



## Members' Research Service – QuickGuide 6 Gwasanaeth Ymchwil yr Aelodau – HysbysHwylus 6



### Resource Accounting and Budgeting (RAB)

This QuickGuide introduces the concept of Resource Accounting and Budgeting (RAB), sets out the key elements of the resource accounts as included in the Annual Report and Accounts, and suggests how the information in the resource accounts might be used in scrutiny of the public finances.

#### What is RAB?

Resource Accounting and Budgeting (RAB) is a system of planning, controlling and reporting on public spending for government. RAB was launched in 1993, and is defined by the Treasury as:

the application of accruals accounting<sup>1</sup> for reporting on the expenditure of central government and a framework for analysing expenditure by departmental aim and objectives, relating these to outputs where possible.<sup>2</sup>

Until the financial year 2001-02, the UK government asked Parliament to approve annual financial allocations (known as Parliamentary Supply) to departments and the devolved administrations solely on the basis of expected cash payments and receipts. Departments accounted for this Supply by producing annual appropriation accounts that showed the outturn against the amounts granted.

Since 2001-02, the UK government has asked Parliament to approve the financial allocations to departments and devolved administrations on a resource basis. In order to prepare for this change the Treasury instructed departments to prepare resource accounts in addition to their cash-based appropriation accounts from 1998-99. Appropriation accounts are no longer prepared. The National Assembly for Wales was never required to prepare appropriation accounts and has prepared resource accounts from the outset.

Resource accounts are accruals based accounts – that is, they record expenditure when it is incurred, not when it is paid out, and income as it is earned, not when it is received. Fixed assets such as land and buildings are charged to those accounts as the asset is depreciated or consumed rather than at the time of acquisition. Resource accounts are said to:

provide more useful information than a simple record of cash paid out and received. They record the full costs of activities (e.g. in the use of assets as well as cash spent). They provide incentives to departments to improve management of what it owns and what it owes (its assets and liabilities). They provide information on how resources have been used to meet objectives. And they enable users of the accounts to assess more easily whether taxpayers are receiving value for money.<sup>3</sup>

The preparation of “trial” resource accounts by UK government departments in the transitional years from 1998-99 to 2000-01 identified some concerns about including potentially variable non-cash items, in areas where departments had a limited track record in forecasting, into the three-year budgeting process. The main non-cash items are

<sup>1</sup> A method of accounting that records expenditure when it is incurred, not when it is paid and income as it is earned, not when it is received. See Glossary of Terms

<sup>2</sup> [http://www.hm-treasury.gov.uk/about/resourceaccounts/resourceaccounts\\_index.cfm](http://www.hm-treasury.gov.uk/about/resourceaccounts/resourceaccounts_index.cfm)

<sup>3</sup> <http://www.hm-treasury.gov.uk/media/3EF/2D/Managing%20Resources.pdf>



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depreciation, cost of capital charges, and provisions<sup>4</sup>. To address these concerns, it was decided to stage the introduction of RAB, and RAB was introduced in two stages: RAB 1 and RAB 2.

In RAB 1 (2000-01) additional resources were provided by Treasury as technical adjustments to cover the costs of RAB. These include the costs of capital (capital charges and depreciation), and the timing differences (accounting for resources as they are consumed or generated, rather than as cash received or paid). To assist with the transition, the cost of capital (the largest element of RAB 1 changes) were classified as Annually Managed Expenditure (AME)<sup>5</sup> and ring-fenced by the Treasury. In effect this meant that these costs were borne by Treasury and were not a constraint on National Assembly for Wales' budget spending that year. Over the period to 2003-04, the bulk of the cost of capital was transferred to the National Assembly for Wales' Departmental Expenditure Limit (DEL)<sup>6</sup>. This did not mean an increase in spending power, and since then these charges have to be met from within the DEL. RAB Stage 2 represented the final stage of the conversion to Resource Budgeting, and Budget 2002 was the first to be conducted on a full RAB basis.

