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SOURCES, DATA QUALITY, CONVENTIONS

A.1 This appendix gives information on the main sources of data and methods used in producing PESA, a note on data quality, various conventions used for the figures presented in this publication and the population figures that underpin the Country and Regional Analysis.

WHAT'S NEW

A.2 This Appendix contains new sections on sources of and methods used in producing PESA data, data quality, what we do when we make a mistake, the treatment of the Private Finance Initiative and of certain roads transfers, and the coverage of PESA as regards newly classified or created public bodies.

A.3 It also shows that PESA has moved from using the central case for the GDP forecast to using the cautious view, in order to be consistent with other publications.

SOURCES OF DATA AND METHODS OF PRODUCTION

Data sourced from government departments and the devolved administrations

A.4 Most expenditure data in PESA are taken directly from the Treasury's public expenditure database, the PES database. During 2005 and 2006 the Treasury is introducing a new database, the Combined On line Information System (COINS) which will replace the PES database. Departments already submit their data onto COINS. During the transition between databases, departmental updates are migrated from COINS onto the PES database.

A.5 Departments maintain on COINS normally eight or nine years worth of live data – 2000 01 to 2007 08 in the PESA 2006 period. Departments therefore update:

- values in the light of better information, with final outturns consistent with the information in published audited accounts (normally available in the summer after the end of the financial year); and
- the way information is coded to reflect classification changes, thus ensuring consistency across all live years.

A.6 Data supplied by departments cover their own income and expenditure including support for local authorities and for public corporations. Departments also enter information on the income and expenditure of NDPBs and on the capital expenditure of public corporations.

A.7 The Devolved Administrations for Scotland, Wales and Northern Ireland supply data in the same way as departments do.

Classification of the functions of government (COFOG)

A.8 The Treasury's PESA branch assigns COFOG categories to departmental data in consultation with departments. COFOG categories are held on COINS. Where data streams cover more than one COFOG level 2 category we ask departments to split the data out so that each can be recorded separately. However, we do not split out data where the amount would be less than £10m.

Data sourced from the Office for National Statistics

A.9 The following numbers are on a national accounts basis and for outturn years are sourced from the Office for National Statistics:

- Total Managed Expenditure
- Public sector current expenditure, gross investment and net investment
- Public sector depreciation, central and local government non-trading capital consumption, public corporations depreciation
- Central government own expenditure, total, current, capital
- Local authority expenditure, total, current, capital
- Public corporations expenditure, total, current, capital

A.10 Forecasts of these numbers for estimated outturn and plan years are made by the Treasury on a basis consistent with the ONS' numbers. Splits of these numbers by function are made by the Treasury.

A.11 To avoid any confusion:

- expenditure on services is a Treasury aggregate;
- depreciation in departmental budgets is a number sourced from departments.

Other sources and methods

A.12 There are different sources and methods used for some parts of PESA. The main ones are:

- Historical information that goes back before the years that are maintained live on the COINS and PES databases – described in chapter 3;
- Information on the spending of local authorities – described in Chapter 5;
- The country and regional analysis of expenditure – described in Chapter 7

TREATMENT OF CERTAIN TRANSACTIONS IN PESA

Transfers of roads between central and local government

A.13 The Highways Agency is an Executive Agency of the Department for Transport (DfT), which is classified in the Central Government sector in National Accounts. The Highways Agency's road network is divided into 'core' and 'non-core' roads, as set out in the DfT publication 'A New Deal for Trunk Roads in England' (1998). The 'non-core' network (routes that service local and regional needs) is in the process of being transferred to local highway authorities. This transfer started in 2000-01 with the transfer of roads within the M25 to Transport for London (TfL).

A.14 The roads transfer has not involved any actual payment from the Local Government sector to the Central Government sector because the assets are transferred for nil cash consideration. However, National Accounts have imputed notional transfers to reflect the market value of this transaction. Various flows have been imputed: a capital grant from CG to LG; a notional purchase of these assets by LG from CG financed by the grant; and central

government's income from the sale. Overall, these transactions are neutral at the public sector level. However, the transfer is not neutral in the national accounts based presentation of TME by sector shown in PESA: central government own expenditure is reduced by the amount of the income, and local authority expenditure is increased by the amount of the purchase. Inclusion of these flows is a change when compared with PESA 2005. The following table shows the amount of the transfer in each year.

£ million	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Value of Roads transfer	5,614	1,889	3,088	2,594	1,884	0

A.15 The transfer is not included in the functional analysis of central and local authority expenditure on services – an amount has been included in the accounting adjustments to move to the national accounts numbers. Nor is the notional grant included in figures for central government support for local authorities. Central government's income from the transfer of roads is also not included in the receipts from the sales of assets in table 3.10.

The Private Finance Initiative

A.16 The private finance initiative (PFI) is a means of procuring capital intensive services. Instead of the public sector being responsible for building and maintaining a school building, for example, the public sector contracts with the private sector for the provision of serviced school premises. The government entity that is purchasing services pays a single unitary charge to the PFI provider for as long as the services are provided to the required standard.

