



In April 2003, the Government completed the move to the new resource based financial management system, with the full implementation of accruals based accounting and budgeting in central government. The new system brings together central government planning, budgeting, Estimates and reporting on to a full resource basis.

The move to the new resource based financial management system has involved:

- Publishing accruals based resource accounts alongside cash based appropriation accounts for 1999-2000 and 2000-01.
- Presenting the first full set of resource based Estimates for 2001-02 to Parliament in April 2001.
- Resource accounts replacing cash based appropriation accounts with effect from 2001-02.
- Moving to full resource budgeting in the 2002 Spending Review.

The first edition of this booklet, published in June 2001, identified specific examples of better decision taking in departments arising during the early stages of the move to the new resource based approach. The second edition, published in July 2002, identified a number of further examples of improvements departments had made.

This revised and updated edition incorporates more examples of better decision making in departments which have emerged over the past year. It is structured as follows:

	Page
Better decision taking in departments	2
Asset management	3
Cash and working capital management	7
Costing	9
Budget planning and delegation	13
Training and development	16
Performance monitoring	20
Glossary	21
Further information	22

Better decision taking in departments



The new resource based financial management system is a key element of the Government's drive to provide world class public services. This major reform of public finance brings to central government the highest standards of financial management and reporting used in the rest of the economy, providing better information for managers and better incentives to reward good management.

The UK is acknowledged to be among the world leaders in this field. As such it has been able to provide help and advice to a wide variety of countries round the world.

Benefits

The first edition of this Guide, published in June 2001, noted that a number of departments and other spending bodies within government had already identified benefits to their operations as a result of the move to the new resource based approach to financial management. A number of new examples were contained in the second edition of the guide published in July 2002, and further new examples have emerged over the past year.

Examples of the benefits of the resource based approach include:

- The identification of all assets owned by departments has provided a framework for departments to take responsibility for properly managing their fixed assets.
- The new resource based approach has improved the management of working capital by providing incentives for the better control of creditors, debtors and stock.
- Resource accounting requires that expenses and income are allocated to each of a department's objectives. The main benefit of costing objectives is that the Government is able to demonstrate to taxpayers the relative resources consumed by the services it provides.
- The move to accruals from cash has meant that departments have to calculate provisions for future payments far more accurately since they now form part of departmental plans. They are also more transparent, since they are published in the annual Supply Estimates submitted to Parliament and the outturns appear in the resource accounts.
- Resource based financial management has been a trigger for departments to re-assess and invest in new management information systems in order to best utilise the new resource information. It has also been a catalyst for investing in financial training by departments.

New examples

This updated version of the "Green Guide" identifies more examples of better decision taking in departments as a result of the adoption of the new resource based approach. These, together with some of the examples contained in the earlier editions of the Guide, are described in the following sections.



Asset management

Asset management

The need for each government department to identify in its resource accounts all of the assets it owns has provided a framework for departments to take responsibility for properly managing their fixed assets. This includes full asset recording and maintenance of up to date records. It has also led to greater transparency in the management by departments of their assets.

Alongside the production of resource accounts, an integral part of the Spending Review process has been the preparation by departments of Departmental Investment Strategies (DISs) and forecast balance sheets.

The preparation of these documents has led to significant improvements in the management of departmental assets. The process of compiling forecast balance sheets for the first time in the 2002 Spending Review (SR2002), in particular, has provoked investigation, analysis and forward thinking to an extent that would not have happened without the move to the new resource based approach.



The **Foreign and Commonwealth Office's** (FCO) 2002 DIS reported that the department planned to continue to fund around £100million of its investment needs by selling under-performing properties, but that the distribution of the proceeds would change in recognition of the increasing impact of asset recycling on its estate assets. Gross asset recycling revenues were split 50:50 between investment in the estate and IT during the SR2000 period (2001-02 to 2003-04). From April 2004, the FCO intends to fund the costs of re-providing properties as the first claim on the asset recycling revenues (expected to be around 60 per cent of gross receipts) and split only the remaining revenues equally between investment in the estate and IT.

Thus the share of asset recycling revenues invested in the FCO estate will rise from 50 per cent during 2001-04 to 80 per cent during 2005-06, and the IT share will reduce from 50 per cent to 20 per cent, since the department will by then have met the greater part of its IT infrastructure needs. Re-provisioning decisions, as with other investment decisions, will be informed by resource based information on the relative cost effectiveness of rent or buy options. The FCO has also developed a series of traffic light key performance indicators for its estate. The measures include whether a property is providing an adequate return and the rental cost against local benchmarks.

HM TREASURY



Resource accounting has prompted a fresh look at the way in which **HM Treasury** manages its residual investments in the former nationalised industries. It has also encouraged improvements to the department's systems for managing its IT and other operational assets.



