Managing Resources

Implementing resource based financial management

Her Majesty’s Treasury September 2002
In April 2001, the Government moved to a new resource-based financial management system. The new system, by bringing together central government planning, budgeting, Estimates and reporting on to a resource basis, places the United Kingdom government amongst the world leaders in financial management reform in the public sector.

This Guide summarises the key elements of the move to full resource based financial management, with Resource Estimates replacing cash based Estimates and resource accounts replacing cash based appropriation accounts with effect from 2001-02. The Government’s biennial Spending Reviews are also now conducted on a full resource basis.

The Guide is structured as follows:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moving to resource based financial management</td>
<td>3</td>
</tr>
<tr>
<td>Planning, Budgeting and Parliamentary Authority</td>
<td>6</td>
</tr>
<tr>
<td>Reporting</td>
<td>13</td>
</tr>
<tr>
<td>Better Decision Taking in Departments</td>
<td>17</td>
</tr>
<tr>
<td>Whole of Government Accounts</td>
<td>18</td>
</tr>
<tr>
<td>Annexes:</td>
<td></td>
</tr>
<tr>
<td>A Frequently Asked Questions</td>
<td>19</td>
</tr>
<tr>
<td>B Glossary</td>
<td>20</td>
</tr>
<tr>
<td>C Further information</td>
<td>22</td>
</tr>
</tbody>
</table>
Resource based financial management has been implemented in the UK since 1 April 2001. This was achieved following the agreement of the Parliamentary Committees – Public Accounts Committee, Treasury Committee and Procedure Committee – and Royal Assent to the Government Resources and Accounts Act 2000 in July 2000. Implementation has been completed in accordance with the original timetable set out in the 1995 White Paper “Better Accounting for the Taxpayer’s Money” (Cm 2929).

What did the move to resource based financial management involve?

The move to resource based financial management from 2001-02 involved:

- Conducting the first resource based public expenditure survey in the 2000 Spending Review and moving to full resource budgeting in the 2002 Spending Review.
- Resource accounts replacing cash-based appropriation accounts in respect of 2001-02. A full set of resource accounts for 1999-00 and 2000-01 was also produced and published alongside the appropriation accounts for those financial years.

What is included in this Guide?

This Guide provides a brief overview of these various developments, including the changes and benefits arising from the new resource based approach. It also explains how the various elements of planning and budgeting, Estimates and reporting fit together, and how they link into the wider fiscal framework and the Government's strategic aims and objectives.

What is resource based financial management?

Resource based financial management translates the Government’s policy priorities into departmental strategies and budgets, and then reports to Parliament on the efficiency and effectiveness of the services provided. The results of this process assist government in setting priorities for its biennial Spending Reviews. The linkages between these elements, which work together to enhance government service delivery, are illustrated below.
Moving to resource based financial management

What are the benefits?

For Parliament

- Better information on how resources are used to meet objectives and whether taxpayers are receiving value for money.
- More and better focused information resulting in better scrutiny of public spending and enhanced accountability to Parliament.

For central government

- More sophisticated and strategic approach to public expenditure planning and better data to inform decisions on how to allocate resources.
- Enhances the current fiscal framework by distinguishing more clearly between consumption and investment.
- Contributes to the Modernising Government agenda.

For Departments

- Better information on costs, assets and liabilities to assist resource management.
- Resource allocation and capital spending linked to the delivery of services.
- Full costs of activities measured (whether or not there is a cash cost) and costs recorded when they are incurred rather than when they are paid.
- Assets apportioned over the years in which they are consumed in the provision of services.
- Incentives to improve management of debtors, creditors and stock (working capital) and fixed assets.

Does the move to resource management mean everything has changed?

Some aspects of the resource based approach are new, including information on fixed assets and working capital, the costing of departmental objectives and the use of capital charges.

For some management processes there will be no change, for example investment appraisal.

For many processes, resource management reinforces previous practices, and provides more incentives for good practice. These include identifying costs, performance measurement and investment in financial management skills.

Departments have found that the new resource based approach helps deliver management information which is more comprehensive. They have more detail on costs incurred. This enables managers to control and monitor budgets more accurately.
The following diagram shows how all the elements of the new resource based approach fit together. An overview of each of these elements is given in this Guide. The key groupings are:

- Planning, budgeting and Parliamentary authority (through Estimates); and
- Reporting to Parliament and the public on the Government’s use of public resources.

The boxes for the Annual Report and Whole of Government Accounts are shaded because both these elements are still under development.
The Government’s strategic objectives are framed within strict fiscal rules, which are designed to ensure inter- and intra-generational equity – that is, to provide fairness within and between generations. Government departments and agencies are responsible for their implementation. Departments are held accountable for delivery of the objectives through the targets set out in their Public Service Agreements, Service Delivery Agreements and Departmental Investment Strategies. The resources needed to deliver these objectives are allocated for three-year periods in Spending Reviews, when each department is set a resource and capital budget. Formal approval for funds is then sought annually from Parliament through the Supply Estimates. These processes are discussed in more detail below.

