GOVERNMENT INTERNAL AUDIT STANDARDS

GOOD PRACTICE GUIDANCE

The Role of Internal Audit - Resource Budgeting

HM TREASURY

Assurance,
Control and Risk

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1. INTRODUCTION

1.1 Preamble

1.1.1 Resource budgeting is an essential part of the overall accounting regime; without a soundly constructed budget and effective in-year monitoring the end of year resource accounts may show that intended outcomes have not been achieved and significant under or over commitment of resource has occurred. Where management boards, audit committees and internal audit prioritise a proactive role in resource budgeting, the department's control of achieving its aims and objectives within budget is enhanced. Furthermore, any internal audit work undertaken on resource accounting and budgeting (RAB) will contribute to providing assurance on the accounting system which can be used by NAO in their resource accounts work to reduce the time they spend on examination and testing within departments.

1.2 Internal audit assistance to management

The areas where internal audit can assist management are as follows.

1.2.1 ***Attaining correct resource levels to achieve aims and objectives and minimising risk of criticism of wasting resource***: Getting resource budgeting right will help organisations achieve their aims and objectives against which their performance and output is being assessed. The resources required need to be fully identified, timed and costed to attain the correct level of resource, when it is needed. At the same time there should not be an unnecessary drain on the public purse by earmarking more funds than are needed causing additional funds to be raised for other deserving projects (by loans and / or higher taxation).

1.2.2 ***Appreciating the benefits from RAB in improved financial management information and more cost-effective business decisions***: Resource budgeting should support better business decisions within the public sector. When planning and initiating projects, the full resources required and associated costs should be more readily identified to weigh against the projected benefits and to compete / compare against alternative approaches and other departmental proposals. Furthermore, good quality financial management information is essential for supporting budget monitoring, progressing and managing projects and budgets, enabling management to seek answers to questions about variances, slippage and their likely impact on performance, and enabling informed and sound decisions if plans need to be changed midcourse.

1.2.3 ***Having a better understanding and appreciation of the implications and their responsibilities in relation to RAB***: Departments have undertaken considerable work in producing quality accounts in line with statutory timetables. However there is often an over reliance placed on few key personnel, and a lack of the accruals based management information required, to fully embed RAB into routine financial management. Management need to fully understand, accept and take seriously their responsibilities for RAB so that they can effectively manage the resources at their disposal and deliver the outcomes as defined by their Public Service Agreements (PSAs) and Service Delivery Agreements (SDAs). This level of understanding needs to filter from top to bottom and bottom to top, including within satellite organisations (NDPBs, outstations, regional units etc) where there may still be a cash-based approach to budgeting. Internal audit units can contribute to this process by helping to raise the profile and understanding of the importance of RAB within their departments.

1.3 Purpose of this document

1.3.1 The purpose of this document is to provide guidance to internal audit units for any work they undertake on resource budgeting. It explains the concepts of RAB including the main risks, key systems and control measures that internal audit can focus on. This covers the initial bidding and estimating stages including the identification and valuation of resources, through to the recording and accounting for those resources and monitoring of their use. It also covers the benefits of RAB that internal audit can commend to management in respect of improved management of resources at their disposal and more informed business decisions.[1]

1.3.2 This document:

- identifies the key reference documents internal auditors should be aware of (Section 1.6);
- identifies main risks associated with resource budgeting, and their potential impact Section 2);
- outlines the resource budgeting process from a central government perspective (HM Treasury) (Section 3);
- identifies a number of supporting systems, the impact they have on resource budgeting and measures within them (that internal auditors will want to be aware of) to support the resource budgeting system (Section 4);
- provides some guidance regarding certain concepts and issues associated with resource budgeting (Section 5);
- explains in simple terms some of the components within a resource budget including the split between capital Departmental Expenditure Limit (DEL), resource DEL, capital Annually Managed Expenditure (AME) and resource AME, and how variations in respect of NDPBs public corporations (PCs) etc are handled (Annex A); and
- provides general background information to aid a conceptual understanding of resource budgeting within context.

[1] Further guidance on wider aspects of resource accounting is contained in “The Role of Internal Auditing - Resource Based Financial Systems”

1.4 Scope of guidance

1.4.1 The guidance provided is for government departments, their agencies and NDPBs within the departmental boundary ie generally the on-vote entities; subsequent reference in this guidance to departments therefore includes those entities. The document also provides some guidance on the treatment of NHS trusts and PCs. **It is focussed primarily on the rules that apply from the 2002 Spending Review and beyond, although there are some references to the conditions that applied under the 2000 Spending Review.**

1.4.2 We have taken the definition of resource budgeting as:

"Planning and controlling public expenditure on a resource accounting basis".

On this basis the guidance provided includes the preparation of resource budget estimates and forecasts, monitoring progress on use of those resources including expenditure and receipts, and budget adjustments. Resource budgeting should therefore be viewed as a process, not the cash or resource eventually allocated following the resource budget estimating process. Apart from some broad requirements, this guidance excludes the provision, maintenance and use of any computer system to record and process RAB data.

1.4.3 Internal auditors should also remember that resource budgets are generally set for an aim, objective or activity (as identified in the Spending Review (SR) and generally supported by PSAs and SDAs) rather than a financial year as was the case with cash accounting. However, resources still need to be voted annually taking advantage of the end year flexibilities (EYF) that were not available under the old cash based system. Monitoring should therefore encompass the dual dimensions of "in-year" for annual reports (and vote / resource monitoring), and "during progress and on completion" for aims and objectives.

1.5 Terminology

For the purposes of this document, some regularly used terms are explained below:

1.5.1 ***Aims and objectives:*** Determined as part of the SR and are supported by PSAs and SDAs.

1.5.2 ***Budget:*** A spending authority (limit) for a particular aim, objective or activity covering a period of time (up to 3 years at a time within the SR process). Budgets can include voted and non-voted funds, and income including appropriations in aid. They also include non-cash items such as depreciation and the cost of capital charge. Budgets are generally formulated as part of the SR process, but some funds may require a separate bidding exercise.

1.5.3 ***Resource accounting:*** A set of accruals accounting techniques used for reporting use of resource.

1.5.4. ***Resource Accounts:*** Prepared annually to present the financial results of the department for the relevant year.

1.5.5 ***Resource budgeting:*** The planning and controlling of expenditure on a resource accounting basis.

1.5.6 ***Resource accounting and budgeting:*** The whole system of resource accounting and resource budgeting including preparing budgets, recording budgets and their use, monitoring and reporting use of resources and production of resource accounts.

1.5.7 ***Supply Estimates:*** Statements presented to the House of Commons in which departments ask approval of their estimated expenditure for the coming financial year. The estimate summarises the resource and cash required.

1.5.8 ***Boundaries:*** Vary in accordance with the context as noted below.

1.5.9 In funding terms there is the vote/supply estimate boundary covering most parts of government department, agency and NDPB funding. However, there are further significant sources of government funding ie standing services drawing directly from the consolidated fund.

1.5.10 In RAB terms, the departmental boundary currently covers centrally provided funding. Generally this includes vote funded organisations (departments, agencies, NDPBs, some PCs), NHS health authorities and primary care trusts; this can also include executive NDPBs and other non-voted public bodies where there are good control reasons for consolidation (as agreed with HM Treasury). Excluded are trading funds, nationalised industries, self-financed public bodies, NHS Trusts, executive NDPBs in general, etc (see Resource Accounting Manual (RAM) 1.5 for more detailed guidance). There is, however, a variation in the treatment of NDPBs. Under resource accounting, departments do not consolidate-in their NDPBs, instead showing just the grant payments made to the NDPBs. Under resource budgeting, NDPBs are consolidated-in to identify the nature of resources required.

1.5.11 At present some expenditure is within the national accounts but outside departmental budgets. In these instances central adjustments are made by HM Treasury in Annually Managed Expenditure (AME) eg European Union contributions, intra-public sector debt interest. A full explanation of the accounting adjustments in AME is given in the Public Expenditure Statistical Analysis (PESA), which is published each spring by HM Treasury[2].

1.5.12 As Resource Accounting progresses to Whole of Government Accounts (WGA), a further boundary will encompass all public sector accounts.

[2] http://www.hm-treasury.gsi.gov.uk/psd/data_database/data_dbu_home.htm

1.6 Key reference documents

- Government Accounting
(http://www.government-accounting.gov.uk/current/frames.htm)
- Resource Accounting Manual
(http://www.resource-accounting.gov.uk/current/frames.htm)
- Departmental accounting policy
- Guidance documents issued by HM Treasury for each biannual SR
(http://www.hm-treasury.gsi.gov.uk/psd/sr2002/sr2002_final_guidance/sr2002guid home.htm)
- Government Internal Audit Standards Good Practice Guidance: The Role of Internal Audit – Resource Based Financial Systems
- There is also a range of other guides within the Managing Resources series issued by HM Treasury
(http://www.hm-treasury.gsi.gov.uk/fmra/managingresourcesseries.htm)

Enquiries about hard copies of HM Treasury documents should be directed to the Public Enquiry Unit Tel 020 7270 4558 (GTN 270 4558).

2. RISKS

2.1 Key risks

2.1.1 The significance of the key risks will vary in accordance with the size and nature of the aims and objectives for which the budget has been provided.

Non-delivery of planned output due to insufficient resource

2.1.2 If the budget is not constructed properly, identifying all the perceived and potential expenditure (provisions and liabilities) during the period of the SR, there may be insufficient resource to complete the planned work. Without full resourcing, a department is unlikely to meet its published aims and objectives and may need to explain its poor performance to Ministers, possibly to Cabinet and Parliament, and within its annual report. A soundly constructed budget will also aid the construction of future budgets having identified all the relevant elements.

Uneconomic use of resource due to bad forecasting and/or monitoring

2.1.3 Apart from under-budgeting, problems can arise when budgets are not properly monitored. Overspends can quickly build up if the trend in use of resource changes from profile without being noticed. Budget monitoring processes must be in place and working effectively for any variations to be quickly identified, investigated and for appropriate corrective action to be taken. One method of improving the quality of budget monitoring is the formal appointment of budget managers with specified responsibilities, distributed at appropriate levels within the hierarchy across the organisation.

2.1.4 In the event of a shortfall of resource arising, there will be some internal flexibility to reallocate resources, but this will most likely be at the expense of lower priority work. The loss of some resource in a lower priority area could bring their plans to a halt so that the resource already provided (eg staffing, capital assets) is left near idle until more resource becomes available at a later time. This will escalate the total costs for eventually achieving the aim / objective of that lower priority work. Alternatively, a bid for further resource and a Supplementary Estimate may be submitted and awarded but this will increase the overall cost and could adversely affect the cost / benefit ratio of the work giving a poorer rate of return from the resource investment.

2.1.5 The budgetary control framework (including end-year flexibility) within individual departments, will be monitored by departmental finance units and HM Treasury by aims and objectives. The additional information provided by RAB will give them greater ability to pick out inflated budgets by techniques such as trend analysis and comparisons with other organisations. Overestimating for safety is an old resource-wasting habit that RAB is intended to eradicate. Besides tying up resource needlessly at cost to the public purse, future budgets submitted by business units recognised as over-bidders are likely to face tough scrutiny at least, and arbitrary cutbacks at worst from their departmental finance unit or HM Treasury. Senior staff and Ministers may also be called to account for underspends. Within resource budgeting there is scope to cover genuine unanticipated expense by adjusting existing resources, use of the departmental unallocated provision (DUP) or use of the Treasury reserve (see 3.6.7 – 3.6.9).

2.2 Sub-risks

Lack of understanding of RAB and its implications

2.2.1 For RAB to work, the right number of staff with the appropriate skills, knowledge and ability must be in post. Managers must also understand the nature of RAB and how various components (including decisions taken about those components) can affect the budget and outturn in relation to achievement of aims and objectives and the resources utilised to achieve them ie at what actual cost. This all requires sound personnel systems for recruitment, posting, training and development (see Section 4.4).

2.2.2 There must also be an understanding and awareness of RAB and its implications for all staff. This requires both training and written guidance, policy and procedural documents. Not only should these exist, but they should also be prepared to reflect the differing audiences regarding grade and ability to aid their understanding and the relevance to their jobs. The training and guidance should also be in more detail for those more heavily involved in RAB. In particular, there should be a departmental accounting policy to aid the preparation of resource accounts giving a true and fair view (RAM 2.2). This should explain how certain costs are calculated where there may be more than one method available eg depreciation costs. All training and guidance documents need to be kept up to date.

2.2.3 Failure to provide the right people with the correct skills, knowledge and experience is likely to lead to a failure to adequately prepare and manage budgets and ensure satisfactory delivery of aims and objectives.

2.2.4 Internal auditors have an opportunity to assist in the understanding and awareness of RAB among the staff within their departments. During regular and special assignments they can discuss, advise and educate as the need arises as part of the consultancy approach. Some internal audit units may also consider offering to run and facilitate workshop facilities on RAB matters to help units recognise and take on board the implications for their business.

Failings in support systems

2.2.5 There are a number of supporting systems noted in Section 4 along with an indication of their importance and the potential implications for resource budgeting. Internal audit units may well audit these systems as part of their regular programmes and so may be able to draw direct assurances from that work to support an assurance or opinion on the resource budgeting system. In other instances, it may be necessary to include work on the supporting systems within a review of resource budgeting, especially where those systems have been modified to take on the additional requirements of, or are considered key to, RAB.

Lack of foresight

2.2.6 Effective budgeting requires an informed forward view of the work of the organisation / business unit; in some cases the view should encompass the duration of a project. This can only be done by the business managers with the support of their operational staff and accountants. It is also essential that managers involve those responsible for preparing budgets, estimates and accounts, especially when these tasks are separated. Through such a sharing of information and perspectives there is more likely to be an understanding of the appropriate resource aspects necessary to construct a budget based on reliable figures and information. The same team can then continue to work together cohesively in managing and monitoring the budget. Inadequate forecasting could make the difference between achieving and failing to meet an aim or objective as a result of bidding for insufficient resource.

