Q & A brief for Departments and associated bodies

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The alignment reforms

1. Why do we need to change the current system?

There are significant differences between the three different expenditure frameworks (budgets, Estimates and departmental accounts). Large blocks of public expenditure (over a third of the total spent) are outside the Estimate and there are further differences in the boundary for departmental accounts. This means that departments have different controls against which to manage and that it is very difficult to track spending from plans through to outturn. This limits the scope for effective Parliamentary scrutiny, adds to the complexity of managing public money and requires unnecessary resource in reconciling between the frameworks.

2. How will departments and NDPBs benefit?

Departments and NDPBs will find it simpler to manage their finances and easier to explain their spending plans. The parliamentary framework will underpin the way that departments and NDPBs actually manage their money, rather than imposing a different set of controls, as at present.

3. Have these changes required primary legislation?

The legislation necessary for alignment (the Constitutional Reform and Governance Act 2010) received Royal Assent in April 2010, immediately before the Election. A motion to approve the alignment reforms was passed unanimously by the new Parliament following a debate in the House of Commons on 5 July 2010.
Budgets and Estimates

4. When Parliament is asked to vote the budget, what will happen to non-voted spending, eg Consolidated Fund standing services?

The coverage of the Estimate will be widened to include any expenditure within budgets that is currently non-voted, such as expenditure financed from the National Insurance Fund and Consolidated Fund standing services. However, because such expenditure has separate legislative authority, neither the resource/capital nor the cash would actually be voted.

5. Will there be greater risk to public spending controls?

The changes are intended to provide at least as much protection to the fiscal position as at present, and there have been few changes to budgets compared to the more substantial changes to the Estimates and departmental accounts. Control of public expenditure generally should be improved as there will be fewer, clearer, financial limits to be met and reporting will be simpler and more easily understood.

6. Will the timing of a single Supplementary Estimate make it more difficult to change plans during the year?

The single Supplementary Estimate will be presented to Parliament about two weeks earlier than at present, so it will be necessary to finalise any changes slightly earlier than happens now. It will be possible to make agreed changes to budgets before the Supplementary is passed, provided that the revised expenditure plans are subsequently reflected in the Supplementary.
7. Why has the distinction between near-cash and non-cash been removed?

The distinction between near-cash and non-cash has been removed, as there are alternative, more effective ways of managing non-cash items so that there are no increases in risk to the fiscal position. Proposals have been developed for managing depreciation and provisions, and the cost of capital charge has been removed from departments’ budgets, Estimates and accounts.

8. What about unspent non-cash end-year flexibility? Has it been lost?

EYF baselines have been restated in agreement with departments, with the result that the impact of the changes on departments’ spending power is neutral and departments have retained a fair level of the outstanding non-cash EYF stock.

9. Won’t the removal of cost of capital charges from budgets weaken incentives for effective asset management?

Although the cost of capital charge was an important change when first introduced, extensive Treasury consultation with stakeholders internal and external to government has confirmed that it is no longer seen as a powerful incentive to effective asset management. Other incentives, such as the ability of departments to keep 100% of the proceeds from asset disposals, are seen as far more significant. In addition, the alignment reforms will strengthen value for money incentives by removing the ringfence from depreciation, which will enable departments to redeploy funds if they reduce their depreciation costs. The FRAB has agreed with the removal of cost of capital charges from accounts.
10. What will change now that Parliament has agreed to net voting?

Moving to net voting will offer a number of significant benefits. The change will align parliamentary controls with Treasury controls over departmental spending, will avoid the risk that unanticipated income late in the year might be lost and will maintain incentives on departments to seek best value for money by maximising income where it is appropriate to do so. These new provisions will apply only to departments. NDPBs are already able to retain any income they generate, and no new controls are planned.

**Non Departmental Public Bodies**

11. Do the changes mean that the spending of NDPBs will be included in Estimates and resource accounts?

The spending of NDPBs will be consolidated into Estimates and resource accounts. This will not change any of the fundamental relationships between the department and its NDPBs, and the roles of the Principal Accounting Officer and NDPB Accounting Officers are unaffected (except that the department could in theory face an Excess Vote as a result of an overspend by an NDPB). NDPBs are already within departments’ budgets and including them in the Estimate allows greater transparency and better scrutiny by Parliament, without changing the relationship between the NDPB and the department.

12. Do the changes affect the independent status of NDPBs?

The status of NDPBs is largely determined by the legislation that created them. Most executive NDPBs are created as independent bodies with a set of responsibilities and powers, and the legislation usually empowers the Secretary of State to provide grant in aid (subject to conditions) to
finance the activities of the NDPB. In some cases, NDPBs are also required to act independently (in deciding on the fair allocation of funds for example). The legislation for NDPBs also says (in almost every case) that the body created is not a Crown body, so that the NDPB has a different status to departments and executive agencies. None of these distinctive features will change. NDPBs will continue to be separate corporate entities with statutory responsibilities.

