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THE NEW UK GOVERNMENT FINANCIAL FRAMEWORK

The new UK government financial framework, known as resource accounting and budgeting (RAB), is almost complete. This article sets out the basis of the new framework and a brief history of the project. It describes some of the issues involved in implementing the new framework, including development of the required skills, and the benefits of doing so. Finally the article considers whether the project has been successful and indicates the directions of future work.

For those unfamiliar with the term “resource accounting” and “resource budgeting”, these are terms of art devised for the UK project. Resource accounting is a set of accruals-based techniques for reporting on the expenditure of UK central government departments and the relationships between expenditure and departmental objectives. Resource budgeting is the use of resource accounting information and principles as the basis for planning and controlling public expenditure by departments. In addition to the move from cash to accruals, RAB incorporates a charge for the cost of capital. The new framework covers not only procedures within government, but also to the way the government requests resources from Parliament and reports to them on what it has spent.

In addition to the planning, control and reporting on government expenditure, the new information is being used to improve information for national accounting purposes, and a future development is to provide accounts covering the whole of public sector. This will start with statistically based accounts and, after a series of pilots (“dry runs”) will provide accounts based on UK generally accepted accounting practice (UK GAAP) for 2006-7.

1. THE PROJECT

RAB can be seen as the final stage in applying accruals-based principles to the public sector. Other parts, starting with public corporations, then successively local government, health and the agencies of central government have already made the move. It can also be seen as an extension of many of the principles laid down over the previous 10 years in increasing the sophistication of financial management in the public sector as well as a part of the overall reform programme for the public sector (see for example Balls and O’Donnell, 2001).

Why, then, had these principles not been applied before? One reason was concern that the strength of the existing cash-based discipline should not be undermined. Another may well have been that many saw the accruals basis as essentially a private sector discipline. But increasing dissatisfaction with the limitations of cash (especially for capital) in decision-making and difficulties in reconciling the government's financial framework with traditional Parliamentary control methods dating back to 1866 provided good reasons to consider a change.

There were also pressures for greater accountability and transparency, especially in demonstrating value for money. The fact that these techniques were already being applied elsewhere in the public sector and that other countries were either considering (and in the case if New Zealand had already completed) the change, combined with the falling cost of technology, provided additional reasons for doing so. One reason which is of interest because it is absent was noted by Wright (1995). Commenting on the planning and monitoring proposals he wrote "Not since the ...1960s...has a change of such magnitude been introduced unprovoked by either a financial or an economic crisis".

Following the announcement to explore the possibilities of the change (Clarke, 1993), there were extended periods of planning and preparation. These were seen to be necessary because of the uncertainties about the quality of existing departmental accounting systems, the desire to minimise costs in providing new information technology and the importance attached to ensuring that the new information, especially for planning and control, was robust from the beginning.

The confirmation that there would be a move to resource accounting, and that Parliament would be asked to agree to a change in the form of reporting to them, were announced in 1994 (HM Government, 1994). A year later the move to resource budgeting was announced (HM Government, 1995). In the same document, more details were given about the form of reporting. This was to be based on 5 audited statements for each government department:
1. Summary of resource outturn (providing information for Parliamentary control purposes)
2. Operating cost statement (the central government equivalent of the profit and loss account) with a statement of recognised gains and losses.
3. Balance Sheet
4. Cash flow statement
5. Statement of resources (the cost of each of the department’s aims and objectives)

The next three years were marked by intensive activity in departments and the Treasury to implement these decisions. Accounting manuals were prepared which were based on UK GAAP, adapted as necessary. Within departments, new systems were introduced to provide information for the resource accounts and a pilot set was produced for 1998-99.

2000 was the key year in the introduction of the new framework. In July, the biannual public expenditure spending review introduced the first phase of resource budgeting (HM Treasury, 2000a), legislation was passed to allow the change to reporting to Parliament (HM Government, 2000) and Parliament agreed to