

Resource accounting and budgeting.

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1. Introduction
 2. Resource Budgeting
 3. Resource Accounting
 4. Whole of Government Accounting
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Learning objectives

On completion of this chapter you will be able to:

- *understand the differences between Appropriation Accounts and Resource Accounts*
- identify the elements in Resource Accounting Statements
- draft Resource Accounts
- understand the Resource Budgeting framework
- understand the background to Whole of Government Accounts

1 INTRODUCTION

- 1.1 The White Paper 'Better Accounting for the Taxpayer's Money: The Government's Proposals - Resource Accounting and Budgeting in Government (July 1995) set out the Government's proposals for preparing accruals-based **Resource Accounts** and changing the Survey and Estimates from a cash-basis to a resource-basis called **Resource Budgeting**.
- 1.2 Resource Accounts are different to cash accounts because they will include information on:
 - the classification and value of all assets and liabilities;
 - the cost of capital over time and a charge for depreciation;
 - timing differences in the recording of debtors, creditors and stocks.
- 1.3 Resource accounting, however, is more than simply preparing accounts on an accruals basis. It provides a number of benefits.
 - An accurate way of measuring all resources consumed, to give Departments better information on the cost of providing services.
 - A better accounting basis to reflect the significance of capital.
 - A reporting structure that matches resources with departmental objectives and a method of linking those objectives to quantified measures of output and performance.
 - A more straightforward way of comparing public service organisations with each other and with the private sector.
- 1.4 Resource Accounting will follow generally accepted accounting practice in the UK (UK GAAP) as far as is practical in the public sector. Treasury have prepared and issued the Resource Accounting Manual to all Department, which must be followed in preparing Resource Accounts.
- 1.5 Resource Accounts will provide the basis for the new system of public expenditure planning called 'Resource Budgeting'. Under this system there will be:
 - an accruals-based **Resource Budget** for each department;
 - an associated **Financing Requirement** for each budget; and
 - an analysis of how resources allocated will contribute to Departmental aims, objectives and outputs.
- 1.6 RAB fits within and supports the new fiscal framework, announced in the *Economic and Fiscal Strategy Report* in June 1998, and the two key fiscal rules.
 - The 'golden rule' that over the economic cycle, the Government will borrow only to invest and not to fund current spending: ie that it is necessary to make a clear distinction between capital and current spending.
 - The 'sustainable investment rule' that the net public debt as a proportion of GDP will be held at a 'stable and prudent level' for the economic cycle: ie that borrowing should not exceed the capacity to repay.
- 1.7 It does this because it makes a clear distinction between current and capital spending, and therefore follows the fiscal rules. In addition, by requiring that the full costs of all resources consumed in delivering government policies are reported and analysed, it provides the information necessary to control spending in line with the new fiscal policies.

- 1.8 As well as setting out the new fiscal framework, also in the *Code for Fiscal Stability* and the *Economic and Fiscal Strategy Report*, the Government set out its commitment to produce GAAP-based Whole of Government Accounts (WGA) for the public sector, if possible.
- 1.9 A feasibility study on the issues reported in July 1998 recommending that, subject to further work, the aim would be for the first set of fully audited WGA to be available and published by 2005-06.
- 1.10 In this chapter we will look at the principles of Resource Budgeting, the changes that this will make to Estimates, the structure and content of Resource Accounts and the principles behind WGA.

2 RESOURCE BUDGETING

- 2.1 Resource Budgeting will not be fully in place until the financial year 2001/02, following approval by Parliament; therefore the full details of how the system will operate are still being developed.
- 2.2 However, following the current system and the key requirements of the new fiscal control framework that we looked at in Chapter 4, the Survey will still produce an agreed control total but it will be called '**Total Managed Expenditure**'.
- 2.3 The main difference in the Survey will be that it will be conducted on a resource-basis. This means that it will:
- contain both accrual and cash based financial flows;
 - clearly separate and identify current and capital spending plans; and
 - take full account of the resource implications of agreed policy outputs.

The first Resource Survey will be in 2000.

- 2.4 Having arrived at the resource-based control total, it is proposed to follow the same Supply procedures, that is that the Government requests resources by means of the Supply Estimates.
- 2.5 Estimates are prepared by Departments which will be the Resource Budget for each Department. After being agreed by Treasury, they are presented to Parliament for approval. Each Department will also have to produce a **Departmental Investment Strategy (DIS)** to show capital resource requirements and how they will be used to meet objectives.
- 2.6 The cash consequences of the Resource Budget will give each Department its cash requirement. This will form part of the Departmental financing requirements and will be voted by Parliament as a single total, rather than being analysed over all its components.
- 2.7 The sum of all the Departmental financing requirements, along with any other non-attributed elements of public spending will give the Total Financing Requirement.

KEY TERM

Departmental Investment Strategy (DIS) will show the capital investment planned and how it will meet Departmental objectives. The plan will be published.

Resource-based Estimates

2.8 Just as the current Supply Estimates are presented to Parliament in a standard format, Resource-based estimates will have the information broken down into different levels of classification, these will be:

- Departments;
- Request for Resources;
- Subhead details; and
- Extra receipts.

