyclical Social Security + Central Government Debt Interest – Cost of capital + Accounting Adjustments less depreciation
= GGE	= GGE

(1) Includes central government's own spending, support for local authorities etc
(2) For discussion of alternative accounting treatments of the cost of capital, see paras 2.13-2.14 above
(3) Accounting adjustments to reflect the basis of measurement in the National Accounts, and hence in GGE

The top down approach

3.22. How might this work? Each department would have a "resource budget" made up of separately identifiable current and capital budgets. The arguments for conducting the Survey on the basis of a "top down" approach (involving Cabinet agreement to overall totals at the start of the process, followed by consideration of individual programmes in its EDX committee, subject to final approval by Cabinet) would continue to apply. This means that departmental resource budgets would continue to be determined in the context of an overall remit which may or may not set separate objectives for capital and current spending agreed at the start of the process.

3.23. At the same time, it would be necessary to consider the cash required to finance departmental resource budgets, and the implications for the PSBR. The Government's need to be able to finance its spending plans means that cash would continue to be an important constraint, even if not the primary means of control. Careful monitoring of cash requirements would need to be part of the Survey, but it might be sufficient to set cash control totals for each department in terms of a range around a central figure.

Current spending

3.24. Current budgets would be measured in accruals terms and as such would include charges for depreciation, the cost of capital and changes in working capital. As at present, Ministers would review their budgets and decide how best to allocate resources to meet their overall objectives. But there would be a new dimension in that, for the first time, all resources would be taken into account.

Capital spending

3.25. It could be argued that the present system of cash planning not only fails to bring out the economic significance of current and capital spending but also inadequately supports optimal decision making on the acquisition of new assets and the utilisation of existing ones.

3.26. A move to resource budgeting with an associated control regime would address these problems and open up the possibility of a more rational basis for the treatment of capital. It should encourage the efficient utilisation of capital by creating incentives to dispose of unwanted or uneconomic assets. The quality of decision making on the acquisition of new capital should also be improved since the ongoing capital costs would have to be accommodated within future resource budgets.

3.27. The measures of GGE and GDP (from which GGE is derived) include the full cost of publicly financed capital investment, measured in cash. This is one reason for suggesting that the full cost of new capital should remain within the Control Total. This, together with the need to manage cash and borrowing, suggests that there will be a continuing need for some form of control over new publicly financed capital investment.

3.28. Further work - taking account of the views of those parts of the public sector whose capital expenditure falls within the control total - is needed to devise the details of a scheme under which departments would operate separate capital and current budgets. This will take into account the Government's policy that a steadily rising proportion of capital investment in the public services should be financed by private capital, based on a proper sharing or transfer of risk.

Use of information

3.29. Improvements in the quality and the reliability of output and performance on outputs information as for example shown in the Output and Performance Analysis statement at Schedule E of Annex A (see also paragraph 2.8) would provide valuable information to support decision making on the allocation of resources, by informing Survey discussions of that department's programmes. Departments might also present information on their spending plans showing as far as possible the allocation of resources to the achievement of high level objectives. Schedule D of the illustrative accounting formats at Annex A shows such a presentation.

Less detailed cash control

3.30. The possibility of moving to a resource based control total has implications for the current arrangements for cash control in-year. It would imply a greater degree of flexibility over actual cash flow in-year. The Government's responsibility for managing its activities in the money markets means that control over aggregate cash flow would have to be maintained. But this need not be incompatible with a regime under which central control over cash was more flexible and less detailed than at present, with cash operating as a constraint rather than the primary expenditure control variable. In effect, this would mean delegating detailed control over cash management to departments.

In-year control

3.31. In-year control arrangements would need to ensure that

- the spending plans were met;
- without unacceptable consequences for cash management and borrowing; and
- in a way which maintained proper Parliamentary control.

3.32. The Government believes that there would be advantages for departments which were planning and managing their operations on a full resource cost basis to be controlled on the same basis and thus that the primary in-year control variable for administrative purposes should be the departmental resource budget.

3.33. Some of the arguments for maintaining overall control of cash in addition have been described above. There is also a significant Parliamentary dimension. Cash control has formed the basis of Parliamentary authority for spending by the Executive since the early 17th Century, and the Government wishes to consult Parliament about the form cash and resource-based control might take in future.

Resource Based Estimates and Appropriation Accounts

3.34. It would be technically possible to run a Survey on a resource basis, but to seek Parliamentary approval for Estimates denominated in cash terms. But there is a strong argument for the Parliamentary systems of approval to be closely aligned with the accounting basis of the Government's own budgeting system. The link between Parliamentary approval and budgets set for individual responsibility areas within departments would be stronger if the accounting systems were consistent. Information would then be presented to Parliament on resource costs and the cash required to support the resource budget. Possible changes to the nature of Parliamentary approval are a key part of the consultation process.

3.35. This would imply fairly radical changes from the current Estimates and Appropriation Accounts formats. One possibility would be to base these documents on the suggested accounting formats set out in this Green Paper. In taking this forward during the consultation period, the Government will need to take fully into account the views of the primary recipients of these documents - Parliament and the Comptroller and Auditor General.

Legislation

3.36. The Government will introduce departmental resource accounts under existing legislation. While Parliament continues to vote cash annually, the Government must also continue to prepare accounts which show the use to which voted cash has been put. But if the basis of Estimates were to change, the Government would then consider the case for new legislation.

Other Issues

3.37. The departmental boundary for the preparation of consolidated resource accounts has been defined in paragraph 2.21. As at present, the scope of the resource budgeting system would need to go beyond the boundary, covering for example central government support for local authorities.

3.38. There are a number of other issues which will need to be taken into account in the detailed design of a possible resource budgeting system. Three of these are described in the following paragraphs.

Local authority spending

3.39. Expenditure by local authorities accounts for some 25 per cent of General Government Expenditure. This is represented in the Control Total in three ways:

- support given by government departments in the form of grants (general and specific, including capital grants);
- credit approvals issued by departments, which give permission to individual authorities to borrow or raise other forms of credit for capital purposes (in Scotland, consents to incur capital expenditure); and
- spending which is financed by local authorities from their own resources (eg council tax and the use of balances).

3.40. The first two of these - which together represent around 85 per cent of total local authority spending - are included in the relevant departmental programmes. The third is included as a distinct block within the Control Total.

This treatment reflects, on the one hand, the responsibilities of central government departments for the finance which they give, or make available, to local authorities; and, on the other hand, the constitutional relationship between central and local government, whereby local authorities can, within the framework of the local government finance system, determine the level and allocation of their resources.

3.41. It is not expected that the controls on local authority expenditure need change under a system of resource budgeting. Developments in local government accounting generally support the reformulation of the control total onto an accruals basis. As explained in Annex C, local authorities themselves already use accruals accounting as a basis for reporting their current expenditure and a new code of capital accounting on an accruals basis has been in operation since April 1994.

3.42. Further work is needed to determine what implications there might be (if any) for the presentation of central government's support to local authorities in resource budgets.

EC expenditure

3.43. In common with that of other member states, the UK's contribution to the European communities is calculated so as to ensure that the EC budget, which is cash- based, balances each year. The profile is uneven, because contributions are paid on the basis of estimates which are adjusted in the light of outturn.

3.44. Because the EC budget is cash-based, there is a strong argument for retaining the present basis on which EC expenditure is included in the Control Total both at the planning stage and in reporting outturn. Nevertheless the Government will consult on whether there is a need for alternative arrangements as part of the further work to take resource budgeting forward.