What are the fiscal rules?

The Government’s approach to public expenditure is underpinned by the setting of fiscal rules and the *Code for Fiscal Stability*. The fiscal rules are:

- **The Golden Rule.** Over the economic cycle the Government will borrow only to invest and not to fund current spending.

- **The Sustainable Investment Rule.** Borrowing to finance investment will be set so as to ensure that net public debt, as a proportion of Gross Domestic Product (GDP), will be held over the economic cycle at a stable and prudent level.

The fiscal rules ensure that the public finances remain in a sound position and promote fairness between generations.

What is the public spending framework?

The Spending Review process supports the wider fiscal framework and aims to deliver better value for money in public services by:

- Replacing the former annual Public Expenditure Surveys with biennial reviews, which set firm plans for three years ahead, allowing for greater certainty in planning expenditure. Spending which cannot reasonably be controlled within three year Departmental Expenditure Limits (DEL) is included in Annually Managed Expenditure (AME). A reserve is maintained to meet unexpected pressures.

- Separating spending into capital and resource budgets, together with separate controls on administration costs. This ensures that essential capital investment is not squeezed out by short term pressures, whilst maintaining tight controls on the costs of administration.

- Allowing departments to carry forward unspent resources from one year to the next through End Year Flexibility. This encourages prudent spending throughout the year and assists better planning.

- Detailing the outputs and outcomes departments will deliver with the resources available to them through Public Service Agreements and Service Delivery Agreements.

- Setting out departments’ plans to deliver the scale and quality of capital needed to underpin the Government’s proposed improvements in public services in their Departmental Investment Strategies.

- Looking across the work of departments to find cross-departmental solutions in problem areas such as crime, drugs and social exclusion.

Spending Reviews

The new public spending framework involves setting firm three-year plans. The most recent Spending Review completed in July 2002 set out departmental budgets for the three years 2003-04 – 2005-06. It was based on firm and prudent limits announced in the March 2002 Budget and was in line with the fiscal rules.
What is resource budgeting?

Resource budgeting involves using resource accounting information as the basis for planning and controlling public expenditure. It supports the fiscal framework by distinguishing between resource consumption and capital investment and requires departments to match their costs to the time of service delivery.

Resource budgeting also includes a more sophisticated system for measuring the consumption and investment of non-departmental public bodies (NDPBs) and public corporations.

The framework for controlling expenditure under resource budgeting involves splitting expenditure between three year Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). End Year Flexibility provides incentives for prudent spending at the end of the year.

Under a transitional resource budgeting regime introduced in the 2000 Spending Review, the non-cash costs introduced by resource accounting and budgeting (cost of capital charges, depreciation and impairments and accounting based provisions to meet future expenditure) were included in AME rather than DEL. This decision was taken in order to allow departments to gain more experience in monitoring and forecasting these items following their inclusion in budgets.

These items were moved into DEL in the 2002 Spending Review.

Thus, from 2003-04, resource and capital budgets comprise the following items, and are each split into two main components:

- The **resource budget (DEL and AME)**. This consists of the costs the department needs to deliver its programmes, including non-cash charges for depreciation and impairments, cost of capital charges and provisions for future costs included in the Resource DEL. Also within the Resource DEL there is a separate administration costs control. Administration costs include salaries and wages, expenditure on rent, and a cost of capital charge on civil estate holdings.

- The **capital budget (DEL and AME)**. This consists of all new capital spending by departments and NDPBs, proceeds from the sale of assets and net lending (loans provided to departments less loans provided by departments) in DEL, and capital spending by public corporations in AME.

The resource and capital budget aggregates are adjusted to show public spending totals on the internationally recognised national accounts basis.

Case studies

Better quality information

Budgeting and planning are improved through the availability of better quality information. The integration of asset and liability management into the financial and management information system has resulted in the production of more comprehensive reports for use by managers in departments.
How does the Government ensure its objectives are met?

**Public Service Agreements (PSAs)**
PSAs describe what a department will deliver in the form of measurable targets, over the public expenditure review period, in return for its resource budget. Technical notes describe how performance against PSA targets will be measured.

**Service Delivery Agreements (SDAs)**
SDAs set out in broad terms how the department’s PSA targets will be achieved. SDAs also include information on how performance will be improved within the department and the bodies responsible to it; how the department will focus more closely on the needs of consumers of its services; how the department’s human and IT resources will be managed to achieve change; and on the steps in hand to improve policy making. The information is in line with the Modernising Government White Paper, and in particular provides evidence that this policy is being achieved.

**Departmental Investment Strategies (DISs)**
The DIS sets out the department’s plan to deliver the scale and quality of capital needed to underpin the Government’s proposed improvements in public services. The DIS sets out the department’s strategic policy context, current asset base, new investment plans and systems and processes.

Examples of Public Service Agreements

**Department for Education and Skills** budgets for student loans on a resource basis. This means that the department recognises the full costs of lending, including a subsidy – the cost of lending below market rates – and provisions for cancellation on policy grounds and bad debts. This directly affects decision-making, for example in deciding how much to lend, whom to lend to and the terms of the loans.