Manipulation of data (to hide the true position)

2.2.7 RAB is providing a new approach to government finance with an increase in information. This will lead to more areas for judgement and possibly increased scope for manipulation of budgets, accounts and figures. Such manipulation might arise through error or ignorance, in order to put a “best spin” on a situation or even an attempt to give a false impression. Presenting figures in a different way could for example, hide unpleasant facts.

2.2.8 Although there are accounting policies and rules governing the compilation and presentation of resource accounts, some managers and business units may think they can make their accounts show a more favourable position. For a time this might be true, but probably not for long. NAO will be scrutinising final accounts skilfully to seek out any such manipulation. There should also be an understanding within the business (managers, internal audit and the Management Board) of how much spin might be acceptable and where the boundary is.

2.2.9 Examples of simple manipulation include:

- adjusting the life of an asset (spreading the cost over more years decreases the depreciation charge per year, but increases the number of years it is due to be paid. When the asset life expires the remaining asset value will need to be written off so will become apparent in the accounts);
- re-valuing assets down to reduce the (annual) cost of capital charge (although the revaluation will still be charged to DEL);
- writing off stock when purchased rather than when used, to avoid cost of capital charge on stock, the need for stock control, accounting for stock and re-valuing stock at current (probably higher) prices; and
- suppression of data eg debtors not declared to avoid cost of capital charge and imply more budget/cash required.

2.2.10 Managers may need to be educated of the implications in cost and fallout of any attempts to hide the truth within their accounting records and presentation, as they will be held accountable and may need to explain to Ministers, possibly to Cabinet and Parliament.

Timeliness of information

2.2.11 Resource budgeting involves a considerable amount of detail but that detail requires full attention in a timely manner. Requests for information must be distributed to allow adequate time for them to be completely and accurately addressed. This could involve further consultation down the chain or to subsidiary and sponsored organisations. Budget and other management reports also require speedy attention and analysis in case corrective or compensatory action is required eg transferring resources, curtailing or re-scheduling work or commitments. All responses need to be made in sufficient time for others to decide, agree, act, compile responses and submit returns back up the chain. Any delays with these processes could lead to a situation getting worse or out of control, or missing an opportunity to prevent a waste or over-commitment of resource.

2.3 Aspects for internal audit attention

2.3.1 Four significant areas have been identified that internal audit units may wish to consider if reviewing the resource budgeting system in order to provide an assurance.

2.3.2 ***The Analysis of Resources (AR)*** needs first to have been compiled completely and accurately in accordance with resource accounting policies and principles. This needs to take on board the identification of the infrastructure necessary to deliver the aim / objective as well as more easily recognisable resources eg not just more staff, but additional IT equipment and what is necessary to expand an existing computer network, new buildings, furniture and fittings, additional resource for support services such as personnel, office services etc. How long it takes to set the infrastructure in place also needs to be considered. Failure to do this satisfactorily is likely to result in the department being unlikely to meet its published aims and objectives and possibly the need to explain poorperformance to Ministers, Cabinet and Parliament, and within its annual report.

[More information on preparing a budget can be found at 3.5 below.]

2.3.3 ***The monitoring and reporting system*** must be understood and utilised. The appropriate reports must be identified, then produced by the accounting system, sent to the correct personnel and be reviewed properly to identify and amend any errors and initiate any corrective action if set targets, performance measures or spending levels may not or are not being met. It should also feed into the management information system for general monitoring and in case a higher level of action is required such as business decisions relating to new or reviewed policies and strategies where full resource costs and comparative costs could be critical.

2.3.4 Although departments are compiling resource accounts, there is evidence that some continue to manage and monitor their satellite organisations on a cash basis which will put financial monitoring and management procedures, and aims and objectives at risk. Internal auditors need to recognise the dangers themselves and be alert to it happening in practice.

2.3.5 If budgets are not monitored and controlled properly, departmental business units appearing to be over-bidders are likely to face tough scrutiny at least and arbitrary cut-backs at worst from their finance unit. Senior staff and Ministers may also be called to account for underspends. There could be similar results if management information reports are not established and utilised to aid decision taking.

[More information on monitoring the budget and performance can be found at 3.6 below, and on report production at 4.1.5 below.]

2.3.6 ***The finance and accounting system*** is an essential system upon which the previous two systems rely and upon which the department's invoice and payments function sits. It must be accurate and reliable producing complete data for the generation of required documents and reports. As a key (IT) system it must be BS7799 compliant (Information Security Management). It must also be documented, understood and well maintained. Failings within this system are very likely to result in:

- incorrectly compiled submissions to HM Treasury requiring them to be returned and corrected causing delays and waste of staff time;
- omissions from estimates leading to a shortfall of resources;
- reduced ability to monitor use of resources in-year so that trends away from profile may not be picked up for timely corrective action;
- uneconomic or inefficient use of resources; and
- comments or qualification of the accounts by the NAO / external audit.

[More information on finance and accounting systems can be found at 4.1 below.]

2.3.7 ***The Asset register*** must hold a complete and accurate listing of assets held by the department, the valuations and depreciation costs (or amortisation in the case of intangible assets). Incorrect listings and revaluation routines will result in incorrect valuation of the department's assets, leading to incorrect calculation of the cost of capital charge and subsequent potential criticism from NAO, Treasury and possibly PAC. An incorrect statement of resources required to meet aims and objectives could also lead to incorrect decisions regarding the viability of proceeding with those aims and objectives as proposed. An overstatement of assets resulting from failure to remove surplus assets will incur extra cost of capital charge which even though notional, is still important as it indicates a higher cost of meeting aims and objectives and could prevent the aim / objective being agreed.

[More information on the fixed asset register can be found at 4.2 below.]

3. FINANCING AND BUDGETING

3.1 Resource budgeting components

3.1.1 Resource budgets comprise four basic components. Capital DEL covering investment spending, particularly for new or enhanced assets, resource DELcovering running costs (such as staff salaries, accommodation and other overheads) and non-capital programme expenditure, resource and capital AME (for spending that cannot reasonably be predicted in advance). **A breakdown of these budgets is given in Annex A.**

3.2 Implementation of resource accounting and budgeting

3.2.1 2001-2002 was the first year of RAB. To allow departments to develop expertise in monitoring and controlling accruals based expenditure resource budgeting has been introduced in two stages:

- **Stage 1**, spanning the years covered by the 2000 Spending Review (2001-2002 to 2003-2004), budgets moved onto an accrual basis. However the new non-cash costs introduced by RAB (depreciation, cost of capital[3] and movements in provisions) were treated as part of AME. As a result these new costs were not included in the presentation of departmental settlements in the 2000 Spending Review, but will be incorporated into resource DEL from 2003-2004; and
- **Stage 2**, so as to realise the full benefits of RAB, there will be full implementation of RAB in the 2002 Spending Review (SR2002)[4], which sets out plans for the years 2003-2004 to 2005-2006. This means that departments' main budgets for resource DEL (current expenditure i.e. spending on pay, goods, grants etc.) will include for the first time charges for:
    - depreciation – allocation of the cost of an asset over its useful life;
    - a cost of capital charge – the cost of holding assets (physical and cash), currently levied at 6% of net assets; and
    - movements in provisions – committed future expenditure such as compensation payments. The Forecast Balance Sheet Analysis (FBSA) (part of SR2002) should highlight areas where contingent liabilities may lead to a provision or where a future contingent liability may arise.

A baseline conversion exercise of 2003-2004 Stage 1 DEL figures was carried out in order to reach a starting point for SR2002 on a Stage 2 basis.

[3] Cost of capital charge aka capital charge;cost of capital;capital interest

[4] www.hm-treasury.gsi.gov.uk/psd/sr2002/sr2002_home.htm

3.2.2 On the capital side, there are further changes:

- restrictions on the transfer of resources from capital DEL to resource DEL (maximum 2.5%), which could present risks to departments with large capital budgets. From 2004-2005 this concession will be removed. No limit is set on transfer of resource from resource DEL to capital DEL;
- grants paid to the private sector – e.g. grants to universities – will be managed through the resource budget instead of the capital budget. This reflects the fact that under RAB, spending is only treated as capital if it creates an asset on the Government's balance sheet; and
- so as to reflect the more commercial budgeting relationship for PCs under RAB, investment by PCs financed by their own resources will no longer count as part of the parent department's capital DEL.

3.2.3 The inclusion of new items in DEL, and the transfer between resource and capital DELs as a result of the move to resource budgeting, will mean some changes in the way in which the data is presented.

3.3 The Spending Review process

3.3.1 An outline of the SR process including the concurrent cycles has been tabulated at Annex B. To aid understanding of the 3-year financial cycle, the table also shows how the Supply Estimate process follows on. The following documents need to be produced in association with resource budgeting as part of the SR process:

3.3.2 ***Analysis of Resources:*** As part of the bidding process, this document includes a breakdown of proposed spending per aim/objective for each year of the SR with background explanations. An example can be found in Annex C1 or at the following website -

http://www.hm-
treasury.gsi.gov.uk/psd/sr2002/sr2002_final_guidance/sr2002guidanceannexB.doc

3.3.3 ***Departmental Investment Strategy (DIS):*** This document supports the bidding process by outlining the asset base for the SR period, how it is to be maintained (additions, deletions and maintenance strategy), proposed new investments, capital spend including capital grants outside the boundary eg to the private sector, private sector investment in central and local government projects, and resource budgeting consequences. More detail can be found in the SR guidance documentation or at the following website -

http://www.hmtreasury.gsi.gov.uk/psd/sr2002/sr2002_home.htm

Links to copies of various Departmental Investment Strategies under the 2000 Spending Review can be found at the following website -

http://www.hmtreasury.gov.uk/Spending_Review/Spending_Review_2000/Departmental_Invest
ment_Strategy/spend_sr00_dis_depts.cfm

3.3.4 ***Forecast Balance Sheet Analysis:*** This document also supports the bidding process by outlining movements in the existing assets and liabilities profile for each year of the SR, resource consequences should the resource bid in the ARs be met, capital grants to be made by the department, and contingent liabilities. An example can be found in Annex C2 or at the following website - http://www.hmtreasury.gsi.gov.uk/psd/sr2002/sr2002_final_guidance/sr2002guidanceannexE.htm

3.3.5 ***Forecast Operating Cost Statement (FOCS):*** This document supports the resource allocation following the outcome of the SR and is updated as the financial year progresses. It shows anticipated income and expenditure summarised into admin and programme costs. An example can be found in Annex C3 or in RAM Annex 4, Schedule 2 - also available at the following website -

http:www.resource-accounting.gov.uk

3.3.6 ***Forecast Cash Flow Statement (FCFS):*** This document also supports the resource allocation following the outcome of the SR and is updated as the financial year progresses. It provides a statement of anticipated expenditure, receipts, net cash required and sources of funding eg voted, special funds (see 3.4.3), non-voted (by statute – see 3.4.1 and 3.4.2). As a guide, a worked example of the cash flow statement within the end of year resource accounts can be found in Annex C4 or in RAM Annex 4, Schedule 4 - also available at the following website –

http:www.resource-accounting.gov.uk

3.3.7. Resources for cross-cutting reviews are considered as part of the SR process and included within RAB. However, the total budget could be spread across more than one department or may be held by one and shared by others in accordance with the relevant memorandum of understanding (MOU) (see 3.5.4).

3.4 Sources of departmental funding

3.4.1 Most funding is voted to departments by Parliament via the Supply Estimates procedure and provided from the Consolidated Fund. However, in a few specific cases payments out of the Consolidated Fund may be charged on the Fund directly by statue as a standing service. All payments from the National Loans Fund (NLF) are charged directly by statue. The Consolidated Fund standing services include:

- payment to the NLF in respect of the service of the national debt;
- issues to the Contingencies Fund;
- payments to the European Union;
- the Civil List;
- salaries and pensions of judges and certain individuals eg the Comptroller and Auditor General (C&AG); and
- the expenses of returning officers at parliamentary and European parliamentary elections.

HM Treasury control both the Consolidated Fund and the NLF, but issue of funds are subject to authorisation by the C&AG. Payments from both funds are still recorded in departmental resource accounts and should be budgeted for.

3.4.2 Parliament can additionally authorise the establishment of statutory funds outside of the Supply Estimates procedure such as the National Insurance Fund (NIF).

3.4.3 Bids for Invest to Save and the Capital Modernisation Fund (CMF) are made outside of the SR process. If funds are granted, they are allocated and then managed as part of the RAB regime.

3.4.4 Although resource budgets can span more than one financial year, the resource voted under the Supply Estimates is still subject to annuality. Thus, any resource drawn down and not used has to be surrendered back to the Consolidated Fund (or be offset against issues in the next year) and must be re-voted in the new financial year. Under EYF arrangements, no HM Treasury authority is required for this carry-forward of resource. Such sums should be disclosed as a year-end liability (i.e. debit: general fund, credit: Consolidated Fund creditor account) with the accounting entry reversed in the following year. Where circumstances preclude this course of action, the department must actually surrender the surplus drawing to the Consolidated Fund.

3.4.5 Parliament can also approve by order the establishment of trading funds, which are again outside the Supply Estimate procedures and **outside RAB**. They can be set up for a department, part of a department or an executive agency where more than 50% of the organisation's revenue will consist of receipts in respect of the goods and services it provides, and where the responsible Minister and the Treasury are satisfied that setting up the trading fund will lead to improved efficiency and effectiveness in management of operations. Departments may give some financial support to trading funds by means of loans or public dividend capital (PDC), which would appear in departmental resource accounts and budgets.