Scotland, Wales and Northern Ireland

3.45. The level of spending by the territorial departments is determined by means of block budgets. Within these blocks the relevant Secretaries of State decide the allocation of resources to individual programmes. The introduction of resource budgeting could have implications for the detail of these arrangements but it would not call into question their basic principles.

Chapter 4 Conclusions and Way Forward

4.1. In the light of further work carried out since the Budget Statement last November, the Government has concluded that

- all departments should introduce resource accounting as soon as possible;
- most departments should be able to have such systems in place by April 1997;
- all departments must have them in place by April 1998; and
- subject to further consultation, the first Public Expenditure Survey on a resource basis would be introduced for the Budget in the year 2000.

Resource Accounting Issues

Consultation

4.2. In relation to the proposals on accounting principles and policies discussed in Chapter 2, views are sought, in particular on

- the draft framework of accounting principles and conventions based on UK GAAP set out at Annex B, and the outstanding accounting issues discussed there and in Chapter 2;
- the format and scope of resource accounts, including the suggested definition of the departmental boundary, and the treatment of NDPBs and other bodies supported by Government. Draft formats are attached at Annex A;
- the merits of a systematic approach to charging for the capital employed by departments, (based on the accounting information in the proposed departmental balance sheets) and whether such a system should involve cash charging or a notional figure; and
- the proposed audit arrangements.

Further work

4.3. The Treasury will be taking forward with departments

- the production of a reference manual covering accounting principles and policies to be adopted in the preparation of resource accounts;
- the development of common standards for accounting systems to achieve consistency with central data requirements, whilst allowing departments the flexibility to design systems to meet their own management information requirements; and

- the development of a coherent and detailed timetable for implementation in departments, and Treasury's role in coordinating the process to ensure completion on schedule and at minimum cost.

4.4. The work of the Efficiency Scrutiny on departmental management information systems - due to report in the Autumn - will take account of the relationship between such systems and the development of resource accounting in departments.

Resource Budgeting Issues

4.5. In relation to resource budgeting issues, the main areas on which views are sought, to develop the ideas discussed in Chapter 3, include

- determining how a resource-based Public Expenditure Survey would work, including the treatment of capital spending;
- the implications of moving to a resource based Public Expenditure Survey for Estimates and Appropriation Accounts, using the information provided by resource accounts;
- developing systems to provide sufficient in-year monitoring and control over both resource consumption and cash;
- the implications of a move to resource budgeting for other sectors, outside the proposed departmental boundary, whose expenditure falls within the control total; and
- how any transitional problems would be handled.

Way Forward

4.6. It is requested that written comments should be submitted to the Resource Accounting Unit, HM Treasury, Parliament Street, LONDON SW1P 3AG by 31 January 1995. The Treasury would also welcome the opportunity to discuss the proposals with those who wish to do so.

4.7. In the light of views received on proposals in this Paper, the Government will make a further announcement of the approach it intends to follow on introducing resource budgeting; and how it proposes to deal with other outstanding matters.

Annex A Suggested Accounting Formats

A.1. This Annex shows illustrative accounting formats, for a fictitious XYZ department, as follows:

- Schedule A – Operating Cost Statement, showing the cost of resources consumed during the year;
- Schedule B – Balance Sheet, showing the assets and liabilities at the year end balanced by reserves and provisions;
- Schedule C – Cash Flow Statement, analysing the net cash outflow by current/capital and the sources of financing;

together with formats for the following supplementary statements:

- Schedule D – Main Objectives Analysis, comparing budgeted with actual results by main objective headings; and
- Schedule E – Output and Performance Analysis, comparing target with actual cost/output for specific activities. It may not be possible to produce output data for all activities comprising a main objective heading.

Prior year figures are given in brackets, as they may not be available for any year before 1997-98.

A.2. An alternative presentation to the Balance Sheet would be a Statement of Assets and Liabilities. This would omit the funding elements (Public Dividend Capital, Revaluation Reserve and General Fund) of the illustrative Balance Sheet shown at Schedule B.

A.3. The figures shown for main objectives in the analysis at Schedule D are net of income. An alternative presentation might be to show the gross costs, and the amounts recovered, for each of the main objectives.

A.4. Views are invited on each of these alternatives (A.2 and A.3 above), and any other aspects of Schedules A to E which follow.

Department XYZ

Operating Cost Statement *(note 1)*

for year ended 31 March 1999

[Prior year, when available] £ million		£ million	£ million
	Paybill and associated staff costs	1,185	
	Non- pay administration costs	250	
	Depreciation	850	
	Cost of capital *(note 2)*	305	
	Non - recurring administration costs *eg redundancy programmes etc.*	15	
	Income -		
	from other government departments	(100)	
	from outside customers	(150)	
	NET ADMINISTRATION COST		**2,355**
	Current grants *(note 3)*		500
	Capital grants *(note 3)*		500
	Other disbursements *(note 4)*		600
	NET OPERATING COST	*to Schedule C*	**3,955**

NOTES

1 Departmental group figures shown in this and accompanying Schedules are after elimination of intra-departmental transactions/balances.

2 Comprises:

Capital charge for unremunerated capital employed – £300 million (see Schedule C)

Interest on borrowings from the National Loans Fund – £5 million

3 Includes central government support for other public sector bodies, eg. local authority specific grants.

4 Includes expenditure on State benefits.

Schedule B

Department XYZ

Balance Sheet

as at 31 March 1999

[31 March 1998] *£ million*		£ million	£ million
	FIXED ASSETS		
	Tangible assets	5,250	
	Investments	100	
	Long term loans	30	
	Total Fixed Assets		**5,380**
	CURRENT ASSETS		
	Stocks	15	
	Debtors (due within one year)	10	
	Short term deposits	20	
	Cash at bank and in hand	55	
		100	
	Creditors (due within one year)	(250)	
	Net Current Assets		**(150)**
	TOTAL ASSETS less CURRENT LIABILITIES		**5,230**
	Represented by:		
	Public Dividend Capital of Trading Funds		100
	Long term borrowing from National Loans Fund by Trading Funds		50
	Provisions		15
	Revaluation Reserve		915
	General Fund		4,150
	TOTAL CAPITAL EMPLOYED		**5,230**

Schedule C

Department XYZ
Cash Flow Statement

for year ended 31 March 1999

Prior year when available			
£ million	CURRENT EXPENDITURE	£ million	£ million
	NET OPERATING COSTS from Schedule A	3,955	
	*Adjust for capital grants - see below **	(500)	
	CURRENT RESOURCES	3,455 to Schedule D	
	Adjust for movements in working capital other than cash	20	
	Adjust for non-cash transactions:		
	Depreciation	(850)	
	Capital charge for unremunerated capital	(300)	
	NET CASH OUTFLOWS FOR CURRENT EXPENDITURE		**2,325**
	CAPITAL EXPENDITURE		
	Additions	600	
	Disposals	(200)	
	Capital grants *	500	
	NET CASH OUTFLOWS FOR CAPITAL EXPENDITURE		**900**
	NET CASH OUTFLOWS		**3,225**
	FINANCING (note 1)		
	Monies authorised by Parliament	3,215	
	National Loans Fund	15	
	Loans to other public sector bodies	(10)	
	NET CASH INFLOW FROM FINANCING		**3,220**
	DECREASE IN CASH AND CASH EQUIVALENTS		**5**
			3,225

note 1

Central government direct spending. In addition other public sector bodies raise finance from other sources, with prior approval from central government.

