

Public Expenditure Budgeting and Control Aggregates: Departmental Expenditure Limits and Annually Managed Expenditure

This Appendix describes the two main budgeting and control aggregates under Resource Accounting and Budgeting (RAB) stage 2 as applied in the 2002 Spending Review (SR2002). These include Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). It shows how they relate to Total Managed Expenditure (TME), an aggregate drawn from national accounts.

See Public Expenditure Statistical Analysis 2002-03 annex E for description of the budgeting rules under RAB stage 1 as applied in the 2000 Spending Review (SR2000).
<http://www.official-documents.co.uk/document/cm54/5401/5401-ape.htm>

RESOURCE ACCOUNTING AND BUDGETING

Since 2001-02 departmental budgets have been set and monitored in resource terms, and Parliament votes resources as well as cash in the Supply Estimates. There are separate departmental budgets for resources and capital expenditure. RAB stage 1 was introduced in SR2000 and set budgets for 2001-02 to 2003-04. RAB stage 2 was applied in SR2002 and set budgets for 2003-4 to 2005-06.

Resource Budget

Under resource budgeting, current expenditure in DEL is called resource DEL - a title that reflects the fact that it now measures total resources consumed by a department. Resource DEL and resource departmental AME is known as a department's resource budget.

Resource accounts measure expenditure when it accrues rather than when the cash is spent. Resource budgets include non-cash costs such as provisions and charges for bad debts in accordance with Generally Accepted Accounting Practice (GAAP).

The annual cost to departments of the assets it uses to deliver services is included in resource budgets. This cost is in the form of charges for capital consumed in that year (depreciation) and the opportunity cost of tying up resources in these assets (the cost of capital charge). The cost of capital charge is 6 per cent of the net assets (fixed capital and financial assets net of financial liabilities and provisions) employed by each department.

Resource budgets include the department's transaction with public corporations sponsored by the department (as recorded in resource accounts), grants to local authorities, and the

expenditure of any non-departmental public bodies (NDPB) sponsored by the department.

Capital Budget

This includes any capital expenditure by the department and its NDPBs. This definition of capital expenditure includes expenditure on fixed capital assets, tangible and intangible, and financial transactions such as giving loans or buying shares, but excludes capital grants which are in the resource budget.

Two stage approach

E.9 Resource budgeting was introduced in two stages. In stage 1, which applied during SR2000, most of the non-cash items of resource budgets - depreciation, cost of capital charges and provisions - were included in AME rather than DEL. Most of these non-cash items moved into DEL for SR2002, and there were some other changes to the budgeting regime such as aligning the treatment for budgeting treatment with the resource accounting for capital grants (now resource rather than capital) and public corporations.

Resource budgeting: some points to note

E.10 Both resource and capital budgets, and both DEL and AME, include costs as they are incurred – they measure accruals. They do not include prepayments for goods and services not consumed in that year but will include resources consumed but paid for later. Stock consumption scores in the resource budget while spending on adding to stocks does not

E.11 Defence fighting equipment with no civilian use is treated as capital expenditure, but national accounts treat it as current.

E.12 The resource expenditure of the Department for Health is adjusted to avoid counting twice the capital expenditure of NHS trusts that is financed by charges for services paid by the department.

E.13 The whole expenditure of non-departmental public bodies (NDPBs) is recorded as if it were the department's own expenditure, rather than recording just the grant paid to the NDPB.

DEPARTMENTAL EXPENDITURE LIMITS

E.13 About half of public expenditure by value is in DEL and half in AME. But because AME includes a small number of large programmes, most public expenditure programmes are in DEL. The programmes that are in AME are set out later in this section.

E.14 DELs are set for three years during a Spending Review. They represent firm plans for departmental spending that can only be increased in exceptional circumstances with Treasury's agreement through a claim on the DEL reserve, or through a classification change when there is

an accounting change in how expenditure is recorded. Departments can carry forward unspent DEL from one year to the next within the three year period. SR2002 set firm spending plans for 2003/4 to 2005/06.

DEL includes all running costs expenditure of Government departments and most of their other purchases of services. It includes grants and subsidies paid to the private sector. For the FCO and DFID it includes an attributed share of the EC's expenditure on overseas aid and the Common Foreign and Security Policy.

