

Machinery of Government Changes

Estimates and accounting treatment

General principles

1. Departments should observe the following key points when reflecting machinery of government changes in their Estimates:
 - a. Machinery of government changes in isolation should not affect the spending power of either the transferring or receiving department – that is, neither department should be left worse or better off as a result of transferring the budget or Estimates provision;
 - b. The receiving department takes on the responsibility for being accountable for the underspend or overspend against the Estimate provision being transferred to it
 - c. Departments should start the process of agreeing amounts and budgets to be transferred as soon as the machinery of government change is announced;
 - d. Departments must present Supplementary Estimates as soon as possible so that they can reallocate the Estimates provision from the transferring department to the receiving department;
 - e. The presentation of Supplementary Estimates enable departments to account for the machinery of government changes in accordance with the guidance at section 8.8 of the Resource Accounting Manual (a detailed example is attached to this note);
 - f. The Treasury will update Accounting Officers' appointments after the relevant Supplementary Estimates have been approved by Parliament
 - g. Accounting Officers in both the transferring and receiving departments must have due regard for their responsibilities in the transitional period (ie the period after the machinery of government change has been announced and before the relevant Supplementary Estimate is passed), and remember that whilst the transfer may take place in year, the Accounting Officer of the receiving department is accountable for the function for the full financial year in accordance with chapter 8.8 of the Resource Accounting Manual;
 - h. Departments must ensure that in the transitional period they can account correctly for all accounting transactions and balances worked out during the transitional period;
 - i. Accountability for the history surrounding a function lies with the Accounting Officer who has received responsibility, not the one who has transferred it;
 - j. Accounting Officers in receiving departments should ensure that they seek appropriate assurances about values of transferred items and receive all documentation relevant to the function from the transferring department. Conversely, the transferring department must provide the necessary information

2. This note will form the basis of an annex to section 11 of Government Accounting when amendment 2 to GA-2000 is issued at the end of this year.

Handling Machinery of Government changes through Supplementary Estimates

3. The parliamentary conventions operating in respect of Estimates mean that departments cannot request a reduction in their net resources required or net cash requirement once these have been in the Appropriation Act.

4. Therefore generally machinery of government changes (or transfers of functions) have to be handled in Supply Estimates so that:

- a) the transferring department seeks a Supplementary Estimate to transfer the financial authority; and
- b) the receiving department seeks one to receive the transfer as appropriations in aid and to incur expenditure on the function for which it is now responsible.

5. In doing so, departments' overall spending power does not increase or decrease as a result of the machinery of government change. The receiving department takes on the responsibility for being accountable for the underspend or overspend against the Estimate provision being transferred to it. The transferring department needs its full resources and cash (including net capital spending) both to use on its own account and to transfer to the department receiving the function. The receiving department will receive additional resources and cash through AinA to offset gross spending. In both cases, the accruals to cash reconciliation will remain unchanged in total but individual components may change. None of these individual changes will be explicit in the Supplementary Estimates.

6. In practice, the transfer in Supplementary Estimates:

- a. makes the transfer transparent on the face of the Estimates;
- b. enables the transferring department to draw down cash from the Consolidated Fund in order to transmit that cash to the receiving department;
- c. authorises the receiving department to receive the resources as appropriations in aid (AinA); and
- d. gives confirmation to the receiving department that it has the Estimate provision transferred to it.

7. Departments should make the transfer if presenting Supplementary Estimates to increase resource and /or cash, that is where it is seeking a "substantive" increase in Supply provision. If there is no need for a substantive Supplementary Estimate, a department should present a "token" Supplementary Estimates (ie a token net addition of £1,000 both to a department's Net Resources Required and Net Cash Requirement)

Changes required to Ambits

8. Ambits (see 11.3.11 GA-2000) provide the authority for departments to incur expenditure and consume resources. They are set out in Part I of an Estimate. Each ambit is reproduced in the Appropriation Act and provides the statutory description of the expenditure authorised by that Act. The ambit of an Estimate can only be extended or otherwise modified through the approval of a Revised or Supplementary Estimate by Parliament. Where a function is transferred from one department to

another, it is advisable for the receiving department to have the appropriate wording in its ambit to provide clarification of the authority for its expenditure on the function it receives.