Schedule D

Department XYZ
Main Objectives Analysis

	Current [Prior year] outturn £million	Current 1998-99 budget £million	Current 1998-99 outturn £million	Capital [Prior year] outturn £million	Capital 1998-99 budget £million	Capital 1998-99 outturn £million
Main Objective 1						
Direct spending:						
Analysed by activity/organisational unit						
Direct support to local authorities: (note 1)						
Analysed by type of grant						
Direct support to other public bodies (note 1)						
Analysed by public body						
Total main objective 1			2005			600
Main Objective 2						
Direct spending:						
Analysed by activity/organisational unit						
Direct support to local authorities: (note 1)						
Analysed by type of grant						
Direct support to other public bodies (note 1)						
Analysed by public body						
Total main objective 2			850			200
Main Objective 3						
Direct spending:						
Analysed by activity/organisational unit						
Direct support to local authorities: (note 1)						
Analysed by type of grant						
Direct support to other public bodies (note 1)						
Analysed by public body						
Total main objective 3			350			100
Objective 4						
Direct spending:						
Analysed by activity/organisational unit						
Direct support to local authorities: (note 1)						
Analysed by type of grant						
Direct support to other public bodies (note 1)						
Analysed by public body						
Total main objective 4			250			0
TOTAL ALL MAIN OBJECTIVES			**3455** ← from Schedule C			→ **900** (note 2)

notes

1. These relate to specific grants and other funding, hypothecated for the stated objective. In addition central government departments also provide non-hypothecated funding to support discretionary spending by local authorities and other public bodies in these or other areas. (For example the Department of the Environment makes payments of Revenue Support Grant and National non-Domestic Rates to English local authorities.) Such funding could be detailed under a separate heading in the analysis above.
2. This includes capital grants disbursed of £500 million.

Schedule E

Department XYZ
Output & Performance Analysis

for year ended 31 March 1999

	Plan/Target		Achieved	
	Output	Cost £ million	Output	Cost £ million
Main Objective 1				
For example:				
To improve quality of A	*2% improvement*	35	*2.5% improvement*	34
To draft new legislation on B	*31 December 1998*	15	*15 January 1999*	16.5
To test C	*Daily*	25	*6 out of 7 days*	25
To detect and prosecute D	*2000 detections*	40	*2100 detections*	*40*
	190 successful prosecutions	18	*175 successful prosecutions*	18

Main Objective 2

See Main Objective 1 for example of analysis

Main Objective 3

See Main bjective 1 for example of analysis

Main Objective 4

See Main Objective 1 for example of analysis

Annex B Accounting Principles and Policies

B.1. This Annex is not intended to be fully comprehensive or definitive; its purpose is to set out a draft outline of accounting principles and conventions which foreshadows more detailed guidance which will be published by the Treasury, after consultation (see Chapter 2, paragraph 2.18)

Accounting Principles

B.2. Resource accounting would be based on UK Generally Accepted Accounting Practice (UK GAAP), and in particular the accounting and disclosure requirements of the Companies Act (1985) and accounting standards. These would be supplemented where appropriate to take account of the public sector context within which resource accounting will be applicable.

Accounting Concepts

B.3. UK GAAP is underpinned by five accounting concepts, all of which would apply to resource accounting. These are:

- **Materiality.** Strict compliance with UK GAAP would not necessarily apply where the amounts involved are not material to a true and fair presentation of the financial results and position of the entity.
- **Going concern.** Accounts would be prepared on the basis that the entity will continue to operate for the foreseeable future.
- **Matching/Accruals.** Income and expenditure would be matched to the services provided or consumed in the same accounting period.
- **Consistency**. Accounting policies would be consistently applied both within, and between, each accounting period. Policies would only be changed on the grounds that the new policy gives a fairer presentation of the transactions and of the financial position.
- **Prudence.** Proper allowance would be made for all known and foreseeable losses and liabilities; income would only be included where there is a reasonable certainty of it arising.

Accounting Convention

B.4. The accounts would be prepared under the historical cost accounting convention, modified to include fixed assets – and, where material, stocks – at current value.

Accruals of Income and Expenditure

Customer income

B.5. Customer income in the form of sales, fees, charges and rents would be accrued and accounted for in the period to which it relates.

B.6. Funding arising as a result of departmental spending allocations under the annual Public Expenditure Survey round would not be treated as income in departmental accounts, but would be credited to the General Fund.

Employee costs

B.7. The full cost of employees would be charged to the accounts of the period within which the employees work. Material amounts earned but unpaid at the end of a period would be accrued.

Supplies and services

B.8. The cost of supplies and services would be accrued and accounted for in the period during which they are consumed or received. Material sums unpaid at the end of a period for goods or services received or works completed would be accrued.

Commitment accounting

B.9. Resource accounting should not be taken to imply any particular type of accounting system, except that the system should as a minimum requirement produce accruals data. Commitment accounting systems, which capture data at an earlier stage in a typical transaction than is strictly necessary for producing accruals accounts, may be desirable to fulfil some departments' financial management objectives. But for other departments their additional complexity may not be justified.

Defining the Departmental Boundary

B.10. The accounts relating to the whole department (ie the "departmental group accounts") would represent the consolidated accounts of the centre of that department together with its executive agencies including Trading Funds. Transactions between these constituent parts of the same departmental group would be eliminated on consolidation. The consolidated accounts would not include the operations, assets and liabilities of NDPBs, nationalised industries, local authorities or other public bodies associated with, but external to the department; but any transactions with such bodies would be treated as transactions with third parties and clearly identified in the departmental accounts.

B.11. The definition of the departmental group, for which consolidated accounts would be prepared, accords with the responsibility of the department's principal Accounting Officer. Bodies for which Accounting Officer responsibilities are exercised separately and lie outside the principal Accounting Officer's remit would be excluded from the departmental group.

although they may to a varying extent be financially dependent on the department.

Disbursements

B.12. Government grants and other disbursements such as state benefits would be recognised as part of the operating costs of the accounting period to which they relate.

B.13. Capital grants would be expensed where ownership/control of the assets does not vest in the department.

Fixed Assets

Recognition

B.14. Direct expenditure on the acquisition, creation or enhancement of fixed assets would be capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, would be capitalised and classified as a fixed asset, provided that the fixed asset yields benefits to the body and the services it provides for a period of more than one year.

B.15. Capitalised expenditure would include expenditure on

- acquisition, reclamation, enhancement or laying out of land;
- acquisition, construction, preparation, enhancement or replacement of buildings and other structures; and
- acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels.

B.16. In this context, enhancement means the carrying out of works which are intended to

- lengthen substantially the useful life of the asset; or
- increase substantially the open market value of the asset; or
- increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of the body concerned.

B.17. Under this definition, improvement works and structural repairs would be capitalised, whereas ordinary jobbing maintenance to buildings, including painting and decorating would not be included.

B.18. Assets acquired under finance leases would be capitalised and included together with a liability to pay future rentals.

B.19. Where a fixed asset is acquired for other than a cash consideration or where payment is deferred, the asset would be recognised and included in the balance sheet at "fair value" (market value of an equivalent asset is frequently taken as a good approximation).

Measurement

B.20. Fixed assets will be included in the accounts at their value to the business by reference to current costs.

Revaluations

B.21. Fixed asset values would be reviewed annually and adjusted if necessary. Professional valuations of land and property would be carried out at least once every five years.