Analysis of the balance sheet implications and related resource consequences supported decisions by **HM Customs and Excise** when looking at options to replace part of its fleet of cutters. One of the offers on the table involved significant up front and stage payments in exchange for a discount. When considered on a 'traditional' cash basis, this looked like the preferred option. However, further analysis demonstrated that this approach did not produce the best overall value for money solution when taking account of the full resource consequences.

Asset management



A greater focus on its asset base has led the **Ministry of Defence (MOD)** to rationalise and reduce a large volume of assets no longer required, in order to improve asset utilisation and reduce cost of capital and depreciation charges. Property disposals amounted to £810 million by 2002, against a target of £710 million, producing significant savings for reinvestment elsewhere. Greater incentives to maintain existing equipment in service longer have produced non-cash savings and helped to maximise return on investment.

The MOD has also reviewed its capitalisation policies in respect of refits and overhauls of defence assets. Where required, it has improved the quality of its accounting data, with the result that the carrying value of ships and submarines and related depreciation charges now more accurately reflect the effect of periodic refits and overhauls which can form a substantial element of asset values.



The **Lord Chancellor's Department** has reduced courtroom overcapacity through rationalising the use of space, and as a result has disposed of surplus assets. The department is also making better use of its assets by hiring out its buildings for functions at weekends and evenings. For example, the Grade I listed Gothic building of the Royal Courts of Justice, with its magnificent central hall, is already being hired out for dinners, conferences and balls.

HM TREASURY



Under arrangements for recovering coins and other artefacts from the wreck of the vessel HMS Sussex, which sank in 1694, a licensing agreement between HM Government and Odyssey Marine Exploration was signed in September 2002. Information is given in the 2001-02 accounts of **HM Treasury** and the **Ministry of Defence** which explains how arrangements for meeting the future costs of the excavation of the wreck and for accounting for the proceeds from the sale of any coins and artefacts will affect each department's assets and liabilities.



Thus the requirement to report material "post balance sheet events" helps to keep in view the expected impact of such events on departmental financial statements, and also illustrates joint management of an event affecting more than one departmental programme.

Department for
Transport

Reliable and clear information about financial transactions and their potential or actual impact on assets and liabilities is an essential pre-requisite for effective management of resources: resource accounting encourages good presentation.

For example, the accounts of the **Department for Transport** include comprehensive notes on the department's investments, and on major PFI contracts such as for construction of the Channel Tunnel Rail Link.



Links to the **Office of Telecommunications'** fixed asset system resulting from the introduction of resource based financial management have led to better tracking of assets and minimisation of loss through appropriate control. There has also been better use of assets through an understanding of expected life and capitalisation policy, for example upgrades and enhancements.



Asset management



The introduction of resource based financial management has led the **Department for International Development** to review information management arrangements for balance sheet items such as loans and guarantees to European Institutions, provisions for relief on bilateral loans and the investment value of sponsored bodies.

The department also now has a better focus on the rationale, taking account of resource consequences, for investment in administrative capital, including decisions on options for accommodation for new offices being set up overseas.



Capital decisions by the **Northern Ireland Office** are now taken with regard to value for money and all the relevant costs of acquiring, owning and using the asset, whereas in the past consideration was only given to budget constraints imposed by the initial purchase price.

Notional costs in particular have impacted on value for money oriented decision making, with branches now assessing the quality and cost of all services received, regardless of whether or not they have been hard charged for them.



The decision by the **Crown Office and Procurator Fiscal Service** to terminate an IT lease early, and the lease or buy decision for replacement kit, reflect a better decision making process resulting from the new resource based approach.

The resource budgeting consequences of the decision differed from the purely cash budgeting consequences and, in practice, matched more closely the economic decision on what was the best approach to adopt.



As part of the Deputy Prime Minister's initiative to make better use of surplus public sector land for housing, **English Partnerships** has set up a register of such land to act as an information clearing house for government departments and their agencies and non-departmental public bodies (NDPBs). Before any assets are sold on the open market, departments must place information on the register for 40 days, to allow other departments to express an interest before the asset can be disposed of.



Software IT assets are now recognised as a capital asset, delivering benefit to the **Inland Revenue** by spreading the cost over the lifetime of the assets, which has resulted in more predictable and smoother operating costs.



At the government wide level, the **National Asset Register** (NAR) contains summary information on the assets owned by each government department and its sponsored bodies, together with asset valuations. The NAR is a vital part of the Government's drive to improve efficiency in the public sector, enabling more informed decisions to be made about the holding, acquisition and disposal of government assets.

The latest version of the NAR published in 2001 revealed that in 1999-2000 alone some £1.3 billion worth of surplus assets were disposed of.



Asset management

department for
education and skills

The publication of the NAR, and the increased focus on asset valuation which resource accounting has introduced through the development of departmental asset management plans, has meant that departments now have a much better idea of the condition of their asset base.

For example, the **Department for Education and Skills** can now produce more detailed information about the condition and performance of its assets. This includes regular monitoring of the performance and condition of property assets and having property asset management plans in place to optimise their performance. This facilitates better decision making about the maintenance, disposal and replacement of assets and has provided savings in this area.

