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Dear Accounting Officer

DAO(GEN)08/02
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RESOURCE ACCOUNTS 2001-02 - TRANSITIONAL ADJUSTMENTS

Purpose and scope of this letter

This letter takes forward issues relating to the transition from cash to resource based Supply. It advises departments about adjustments to be included in their resource accounts for 2001-02 covering transitional adjustments to opening balances with the Consolidated Fund and adjustments to the Net Cash Requirement made in connection with inter-departmental charging arrangements ('throwbacks').

Action and contacts

2. Departments are asked:

- to draw the contents of this letter to those preparing 2001-02 resource accounts;
- using the guidance in the annex to this letter, ensure that those who drew up 2000-01 resource and Appropriation Accounts, review them and as necessary bring into their 2001-02 resource accounts -
 - the opening adjustments to Consolidated Fund balances, and
 - the transitional adjustments to the Net Cash Requirement for 'throwbacks'; and
- to note the following contacts –
 - treatment in Estimates and Schedule 1 (Resource Estimate Outturn) – David Dipple, GEP, HMT Treasury, Parliament Street, SW1P 3AG; email david.dipple@hm-treasury.gov.uk; telephone 020 7270 5534;
 - treatments in schedules 2 to 5 in resource accounts: contact Christine Ruston in the Central Accountancy team for a contact point – email christine.ruston@hm-treasury.gov.uk; telephone: 020 7270 4579 ;
 - cash management issues – David Shore, EFA, HMT Treasury , Allington Towers; email david.shore@hm-treasury.gov.uk; telephone 020 7270 1581.



Discussion: Impacts of the transition from cash to resource based Supply for 2001-02.

3. In the transition from cash to resource based Supply, it is important, for the purposes of parliamentary control over income and expenditure, that departments fully and faithfully represent their assets and liabilities associated with the Appropriation Accounts for 2000-01 in the opening balances of the resource accounts for 2001-02. The Assets and Liabilities Statements associated with 2000-01 Appropriation Accounts record the end-year balances for these accounts. End-year balances are also recorded in the corresponding departmental resource accounts. However, there may be legitimate differences between the two in respect of amounts owing to (or, more rarely, by) the Consolidated Fund. These differences may arise from the use of 'shadow' Resource Estimates in 2000-01 which may have led among other things to differences in appropriations in aid limits; and the application of different accounting treatments, including the recognition of working capital movements in the Net Cash Requirement for resource accounts and the use of 'throwback'¹ in Appropriation Accounts. Where such differences exist, departments must bring their resource account balances at 1 April 2001 into line with the closing balances recognised in their 2000-01 Appropriation Account Asset and Liabilities Statements. They will also need to adjust their Net Cash Requirements for 2001-02 where there has been throwback of payments under inter-departmental charging arrangements (see footnote 1). The **attached annex** sets out the main circumstances in which adjustments are likely to be required and the treatment to be adopted.

4. Where there are factors other than those specifically covered by this guidance, departments are asked to ensure that they observe the key principle, ie that they must fully and faithfully represent assets and liabilities associated with Appropriation Accounts for 2000-01 be in the opening balances of the resource accounts for 2001-02, and that there should be no 'double counting' of receipts and payments.

5. It should be noted that none of these adjustments affect the Appropriation Accounts or resource accounts for **2000-01**. The adjustments to balances are to be made as bookkeeping entries as at 1 April 2001 and will be brought into the resource accounts for 2001-02 as adjustments in that year, as will be any adjustments made for 'throwback'. See also the **attached annex**.

6. This letter has been agreed with the National Audit Office.

Rob Molan
Second Treasury Officer of Accounts

¹ "Throw-backs" occur in inter-departmental charging where the lead department incurs the expenditure but does not charge the other departments until the next financial year. Under cash accounting rules in annex 14.2 of *Government Accounting 2000* (see www.government.accounting.gov.uk) the other departments had to throw back their related expenditure into the year the lead department incurred the expenditure even though they paid for it in a subsequent financial year.

Adjustments / reconciliation's required to resource accounts for 2001-02

Item 1 Adjustment of opening creditor to the Consolidated Fund for the prior year's surplus to be surrendered

1. The net expenditure recognised in Appropriation Account(s) for 2000-01 is likely to be different to Net Cash Requirements recognised in departmental resource accounts for 2000-01. (A reconciliation between the two amounts is required to be included as a note to the resource accounts for 2000-01.) For this and other reasons set out below, the 'Surplus' on the Appropriation Account is likely to differ from the unspent amounts of cash drawn down (including surpluses transferred from the previous year) to meet the Net Cash Requirement, represented as a creditor in the resource account.

2. An opening adjustment in the resource accounts for 2001-02 is therefore required to amend this creditor as at 1 April 2001 to be the amount of cash actually owing by the department, as derived from the Appropriation Account(s). The adjusted creditor will thus be the amount of the declared Surplus in the audited Appropriation Account, **less any amounts of Supply grant un-drawn (or exceptionally repaid) at 31 March 2001**. If, because the department has financed some of its expenditure other than from Supply, the result is negative, then that should be included instead as a Supply debtor. Exceptionally, where at 31 March 2001 a department has not surrendered surpluses relating to earlier years, these too must be included in the balance.