### What is in the Resource Accounts?

Resource accounts are prepared in accordance with the standards set in Generally Accepted Accounting Practice (GAAP)<sup>7</sup>, and as such are similar to the annual accounts prepared by organisations in the private sector. The format of government resource accounts has changed slightly as RAB has bedded in, and the Financial Reporting Manual (FReM)<sup>8</sup> now sets out how the provisions of GAAP and the relevant Companies Acts<sup>9</sup> are currently applicable to the public sector. Unless otherwise indicated, the material in the following sections is drawn from FReM and HMT's *Managing Resources Analysing Resource Accounts: user's guide* (June 2001).<sup>10</sup>

In scrutiny terms, the value of the annual accounts (in RAB or other formats) lies in their status as publicly available audited documents. The information in the accounts has been examined for accuracy, independently of government, and thus auditing acts as an assurance to elected representatives and the people that government has made proper use of public funds on their behalf. The publication of the annual accounts puts detailed and independently verified information on how, and how well, the government has spent public money into the public domain. This enhances transparency and supports the holding to account of elected representatives for their stewardship of public funds.

<sup>4</sup> **Depreciation** refers to the consumption or use of value of infrastructure or assets.

**Cost of capital charges** represents the **opportunity cost** of capital as currently employed by departments.

**Provision** is defined as charging future expenditure as a current service cost. Provision should be made when a liability is created in this financial year, the payment of which will fall in future years. Being prudent means making provision for (putting aside money to pay) this future liability.

<sup>5</sup> Annually Managed Expenditure (AME) is demand led ring-fenced expenditure, which cannot reasonably be subject to firm, multi-year limits in the same way as DEL. AME includes social security benefits, local authority self-financed expenditure, payments under the Common Agricultural Policy, debt interest, and net payments to EU institutions.

<sup>6</sup> Departmental Expenditure Limit (DEL) is spending which is planned and controlled on a three-year basis in biennial Spending Reviews. It includes the assigned DEL over which the Assembly has spending discretion and non-assigned DEL provided by HMT for specified purposes.

<sup>7</sup> For more information on GAAP see Chapter 2 of the Financial Reporting Manual (FReM) at <http://www.financial-reporting.gov.uk/CHAPTER%20-%20-%20ACCOUNTING%20PRINCIPLES.pdf>

<sup>8</sup> <http://www.financial-reporting.gov.uk/manual.htm>

<sup>9</sup> The Companies Act 1985, as amended by the Companies Act 1989, and related Statutory Instruments

<sup>10</sup> [http://www.hm-treasury.gov.uk/media/A92/CC/rab\\_user.pdf](http://www.hm-treasury.gov.uk/media/A92/CC/rab_user.pdf)



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The resource accounts in the Annual Report and Accounts include the following nine key elements. The boxes below describe the purpose and content of each element, and highlight where relevant, their use in public finance scrutiny.

### **Statement of Accounting Officer's Responsibilities**

Explains the responsibilities of the Accounting Officer, in respect of the accounts. In Wales, this is the Permanent Secretary of the National Assembly for Wales.<sup>11</sup>

### **Statement on internal control**

Explains the arrangements the Accounting Officer has in place to manage key risks to the organisation.

### **Certificate and Report of the Auditor General for Wales**

Sets out the work done by the Wales Audit Office (WAO) on auditing the accounts and the opinion of the Auditor General as to whether the accounts represent a true and fair account of the Assembly's financial position, and whether, in all material respects the financial transactions conform to the authorities which govern them.

### **Statement of Parliamentary Supply<sup>12</sup>**

Compares Outturn (actual expenditure) with the Estimate for both resource expenditure and the overall cash requirement. It includes a reconciliation of resources to net cash requirement<sup>13</sup>, an explanation of variances, and an analysis of any extra income.

In particular, it shows:

- An analysis of Outturn against the Estimate voted by Parliament in respect of each Request for Resources, net total resources and the net cash requirement;
- A reconciliation of net total resources to the net cash requirement for both Outturn and Estimate;
- An explanation of variances between Estimate and Outturn in respect of net total resources and net cash requirement; and
- Details of income in addition to that appropriated in aid and associated cash receipts which are payable to the Consolidated Fund<sup>14</sup>.

*Illustrates how close to planned expenditure (Estimates) actual cash and resources consumed (Outturn) was, and explains how much, where and why the department under / overspent in the financial year.*

*N.B. To date it has not been possible to produce such a statement for the National Assembly as the approved budget is not in a form that is compatible with the accounts. This will be rectified under the provisions of the new Government of Wales Bill.*

<sup>11</sup> This will change if the proposed provisions in Part 5 of the Government of Wales Bill are enacted

<sup>12</sup> At the introduction of RAB, this was called Schedule 1: Statement of Resource Outturn. Since financial year 2005-06, it is now called the Statement of Parliamentary Supply.

