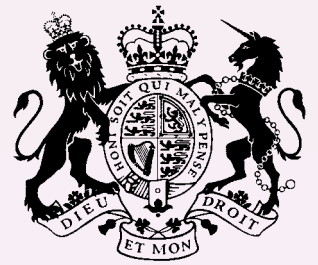


Managing Resources

Maximising the
benefits for
departments

Her Majesty's Treasury June 2001



Introduction



The Government moved to a new resource-based financial management system from April 2001, with the full implementation of Resource Accounting and Budgeting (RAB) from 2001-02. This booklet is designed to help departments complete the transition.

Taking forward the vision

The new resource-based systems now in place give Ministers more sophisticated information to carry out their plans, and officials are better able to advise them. The improvements cover the ability to plan, control and report on government activities, to identify what it owns and owes and the cost of what it does. As a result, decisions can be better informed. Now that the systems are in place, government as a whole and each department can start to reap the rewards of the changes.

The move to resource budgeting provides better-cost information, links costs and departmental objectives and reinforces the focus on outputs and outcomes. Improvements to financial reporting provide enhanced accountability for Parliament and the public. The flow-on benefits include the ability to provide government with new macroeconomic data through Whole of Government Accounts.

The UK can be proud of what it has introduced for central government. It is in line with best practice in the rest of the economy. It leads Europe and the United States. The challenge is now to make full use of what is available.

The guide is structured as follows:

	Page
How a department would know it had succeeded	2
Illustrative benefits	4
Some barriers to achieving the full benefits	6
How barriers can be overcome	7
Support from the Treasury	9

How a department would know it had succeeded



The new resource-based budgeting, monitoring and reporting systems are now in place. So too is the legislative framework. As resource-based information is increasingly available, the challenge is to get the most out of the new data by moving on from largely technical aspects of introducing resource accounting and budgeting to full resource management. This section explains how a department would know it had successfully made the transition.

Planning and budgeting

The department has more sophisticated budgeting and planning, distinguishing between cash and resources, and focuses on resource-based information. Discussion of objectives and priorities includes information from Schedule 5, and new financial information linked to performance reporting is cascaded from Public Service Agreements (PSAs) and Service Delivery Agreements (SDAs). Preparation for spending reviews uses an output-based approach, with a clear link between targets and resource allocation. Staff in budgeting, accounting, Estimates and Public Expenditure System database functions work closely together.

Decision making

Ministers and senior officials expect resource based information in submissions, understand it and use it in making policy decisions. Decisions are supported by information that confirms that the proposed output mix is the best available. Choices are based on information understandable to non-accountants, and decision makers understand both the full accrual costs and the cash implications of decisions. Costs are linked to outputs and outcomes.

Understanding the financial implications informs decision makers of the trade-offs between quality and quantity of service delivery. In addition, this information enables decision makers to focus on using financial data to manage throughout the year, rather than purely for compliance based reporting at year-end. The relationship between capital investment, resource consumption and how these outlays contribute to achieving outputs is understood and incorporated into decisions. The impact of capital charges and depreciation is taken into account in investment decisions. Fixed assets and working capital are identified and well managed.

Internal control and reporting

There is timely and realistic in-year control and monitoring, using resource data. Effective control systems ensure that there are:

- No incentives for mismanagement of funds (i.e. no end-year surge of expenditure);
- Effective delegation of budgets to departmental units;
- Robust systems to manage stock levels, other working capital and fixed assets;
- Better rationalisation of suspense accounts; and
- Sound financial procedures.

The new systems are fully integrated into effective management information systems. There is also improved alignment between external and internal reporting so that Ministers (if appropriate) and the department's Management Board use resource-based information for planning and control. As a result, the systems provide assurance to the Accounting Officer for the Statement of Internal Control in the annual resource accounts.



How a department would know it had succeeded

External reports

Each year the smooth production of resource-based Main and Supplementary Estimates is followed by unqualified, timely resource accounts. As a result, there is a positive response from the departmental Select Committee to the Estimates and accounts. The Treasury gives positive feedback and other departments seek advice on good practice.