The department is also more aware of the need to take account of the resource consequences of capital procurement and the capitalisation of certain contractor costs where software is generated internally.



Cash and working capital management

Cash and working capital management

Resource based financial management has led to significant improvements in the management of working capital, by providing incentives for the better control of creditors, debtors and stock.

For example, the information provided in resource accounts allows departments to see exactly the average time taken to meet their payment obligations. Improvements can be measured year on year and the information is publicly available in the audited accounts.

The new system also means there is no longer any benefit for departments in spending up unused cash at year end eg to build up stocks, or in delaying payments to stay within cash limits in a single financial year, as the cost of building up stocks or running services is measured when the resource is used. This means that departments now have better incentives to manage their working capital.



A significant benefit to the **Serious Fraud Office** from adopting the new resource based approach has been the explicit recognition of cost awards made against convicted fraudsters and in the Office's favour as debtors. This has raised the profile of the issue of how much money is due to Government but is not being collected by the Courts.



The **Department for Work and Pensions'** (DWP) functions are mainly concerned with processing benefit claims and regularly making a large number of relatively low value payments. Better management of cash flows and other working capital balances are two of the key areas where improvements have continued to be made to the department's operations since the introduction of resource accounting and the implementation of HM Treasury's cash management scheme. Under cash accounting, the department's accounts would not have reported the department's £2.2 billion of debtor balances and £3.1 billion of creditor balances (based on 2001-02 figures).

Reporting these balances in the department's resource accounts has provided greater impetus to focus DWP towards improving its ability to identify, record and collect debt and to pay creditors the correct amount.



The introduction of the new resource based approach has obliged the **Scotland Office** to give closer attention to the profiling of cash movements, with significant benefit to the taxpayer, by better informing the work of HM Treasury's Debt Management Office.



The **Prison Service** is currently undertaking a service-wide project to rationalise the organization of works departments within prisons by operating area based central support departments to profile and control works services. Apart from the cost savings that can be made by benchmarking costs of works services in different prisons – which would not be possible without a resource based accounting system – effective materials management will enable stock levels to be reduced. Whereas, under cash accounting, stock levels were unimportant, capital charges have highlighted the importance of keeping stock levels down.

Cash and working capital management



Resource accounts demonstrate how well cash is being managed. Schedule 3 of the **Department for Culture, Media and Sport's** (DCMS) 1999-2000 resource accounts showed that the department had reduced the amount of cash held at bank during the year from £240 million to £70 million, and this further reduced in the following year to £12 million. Most of this resulted from DCMS' responsibility for receiving and monitoring TV Licence fee receipts paid to the department by collection agents, such as Consignia, acting under contract to the BBC as Licensing Authority. This money is surrendered by DCMS to the Consolidated Fund. At any time, however, there will be a cash balance in the department's own account awaiting surrender.

The new resource based approach prompted DCMS to take steps to improve cash management and minimise the amount of cash held. The department achieved this by taking direct control over cash management from its accounting contractor, pro-actively managing cash through better forecasting and timing of transfers, and increasing the frequency of transfers to the Consolidated Fund.



The **Ministry of Defence** has reduced its stocks by £6.5 billion since 1998. This is due to a number of factors, notably the pressure to improve stock control systems as part of the requirement to produce departmental balance sheets. The Defence Logistics Organisation (DLO) has introduced capital charges as an incentive to reduce stocks further. It has also refined its data collection and analysis techniques, including analysis of future demand by individual stock item, so that the appropriate level of stock provision can be more accurately determined.

The DLO is also implementing a new purchase order system that is improving the quality of creditor data by better matching delivery, invoice and payment records.



Costing

One of the key elements of the new resource based approach is that it requires departments to undertake more accurate costing of activities, with expenses and income allocated to each of a department's objectives. This helps to ensure that resources are allocated to priority services in line with the Government's objectives.

New resource based information is already assisting departments, for example in delivering Public Service Agreements – the high level, outcome focussed goals which departments agree during the course of spending reviews. The main benefit of costing objectives is that government is able to demonstrate to taxpayers the relative resources consumed by the services it provides. Some of the key points emerging from the new resource based costing data are discussed in this section.



The true level of resources consumed by **Defence** is shown to be considerably higher than as measured under cash.

This is because the costs of the large assets base held by the Ministry of Defence – some £87 billion – are included in the department's budgets for the first time.



An analysis of figures for the **Royal Navy** is revealing. Under the old cash based regime, the Navy's budget was some £1.7 billion, of which around 76 per cent was accounted for by salary costs. Under the new resource based approach, the figures look markedly different.

The true cost of the Royal Navy, including non-cash elements such as cost of capital employed and depreciation, is some £4.7 billion. Of that, manpower accounts for about 28 per cent. When faced with medium to longer term decisions, such as manning levels and manpower structures, this information will help the Ministry of Defence make more informed judgements about how the Service can most effectively be equipped and managed.