A.17 PFI deals may be on or off the government's balance sheet depending on where the balance of risks in the project lies. The balance sheet decision for outturns is taken by independent public sector auditors, and that decision is normally used for the national accounts by the independent Office for National Statistics. If the project is on the government's balance sheet, the capital expenditure is treated as part of public sector capital expenditure and counts towards TME. If the project is off the government's balance sheet then the capital expenditure is recorded as undertaken by the private sector.

A.18 PESA includes information on PFI projects. This information is not separately identified. PESA shows:

- For on balance sheet projects, PESA capital expenditure includes the capital expenditure imputed to the public sector. PESA also includes the service and debt interest elements of the unitary charge under those economic categories. The debt repayment element of the unitary charge is excluded from the expenditure numbers. The depreciation on the imputed asset is included in the depreciation numbers. Cost of capital charges and credits are included in budgets; and
- For off balance sheet projects, where the asset economically as well as legally belongs to the private sector, PESA includes the whole of general government payments of unitary charges as payments for services (part of current procurement).

Coverage of Public Bodies

A.19 PESA aims to include the expenditure of all public sector bodies on the appropriate basis. However, when new public bodies are set up, or when bodies are reclassified to, or within, the public sector, there may be a delay before data are recorded in a way that allows their correct inclusion in PESA. The PESA 2006 treatment of some of the larger bodies affected is:

- The **BBC** domestic services were reclassified to the central government sector by the Office for National Statistics¹. PESA 2006 includes spending by the BBC on its domestic services as central government spending in Departmental AME. TES includes this spending in the recreation culture and religion function. The BBC World Service and the BBC's commercial subsidiaries remain public corporations, and so PESA 2006 continues to show government spending in respect of the BBC World Service and the BBC Monitoring Service as procurement from and capital grants to the BBC rather than as BBC expenditure. The public corporations chapter identifies capital expenditure by the BBC World Service but does not identify capital spending by the BBC's commercial subsidiaries; that amount is however included in total Public Corporations Capital Expenditure. BBC current spending is not included in the CRA.
- At the same time **S4C** (Channel 4 Wales) was reclassified by the ONS as a central government body. PESA 2006 treats S4C's expenditure as central government's own, but for data reasons the economic category analysis treats the current expenditure as subsidies to S4C rather than as S4C pay and procurement. S4C spends a little under £100m a year.
- ONS reclassified **London and Continental Railways** (LCR) to the public corporations sector, back to February 1999, when a restructuring of LCR was implemented². That has led to an increase in public corporations' capital expenditure included in TME. In PESA, the effect is shown in TME in all affected years and in the line Public Corporations' Own financed Capital Expenditure. The capital spending of LCR has not yet been included in the budgeting or functional series. Capital grants to LCR are included in budgets. They are treated, exceptionally, as central government own expenditure and included in TES (an accounting adjustment in Appendix B removes the double count).
- PESA 2006 does not yet show the expenditure of the **Pensions Protection Fund**.
- Expenditure of **British Energy** is now fully integrated in the analyses in PESA 2006 for the period since it became a public corporation from 9 September 2002.
- In PESA 2006, **Network Rail's** capital expenditure in 2002-03 is shown separately in table 6.3; and throughout PESA 2006 it is included in the TME number and in the public corporations' own financed capital expenditure line in AME for that year.

A.20 In PESA 2006 the COFOG functional classification of Scottish Enterprise, and Highlands and Islands Enterprise expenditure are treated as follows: Scottish Enterprise spending (approximately £450 million a year) is currently wholly classified to employment policies, and Highlands and Islands Enterprise spending (approximately £100 million a year) is currently classified to enterprise and economic development. However, both bodies have significant amounts of expenditure in each of these functions and education and training and

¹ For further information on the ONS' reclassification please see the following article:
<http://www.statistics.gov.uk/pdfdir/cpst0106.pdf>

² For further information on the ONS' reclassification please see the following article:
<http://www.statistics.gov.uk/ci/article.asp?id=1409>

general public services, and so their spending should be split across the functions. The Treasury and the Scottish Executive are working to improve the allocation of spending to function for PESA 2007.

Data Quality

A.21 Departments, Devolved Administrations and NDPBs aim to produce good quality data for internal management and control and external reporting via audited accounts. They also seek to ensure that the data they feed into COINS are of high quality. The COINS data structure is more closely related to the structure of departments' own internal finance systems than the PES database had been, allowing for easier translation. Further, the move to the new COINS database provided an opportunity to revisit data codings and improve them where necessary.

A.22 Several outputs directly relevant to Whitehall departments' operations and reporting are produced straight from the COINS/ PES databases, including: Main Estimates presented to Parliament, Departmental Reports, and Supplementary Budgetary Information. We intend that from 2006 07 Supplementary Estimates presented to Parliament will also be produced from COINS. So Whitehall departments have a clear incentive to ensure that the data they supply to COINS, and that are also used in PESA, are right.