Military assets

B.22. At present all military assets (ie weapons, munitions and support infrastructure) are classified as current expenditure in the national accounts. In 1995-96 the Central Statistical Office will adopt the new United Nations classification which requires assets with a dual military/civilian use (eg some aircraft, and hospitals) to be recorded as capital expenditure in the national accounts. But this distinction would be of relatively little value for defence management purposes.

B.23 Information on the capital value of dual use assets will have to be provided in order to meet national accounting requirements. But an alternative accounting treatment, for example a more comprehensive policy of capitalising weapons and support infrastructure, might better match the management and reporting needs of the Ministry of Defence. This will be addressed in the consultation period.

Infrastructure assets

B.24 These assets occur mainly in the road and rail networks. Railways and minor roads are outside the scope of resource accounts, but trunk roads and motorways are the responsibility of central government.

B.25 One possible accounting treatment would be to capitalise trunk roads and motorways. The policy might differentiate between renewable assets (eg the road surface) and those which once acquired will not involve further capital expenditure (eg site preparation). Work is in progress to develop a comprehensive set of accounting policies for infrastructure assets, and this work will be concluded as part of the consultation process.

Heritage assets

B.26 Heritage assets are those assets which are intended to be preserved for future generations because of their cultural, environmental or historical associations. This definition potentially covers a range of assets from historic buildings to works of art. The principles on which heritage assets are to be valued pose some difficult questions. Modified historic cost is not an appropriate approach to the valuation. An alternative basis could be "fair value" (see paragraph B.19). In some cases, where the asset is unique, this might be impossible to establish. However, to the extent that the asset has an ancillary functional purpose (eg where a historic building is used for offices) valuation might be more straightforward. But there is also the question of whether a purely nominal value (ie close to zero) would be more reasonable, for example where there was no prospect of replacement with a similar asset should the original asset be destroyed or where there is no intention ever to dispose of the asset. Where the possibility of disposal arises, however, estimated market value would be appropriate. Specific accounting policies for heritage assets will be formulated to deal with each of these circumstances.

Depreciation

B.27. Provision for depreciation would be made by allocating the value of assets, less any estimated residual amounts, as fairly as possible to the periods expected to benefit from their use.

B.28. The useful lives of assets would be estimated on a realistic basis and only revised where justified in the light of further experience. More specific guidance on asset lives is given in "Accounting for Capital Assets: A Working Draft of Guidance" issued by the Treasury in February 1992. Freehold land would not be depreciated.

Leases

Finance leases

B.29. A finance lease would be recorded in the balance sheet of the lessee as an asset and as an obligation to pay future rentals. The rentals paid would be apportioned between the finance charge (charged to the operating account) and a reduction of the outstanding obligation. The leased asset would be depreciated, with the depreciation charge included in the operating account.

Operating leases

B.30. Operating lease payments would be expensed as they arise.

Cost of Capital

B.31. As explained in Chapter 2, paragraphs 2.14 to 2.15, if capital charging were to be more widely adopted in government, one of various possible models might be appropriate. For illustrative purposes, the accounting formats shown at Annex A include a notional charge for capital employed, based on the government's long-term cost of capital. This charge would be applied to unremunerated capital employed only, i.e. excluding borrowing from the National Loans Fund and Public Dividend Capital.

Pension Costs of Government Employees

B.32. Departments make payments to the Superannuation Vote administered by the Treasury in respect of the government's liability under the Principal Civil

Service Pension Scheme (PCSPS) (Accruing Superannuation Liability Contributions). Such contributions would be accounted for by departments as they become due for payment.

B.33. Further consideration will be given to the accounting requirements of the Government's various occupational pension schemes, namely the PCSPS, armed forces, teachers and the National Health Service schemes.

Stocks

B.34. Stocks would normally be included in the balance sheet at the lower of cost and net realisable value. Where, however, stocks represent a significant proportion of a department's (or an agency's) total assets and were materially affected by changing prices, they would be recorded at the lower of their current replacement cost and the recoverable amount.

Foreign Exchange

B.35. Income and expenditure arising from a transaction denominated in a foreign currency would be translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period may be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate would be used.

B.36 At each balance sheet date, monetary assets and liabilities denominated in a foreign currency would be translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions.

B.37 Exchange differences arising from the above would be included as part of the operating costs for the year.

Post Balance Sheet Events

B.38 Where a material post balance sheet event occurs which

- provides additional evidence relating to conditions existing at the balance sheet date; or
- indicates that application of the going concern concept to a material part of the body is not appropriate,

changes would be made in the amounts to be included in the Statement of Accounts.

B.39 The occurrence of a material post balance sheet event relating to conditions which did not exist at the balance sheet date would be disclosed. The disclosure would state the nature of the event and, where possible, an estimate of its financial effects.

Provisions

B.40. Proper provisions would be required for any liabilities or losses likely (or certain) to be incurred, where there is uncertainty as to the amounts or the dates on which they might arise. Provisions, or changes in provisions, would be charged to the operating cost account; related expenditure would be charged directly against the provision.

Bad and doubtful debts

B.41. Provision would be made against debts known to be uncollectable, and those judged to be doubtful.

VAT

B.42. Expenditure, income and asset values would be stated exclusive of VAT, except for irrecoverable VAT on expenditure and asset purchases.

B.43. The net amount of VAT owed to or by Customs and Excise would be included in the departmental balance sheet under working capital.

EC Funding

B.44. Departments would recognise EC receipts as a source of funding in their resource accounts, and would be required to account for related expenditure on a basis consistent with funding authorised by Parliament.

B.45. Further consideration will be given to the implications for resource accounting of the net UK contribution to the EC and of the roles of Treasury and Paymaster General acting as agent and banker respectively for the payment and receipt of these EC funds.

Annex C The Development of Accruals Accounting in the Public Sector

C.1. This Annex provides a brief overview of the legislation under which accruals accounting has been introduced in the following parts of the public sector:

- Executive agencies and Trading Funds;
- The National Health Service;
- Nationalised industries and public corporations;
- Non-departmental public bodies; and
- Local authorities.

C.2. Apart from local authorities, accounts of most bodies comply with UK GAAP, to the extent that this is appropriate.

Executive agencies and Trading Funds

C.3. The Efficiency Unit's report "Improving Management in Government: The Next Steps" (1988) recommended that the executive functions of departments should be undertaken by executive agencies. These would be funded either through the Vote structure, ie. Supply-financed; or through separate funds outside the normal Parliamentary Supply, ie. Trading Funds.

C.4. Supply-financed agencies are set up as a result of administrative action. Trading Funds are established under the Government Trading Funds Act 1973, as amended by the Government Trading Act 1990.

C.5. The Treasury has powers to direct the accounts of both Supply-financed agencies and Trading Funds, respectively under the Exchequer and Audit Departments Act 1921 and the Government Trading Funds Act 1973. Accounts directions are issued to Supply-financed agencies in respect of their second year of operation, ie they do not produce audited accounts for their first year. The accounts direction for a Trading Fund comes into force for its first year of operation. A small number of Supply financed agencies have adopted an accounts format which was approved by the Treasury but which does not conform in some respects with the requirements of the Companies Act and accounting standards.

The National Health Service (NHS)

C.6. The present structure of the NHS is embodied in reforms introduced by the 1990 NHS and Community Care Act. In essence, an internal market was created within the NHS in which the responsibility for purchasing, or commissioning, health care services has been separated from the responsibility for providing them. On the demand side of this market are the Supply-financed health authorities, family health service authorities and GP Fundholders. On the supply side, the key change has been the establishment of NHS Trusts as providers. They are classified as public corporations and are directly responsible to the Secretary of State for Health. Trusts generate their income by way of contracts with the District Health Authorities and GP Fundholders.