Part II tables

9. The transferring department should present a token Supplementary Estimate in order to:

- a. reduce the net Estimates provision for the whole year for the function in the relevant RfR or section by adjusting its gross expenditure and where relevant any appropriations in aid (AinA);
- b. create a new section in its RfR to provide for the transfer of the net Estimate provision;
- c. in that new section, enter an equal but opposite amount to the reduction at (a) above, shown as 'Other spending outside Departmental Expenditure Limits' in the "other current" column in order to transfer resources to the receiving department;
- d. if it is presenting a token Supplementary Estimate, increase both its Net Resources Required and its Net Cash Requirement by £1,000.

10. The receiving department should present a Supplementary Estimate in order to:

- a. set up a new section in the relevant RfR shown as 'Other spending outside Departmental Expenditure Limits';
- b. in this section take in the transfer operating AinA for resources being transferred and non-operating AinA for capital being transferred;
- c. introduce gross resources and capital expenditure on the new function. Supply provision for the received function should be shown under the appropriate shoulder heading according to its treatment in Departmental Expenditure Limits or Annually Managed Expenditure;
- d. seek approval to increase the total of AinA (ie in addition to those being received from the transferring department) to allow it to take transfer of any operating and non-operating AinA income (ie income generated in relation to the transfer being received) in relation to the function being transferred
- e. revise its AinA note accordingly to cover both the AinA transfer and to
- f. enable it to seek authority to retain income previously generated by the transferring department;
- g. if it is presenting a token Supplementary Estimate, increase both its Net Resources Required and its Net Cash Requirement by £1,000.

11. This Estimates treatment is described in the attached tables (in simplified form and omitting the token £1,000) for a transferring department (department X) and a receiving department (department Y). (Note: this simplified example is taken forward later in this annex in terms of the treatment in resource accounts.)

Table 1 Department X (transferring department)			
	Main Estimate	Changes in Token Supp Estimate	New provision in Token Supp Estimate
Subhead A	+1200	-1200	0
Appropriations in Aid (AZ)	-200	+200	0
Net expenditure ie (A-AZ)	+1000	-1000	0
Sub head B	0	+1000	+1000
Accruals adjustment	-100	+100	0
Tranfers of function etc	0	-100	-100
Net cash requirement	+900	0	+900

Table 2 Department Y (receiving department)			
	Main Estimate	Changes in Token Supp Estimate	New provision in Token Supp Estimate
Subhead A	0	+1200	+1200
AZ	0	-200	-200
Net expenditure (A-AZ)	0	+1000	+1000
Sub head B	0	-1000	-1000
Accruals adjustment (see note below)	0	0	0
Net cash requirement	0	0	0

Note: The accruals adjustment nets out to zero because it consists an increase in creditors of +100, offset by the transfer of function of -100.

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Part III: Extra receipts payable to the Consolidated Fund

12. These statements should take account of any switches in responsibility for the year as a whole. As CFER income is not voted by Parliament, individual entries may be reduced.

Forecast Operating Costs Statement

13. The transferring department's staff programme and other administration costs for the functions to be transferred should be adjusted downwards for the year as a whole with concomitant increases for the receiving department.

Forecast Cash Flow Statement¹

14. The forecast cash flow statement should show that there is, in substance but not formally, a transfer of financing from the transferring to the receiving department. The note 'Analysis of financing and reconciliation to the net cash requirement' should show:

- a. In the analysis of financing - (i) amounts received 'from the Consolidated Fund (Supply) - current year' as appropriate; (ii) amount transferred in 'Transfer to/from Department [title] in respect of transferred function [title]'.
 - b. In order to reconcile to the net cash req the amount in (a) (ii) is reversed in the subsequent line also titled 'Transfer to/from Department [title] in respect of transferred function [title]'.

15. The Resource Accounting Manual contains full details.

Forecast reconciliation of net operating cost to net resource outturn and resource budget outturn

17. This table will simply reflect the treatment of machinery of government changes in the preceding tables.

Explanation of Accounting Officer responsibilities

18. Departments will need to remember to update the Note on the Explanation of Accounting Officer Responsibilities. This accompanies all Estimates and sets out the details of who in the department is accountable to Parliament for the Estimate and/or component parts of the Estimate.

19. The allocation of Accounting Officer responsibilities shown should take account of the restructuring arising out of the machinery of government changes. Where an RfR moves completely from one department to another, the transferring department should clearly state, in its note, that it has transferred responsibility for that RfR and which department will be responsible for it. Accountability for new RfRs received by a department should be determined as appropriate and responsibilities listed in the note. Where Additional Accounting Officers are to be appointed for new RfRs the receiving department should notify the Treasury Officer of Accounts team in the Treasury of the need to make an appointment following the approval of the Supplementary Estimate.