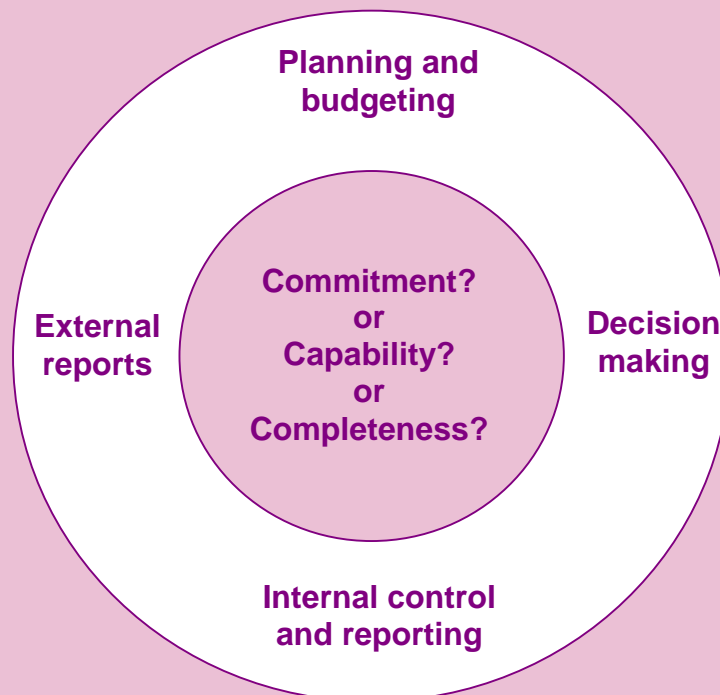
...supported by

The overall resource-based framework is supported by staff who have appropriate financial training and are able to provide timely and relevant information to management when required.

How much has your department achieved?

In assessing the extent to which the resource-based framework is being applied, departments could test their own progress on each of the elements in this section against the following criteria:

Commitment	The department is aware of what needs to be done and is committed to doing it
Capability	The department has the necessary resources in place to deliver its commitments
Completeness	The department has delivered





Illustrative benefits

In response to a request from the Public Accounts Committee (PAC), departments were asked to identify benefits arising from the introduction of new management information systems. Set out below are some of the areas mentioned by departments in their submissions describing the benefits they identified. In some cases, provision of resource-based information was one of many benefits arising from the implementation of the new systems. Note that the categories below are not ranked in order of importance.

Budgeting and planning

Following the first stage of the move to resource budgeting in 2000 and the introduction of resource-based Estimates in 2001, some departments are already using the additional resource-related information. Specific improvements include better quality information, the integration of financial and management planning, and recognising the importance and impact of assets and liabilities in the budgeting process. Actions as a result include improved targeting of resources to ensure outputs are achieved, reducing incentives for end-year expenditure surges, and greater delegation of budgets to functional units in departments. There have also been improvements to project management and project costing.

Fixed assets

The identification of fixed assets, including their ownership and the functional unit responsible for managing them, is the first area of improvement. Once assets have been identified, the next stage is proper recording and maintaining of records. A third area has been improved purchasing, including decisions on whether to rent or buy and whether to retain or dispose of assets. In addition, the better planning and management of assets has improved awareness of maintenance costs. The capital charge has ensured departments recognise the opportunity cost of fixed assets acquired or constructed.

Management information

Management information systems have provided department managers with timely, user friendly reports, based on better quality data and which link resources clearly to the achievement of outputs. All these contribute to better quality decision taking. Management reports prepared on a resource basis provide the opportunity for public sector managers to compare results and costs more readily with the private sector. This can be important when internal units tender and compete to provide services with the private sector.

Organisational

The availability of resource-based information has been a catalyst for training and improving the level of financial awareness amongst managers. Greater confidence in the data produced by the new management information systems has resulted in increased delegation of authority and responsibility by managers to functional units. This has in turn resulted in better links between departmental functions and, consequently, improvements in service delivery. The systems also have resulted in greater efficiency and effectiveness for the finance function within departments through better mechanisms for intra-departmental communication.

Outputs and outcomes

Management information systems have resulted in a greater focus on outputs and outcomes, reducing the emphasis on inputs. The systems have enabled the full costing of activities, which in turn allows outputs and outcomes to be properly costed.



Illustrative benefits

This information is relevant for in-year monitoring and in determining the appropriate level of resources in the spending review process. Output cost is a key performance measure which enables financial information to be linked to the non-financial targets in the department's PSA and SDA.