2.9 Resource-based Estimates will follow very closely the new public expenditure control framework announced in the EFSR and will consist of:

- Part I - to include the Ambit ;
- Part II - Subhead Details;
- Part III - Extra Receipts;
- Forecast Operating Cost Statement;
- Forecast Cash Flow Statement.

There will also be whatever explanatory notes and information is considered necessary to support the requests for resources sought in the Estimate.

2.10 **Part I - including the Ambit** sets out the various **Request for Resources** required and what they contain. It describes the services to be provided and the Department responsible along with the **Total Net Resource Requirement** and the **Net Cash Requirement** requested with details of any money already received on account.

2.11 **Part II - Subhead details** This section shows the breakdown of expenditure, including details of any grants, Appropriations in Aid and non-Resource Budget items such as capital spending which are identified separately. It will be split between **Expenditure Within Departmental Expenditure Limits (DEL)** and **Other Expenditure Outside DEL**. There will also be a reconciliation of the total of the resource budget back to the 'Net Cash Required'.

2.12 **Part III - Extra receipts.** This section gives full details of receipts that are not Appropriations in Aid and will be surrendered as CFERs to the Consolidated Fund.

2.13 **The Forecast Operating Cost Statement and Forecast Cash Flow Statement** will set out the Department's projections for the year and provide further information in support of the resource requests.

2.14 EXAMPLE

HOME OFFICE ADMINISTRATION, POLICE, PRISONS, PROBATION, IMMIGRATION AND OTHER SERVICES. ENGLAND AND WALES			
Part 1:			
RfR1: Home Office administration, police, probation, immigration and other services			£5,049,626,000
RfR2: Prisons			£1,889,771,000
Total net resource requirement			£6,939,397,000
Net Cash Requirement			£6,819,904,000
Amount required in the year ending 31 March 1998 for expenditure by the Home Office in England and Wales on:			
R1R1: Home Office administration, police, probation, immigration and other services:			
police; the Forensic Science; emergency planning; fire services (including grants for private finance initiative projects); the fire Service College; criminal policy and programmes including offender programmes; the prevention of drug abuse crime prevention and other services related to crime; research; criminal injuries compensation; organised and international crime; control of immigration and nationality (including the employer sanctions helpline); issue of passports; community and constitutional services; firearms compensation and related matters including administration and grants to police authorities under the Firearms Amendment Act 1997, on administration; and on associated non-cash items.			
R1R2: Prisons:			
Prisons (including central administration and other costs arising from the detention of prisoners); placements in secure accommodation under Section 53 of the Children and Young Persons Act 1933; Prison Services Colleges; the Parole Board, the storage and maintenance of equipment; transport management; grants to 'Prisoners Abroad'; and on associated non-cash items.			
The Home Office will account for this estimate.			
	Net Total	Allocated in Vote On Account	Balance to Complete
RfR1:	£5,049,625,000	£2,191,358,000	£2,858,269,000
RfR2:	£1,889,771,000	£684,752,000	£1,205,019,000
Cash requirement:	£6,819,904,000	£2,876,110,000	£3,943,794,000