Resource DEL includes non-cash items such as depreciation, cost of capital charges, movements in provisions and the profit/loss on the sale of an asset. Exceptionally, a small number of non-cash items are in AME because of the difficulty in managing them within a fixed DEL.

Capital DEL includes expenditure on fixed capital assets and the acquisition of certain financial assets acquired or sold for policy reasons. Capital DEL is net of the book value assets sold; any profit/loss on sale relative to book value is in resource DEL.

Capital DEL generally includes loans on the basis of new loans issued less repayments of loan principal, but part of public lending to students is treated as a grant in resource DEL on the basis of an assessment of the subsidy implied in the low interest rate charged and the bad debt provision that is needed. Actual lending to students is outside budgets.

Resource DEL is net of certain receipts, mainly payments for services, asset sales, dividends, interest from NHS trusts and rent of land, and also certain levies and fines where the Chief Secretary to the Treasury has given specific agreement.

DEL includes a Reserve to meet unexpected needs, and the unallocated provisions for the three challenge funds - the Capital Modernisation Fund, the Invest to Save Budget and the Policy Innovation Fund. When sums are allocated, individual departments' DELs are increased.

DEL includes the expenditure of most non-departmental public bodies classified to the central government sector. The actual expenditure of NDPBs is recorded, rather than just the grant-in-aid from the parent department.

DEL scores current and capital grants to local authorities. Capital DEL includes supported credit approvals (capital allocations in Scotland) given to local authorities by central government departments; they give the local authority permission to borrow to fund capital expenditure.

For most public corporations, DEL scores

- subsidies and capital grants paid to the public corporation by the department (resource DEL)
- dividends and interest received from the public corporation (resource DEL)
- loans given to the public corporation, voted or NLF, (capital DEL)
- scores a capital charge in respect of the departments loans and PDC invested in a public corporation.

For self-financing public corporations everything except the first item is in AME rather than

DEL

ANNUALLY MANAGED EXPENDITURE

This part describes the components of AME, which may be divided into:

- Departmental AME
- Locally Financed Expenditure;
- Central Government debt interest
- PC self financed capital expenditure
- Net payments to European Communities institutions

Departmental Annually Managed Expenditure

A programme is included in AME if it cannot reasonably be subject to firm three-year limits - as for DEL. Typically this is where the programme expenditure is demand-led, volatile, and is large in relation to the size of the department. But those are neither necessary nor sufficient conditions for inclusion in AME. Discretionary new spending programmes are always in DEL except where a special case can be made to demonstrate that treatment as AME is likely to deliver better control of expenditure.

The main programmes in departmental AME are:

- Social Security Benefits
- Tax credits treated classified as expenditure by Treasury
- Housing Revenue Account Subsidies
- EU funding of Common Agricultural Policy
- Net Public Service Pensions
- National Lottery

Other departmental expenditure in AME includes:

- Export Credits Guarantee Department (part - see below)
- Valuation Office - Beneficial Portion Payments;
- Purchases of assets under finance leases since 1 April 1996;
- Redundancy Payments Scheme;
- Older Workers Employment Credit;
- Expenditure of certain levy-funded bodies;
- Acceptances of artworks in lieu of Inheritance Tax;

In addition, some non-cash items have remained in AME under RAB stage 2. These include:

- Cost of capital charge for the road network
- Movement in provisions for nuclear decommissioning liabilities

Social Security Benefits. Includes payments of social security and National Insurance benefits by the Department for Social Security and the DSS (Northern Ireland). It includes central government support for certain social security benefits paid by local authorities, eg Housing Benefit. It also includes central government support for local authorities' payments of Council Tax Benefit.

Housing Revenue Account Subsidies. Includes in England and Wales Housing Element subsidy paid to local authority council housing and central government support for local authorities' payments of Rent Rebates. In Scotland includes Housing Support Grant.

Common Agricultural Policy. Includes expenditure on the CAP in UK funded by the EU.