Use of cost information

The requirement to cost objectives has resulted in improvements to their definition and measurability. The main benefit of costing outputs, outcomes and objectives is that departments are able to demonstrate value for money when competing for resources in spending reviews and justifying their priorities to Parliament.

Working capital

There has been improved management of working capital, including better control of debtors, stock and the (long overdue) rationalisation of suspense accounts. Management information systems facilitated improved management of cash flow, including better forecasting and profiling as well as providing systematic information on financial commitments and on liabilities. Through the capital charge, there has been a recognition that there is a cost in holding working capital.

Does RAB mean everything has changed?

Some aspects of RAB 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, RAB 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 RAB 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.

Some barriers to achieving the full benefits



What are the barriers to achieving the full benefits from resource-based information faced by departments? This section sets out some of the difficulties that have either been identified by departments or observed by the Treasury.

Cultural and historical

Preparing management reports using cash-based information requires only basic knowledge of accountancy. As such, departments have been able to give low priority to investing in accountancy training or employing qualified accountants. Management decisions have often been taken without a full cost analysis – that is, without a detailed analysis of the financial implications of alternative service delivery options. Departments which had not previously invested sufficiently in accountancy training were consequently ill equipped to understand, manage, implement and process the new resource-based requirements and information.

Communication

Under the cash-based system, the functions of budgeting and the preparation of cash based appropriation accounts at year-end were virtually unrelated. Accordingly, these functions were often structurally separate. Now, under RAB, budgeting, accounting and Estimates are, of necessity, joined-up. The need for departments to restructure to align these functional areas takes time to implement. In some cases no formal channels were established for communication between policy, finance and service delivery areas.

Lack of incentives

New systems have to be scoped, developed, financed and implemented to meet the information requirements demanded by managing on a resource basis. There is necessarily a time lag between the investment in systems and reaping the benefits from having better information to take decisions. It is often difficult for the finance managers in departments to justify to other senior managers in their department why scarce resources should be diverted from service delivery areas and invested in costly information management systems. This is a classic Catch 22 – benefits stem from implementation but implementation requires the demonstration of benefits. The position is exacerbated where Parliament is not demanding information on a resource basis.

Systems aren't everything

The focus in some departments on technical systems problems in producing resource accounts may have led to a belief that new systems are an end in themselves – rather than a means to better quality information. The assumption may be reinforced by the fact that the change process has generally been driven by those concerned primarily with systems and information, rather than information users.

Treasury role

Although the Treasury has been the driver of the moves to develop resource-based information, there has been some criticism of inadequate investment in change management and financial training of some of its staff. In addition, there has been concern about the lead times required for departments to implement the new requirements arising from the implementation of RAB.



How barriers can be overcome

Overcoming some of the barriers identified in the previous section is a shared responsibility between departments and the Treasury. Encouragement from Parliament would also be very welcome. This section suggests what could constitute best practice within a department. Note that it should not be assumed that any barrier necessarily applies to every department; and the degree to which departments are affected often varies considerably.

The Accounting Officer

The Accounting Officer has a number of direct incentives to reap the benefits from resource-based information. These include the better use of scarce departmental resources, the contribution to the robustness of the Statement of Internal Control and avoiding the risk of Parliamentary criticism of resource accounts qualified by the NAO.

The Accounting Officer can help to overcome barriers by influencing attitudes to change in resource management within a department. In doing so, he or she will be supported by senior management, particularly the PFO. Bearing in mind the incentives and risks outlined above, it will be important to ensure that any communication barriers (including between finance, spending and policy) are minimised and that there are sufficient trained staff and other resources to implement the change successfully.

The Principal Finance Officer

The PFO is the key to successful implementation of resource management in a department. The priorities set by the PFO in relation to the new resource-based financial management system will determine attitudes throughout the department. The PFO will also be best placed to influence the department's level of commitment and understanding.

The PFO has a strong incentive to raise awareness of resource-based management to ensure that:

- the department achieves a satisfactory outcome in future spending reviews;
- the information generated by effective in-year monitoring is available on a timely basis to enable the reallocation of resources between departmental priorities when necessary;
- senior management in charge of policy and service delivery areas have the best cost information available to support decisions taken on the use of scarce departmental resources; and
- the risk from Parliamentary scrutiny of qualified resource accounts is minimised.