HOME OFFICE RESOURCE ESTIMATE ILLUSTRATION

PART II: Subhead detail

	Resource Budget					£'000		1996-97	1995-96
						Non-resource Budget items.....		provision	Outturn
	1	2	3	4	5	6	7	8	9
	Admin	Other Current	Grants	AinA	Net total	Capital	Non-operating AINA	Net total RBudget	Net Total RBudget
R/R1: Home Office administration. Police, probation, immigration and Other services	566,822	266,327	4,343,803	129,129	8,049,626	48,776	417		
EXPENDITURE WITHIN DEPARTMENTAL EXPENDITURE LIMIT (DEL)									
Central Government's Own Expenditure									
A: Police	94,182	31,018	-	19,939	105,261	30,115	205		
B: Forensic Science Service	45,641	4,975	-	52,927	2,311	5,038	-		
C: Emergency planning	5,616	14,404	786	590	20,216	71	-		
D: Fire	7,013	3,036	2,033	1,245	10,837	214	-		
E: Central Services	83,165	1,040	-	1,139	83,066	3,486	156		
F: Criminal Policy and Programmes	16,961	28,300	66,449	585	111,125	332	-		
G: Research and Statistics	10,476	1,931	-	-	12,407	485	-		
H: Criminal Injuries Compensation - administration	-	24,440	-	3,177	21,263	-	-		
I: Criminal Injuries Compensation	-	-	714,280	27,856	186,424	-	-		
J: Organised and International Crime	41,897	6,633	2,346	6,722	44,154	5,050	58		
K: Police and Fire Services Superannuation	-	5,795	-	3,145	2,650	-	-		
L: Immigration and Nationality	213,259	14,189	6,794	5,455	228,887	2,482	-		
M: Passport Agency	41,662	518	-	1,029	41,151	1,463	-		
N: Constitutional and Community	6,650	25,046	7,377	5,317	33,718	36	-		
O: Firearms Compensation and Related Costs	-	107,000	-	-	107,000	-	-		
Central Government Support for Local Authorities									
P: Police Grants	-	-	3,577,314	-	3,577,314	-	-		
Q: Emergency planning current grants	-	-	14,457	-	14,467	-	-		
R: Probation: grants	-	-	342,878	-	342,878	-	-		
S: Section 11 (ethnic minorities) grants	-	-	69,576	-	69,576	-	-		
T: Police current grants outside AEF	-	-	5,552	-	5,552	-	-		
U: Probation current grants outside AEF	-	-	610	-	610	-	-		
V: Fire current grants outside AEF	-	-	500	-	500	-	-		
OTHER EXPENDITURE OUTSIDE DEL:									
W: Police loan charges: grants	-	-	29,564	-	29,554	-	-		
X: Probation loan charges grants	-	-	2,835	-	2,835	-	-		
R/R2: Prisons	1,396,397	479,093	26,738	12,988	1,000,771	277,878	5,100		
EXPENDITURE WITHIN DEPARTMENTAL EXPENDITURE LIMIT (DEL):									
Central government's Own Expenditure									
A: Prison Department (public sector)	1,102,707	451,158	22,173	12,367	1,563,651	275,053	-		
B: Prison Operations (contracted out)	129,484	22,083	-	-	151,267	-	-		
C: Prison Services Headquarters and Central Services	186,006	5,852	4,566	571	174,853	2,925	6,100		
TOTAL	1,963,397	747,420	4,370,542	142,084	6,939,397	326,654	8,917		
Accruals to cash adjustments						438,630			
NET CASH REQUIRED						8,819,904			
Resource to Cash reconciliation									
Resource Budget (net)						6,939,307			
Non-Resource Budget items:									
Capital						326,654			
Less non-operating AinA						5,517	320,137		
							7,259,534		
Accruals to cash adjustments:									
Capital charges						-259,254			
Depreciation						-180,376			
Other non-cash items						0			
Increase (+)/Decrease(-) in stock						0			
Increase (+)/Decrease(-) in debtors						0			
Increase (-)/Decrease(+) in creditors						0			
Increase (+)/Decrease(-) in provision						0			
Excess cash to be CFERd						0	-439,630		
Net Cash Required							6,819,904		

Note: the other accruals adjustment figures (such as debtors, creditors, etc) are not available for 1997-98 due to the cash nature of the accounting systems being utilised at the Home Office - these figures will be available for 1998-99 onwards.

PART III: Extra receipts payables to the Consolidated fund (£000)

	1997-98		1996-97		1995-96	
	Income	Receipts	Income	Receipts	Income	Receipts
Income from fees not classified As A-in-A	82,284	82,284				
Income from the sale of assets Not classified as AinA	0	0				
	82,284	82,284				

HOME OFFICE
FORECAST OPERATING COST STATEMENT

For the year ended 31 March 1998

	1997-98		Provision 1996-97		Outturn 1995-96	
	£000	£000	£000	£000	£000	£000
<u>Administration Costs</u>						
RfR1: Home Office administration, police, probation, immigration and other services						
Staff costs	283,347					
Other Administration Costs	283,275	566,622				
RfR2: Prisons						
Staff costs	978,985					
Other Administration Costs	417,912	1,396,897				
Gross Administration costs		1,963,519				
Operating income		142,084				
Net Administration Costs		1,821,435				
<u>Programme costs</u>						
RfR1: Home Office administration, police, probation, immigration and other services						
Expenditure	4,612,130					
Less income	1,736	4,610,394				
RfR2: Prisons						
Expenditure	505,832					
Less income	0	505,832				
Net Programme costs		5,116,226				
NET OPERATING COST		6,937,661				
OUTTURN AGAINST RESOURCE BUDGET		6,937,661				
NET RESOURCE OUTTURN		6,939,397				

HOME OFFICE

FORECAST CASH FLOW STATEMENT

For the year ended 31 March 1998

	1997-98 £000	1996-97 £000	1995-96 £000
Net cash outflow from operating activities	6,410,966		
Capital expenditure and financial investment	326,654		
Payments to the Consolidated Fund	82,284		
Financing from the Consolidated Fund	6,819,904		
Increase in cash in the period	0		
<u>Reconciliation of operating cost to operating cash flows</u>			
	£000	£000	£000
Net Operating Cost	6,939,397		
Adjust for non-cash transactions	(439,630)		
Adjust for movements in working capital other than cash	xxx		
Adjust for transfers from provision	0		
Net cash outflow from operating activities	6,410,966		
<u>Analysis of capital expenditure and financial investment</u>			
Purchases of fixed assets	333,171		
Proceeds of disposal of fixed assets	6,517		
	326,654		
Loans to other bodies	0		
Net cash outflow from investing activities	326,654		
<u>Analysis of financing</u>			
From Consolidated Fund	6,819,904		
Cash balance	0		
Net cash requirement	6,819,904		

2.14 To help the transition of moving from a cash-based system for planning public expenditure to a resource-basis, **Shadow Resource-based Estimates** will be produced, alongside the existing cash-based Estimates for the years 1999-2000 and 2000-01.