Administration costs for all departments include a cost of capital charge on Civil Estate holdings. This means that the cost of capital consumption in relation to buildings owned by departments is an administration cost. This has led to departments managing these assets more effectively, in some cases through public-private partnerships.

The Ministry of Defence, along with other departments, now budgets for its £7 billion worth of stock on a resource basis. This means that the stock is included as a cost in the resource budget when it is used, rather than when it is purchased (as was the case under cash budgeting). This better reflects how much stock is being consumed in any one year.

During each Spending Review, the Treasury and individual departments negotiate measurable objectives and targets. Once agreed, these are included in Public Service Agreements, Service Delivery Agreements, Technical Notes and Departmental Investment Strategies.

**Public Service Agreements (PSAs)**
PSAs describe what a department will deliver in the form of measurable targets, over the public expenditure review period, in return for its resource budget.

Technical notes describe how performance against PSA targets will be measured.

**Service Delivery Agreements (SDAs)**
SDAs set out in broad terms how the department’s PSA targets will be achieved. SDAs also include information on how performance will be improved within the department and the bodies responsible to it; how the department will focus more closely on the needs of consumers of its services; how the department’s human and IT resources will be managed to achieve change; and on the steps in hand to improve policy making. The information is in line with the Modernising Government White Paper, and in particular provides evidence that this policy is being achieved.

**Departmental Investment Strategies (DISs)**
The DIS sets out the department’s plan to deliver the scale and quality of capital needed to underpin the Government’s proposed improvements in public services. The DIS sets out the department’s strategic policy context, current asset base, new investment plans and systems and processes.

**Department for Transport (PSA Target 1)**
Reduce congestion on the inter-urban trunk road network and in large urban areas in England below 2000 levels by 2010.
Examples of Departmental Investment Strategies

Home Office (PSA target 1, contributing to Criminal Justice System cross-departmental PSA)

Reduce the key recorded crime categories of:

- Vehicle crime by 30% from 1998-99 to 2004;
- Domestic burglary by 25% from 1998-99 to 2005; and
- Robbery in the ten Street Crime Initiative areas by 14% from 1999-2000 to 2005

Department for Work and Pensions (PSA Target 1, joint target with HM Treasury)

Reduce the number of children in low income households by at least a quarter by 2004, as a contribution towards the broader target of halving child poverty by 2010 and eradicating it by 2020.

Department of Health (PSA Target 6)

Reduce substantially the mortality rates from the major killer diseases by 2010: from heart disease by at least 40% in people under 75; from cancer by at least 20% in people under 75.

Department for Education and Skills (PSA Target 1)

Raise standards in English and maths so that:

- By 2004, 85% of 11 year olds achieve level 4 or above and 35% achieve level 5 or above, with this level of performance sustained to 2006; and
- By 2006, the number of schools in which fewer than 65% of pupils achieve level 4 or above is significantly reduced.

Department of Health

- An extra 42 major hospital schemes to be operational, with 13 more under construction;
- An increase in treatment capacity equivalent to over 10,000 beds.
How is spending authorised by Parliament?

Supply Estimates are the means by which Government seeks authority from Parliament for its spending each year. The Main Estimates start this process and are presented to Parliament by the Treasury around the start of the financial year to which they relate. Supplementary Estimates may be presented during the course of the year if departments need to ask Parliament for additional provision.

Following the passage of the Government Resources and Accounts Act 2000 and the agreement of the Parliamentary Committees to the move to resource-based Supply from April 2001, the Government has since 2001-02 asked Parliament to approve the resources each department consumes as well as the cash it spends. Separate Estimates are produced for the public service pension schemes which have their own resource accounts.

Alongside the Main Estimates, a new Supplementary Budgeting Information publication is being presented to Parliament from 2002-03, giving detailed read across between the Estimates and the series of departmental reports which set out departments’ detailed spending plans for the forthcoming three years.

Finding your way around Resource Estimates

To illustrate the purpose and main contents of a Resource Estimate, key extracts from an illustrative Resource Estimate for the Department of Culture, Media and Sport (DCMS) are shown below.

The numbers shown, which are indicative only, have been rounded to the nearest £1 million and are consistent with the Estimate numbers included for comparative purposes in the illustrative extracts from a set of resource accounts in the next section of this Guide. The bold letters in brackets following the key numbers are included to identify linkages between the various Parts of the Estimate. These letters also link to relevant numbers in the resource accounts example.