Under the new resource based approach, capital costs on the NHS Estate and provisions for clinical negligence are fully recognised in the health budget, providing a more comprehensive measure of spending on **health**.

The Department of Health's resource accounts provide transparent and comprehensive information on clinical negligence liabilities, which are regularly reviewed. At March 2002, provisions for clinical negligence stood at £5.3 billion, an increase of 168 per cent over the previous 2 years. This more accurate picture of its liabilities enables better planning of the resources available to the health service.



By identifying the full costs of cases, the **Serious Fraud Office** (SFO) has been able to target resources appropriately to future cases based on previous experience. This information was used extensively in discussions on future SFO expansion and in the in-year forecasting and budgeting processes.



The measure of spending by the **Department for Education and Skills** (DfES) remains largely unchanged, mainly because the schools estate is within the control of local authorities and thus is not subject to capital charging.

However, the resource based treatment of student loans has enabled decisions on loan expenditure by the DfES to be made on the basis of the full long term cost of making the loan rather than cash transactions in the early years. The cash treatment of subsidised loans involves the full cash cost of making the loan being recognised up front so that a loan is treated no differently in the accounts from a grant. In later years, loan repayments count as negative expenditure but the cost of the subsidy is not recognised.

Under the new resource based approach, only the cost of the government subsidy plus the likely amount of bad debt is reflected as a cost (through making a 'provision' in the current budget). This provides a clearer measure of the real cost of making loans, and brings out the benefits to the taxpayer of support through loans rather than grants.



Other costs are now properly taken into account for the first time. For example, the long-term environmental impact of decisions is reflected in provisions, which are recognised in departments' resource budgets and accounts. Thus, in making a decision to commission a nuclear submarine, the **Ministry of Defence** would need to take into account in its assessment the costs of eventual decommissioning.

Similarly, recent consideration of adjustments to the force structure took into account for the first time the full resource (including non-cash) implications, which materially affected top level decisions.



The data for the **Department for Environment, Food and Rural Affairs** reflect the economic effect of the foot and mouth outbreak. The accounts show that most cash compensation payments were made in 2001-02, but because the outbreak had occurred in March 2001, virtually all foot and mouth spending had been scored in 2000-01 by the creation of a provision for future payments. This reflects best accounting practice, showing the costs to government as they arise.

The need to accrue for costs means that the department is now more effective in taking account of the resource implications of decisions or circumstances as they arise, even though the associated cash payments may occur in future years.



When the **Royal Household** took over responsibility for royal travel in April 1997, the Ministry of Defence (MOD) did not have sufficient information on the composition of its charges to demonstrate that they were fair and reasonable.

As the MOD's financial systems were improved in preparation for the move to resource based financial management, the Household and the department worked together to improve the accuracy and fairness of its costing methods, including the calculation of variable costs and the apportionment of overheads between users. As a result of this and other changes, unit charges per hour fell by an average of around 7 per cent.



The introduction of capital charges means that, in recovering their costs, departments are able to include the cost of the capital used by the department and not just the cash expenses. This has meant a better reflection of costs for the **Courts Service**.



In preparing its own accruals-based accounts, the **National Audit Office** identified the need to meet the costs of its early retirement scheme.



Jobcentre Plus is developing Activity Based Information (unit costs and productivity measures) for its key activities calculated from its management information system on a resource basis as part of supporting information for its Annual Performance Agreement reporting.

Activity Based Information will form part of the management information toolkit for managers providing improved links between financial and performance management, and is intended to be used as part of the Agency's resource allocation model.



Any bids for additional resources from whatever level within the **Foreign and Commonwealth Office** must be supported by evidence that the full resource implications have been taken into account. For example, a bid for additional staff must be accompanied by information on the associated capital items (computers etc) that will be required and the related depreciation and interest on capital that will be charged on the assets.

Where activities have to be costed accurately in order to justify charges, eg issuing visas or passports or seeking reimbursement from other government departments for services provided at FCO posts overseas, justification of the fee level is easier and more robust due to better understanding and greater confidence in the costing process.



Following the move to resource accounting, the **Treasury Solicitor's Office** decided to change the arrangement whereby the Office initially met the cost of (lost) court cases before recovering these costs later from departments' clients.

With effect from 1 April 2001, these costs are borne directly by departments, who are legally liable. This move has helped reduce the Office's working capital, and ensures costs fall more appropriately where they belong.



Following the accruals principle, the **Office of Fair Trading** has been able to anticipate and charge litigation costs as and when it has become sufficiently certain they will be awarded, rather than when they are paid.

For example, costs of £4.7 million relating to a case, which were paid out in May 2002, had already been provided for and charged in the financial years up to 2001-02.



Resource accounting has highlighted the size of long term government liabilities connected with the civil nuclear industry (£7.3 billion) and the coal industry (£4.5 billion). These liabilities are reflected in the **Department of Trade and Industry's** balance sheet.