2.15 The first set of Resource-based Estimates will be produced for 2001-02 and subject to Parliamentary approval of the system, they will replace cash-based Estimates from that year.

Activity 7.1

What are the differences between a resource based survey and a cash based survey?

KEY TERMS

Request for Resources is the Resource budget equivalent of the Vote. It describes the service to be provided and the Department responsible, the Total Net Resource requirements and the net cash requirement requested.

3 RESOURCE ACCOUNTING

- 3.1 Resource Accounts will replace Appropriation Accounts. From the financial year 1998/99, each Department must produce a set of consolidated resource accounts to cover all its activities. However, until Resource Budgeting is introduced in April 2001, Resource Accounts will operate in parallel with Appropriation Accounts which will continue to be audited, published and laid before Parliament.
- 3.2 Unlike Appropriation Accounts, there is a boundary for Resource Accounts. This has been set to reflect the ways in which the different bodies in government are controlled. The consolidated account will include all those bodies over which a Department exercises in-year budgetary control.
- 3.3 The consolidated Departmental Resource Account will include:
- The core Department;
 - On-Vote Agencies;
 - NHS purchasers; and
 - executive NDPBs only where there are good control reasons for consolidation.
- 3.4 The consolidated Resource Accounts will not cover:
- Trading Funds;
 - most executive NDPBs where it has been decided they should not be consolidated;
 - certain funds and accounts within central government eg the Consolidated Fund, the Contingency Fund, the National Loans Fund, the National Insurance Fund, the Social Fund and all funds managed for the National debt etc;
 - certain flows of income and expenditure in central government eg taxation receipts, privatisation receipts, borrowing etc;
 - local authorities, NHS providers of health care and public corporations;
 - any body classified to the private sector by the Office for National Statistics.
- 3.5 Treasury has produced the Resource Accounting Manual which has been issued to all Departments. This sets out the main accounting concepts and principles to be adopted under resource accounting. Treasury is reviewing all existing accounting guidance in the light of resource accounting to bring it in line where necessary.
- 3.6 Resource Accounts include the following statements:
- Schedule 1 - Summary of Resource Outturn;
 - Schedule 2 - Operating Cost Statement which includes as part of this statement, underneath the cost statement a Statement of Recognised Gains and Losses;
 - Schedule 3 - Balance Sheet;
 - Schedule 4 - Cash flow Statement;
 - Schedule 5 - Statement of Resources by Departmental Aims and Objectives;
 - Notes to the Accounts.

Summary of Resource Outturn

3.7 This statement is unique to resource accounting. It is the Parliamentary control schedule providing:

- a comparison of the sums voted in Estimates, Request for Resources, and the outturn resources and cash consumed with the differences identified;
- a reconciliation of the resources used to the net cash requirement for both estimate and outturn;
- explanations of the variances identified; and
- full details of receipts payable to the Consolidated Fund.

3.8 The statement will not be fully applicable until Resource budgets are in place in 2001/02.

3.9 EXAMPLE: SUMMARY OF RESOURCE OUTTURN

DEPARTMENT YELLOW

Schedule 1

SUMMARY OF RESOURCE OUTTURN 2001-02

2001-02							2000-01	
OUTTURN			REQUEST FOR RESOURCES					
Gross expenditure	A in A	NET TOTAL	Gross expenditure	A in A	Net RfR	Difference R f R/ Outturn	Prior year Outturn	
1	2	3	4	5	6	7	8	
£000	£000	£000	£000	£000	£000	£000	£000	
Request for Resources 1	41,979	-12,595	29,384	42,919	-12,595	30,324	940	29,356
Request for Resources 2	79,950	-41,929	38,021	83,095	-43,168	39,927	1,906	38,466
Request for Resources 3	20,440	-	20,440	21,125	-	21,125	685	23,890
TOTAL RESOURCES (*)	142,369	-54,524	87,845	147,139	-55,763	91,376	3,531	91,712
NON OPERATING COST A IN A						-100	-100	-75
NET CASH REQUIREMENT			84,176			88,223	4,047	86,432

Reconciliation of resources to cash requirement		Outturn	RFR	Difference
Note		£000	£000	£000
Total Resources		87,845	91,376	3,531
Non-cash items	3	-7,224	-6,653	571
Movements in working capital other than cash:	12	-4,029	-3,000	1,029
Transfer from Provision	17	5,781	4,000	-1,781
Purchase of fixed assets	9 & 10	1,803	2,600	797
New loans	9	0	0	0
Disposal of fixed assets	9		-100	
Repayment of loans	9		0	
Non Operating Cost A in A		0	-100	-100
Net Cash Requirement (Schedule 4)		84,176	88,223	4,047

Explanation of the variation between request for resources and outturn:

- (i)
- (ii)
- (iii)
- (iv)
- (v)
- (vi)

Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid the following income relates to the department and is payable to the Consolidated Fund: (cash receipts are shown in italics)

	2001-02 Outturn		2001-02 R f R	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	£000	£000	£000	£000
Income for fees not classified as A-in-A	1,365	1,364	-	-
Income from the sale of assets not classified as A-in-A	36	36	-	-
	<u>1,401</u>	<u>1,401</u>	-	-

(*) For an analysis of outturn expenditure and appropriation in aid, see Schedule 2 and Notes to the Accounts, 3, 4, 5 and 8.