C.7. Accounts are prepared under the authority of the NHS Act 1977 in the case of England and Wales and the NHS (Scotland) Act 1978 for Scotland.

C.8. In each of England, Scotland and Wales the relevant Secretary of State, with Treasury approval, issues accounts directions for individual health bodies. The Treasury issues accounts directions for summarised national accounts for

- NHS Trusts;
- Regional and District Health Authorities;
- Special Health Authorities; and
- Family Health Service Authorities.

Nationalised industries and public corporations

C.9. Most nationalised industries and public corporations are incorporated under specific Act of Parliament. The relevant legislation will specify that the accounts are to be drawn up in a form directed by the Secretary of State of the sponsor department, with the approval of the Treasury. Other nationalised industries are incorporated under the Companies Act, and are therefore expected to observe the normal accounts requirements of that Act.

C.10. In practice this means that all nationalised industries produce accounts in accordance with best commercial practice (UK GAAP): some are required to do so through the accounts direction; others do so because the Companies Acts require it.

Non-departmental public bodies (NDPBs)

C.11. An NDPB is defined as "a body which has a role in the processes of national government, but is not a government department or part of one". The various types of NDPBs are explained in "Public Bodies" published by HMSO. Most executive NDPBs have been established by specific legislation, although a few have been set up by means of a Royal Charter, and all will be subject to accounts direction by their sponsor departments. Some NDPBs are limited companies established under the Companies Act and will produce accounts in accordance with best commercial practice and company law. Advisory bodies and tribunals are normally accounted for in their sponsor department's Appropriation Accounts.

Local authorities

C.12. The financial reporting requirements for local authorities in Great Britain are set out in a Code of Practice dated September 1993 compiled by the Certified Institute of Public Finance Accounts (CIPFA)/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee in accordance with the Accounting Standard Board's rules for the development of Statements of Recommended Accounting Practice (SORPs). The Code specifies the principles and practices of accounting required to prepare a statement of accounts which "presents fairly" the financial position and transactions of a local authority. Authorities which will be subject to reorganisation in the period up to 1 April 1996 are not subject to these requirements.

C.13. The Code accords with the statutory framework established for English and Welsh authorities by the Accounts and Audit Regulations 1983 (as amended) and the Local Government and Housing Act 1989. In Scotland the statutory framework is established by the Local Authority Accounts (Scotland) Regulations 1985.

C.14. The Code is based on the accounting standards adopted and issued by the Accounting Standards Board, except where these conflict with specific statutory accounting requirements for local authorities. By statute the statement of accounts is required to "present fairly" the financial position and outturn for a financial year rather than giving "a true and fair view" as required by the legislation governing the corporate sector.

C.15. The accounts are prepared in accordance with the historical cost accounting conventions, modified by the revaluation of certain categories of fixed assets. Infrastructure assets and community assets are included in the balance sheet at historical cost; operational land and properties and other operational assets at the lower of net current replacement cost or net realisable value in existing use; and non-operational land and properties and other non-operational assets, including investment properties and assets that are surplus to requirements, at the lower of net current replacement cost or net realisable value. The requirement for local authorities to account for fixed assets was introduced for financial years commencing on and after 1 April 1994.

C.16. The statutory audit of the accounts is provided for in the Local Government Finance Act 1982 for England and Wales, and in the Local Government (Scotland) Act 1973 for the Scottish authorities.

Annex D Public Expenditure Planning and Control

D.1. This Annex describes the existing public expenditure planning and control systems, both administrative and Parliamentary. The two systems are interdependent, and their interaction is shown in **Figure 4**.

Administrative Systems

D.2. The Treasury conducts an annual review of public expenditure, the Public Expenditure Survey (PES). The measure of expenditure used covers central and local government spending (including central government support for public corporations) and is known as General Government Expenditure (GGE) excluding privatisation proceeds.

D.3. The administrative procedures

- adopt an explicitly 'top-down' approach;
- focus on the Control Total which excludes cyclically-related elements of social security and debt interest, but includes Local Authority Self-Financed Expenditure (LASFE);
- deliver the intended maximum rate of growth in public spending over time by setting a firm ceiling on growth in the Control Total (while allowing the cyclical elements outside this total to vary with the cycle); and
- review the allocation of resources within the agreed ceiling for the Control Total.

Composition of Control Total

D.4. The Control Total covers about 85 per cent of GGE. In addition to most departmental spending programmes, it includes LASFE, and a Reserve to provide a margin for uncertainties and future additions to departmental spending. It excludes privatisation proceeds, social security spending directly related to unemployment, central government debt interest and certain accounting adjustments required to reflect the basis of measurement adopted in the national accounts.