Resource Estimates comprise the following sections:

**Part I** contains: the net amounts (resources and cash) for which Parliamentary approval is sought; a description of the services to be funded from the Estimate (the “Ambit”); and the department which will account for the Estimate. A department may have one or more Requests for Resources (RfRs), subject to separate Parliamentary control, within its overall resource requirement. The expenditure totals for which approval is sought in the DCMS example are as follows:

**Department for Education and Skills**

- Creation of 497,000 childcare places by December 2001, helping over 906,000 children;
- By 2006, creation of an additional 250,000 childcare places, and supporting the creation and running of new children’s centres in disadvantaged areas.
Planning, Budgeting and Parliamentary Authority

PART I

<table>
<thead>
<tr>
<th>Request for Resources (RfR) 1:</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving the quality of life through cultural and sporting activities.</td>
<td>967 (A)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Request for Resources (RfR) 2:</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadening access to a rich and varied cultural and sporting life through home broadcasting</td>
<td>2,320 (B)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Resource Requirement</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,287 (C)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Cash Requirement</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,292 (D)</td>
<td></td>
</tr>
</tbody>
</table>

PART II

| RfR 1: |
|-----------------|-----------|
| (List of functions in) DEL | 967 (A) |
| (List of functions in) AME | |
| (List of functions in) Other Spending Outside DEL | |

| RfR 2: |
|-----------------|-----------|
| (List of functions in) DEL | 2,320 (B) |
| (List of functions in) AME | |
| (List of functions in) Other Spending Outside DEL | |

<table>
<thead>
<tr>
<th>Net total resources</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,287 (C)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accruals to cash adjustments</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net cash required</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,292 (D)</td>
<td></td>
</tr>
</tbody>
</table>
Part III of the Estimate gives details of additional income on top of that shown in Part II and associated cash receipts which the department expects to receive during the course of the financial year, but which it will surrender to the Consolidated Fund and not use to finance its own expenditure.

<table>
<thead>
<tr>
<th>PART III</th>
<th>Income £ million</th>
<th>Receipts £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra income and receipts payable into the Consolidated Fund</td>
<td>2,320</td>
<td>2,320</td>
</tr>
</tbody>
</table>

The Estimates are supported by a considerable amount of further explanatory information. This includes a forecast operating cost statement, which reflects the format of the corresponding Schedule which will appear in the department’s resource accounts.

<table>
<thead>
<tr>
<th>Forecast Operating Cost Statement</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration costs</td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>20</td>
</tr>
<tr>
<td>Other costs</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
</tr>
<tr>
<td>Programme costs</td>
<td></td>
</tr>
<tr>
<td>RfR 1 – Improving the quality of life through cultural and sporting activities.</td>
<td>937</td>
</tr>
<tr>
<td>Less income</td>
<td>(11)</td>
</tr>
<tr>
<td>RfR 2 – Broadening access to a rich and varied cultural and sporting life through home broadcasting</td>
<td>2,320</td>
</tr>
<tr>
<td>Less income</td>
<td>(2,320)</td>
</tr>
<tr>
<td>Total</td>
<td>926</td>
</tr>
<tr>
<td>Net operating costs</td>
<td>965</td>
</tr>
<tr>
<td>Net resource outturn</td>
<td>3,287 (C)</td>
</tr>
</tbody>
</table>
Reporting

Reporting is the final phase in the new resource based financial framework. It:

- Provides feedback to Government, Parliament and taxpayers on services actually provided for stewardship and accountability purposes.
- Is a source of information for Government for setting future strategic priorities for the next Spending Review.
- Assists in making decisions on improvements to the management of public expenditure.

**What is Resource Accounting?**

**Accruals Accounting**

A method of recording expenditure as it is incurred, and income as it is earned, during an accounting period.

**Finding your way around resource accounts**

Resource accounts are prepared annually and summarise the financial results of the department for the relevant financial year.

Resource accounts are prepared using the principles of accrual accounting and UK GAAP (Generally Accepted Accounting Practice) and in accordance with the Resource Accounting Manual. The resource accounts comprise a number of reports and schedules.

Departments’ resource accounts are audited annually by the National Audit Office, who report their findings to Parliament.

The five main schedules and accompanying notes, together with the audit opinion and report, provide a large amount of detailed information about a department. Set out below are some of the main headings, using illustrative figures for the Department of Culture, Media and Sport, to give an idea of how the schedules fit together. Figures are rounded to the nearest £1 million. Note that prior year comparative amounts are also included in the published accounts, but are not reproduced here.

The bold letters in brackets following the key numbers are included to identify linkages between the Schedules in the accounts. These letters also link to relevant numbers in the Resource Estimate example in the previous section of this guide.

**Schedule 1 – Summary of Resource Outturn**

<table>
<thead>
<tr>
<th></th>
<th>Estimate £ million</th>
<th>Outturn £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Request for Resources (RfR) 1</td>
<td>967 (A)</td>
<td>966</td>
</tr>
<tr>
<td>Request for Resources (RfR) 2</td>
<td>2,320 (B)</td>
<td>2,271</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td><strong>3,287 (C)</strong></td>
<td><strong>3,236 (E)</strong></td>
</tr>
<tr>
<td><strong>Net Cash Requirement</strong></td>
<td><strong>3,292 (D)</strong></td>
<td><strong>3,392 (F)</strong></td>
</tr>
</tbody>
</table>

Consistent with the format of the Resource Estimates, Schedule 1 gives a breakdown of the RFRs, separately identifying income and expenditure to give the net total. It also provides a reconciliation between the resource and cash figures, an analysis of income payable to the Consolidated Fund and an explanation of variations between Estimate and Outturn.
A great deal more detail is available in the notes to the accounts. Schedule 2 also provides a Statement of Recognised Gains and Losses, eg profit/loss on the sale of fixed assets.