A.23 However, there are also factors that act against data quality:

- The public expenditure system is complicated. Data need to be coded so as to produce a wide range of outputs. Some data will be miscoded.
- Those recording data need to apply judgement to determine the right coding. Views on the right judgement to make may differ according to the use to which the data are to be put.
- While the budget based numbers in PESA (for example in Chapter 1) are key control totals for departments, and are closely checked, some of the economic category and sub function analyses will not appear in departmental outputs and so some of the more detailed coding decisions may not receive the same degree of attention. The devolved administrations do not draw key outputs direct from the Treasury's database.
- The need to keep compliance costs down means that some data checks are not worth doing, and some disaggregation of data is not worthwhile.
- When new bodies are set up, or reclassified, there may be a lag before data become available on the right basis, and PESA may carry on excluding them or showing them on the previous basis until data are entered into COINS.
- The introduction of a new database, with a new coding structure, has meant that people have had to learn how to use it, and some errors due to unfamiliarity are inevitable.

A.24 The aim of PESA is to provide a broad picture of where public expenditure goes. As a general rule, the more detailed the presentation, the less accurate the attribution to detailed categories will be. Small differences in numbers should not be taken as significant. We present many figures rounded to the nearest £1m so that people using the data do not introduce errors from working with rounded numbers.

A.25 Some specific data quality issues apply to:

- Historical data – see chapter 3
- Local authority data – see chapter 5
- Public corporations data – see chapter 6.
- The country and regional analysis of spending – see chapter 7.

WHAT WE DO WHEN WE MAKE A MISTAKE

A.26 Where we discover errors after the production of PESA 2006 we will take the following action:

- Minor errors will be corrected at the next National Statistics update or the next edition of PESA;
- Larger errors will lead to the publication of revised tables on the Treasury's website together with a note explaining what the difference is.

CONSISTENCY WITH THE FINANCIAL STATEMENT AND BUDGET REPORT

A.27 Total Managed Expenditure (TME) for 2005-06 and its sectoral components are consistent with the numbers published in the in the Budget Red Book or FSBR (HC968; 22 March 2006). TME for 2005 06 has not been updated to reflect the public sector finances data released on 24 April 2006. TME for 2004 05 has been updated since the Budget to reflect ONS' latest data.

A.28 TME by budgetary category is shown both in PESA Table 1.1 (and the National Statistics Updates) and Table C.11 in the Budget Red Book and the equivalent table in the Pre Budget Report (PBR). TME and the DEL numbers are on the same basis in both presentations.

A.29 However, there are differences in the presentation of the AME lines. PESA strictly follows the budgeting system and so divides AME into Departmental AME, Other AME, AME Margin and Accounting Adjustments. The Budget Red Book and the PBR combine the AME categories in order to give a presentation more closely aligned with the fiscal aggregates.

A.30 The main differences are:

- The social security line in PESA includes net lending from the Social Fund which is excluded from the FSBR.
- The predecessor payments to Child Tax Credits (child allowances in Income Support and Jobseekers Allowance) are included in the FSBR "Tax credits" line and excluded from Social security benefits. In PESA, these payments are in the Social security data.
- Net lending to students is shown in departmental AME in PESA and is not shown in the FSBR.
- the main public service pension schemes are shown on a GAAP basis in PESA and on a national accounts basis in the Budget. Appendix D explains the treatment in PESA and Appendix B includes a reconciliation table.

- In 2006, the “BBC domestic services” line in the FSBR includes outturn data supplied by ONS while PESA takes outturn and plan data supplied by DCMS. The FSBR numbers exclude the BBC’s dividend income while that forms part of the PESA numbers.
- The FSBR does not include a “Non-cash” AME line while PESA does.
- As a result of these differences, there are differences in the Accounting Adjustments.

CONSISTENCY WITH PREVIOUS PESAs

A.31 Data in previous PESAs may not be directly consistent with PESA 2006 due to changes in data coverage and classification changes. Readers are advised against simply splicing together data in different editions of PESA. This publication presents a number of summary analyses incorporating data for earlier years adjusted to current definitions to show trends over a longer period.

CONVENTIONS

Rounding

A.32 The figures in this publication are generally shown to the nearest £1 million, except that the figures for the main spending aggregates – DEL, AME, and TME – and the DEL Reserve are rounded to the nearest £100 million from 2004-05 onwards.

A.33 In all chapters, (with the exception of chapter 2), dashes in the tables show that there are no data and zeros where there are data and the value rounds to 0 – ie normally between +£0.5 million. In chapter 2 tables dashes are shown where there is no datum and when the value is too small to be rounded.

A.34 Figures in tables may not sum due to rounding.

Real terms

A.35 A number of the tables in this publication give figures in real terms. Real terms figures are the current price outturns or plans adjusted to a constant price level by excluding the effect of general inflation as measured by the GDP deflator at market prices. The real terms figures in this publication are given in 2004-05 prices. The GDP deflators used in this publication are those recorded on the Treasury website³ on 2 May 2006, when PESA 2006 was published.

GDP Measure

A.36 In tables that give spending as a proportion of GDP, PESA 2006 now uses the cautious view of the GDP forecast. That is consistent with the Spending Review 2004 and the FSBR.

³http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_fig.cfm

2005-06 estimated outturn

A.37 The estimated outturns for individual departments for 2005-06 are based on the latest information made available by departments for the Budget 2006, updated in some cases for later information. The estimated outturn for resource DEL for 2005-06 includes an allowance for shortfall reflecting the difference between the sum of individual departments' estimates of outturn and the Treasury's overall assessment.