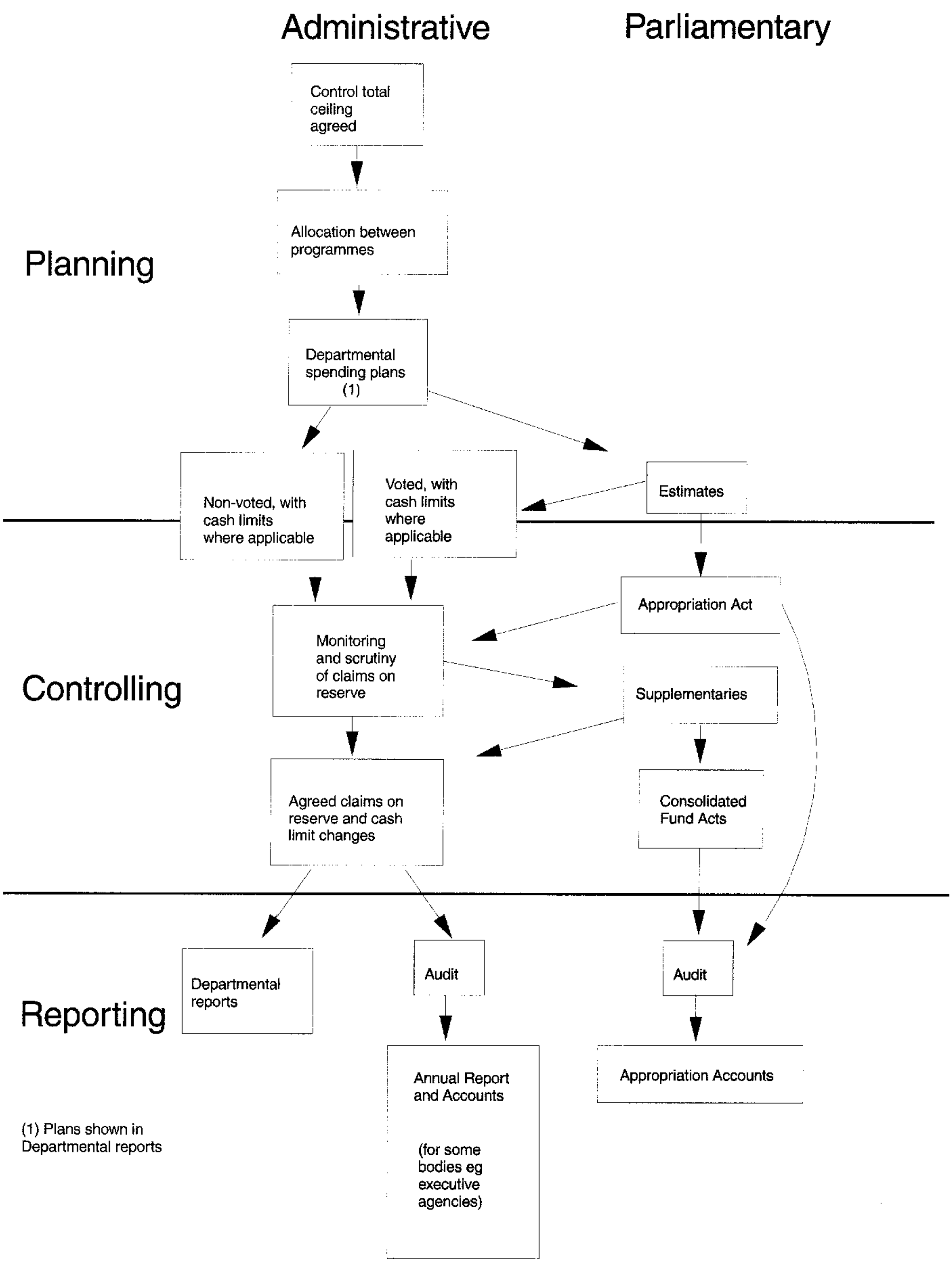
Survey procedures

D.5. The purpose of the Survey is to review the allocation between programmes within the ceilings agreed in advance by the Cabinet.

D.6. The Chancellor's Budget Statement to Parliament includes spending proposals for the next three years analysed by departmental grouping. The 1993 budget made a distinction in government accounts between current and capital transactions.

Figure 4

PUBLIC EXPENDITURE PLANNING AND CONTROL
Processes and flows for one year's spending



(1) Plans shown in Departmental reports

D.7. Further details of the public expenditure plans are published in Departmental Reports and a Statistical Supplement to the Budget as early as possible in the new year.

Cash limits

D.8. Cash limits provide an administrative control over central government's cash expenditure. The Treasury, assisted by the Paymaster General's Office, profiles, monitors, forecasts, and analyses spending in aggregate and against departmental votes.

Parliamentary systems

D.9. Main Supply Estimates are normally presented to Parliament in March. They seek Parliamentary authorisation for spending for the year ahead. One or more Estimates are presented for each government department. They explain in some detail the spending for which approval is being sought.

D.10. The coverage of Supply Estimates and the Control Total overlap, but there are significant differences. The relationship is set out in **Figure 5**.

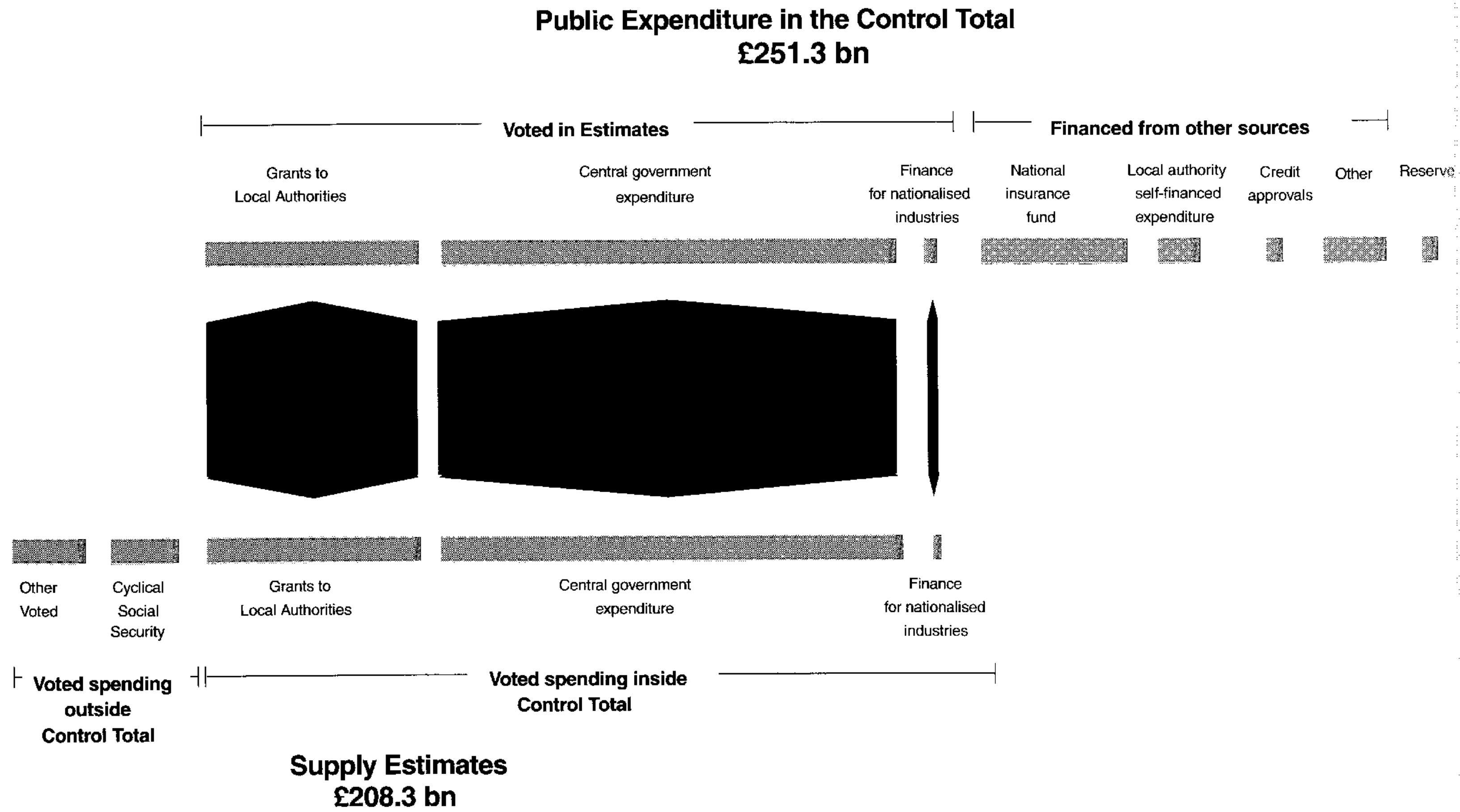
D.11. Parliament's consideration of Estimates follows six stages:

- the Government requests certain funds;
- information is provided about what the money will be spent on and who will be responsible for ensuring it will be spent properly to support each request;
- Parliament considers these requests, investigates and debates some of them;
- if Parliament votes in favour, an Act is passed to make the cash available;
- to enhance its control, Parliament gives legislative force to the Ambits (see paragraph D.15) of Estimates, which specify the purposes for which the money can be spent; and
- after expenditure has been incurred, it is accounted for and audited by the Comptroller and Auditor General who reports to Parliament on the findings.

D.12. Consolidated Fund Acts and the annual Appropriation Act give Parliamentary authority for sums requested in Estimates to be issued from the Consolidated Fund. The Appropriation Act also limits the way in which this money can be spent by prescribing how the overall sum is to be appropriated to particular Estimates in order to finance specified services.

D.13. Supplementary Supply Estimates, where necessary, are normally presented in June (Summer), November (Winter) and February (Spring).

Figure 5



Figures for financial year 1994-95 are taken from 2.6 of the Statistical Supplement to the Financial Statement and Budget Report.