Schedule 2 - Operating cost statement

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration costs</td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>20</td>
</tr>
<tr>
<td>Other costs</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
</tr>
<tr>
<td>Programme costs</td>
<td></td>
</tr>
<tr>
<td>RfR 1 – Expenditure</td>
<td>936</td>
</tr>
<tr>
<td>Less income</td>
<td>(11)</td>
</tr>
<tr>
<td>RfR 2 – Expenditure</td>
<td>2,271</td>
</tr>
<tr>
<td>Less income</td>
<td>(2,271)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>924</strong></td>
</tr>
<tr>
<td><strong>Net Operating Costs</strong></td>
<td><strong>963 (G)</strong></td>
</tr>
<tr>
<td><strong>Net Resource Outturn</strong></td>
<td><strong>3,236 (E)</strong></td>
</tr>
</tbody>
</table>

The Balance Sheet provides a more detailed breakdown of these categories and a great deal more information is available in the notes to the accounts.

Schedule 3 – Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>53</td>
</tr>
<tr>
<td>Current assets</td>
<td>99</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(93)</td>
</tr>
<tr>
<td>= Taxpayer’s Equity</td>
<td>59</td>
</tr>
</tbody>
</table>

Schedule 4 – Cash Flow Statement

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash outflow from operating activities</td>
<td>(1,128)</td>
</tr>
<tr>
<td>Capital expenditure &amp; financial investment</td>
<td>(2)</td>
</tr>
<tr>
<td>Payments of amounts due to Consolidated Fund</td>
<td>(2,261)</td>
</tr>
<tr>
<td>Financing</td>
<td>3,222</td>
</tr>
<tr>
<td>= Decrease in cash in the period</td>
<td>169</td>
</tr>
</tbody>
</table>

**Note: Analysis of financing and reconciliation to net cash requirement**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>From Consolidated Fund</td>
<td>3,222</td>
</tr>
<tr>
<td>Decrease in cash in the period</td>
<td>169</td>
</tr>
<tr>
<td>= <strong>Net cash requirement</strong></td>
<td><strong>3,392 (F)</strong></td>
</tr>
</tbody>
</table>
The cash flow statement also provides, by way of a note, a reconciliation from Net Operating Costs (G in Schedule 2 above) to the cash flow from operating activities, as well as details of capital expenditure and financial investments.

Schedule 5 provides a breakdown of total Net Operating Costs (G in Schedule 2) between the department’s main objectives.

### Schedule 5 – Resources by departmental aim and objectives

<table>
<thead>
<tr>
<th>Objective</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 1 (Promoting success)</td>
<td>125</td>
</tr>
<tr>
<td>Objective 2 (Broadening access)</td>
<td>428</td>
</tr>
<tr>
<td>Objective 3 (Educational)</td>
<td>129</td>
</tr>
<tr>
<td>Objective 4 (Giving opportunity)</td>
<td>142</td>
</tr>
<tr>
<td>Objective 5 (Lottery-related)</td>
<td>4</td>
</tr>
<tr>
<td>Objective 6 (Regeneration)</td>
<td>137</td>
</tr>
<tr>
<td>BBC</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>963 (G)</strong></td>
</tr>
</tbody>
</table>

The descriptions in brackets above are shorthand for more detailed descriptions in the accounts.

### Notes to the accounts

The notes to the accounts provide essential supporting information for the figures in the Schedules. Some of the main categories are listed below.

- Capital expenditure and fixed asset details
- Cash
- Contingent liabilities
- Cost breakdown
- Income breakdown
- Lease commitments
- Provisions
- Staff numbers and costs
- Statement of accounting policies
- Working capital
- Reconciliation of net operating cost to the net resource outturn
- Movements in reserves and general fund

The schedules of the resource accounts and the accompanying notes provide a rich source of information about the department and its activities. The figures have to be interpreted in the context of all other available information, such as the department’s Public Service Agreement, Service Delivery Agreement and Departmental Investment Strategy. Details of calculations based on ratios and measures, together with guidance on their interpretation, are available in the “Big Red Guide” in the Managing Resources series: “Analysing Resource Accounts: user’s guide” (see page 22).
Worked examples of the types of measures included in the “Big Red Guide”, based on the 1999-2000 resource accounts of the former Department for Education and Employment, include:

### Percentage variance of Estimate to Outturn

= Outturn for current year divided by Estimate for current year

(a) Percentage

\[
\frac{\text{£14.935,854 billion divided by £15.070,740 billion}}{\times 100} = 99\%
\]

(b) Absolute

\[
\text{£14.935,854 billion less £15.070,740 billion} = (\£134.9) \text{ million}
\]

### Estimated creditor days for current year

= Trade creditors multiplied by 365 for current year divided by Total Other Expenditure for current year (excluding non-cash items)

\[
\frac{\text{£13.407 million multiplied by 365}}{\text{divided by £368.050 million}} = 13 \text{ days}
\]
A number of departments and other spending bodies within government have already identified benefits to their operations through implementing a resource-based approach. These are described in detail in the 2nd edition of the “Green Guide” in the Managing Resources series: “Better decision taking in departments” (see page 22). Some examples from the “Green Guide” are highlighted below.