Export Credits Guarantee Department. Includes Fixed Rate Export Finance and other programmes treated as outside ECGD's trading account. It includes refinancing of export finance by Guaranteed Export Finance Corporation.

Net Public Service Pensions. This line comprises payments in respect of public sector occupational pensions schemes less relevant receipts. The main examples are the schemes for the civil service, armed forces, teachers and NHS staff. Pensions expenditure includes members' continuing pensions (including annual compensation payments), lump sums, spouses' benefits and similar payments, and bulk and individual transfers out. Relevant receipts include employers' contributions (including accruing superannuation liability charges paid by departments to the Principal Civil Service Pension Scheme), employees' contributions for ordinary pensions (including widows'/widowers' pensions) and for added years and receipts of bulk and individual transfers in. In addition, grants outside DEL to enable NDPBs in the central government sector with their own pay as you go pension schemes to make bulk transfer payments are recorded in this AME line.

Note that this line does not cover:

- pensions with a real pensions fund, eg local authority and most public corporations' pensions;
- the main police and fire pensions, which are run by local authorities; and
- pensions of some NDPBs and other offices in the central government sector which operate their own pay-as-you-go pensions schemes - although the intention is that these will eventually be recorded in the same way as the main schemes.

National Lottery. Expenditure on the six good causes funded from the proceeds of the National Lottery is in this line: the arts, sport, heritage, charities, projects to mark the Millennium and the New Opportunities Fund. This line also includes expenditure funded by the National Endowment for Science, Technology and the Arts, which had been set up by a grant from the National Lottery Distribution Board.

Tax credits. New tax credits such as the working tax credit and child tax credit are judged to be part public expenditure and part a reduction in tax. The amount judged to be a tax reduction is the amount that is paid to net payers of tax (people who still pay some tax even after the receipt of the credit). The amount judged to be expenditure is included within departmental AME.

Other AME

E.44 Locally Financed Expenditure. This line comprises the following items:

- Local Authority Self Financed Expenditure (LASFE) in the UK;
- expenditure financed from the product of the Scottish Non Domestic Rate; and
- expenditure financed from the product of Northern Ireland Regional Rates (NIRR).

NIRR are set by the central government in Northern Ireland. The product is not hypothecated to financing specific expenditure. By convention it is treated in PESA as locally financed central government expenditure. The whole of the product of NIRR is treated as a transfer from AME into DEL. AME also records - as a payment for a service reducing TME - the element of NIRR that represents receipts of water charges.

LASFE is that part of total local authority expenditure not met by central government support. Its largest single financing component is the product of the Council Tax. Other components include the surplus in trading activities, interest receipts, investment grants from the EU, use of reserves and borrowing.

Net Payments to European Community Institutions. This line is mainly made up of the following components:

Import duties

plus Agricultural & sugar levies

plus VAT contribution

plus GNP-based contribution (including payments to EC budget reserves)

less the UK's abatement

less receipts from the EC that come to or pass through government

less European Coal & Steel Community receipts

less receipt reflecting the cost of collecting tariffs & levies

plus net lending to the European Investment Bank

less attributed aid and Common Foreign & Security Policy, which are in DEL

Central Government Debt interest. Interest paid within central government is excluded. Interest paid to other parts of the public sector is now excluded from this line - a change from

the presentation in previous years. The capital uplift on index-linked gilts is scored as interest at the time it accrues. This line includes the amortisation of discounts/premia on gilts at issue.

AME Margin. The AMEMargin is an allowance for estimating changes.

Accounting and Other Adjustments.

The contents of this line are described at

TOTAL MANAGED EXPENDITURE

TME is an aggregate drawn from national accounts. It covers the current and capital expenditure of the public sector, net of some receipts. So it includes expenditure of central and local government and also of public corporations. TME excludes grants and interest payments between parts of the public sector – it is a consolidated measure. TME does not include financial transactions. So TME is the expenditure side of the equation that gives Public Sector Net Borrowing, the government's preferred measure of the fiscal stance.

TME equals DEL + AME + accounting adjustments

In addition, TME may be expressed as the sum:

- Public Sector Current Expenditure
- Public Sector Net Investment
- Public Sector Depreciation

as defined in national accounts.