Use of accruals data in tables

A.38 Except in the long run tables covering years before 1998 99, all data are presented on an accruals basis.

Population by country and region

A.39 The population numbers used in chapter 7 of PESA 2006 are as follows (source: mid-2000 to mid-2004 estimates were supplied by the ONS, population projections mid-2005 for Scotland, Wales and Northern Ireland are 2003 based and are from the Government Actuary's Department available online at http://www.gad.gov.uk/Population/index.asp?v=Principal&chkDataTable=yy_5y&chkDataGraph=&y=2003&dataCountry=england&subTable=Search+again: projections for the English regions are 2003 based and from the ONS available online at <http://www.statistics.gov.uk/statbase/ssdataset.asp?vlnk=8658&More=Y> <http://www.statistics.gov.uk/statbase/ssdataset.asp?vlnk=8658&More=Y>).

	Thousands					
	mid-2000	mid-2001	mid-2002	mid-2003	mid-2004	mid-2005
North East	2,543	2,540	2,538	2,539	2,545	2,532
North West	6,774	6,773	6,783	6,805	6,827	6,820
Yorkshire and Humberside	4,959	4,977	4,993	5,009	5,039	5,036
East Midlands	4,168	4,190	4,223	4,252	4,280	4,298
West Midlands	5,270	5,281	5,304	5,320	5,334	5,342
Eastern	5,375	5,400	5,422	5,463	5,491	5,535
London	7,237	7,322	7,371	7,388	7,429	7,476
South East	7,991	8,023	8,044	8,080	8,110	8,166
South West	4,917	4,943	4,968	4,999	5,038	5,064
England	49,233	49,450	49,647	49,856	50,093	50,268
Scotland	5,063	5,064	5,055	5,057	5,078	5,070
Wales	2,907	2,910	2,923	2,938	2,952	2,969
Northern Ireland	1,683	1,689	1,697	1,703	1,710	1,717
United Kingdom	58,886	59,113	59,322	59,554	59,834	60,024

A.40 These mid year numbers are then directly applied to the relevant financial year (eg mid 2002 to financial data for 2002-03).

B

THE ACCOUNTING ADJUSTMENTS IN THE BUDGETING PRESENTATION OF TME

NEED FOR ACCOUNTING ADJUSTMENTS

B.1 The national accounts, produced by the Office for National Statistics (ONS), follow international guidelines and provide a widely accepted framework for analysing the economic activity of the country. Total Managed Expenditure (TME) is an aggregate drawn from national accounts. TME measures the sum of public sector current and capital spending.

B.2 Government departments budget and account for their spending in resource terms. Resource accounting is based on generally accepted accounting practice (GAAP). GAAP differs in several ways from national accounts. Also, the requirements of national accounts and the control regimes defined for the management of public expenditure (DEL and AME – see Appendix D) are different; and sometimes other factors lead to an alternative approach – for example data availability.

B.3 So a number of adjustments are needed to relate Total DEL and AME to TME, as is shown in table 1.1. More detail of the adjustments is shown in table 1.14. The sub-headings below show what is in each of the rows in that table. The operator (i.e. "add" or "subtract") describes the adjustment needed to derive TME from Total DEL plus departmental and other AME.

CHANGES SINCE PESA 2005

B.4 The following obsolete adjustments have been retired (the numbers given refer to the number in Appendix B of PESA 2005 except where otherwise identified):

5 and 6 (Adjustments in Respect of Contributions to the EC) are no longer needed as the Net Payments Line in table 1.1 has been replaced by a Net Expenditure Transfers line. As a consequence, new adjustments under Other central government programmes deal with attributed aid and collection costs.

7 (Adjustment for EU-funded Research Receipts) is no longer needed as EC income in support of DEL spending is now netted off DEL.

9 (Privatisation Programme) is now obsolete.

12 (DfID) The element of this adjustment relating to Retrospective Terms Adjustments is no longer needed as interest forgone no longer forms part of DfID's DEL.

12, 13 and 14 (Debt write-offs by Departments) are no longer needed as the adjustment for non-cash items not in TME has been re-specified.

40 (Debt Repayment Grants to local authorities) this adjustment is no longer needed as debt repayment grants have been taken out of budgets.

46 (Public Corporations' Market and Overseas Borrowing) is redundant as the deduction of public corporations' market and overseas borrowing now forms part of the construction of Public Corporations' Own-Financed Capital Expenditure.

52 (EU income timing adjustment) is no longer needed as the Net Expenditure Transfers line does not include EU income, and EU income is included in DEL on an accruals basis thus offsetting accrued expenditure.

B.5 Capital/current switching adjustments relating to capital grants payable and capital grants income from the EC have been dropped, as changes in the departmental budgeting rules have aligned the budgeting treatment better with the national accounts.