3.4.6 Within RAB, income can be appropriated in aid provided it is directly related to the resources and has the same DEL or AME classification as the related positive transaction; if not the income must be surrendered to the Consolidated Fund. The only exception is some income from the European Union which is classified as "other transactions outside DEL" but which may be appropriated in aid if it is related to items on the Estimate.

3.5 Preparing a budget

3.5.1 Budgets must be properly constructed based on known facts and realistic calculations. The start point is what is to be achieved, the resources needed including the infrastructure, when they will be needed and what they are likely to cost. Also to be included are known commitments, contracts, charges and other liabilities and provisions.

3.5.2 All budgets will need the support of documents showing what they are needed for, primarily departmental aims and objectives, Departmental Investment Strategies, ARs, PSAs and SDAs. Within these, or possibly in addition, will be various projects and programmes being managed by the department, plans of which will also support the budget requirement.

3.5.3 Many facilities are shared across a department eg buildings, IT, personnel services. Sometimes, the costs are also shared among the business areas or aims and objectives; sometimes they are charged and managed centrally. In either case, these costs still need to be apportioned to business areas or aims and objectives under RAB and an explanation provided of the basis of this apportionment.

3.5.4 Cross-cutting reviews can involve more than one department within a topic of common interest or responsibility. Each study is chaired by a Minister and supported by a group of officials from the departments most involved. They must decide what resource is needed, whether one or more departments should hold it, and what the roles, responsibilities and accountabilities will be among those involved. This should be formalised within an MOU. Once this has been established, it will be clearer to departments what their responsibilities will be for submitting budget proposals within the SR and who will be accountable for the outcome. Funding can be from DEL or from special funds such as the CMF and the Invest to Save Budget (ISB). The budget will be ring fenced.

3.5.5 Finance units will need to provide forms and templates that are easy to use and understand with clear and thorough guidance to their business units, agencies, NDPBs and if necessary PCs. This will help the compilation of budgets with a view to completeness, accuracy, realism and timeliness. This will also help the finance unit co-ordinate the returns and compile them into budgets for aims and objectives, and for the department as a whole.

3.6 Monitoring the budget and performance

3.6.1 Once established, progress of all these budgetary activities must be regularly monitored in case of delay or change, which will need compensatory action within the budget.

3.6.2 Resource budgeting should include control mechanisms to inform management of progress of budget utilisation in relation to aims and objectives ie is the organisation on target. This should include performance reports that are relevant, timely, reliable, accurate, complete and useful being addressed to the right people in formats meeting their requirements. For example, there could be reports showing:

- income and expenditure against budget profile;
- comparison of actual cashflow with budget/forecast ;
- comparison of balance sheet balances with budget/forecast;
- comparison of DEL outturns with budget forecast;
- comparison of financial figures with performance against aims and objectives; and
- explanations of variances and implications for each of the above reports.

These reports could also be produced for the various hierarchical levels, the different organisation groups and if desired by expenditure/income type. Management should be proactive in identifying if remedial action is necessary and initiating it.

3.6.3 The Management Board's role should be clearly established with regard to reviewing, monitoring, managing and correcting. Reports submitted to them should be sufficient to allow them to do this and for analysis to aid decision making eg "what if?". For example, they could consider:

- general performance;
- variations and slippage from plans and forecasts together with explanations, likely implications and options for remedial action;
- proposals to reallocate resources on budgets and their aims and objectives; and

- the impact their decisions are likely to have on aims and objectives, performance measures and the balance sheet.

The Board must encourage bad news being brought to their attention rather than letting it be repressed so that issues can be addressed and lessons learned from mistakes and past failings. NAO believe this level of review is missing and needs to feature more highly on many Management Board agendas than it does. Internal audit could focus their attention here to add value.

3.6.4 The requirement of all standard reports must be identified by consultation with interested parties (business management, finance unit, Management Board) to support them in their roles and be set up as standard on the finance and accounting system. These reports must be relevant, meaningful and timely for the recipients allowing them to perform their respective monitoring and management functions. The culture should be such to expect and encourage reports to be compared, discussed, assessed, questioned and verified; also for follow-up or remedial action to be initiated and followed through. Finance units should question and challenge returns and budget performance as part of the departmental monitoring and management regime, to pick up on variances and potential errors, and if necessary provide early warnings to management and the Management Board.

3.6.5 Business and departmental management need to regularly view these reports to compare financial status of the business with planned progress of aims and objectives and feedback from within the organisation of progress and developments (actual and potential). The FBSA, FOCS and FCFS will also need to be considered at departmental level. Decisions may need to be made as a result of delays or changes etc that would impact on resource requirements, their timing and the budget. By example, should a project need to be cancelled, there will need to be a write-down of the costs with the main impact on DEL and a subsequent reduction of the cost of capital charge.

3.6.6 The monitoring exercise may bring to light the need for additional resource within a particular budget. Resource budgeting provides greater flexibility for the reallocation of resources within a department's overall budget (Resource Estimate).

3.6.7 Resources can be switched within single lines/sections/subheads of a budget/RfR (but generally within resource, capital and AME), between other current and grants columns, and out of the administration costs column. Until 1 April 2004 it may be possible to switch some capital DELto resource DEL (subject to maximum 2.5% limit). Ring fenced budgets are normally for discrete and specifically approved projects such as cost-cutting reviews, CMF, Invest to Save but departmental finance units may themselves ring fence certain budgets to maintain internal control. Administration costs within resource DEL are more tightly controlled; although departments can vire out of administration costs they need Treasury approval to vire into administration costs. With Treasury permission, it is also possible to vire between lines of a budget/RfR.

3.6.8 Regardless of any delegated authorities, when funds that have already been voted are to be vired, there may be a need for a Supplementary Estimate to be prepared and submitted to Treasury ie to record the transfer of funds to a different vote, a different part of the vote or different RfR. The finance unit will control virement delegated to departments. If more resource is required in year to be drawn forward from later years of the SR, a Supplementary Estimate will be required. Requests for Supplementary Estimates need to be supported by a FOCS and a full set of statements and notes explaining the need, allowing HM Treasury an opportunity to review performance.

3.6.9 If an additional requirement cannot be met within the business unit, it should approach its finance unit to see if it can draw upon the (limited) DUP. If the additional resource cannot be absorbed within the department, the Secretary of State can approach the Chief Secretary HM Treasury, explaining the circumstances, what offsetting savings the department is making, and seeking a claim on the reserve. A Supplementary Estimate would be required to draw down any agreed additional funding from the reserve.

3.6.10 There may also be an excess of funding at the end of the financial year. Here again EYF allows underspent DELat the end of one financial year to be carried forward to later financial years, usually taken up in the Winter Supplementary Estimates. Approval of the Treasury Chief Secretary is not required, but if a successful claim has been made by the department on the reserve, the EYF entitlement carried over is docked accordingly.

3.6.11 HM Treasury perform a central independent monitoring function by a number of avenues:

- a monthly GEMS (General Expenditure Monitoring System) return is required from departments advising PES status (expenditure and receipts on a resource accounting basis);
- formal PES updates are required in September, November/December and February to align with Supplementary Estimates;
- returns are required for the autumn PSX (Ministerial Committee on Public Services and Public Expenditure);
- departmental annual reports are submitted to HM Treasury providing an indication of business and financial performance; and
- throughout the year there is regular liaison between departments and their Treasury contact to keep each other abreast of developments.

Performance against aims and objectives are monitored alongside resources used via the annual report and meetings of the PSX.

4. SUPPORTING SYSTEMS

4.1 Finance and accounting system (including IT system)

The following systems are essential to ensure the provision of sound and reliable information for use in the proper construction and monitoring of resource budgets.

4.1.1 ***New accounting system:*** The requirements for the accounting system were covered in earlier Trigger Point Guidance. The IT system must be reliable and capable of recording the accounting data, being able to process it and producing all the required reports and outputs. An inadequate IT system and / or insufficiently trained staff will introduce additional risk of error or manipulation through increased manual intervention, as well as being a further burden to staff resourcing.

4.1.2 As a new system (manual and IT) beds in, a number of bugs and discrepancies come to light. These must be quickly identified, recorded, investigated and resolved. IA Units might like to confirm this is being done satisfactorily to ensure a stable and reliable basis for RAB. They may also wish to confirm that the system complies with BS7799 in respect of Information Security Management to gain an assurance of data integrity, reliability, accuracy etc.

4.1.3 ***Accounts coding structure:*** All data must be linked to the relevant aims and objectives and business units. This is best done via the coding structure for the accounts. These must also readily tie up, or be referenced to, the relevant PSAs, SDAs and DIS. The coding structure should also be able to identify the funding eg capital DEL, resource DEL, capital AME, resource AME, or other source of funding; whether VAT is reclaimable or non-reclaimable; whether income is Appropriation in Aid (AinA) or Consolidated Fund Extra Receipts (CFER).

4.1.4 The coding structure must also allow for the data of any NDPBs, agencies and public bodies that the department is responsible for, to facilitate the easy production of complete statements for the department.

4.1.5 ***Report production:*** The entry of data must readily be able to produce budgets, FBSA, Operating Cost Statement (OCS), Cash Flow Statement (CFS), resource by aim / objective and regular monitoring reports. These outputs must be delivered correctly and appropriate action taken to ensure targets are being met for aims and objectives and financial propriety eg debts brought to account, invoices paid on time. (See 3.6 for more detail on monitoring the budget including reporting.)

4.1.6 ***VAT reclaims:*** The accounting system should differentiate between reclaimable and non-reclaimable VAT; reclaimable VAT is effectively a debt incurring an asset charge.

4.1.7 ***Finance unit control and delegation:*** Departmental finance units have a general responsibility to ensure the RAB and finance systems are operated correctly with regard to value for money and propriety. In so doing they should retain sufficient central control and oversight to gain assurance that budgets are under control, in accordance with the profile, and that rules and procedures are being observed. Part of this oversight involves financial delegation to enter into ommitments, incur expenditure and control budgets, all this being formalised in documentation.

Within these delegations and under resource budgeting, authority may also be granted to transfer resources within the control of a budget holder under terms specified in, or referred to by, the delegation document. These delegations should be written in RAB terms to emphasise the management and accountability responsibilities for the whole budget, including non-cash items, receipts and anticipated liabilities and provisions. This would help draw the mindset away from the old cash accounting approach.

4.1.8 Finance units need to be strong in ensuring the correct data is supplied by the business, that budgets and forecasts are realistically built and prepared rather than guessed, that issues are identified and assessed, and that corrective action is taken where necessary. There are examples in central government of budgets continuing to be significantly underspent year after year, including within resource accounts. Internal auditors may wish to see if this is the case in their department and consider if the finance unit should be more robust in their monitoring work by challenging poor budget performance of their business units.

4.2 Fixed asset register (FAR)

4.2.1 ***Correct asset valuation:*** The system should be capable of readily calculating current values. These values must be regularly reviewed to ensure they are still realistic. If the value of an asset is consequently increased, the amount of the increase should be entered in the revaluation reserve. From 2002-2003 departments are allowed to use the asset value as at the start of the financial year to calculate the cost of capital. The accounting policy of the department should specify the policy regarding how different types of asset are depreciated; it should also advise the threshold above which assets are considered capital assets, to be recorded on the FAR. The existence of assets held and their continuing need should also be regularly verified, as this will affect the cost of capital charge.

4.2.2 Whereas maintenance expenditure on assets is considered a resource cost, if expenditure is incurred on an asset which enhances that asset beyond original provision, or after depreciation brings it back to the original provision, that expenditure can be considered as adding to the value of the asset. Examples would include a new wing on a building, a new application on a networked computer system.

4.2.3 There are a number of assets requiring different attention from the norm eg historic sites, donated assets, investments, and stock. More detailed guidance on these and other assets is contained within RAM Chapter 3.

4.2.4 ***Intangible assets:*** These should be included if they have value. Examples include patents, licences, copyright, royalties, sporting rights, trademarks and bought-in computer software (in-house produced software is considered a tangible asset).

4.2.5 ***Leased assets:*** Special care should be taken regarding leased assets. A lease should be considered a departmental asset and recorded within the accounts accordingly if the department has sole benefit or if the lease is a financial lease transferring substantially all the risks and rewards of ownership of an asset to the lessee. However, if there is shared use eg a building in which the lessor also has offices for purposes other than letting and maintaining the building for the department, then it could be classified as a current cost. Leased equipment could also be treated as current cost and not capitalised.

4.2.6 ***Leasing vs buying:*** As capital items are charged for, business areas should weigh the advantages of buying an asset and incurring the cost of capital charge on the whole value of the asset, or leasing the item and only paying the cost of capital charge on the periodic funding necessary to pay the lease.

4.2.7 ***Asset disposal:*** There should be a clear and effective system for the sale and disposal of surplus assets, to remove such items from the FAR and to calculate their write-off value in accordance with cost of disposal, remaining value at time of disposal and / or receipts upon sale.

4.2.8 ***Donated assets:*** There is no cost of capital charge for donated assets. However, these assets should be recorded on the asset register and their value on receipt credited to a donated asset reserve. Any revaluation and depreciation should be charged to the donated asset reserve. Each year an amount equal to the depreciation charge and any impairment should be released from the donated asset reserve to the OCS. Upon disposal the profit or loss is taken to the OCS, which is matched by transfer of an equal amount from the donated asset reserve to produce a nil effect on the OCS. Any balance on the donated asset reserve in respect of that asset will be transferred to the general fund.

4.2.9 Incorrect treatment of donated assets could result in excess cost of capital charges being levied so that the final cost of a departmental aim / objective is higher than it need be, or criticism for not recording them and increasing the risk of loss.