Decisions by the **Department for International Development** on its early retirement programmes have benefited from the greater transparency provided by resource based financial management of the full costs involved, by taking account of the longer term overall cost of the programmes rather than the immediate cash costs.



With the introduction of resource based financial management, the **Lord Chancellor's Department** now recognises the full costs of its activities. This is important in deciding the level of fees to be charged in order to achieve full cost recovery.

The recording in the resource budget of legal aid provision (which represents the legal aid commitment of the department) has resulted in a financial model being developed to assist with the movement in provisions which have a large impact on forecast outturn due to the size of the expenditure. This has brought much greater focus to spending on legal aid.



The **Department for Environment, Food and Rural Affairs (Defra)** has carried out a strategic review of its core policy activities. The Activity Baseline Review analysed all of the department's policy activities on a resource basis, identifying in detail exactly what Defra does, how much it costs from policy through to delivery and to what extent it contributes to the outcomes Defra is aiming to achieve. The results will ensure that resources are deployed for maximum effect on the department's priorities and are used as efficiently and effectively as possible.



Budget planning and delegation

Budget planning and delegation

Because of the increased sophistication of the financial data available under the new resource based approach, decision takers have information available to allow them to view the long term consequences of their actions, not just the immediate cash implications. In addition, the new system has incentives built in to reward good decision taking, allowing resources to be redeployed into priority areas.

The new resource based approach has thus been a trigger for departments to re-assess and invest in new management information systems in order to best utilise the new resource information in budget planning. This has in turn allowed responsibility for financial management to be delegated to the appropriate level.



The **Department for Education and Skills** is well placed to use resource-based information effectively. Since April 2001, the budgeting process has been devolved to directorates, with central support initially available from finance to help monitor budgets. This has now been further devolved to directorates, so that they only seek central finance support for items outside delegated areas or financial limits. This allows greater flexibility within directorates to best manage changes within their own areas without the need for central approval.



Under cash, the **Foreign and Commonwealth Office's** (FCO) capital budgets for strategic new investment in IT, security and the estate were held by small, specialist strategy units at the centre of the department. This was felt to be a more efficient and equitable way of spending limited resources at a time of major change. It also had the additional benefit of allowing flexibility in the department's response to currency fluctuations and sharp changes arising from asset revaluations. But the FCO was concerned that this structure prevented individual front line budget holders from bearing the full resource cost of operations.

Improved management information and the introduction of resource based management have provided a vehicle for addressing this. The resource costs of the estate are being devolved to front line budget holders within an internal leasing arrangement. The potential devolution of IT and security resource costs is also being explored.

The FCO has also introduced an internal market for the provision of services, including IT and property running costs. Revenue budgets are devolved to the individual overseas Commands and Posts with responsibility at the front line for the delivery of targets and objectives.



The **Inland Revenue** has operated extended delegated budgeting arrangements for many years, with all of the department's delegated budget systems accruals based and expenditure reports including non-cash costs.

Building on this already well established hierarchy of financial delegation, stock accounting and accruals-based budgets have been introduced which have enabled the department's managers to improve control.



Budget planning and delegation



Following the move to the new resource based approach, Directors within the **Department for Culture, Media and Sport** realised that resources could be used more effectively in meeting their objectives. Consequently, pay and non-pay running costs were more fully delegated to them, together with the flexibility to allocate these resources as they required to meet their business planning needs.

In addition, each Director appointed a Group Finance Manager to provide specialist advice and guidance to the business planning, financial management and decision making processes.



The introduction of resource budgeting is delivering further improvements to the **Department for Work and Pensions'** business planning processes, enabling all managers to take account of the full costs of the resources employed in meeting their objectives. In support of the underlying principles of resource based financial management, the department has substantially reorganised both the delivery of its outputs and the provision of performance information (financial and non-financial).

The department also prepared for the introduction of the new system by developing a new finance regime which provides control over the full costs of operations via new planning, budgeting, monitoring and reporting arrangements.



The **Scotland Office's** management information system, which was installed to meet the requirements of resource based financial management, has allowed the department to devolve financial control to individual business units.



Linking costs to outputs and outcomes through the activities that generate them is a key feature of **HM Customs and Excise's** resource management processes.

The levels of activity required to support the delivery of Public Service Agreement targets play a significant role in determining resource allocations. To monitor subsequent progress, the department has also developed a comprehensive set of monthly management accounts. These bring together information on operational performance, activity levels and resource consumption, as well as providing progress reports on significant projects.

Supporting all of this, guidance has been published and a comprehensive range of *e-learning* training modules are being developed.



The **Government Actuary's Department** (GAD) has been largely self-financing for a number of years, providing its actuarial services on a fee paying basis. Fee structures are now set on a full resource recovery basis. This has put GAD's competitive tenders on a truly level playing field, and has demonstrated to the department's private sector competitors that proper comparisons can be made reflecting the full costs of delivering its services. This has allowed GAD's government clients to compare its fees favourably to those set by the private sector.