B.6 The following accounting adjustments are new in PESA 2006:

35 – Payments by the DWP to the BBC in respect of free television licences for the over 75s

36 – Pooled housing receipts

38 – Payments to NHS trusts in respect of depreciation

42 – capital grants paid to London and Continental Railways

44-45 – adjustments for certain items in ECGD budgets

49 – Certain large pre-payments

LIST OF THE ACCOUNTING ADJUSTMENTS

Tax credits for individuals

B.7 Departmental AME shows expenditure on tax credits following the OECD basis for deciding what element, if any, of a tax credit should be treated as expenditure, rather than as an adjustment to tax receipts. Normally, that means that only amounts payable in excess of an individual's tax liability count as expenditure. In the national accounts, some elements of some tax credits for individuals also score as government expenditure even when they are less than the individual's tax liability.

1. For the following tax credits, add the amount of the tax credit that scores as expenditure in TME but that is less than an individual's tax liability, and so has not been included in departmental AME: Mortgage Interest Relief, Life Assurance Premium Relief, Vocational Training Relief, Working Families' Tax Credit and Disabled Persons' Tax Credit.

B.8 No adjustment is needed for the new tax credits (Working Tax Credit and Child Tax Credit) as they are treated in the same way under both the OECD (and so departmental AME) and national accounts bases.

Pensions

B.9 As detailed in Appendix D, the costs in Departmental AME in respect of pensions are measured as the gross increase in the liabilities held by pension schemes, less contributions received. TME measures the cost of unfunded public service pensions differently. The contribution of the pension schemes to TME is:

- payments to pensioners, surviving spouses &c
- *plus* bulk and individual transfers out
- *less* receipts of contributions by employees
- *less* receipts of contributions from employers
- *less* bulk and individual transfers in.

B.10 So the adjustments to get from the costs in AME are as follows:

2. Remove increases in liabilities scored in the Net public service pensions line.
3. Remove increases in liabilities arising from the unwinding of the discount rate that are scored in the Non-cash items line in AME.
4. Add in the expenditure on cash payments for members' continuing pensions, lump sums, spouses' benefits and similar payments, and bulk and individual transfers out of the scheme, which in Resource Accounts are treated as a movement in cash and liabilities on the balance sheet without a further impact on the Operating Cost Statement or departmental budgets therefore.

B.11 Employers' contributions to unfunded public service pensions schemes form part of their paybill and impact on budgets. This cost borne in individual departmental budgets broadly matches the unfunded pensions schemes' receipts of employer contributions, although some schemes receive contributions from employers falling outwith the departmental budgeting system. Similarly, staff pay mostly impacts on budgets and is the source for employee pension contributions. (In some cases, the costs of staff pay and of employers' payments of pensions contributions are covered by trading income.) So in effect the overall impact of unfunded public service pensions on TME is given by pensions in payment. That is also the amount that impacts on the current balance.

B.12 Table B.1 shows first in detail how the various pensions lines are made up and second the reconciliation from the numbers in budgets to the number in TME. So the table presents:

- The three main contributors to the Net Public Service Pensions line (for further details see Appendix D):
 - The gross change in the liability;
 - Less pensions contributions received;
 - Plus any pensions or transfer payments made that are not covered by a previously recognised liability;
- The pensions element of the Non-cash items line (i.e. the unwinding of the discount on the liability);
- The sum of these elements, which is the contribution of pension schemes to Departmental AME. It is a GAAP-based measure of the cost of the schemes net of contribution income;
- The different components of the pensions line in the accounting adjustments in table 1.14;
- The contribution of the main public service pensions schemes to TME. This line is prepared on the same basis as the Net public service pensions line in Table C.11 in the FSBR, though in some cases more up to date data have been used. This line excludes pensions paid in DEL, which are included in PESA tables 3.6 and 4.5, and certain local authority unfunded pension payments included in table 3.6; and
- The components of the contribution of the schemes to TME. As the cost of most contributions is in budgets, it is in effect the pensions in payment line that represents the overall impact of pensions on TME and the Surplus on the Current Budget.

B.13 In Table B.1 bulk and individual transfers out are included in pensions in payment along with survivors' benefits &c. Bulk and individual transfers in are included within contributions received.

Table B.1 Unfunded public service pensions schemes in AME and in TME, 2000–01 to 2007–08

	£ million							
	National Statistics					2005–06 estimated outturn	2006–07 plans	2007–08 plans
	2000–01 outturn	2001–02 outturn	2002–03 outturn	2003–04 outturn	2004–05 outturn			
Departmental AME (GAAP basis)								
Change in liability	10,050	12,377	14,830	15,404	15,683	21,287	21,959	23,011
Contributions received *	-8,221	-9,454	-12,150	-13,809	-14,623	-16,909	-17,396	-18,149
Cash payments in OCS not covered by release of provision*	-137	431	1,889	202	-620	943	994	992
Net public service pensions (GAAP basis)	1,692	3,354	4,570	1,797	440	5,321	5,557	5,855
Unwinding of discount rate (= contribution to non-cash items)	16,077	18,575	19,458	22,303	23,780	27,076	28,925	30,739
Total Departmental AME (GAAP basis)	17,769	21,929	24,027	24,100	24,220	32,397	34,482	36,593
Accounting adjustments								
Remove change in liability	-10,050	-12,377	-14,830	-15,404	-15,683	-21,287	-21,959	-23,011
Remove increased liability due to unwinding of discount rate	-16,077	-18,575	-19,458	-22,303	-23,780	-27,076	-28,925	-30,739
Add pensions in payment covered by release of provision*	13,035	13,937	14,171	15,364	16,213	16,161	17,462	18,105
Accounting adjustments (Pensions)	-13,092	-17,015	-20,117	-22,343	-23,250	-32,202	-33,422	-35,645
Contribution to TME (national accounts basis)	4,677	4,914	3,910	1,757	970	195	1,060	948
<i>of which:</i>								
Pensions in payment*	12,898	14,368	16,060	15,566	15,593	17,104	18,456	19,097
Contributions received*	-8,221	-9,454	-12,150	-13,809	-14,623	-16,909	-17,396	-18,149