4.2.10 ***Third party assets:*** In some cases a department may hold assets as a custodian or trustee without the department or government having a direct beneficial interest. These are considered third party assets with the exception of:

- assets held on loan for presentational or other purposes;
- amounts collected for the Consolidated Fund which are outside the scope of the department's activities but are currently on its balance sheet;
- balances arising when departments are pre-funded by other departments to provide goods or services to them on an agency basis; and
- amounts in respect of EU income.

4.2.11 Third party assets are not public assets to be recorded in the department's accounts, but for transparency they should be identifiable and reported in audited accounts by way of a summary note.

4.2.12 Incorrect treatment of third party assets could result in excess cost of capital charges being levied so that the final cost of a departmental aim / objective is higher than it need be, or criticism for not recording them increasing the risk of loss.

4.2.13 ***Public Finance Initiative (PFI)/Public Private Partnership (PPP)/Design, Build, Finance, Operate Contracts (DBFO):*** If the risks of ownership of any assets within these arrangements are transferred to the private sector, then the asset is also owned by the private sector and does not appear in the department's books or accounts saving cost of capital charge and depreciation costs.

4.2.14 Depending upon how ownership of the assets are viewed under these arrangements, incorrect treatment could result in additional cost of capital and depreciation charges being levied inflating the final cost of departmental aims and objectives, or having to make unanticipated amendments to the budget to cover the cost of capital and depreciation charges which could impinge on these or other departmental aims and objectives.

4.3 Procurement

4.3.1 The procurement system should provide links to the FAR so that capitalised items are recorded and valued. It should also link to the payments system so that resource accounts entries are raised upon receipt of goods/service in accordance with the rules of accruals accounting.

4.3.2 The correct interfaces should aid efficiency and improve accuracy and completeness of records. Failings will be an additional burden on staff resourcing and risk inaccurate asset valuations and cost of capital charges.

4.4 Personnel

4.4.1 The personnel system must be capable of providing staff of the appropriate skills and experience to provide the necessary expertise within the finance and accounting system, both within central units and operational units. The system should also ensure adequate means of training and development for these staff. A lack of technically competent support staff within the finance and accounting areas of the department could result in financial systems which are error prone, and late production of reports and returns. This could lead to inadequate resourcing and ultimately a failure to meet defined aims and objectives.

4.4.2 The human resource system should additionally be forecasting future numbers of staff required to maintain current operations and to meet projected changes (new work, loss of work, retirement/recruitment peaks etc) and associated costs including anticipated increased salaries, to aid financial planning and future resource provision. This is key to estimating what is commonly a significant part of the budget for many departments.

4.4.3 RAB cuts across all parts of a department by focussing on the resource required (including staffing) to meet departmental aims and objectives. These aims and objectives, PSAs and SDAs in turn cascade down the hierarchy into staff aims, objectives and job descriptions. Departments (their agencies and NDPBs) should therefore identify and address the need for raising awareness of resource accounts and budgeting to all staff. This may be satisfied in part by written guidance material produced in-house as well as from HM Treasury. However, training of all staff may be addressed by modules on induction/general management courses for the lower grades, and specialist courses for managers and staff involved in building, monitoring and managing budgets. The departmental training needs analysis should have been modified to take on board this highly significant change within fundamental government administration as it has implications for practically all staff.

4.4.4 Staff (financial) loans also require attention as they should be viewed and managed as any other debt.

4.5 Invoicing/debt management

4.5.1 This system must ensure that debts and fees due to a department are brought to account as quickly as possible. Such sums are calculated as part of the department's resource (debtors) incurring a cost of capital charge. Also if they are not brought to account within anticipated timescales, there could be a shortfall in resource availability.

4.5.2 Departments must be efficient in raising invoices in respect of goods and services provided; an invoice raised, a staff loan or a negative suspense account should give rise to registration of a debt within the finance and accounting system. Thereafter, all debts should be managed. They should be chased regularly if sums are not received on time. However, as soon as it looks that the debt will never be paid, write-off action should be commenced to stop the cost of capital charge on the anticipated income. [Note: Although the use of suspense accounts during the course of a year are not ruled out in RAM, they must be controlled and should be closed before the end of the financial year (see Government Accounting 12.2.18 – 12.2.21 and DAO (GEN) 2/01).]

4.6 Stock control

4.6.1 Stock is an asset attracting the cost of capital charge, thus the charge is reduced if holdings are kept to the minimum necessary. This encourages adopting the "just in time" approach to stock holding, quickly identifying items no longer required for disposal, ensuring proper stock management for the care of stock, and issue on a first in/first out basis. Failure in stock control results in a drain or waste of resource and potential unanticipated increase in cost of meeting aims and objectives. Conversely, improvements in stock control can reduce costs.

4.6.2 The stock control system should be able to readily calculate the value of stock held, confirm goods delivery to the payments section for update of the accounting system (payment due in accordance with accruals accounting), notify stock issued or disposed of (ie used, so written off stock value which reduces the asset charge) with the value (or proceeds in the event of a sale). It should also be used to identify slow moving stock, inactive stock, excessive stock and review the reorder level and quantities in accordance with the "just in time" principle.

4.7 Contingent liabilities

4.7.1 These are events where a liability may fall due but is unlikely to do so. There should be a system of recording them and when they might arise. The situation can then be monitored in case events change and they need to be re-categorised as a liability likely to give rise to expenditure. Failure to identify them could lead to a later shortfall in resources due to unanticipated costs and possible failure to meet aims and objectives. However, contingent liabilities do not form part of the budget; if they are likely to crystallise, they will become a creditor or provision.

4.8 Planning

4.8.1 Departmental planning should be providing a view of future events, projects, new aims and objectives including their timing, targets, performance measures and monitoring arrangements. This will enable consideration of the resources required including staff, equipment and buildings. There should also be consideration of what the capital investment implications will be on the balance sheet eg to lease or buy (see 4.2.6) and how variations from targets will be managed and their effect on the Resource Budget. Planning failures could result in urgent work suddenly and unexpectedly being required with a rapid reallocation of existing resources and subsequent failure to achieve existing aims and objectives within budget.

5. OTHER RELATED MATTERS

5.1 NDPBs

5.1.1 From 2003-2004 spending of all NDPBs will be consolidated into departmental budgets so that net resource consumption of NDPBs including cost of capital charge and depreciation will score in the departmental resource DELand NDPB capital spend in the department capital DEL. In accordance with resource accounting policy, capital grants to the private sector and abroad will score as resource consumption. For the time being, capital grants to local government will continue to score as capital DEL.

5.1.2 Until 2003-2004, NDPBs with gross current and capital spend of £100m or more other than for subsidies and grants should budget on a RAB basis. NDPBs with a spend below this sum have the option but are encouraged to budget on a RAB basis. For NDPBs opting not to budget on a RAB basis prior to 2003-2004, the grant in aid paid by departments will score in the appropriate budget.

5.1.3 Departments need to ensure they have procedures in place to identify and monitor the resource costs of NDPBs including the type of resource, when it is needed and when it is used. For example, the timing of future NDPB provisions need to be known in order to ensure grant is available when it is needed.

5.2 Research and development (capital and resource DEL)

5.2.1 Care must be taken in determining which research should be treated as resource and which as capital for different treatment within the budget. Incorrect categorisation could lead to incorrect valuation of capital assets, failure to apply the cost of capital charge to the budget and accounts, possible incorrect pricing of any consequential sales resulting from the R&D work, and potential criticism from HM Treasury, NAO and possibly Parliament for these failures.

5.2.2 Expenditure on research and development (R&D) in some circumstances should be capitalised, valued and amortised. These circumstances include:

- if the expenditure is on a full cost recovery basis; or
- if expenditure is on a defined project, related expenditure can be identified separately, the project is feasible and likely to deliver the product/service, and there are adequate resources to complete the project.

The costs may, however, be deferred until the product or service is provided for sale or use.

5.2.3 Much research work is theoretical with no physical product; this will most likely not have an “asset value” and so will be considered a resource cost and be written off in the year in which it is incurred.

5.3 Liabilities and provisions (resource DEL)

5.3.1 Liabilities are obligations to transfer economic benefits as a result of past transactions or events ie expenditure a department is obliged to make. They must be identified and costed so that the necessary resource is provided, otherwise when the payment falls due the resources will need to be drawn from elsewhere at the risk of failing to meet another commitment and possibly not fulfilling aims and objectives.

5.3.2 Provisions are liabilities of uncertain timing or amount. They include bad debts, stock write-offs, dilapidations, decommissioning, pension and superannuation liabilities, restructuring and redundancy costs. If it is not certain that these obligations will materialise, or their cost cannot be reliably calculated a provision should not be made, but a note can be made to the accounts of the possibility. Otherwise they should be identified and costed as realistically as possible as for other liabilities.

5.3.3 Examples of Provisions and Liabilities are listed at Annex D.

5.4 Cost of capital charge (resource DEL)

(aka capital charge, cost of capital, capital interest)

5.4.1 HM Treasury require that accounts include the costs of this charge on all assets including working capital. The rate is currently 6% charged on a monthly basis (calculated on the average capital employed for the baseline year). Although no cash actually moves as a result within departments, this is included as the investment of resources in the department does have a cost to the public purse. In the case of capital spend, money may need to be borrowed to provide the funding; in other instances, there is the opportunity of what else could have been done with the money, eg investment in other schemes or even savings on investment. This notional charge provides the incentive to keep assets (physical and cash) to the minimum necessary and reflects the full cost to the nation of the aim / objective.

5.4.2 Cost of capital charges are imposed on Vote (funding drawn from the Consolidated Fund), EC grant, NDPB and PC resources, but not imposed on Lottery Funding, private sector donations or local authority expenditure. However, if departments can consistently, reliably and easily exclude working capital in respect of non-budget items such as EC receipts, then no cost of capital charge need be paid on the working capital in respect of them.

5.4.3 If the cost of capital charge is not properly identified and costed within the budget, when the error is realised the resources will need to be found from elsewhere at the risk of aims and objectives not being fully met due to reduced resource availability within the business unit or elsewhere in the department.

5.5 Impairments

5.5.1 Fixed assets are valued at the lower of replacement cost and recoverable amount. Recoverable amount is the higher of net realisable value (what you could sell it for less the cost of sale / disposal) and value in use (the cost of replacing the service potential provided by the asset). An impairment occurs when the recoverable amount falls below the value shown in the balance sheet (RAM 3.2.10, 3.2.21 – 3.2.27). This can arise when:

- the purpose for which the asset was acquired is no longer carried out and there is no alternative use for the asset;
- the asset is to be sold;
- the asset or part thereof is stolen;
- the asset cannot be used;
- the asset is otherwise surplus and has no alternative use; and
- the asset is over-specified for its current use.

The write-down in value will be charged to the OCS and in resource DEL from 2003-2004.

5.5.2 If impairments are not identified and brought into the budget, the department will be charged the cost of capital charge unnecessarily.

5.6 Depreciation

5.6.1 Depreciation should be included for assets funded from Vote, Lottery, donations from the private sector, EC grant, NDPBs and PCs. It should be excluded for assets funded by local authority expenditure. (Depreciation for lottery and EC funded assets, and donations from the private sector will be offset by release from the donated asset reserve or government grant reserve.)

5.6.2 Failure to identify, declare and calculate depreciation could result in additional cost of capital charge being incurred on an inflated asset valuation and the final cost of a departmental aim / objective being higher than it need be.

ANNEX A: BREAKDOWN OF RESOURCE ACCOUNTS BUDGETS AS PER SPENDING REVIEW 2002

This table has been prepared from a number of sources to provide an indication (ie it does not show all possibilities) of the likely treatment of various types of accounting entry. This should help identify how budgets are split between resource DEL, capital DEL and AME. The table also shows some of the variations in treatment within resource budgeting eg in respect of NDPBs, Public corporations etc.

Annually Managed Expenditure for all organisations	Resource Includes	Captial Includes
	Resource expenditure outside of DEL (Social Security, debt interest,EU payments,public pensions,lottery) Accruals consequences of AME programmes including cost of capital depreciation Uncapitalised grants to local authorities for loan charges National non-domestic rates payable Cost of capital charge on the roads network, for Highways Agency and devolved administrations Provisions relating to nuclear decommissioning for Dept of Trade and Industry and Ministry of Defence Self financing public corporations interest and dividends	Capital exped2iture outside of DEL Public coporations' self-financed capital expenditure
Departmental DEL	**Resource Includes**	**Capital Includes**
	Main programme and administrative spending in the department's operating cost statement on an accruals basis; detail below.	Direct capital expenditure contributing to the enhancement or creation of an asset on the departmental balance sheet including issue of PDC (public dividend capital),less book value of income from capital asset sales,net lending to the private sector, abroad,and to public corporations,assets bought under finance leases and on-balance sheet PFI deals
	Staff costs	In-house capital formation

Departmental DEL	Resource Includes	Capital Includes
	Accommodation costs	MOD - special treatment of fighting equipment and dual use equipment
	Office services and supplies	PFI deals capital expenditure
	Tax credits	Sale of assets under PPP, shareholdings and privatisations
	Receipts	Capital grants to local authorities
	Current assets - stocks when consumed or written off,debtors,cash (only in respect of the cost of capital charge on the balance sheet)	Credit approvals to local authorities
	Movements in provisions	Equity injections in,and loans to, public corporations in DEL (excluding self-financing public corporations) including NLF loans
	Bad debt	
	Theft	
	Other administration costs The cost of capital charge, including on equity stakes and loans to public corporations,and on on-balance sheet PFI for DEL expenditure	
	Depreciation	
	Impairments and write-downs,including cancellations	
	Contingent liabilities that are likely to crystallise in the course of the SR period	
	Loans (including student loans)	
	Subsidies Netting off VAT refunds - VAT refunds as negative DEL where Office of National Statistics has determined the refund should be considered as expenditure (contracted out services) - otherwise gross expenditure should be reflected	
	Profit and loss on disposal from asset sales	
	All grants (including capital) to public corporations,the private sector and abroad	