Budget planning and delegation



The development of resource based information has improved the ability of the **Privy Council Office's** (PCO) finance department to provide up to date information to the management board, enabling the board to make more informed decisions regarding day to day as well as long term running of the department. The accurate recording and updating of the PCO's assets has been of particular benefit.



Following the introduction of resource based financial management, the **Office of Government Commerce** now invoices monthly rather than quarterly to ensure adequate control over its own activities and to enable departments being charged to do the same.



The **Home Office** is currently undertaking a departmental-wide rationalisation of its budgeting process through the implementation of Oracle 11i. It is anticipated, as a result, that more accurate data will be available to enable better budgeting and planning decisions at a local and departmental level through the introduction of the requisite procurement methodologies.



The training of budget managers has resulted in improved financial management in the **Lord Chancellor's Department**. This has enabled resource pressures to be identified at an earlier stage through improved forecasting. All operational areas are required to provide a full resource forecast and update it throughout the year. Monthly analysis of actual results and forecast expenditure is undertaken with each business area, and recovery plans are drawn up where variances are reported.



In April 2003, the **Ministry of Defence** implemented the final stage of its more commercial approach to resource management, whereby all decisions are now based on the true cost of output. This change has had a significant impact on the department's finance function – each section previously had its own finance department, but now there is only one.



HM Treasury has made a number of improvements in implementing resource based financial management, which should lead to better budget planning and delegation. These include delegated responsibility being established for all balance sheet accounts, with monthly reconciliation of significant ones; quarterly balance sheets being prepared; full reconciliation between management accounts, board reporting and Estimates; and mandatory use of purchase orders backing invoices/accruals and commitments.

Training and development



Training and development

The introduction of the new resource based financial management system has been a catalyst for encouraging departments to invest in financial training for their staff – specialists and non-specialists alike.

The provision of an appropriate number of properly trained staff with the necessary skills is essential in order to ensure that departments get the most from the new resource based approach to financial management.



Implementation of resource based financial management presented the **Department of Trade and Industry (DTI)** with the challenge of training not only their key financial personnel in headquarters, but also Finance Officers and staff in government offices and in the department's agencies.

In response, the DTI developed a number of courses with an emphasis on role-based training, in conjunction with its supplier of finance training; and its management accounting system operator has provided systems training. In addition, a new training plan has been developed alongside implementation of the new finance system, to enable the department to make a significant advance in maximising the benefits of the new resource based approach to financial management.



The **Department of Health** has developed a number of different approaches to delivering training on resource budgeting. Five groups have been identified that are involved either in departmental budgets or NHS provision, ranging from Directors and their business support staff to budgetary control liaison officers and regional office staff.

Skill requirements cover a broad range, from a general awareness of the new process through operational skills to interpretation and implementation of detailed technical information. Departmental training has been delivered via seminars, briefing sessions, written guidance and one-to-one desk training. The NHS has delivered training via a series of regional training "road shows".



The **Department for Environment, Food and Rural Affairs (Defra)** has appointed five Account Managers in its headquarters Financial Management and Information Division. Qualified accountants with government finance experience, the Account Managers are the initial contact point in finance for Defra's business areas. They provide hands-on advice, support and guidance to the front line business areas on all aspects of Defra's budgeting, monitoring, accounting and reporting procedures. They also ensure the business area operational finance perspective is fully considered when HQ policy teams propose changes and improvements to Defra's finance processes.

The introduction of resource accounting has also prompted a major review of the financial training needs of over 1,000 key staff. This has led Defra to enter into a partnership agreement with a private sector company to help it deliver focused and practical financial management training at all levels, both through a one-off concentrated effort and longer term strategy.



Training and development



The **Office of the Deputy Prime Minister** and the **Department for Transport** share financial training resources which include a suite of courses introducing resource accounting to both existing and new finance staff. Both departments also have access to on-line Finance Training Guides which provide information on the training appropriate to each financial role.



Over the last year, finance support teams have been created to ensure that resource management principles are embedded in the financial systems and procedures in both departments. The support teams provide local accounting advice and support, ensuring budgets are managed at a local and corporate level on an accruals basis. Role based training events have been held for all Programme Budget Managers and regular financial training fora are being set up to provide continuing assistance and guidance for these and other financial roles.

Currently running across both departments are one-day resource based simulations aimed at improving the knowledge and skills of finance managers, and during the year there has been an increase in the number of staff gaining financial qualifications.



A comprehensive finance training strategy linking needs with targeted and timed provision was developed in Spring 2002 by the **Lord Chancellor's Department**. The strategy builds on the experience of an earlier version and covers 3 years, with a monthly schedule of events set out for the first year. There is a risk assessment and arrangements in place for monitoring progress against plan. A 'RAB board game' developed by PricewaterhouseCoopers has been introduced to all staff involved in budget management.