KEY TERMS

Summary of Resource Outturn. This statement is unique to Resource Accounting. It is the Control Schedule reported to Parliament.

Operating Cost Statement

3.10 This statement will show all the income and expenditure for the Department as follows:

- **Administration Costs.** This shows 'Staff costs' and 'Other'. It is totalled to 'Gross Administration Costs'. 'Operating Income' is shown separately and then deducted to give a 'Net Administration Cost' total; followed by
- **Programme Costs.** This is analysed by the individual 'Requests for Resources' that appeared in the Estimates. Expenditure and income are shown separately for each Request and then a sub-total drawn. These are then totalled to produce 'Net Programme Costs';
- **Net Operating Cost.** This is the total of 'Net Administration Cost' and 'Net Programme Cost';
- **Resource Budget Outturn.** This is the total amount of the resource budget and is shown as one figure;
- **Net Resource Outturn.** This is the total of resources allocated through the Supply process.

3.11 Resource Budget Outturn and Net Resource Outturn will only be used when Resource Budgeting is in operation in 2001/02 as they are then part of the formal resource-based control mechanisms. However, in line with the Shadow resource-based Estimates, these figures must be shown in all Resource Accounts during the transitional period.

3.12 Notes to the accounts will show a detailed analysis of summary items shown in the Operating Cost Statement such as Administration costs, Net Operating Cost and a reconciliation of the Net Operating Cost to the Resource Budget Outturn and to the Net Resource Outturn.

3.13 In addition, whilst Appropriation Accounts are being produced in parallel to Resource Accounts, there will be a reconciliation between the two included in the notes.

3.14 Attached to the Operating Cost Statement is the Statement of Recognised Gains and Losses. In other organisations it is usual to find this as a separate statement and for it to include the annual operating results but this is not the case for Resource Accounts. In Resource Accounts, this statement will show only the gains and losses related to asset valuation or any other gains and losses that have not been reported through the Operating Cost Statement.

3.15 EXAMPLE: OPERATING COST STATEMENT

DEPARTMENT YELLOW

Schedule 2

OPERATING COST STATEMENT for the year ended 31 March 2002

			2001-02	2000-01
	Note	£000	£000	£000
Administration Costs				
Staff costs	2		50,916	
Other administration costs	3		41,320	
Gross Administration Costs			92,236	
Operating income	5		-55,756	
Net Administration Costs			36,480	
Programme Costs				
Requests for Resources 2				
Expenditure		30,133		
Less: income	5	-133	30,000	
Request for Resources 3				
Expenditure		20,000		
Less: income		-	20,000	
Net Programme Costs	4		50,000	
NET OPERATING COST	7 & 8		86,480	
RESOURCE BUDGET OUTTURN	7		86,480	
NET RESOURCE OUTTURN	7 & 8		87,845	

STATEMENT OF RECOGNISED GAINS AND LOSSES for the year ended 31 March 2002

	2001-02	2000-01
	£000	£000
Net loss on revaluation of tangible fixed assets	1,504	

Balance Sheet

- 3.16 The Balance Sheet is a 'snapshot' of the Department's financial position at a point in time and shows the value of assets held by the Department, its liabilities and where the funds came from to finance those net assets.
- 3.17 For Resource Accounts, the Balance Sheet will follow Format 1 of Schedule 4 of the Companies Act. It will have the following key elements:
- Fixed Assets are analysed and shown as a separate sub-total;
 - Current Assets are analysed and followed by Current Liabilities and a sub-total drawn at Net Current Assets;
 - Total Assets less Current Liabilities. This is the total of the two previous sub-totals shown ie 'Fixed Assets' and 'Net Current Assets';
 - the longer term liabilities are then brought in and shown separately such as 'Creditors over a year old' and 'Provisions for Liabilities and Charges', striking a balance at Total Assets less Liabilities;
 - this is represented by Taxpayers' Equity which is made up of the General Fund and any other reserves held by the Department such as Donated Assets Reserve, Revaluation Reserve, Government Grant Reserve etc.
- 3.18 The main part of 'Taxpayers' Equity' is the General Fund. This may be credited with:
- Cash voted by Parliament that has been drawn down from the Consolidated Fund
 - Funding received for Consolidated Fund Standing Services
 - Funding from the NIF for benefit administration
 - Non-cash items such as cost of capital and audit fee
 - Transfers from other reserves as explained in Chapter 8
- 3.19 The General Fund is debited with:
- any CFERs; and
 - the net operating cost for the year.
- 3.20 Any other reserves held are a reflection of the financial structure of the Department. For example, therefore:
- the Donated Asset Reserve reflects the net book value of any donated assets that the Department holds. Such assets are capitalised at current value on receipt and revalued and depreciated as any purchased asset;
 - the Revaluation Reserve represents the unrealised part of the cumulative revaluation adjustments to assets;
 - the Government Grant Reserve represents the proportion of the net book value of an asset that has been wholly or partly financed by government grant.
- 3.21 The balances on the General Fund and any other reserves held by the Department will be shown on the balance sheet under Taxpayers' Equity. The details of any movements during the year on any of these accounts will be analysed in the 'Notes to the Accounts'.