Departmental DEL	Resource Includes	Capital Includes
	Short-term investments Major multi-employer scheme pension contributions (civil service, teachers, NHS,police including Northern Ireland, armed forces, research councils and UK Atomic Energy Authority) as employer contribution	
	Accruing liabilities of single employer pension schemes such as those run by some regulatory bodies and some NDPBs	
	Profit and loss relative to government's stake of PPP shareholdings if government holds more than half the shares	
	Annual payments on off-balance sheet PFI deals (where deal is classified as the purchase of services)	
	The imputed finance charge element of PFI finance leases excluding the capital repayment element of the payment to the leasing company	
	All advisers' costs (such as privatisation costs)	
	Less interest and less dividends paid by public corporations and the private sector	
	Resource Excludes	**Capital Excludes**
	Revaluations charged to revaluation reserve	Capital grants from the EC
	Grants paid to NDPBs	Income in the form of capital grants from the EC
	Capital grants to local authorities	Grants and loans from departments to NDPBs
		Capital grants to public corporations

Entries in departmental DEL for NDPBs	Resource Includes	Capital Includes
	Net resource consumption taken from income and expenditure account	New capital spend by the NDPB,less book value of asset sales
	Provisions on an accruals basis and profit/loss on disposal	Net lending by the NDPB to the private sector and abroad
	Depreciation and impairments in respect of NDPB assets	Capital grants to local authorities
	Capital grants to the private sector and abroad	Credit approvals to local authorities
	Cost of capital charges in respect of net assets of NDPBs	
	Resource Excludes	**Capital Excludes**
	Revaluations charged to revaluation reserve	Resource expenditure in the OCS or the Income and Expenditure account of an NDPB,such as profit and loss on disposals or capital grants
	Grants paid to NDPBs	Income from EC capital grants
	Capital grants to local authorities	Lottery funding
		Capital grants to PCs
Entries in departmental DEL for public corporations	**Ressource Includes**	**Capital Includes**
	Cost of capital charge on the department's equity stakes in departments such as public dividend capital and loans to the PC	Equity injections and net lending to the PC
	Minus interest and dividends paid by the PC to the department	Less capital grants (other than from sponsor department)
	All grants and subsidies from the department to the PC, including capital grants which should be identified separately	Less book value of income from capital asset sales
	Profit or loss of the Public Corporation	Plus net policy lending by the PC to the private sector and abroad
		Capital grants to the private sector, local authorities and abroad
Entries in depatmental DEL for public corporations	**Resource Excludes**	**Capital Excludes**
		Capital grants and net lending to PCs by departments PCs self-financed expenditure

Entries in departmental DEL for NHS trusts	Resource Includes	Capital Includes
	Profit and loss (including interest on cash balances)	Full capital expenditure of NHS trusts
	Cost of capital charge on net assets (excluding PDC and loans to NHS trusts)	
Entries in departmental DEL for Forestry Commission	**Resource Includes**	**Capital Includes**
	Profit and loss (including interest on cash balances but excluding depreciation or impairment in stake in Forest Enterprise)	Full capital expenditure
	Capital charge on net assets of Forestry Enterprise (rather than PDC on Forestry Commission's balance sheet)	
Entries in departmental AME for self financing public corporations	**Ressource Includes**	**Capital Includes**
	Any actual cash subsidies paid to SFPC	
	Same items as appear under departmental DEL for PCs	Same items as appear under departmental DEL for PCs
	Cost of capital charge on the department's equity stakes in departments such as public dividend capital and loans to the PC	Equity injections and net lending to the PC
	Less interest and dividends paid by the PC to the department	Less capital grants (other than from sponsor department)
	All grants and subsidies from the department to the PC, including capital grants which should be identified separately	Less book value of income from capital asset sales
	Profit or loss of the PC	Plus net policy lending by the PC to the private sector and abroad
		Capital grants to the private sector, local authorities and abroad

ANNEX B: CHRONOLOGY OF SEEKING RESOURCE

	SR2000 Period (2001/2) - 2003/4)	SR2002 Period (2003/4 - 2005/6)	SR2004 Period (2005/6 - 2007/8)
2001/2002	**Year 1**		
Summer 01		Biannual Spending Review for the 3-year period. HMT require departments with a DEL (optional for smaller departments without a PSA) to submit a short paper on the strategic priorities (around 6 pages long) of the key objectives for the next three to five years. The document should explain how these objectives and aims satisfy the Government's priorities.	
June 01	Summer Supplementary Estimate Year 1		
Autumn 01		PSX meetings held discussing department's strategic priorities alongside performance to date against PSA targets. Feedback to departments via minutes of the PSX.	
November 01	Winter Supplementary Estimate Year 1		
Mid Feb 02	Spring Supplementary Estimate Year 1 within Forward Report for Year 2	Departments submit "Analysis of Resources" in accordance with Spending Review guidance issued by HM Treasury. Document to give analysis of priorities and pressures,analysis of progress against existing Public Service Agreement targets,proposals for new targets covering the review period, reform and management change to meet existing and new targets. Draft Public Service Agreements to be submitted.	
2002/2003	**Year 2**		
March -April 02		Departments to submit draft Departmental Investment Strategies supported by a Forecast Balance Sheet Analysis, and Service Delivery Agreements; examples of documents on HM Treasury website.	
March-May 02		PSX to consider information submitted by departments and findings of cross-cutting reviews.	

	SR2000 Period (2001/2) - 2003/4)	SR 2002 Period (2003/4 - 2005/6)	SR2004 Period (2005/6 - 2007/8)
April 02	HM Treasury call for Year 2 Supply Estimate in accordance with outcome of Spending Review, so that Parliament can give authority for departments to consume resources and spend cash. This takes the form of a Resource Estimate within the department's forward looking report (content as advised by HM Treasury in PES documents) alongside the main Estimate Summary Request for Supply (SRfS) and is supported by a Forecast Operating Cost Statement (FOCS) and Forecast Cash Flow Statement (FCFS).		
June 02	Summer Supplementary Estimate		
June-July 02		PSX to consider overall results of Spending Review process and make recommendations to Cabinet. Conclusions notified to departments by settlement letter from HM Treasury Chief Secretary.	
November 02	Winter Supplementary Estimate Year 2		
February 03	Spring Supplementary Estimate for Year 2 within Forward Report for Year 3 SR2000 (SR2002 Year 1).		
2003/2004	**Year 3**	**Year 1**	
April 03 June 03		HM Treasury call for a Supply Estimate for Year 1 in accordance with outcome of Spending Review, so that Parliament can give authority for departments to consume resources and spend cash. This takes the form of a Resource Estimate within the department's forward-looking report alongside the main Estimate Summary Request for Supply (SRfS) and is supported by a Forecast Operating Cost Statement (FOCS) and Forecast Cash Flow Statement (FCFS).	
		Summer Supplementary Estimate Year 1	

	SR2000 Period (2001/2) - 2003/4)	SR2002 Period (2003/4) - 2005/6)	SR2004 Period (2005/6) - 2007/8)
Summer 03			New Biannual Spending Review for the 3-year period. HMT require departments with a DEL (optional for smaller depart-ments without a PSA) to submit a short paper (around 6 pages long) of the key objectives for the next three to five years. The document should explain how these objectives and aims satisfy the Government's priorities.
Autumn 03		Submission of Strategic Priority papers for the autumn PSX discussing department's strategic priorities alongside performance to date against PSA targets	PSX meetings held discussing department's strategic priorities alongside performance to date against PSA targets. Feedback to departments via minutes of the PSX.
November 03		Winter Supplementary Estimate Year 1	
December 03			Submission of cross-cutting review reports
February 04		Spring Supplementary Estimate Year 1 within Forward Report for Year 2.	Departments submit "Analysis of Resources" in accordance with Spending Review guidance issued by HM Treasury. Document to give analysis of priorities and pressures,analysis of progress against existing Public Service Agreement targets,proposals for new targets covering the review period, reform and management change to meet existing and new targets. Draft Public Service Agreements to be submitted.
March 04			Departments to submit draft Departmental Investment Strategies and Service Delivery Agreement;examples of docu-ments on HM Treasury website.
2004/2005		**Year 2**	
March - May 04			PSX to consider information submitted by departments and findings of cross-cutting reviews.

	SR2000 Period (2001/2) - 2003/4)	SR 2002 Period (2003/4 - 2005/6)	SR2000 Period (2005/6 - 2007/8)
April 04		HM Treasury call for a Supply Estimate for Year 2 in accordance with outcome of Spending Review, so that Parliament can give authority for departments to consume resources and spend cash. This takes the form of a Resource Estimate within the department's forward-looking report alongside the main Estimate Summary Request for Supply (SRfS) and is supported by a Forecast Operating Cost Statement (FOCS) and Forecast Cash Flow Statement (FCFS).	
June 04		Summer Supplementary Estimate Year 2	
June - July 04			PSX to consider overall results of Spending Review process and make recommendations to Cabinet. Conclusions notified to departments by Settlement Letter from HM Treasury Chief Secretary.
November 04		Winter Supplementary Estimate Year 2	
2005/2006		**Year 3**	**Year 1**
April 05			HM Treasury call for a Supply Estimate for Year 1 in accordance with outcome of Spending Review, so that Parliament can give authority for departments to consume resources and spend cash. This takes the form of a Resource Estimate within the department's forward-looking report alongside the main Estimate Summary Request for Supply (SRfS) and is supported by a Forecast Operating Cost Statement (FOCS) and Forecast Cash Flow Statement (FCFS).
June 05			Summer Supplementary Estimate Year 1
Nov 05			Winter Supplementary Estimate Year 1
Feb 06			Spring Supplementary Estimate Year 1

ANNEX C1 ANALYSIS OF RESOURCES

Department of Administrative Affairs – Analysis of Resources

The Department of Administrative Affairs (DAA) is responsible for delivering selected Government programmes in schools, hospitals, criminal justice, transport and agriculture. This submission to Treasury and PSX Ministers presents the Department's view of the resources needed to deliver these programmes. It brings together the DAA's PSA objectives and targets, as agreed in SR2000, with a function by function assessment of funding.

1) Summary

a) Abstract table

The Department has new proposals for funding in each of its 5 functional areas – however, we propose to finance some of these proposals by winding down low-priority and redundant programmes. In total, there are 14 new proposals requiring a resource increase of £280m in 2004-05 and £484m in 2005-06 and a capital increase of £47m in 2004-05 and £156m in 2005-06. We propose offsetting these increases by winding down £260m of resource spending and £45m of capital spending by the end of the Review period.

Table 1 summarises the Department's proposals for SR2002. All figures in Table 1 are in nominal terms and on a full resource budgeting basis. The proposals are set out by function in line with Schedule 5 of the latest departmental resource accounts. All figures from the "agreed baseline" columns are the agreed PES numbers on a Stage 2 resource budgeting basis. The columns for 2004-05 and 2005-06 are changes from these PES numbers. All capital figures are fully consistent with the Departmental Investment Strategy which will be submitted to the Treasury in March, and are net of assumed asset sales.

Table 1:

Area	Agreed baseline (2003-04) Total spending (£m)			2003-04 Reallocation within existing resources			2004-05 Change (£m)			2005-06 Change (£m)			PSA target change?
	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	
Obj 1: **Schools**	2000	*1000*	450	0	*0*	0	40	*28*	- 40	88	*55*	20	All secondary school attainment targets to be raised by 5% points and achieved by 2006
Obj 2: Hospitals	2018	*815*	155	20	*0*	- 20	146	*33*	0	192	*65*	35	
Obj 3: Criminal Justice	1140	*110*	70	0	*0*	0	84	*0*	25	205	*10*	10	
Obj 4: Transport	90	*45*	550	0	*0*	0	9	*5*	75	15	*10*	110	
Obj 5: Agriculture	84	*52*	19	0	*0*	0	8	*2*	1	3	*1*	2	
Memo: Total of Modernising Baseline Priorities	*260*	*140*	*45*	*0*	*0*	*- 20*	*- 100*	*- 70*	*- 45*	*- 220*	*-120*	*-45*	
Memo: Total assumed receipts from asset sales			*90*						*170*			*220*	
TOTAL changes				**20**	**0**	**- 20**	**287**	**68**	**61**	**503**	**141**	**177**	
TOTAL DEL	**5332**	**2022**	**1244**				**5619**	**2090**	**1305**	**5835**	**2163**	**1421**	
% real increase on previous year							**2.8%**	**0.8%**	**2.3%**	**1.3%**	**1.0%**	**6.2%**	

b) 2003-04 Baseline pressures

Table 2 below shows the pressures that the department forecasts for 2003-04. Figures are in nominal terms and consistent with full resource budgeting. The first pressure has already been raised with the Chief Secretary and relates to using our planned land disposal programme to support the modernisation of school IT (see section 2 below). This programme will realise approximately £80m of capital receipts in 2004-05 and we have proposed to the Chief Secretary that £28m of essential school capital spending could be brought forward to 2003-04, to be repaid from the receipts in 2004-05.

The second pressure arises from a liability of approximately £40m from Private Co.'s successful maladministration claim against one of the department's NDPBs, which will have to be paid in 2003-04. The Secretary of State will be writing with details to the Chief Secretary shortly.