20. Where parts of RfRs are being transferred, the note should state that responsibility for those functions has been passed onto the new department. The departments affected by the change should consider whether to update the Accounting Officer appointments in both the transferring and receiving departments. Where they do update appointments, the Treasury Officer of Accounts team must be notified of any new appointments.

¹ The Forecast Cash Flow Statement will not be included in Main Estimates from 2002-03 therefore this paragraph only applies for 2001-02.

21. In addition, departments should remember that:
- a. each Accounting Officer continues to have due regard for his or her responsibilities right up until an approved Estimate on the new basis has been approved; and
 - b. departments ensure that all accounting transactions and balances worked out during the transition period (ie before the Supplementary Estimates are passed) can be correctly accounted for, once the Treasury updates the appointment of the Accounting Officer in the receiving department. This should include all relevant documentation related to the functions being transferred.
22. Departments are reminded that accountability for the history surrounding a function lies with the Accounting Officer currently responsible for it rather than with the Accounting Officer who has passed responsibility onto a new Accounting Officer. Accordingly receiving Accounting Officers should ensure that they seek appropriate assurances about values of transferred items and receive all documentation relevant to the function from the transferring department.

Appropriations in Aid

23. The relevant appropriations in aid footnote to the receiving department's Estimate should include both its receipt of the transfer of resources and descriptions of any operating and non-operating appropriations in aid which it generate thanks to the transfer of function. This gives it the authority to appropriate the income and without it, such amounts must be surrendered as Consolidated Fund Extra Receipts (CFER), regardless of whether the transferring department had noted the same income in its footnote to the AinA note.

Other statements and notes

24. These will need to be updated in the light of responsibilities being transferred.

Cash management

25. The Supplementary Estimate for the transferring department will, all other things being equal, increase the department's original Net Cash Requirement by £1000. The transferring department should pay to the receiving department the cash associated with the resources being transferred in monthly instalments for the remainder of the financial year.

26. The transferring and receiving department will need to discuss and agree what cash is required to finance the transferred resources. This is because the cash flows after the transfer will need to take account of the resources consumed, capital expenditure and corresponding cash funding by the transferring department before the transfer, even though for Estimates purposes, approval is sought to transfer Supply provision for resources for the full financial year, So for the Treasury's cash management purposes, the exporting department will need to advise the Exchequer Funds and Accounts (EFA) team explicitly about the monthly cash transfers it makes to the receiving department.

27. In addition, departments should continue to liaise with the EFA team about ensuring that they draw down the correct allocation of cash in line with the Net Cash Requirement as approved in the Main Estimates and Summer Supplementary Estimates, until the Winter Supplementary Estimates are approved by Parliament,

28. Therefore, once the Supplementary Estimates are approved, the transferring department will need to draw cash from the Consolidated Fund each month for the receiving department in line with the amount remaining in the original Main Estimate. If the receiving department takes substantive additional provision for the transferred function at the Supplementary, the Treasury would recommend that it only draw any extra Supply voted in their Supplementary Estimate after the provision being transferred from the Main Estimate is exhausted.

29. Following the approval of the relevant Supplementaries, EFA will revise the “Financed by” section of the transferring departments’ CM returns so that a row can be added for Supply drawdown for the receiving department. Transferring departments should not include the forecasts of receiving department’s payments and receipts in their own table two return. Receiving departments should submit their forecast including net cash flow in respect of the transferred functions to EFA each month (and inform the transferring dept of the amount they wish to draw down which is the only element to be included in their return).

Information in accounts on Salary and Pension Entitlements

30. Under merger accounting, the staff costs associated with key managers (and, if appropriate, ministers) involved with the transfer of function changes will be recognised in the accounts of the receiving department as if the transfer had taken place at the beginning of the year. However, information about the salary and pension entitlements of those key managers and ministers shall be given for the period to the date of transfer in the transferring department and from the date of transfer to the year end in the department to which the functions have been transferred. This recognises that, while these key managers and ministers may have had direct responsibility for the transferred functions, they also had a general responsibility for the department as a whole. Of course, if the Board member does not transfer with the function, the transferring department will simply disclose the salary and pension entitlements for the full year with no disclosures being made in the accounts of the receiving department.