D.14. The Contingencies Fund can be used to finance urgent expenditure, in anticipation of Parliamentary approval of Estimates.

Format of Estimates

D.15. Each Estimate (or Vote) is in a standard format. Part I contains:

- the net provision sought;
- a description of the services financed by the Estimate, known as its "Ambit"; and
- the department or person(s) who will account for it. The net provision and Ambit are reproduced in the Appropriation Act, together with a total figure for appropriations in aid - that is, receipts which Parliament authorises to be used to finance some or all of the gross expenditure on the Estimate - included in Part II of the Estimate. Together, these provide the statutory authority for expenditure.

D.16. Part II also gives a breakdown of the gross and net provision sought by spending sector, functional category and subhead.

D.17. Part III gives details of expected receipts linked to expenditure on the Estimate but which are to be paid into the Consolidated Fund and not appropriated in aid.

D.18. Tables showing details of expenditure on major long-term projects are appended to those Estimates which contain significant amounts of capital expenditure.

D.19. Where appropriate, the introductory note to the Estimate identifies all outstanding contingent liabilities, whether statutory or non-statutory, where any cost would be met from the Estimate.

Cash limits and Estimates

D.20. Each Estimate is either subject to a cash limit or not. If a cash limit applies, the Government is stating its intention to avoid, if possible, seeking any Supplementary provision even if there are unexpected influences on expenditure, by reordering priorities or taking offsetting action so that the cash limit is not exceeded. Cash limits increase the ability of the Government to hold to its plans and provide a clear incentive to efficient management and cost control.

D.21. Cash limits are not intended to be changed, but they may be increased for example under end-year flexibility schemes for capital expenditure and for running costs. Cash limit increases require the specific approval of the Treasury and are notified to Parliament, usually in a written answer to a Parliamentary Question. Such an announcement is not itself the means of seeking Parliament's approval for an increase in Supply provision. Parliamentary authority can only be given via a Supplementary Estimate.

Accounts and Audit

D.22. Supply Estimates are based on a cash accounting system for payments and receipts. After the end of the financial year an Appropriation Account is prepared for each Estimate which, after certification by the Comptroller and Auditor General, is laid before the House of Commons in the following Autumn.

Annex E Departments and their Executive Agencies

This Annex lists departments and their respective executive agencies. Apart from those which are executive agencies in their own right, departments would be required to produce consolidated accounts based on these groupings.

Notes

(1) Departments which are also executive agencies.

(2) Prospective candidates for executive agency status.

(3) Trading Funds.

Agriculture, Fisheries and Food, Ministry of

Agricultural Development and Advisory Service
Central Science Laboratory
Central Veterinary Laboratory
Food Science Laboratory (2)
National Meat Hygiene Service (2)
Pesticides Safety Directorate
Veterinary Medicines Directorate

Cabinet Office/Office of Public Service and Science

Chessington Computer Centre (3)
Civil Service College
Occupational Health Service
Recruitment and Assessment Services Agency

Central Office of Information (1)(3)

Central Statistical Office (1)

Charity Commission

Crown Estate

Crown Office Scotland

Crown Prosecution Service (2)

Customs and Excise, including its Executive Units

Defence, Ministry of

Army Base Repair Organisation
Army Engineering Services (2)
Army Individual Training (2)
Army Logistic Information Systems (2)
Army Logistics (2)
Chemical and Biological Defence Establishment

Defence Accounts Agency
Defence Analytical Services Agency
Defence Animal Centre
Defence Central Services (2)
Defence Lands Organisation (2)
Defence Operational Analysis Centre
Defence Postal and Courier Services
Defence Research Agency (3)
Duke of York's Royal Military School
Hydrographic Office Defence Agency
Meteorological Office
Military Survey Directorate General
Naval Aircraft Repair Organisation
Naval Support (2)
Pricing and Quality Service (2)
Queen Victoria School
RAF Support Command Maintenance Group Defence Agency
RAF Training Group Defence Agency
RN, Army, RAF Medical Services (2)
RN, Army, RAF Pay and Personnel (2)
RN, Army, RAF Recruiting (2)
RN Training (2)
Service Children's School (North West Europe)

Education, Department for
Teachers Pensions Agency

Electricity Regulation Office

Employment Department Group
Employment Service Agency

Environment, Department of
Building Research Establishment
The Buying Agency (3)
Fuels Supplies Branch (2)
Planning Inspectorate
Property Holdings (2)
Queen Elizabeth II Conference Centre
Security Facilities Executive

Export Credits Guarantee Department

Fair Trading, Office of

Foreign and Commonwealth Office
Wilton Park Conference Centre

Forestry Commission

Gas Supply, Office of

General Register Office for Scotland

Government Actuary's Department

Government Hospitality Fund

Health, Department of
- Medicines Control Agency (3)
- NHS Estates
- NHS Pensions Agency
- Medical Devices Directorate
- Youth Treatment Service (2)

Home Office
- Fire Service College (3)
- Forensic Science Services
- HM Prison Service
- UK Passport Agency

Inland Revenue, including its Executive Offices
- Valuation Office

Intervention Board (1)

Land Registry, Her Majesty's (1)(3)

Legal Secretariat to the Law Officers

Lord Chancellors Department
- Court Service (2)
- Public Trust Office (2)

National Heritage, Department of
- Historic Royal Palaces Agency
- Royal Parks Agency

National Investments and Loans Office

National Lottery, Office of

National Savings, Department of (2)

Northern Ireland Civil Service Departments, including their executive agencies

Northern Ireland Office
Compensation Agency

Ordnance Survey (1)

Overseas Development Administration
Natural Resources Institute

Passenger Rail Franchising, Office of

Paymaster, Office of Her Majesty's Paymaster General (1)

Population Censuses and Surveys, Office of (2)

Privy Council Office, including the Lord President's Office and the Lord Privy Seal's Office

Public Records Office (1)

Public Works Loans Board

Rail Regulator, Office of

Register of Friendly Societies

Registers of Scotland (1)

Royal Mint (1)(3)

Scottish Courts Administration
Scottish Courts Service (2)

Scottish Office
Fisheries Research Services (2)
Historic Scotland
Roads Directorate (2)
Scottish Agricultural Science Agency
Scottish Fisheries Protection Agency
Scottish Office Pensions Agency
Scottish Prison Service
Student Awards Agency for Scotland

Scottish Records Office (1)

Security and Intelligence Service

Serious Fraud Office (2)

Social Security, Department of
- Benefits Agency
- Child Support Agency
- Contributions Agency
- Information Technology Services Agency
- Resettlement Agency
- War Pensions Agency

Standards in Education, Office for

Stationery Office, Her Majesty's (1) (3)

Telecommunications, Office of

Trade and Industry, Department of
- Accounts Services Agency
- Companies House (3)
- Insolvency Service
- Laboratory of the Government Chemist
- National Engineering Laboratory
- National Physical Laboratory
- National Weights and Measures Laboratory
- Patent Office (3)
- Radiocommunications Agency
- Warren Springs Laboratory

Transport, Department of
- Coastguard
- Driver and Vehicle Licensing Agency
- Driver and Vehicle Testing Agency
- Driving Standards Agency
- Highways Agency
- Marine Safety Agency
- Surveyor General's Organisation (2)
- Traffic Area Offices (2)
- Transport Research Laboratory
- Vehicle Certification Agency
- Vehicle Inspectorate (3)

Treasury, Her Majesty's

Treasury Solicitors Department (2)
- Government Property Lawyers

Water Services, Office of

Welsh Office
- Cadw: Welsh Historic Monuments

Glossary of Terms

Accounting Officer

The Permanent Heads of Departments and other senior officials, including the Chief Executives of executive agencies, are appointed Accounting Officers. Permanent Heads of Departments are referred to as principal Accounting Officers, other senior officials are departmental Accounting Officers and Chief Executives are agency Accounting Officers. An Accounting Officer's responsibilities include ensuring public funds are properly managed and that sound financial procedures are followed, and signing accounts. The full duties of an Accounting Officer are set out in a memorandum, which is included, along with other related guidance, in "Government Accounting" (published by HMSO).