Table 2:

DEL Pressures 2003-04	Estimate of pressure (£m)		Commentary		
	Resource	*of which Admin*	Capital	Correspondence?	Sensitivity
Land disposal programme			28	Yes - SoS to CST letter of 24/6/00	£28m of capital receipts from land disposal programme to be repaid to HMT in 2004-05
Maladministration Claim by Private Co.	40	*0*	0	Not yet – SoS to write to CST	Liability could rise or fall by £5m
TOTAL Reserve pressures	**40**	**0**	**28**		

We have also planned for two major redeployments of existing resources in 2003-04:

- A £20m capital to resource switch to fund the first year of a hospital PFI deal. The department intends to reduce the regional prison unit's planned capital budget by £20m (see Section (e) and Section 2 below for full details).
- The department's asset disposal strategy, discussed in detail in the Departmental Investment Strategy, includes plans to dispose of surplus land at a number of school sites around the country. In 2003-04 the department intends to use £20m of the proceeds from these disposals to fund investment in schools IT modernisation.

c) Administrative and programme efficiency

The department has a number of proposals which will help cut the cost of administration and increase efficiency through output gains and cost savings over the Review period. Although the department's proposals would, if funded in full, increase resource spending by 2.7% in 2004-05 and 1.1% in 2005-06 in real terms, administration costs would rise only by 0.6% and 0.1% respectively.

The IT modernisation of the central department undertaken during the SR2000 period will unlock substantial efficiency gains, allowing a reduction in staff time in a number of key areas. The proposed modernisation of schools IT should unlock further savings by increasing teacher efficiency (see below).

The proposal to roll-out the Young Offenders pilot programme, by reducing growth in the prisoner population, will allow us to wind-down our regional prison units, delivering savings of approximately £300m or 2% of the prison budget baseline (see below under "modernising baseline priorities."

The department also has an NDPB efficiency programme, which aims to bring the department's 7 NDPBs up to at least the average level of performance, unlocking administration cost savings of at least £20m or 2% of the NDPB baseline.

d) Implications for other DELs

Three of the department's proposals would have an impact on other DELs:

- **Transport**: the Light Rail proposals include £30m of new capital grants to local authorities (as capital grants to local authorities, these will continue to score in the department's capital DEL).
- **Education**: the department proposes to make a £10m special grant to local authorities to set up a School IT Modernisation Challenge Fund (as a special grant within AEF, this will score in the department's resource DEL).
- The winding down of the **Crimean War Veterans Board** (see section (e) below) includes a £0.5m transfer to MOD DEL to cover the cost of the small amount of activity required for the preservation of war graves and memorials that has passed to the Ministry of Defence.
- **Criminal Justice**: the Young Offender scheme proposal includes a cross-cutting element, modernising and joining up three CJS agencies' IT systems. Please refer to the Home Office and Lord Chancellor's Department's Analyses of Resources (as each is a sponsor department of the agencies involved) to see a breakdown of a further £8m of proposals by these departments to support this cross-cutting activity.

Table 3:

Resources delivered through local authorities	Baseline 2003-04	Change 2004-05	(£m) Change 2005-06
Standard Spending Assessment			
Specific or Special Grants within AEF	0	5	5
Capital Grants to LAs	0	10	20
MOD DEL – transfer of CWVA functions	0.5	0.5	0.5
LCD DEL – transfer for IT modernization	0	2	0

e) Modernising Baseline Priorities

During the Department's preparations for this submission, we identified two areas that will allow us to wind down approximately 5% of the departmental baseline over the SR2002 period:

(i) the department intends to wind down the activities of two non-departmental public bodies, eventually ending or transferring all their activities:

a) **Potato and Cheese Research Institute:** the department no longer requires an in-house research facility in this area and plans to privatise the commercially successful activities undertaken by the PCRI. The remaining areas of activity are no longer a priority and do not contribute greatly to the Government's key aims and objectives. The Institute will cease its activities by the end of 2005-06, delivering savings of £52m resource and £10m capital per annum.

b) **Crimean War Veterans Board**: this NDPB is no longer required as the remaining dependents supported by the agency are all deceased. A small amount of activity required for the preservation of war graves and memorials has passed to the Ministry of Defence and the department has transferred £0.5m to MOD DEL for this purpose. The Board will cease its activities by the end of 2004-05, delivering savings of £18m resource and £5m capital per annum.

To end the activities of these NDPBs will, of course, depend on the passing of the necessary legislation.

(ii) The Young Offenders Scheme proposed below, by reducing growth in the prisoner population, will allow us to wind-down three regional prison support units by the end of 2005-06, delivering savings of £190m resource and £30m capital per annum, or 2.5% of the prison budget baseline.

In total, these plans to modernise the departmental baseline would release £260m resource (of which £140m is administration cost) and £45m capital, to be redirected into the department's priority areas over the SR2002 period and beyond.

2) Departmental priorities

a) New funding priorities

Priority 1 – Geriatric care

There has been serious under-investment in geriatric care units (GCUs) for several decades, compared to other OECD countries, including both physical capital and recruitment, retention and training of staff. This under-investment is now being exposed by the demographic pressure of an ageing population. Annex A to this submission is a research paper detailing these demographic changes and explains how and where this is placing strain on the provision of geriatric care. The package of proposals under the hospital function (see Tables below) would address this problem and ensure the department remains on track to meet its PSA target on care for the elderly. The proposals include a recruitment and retention scheme for nurses in GCUs, a PFI deal to build two new hospitals specialising in geriatric care and significant investment in the GCUs themselves. In support of this crucial PSA target the department has also planned to switch £20m capital (from the regional prison support units as discussed above) to finance the first year of the hospital PFI deal in 2003-04, consistent with HMT rules on resource-capital flexibility.

Priority 2 – Schools IT modernisation

This proposal would provide for large-scale investment in ICT equipment in schools – £20m / 40m / 50m over the SR2002 period, with funds in 2003-04 provided through the sale of surplus school land (see above). The modernisation programme would include a national schools broadband network and the national rollout of the laptops for teachers programme. The modernisation would allow the department to run on-line learning seminars, disseminate information and teaching materials to schools electronically and allow schools to communicate instantly with each other across the country. This programme would also underpin the department's PSA target to increase the percentage of children who achieve level 4 in each of the key stage 2 ICT tests.

Priority 3 – Young offenders scheme

The department's proposals to reduce the number of young offenders by 10% over 5 years have already been piloted over the 2000 Spending Review period (see Annex B for a detailed independent evaluation of the pilot). The department is now proposing to implement the programme in full across England and Wales. The scheme has clear benefits – reducing the number of young offenders will support several high-profile PSAtargets on reducing crime rates and will unlock large direct and indirect savings (see section (e) above and Annex B for details of the department's plans to close regional prison support units when this scheme reduces pressure on the prison population). The scheme includes fully-costed and evidence-based proposals to tackle youth street crime, Class A drug-taking and distribution and anti-social behaviour, with an emphasis on preventative measures. The proposals incorporate many of the recommendations of the cross-cutting review of Children at Risk (see Annex B).

Priority 4 – Light rail expansion

The expansion of light rail is integral to the Government's transport strategy…

Priority 5 – M6 Widening scheme

The need to widen the M6 motorway is pressing…

b) Funding pressures

Pressure 1 – Recruitment and retention of GCU nurses

While the department faces demographic pressures on its GCUs (Annex A sets out in detail the department's analysis of demographic trends in the UK over the last and next decades and the impact of these changes on the GCUs) it is simultaneously faced with a shortage of experienced GCU nursing staff. Vacancy rates across all GCUs for nurses are running at over 10% while staff turnover is also at a problematically high rate. Current provision is not enough to meet these pressures and is likely to lead to slippage against the relevant PSA target.

Pressure 2 – Growth in prison population

The Prison Service is currently facing rapid growth in the prison population. This population growth is putting substantial funding pressure on both the resource and capital budgets of the Prison Service and threatens to derail our progress against a number of CJS PSA targets.

Pressure 3 – Recruitment and retention of teachers

As with GCU nursing staff, the department is facing significant problems with the recruitment and retention of key teaching staff, albeit on a smaller scale than in the hospitals. Again, this pressure threatens recent progress against a number of education PSA targets.

Pressure 4 – Road maintenance

The department faces an unexpectedly high maintenance budget for the roads network due to higher than forecast depreciation…

3) Resources by objective

The Tables below provide a breakdown of resources by function, using the same headings as Schedule 5 of the departmental resource accounts, and has been agreed with the head of the relevant Treasury spending team. All figures are in nominal terms and are on a stage 2 resource budgeting basis.

Table 4:

Area	Agreed baseline (2003-04) Total spending (£m)			2003-04 Reallocation within existing resources			2004-05 Change (£m)			2005-06 Change (£m)			PSA target change?
	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	
Obj 1: Schools	2000	*1000*	450	0	*0*	0	40	*28*	- 40	88	*55*	20	All secondary school attainment targets to be raised by 5% points and achieved by 2006
Teachers' pay	1000	*0*	0	0	*0*	0	10	*0*	0	20	*0*	0	
School land & buildings	0	*0*	450	0	*0*	-20	0	*0*	-80	10	*0*	-30	
Inspection	1000	*1000*	0	0	*0*	0	25	*25*	0	50	*50*	0	
School IT	0	*0*	0	0	*0*	20	5	*3*	40	8	*5*	50	

Teachers' pay – the proposal for £0m / 10m / 20m of resource will meet inflationary pressures and allow the department to alleviate some recruitment problems through a new "golden handshake" for recent graduates in shortage subject areas.

School land & buildings – the department expects to receive £130m from its surplus school land disposal programme. These capital receipts will be redirected to priority areas such as the schools IT modernisation programme. Full details of the disposal programme are set out in the Departmental Investment Strategy.

Inspection – the proposal for £0m / 25m / 50m increases to the resource budget (administration costs) will allow the department to set up 5 specialist school inspector units, with 200 staff members, for key subject areas. These inspectors will be essential in meeting the department's PSA targets and driving up national standards in educational attainment.

School IT modernisation – this programme would provide for large-scale investment in ICT equipment in schools – £20m / 40m / 50m of capital funding over the SR2002 period, with funds in 2003-04 provided through the sale of surplus school land (see above). The modernisation programme would include a national schools broadband network and the national roll-out of the laptops for teachers programme. The modernisation would allow the department to run on-line learning seminars, disseminate information and teaching materials to schools electronically and allow schools to communicate instantly with each other across the country. This programme would also underpin the department's PSA target to increase the percentage of children who achieve level 4 in each of the key stage 2 ICT tests.

This proposal also includes a request for a 10 year indicative capital budget, as set out in the Treasury SR2002 Guidance. Full details of the request are set out in the Departmental Investment Strategy.

Table 5:

Area	Agreed baseline (2003-04) Total spending (£m)			2003-04 Reallocation within existing resources			2004-05 Change (£m)			2005-06 Change (£m)			PSA target change?
	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	
Obj 2: Hospitals	2018	*815*	155	20	*0*	-20	146	*33*	0	192	*65*	35	
Nurses' pay	800	*0*	0	0	*0*	0	25	*0*	0	35	*0*	0	
Hospital PFI	0	*0*	0	20	*0*	0	70	*0*	0	85	*0*	0	
Geriatric care	1200	*800*	150	0	*0*	0	65	*45*	5	90	*80*	40	
Crimean War Veterans Board	18	*15*	5	0	*0*	0	-14	*-12*	-5	-18	*-15*	-5	

Nurses' pay – the proposal for £0m / 25m / 35m of resource will meet inflationary pressures and allow the department to alleviate recruitment problems in the GCUs only.

Hospital PFI – This proposal is part of the department's larger aim to turn around under-investment in geriatric care, and comprises £20m / 70m / 85m of resource for a PFI deal with Construction Co. to build and operate two new hospitals specialising in geriatric care and significant investment in the GCUs themselves. The department has planned to switch £20m capital (from the regional prison support units as discussed above) to finance the first year of the hospital PFI deal in 2003-04, consistent with HMT rules on resource-capital flexibility.

Geriatric care – as discussed above this is the department's key priority in SR2002. The proposal for £0m / 65m / 90m of resource (of which £0m / 45m / 80m is administration costs) would enable the department to purchase 4 new GCUs and specialist staff. The £0m / 5m / 40m of capital funding would enable the department to invest in renewal of the remaining 9 GCUs, including new equipment. Along with the proposed measures on nurses' pay and hospital PFI, this proposal will help ensure the department remains on track to meet its PSA target on care for the elderly.

Crimean War Veterans Board - The Board will cease its activities by the end of 2004-05 (see section (e) above), delivering savings of £18m resource and £5m capital per annum to be redirected to the department's key priorities.

Table 6:

Area	Agreed baseline (2003-04) Total spending (£m)			2003-04 Reallocation within existing resources			2004-05 Change (£m)			2005-06 Change (£m)			PSA target change?
	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	
Obj 3: Criminal Justice	1140	*110*	70	0	*0*	0	84	*0*	25	205	*10*	10	
Youth offender scheme	100	*15*	40	0	*0*	0	110	*50*	55	290	*85*	40	
Prison PFI	100	*0*	0	0	*0*	0	30	*0*	0	55	*0*	0	
Police Pay	750	*0*	0	0	*0*	0	20	*0*	0	30	*0*	0	
Regional prison support units	190	*95*	30	0	*0*	-20	-76	*-50*	-30	-170	*-190*	-30	

Youth offender scheme – …..

Prison PFI – …..

Police pay – …..

Regional prison support units – …..

Table 7:

Area	Agreed baseline (2003-04) Total spending (£m)			2003-04 Reallocation within existing resources			2004-05 Change (£m)			2005-06 Change (£m)			PSA target change?
	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	
Obj 4: Transport	**90**	**45**	**550**	**0**	**0**	**0**	**9**	**5**	**75**	**15**	**10**	**110**	
Light rail	90	*45*	550	0	*0*	0	8	*4*	75	9	*5*	90	
M6 widening PFI	0	*0*	0	0	*0*	0	1	*1*	0	6	*5*	20	

Light rail expansion – …..

M6 Widening project – …..