* includes bulk and individual transfers, including transfers of liabilities within Government.

Other central government programmes

- Interest on Special Drawing Rights (SDRs):** Add payments of interest on SDRs held by the UK at the International Monetary Fund which are treated in the national accounts as current expenditure on goods and services.
- Tax Credits for Companies and Charities:** As with tax credits for individuals (see above), national accounts score as expenditure the elements of tax credits for companies and charities that reduce the taxpayer's liability where the tax credits are not seen by the ONS as being integral to the tax system. This adjustment adds in such payments in respect of Research and Development Tax Credits for large companies and for small and medium enterprises, payments of transitional relief to charities formerly entitled to receive tax credits on dividends, and tax relief on clearing contaminated land. The element of these tax credits that is paid in excess of tax liabilities is already shown in other departmental expenditure in AME.
- Collection costs for Traditional Own Resources (TOR):** The UK receives a payment from the EU for collecting on behalf of the EU TOR (customs duties, agricultural and sugar levies). This receipt (which is actually netted off of the payment made to the EU) is treated as a government receipt and reduces TME. This income is recorded here.

8. **Loan guarantees:** add the imputed subsidies for certain loan guarantees which are included in national accounts. In the current balance imputed receipts match these imputed subsidies.
9. **Attributed Aid and Common Foreign and Security Policy (CFSP):** Departmental Budgets include an attributed share of the EU's aid and CFSP expenditure. Since the UK's budget contribution is shown in the Net Expenditure Transfers to EU Institutions line, the attributed spending needs to be deducted.
10. **Hydro benefit:** add in an amount of imputed subsidy paid by the Scottish Electricity generating industry to the distribution industry to reflect the high cost of distribution in northern Scotland.

VAT refunds

B.14 VAT is a tax that is paid by final consumers, that is government and households. Producers pay VAT on materials that they use in the course of production, but are able to claim those VAT payments back from HM Revenue and Customs (HMRC). Producers then charge VAT on sales and pass these monies to HMRC. Where a public sector body is engaged in production and receives such a VAT refund it will not add to TME therefore, nor would it be included in its spending data, which are measured net of recoverable VAT. Therefore in these cases no adjustment to TME needs to be made.

B.15 In addition some public sector bodies receive refunds of VAT that they have paid in respect of contracted out services for non-business purposes, including the free-to-enter public museums. These VAT payments by general government bodies form part of the prices paid by general government as a final consumer, and therefore form part of final government consumption and so TME. Departmental budgets, and other spending data, however are net of all recoverable VAT, which means the following adjustments are required to get to TME.

11. Add VAT refunded to central government departments in respect of contracted out services for non-business purposes and VAT refunds to free public museums in respect of non-business activities. (VAT refunds to NHS Trusts and the BBC in respect of non-business services are however exceptionally not added in to the figures to arrive at TME.)
12. Add VAT refunds to local authorities in respect of all non-business activities. Central government support in DEL and locally financed expenditure are measured net of these VAT refunds, but in TME the expenditure is recorded including the VAT paid.
13. Add VAT refunds paid to ITN in respect of non-business activities. These are treated as subsidies in TME.
14. Add VAT refunds paid to DIY house builders. These are treated as capital grants in TME.

Central government capital consumption

15. Add the value of central government non-trading capital consumption (i.e. depreciation). For the outturn years this number is modelled by ONS for national accounts; for forward years it is forecast by HM Treasury on a consistent basis.

Non-cash items not in TME, and stocks

B.16 Non-cash items not in TME. Both budgets and TME measure expenditure on an accruals basis as regards timing. A number of accruals concepts – such as depreciation – appear in both measures, although the coverage or data may be different (see the later subsection Data Adjustments). However, a number of non-cash items appear in budgets produced on a basis consistent with the Government Financial Reporting Manual (see Appendix D) and do not have a TME counterpart. They are removed here:

16. Deduct the cost of capital charge, debt write-offs (other than debts written off by mutual consent, which count as capital grants in the national accounts), notional audit fee, and other such non-cash items recorded in departmental budgets but not in national accounts. This item also includes the removal of the profit or loss of NHS Trusts (England) which scores in budgets.
17. Deduct the take-up, movements in the value, and release of provisions (including provisions for capital grants) that score in budgets. That leaves in the underlying cash payments made when provisions are utilised, which are offset in budgets by the release of provisions, and which score in TME.
18. Deduct the provision that represents the net present value of the interest support element of student loans that scores in DEL as the loans are issued. In the national accounts the impact on the current balance is determined by the difference between interest payments made on government debt and interest income received from students.