**Better management information**

Resource based financial management has been a trigger for departments to reassess and invest in new management information systems in order to best utilise the new resource information. It has also been a catalyst for investing in financial training by departments.

The **Defence** Management Board has adopted budgetary and performance management processes through use of a Defence-wide balanced Scorecard, which is output rather than input focused. Unsatisfactory performance is highlighted, the reasons revealed and action taken. The 4 dimensions of the scorecard are output, resources, process and development. These are derived from the high level departmental strategic plan and linked to a risk analysis which identifies critical areas for attention. The scorecard is supported by data enabling a ‘drill-down’ approach to analysis to find reasons for variances and identify priorities for action.

**Use of cost information assists decision making**

Resource accounting requires that expenses and income are allocated to each of a department’s objectives. The main benefit of costing objectives is that the Government is able to demonstrate to taxpayers the relative resources consumed by the services it provides.

Linking costs to outputs and outcomes through the activities that generate them is a key feature of **HM Customs and Excise’s** resource management processes. The levels of activity required to support the delivery of PSA and SDA targets play a significant role in determining resource allocations. To monitor subsequent progress, a comprehensive set of monthly management accounts has been developed. These bring together information on operational performance, activity levels and resource consumption, as well as providing progress reports on significant projects.

**Identifying fixed assets assists managing the asset base**

The identification of all assets owned by departments has provided a framework for departments to take full responsibility for properly managing their fixed assets. This includes full asset recording and maintenance of up to date records.

The publication of the National Asset Register and the development of departmental asset management plans has meant that departments now have a much better idea of the state of their asset base. The **Department for Education and Skills** can now produce detailed information about the criteria used to measure the condition and performance of its assets. This has enabled proper evaluation of what can be achieved in terms of reducing maintenance backlogs.

**Better management of working capital**

The new resource based approach has improved the management of working capital by providing incentives for the better control of creditors, debtors and stock.

A major benefit to the **Serious Fraud Office** from adopting the new resource based approach has been the explicit recognition of cost awards made against convicted fraudsters and in the Office’s favour as debtors. This has raised the profile of the amount of money due to Government but not being collected by the Courts.
Following the introduction of resource based financial management in departments, the Government is now working towards producing Whole of Government Accounts (WGA). This will assist in ensuring that best practice accounting methods are used to construct accounts covering the public sector as a whole, and that fiscal reporting is as transparent as possible. These outcomes are consistent with the Code for Fiscal Stability.

**What are Whole of Government Accounts?**

WGA will be commercial-style accounts covering the whole of the public sector. Like departmental resource accounts, WGA will be produced on an accruals basis and will use generally accepted accounting principles, adapted where necessary for government. Government will be treated as if it were a single entity by eliminating all significant transactions between public sector entities.

**When will WGA be prepared?**

Central Government Accounts (CGA) are the first step towards WGA. It is planned to produce ‘dry-run’ CGA for 2001-02 and 2002-03, with the first CGA published for 2003-04. However the full benefits for fiscal policy will only be achieved when WGA are available. The aim is to publish the first WGA for 2005-06, with at least one ‘dry run’ before then.

**Why do we need WGA?**

WGA will provide better quality and more transparent information to assist with the development of fiscal policy, to facilitate better management of public services and to assist with the more effective distribution of resources. In particular, WGA will provide audited data to underpin the operation of the Golden Rule, and allow the public sector balance sheet to be used in fiscal management. Preparing WGA will meet the commitment in the Code for Fiscal Stability to produce accounts for the whole public sector on a consolidated basis.

**Improving Government information through joined up reporting**

Preparing WGA will require convergence of the various sets of accounting guidance covering public sector bodies. This will enhance comparability of performance information, increasing the ability of individual bodies to benchmark their own performance against that of others. It will also enable targets to be set and measured on a consistent basis, both internally within the body and between bodies.

The overview of the public sector finances provided by WGA will also improve government's accountability to Parliament and taxpayers, and form an important element in the Modernising Government agenda.
**Annex A: Frequently Asked Questions**