3. Where a department has an excess rather than a surplus on its Appropriation Account, no creditor balance will arise. Therefore it should adjust any that does exist in the resource account to zero. The resource account should not include, as a debtor, the amounts needed to make good the Excess Vote. However, if an excess occurs but the department has not drawn down all its Supply (eg where it has mistakenly funded expenditure with sources of finance other than Supply), then the resource accounts should include that undrawn balance as a debtor.

4. The contra entry for all such adjustments will be to the General Fund.

Item 2 Adjustment of opening creditor to the Consolidated Fund for surrender of prior year excess appropriations in aid

5. The amount of any excess appropriations in aid recognised in the Appropriation Account is likely to be different to that recognised in the resource account, not least because the latter is recognised on an accruals basis. Any creditor to the Consolidated Fund in the resource account for such excesses needs to be adjusted as at 1 April 2001 to be the amount of such excess reported in the audited Appropriation Accounts, less any amounts paid over by 31 March 2001. If, exceptionally, excesses relating to earlier years remain unpaid at that date, these too must be included in the balance.

6. The contra entry for such adjustments will be to the General Fund

Item 3 Reconciliation of opening creditor to the Consolidated Fund for surrender of other Consolidated Fund Extra Receipts (CFERs) for the prior year

7. Differences may exist between the CFERs recognised in the Appropriation Account Assets and Liabilities Statement as owing to the Consolidated Fund, and the creditor to the Fund for such amounts in resource accounts. This is because in

resource accounts, the income, and the consequent liability to the Fund, are recognised on an accruals basis (*Resource Accounting Manual* 6.7.2). This applies both to CFERs taken as operating income and to those outside the scope of the department's activities and not so recognised. Accordingly, in the absence of error, no adjustment should be needed to take account of such differences, and the balance in the resource account at 1 April 2001 should remain as at 31 March 2001. However, departments should carry out an exercise to reconcile the two figures to show that no error exists. The difference between such adjustments should be the amount of the debtors that relate to such income. Departments must ensure that where, exceptionally, they have CFERs relating to earlier years remain unpaid at that date, they also include these in the resource account balance.

8. The contra entry for any such adjustment will be the General Fund.

Item 4 Overall review of balances to be carried forward to 2001-02

9. As a final component in this process of adjustment, departments should review all the other balances that appear in the Assets and Liabilities Statement associated with their audited Appropriation Account for 2000-01, to ensure that they have fully and faithfully represented all such debtor and creditor balances in the balances brought forward in the 2001-02 resource accounts.

Item 5 Treatment and disclosure of adjustments to balances

10. Departments should make in-year adjustments as at 1 April 2001 to their opening balances for 2001-02 in respect of amounts due to, or from, the Consolidated Fund, in the way and for the reasons set out above. With the agreement of the Financial Reporting Advisory Board, departments should not amend the prior period comparative figures or disclose the impact on the results of the preceding or current period. This is because the previous year's figures will already be on the basis of resource-based Supply. Also they should not include the amount in the Statement of Recognised Gains and Losses. A note to the accounts should describe the adjustment in the following terms, and be cross-referenced to notes dealing with balances which have been so adjusted (ie notes dealing with debtors, creditors, and the General Fund). The note showing movements in the General Fund should show the amount of the adjustment:

“Adjustment to opening balances as a result of implementing resource-based Supply: The opening balance of amounts due to the Consolidated Fund has been adjusted to bring it into line with the amount assessed as due at 31 March 2001 on the basis of the 2000-01 Appropriation Accounts rather than on the basis of what was recorded as due in the department's 2000-01 Resource Accounts. Whereas the latter reflected the accounting conventions adopted for resource-based Supply, this was for illustrative purposes, and the amount actually due was assessed on the basis of the former. This is a transitional adjustment because Resource-based Supply was implemented in 2001-02. The amount of the adjustment is an increase/decrease of £x in the opening creditor balance, and an increase/decrease of £y in the opening debtor balance. The corresponding adjustment is to the General Fund. Because the 2000-01 resource accounts followed the accounting conventions for resource-based Supply, comparative figures for 2000-01 have not been restated, the effect on

the current and preceding years have not been disclosed, and the adjustment has not been included in the Statement of Recognised gains and Losses.”

Item 6 *Adjustments for ‘throwbacks’ to 2000-01*

11. Departments can have inter-departmental charging where the lead department incurs the expenditure but does not charge the other departments until the next financial year. Under cash accounting rules in annex 14.2 of *Government Accounting 2000* the other departments had to throw back their related expenditure into the year the lead department incurred the expenditure even though they paid for it in a subsequent financial year. Therefore in order to prevent such throwback payments and receipts being recognised in the Net Cash Requirement for 2001-02, departments should include an adjustment line in Schedules 1 and 4 of the resource accounts for 2001-02. For ‘paying’ departments the adjustment will lead to a reduction in the Net Cash Requirement and for ‘receiving’ departments, an increase. As appropriate, the Reconciliation of resources to Net Cash Requirement in Schedule 1 and the Analysis of financing and reconciliation to the Net Cash Requirement in Schedule 4 should include a final item or items:-

Transitional adjustment*

(Payments)/ Receipts in 2001-02 which, in accordance with cash accounting conventions, have also been accounted for in the Department’s Appropriation Account(s) for 2000-01

** To be shown gross where a department has both made and received payments ‘thrown back’*