Accounts Direction

A formal document which is issued by the Treasury or a sponsor department to a public sector organisation detailing the content of accounts and the way in which they must be presented.

Accruals Accounting

A method of accounting which records expenditure as it is incurred and income as it is earned during an accounting period. (Compare with Cash Accounting).

Appropriation Account

An end of year account which compares amounts authorised by Parliament in Supply Estimates with actual payments made and receipts brought to account and explains any substantial differences. One is prepared for each Vote (see Vote).

Balance Sheet

A financial statement which shows the assets, liabilities and capital of an organisation on a particular date, normally the end of an accounting period.

Capital Assets

See Fixed Assets

Capital Consumption

See Depreciation

Capital Expenditure

For the purposes of classifying public expenditure this is expenditure on new construction, land, extensions of and alterations to existing buildings and the purchase of any other fixed assets (eg machinery and plant) – including vehicles – having an expected working life of more than one year. Also includes expenditure on capital grants and stocks and lending for capital purposes.

Capital Grants Contributions towards expenditure on fixed assets made by central government departments to organisations in the private sector and other parts of the public sector.

Capital Resources See Fixed Assets

Cash Accounting A method of accounting which records cash payments and cash receipts as they occur within an accounting period. (Compare with Accruals Accounting)

Cash Flow The receipt and payment of cash, referred to as cash inflow and outflow respectively.

Cash Flow Statement A statement of cash inflows and outflows during an accounting period.

Certification Audit The audit of Appropriation Accounts undertaken by the Comptroller and Auditor General.

Commitment Accounting A method of accounting which records the value of transactions authorised or contracted for prior to purchase and/or payment.

Consolidated Fund The Exchequer account in to which tax revenues and other current receipts not specifically directed elsewhere are made and from which payments for the largest part of central Government expenditure (that shown in Supply Estimates) are made.

Control Total See Public Expenditure Control Total

Cost of Capital The opportunity cost of capital invested.

Current Assets Cash or other assets which can reasonably be expected to become cash in the normal course of business. The latter include stocks, debtors, accrued income and payments in advance.

Current Liabilities Liabilities incurred in the normal course of business including creditors, accrued expenditure and receipts in advance.

Depreciation A measure of the wearing out, consumption, or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through technological or market changes.

Estimates See Supply Estimates

Fixed Assets Assets, with an expected life of more than one year, held for use in an organisation.

Financial Management Initiative (FMI)

An initiative commissioned by the Government in 1982 whose main objective is to promote in each department an organisation and a system in which managers at all levels have

- a clear view of their objectives; and assess and, wherever possible, measure outputs or performance in relation to those objectives;
- well-defined responsibility for making the best use of their resources including a critical scrutiny of output and value for money;
- the information (particularly about costs), training and access to expert advice that they need to exercise their responsibilities effectively.

Full Cost

The cost of all resources used in supplying a service, including an appropriate share of overheads and any selling and distribution expenses. Both cash and notional (non-cash) costs are included, including depreciation and the cost of capital.

General Fund

In a department's accounts, the balance on the general fund would represent its initial capital, apart from that financed from long term borrowings or Public Dividend Capital, plus subsequent movements in net assets, except where separate reserve accounts are operated.

General Government Expenditure (GGE)

The combined expenditure of the central government and local authority sectors, excluding payments between the two.

General Ledger

The accounts in which all transactions of an organisation are shown, either in detail or in summary.

Gross Domestic Product (GDP)

Value of the goods and services produced by the United Kingdom residents, including taxes on expenditure on both home produced and imported goods and services and the effect on subsidies. No deduction is made for the depreciation of existing assets. GDP also includes the income of UK residents from economic activity abroad and property held abroad, less the income in the UK of non residents.

Heritage Assets

See Annex B paragraph B.26

In Year Monitoring and Control

The monitoring and controlling of departmental expenditure for consistency with the provision which has been agreed in the Survey, voted in Estimates and made subject to cash limits where they apply. (See also Annex D of this paper.)

Lease

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee.

An operating lease is a lease other than a finance lease.

Management Accounting

An integral part of management concerned with identifying, presenting and interpreting information used for:

- formulating strategy;
- planning and control activities;
- decision taking;
- optimising the use of resources;
- disclosure to stakeholders; and
- safeguarding assets.

Management Information System

An information system designed to aid managers, at all levels in an organisation, in decision making processes.

National Accounts

The CSO publishes annually (in the "Blue Book") estimates of the domestic and national product, income and expenditure for the UK.

National Loans Fund (NLF)

The account through which all government borrowing transactions and most lending transactions are handled.

Non-Trading Capital Consumption

Gross Domestic Product (GDP) is measured without a deduction for capital consumption, or depreciation. For trading bodies, profits (or trading surpluses) are recorded gross in this sense. But non-trading activities (for example most of central government), which do not give rise to profits or surpluses, also use up capital assets. The CSO makes an estimate for this element, to allow a consistent comparison to be made between trading and non-trading sectors in the National Accounts. The inclusions of a similar estimate in General

Government Expenditure (GGE) maintains consistency with other sectors of the economy.

Opportunity Cost	The cost of a resource in terms of its best alternative use.
Parliamentary Grants	Money voted by Parliament annually on the basis of departments' estimates of payments and receipts likely to arise in the year, to meet the Services shown in Estimates.
Principal Accounting Officer	See Accounting Officer
Public Dividend Capital	A form of long term-term Government finance for certain public sector bodies, on which the Government is paid dividends rather than interest.
Public Expenditure Control Total	The aggregate of the elements of public expenditure which the Government plans and controls to achieve its wider objective for General Government Expenditure.
Public Expenditure Survey (PES)	The annual review of public expenditure plans for 3 years ahead.
Public Sector Borrowing Requirement (PSBR)	The difference between public sector receipts from, and payments to, the private sector and overseas.
Purchase Ledger	The record of creditors' individual accounts and transactions.
Resource Accounting	A set of accruals accounting techniques for reporting on the expenditure of central government and a framework for analysing expenditure by departmental objective, relating this to outputs where possible.
Resource Budgeting	Planning and controlling public expenditure on a resource accounting basis.
Revaluation Reserve	An account which records, where appropriate, the revaluation of fixed assets and stock.
Supply Estimate	A statement presented to the House of Commons of the estimated expenditure of a department which asks for the necessary funds to be voted.

Survey See Public Expenditure Survey

Tangible Assets Assets having a physical identity (eg. buildings, plant and machinery). (Intangible assets are those such as patents and copyright).

UK Generally Accepted Accounting Practice (UK GAAP) The accounting and disclosure requirements of the Companies Act (1985) and accounting standards, supplemented by accumulated professional judgement.

Vote An individual Supply Estimate (so called because the procedure by which Parliament authorises expenditure is to "vote" supply).

Working Capital Current assets less current liabilities. Sometimes referred to as "Net Current Assets".

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