13. **What about the position of NDPBs which are charities?**

We recognise that trustees of a charity have a duty to act independently and in the best interests of the charity, and cannot be under the direction of others. Consolidation does not prejudice the position of trustees, since the purpose of including NDPB expenditure in the Estimate and accounts is to provide better information to Parliament about the use of the public money it votes, and to provide Parliament with the means of challenging departments’ spending priorities. The changes will not affect the relationship between departments and NDPBs and, to ensure that the current position is maintained, the Constitutional Reform and Governance Act 2011 includes a specific provision that none of the changes are to be taken as implying control.

14. **Will Parliament now decide how much each NDPB receives as funding?**

Parliament will not be voting funds directly to NDPBs. Parliament will continue to vote funds to the department, with a requirement that the expenditure of the department and its NDPBs does not exceed the voted limit (which, under alignment, will be the budget). It will be the department’s responsibility to ensure that it makes arrangements – through, for example, the NDPB framework documents – for aggregate expenditure to be within the total authorised. Although departments
will need to ensure that NDPB expenditure is within voted limits, those controls are not new; they already exist through the budgeting framework. The main change is that the controls will now be used not only to meet budgetary limits, but also to provide Parliamentary accountability.

15. Will the responsibilities of Accounting Officers change?

The conclusion of the Treasury Officer of Accounts is that these changes do not materially alter the responsibilities or the relationships of Accounting Officers. The Departmental Accounting Officer will be responsible for the accuracy of the consolidated accounts, but will not be responsible for propriety, regularity or value for money in relation to expenditure by NDPBs. The statement of accounting officer responsibilities attached to the accounts is being expanded to make clear how the relationships work. Parliament has also explicitly endorsed these arrangements.

16. Are Excess Votes more likely in future?

With NDPBs’ net expenditure being included in Estimates, an overspend by an NDPB could lead to an excess vote if there were no offsetting savings elsewhere. Departments already manage this risk in budgetary terms, as DEL encompasses NDPB expenditure, as well as money spent directly by the department. As now, departments will be expected to be able to demonstrate that they had effective measures in place to forecast, monitor and control spending. While excess votes can occasionally occur for reasons outside of the department’s direct control, the likelihood is that the increased risk of an excess vote due to NDPB consolidation is small.
17. If NDPBs are consolidated, does this mean that the cash they hold at the year end will be surrendered to the Consolidated Fund, in line with current arrangements for departments?

The voted cash limit and the requirement to surrender unspent cash at the year-end apply only to departments and executive agencies, so there will be no impact on the cash balances held by NDPBs.

**Accounts**

18. Isn’t the timetable for producing consolidated accounts unrealistic?

Completing accounts by June is not an unrealistic timetable. The biggest private sector companies, with numerous subsidiaries to consolidate, achieve production of their accounts within 8-10 weeks of year-end. Having said that, we fully accept that it will require changes to departmental systems, and that consolidation of NDPBs will add complexity for some departments. We are therefore agreeing an individual transition plan with each department, which will move towards the mid-June timetable over an agreed period, similar to the previous faster closing initiative.

19. What will happen if departmental accounts are delayed?

Although it should be possible to produce consolidated departmental accounts and lay them before Parliament by June, it is possible that there will be delays, particularly at the beginning of the transitional period. There is of course also a continuing risk that the account can be delayed by some external factor. In such circumstances, the departmental report element of the document should be published in accordance with the agreed timetable, whilst the accounts would be laid when they were
complete. It should also be emphasised that there is no intention to constrain the time available for the audit process.

20. NDPBs that are charities will not adopt IFRS. Does this make consolidation more difficult?

There will be some practical issues to resolve around consolidation, and the preparation of numbers for consolidation will be an important issue in some contexts. Much will depend on the materiality of the charity to the department’s overall position, and the impact of the different accounting policies on that materiality.

21. What is the timetable for departments over the implementation period?

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<thead>
<tr>
<th>Date</th>
<th>Activity</th>
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<tbody>
<tr>
<td>Autumn 2010</td>
<td>Dry running Main Estimates completed</td>
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<tr>
<td>Spring 2011</td>
<td>Live running Main Estimates</td>
</tr>
<tr>
<td>Summer 2011</td>
<td>Dry running Supplementary Estimates</td>
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<tr>
<td>Summer/Autumn 2011</td>
<td>Dry running resource accounts</td>
</tr>
<tr>
<td>Winter 2011</td>
<td>Live running Supplementary Estimates</td>
</tr>
<tr>
<td>June 2012</td>
<td>Produce consolidated accounts for 2011-12 within combined Departmental Report and Accounts</td>
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