Following the introduction of resource based financial management, the **Office of Gas and Electricity Markets** (ofgem) recognised there was a need to promote professionalism within the finance function and improve financial awareness for staff generally.

Promotion of a professional finance function was addressed by designating posts as qualified (CCAB), part-qualified (CCAB in progress) and technician (AAT & equivalent). Existing staff were then encouraged to follow an appropriate developmental route.

The financial awareness of staff has been improved by the introduction of a finance section in the induction course, and two courses – 'Introduction to Finance' and 'Budget Management' – have been run in conjunction with ofgem's supplier of finance training, FTC.



The **Health and Safety Executive** has developed a series of *e-learning* training modules for Budget Holders and Finance Managers which support its new web-based Planning and Resourcing Guidance available to all staff within the organisation. The modules cover a broad range of skills, ranging from a general awareness of the new resource management system, through understanding the processes involved to detailed operational skills and technical knowledge. The aim is for training to be delivered by various methods such as presentations, seminars or workshops, written guidance and on the job training.

Training and development



The move to the new resource based approach presented the **Ministry of Defence**, as the largest asset holder within government, with a significant challenge. In response, the department has developed and implemented a comprehensive training programme to support the move to the new system, covering professional and vocational, general awareness, business processes and systems training. A Finance Training Customer Board, chaired at Director General level, meets quarterly to coordinate the provision of training.

The department has also introduced a 'Finance Licence' scheme to ensure proficiency in key finance and resource management competences. Areas of weakness are underpinned by training sessions to aid staff in completing the assessments. On completion, they are awarded a 'Finance Licence' which confirms their suitability for their current job and gives them the required level of competence for other finance posts within the department.



As well as focusing on action required to improve performance, other benefits for the **Royal Navy** have been identified by managers as improving what managers do (what they monitor and manage), how they behave (the way meetings are conducted), issues that are managed (more devolved responsibility) and managerial relationships.



The **Home Office** is delivering a wide-ranging programme of financial awareness and resource based financial management training under various strands for staff at all levels. One strand – 'Developing Financial Skills' – concentrates on improving financial awareness and control, alongside awareness of Procurement to Pay methodology, in order to facilitate the smooth introduction of an Oracle accounting system.

The development of a 'RAB Board Game' with an external training partner has enabled some 700 managers to acquire "hands on" experience of resource budgeting and producing a balance sheet and operating cost statement. Seminars have been delivered to senior managers. A programme of training has been rolled out to all budget support staff and a dedicated resource accounting helpdesk has been established.

The Home Office has also undertaken training to deliver quality information in connection with end of year balances. The department has produced its own guidance and, in order to disseminate this information to all staff involved, has undertaken a number of training events. Topics covered include identification of assets and liabilities for inclusion in resource accounts, the audit trail, management control requirements and the methodology for completing manual returns.



A series of Financial Awareness Seminars has been delivered by the **Forestry Commission** to a significant number of the Commission's staff. In addition, the Commission's internal Finance Code has been relaunched under the badge "*Money Matters – the Definitive Guide to the Commission's Finance*", and a session on finance has been included in the newly introduced induction courses. "*Money Matters*" outlines the roles and responsibilities of cost centre managers and provides specific guidance on key financial matters. It also contains a policy level statement, best practice guidance and a link to detailed operational manuals such as the *Efinancials* manual for the Commission's financial accounting software system.



Training and development



The **Foreign and Commonwealth Office** (FCO) has introduced a workshop “How to get more money”. The aim is to explain how FCO objectives cascade down within the department and to help staff set robust and outcome-focused objectives. The course is targeted at Deputy Heads of Department and Deputy Heads of Mission on temporary posting or on pre-posting visits to the UK.



The **Department for Work and Pensions** (DWP) has made progress in establishing an improved accountability structure through restructuring the organisation of the department, which now incorporates a new finance support framework for resource managers. The key management posts within the new Corporate Finance Directorate are staffed by qualified accountants or experienced finance specialists.

All senior headquarters officers and agency senior management teams have attended a training course addressing the practical implications of resource based financial management, linking the introduction of the new PSA measures with output planning and target setting within the context of the Spending Review processes. Other courses have been organised at operational level to consider the linkages between resource consumption, outputs produced and performance targets and to address the interpretation of resource based information.

Following the restructuring of the DWP and the formation of the Central Client Group, the majority of staff in the Financial Management and Control Division provide direct practical support to resource managers across the department. These staff – known as 'Finance Contacts' – have received training in the new resource-based finance regime to enable them to provide training and financial advice to budget holders. Their role is to provide the interface between operational managers and the corporate financial systems, by providing a range of financial information, analysis and advice for all tiers of management specifically tailored to meet their individual business needs.