Table 8

Area	Agreed baseline (2003-04) Total spending (£m)			2003-04 Reallocation within existing resources			2004-05 Change (£m)			2005-06 Change (£m)			PSA target change?
	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	
Obj 5: Agriculture	**84**	**52**	**19**	**0**	***0***	**0**	**8**	**2**	**1**	**3**	***1***	**2**	
Conserving fish stocks	10	*8*	2	0	*0*	0	4	*3*	3	5	*2*	0	
CAP payments moderni-zation	22	*14*	7	0	*0*	0	14	*7*	8	30	*14*	12	
Potato and Cheese Research Institution	52	30	10	0	0	0	-10	-8	-10	-32	-15	-5	

Conserving fish stocks – …..

CAP Payments modernisation – …..

Potato and Cheese Research Institute – …..

Table 9

Area	Agreed baseline (2003-04) Total spending (£m)			2003-04 Reallocation within existing resources			2004-05 Change (£m)			2005-06 Change (£m)			PSA target change?
	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	Resource	*of which admin*	Capital	
Memo: Total of Modernising Baseline Priorities	*260*	*140*	*45*	*0*	*0*	*-20*	*-100*	*-70*	*-45*	*-220*	*-120*	*-45*	
Memo: Total assumed receipts from asset sales			*90*						*170*			*220*	
TOTAL changes				**20**	**0**	**-20**	**287**	**68**	**61**	**503**	**141**	**177**	
TOTAL DEL	**5332**	***2022***	**1244**				**5619**	***2090***	**1305**	**5835**	***2163***	**1421**	
% real increase on previous year							2.8%	0.8%	2.3%	1.3%	1.0%	6.2%	

4) Evidence

Attached to this document are 4 Annexes providing supporting evidence on the effectiveness of the department's current baseline spending and to support the priority proposals listed above. These Annexes also report back on the baseline effectiveness assessments agreed with the Treasury following the Chief Secretary's 22 June 2001 letter.

The department's Sustainable Development Report provides an analysis of the impact of the departmental proposals on the Government's sustainable development indicators. The SDR has been presented in parallel with this submission.

Annex E also provides a short analysis of the relationship between these proposals and the department's E-Government strategy, including detailed assessments of the schools IT modernisation programme and the proposed IT modernisation across three CJS agencies.

[MOCK ANALYSIS OF RESOURCES ENDS HERE].

ANNEX C2 TEMPLATE FOR FORECAST BALANCE SHEET ANALYSIS

This next section contains the template for each of the four sections of the forecast balance sheet analysis (FBSA).

template for part one: movements in existing assets and liability profile

In the table below, departments should assume no additions to or planned disposals of existing assets. This table should therefore estimate the movements in assets.

Table 1:Movements in existing assets and liability profile 2003-04 to 2005-06

£m	2003-04	2004-05	2005-06
Fixed Assets			
Tangible Assets			
Land and buildings			
Fixtures and fittings			
Equipment and IT			
MoD only:single use fighting equipment			
Other			
Intangible assets			
Work in progress			
Investments			
Other			
Current assets			
Stocks			
Debtors			
Cash			
Creditors (within one year)			
Net curent assets			
Creditors (more than one year)			
Provisions for liabilities and charges			
Provision 1			
Provision 2			
etc			

£m	2003-04	2004-05	2005-06
NDPB assets (total for all NDPBs with dept grouping)			
NDPB liabilities and provisions			
DEL impact of above forecasts*			
Depreciation			
Cost of capital charge			
Impairments			
Writedowns			
Cancellations			
Changes in provisions			
Total resource DEL impact			
*Memo item:Cash paid out in respect of existing provisions***			

Explanation of key changes:

In this section, departments should briefly explain the key assumptions underpinning these numbers for asset values

*MoD should separately identify costs relating solely to fighting equipment.

**this should be equivalent to what scores in DEL under Stage 1 resource budgeting.

This information is required for fiscal purposes

template for part two: resource consequences of the analysis of resources

This table requires Departments to estimate the impact on the balance sheet of changes arising from the information in its Analysis of Resources. Therefore this table focuses on the consequences of new assets, disposal of existing assets and policy changes in respect of assets and provisions.

Table 2: resource consequences of ARs 2003-04 to 2005-06

£m	2003-04	2004-05	2005-06
Fixed Assets			
Tangible Assets			
Land and buildings			
Fixtures and fittings			
Equipment and IT			
*MoD only:single use fighting equipment**			
Other			
Intangible assets			
Work in progress			
Investments			
Other			
Current assets			
Stocks			
Debtors			
Cash			
Creditors (within one year)			
Net curent assets			
Creditors (more than one year)			
Provisions for liabilities and charges			
Policy related changes to existing provisions**			
Provision 2			
etc			

£m	2003-04	2004-05	2005-06
NDPB assets (total for all NDPBs with dept grouping)			
NDPB liabilities and provisions			
DEL impact of above forecasts*			
Depreciation			
Cost of capital charge			
Impairments			
Writedowns			
Cancellations			
Changes in provisions			
Total resource DEL impact			
*Memo item:Cash paid out in respect of existing provisions***			
Explanation of key changes: In this section, departments should briefly explain the key assumptions underpinning these numbers for asset values			

*MoD should separately identify costs relating solely to fighting equipment.

**this should be equivalent to what scores in DEL under Stage 1 resource budgeting.

This information is required for fiscal purposes

template for part three: capital grants

In this table departments should list those public corporations and private, voluntary and overseas bodies to whom they will give capital grants in 2003-04, and the value of these grants. The remaining two columns for 2004-05 and 2005-06 should estimate the changes in these numbers for those years, based on assumptions in their Analysis of Resources.

This table should include only that part of the grant estimated to finance capital. Current grants should be excluded.

Table 3

	2003-04,£m	2004-05 (+ / - from base year	2005-06 (+ / - from base year)
Recipient 1			
Recipient 2			
Recipient 3 etc			
Note on changes,2003-04 to 2005-06:Departments may wish to explain the profile of these numbers			

template for part four: contingent liabilities

This table should list the main contingent liabilities – and their values – in the accounts of the department or any of the bodies within its budgeting boundary. Where there is a strong possibility that a contingency might become a provision during the SR2002 period, this should be explained in the box below marked Assessment.

Table 4

Contingent Liability	Estimated Value, £m
Description 1	
Description 2	
etc	
Assessment:	

ANNEX C3 OPERATING COST STATEMENT

DEPARTMENTYELLOW **Schedule 2**

Operating Cost Statement	Note	2001-02 £000	£000	2000-01 £000	£000
for the year ended 31 March 2002					
Administration costs:					
Sstaff costs	2	51,439			
Other administration costs	3	55,617			
Gross administration costs		**107,056**			
Operating income	5	(55,756)			
Net administration costs		**51,300**			
Programme costs					
Request for resources 2:					
Expenditure	4	30,177			
Less:income	5	(177)	30,000		
Request for resources 3:					
Expenditure	4	20,000			
Less:income	5	-	20,000		
Net programme costs	4		**50,000**		
Net operating cost	7 and 8		**101,300**		
Net resource outturn	7		**102,142**		

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and losses	2001-02 £000		2000-01 £000
for the year ended 31 March 2002			
Net loss on revaluation of tangible fixed assets	(709)		
Net gain on revaluation of intangible fixed assets	22		
Net loss on revaluation of investments	(34)		
Receipt of donated assets	200		
Total recognised gains and losses for the financial year		**(521)**	

ANNEX C4 CASH FLOW STATEMENT

DEPARTMENTYELLOW — **Schedule 4**

Cash Flow Statement for year ended 31 March 2002	**2001-02**	**2000-01**
	£000	**£000**
Net cash outflow from operating activities[a]	**(93,386)**	
Capital expenditure and financial investment[b]	**(3,060)**	
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	**1,500**	
Payments of amounts due to the Consolidated Fund	**(2,865)**	
Financing[c]	**97,704**	
Increase/(decrease in cash) in the period	**(107)**	

Notes:

a See the table below giving a reconciliation of operating cost to operating cash flows.

b See the table below giving an analysis of capital expenditure and financial investment.

c See the table below giving an analysis of financing and a reconciliation to the net cash requirement.

Reconciliation of operating cost to operating cash flows	**2001-02**	**2000-01**
Net operating cost	**101,300**	
Adjustments for non-cash transactions (see Note 3)	(13,097)	
Adjustments for movements in working capital other than cash (see Note 14)	1,541	
Use of provisions	3,642	
Net cash outflow from operating activities	**93,386**	

Analysis of capital expenditure and financial investment	**2001-02**	**2000-01**
Intangible fixed-asset additions	-	
Tangible fixed-asset additions	2,623	
Proceeds of disposal of fixed assets	-	
Loans to other bodies	500	
Repayment of loans to other bodies	(63)	
Net cash outflow from investing activities	**3,060**	

Analysis of financing,and reconciliation to the net cash requirement

		2001–02	2000–01
From the Consolidated Fund (Supply) - current year1	(+)	97,082	
From the Consolidated Fund (Supply) - prior year2	(+)	-	
From the Consolidated Fund (non-Supply)	(+)	523	
From the National Insurance Fund	(+)	-	
Payments to the National Insurance Fund	(-)	-	
Advances from the Contingencies Fund	(+)	-	
Repayments to the Contingencies Fund	(-)	-	
Loans received from the National Loans Fund	(+)	500	
Repayments of loans from the National Loans Fund	(-)	(63)	
Capital element of payments in respect of finance leases and on-balance-sheet PFI contracts	(-)	(338)	
Transfer to (+)/from(-) department "X" in respect of transferred function "A"	(-)	-	
Net financing		**97,704**	
(Increase)/decrease in cash		**107**	
Net cash flows other than financing		**97,811**	

Adjustment for payments and receipts not related to Supply:

Amounts due to the Consolidated Fund - received in a prior year and paid over	(-)	-	
Amounts due to the Consolidation Fund - received and not paid over	(+)	-	
NLF loans - loans made to other bodies	(-)	(500)	
NLF loans - principal repayments received from other bodies	(+)	63	
NLF loans - interest received from other bodies	(+)	32	
NLF loans - interest paid to the NLF	(-)	(32)	
Consolidated Fund standing services - payments	(-)	(523)	
National Insurance fund financed activities - payments	(-)	-	
National Insurance fund financed activities -receipts	(+)	-	
Add :Supply-financed repayment of financing			
Capital element of payments in respect of finance leases and on-balance-sheet PFI contracts	(+)	338	
Transfer to(+)/from(-) Department "X" in respect of transferred function "A"			
Adjustment for payments financed from contingencies Fund advances accounted for on Schedule 1 in a different year (in accordance with Government Accounting):			
Current-year payments accounted for on Schedule 1 in the following year	(-)	-	
Prior-year payments accounted for on Schedule 1 in the current year	(+)	-	
Net cash requirement (Schedule 1)		**97,189**	

[1]Amount of grant actually issued to support the net cash requirement = £97,081,988.48

[2]Amount of grant actually issued to support the prior year net cash requirement = £xxx,xxx.xx

ANNEX D EXAMPLES OF PROVISIONS AND LIABILITIES

Provisions

Pension and superannuation liabilities

Redundancy and restructuring costs

Early departure costs

Compensation claims

Decommissioning costs of nuclear facilities

Obsolete stock

Damaged stock

Irrecoverable work in progress

Onerous contracts for leased properties

Income tax liability for past and present employees

Clinical negligence claims

Acquiring land for road schemes

Liabilities

Trade creditors (suppliers)

Capital creditors

Other creditors

Accruals (services received but not yet invoiced)

Loans

PAYE (income tax)

National Insurance

VAT

Deferred income (where customers have paid in advance of the work being done)

Bank overdrafts

Pension commitments

Finance leases

Money due to be surrendered to the Consolidated Fund

Salaries and wages owed to staff

Proposed dividend - Royal Mint, Driving Standards Agency, Defence Evaluation and Research Agency

Deposits for Third Generation Mobile Services (DTI)

Deposits from manufacturers (Vehicle Certification Agency)

Customers with sums on deposit (Central Office of Information)

Loans

Redundancy, early retirement and pension commitments

Finance leases

Fixed asset purchases that have been authorised and contracted for

Commitments on operating leases and PFI contracts

Committed grants and subsidies to farmers

Committed research grants

Contingent Liabilities

Guarantees of risks (Export Credit Guarantee Department)

Claims pending in respect of losses resulting from errors or omissions in the Register of Title (Land Registry)

Claims from supplier for abortive work in contract not signed

Claims for injuries to prison staff and prisoners

Guarantees of bonds for Channel Tunnel Rail Link

Re-insurance facilities for terrorist attacks

ANNEX E ABBREVIATIONS

The following list contains the main abbreviations used within this document and its ANNEXES, and referred to generally in respect of resource accounting and budgeting or government finance.

AinA	Appropriations in Aid
AME	Annually Managed Expenditure
AR	Analysis of Resources (Might also represent asset register, but this is usually FAR)
BSA	Balance Sheet Analysis
C&AG	Comptroller and Auditor General
CFER	Consolidated Fund Extra Receipts
CFS	Cash Flow Statement
CGA	Central Government Accounts
CMF	Capital Modernisation Fund
DBFO	Design, build, finance, operate
DEL	Departmental Expenditure Limit
DIS	Departmental Investment Strategy
DUP	Departmental Unallocated Provision
EYF	End year flexibility
FAR	Fixed asset register
(F)BSA	(Forecast) Balance Sheet Analysis
(F)CFS	(Forecast) Cash Flow Statement
(F)OCS	(Forecast) Operating Cost Statement
GEMS	General Expenditure Monitoring System
ISB	Invest to Save Budget
MOU	Memorandum of understanding
NDPB	Non departmental public body
NIF	National Insurance Fund
NLF	National Loans Fund
OCS	Operating Cost Statement
PAC	Parliamentary Accounts Committee
PC	Public corporation
PDC	Public dividend capital
PES	Public Expenditure Survey
PFI	Public Finance Initiative
PPP	Public Private Partnership
PSAs	Public Service Agreements
PSX	Ministerial Committee on Public Services and Public Expenditure
R&D	Research and development
RAB	Resource accounting and budgeting
RAM	Resource Accounting Manual
RfR	Request for Resources
SDAs	Service Delivery Agreements
SFPC	Self financing public corporations
SR	Spending Review
SRfS	Summary Request for Supply
WGA	Whole of Government Accounts

ANNEX F GLOSSARY

Accounting policies
The way the organisation applies the standards set out in the Resource Accounting Manual.