B.17 Stocks. Net changes to inventories form part of capital expenditure in national accounts. This means that both purchase of stocks and the addition of finished goods to stocks are added to capital spending. The consumption and sale of stocks reduce capital expenditure. In addition the production account scores the consumption of stocks as an expense (part of intermediate consumption), and the value of finished goods added to stocks as part of final output. Under Resource Accounting and Budgeting (RAB) purchases and sales of stocks are cash adjustments, and the draw-down of stocks is a balance sheet movement. RAB records as expenditure or income only the consumption of stocks or the production of goods for stock. The adjustment is as follows:

19. Add the purchase of stocks, subtract the sales of finished goods previously added to stocks, and subtract reductions in the value of stocks due to consumption of stock items.

Expenditure financed by revenue receipts

B.18 Some receipts are deducted from budgets and other expenditure presentations even where national accounts do not treat them as negative expenditure in TME but as entries on the revenue side of the Government's account. The deduction of such receipts needs to be reversed.

B.19 For departments and NDPBs the receipts are:

20. certain taxes collected, including licences issued by the utility regulators;
21. certain fines;
22. current donations;

23. current compensation;
24. rent of land;
25. dividends and interest from the private sector and overseas.

B.20 For local authorities, the receipts are:

26. penalties collected by local authorities and police in respect of certain parking, vehicle emissions and moving traffic offences.

Local authorities

27. Add the value of local government non-trading capital consumption (i.e. depreciation) as modelled by ONS for national accounts.
28. Add subsidies paid to LA trading bodies. These are deducted from the figure for the operating surplus of LA trading bodies, one of the revenue items in the calculation of locally financed expenditure, but are included as LA expenditure in the national accounts.
29. Deduct capital grants paid by local authorities to public corporations since these are a flow within the public sector that adds to the calculation of local government expenditure but the capital expenditure they finance is in the line for Public Corporations' Own-Financed Capital Expenditure. This mainly concerns payments by Transport for London.
30. Adjust estimated outturn by an allowance for shortfall to align central government support and LASFE figures to forecast total local authority expenditure.

B.21 In some cases receipts are treated as financing expenditure in AME when national accounts treat them as reducing TME. The value of the receipts needs to be deducted:

31. Local authority receipts of investment grants from private sector developers.
32. Certain licence fees collected by local authorities.

General government consolidation

B.22 TME is consolidated public sector expenditure. So it normally records only those transactions that are paid outside the public sector. Payments of certain taxes and of grants and interest that are within the public sector do not score in TME.

33. Deduct debt interest paid by local authorities to central government and to other local authorities. The small amounts of debt interest paid by local authorities to public corporations are also deducted here.
34. Deduct payments of national non-domestic rates paid by central and local government, which are in budgets and locally financed expenditure, and which are consolidated out for TME.
35. Deduct payments by the Department for Work and Pensions to the BBC in respect of free television licences for the over 75s which are in Departmental AME but are consolidated out of TME (the national accounts now show TV licence fee income without imputing a payment from the over 75s).

36. Deduct payments from local authorities to the Office of the Deputy Prime Minister in respect of pooled housing receipts. These payments score in Local Authority Self-Financed Expenditure and not in TME.
37. Deduct subsidies from central government to public corporations that finance the payment by the corporation of current grants to local authorities. The subsidies are in DEL (outside support for LAs) and in addition the LA expenditure is in locally financed expenditure. National accounts treat the public corporation as an agent of central government in this regard. So the flow is treated as a central government grant to local government and does not add to TME.
38. Deduct the element of English health authorities' purchases from NHS Trusts that covers trust depreciation and now scores in DEL. The depreciation of NHS trusts is recorded as part of the adjustment above that brings in central government capital consumption as measured by the ONS and so this adjustment removes a double count.
39. Deduct departments' receipts of interest and dividend from NHS Trusts (England and Wales). Departments pay NHS Trusts enough to enable them to remunerate their capital. Now that trusts have been reclassified to the Central Government sector, those payments do not score in TME.

Public corporations

B.23 Departments' resource and capital budgets normally include certain items in respect of public corporations scored on the external finance basis:

- subsidies and capital grants paid by the department to public corporations;
- loans given by the department to public corporations – loans can be either voted or from the National Loans Fund;
- equity (including public dividend capital) invested by the department in public corporations;
- public corporations' net market and overseas borrowing (PCMOB), including finance leases and on balance sheet PFI, but excluding movements in balances;
- interest, dividends and equity withdrawals received from public corporations;
- a capital charge in respect of the capital employed by public corporations.

B.24 TME includes the subsidies only, so the other items have to be deducted.

B.25 TME includes PC capital expenditure, and interest and dividends paid by PCs to the private sector. Other AME includes public corporations' own-financed capital expenditure (PCOFCE), that is, capital expenditure less CG grant and loan finance for it, and less PCMOB. So the deduction of loans and capital grants is effected in other AME.