3.22 EXAMPLE: BALANCE SHEET UNDER RESOURCE ACCOUNTING

DEPARTMENT YELLOW

Schedule 3

<u>BALANCE SHEET</u>					
as at 31 March 2002					
	Note	£000	31 March 2002 £000	31 March 2001 £000	£000
<u>Fixed Assets</u>					
Tangible assets	10	39,923			
Investments	11	550			
			40,473		
<u>Current Assets</u>					
Stocks	13	4,087			
Debtors	14	9,236			
Cash at bank and in hand	15	1,930			
		15,253			
<u>Creditors (due within one year)</u>	16	-9,432			
<u>Net Current Assets</u>			5,821		
<u>Total Assets less Current Liabilities</u>			46,294		
<u>Creditors (amounts falling due after more than one year)</u>					
Provisions for liabilities and charges	17	-18,940			
			27,354		
<u>Taxpayers' Equity</u>					
General Fund	23		16,561		
Revaluation reserve	18		10,593		
Donated Assets reserve	18		200		
			27,354		

Cash Flow Statement

3.23 This statement shows the amounts of cash flowing in and out of the Department and movements in working capital, summarising where the cash came from and how it was used.

3.24 Within Resource Accounts, this statement is in accordance with FRS1(Revised). The statement shows:

- **Net Cash Outflow from Operating Activities.** This follows from the Net Operating Cost after adjustments to take it from an accruals to a cash basis. These adjustments are shown in a note to the statement setting out the reconciliation;
- **Capital Expenditure and Financial Investment.** This is a net figure covering the purchases or sale of fixed assets and any loans or other investments made;
- **Payments to and Financing from the Consolidated Fund** are shown as two separate items; and
- **Increase/Decrease in cash in the period.** This is the result of all the other items in the statement, ie the result of all the cash inflows and outflows;

3.25 The statement has the following notes:

- a detailed reconciliation of the Operating Cost to the operating cash flows. This starts with the Net operating Cost and shows all the adjustments for non-cash items, movements in working capital other than cash and provisions to arrive at the Net cash outflow from operating activities;
- an analysis of capital expenditure and financial investments, less disposal proceeds from these to arrive at the Net cash outflow from investing activities;
- an analysis of financing being the funding from the Consolidated Fund and the increase or decrease in cash in the period, giving the Net cash requirement for the period.

3.26 EXAMPLE: RESOURCE ACCOUNTING CASH FLOW STATEMENT

DEPARTMENT YELLOW

Schedule 4

CASH FLOW STATEMENT for year ended 31 March 2002

	<u>2001-02</u>	<u>2000-01</u>
	<u>£000</u>	<u>£000</u>
Net cash outflow from operating activities	-81,008	
Capital expenditure and financial investment	-1,767	
Payments to Consolidated Fund	-1,401	
Financing from Consolidated Fund	84,069	
Decrease in cash in the period	-107	

<u>Reconciliation of operating cost to operating cash flows</u>	<u>£000</u>	<u>£000</u>
<u>Net operating cost</u>	<u>86,480</u>	
Adjust for non-cash transactions (see note 3)	-7,224	
Adjust for movements in working capital other than cash (see note 12)	-4,029	
Adjust for transfer from provision	5,781	
<u>Net cash outflow from operating activities</u>	<u>81,008</u>	

<u>Analysis of capital expenditure and financial investment</u>	
Purchases of fixed assets	1,803
Proceeds of disposal of fixed assets	-36
	1,767
Loans to other bodies	-
<u>Net cash outflow from investing activities</u>	<u>1,767</u>

<u>Analysis of financing</u>	
From Consolidated Fund	84,069
Decrease in cash	107
<u>Net cash requirement (Schedule 1)</u>	<u>84,176</u>

Statement of Resources by Departmental Aims

- 3.27 This is another statement that is unique to Resource Accounting. Its purpose is to show how resources have been divided between the Department's aims and objectives and re-analyses income and expenditure over those aims and objectives.
- 3.28 Aims are the main purpose for which the Department exists. Objectives are specifically planned goals. They contribute to a Department's aims and should be quantifiable so that achievement can be measured. They are not the same as a Department's programmes but are statements of what those programmes are intended to achieve.
- 3.29 Aims and objectives for the year will be set by Ministers and where they have changed during the year, this fact should be disclosed in a note to the accounts.
- 3.30 The statement shows Gross Expenditure, Income and Net Expenditure for each item, totalling back to the 'Net Operating Cost'.
- 3.31 The statement is intended eventually to compare last year's results with this year's outturn.