Information in accounts on Related Party Transactions

31. The objective of Financial Reporting Standard 8 is to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties. If there has been a transaction between (say) a Board member and a department which relates to a function which is transferred to a new department, the existence of that transaction should be disclosed in the receiving department. Although this may lead to an anomalous position if the Board member concerned does not transfer to the new department although the function for which he was responsible has transferred, the receiving department is reporting the performance of, inter alia, the transferred function and the related party relationship is a possible factor affecting that performance.

Accounting for machinery of government changes in departmental resource accounts

32. The Resource Accounting Manual (section 8.8 at <http://www.resource-accounting.gov.uk>) sets out the main accounting principles. The notes to the accounts should make clear:

- a. 'Reconciliation of net operating cost to net resource outturn' (Department Yellow note 7) - The transfer of Estimate cover is treated as expenditure in schedule 1 and financing in schedules 2 to 5.
- b. Schedule 4 'Analysis of financing and reconciliation to net cash requirement' - The cash transferred between the two depts is included as a component of net financing. Its reversal to reconcile with the net cash requirement is because it is treated in schedule 1 as a component of the net cash requirement (payment or receipt) rather than as financing

Worked examples of machinery of government changes in resource accounts.

33. The worked example uses the following scenario (based on the figures given at paragraph 11 of this guidance:

- i. Department X is transferring the function: department Y is receiving it.
- ii. Transfer from dept. X to dept. Y – which “physically” takes place half-way through the year.
- iii. Dept X’s estimated expenditure at time of the original Estimate is:

Table 3: Dept. X’s original Estimate for the service to be transferred		
Resources	Gross	1200
	Income	-200
	Equals Net	1000
	Less accruals adjustment (increase in creditors)	-100
	Cash Movements	900

- iv. Dept. Y’s original Estimate has nothing for the function
- v. Both departments have other expenditure, but in order to focus solely on the transfer, this example ignores other expenditure.
- vi. This example ignores token amounts.
- vii. Dept X’s opening balance sheet shows £35 creditors.
- viii. Prior to the “physical” transfer, dept. X’s expenditure is:

Table 4: dept X’s expenditure prior to the “physical” transfer is		
	Gross Resources	650
Less	Income	-100
Equals	Net	550

Less	accruals adjustment (increase in creditors)	-50
Equals	Cash Movements	500

ix. Dept Y then spends:

Table 5: Dept Y then spends		
	Gross Resources	520
Less	Income	-100
Equals	Net	420
Less	accruals adjustment (increase in creditors)	-40
Equals	Cash Movements	380

x. Therefore the total outturn expenditure of X and Y on just the transferred service is :

Table 6: outturn expenditure on depts X and Y		
	Gross Resources	1170
Less	Income	-200
Equals	Net	970
Less	accruals adjustment (increase in creditors)	-90
Equals	Cash Movements	880

Note: One situation not covered in this example is that where there is an overall outturn producing an excess AinA and where the receiving department underspends against its transferred provision. Departments are asked to approach the contacts lists in the covering DAO for advice.

34. Therefore using the figures in the scenario, the machinery of government changes would be recorded in Schedule 1 of resource accounts thus:

	Table 7: dept X schedule 1 recording of transfers					
	Estimate			Outturn		
	Gross	AinA	Net	Gross	Ain A	Net
RfR 1	1000	-	1000 ⁽¹⁾	1000	-	1000 ⁽²⁾

Transfers of function etc			-100			-100
Net cash			900			900 ⁽³⁾

Table 8: dept Y schedule 1 recording of transfers						
	Estimate			Outturn		
	Gross	AinA	Net	Gross	Ain A	Net
RfR 1*	1200 ⁽⁴⁾	1200 ⁽⁴⁾	0	1170 ⁽⁵⁾	1170 ⁽⁶⁾	0
Increase in Creditors			0			-90 ⁽⁷⁾
Transfer of function etc			0			+100 ⁽⁷⁾
Net cash			0			+10
A	1200	200	1000	1170	170	1000
B	0	1000	-1000	0	1000	-1000
Total	1200	1200	0	1170	1170	0