Performance monitoring

Performance monitoring

The focus of departments' budgetary and management information systems is now placed much more heavily on results and outcomes. It is therefore necessary to establish a clear linkage between the resource costs of a department's business (of which cash is an element) and objective measurement of its performance.

Brought together, these two elements enable departments to offer, and to make, genuine choices. The new system, with resource based financial management at its heart, presents the Government with a mechanism for making real, balanced and meaningful long-term choices in a way that previous cash system was unable to do.



The **Defence** Management Board has adopted the budgetary and performance management process through use of a Defence-wide balanced Scorecard, which is output rather than input focused. Unsatisfactory performance is highlighted, the reasons revealed and, where possible, executive action taken.

The four dimensions of the scorecard are output, resources, process and development. These are derived from the high level departmental strategic plan and are linked to a risk analysis which identifies critical areas for attention.

The scorecard is supported by data enabling a 'drill-down' approach to analysis to find the reasons for variances and to identify priorities for action. The scorecard is colour-coded for ease of interpretation and identifies any individual aspects requiring attention. The presentation also identifies major trends to give a context for future action.



Monthly reporting to the Executive Board has been introduced to maintain control of the **Department of Trade and Industry's** Resource DEL, both throughout the department and to its non-departmental public bodies (NDPBs). The inclusion of more sophisticated resource based information makes for better informed decision making through linking costs to objectives. This improvement is continuing in 2003-04, with further improvements made to performance management information through a balanced scorecard structured around the department's objectives.



The **Northern Ireland Office** produces a Monthly Budget Report on a resource basis for variance analysis against forecast. The Reports cover accruals, creditors, accrued income, provisions, contingent liabilities, contingent assets and notional charges. A timetable has been established to ensure that all returns needed to produce the monthly reports are available within 5 working days of each month end, so that final reports can be issued within 15 days of each month end.



Ratios in the "Big Red Guide" in the Managing Resources series (see page 22) have been used by departments to compare themselves to others and by **HM Treasury** to make comparisons across government, both retrospectively from departmental resource accounts and prospectively as part of the 2002 Spending Review.



Accruals Accounting

A method of recording expenditure as it is incurred, and income as it is earned, during an accounting period.

Assets

Rights or other access to future economic benefits controlled by an entity as a result of past transactions or events. Assets are included in the resource accounts in Schedule 3 – Balance Sheet.

Cost of Capital Charge

Government as a whole incurs an interest cost for borrowing to finance investments by departments. To improve transparency, and to ensure that the full cost of services is reflected in departmental accounts, this borrowing cost has been devolved to departments as a “capital charge”.

Creditor

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

Debtor

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

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.

Fixed Assets

Assets with an expected life of more than one year, which are held for use on a continuous basis, eg land and buildings, and patents. Fixed assets usually comprise tangible and intangible assets and are included in the resource accounts in Schedule 3 – Balance Sheet. Further details of a department's fixed assets may be included in the notes to 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 the resource accounts in Schedule 2 - Operating Cost Statement.

Liabilities

Obligations to transfer future economic benefits as a result of past transactions or events. Liabilities are included in the resource accounts in Schedule 3 – Balance Sheet.

Provision

A liability of uncertain timing or amount shown in resource accounts. Examples include bad debt 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.

Receipt

Represents the actual cash received in return for providing a good or service or from the sale of a capital asset.

Resource Accounting

A set of accruals accounting techniques for reporting on expenditure by departments and the relationships between expenditure and departmental objectives.

Resource Accounts

Resource accounts are prepared annually to present the financial results of the department for the relevant year, 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.

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 the resource accounts in Schedule 3 – Balance Sheet.

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 their assets and liabilities.



Further information

“Managing Resources” booklets

Further information on resource management issues is on the Treasury's website www.hm-treasury.gov.uk and is included in many published documents. Booklets in the “Managing Resources” series (copies available from Christine Ruston, e-mail: Christine.Ruston@hm-treasury.gov.uk) include:



Implementing resource based financial management (the “New Blue Guide”) – September 2002



Analysing resource accounts: an introduction (the “Short Red Guide”) – June 2001



Case studies (the “Orange Guide”) – January 2002



Analysing resource accounts: user's guide (the “Big Red Guide”) – June 2001



Reporting to the Board (the “Burgundy Guide”) – July 2002



Better decision taking in departments (the “Green Guide”) 3rd edition – October 2003



A strategic approach to finance training (the “Pink Guide”) – September 2001



Maximising the benefits for departments (the “Purple Guide”) – June 2001



Summary (the “Blue Leaflet”) – January 2002



Accountability (the “Chocolate Guide”) – July 2002



Faster closing (the “Mauve Guide”) – December 2002



Managing the links to Parliamentary Supply (the “Yellow Guide”) – October 2003

Other guidance

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

Public spending guidance is at www.knowledgenetwork.gsi.gov.uk/psg/psg.nsf, which contains summary guidance on a wide range of public spending issues.

Information on Whole of Government Accounts is available at www.wga.gov.uk.