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

Accruals to cash adjustments
Adjustments that are listed in the Schedule 1 Reconciliation of resources to cash requirement, which include non-cash cost of capital, depreciation, changes in provisions and establishment of new provisions, and non-cash working capital adjustments.

Administration costs
See Gross administration costs

Agency
This is an entity which may be a department in its own right or part of a department. If the agency is part of a department, its accounts are consolidated in the resource accounts of the parent department.

Aim
All departments have an aim. It is a high level statement describing the Government's policy objective for that department. The aim is divided into a number of objectives which describe in more detail how the department will achieve its aim. The aim is set out in the resource accounts in Schedule 5.

AinA
See Appropriation in Aid (AinA).

Annual report
Public spending plans for each department are published in annual departmental reports in the Spring, setting out performance against targets, forward plans and targets and financial data.

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

Appropriation in Aid (AinA)
Income that a department is authorised to retain (rather than surrender to the Consolidated Fund). The income offsets related expenditure in the current financial year. This income is voted by Parliament in the Estimates and is accounted for in Schedule 1 of the resource accounts.

Assets
Assets are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events. See current assets and fixed assets. Assets are included in Schedule 3 - Balance Sheet.

Assets' useful lives	The useful economic life of a tangible fixed asset is the period over which the entity expects to derive economic benefits from the asset.
Balance Sheet	A financial statement, which shows the assets, liabilities and capital of an organisation on a particular date, normally the end of the accounting period.
Capital	See capital expenditure.
Capital budget	The capital budget of a department comprises all new capital spending, proceeds from the sale of assets and net lending (loans provided to departments less loans provided by departments). It includes an allocation for the investments made by public corporations and non-departmental public bodies. Both Annually Managed Expenditure (AME) and the Departmental Expenditure Limit (DEL) can include components of the capital budget.
Capital expenditure	Under UK GAAP, comprises expenditure on new construction, land, extensions of, and alterations to, existing buildings and the purchase of any other fixed assets (eg machinery, plant and vehicles) having an expected working life of more than one year. Also see current expenditure.
Capital grants	Contributions towards expenditure on fixed assets made by central government departments to organisations in the private sector and other parts of the public sector.
Cash accounting	A method of accounting which records cash payments and cash receipts as they occur within an accounting period. This is the method government used before it moved to accruals accounting.
Cash Flow Statement	A statement of cash inflows and outflows during an accounting period.
Central government	Government departments and their executive agencies and most non-departmental public bodies. The central government sector does not include local authorities, public corporations (including NHS Trusts) or nationalised industries.
CFERs (Consolidated Fund Extra Receipts)	Income in addition to that appropriated in aid and associated cash receipts which are payable to the Consolidated Fund. All CFERs will be listed in the analysis of income payable to the Consolidated Fund, which is included in Schedule 1.
Consolidated Fund	Government revenue from taxes and other sources is collected daily into the Consolidated Fund. Payments from the Consolidated Fund finance central government spending.
Consolidated Fund Extra Receipts (CFERs)	See CFERs.

Consolidation The process of incorporating the results of linked entities into a single account, which involves the elimination of inter-entity transactions and balances.

Contingent liability A possible liability that in certain circumstances could become an actual liability. If a department has identified contingent liabilities, these will be included in a note to the resource accounts.

Cost of capital The opportunity cost of capital invested.

Cost of capital charge Government as a whole incurs an interest cost for borrowing to finance investments by departments. This is also described as government's cost of capital. To improve transparency and to ensure the full cost of services is reflected in departmental accounts, this borrowing cost has been devolved to departments as a "capital charge". In general terms, the capital charge is calculated as a percentage of the department's net assets (assets less liabilities). Some assets are excluded from the charge eg donated assets. The cost of capital charge is apportioned between administration and programme costs in Schedule 2 - Operating Cost Statement, on the basis of the purpose for which the assets of the department are employed.

Creditor Monies owed to another entity by the department. Creditors are included in the resource accounts in Schedule 3 – Balance Sheet and further details are generally included in a note to the accounts.

Current assets Current assets include cash or other assets, which can reasonably be expected to be converted to cash in the normal course of business, including stocks, debtors, accrued income and payments made in advance. Current assets are included in Schedule 3 – Balance Sheet of the resource accounts.

Current expenditure Expenditure which is neither capital expenditure nor financial expenditure. It also includes grants.

Current liabilities Liabilities incurred in the normal course of business which fall due within one year and include creditors, accrued expenditure and deferred income. Current liabilities are included in the resource accounts in Schedule 3 – Balance Sheet.

Debtor Monies owed by another entity to the department. Debtors are included in the resource accounts in Schedule 3 – Balance Sheet. There may also be more detailed information included in a note in the accounts.

Departmental aim See aim.

Departmental Expenditure Limit (DEL) DELis a concept used for resource budgeting. It is public expenditure which forms departments' multi-year budget plan against which spending is managed. The DEL has separate elements for capital and current spending.

Departmental Investment Strategy (DIS)	The DIS sets out the department's plan to invest in assets of the scale and quality of capital needed to deliver public services. Each DIS sets out: a strategic policy context; current asset base; new investment plans; and systems and processes.
Depreciation	A measure of the wearing out, consumption or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through technological or market changes. For intangible assets, the term amortisation is used instead of depreciation. The amount of depreciation charged in the resource accounts is included in the tangible fixed assets note in the resource accounts.
Donated assets reserve	The net book value of donated assets recorded in the accounts. This reserve will be included in the taxpayers' equity section of Schedule 3 – Balance Sheet.
Donations	Gifts or bequests received by departments for which no consideration was provided, eg land, works of art.
Estimate	See Resource based Estimate.
Fixed assets	Assets with an expected life of more than one year held for use on a continuous basis, eg land and buildings, patents. Fixed assets usually comprise tangible and intangible fixed assets and are included in Schedule 3 – Balance Sheet. Further information may be included in the notes to the accounts.
Function	The description provided to sections within the Request for Resources in the Resource Estimate.
Gain/loss on disposal of fixed assets	The difference between the proceeds on sale of the fixed asset and the net book value of the asset. Details on fixed asset disposals are included in the notes to the resource accounts.
General fund	Included in taxpayers' equity in Schedule 3 – Balance Sheet and comprises the difference between the net assets and the other reserves included in taxpayers' equity.
Grants and subsidies	Payments to entities external to the department to provide goods or services consistent with the department's aim and objectives (included in Schedule 5 of the resource accounts) that are not required to be repaid. Grants and subsidies usually form part of programme costs in Schedule 2 – Operating Cost Statement.
Gross administration costs	Comprise the total staff costs, rent, operating leases, research and development expenses and non-cash items. Income relating to administration costs is excluded. The total for gross administration costs is included in Schedule 2 – Operating Cost Statement and further detail is included in the notes to the resource accounts.

Impairments of asset value A reduction in the recoverable amount of a tangible fixed asset below its value recorded in the accounts.

Income Monies received or accrued by the department from providing goods or services. Income can be either related to administration or programmes and is included in Schedule 2 - Operating Cost Statement.

Intangible assets Fixed assets which do not have physical substance but are identifiable, are controlled by the entity and have estimated useful lives of more than one year. Examples include patents and copyright. Information on a department's intangible assets will be included in a note to the resource accounts.

Investments Financial and non-financial assets (fixed or non-current) that are expected to provide a rate of return to government and / or to further the department's objectives. Individual departments may hold investments in public corporations.

In-year monitoring and control This is the monitoring and control of departmental expenditure by the Treasury during the year against the budget agreed in the spending review and authorized by Parliament in the Estimates.

Liabilities Liabilities are obligations to transfer future economic benefits as a result of past transactions or events. See current liabilities. Liabilities are included in Schedule 3 – Balance Sheet.

Maintenance Ongoing recurrent costs of maintaining assets.

Net cash requirement This term describes both the forecast and the outturn. In relation to the fore cast net cash requirement in the Resource Estimate, it is the Supply authorised to be issued from the Consolidated Fund in respect of the year to finance the estimated resource consumption and cash required for capital. The actual cash used during the year is described as the outturn of the net cash requirement.

Non-cash items See accrual to cash adjustments.

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

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

Outturn	The outturn is the actual results reported by a department in its resource accounts.
Programme costs	All other costs other than administration costs. Generally includes the cost of providing services directly to the public. Programme costs are included in Schedule 2 – Operating Cost Statement and are also further detailed in a note to the resource accounts.
Provision	A liability of uncertain timing or amount shown in the resource accounts. Examples of provisions are: bad debts provision, provision for early retirement and pension commitments. Provisions are netted from the value of assets in Schedule 3 – Balance Sheet and are itemised in the notes to the resource accounts.
Public assets	Assets owned by the public sector.
Public Service Agreements	Public Service Agreements (PSAs) set out the outcomes the public can expect the Government to deliver with its resources. The outcomes are described in measurable terms. Every large government department has a PSA.
Receipt	Represents the actual cash received in return for providing a good or service or from the sale of capital assets. Contrast this with income, which represents the income earned (not necessarily received) from sales of goods and services.
Request for Resources (RfR)	An accruals-based measure of current expenditure which forms part of a Resource Estimate. It represents the basic unit of Parliamentary control. Each RfR is listed in Schedule 1 – Summary of Resource Outturn, Schedule 2 – Operating Cost Statement and in the note to the accounts which analyses the net resource outturn by function within each RfR.
Resource accounting	A set of accruals accounting techniques for reporting on expenditure by departments and the relationships between expenditure and departmental objectives.
Resource Accounting Manual	The Resource Accounting Manual is the authoritative statement of resource accounting principles against which departmental resource accounts are prepared and audited. The manual is based on UK generally accepted accounting practice (GAAP) adapted where appropriate to take account of the public sector context. The manual is endorsed by the Financial Reporting Advisory Board, an independent board set up to advise the Treasury on the application of financial principles and standards contained in the manual. The Board continues to keep the manual under review.
Resource accounts	Resource accounts are prepared annually and present the financial results of the department for the relevant year. They are prepared on the basis of generally accepted accounting practice and in accordance with the Resource Accounting Manual.

Resource based Estimate	A statement presented to the House of Commons in which a department asks for the approval of its estimated expenditure for the coming financial year. The Estimate summarises the resources required and the associated net cash requirement.
Resource budgeting	Resource budgeting involves using resource accounting information and principles as the basis for planning and controlling public expenditure by departments.
Revaluation reserve	An account within taxpayers' equity in Schedule 3 – Balance Sheet that shows the accumulated and unrealised amount of revaluations of fixed assets and stock.
Revaluations	The annual process of determining the value of an asset to ensure that assets included in Schedule 3 – Balance Sheet are recorded at the lower of replacement cost or recoverable amount.
Schedule 1 – Summary of Resource Outturn	The Parliamentary control schedule in the resource accounts comparing outturn with estimate for both resource expenditure and the overall cash requirement of the department. This schedule is only required to be prepared for departments, and is not required for agencies that are not departments. Schedule 1 includes a reconciliation of resources to net cash requirement, explanations for variances and an analysis of income payable to the Consolidated Fund.
Schedule 2 – Operating Cost Statement	A financial statement in the resource accounts which shows resources consumed during the year by the department in providing its services. It includes both administration and programme expenditure and related income. A Statement of Recognised Gains and Losses is also included as part of Schedule 2.
Schedule 3 – Balance Sheet	A financial statement in the resource accounts which shows the assets, liabilities and taxpayers' equity of a department or agency at the end of the accounting period.
Schedule 4 – Cash Flow Statement	A statement of cash inflows and outflows during a year. It includes a reconciliation of operating costs in Schedule 2 – Operating Cost Statement, to operating cash flows, an analysis of capital expenditure and financial investment, and an analysis of financing.
Schedule 5 – Resources by departmental aim and objectives	Allocation of the net operating cost from Schedule 2 to the objectives of the department. Agencies that are not departments are not required to prepare Schedule 5 on the basis that they do not have objectives separate from those of the department.
Service Delivery Agreement (SDA)	For the major departments, the SDAunderpins the Public Service Agreement (PSA) and provides the detail on how targets will be delivered, as well as how government will modernise and reform itself to help deliver the targets. For smaller departments which do not have a PSA, the SDAsets out the out comes they will deliver and how they will deliver them.

Social security and other pension costs

Amounts for these items are included in the staff numbers and costs note to the resource accounts. Social security costs are employer national insurance premiums paid and other pension costs are the employer's accruing super annuation costs relating to existing employees.

Spending Review

The public expenditure framework involves setting firm three year plans. The most recent Spending Review, SR2002, set out departmental budgets for the years 2003-04 to 2005-06.

Stock

Includes consumable stores, goods or other assets purchased for use or resale by the department in the provision of its services. Stocks are included in Schedule 3 – Balance Sheet and where stock balances are material, further detail will be included in the notes to the resource accounts.

Supply Estimate

See Resource based Estimate.

Tangible fixed assets

Assets which have a physical identity such as buildings, furniture, plant and equipment, which are used by the department to provide the infrastructure for the provision of its goods and services. A note to the resource accounts provides information on the tangible fixed assets held by the department.

Trade creditors

Creditors which arise in the normal course of activities of a department. See creditor.

Working capital

Working capital is the difference between the balances of current assets and current liabilities included in the balance sheet. The cost of capital charge that departments are required to pay provides an incentive to departments to improve the management of these assets and liabilities.