3.32 EXAMPLE: STATEMENT OF RESOURCES BY DEPARTMENTAL AIMS

DEPARTMENT YELLOW

Schedule 5

RESOURCES BY DEPARTMENTAL AIMS

for the year ended 31 March 2002

<u>AIMS/OBJECTIVES</u>	<u>2001-02</u>			<u>2000-01</u>		
	<u>Gross</u>	<u>Income</u>	<u>Net</u>	<u>Gross</u>	<u>Income</u>	<u>Net</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<u>First Aim</u>						
Objective 1(i)	13,876	-5,217	8,659			
Objective 1(ii)	21,390	-7,378	14,012			
Objective 1(iii)	<u>6,713</u>	<u>-</u>	<u>6,713</u>			
	41,979	-12,595	29,384			
<u>Second Aim</u>						
Objective 2(i)*	48,500	-27,494	21,006			
Objective 2(ii)#	<u>31,450</u>	<u>-15,800</u>	<u>15,650</u>			
	79,950	-43,294	36,656			
<u>Third Aim</u>						
Objective 3(i)	4,755	-	4,755			
Objective 3(ii)	4,280	-	4,280			
Objective 3(iii)	5,007	-	5,007			
Objective 3(iv)	<u>6,398</u>	<u>-</u>	<u>6,398</u>			
	20,440	-	20,440			
NET OPERATING COSTS	142,369	-55,889	86,480			

* Achievement of Objective 2(i) also contribute to the First Aim.

Achievement of Objective 2(ii) also contributes to the First and Third Aims.

See note 26.

Notes to the Accounts

- 3.33 The notes to the accounts are designed to explain and amplify, for the reader, the information contained in the accounts.
- 3.34 They should include:
- a description of the accounting policies of the Department;
 - any disclosures required by GAAP subject to any provisions of the Resource Accounting Manual; and
 - any specific disclosure requirements of Resource Accounting eg reconciliation of the General Fund; detailed analysis of 'Net Operating Cost' etc.
- 3.35 Segmental reporting that is normally required under SSAP 25 will not be needed for consolidated Resource Accounts. The information that is shown in the Statement of Resources by Departmental Aims replaces this requirement.

Output and Performance Analysis Statement

- 3.36 This statement will be produced as part of the resource accounting process but will be published separately. The aims and objectives shown in the Statement of Resources by Departmental Aims are used as the basis for the statement. Outputs and performance are measured and reported using a variety of performance indicators as applicable.
- 3.37 Treasury has produced a separate set of instructions to assist Departments in the completion of this statement.

Audit and Publication

- 3.38 The audit and publication arrangements for Resource Accounts will be similar to that for Appropriation Accounts. The annual report and consolidated accounts of Departments will be published and laid before Parliament.
- 3.39 As we have seen in Chapter 4, although the financial year ends on 31 March, the books of account may remain open for another two months until approximately 31 May. At the end of the period, the books of account are finally closed and the accounts are produced and sent to the C&AG.
- 3.40 Departments should aim to publish their accounts on or before 31 October after the end of the financial year.
- 3.41 Before the accounts are laid before Parliament the C&AG will conduct a certification audit of Resource Accounts.

Timetable

- 3.42 The first set of Resource Accounts will be produced for the financial year 1998/99.
- 3.43 The first set of Resource Accounts that will be published, audited and laid before Parliament will be for the financial year 1999/2000.
- 3.44 If Parliament approves these accounts, the first full resource-based Public Expenditure Survey will be 2001/2002.

Activity 7.2

This activity will help you practice what you have learnt so far about Resource Accounts.

There follows a series of facts about the Department of Resource Services (DORS) for the year 2001/2002.

You are asked to draft the Operating Cost Statement for the year ended 31 March 2002. These Statement of Recognised Gains and Losses is not required.

Department of Resource Services

Staff costs £35,800,000

Depreciation on fixed assets is calculated to write off the asset value in equal instalments over the asset's life:

Buildings 20 years
Equipment 10 years

Fixed assets acquired for research are depreciated over the life of the project. Current projects have a life of 5 years.

The value of fixed assets at 1 April 2001

Buildings £45,000,000
Equipment £25,000,000

In the year the Department has bought

Buildings £220,000
Equipment £150,000

Of the equipment purchased, £100,000 relates to research projects.

Equipment valued at £700,000 with an estimated life of 2 years remaining was sold for £175,000.

Revaluation values calculated during the year show that buildings have increased in value by £80,000 and equipment has decreased in value by £300,000.

The effect of these revaluations on accumulated depreciation is not given as the Statement of Recognised Gains and Losses is not required.

Other expenditure in the year

Research £900,000
Audit fee £25,000
Other administration costs £13,750
Cost of capital charge £440,000
Programme costs £42,000,000

Operating income in the period

Administration 19% of programme costs
Fees and Charges 11% of programme costs
Other £100,000

Operating costs and income in resource accounts are analysed by Request For Resources (RfR) and DORS has 3 RforRs. Cost and income are allocated in the following proportions :

	<u>RfR1</u>	<u>RfR2</u>	<u>RfR3</u>
Administration costs & Appropriation in Aid	35%	60%	5%
Programme costs	-	60%	40%

The Resource Budget for the year was £85,014,000 which included Appropriations in Aid of £12,295,000. The Parliamentary funding draw from the Consolidated Fund was £79,572,000.