The PFO can ensure that the department gives sufficient priority to raising the level of awareness and understanding of the need for training of all staff on a resource-based approach. This training must include clearly identifying the links between resourced based information and the PSA, SDA and Departmental Investment Strategy, and the benefits that can be achieved through this additional information. The Training Assurance provided by the department to the Treasury was intended to assist the PFO focus on the importance of the training agenda within the department.

The PFO also has a responsibility for briefing Ministers on the relevance and importance of resource-based information and for ensuring that there is the necessary expertise amongst all departmental staff, particularly senior staff, to enable them to justify the resources consumed by the department.



How barriers can be overcome

The PFO should facilitate the joining-up of the accounting and budgetary functions in the department. He/she could also seek advice from other PFOs facing similar challenges in their departments.

By virtue of his/her senior position and understanding of both policy objectives and financial information in the department, the PFO can facilitate discussions between service delivery specialists and the finance function to bridge any communication gaps between these areas.

The role of the PFO is crucial in resolving the type of Catch 22 position described on page 6. This can be achieved by:

- identifying the benefits of resource-based decision making, such as improved service delivery, and more and better information to justify investment in the department; and
- occasionally reminding sceptics of the permanence of the change to resource-based information and the action that the department has already taken in changing systems to produce it.

The PFO has a significant role in change management, including allaying any fear of change and providing reassurance. He/she needs to be aware of the linkages between the functional units in the department to ensure that all areas receive the same information and, where necessary, ensure that the information provided is adequately tailored to their needs.

PFOs could consider ensuring that the relevant departmental Select Committee receives adequate briefings on the nature and importance of resource based information to ensure that committee hearings have constructive dialogue on RAB.

The Principal Establishment Officer

The PEO should ensure that there is recognition of the need for understanding of resource-based information by senior management and in appointments. The PEO will also be able to ensure, together with the PFO, that financial training is firmly on the agenda.

The Finance Function

The finance function has a responsibility to contribute to the production of unqualified resource accounts. It also has a responsibility to facilitate communication with Treasury on resource management issues. If there are any residual problems in producing resource accounts or from systems not being in place, it will give priority to finding solutions for outstanding problems.

The Training Team

The team will be able to support the PEO and PFO in identifying gaps in understanding and in taking timely and effective action to focus on the relevant officials based on the Training Assurance provided to the Treasury. The team will know about best practice from the interdepartmental Finance Training Committee and from the Treasury's Development of Accountancy Resource team. The Training Team is able to draw on the advice from Head of Accountancy Profession.



Support from the Treasury

What can the Treasury offer in terms of assisting departments to complete the transition?

Briefing

The Treasury will brief PFOs, the Finance Training Committee and other inter-departmental groups.

Within the Treasury's Public Services Directorate, there are two main groups who can provide assistance and disseminate information on RAB. These are the relevant Spending Team and the General Expenditure Policy (GEP) Team. GEP deals with budgeting, Estimates and the links to performance measurement, as well as in-year control and monitoring, with assistance from the Treasury's Public Sector Finance (PSF) team.

Within the Treasury's Financial Management, Reporting and Audit (FMRA) Directorate, there are a number of groups that provide assistance to and disseminate information to departments:

- the Central Accountancy team on accountancy matters;
- the Treasury Officer of Accounts team on Parliamentary accountability and audit;
- the Development of Accountancy Resource team on training issues; and
- the Whole of Government Accounts team on relevant future developments.

Support

Treasury support is available for many aspects of implementation, including:

- providing examples of good practice;
- helping any department benefit from the experience of others;
- assistance in solving residual problems in producing the new information; and
- alerting them to problems of which they may not be aware.

The Treasury also acts as a central link to the National Audit Office and to Parliament.

Information

Information from the Treasury to help departments is on the Treasury's GSI web site and included in many published documents. Other documents in this series are:

- Managing Resources – Full Implementation of Resource Accounting and Budgeting (April 2001)
- Managing Resources – Analysing resource accounts: an introduction (June 2001)
- Managing Resources – Analysing resource accounts: user's guide (June 2001)
- Managing Resources – Better decision taking in departments (June 2001).

The Resource Accounting Manual is available at www.resource-accounting.gov.uk .