| **Who else is adopting resource based financial management?** | The most frequently quoted example is New Zealand, who implemented a similar system during 1989-1993. A number of other countries are either already going down the same road, or are starting to do so. Australia uses resource accounting and has implemented resource budgeting. Most other OECD countries are moving towards using accruals based methods. |
| **What safeguards exist to prevent ‘creative accounting’?** | The Resource Accounting Manual (RAM) is underpinned by detailed accounting standards and incorporates safeguards against ‘creative accounting’. The independent Financial Reporting Advisory Board (FRAB) is responsible for the review of the RAM. Resource accounts are produced in accordance with the RAM, and are subject to audit by the Comptroller & Auditor General. Departments cannot change their accounting policies or depreciation methods unless to do so gives a fairer presentation of results. In addition, departments are required to consult the Treasury in advance about the impact of any such changes on budgetary control. |
| **Is there enough accountancy expertise in government?** | Departments are responsible for their own staffing profile and recruitment processes and are aware of the need to ensure enough accountancy advice is available to them. Departments have increased the level of accountancy expertise to meet the requirements of the new resource based approach by using existing accounting staff, or hiring permanent or temporary staff, and by training non-accountants in relevant accountancy skills. |
| **How does the resource based approach link to the Modernising Government Agenda?** | Both resource based financial management and the Modernising Government programme are cross-departmental and complementary. The new resource based approach contributes to Modernising Government both in terms of ‘joined-up’ government and strategic policymaking. It does this by providing cost rather than cash only information; identifying capital separately to operating costs; identifying the cost of departmental objectives; reporting outputs, outcomes and performance; and using benchmarking to improve the quality of public services. |
| **Has there been any reduction in Parliamentary control?** | No. Resource based financial management is designed to ensure that Parliamentary control is enhanced through the voting of both resources and an annual cash requirement. The controls for Parliamentary and Treasury controls include the approval processes for Requests for Resources and controls on demand-led spending and end-year flexibility. These controls are similar to those previously applied. |
| **Does a focus on resources mean cash is forgotten?** | No. The new resource based approach is not substituting information about costs for information about cash. Cash information and Parliamentary control over cash remain. The Treasury’s cash management scheme ensures that improved departmental cash management is another feature of the new system. |
| **Where can I get more information?** | Further information is available from financial management and accountancy contacts within departments or the Treasury, as well as from the other sources listed in Annex C. |
Accounting Policies
The way the organisation applies the standards set out in the Resource Accounting Manual.

Accounting Standards
Standards are issued or adopted by the Accounting Standards Board and are applicable to the financial statements of an organisation. They are intended to ensure that the financial statements of an organisation present a true and fair view of its state of affairs and its income and expenditure.

Accruals Accounting
A method of recording expenditure as it is incurred, and income as it is earned, during an accounting period. By contrast, cash accounting records cash payments and receipts when they are made or received.

Aim
All departments have an Aim. It is a high level statement describing the Government’s policy objective for that department. The Aim is divided into a number of objectives which describe in more detail how the department will achieve its Aim.

Ambit
The description of the services included in the Resource Estimate.

Annually Managed Expenditure (AME)
AME is public expenditure that is managed annually because it is less able to be estimated or controlled by the department than expenditure included in the Departmental Expenditure Limit (DEL). AME has both resource and capital elements.

Assets
Assets are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events. Fixed Assets are assets with an expected life of more than one year, held for use by the organisation. Current Assets include cash or other assets, which can reasonably be expected to be converted to cash in the normal course of business, including stocks, debtors, accrued income and payments made in advance.

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

Capital Budget
From 2003-04, the capital budget of a department comprises all new capital spending by departments and NDPBs, proceeds from the sale of assets and net lending (loans provided to departments less loans provided by departments) in DEL, and capital spending by public corporations in AME.

Cash Accounting
A method of accounting which records cash payments and cash receipts as they occur within an accounting period.

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

Consolidated Fund
Government revenue from taxes and other sources is collected daily into the Consolidated Fund. Payments from the Consolidated Fund finance central government spending.

Cost of Capital Charge
The Government as a whole incurs an interest cost for borrowing to finance investments by departments. This is also described as the Government’s cost of capital. To improve transparency and to ensure the full cost of services is reflected in departmental accounts, this borrowing cost has been devolved to departments as a “capital charge”. In general terms, the capital charge is calculated as a percentage of the department’s net assets (assets less liabilities).

Departmental Expenditure Limit (DEL)
DEL is public expenditure which forms departments’ multi-year budget plan against which spending is managed. DELs identify separate elements for capital and current spending.

Departmental Investment Strategy (DIS)
The DIS sets out the department’s plan to deliver the scale and quality of capital needed to underpin the Government’s proposed improvements in public services. Each DIS sets out: a strategic policy context; current asset base; new investment plans; and systems and processes.

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. For intangible assets the term amortisation is used instead of depreciation.

Financial Reporting Advisory Board
The FRAB is an independent board established to advise the Treasury on the application of financial principles and standards contained in the Resource Accounting Manual. The Board continues to keep the Resource Accounting Manual under review.

Impairment
A permanent reduction in the recoverable amount of a tangible fixed asset below its value recorded in the accounts.
Annex B: Glossary

In-year Monitoring and Control
This is the monitoring and control of departmental expenditure during the year against the budget agreed in the spending review and authorised by Parliament in the Resource Estimates.

Liabilities
Liabilities are obligations to transfer future economic benefits as a result of past transactions or events. Current liabilities are liabilities incurred in the normal course of business and which fall due within one year, including creditors, accrued expenditure and receipts in advance.