CFER analysis

Income

30

Receipts

30

Notes to examples in paragraph 33

- (1) Figures based on in tables 1 and 2.
- (2) £1000 (ie Estimate) transferred to dept Y – shown as resource expenditure in schedule 1.
- (3) Net cash of £900 (ie Estimate) is transferred to dept Y as cash payment less amount spent. (See Note 8.)
- (4) Dept Y Supplementary Estimates - see examples at paragraph 9 above.
- (5) See 33 (x) above.
- (6) Comprises:

	Transferred from dept X (see note 2 above)	1000
	AinA re transferred service (see 33(x) above)	170
	Excess AinA (ie AinA cannot exceed gross expenditure of 1170) - see 33(x) above.	30
(7)	i. Outturn increase in creditors	-90
	ii. Resource Cash Adjustment transferred from department X (see X's schedule 1)	+100
	iii. Impact on net cash requirement	+10

Therefore using the figures in the scenario, the machinery of government changes would be recorded in schedules 2 and 4 (ocs and cash flow statement) thus:

Dept. X

Opening balance sheet

(ie restated) Zero

Schedule 2 (OCS)

Net expenditure = zero

Reconciliation from schedule 2 to schedule 1

Net Operating Cost	0
Adjust for transfer of Estimate cover in respect of transfer of function*	+1000
= Net Resource Outturn	1000

Year end balance sheet

Zero

Schedule 4 (cash flow statement)

* The transfer is included as expenditure in schedule 1, but is excluded from schedule 2 because it is treated as financing for operational purposes

Net cash outflow from operating activities	0	
Financing	0	
Increase/decrease in cash		<u>0</u>
<i>Analysis of financing and reconciliation to net cash requirement:</i>		
From the Consolidated Fund (Supply)	900	
Transfer to dept Y in respect of transferred function		<u>-900⁽⁸⁾</u>
Net financing	0	
Transfer to dept Y in respect of transferred function		<u>+900</u>
Net Cash Requirement		<u>900⁽⁹⁾</u>

Dept. Y

Opening balance sheet

(ie restated)

Creditors	<u>-35</u>
General Fund	<u>-35</u>

Schedule 2 (OCS)

Expenditure	1170
Less income	<u>-200</u>
= net expenditure	<u>970</u>

Reconciliation from schedule 2 to schedule 1

Net Operating Cost (ie schedule 2)	970
Remove non-Supply income (ie 970 is net of 200 income of which 30 is CFER income)	+30
Adjust for transfer of Estimate cover in respect of function	-1000
= Net Resource Outturn (ie schedule 1)	0 ⁽¹⁰⁾

Year end balance sheet

Cash	20
Creditors	<u>-155</u>
	<u>-135</u>
General Fund	<u>-135</u>

Schedule 4 (cash flow statement)

Net cash outflow from operating activities	-880 ⁽¹¹⁾
Financing	<u>+900</u>
Increase/decrease in cash	<u>+20</u>
<i>Analysis of financing and reconciliation to net cash requirement</i>	
From Consolidated Fund (Supply) – current year	0
Transfer from dept X in respect of transferring function	<u>+900</u> ⁽¹²⁾
Net financing	+900
Increase in cash	<u>-20</u>

Net flows other than financing	+880
Amounts due to the Consolidated Fund – received and not paid over	+30
Transfer from dept X in respect of transferred function	-900
Net Cash Requirement	+10 ⁽¹³⁾

Notes to paragraph 34:

- (8) The £900 cash transferred to Y comprises the £500 spent on the transferred service and the £400 cash payment of the balance. Because department Y will be accounting for the service, the £500 which X has spent is, in effect, a transfer of financing.
- (9) Net cash requirement of £900 is the same as the figure in dept X's schedule 1.
- (10) Equals schedule 1 net outturn for dept Y
- (11) See 33 (x) above.
- (12) The equivalent of note (8) above. Cash transferred to dept Y treated in schedule 4 as transfer of financing and not a cash receipt in respect of resource income.
- (13) Net Cash Requirement of +£10 is the same as in dept Y's schedule 1.

35. In Ledger Accounting, departments X and Y will effect the transfer of balances and in-year transactions, relating to the transfer of functions, and the cash payment of the balance of department X's net cash requirement by making contra entries to the general fund:

(a) Department X

• Debit income (income prior to the “physical” transfer)	100
• Credit expenditure (expenditure prior to the “physical” transfer)	650
• Debit creditors (balance at end of prior year)	35
• Debit creditors (increase during year)	50
• Credit cash (payment to dept Y)	400

- Debit general fund

865

(b) Department Y entries will be the reverse of department X's