For simplicity, depreciation to be charged in the year should be calculated by taking the year end value of the assets and dividing it by the estimated useful life of the asset, taking account of additions and disposals.

In the following paragraphs we will provide some guidance of how to work through this example. To start with we need to do some calculations before we can start on the Operating Cost Statement (OCS).

As you will remember, the OCS shows Administration and Programme costs separately and Administration costs are divided between Staff costs and Other Administration costs. We are given the staff costs but we need to put together the Other Administration costs. These consist of research expenditure and other administrative expenditure, where we have been given the figures and Non-cash items some of which we have to calculate:

- loss on the disposal of an asset
- depreciation.

Don't forget that in calculating the loss on disposal of the asset, we must take account of depreciation already charged.

We have been given cost of capital and audit fee figures to add to the above to complete the non-cash entries.

We also have to calculate the income figure from the data provided. Having done that, we must then divide the income and expenditure figures over the RforRs using the proportions we have been given, remembering that not all income has been approved for use.

In allocating the income and expenditure between the RforRs, you may find it helpful to use the pro forma below:

	<u>Admin</u>	<u>Expenditure</u>	<u>AinA</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Request 1				
Request 2				
Request 3				
Net Budget Outturn				
Income not Appropriated in Aid				
Net Operating Cost				

Finally you will need to calculate the net loss on the revaluation of fixed assets, taking account of the charges to depreciation. When you have completed this, you will have all the figures that you need for the OCS.

4 WHOLE OF GOVERNMENT ACCOUNTING

- 4.1 In July 1998 Treasury published a report on 'Whole of Government Accounts'(WGA), which set out the Government's proposals to publish audited, consolidated accounts for the whole of the public sector from 2005/06.
- 4.2 These accounts will be a consolidated set of accounts, produced by the Treasury and based upon generally accepted accounting practices (UK GAAP) covering the whole public sector which is defined as:
- Central Government - Departments and their Agencies, NDPBs, Regional Health Authorities, Consolidated Fund, National Loans Fund, national Insurance Fund, Contingencies Fund, government pension schemes etc.
 - Local Authorities; and
 - Public Corporations eg BBC, Post Office, NHS Health Trusts, ports and airports, Trading Funds etc.
- 4.3 In the *Code for Fiscal Stability* and the *Economic and Fiscal Strategy Report*, the Government set out its central economic aims and its new fiscal policy with the two key fiscal rules, the 'golden rule' and 'sustainable investment rule'. In order to manage and monitor this new fiscal policy and to provide better information to improve resource allocation and spending in the longer term, the Government believe that GAAP-based accounts for the whole of the public sector, which have been audited, would provide useful information additional to that already found in national accounts.
- 4.4 Three important measures of the public finances are:
- Surplus on current budget;
 - Public sector net borrowing in the year; and
 - Net public sector debt outstanding at the year end.
- In addition, the following measures are relevant:
- The public sector net cash requirement;
 - General government net borrowing; and
 - General government gross debt.
- 4.5 The information from Resource Accounts and the accrual accounts of other public sector bodies provide a good source of information on public finances for expenditure planning. However, WGA offers the potential, it is thought, for a consistency and improvement in the nature of the information available for fiscal policy planning and management.
- 4.6 The benefits it is said that can be derived from WGA are:
- They would assist the conduct of fiscal policy;
 - They would help to reinforce and support the moves towards increased transparency and accountability in fiscal policy development;
 - They would provide Parliament with audited financial statements based upon established accounting principles which provide a true and fair view of the Government's financial performance.

4.7 To produce fully reliable WGA will take some time, therefore a staged approach to their introduction has been proposed as follows:

- To produce a consolidated account for central government. This would improve data quality and consistency for central government even if the project went no further;
- To develop an unaudited National Accounts statistically-based WGA for use while GAAP-based WGA are being developed and implemented; and
- Subject to further investigation to move towards WGA and assess the practicalities and the costs and benefits of consolidating local authorities and public corporations.

4.8 Therefore at the present time the timetable is to produce the first set of statistically-based WGA in late 2001 in respect of financial year 2000/01, with the first set of published accounts in 2002 in respect of financial year 2001/02. With the first full set of trial GAAP-based WGA produced for 2003/04, with the first fully audited and published set of GAAP-based WGA being prepared for 2005/06.

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Key learning points

- Resource accounts will replace Appropriations accounts. They will be based upon UK GAAP as far as is practical in the public sector. In preparing Resource accounts Departments must follow the Resource Accounting Manual.
- Resource Accounts will be consolidated accounts, produced for all entities within the resource accounting boundary.
- Resource Accounting is the basis for Resource Budgeting. Resource budgeting will provide an accruals based resource budget for each Departmental Group with an associated cash requirement.
- The format of the Estimates will be amended to accommodate the new resource base, they will still have the Ambit, the Subhead details and Extra Receipts but in addition will show a forecast Operating Cost Statement and Cash Flow Statement. Votes will become 'Requests for Resources'.
- The natural extension of Resource Accounting and Budgeting in Government is Whole of Government Accounts a set of audited and published consolidated accounts for the whole of the public sector.