Objectives
A department’s objectives are statements of policy which describe how the department will achieve its Aim. Departments list their objectives in Schedule 5 of their resource accounts and allocate the current year’s net operating costs across the objectives. The Public Service Agreement targets describe, in measurable terms, how the department will achieve its objectives.

Operating Cost Statement
A statement showing resources consumed during the year by the department in providing its services. It includes both administration and programme expenditure.

Outturn
The outturn is the actual results reported by a department in its resource accounts.

Public Service Agreements (PSA)
PSAs describe what a department will deliver in the form of measurable targets over the public expenditure review period, in return for its resource budget.

Request for Resources (RfR)
An accruals-based measure of current expenditure which forms part of a Resource Estimate. It represents the basic unit of Parliamentary control.

Resource Accounting Manual
The Resource Accounting Manual is the authoritative statement of resource accounting principles against which resource accounts are prepared and audited. The manual is based on UK generally accepted accounting practice (GAAP) adapted where appropriate to take account of the public sector context. The manual is endorsed by the Financial Reporting Advisory Board.

Resource Budgeting
Resource budgeting involves using resource accounting information as the basis for planning and controlling public expenditure. It introduces new concepts into budgets such as capital consumption and requires departments to match their costs to the time of the related economic activity.

Resource Estimate
A statement presented by the Treasury to the House of Commons in which a department seeks approval for its estimated spending for the coming financial year. The Estimate summarises both the resources and the cash required.

Service Delivery Agreements (SDA)
SDAs sets out in broad terms how a department’s Public Service Agreement (PSA) targets will be achieved.

Spending Review
The new public expenditure framework involves setting firm three year plans. The most recent Spending Review, SR2002, set out departmental budgets for the years 2003-04 to 2005-06. It was based on firm and prudent limits announced in the March 2002 Budget and was in line with the fiscal rules.

UK Generally Accepted Accounting Practice (GAAP)
The accounting and disclosure requirements of the Companies Act 1985 and pronouncements by the Accounting Standards Board (principally accounting standards and Urgent Issues Task Force abstracts), supplemented by accumulated professional judgement.

Working capital
Working capital is the difference between the balances of current assets and current liabilities included in the balance sheet. The capital charge that departments are required to pay provides an incentive to departments to improve the management of their assets and liabilities.
Further information on resource management issues is on the Treasury’s website [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk) and is included in many published documents. Booklets in the “Managing Resources” series (copies available from Anne Perryman, e-mail: anne.perryman@hm-treasury.gov.uk) include:

<table>
<thead>
<tr>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing resource based financial management (the “New Blue Guide”)</td>
<td>September 2002</td>
</tr>
<tr>
<td>Analysing resource accounts: an introduction (the “Short Red Guide”)</td>
<td>June 2001</td>
</tr>
<tr>
<td>Case studies (the “Orange Guide”)</td>
<td>January 2002</td>
</tr>
<tr>
<td>Analysing resource accounts: user’s guide (the “Big Red Guide”)</td>
<td>June 2001</td>
</tr>
<tr>
<td>Reporting to the Board (the “Burgundy Guide”)</td>
<td>July 2002</td>
</tr>
<tr>
<td>Better decision taking in departments (the “Green Guide”) 2nd edition</td>
<td>July 2002</td>
</tr>
<tr>
<td>A strategic approach to finance training (the “Pink Guide”)</td>
<td>September 2001</td>
</tr>
<tr>
<td>Maximising the benefits for departments (the “Purple Guide”)</td>
<td>June 2001</td>
</tr>
<tr>
<td>Summary (the “Blue Leaflet”)</td>
<td>January 2002</td>
</tr>
<tr>
<td>Accountability (the “Chocolate Guide”)</td>
<td>July 2002</td>
</tr>
</tbody>
</table>

**Other information**

**Better Accounting for the Taxpayer’s Money: Resource Accounting and Budgeting in Government**

TSO, July 1995  
Cm 2929, ISBN 010-129292-9

**The Code For Fiscal Stability**

HM Treasury, November 1998


HM Treasury, July 2002  
TSO, Cm 5570

**2002 Spending Review: Public Service Agreements 2003-2006**

HM Treasury, July 2002  
TSO, Cm 5571
Annex C: Further information

Better Management of Public Services: Resource Budgeting and the 2002 Spending Review
HM Treasury, November 2001

Central Government Supply Estimates 2002-03: Main Supply Estimates Summary Request for Supply
HC 795, May 2002

Departmental Reports 2002
Cm 5402-5434, May 2002

Resource Accounting Manual

The Resource Accounting Manual is updated annually and the latest version is also available at: [www.resource-accounting.gov.uk](http://www.resource-accounting.gov.uk)

Resource Accounting
Valerie Archibald

Whole of Government Accounts
HM Treasury, July 1998

Further information on Whole of Government Accounts is available at [www.wga.gov.uk](http://www.wga.gov.uk)

HM Treasury public website
Latest guidance and information [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

Index to websites of all Government departments
[www.open.gov.uk](http://www.open.gov.uk)