<sup>13</sup> Resources are always greater than cash required because resource accounts include some non-cash items (such as depreciation and accruals). This reconciliation aligns the resource accounts with the cash account (i.e. actual cash spent) by adjusting for these non-cash entries.

<sup>14</sup> The Consolidated Fund is the government's "current account", kept by the Bank of England, through which pass most of the government's payments and receipts.



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### **Operating Cost Statement<sup>15</sup>**

Shows the resources consumed during the year, comprising administration expenditure and programme expenditure, net of operating income. It also includes a Statement of Recognised Gains and Losses.

*When looked at in conjunction with information in the Statement of Operating Costs by Aim and Objective, and the relevant supporting notes, can be used to illustrate where in a programme additional allocations are consumed or value for money savings realised (in administration or programme cost).*

*Can also be used to examine staffing mix, staff costs and deployment.*

### **Balance Sheet<sup>16</sup>**

Shows the assets, liabilities and taxpayers equity<sup>17</sup> of the entity at the year-end.

*Taken together with information in the Notes to the Accounts and investment strategy, the Balance Sheet can illustrate how well the entity is managing, or plans to manage the assets needed to deliver the services for which it is responsible.*

*Information on debtors and creditors may be suggestive of the overall health of internal procedures for paying and collecting on liabilities and assets, over time or in comparison to other organisations.*

### **Cash Flow Statement<sup>18</sup>**

Analyses cash flows during the year including operating activities, capital expenditure and financing.

*Taken in conjunction with the information in the Balance Sheet, the notes to the accounts and the investment strategy, illustrates how well the entity is managing its flows of cash from investment, servicing debts, and managing the holding and disposing of its capital assets.*

*Also illustrates trends in the mix of in and out-sourcing used to deliver services.*

### **Statement of Operating Costs by Aim and Objective<sup>19</sup>**

Analyses costs by aims and objectives.

*Taken in conjunction with the information in the Operating Cost Statement, and compared with performance information in the annual report, this allows for the examination of what the entity achieved / delivered with its resources.*

<sup>15</sup> Called Schedule 2 until financial year 2005-06.

<sup>16</sup> Called Schedule 3 until financial year 2005-06.

<sup>17</sup> See Glossary of Terms

<sup>18</sup> Called Schedule 3 until financial year 2005-06.

<sup>19</sup> At the introduction of RAB, this was called Schedule 5: Resources by Departmental Aim and Objective, and was renamed from the financial year 2005-06.



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*This element of the resource accounts allows for an examination of the relationship between priorities and the allocation of resources against these priorities over time and trends in the method of service delivery (in house or out-sourced)*

*Information from analysis of this part of the accounts may also be suggestive of changing patterns of demand for services, not yet reflected in prioritisation and planning.*

### **Notes to the Accounts**

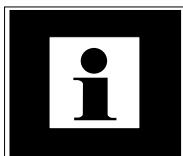
Contain essential supporting information and detail for the figures in the accounts.

In particular, the notes include:

- Reconciliation of resources to cash requirement;
- Retained income and income payable to the Consolidated Fund;
- Detailed breakdown of staff and related costs; and
- Notes to the cash flow statement

### **Further Analysis of Resource Accounts**

The paragraphs above describe the content of the resource accounts and illustrate how the information in the accounts might be used in scrutiny of the public finances. Appendix 2 of the HMT document [Managing Resources. Analysing resource accounts: user's guide](#) (June 2001) contains a summary of the suggested measures and formulae for further analysis of the resource accounts. See the further information section below for links to this and other documents in the Treasury's *Managing Resources* series.



### **Further Information:**

For further information on the topics below, double click on the links.

ESRC Devolution in Action Briefing No.23 (March 2005) [Money Matters: Devolution and Resource Accounting and Budgeting](#)

[HM Treasury – Resource Accounting and Budgeting pages](#) (links to current and past UK resource accounts)

[HM Treasury – Financial Management and Professionalism Index](#) (contains links to a series of publications on Managing Resources)



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[HM Treasury – Financial Reporting Manual \(FReM\)](#)

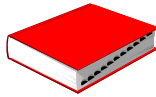
[HM Treasury - Resource Accounting Manual](#)

[Members' Research Service Publications](#) (links to papers produced by Members' Research Service)



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