B.26 So the adjustments needed are:

40. Remove receipts from public corporations of interest, dividends and equity withdrawals, which are netted-off in budgets.
41. Add interest and dividends paid by public corporations to the private sector and abroad.

B.27 For **London and Continental Railways (LCR)**, PCOFCE includes the whole of capital expenditure with no deduction of government capital grants paid (there is more information on the scoring of LCR in Appendix A). These capital grants need to be taken out here:

42. Remove capital grants paid to LCR.

B.28 **Forest Enterprises** and other public corporations scored on the consolidation basis have a different budgeting treatment. Their profit/loss and actual capital expenditure score in budgets rather than grants and loans given and the interest and dividends actually received. Their capital expenditure is not included in PCOFCE, but their profits/losses have to be removed in the accounting adjustments.

43. Deduct the profit/loss of Forest Enterprises and other public corporations scored on the consolidation basis.

B.29 **Export Credits Guarantee Department (ECGD)** is a public corporation in the national accounts. It is treated in the same way as insurance corporations in national accounts. It is also a department in its own right, and it has a unique budgeting framework.

B.30 The impact of ECGD on the national accounts aggregates is as follows. Its Gross Operating Surplus scores as a current receipt. This is partly financed by a subsidy from Central Government. Interest payments that it receives on its assets are a benefit to current receipts also. In addition ECGD receives some other current income that benefits the current receipts total. Depreciation on its assets is a cost to the Golden Rule. Any capital spending that it undertakes is a cost in PSNI and forms part of TME. When ECGD pays claims to holders of financial assets it will often take over those assets and seek to recover the value. In certain cases these assets may be written off as a distinct act of policy, such as the debt cancellation for Nigeria announced in 2005. These kinds of debt write off score as capital transfers in the national accounts, and TME, as a gift is being made to the recipient.

B.31 The resource budget (AME) scores the subsidy that finances part of the ECGD Gross Operating Surplus total and some receipts which are financed from elsewhere in TME. AME also scores the interest receipts that ECGD receives on its assets. Only this last item needs to be adjusted for (i.e. removed) to get to TME, as these receipts do not reduce TME.

B.32 The capital budget DEL scores only the direct capital spending of ECGD. Therefore an accounting adjustment is needed to add in debts written off for policy reasons.

B.33 Finally the capital budget AME scores some financial transactions. These are removed in the general accounting adjustments for financial transactions below:

B.34 So the adjustments needed are:

44. Remove ECGD interest receipts that do not form part of TME.
45. Add debts written off by ECGD for policy reasons.

Financial transactions

B.35 TME measures the current and capital expenditure of the public sector and excludes net lending. Departmental budgets include the net acquisition of financial assets acquired for policy purposes rather than for cash flow management. Typical transactions are purchases of shares and lending to businesses and individuals. The specific adjustments are described below:

46. Deduct loans, net of repayments of loans, to the private sector and overseas that score in DEL, departmental AME and local authority expenditure.
47. Deduct the net acquisition of private sector company securities that scores in DEL, Departmental AME and local authority expenditure.
48. Deduct the profit/loss on the sale of shares and other financial assets recorded in DEL or departmental AME. This profit/loss represents part of a financial transaction in national accounts and so is outside TME.
49. Deduct movements in certain large pre-payments which score in capital budgets.

Data adjustment

B.36 In some cases, TME and budgets have the same concepts but use different data. Adjustments are needed to put budget data onto the TME basis:

50. Deduct depreciation and impairments in departmental AME. Depreciation and impairments in DEL have already been deducted in arriving at Total DEL in Table 1.1. TME uses the national accounts number for Non-trading Capital Consumption – see above.
51. For outturn years, add the amounts recorded by ONS, less the amounts recorded in budgets, for central government grants to LAs.

Balancing reconciliation

52. Add, for outturn years, the residual difference between the last published figure for TME as measured by ONS for national accounts and the number as measured by latest Treasury sources. Differences can arise for example because of differences in the timing and sources of data.
53. Add for estimated outturn and plan years the residual difference between the last published number for TME forecast by the Treasury in the Budget and the component numbers held on the Treasury's public expenditure database. Differences may arise for example where later information is recorded by departments after the Budget. TME will not be re-forecast until the Pre-Budget Report.

ADJUSTMENTS AFFECTING THE SPLIT BETWEEN CURRENT AND CAPITAL EXPENDITURE

B.37 For the most part, items in the resource budget are current expenditure in the national accounts and items in the capital budget are capital expenditure. But there are some exceptions, described below. These adjustments have no impact on the sum of current and capital expenditure, and so are not shown in table 1.14. They do however affect the split of total TME into current and capital expenditure. They are therefore part of the reconciliation from departmental budgets to national accounts measures of current and capital expenditure identified in tables 1.4, 4.2 and 4.3. The main adjustments are described below:

Resource budget items treated as capital in national accounts

- All debt write-offs go through Resource DEL. Those that are intended to convey a benefit to the debtor – as opposed to the department being unable to recover the debt because the debtor cannot pay – are treated as capital grants in the national accounts.
- Similarly, a proportion of DFID's bilateral aid budget is deemed to be a capital grant to the rest of the world in the national accounts, as it supports debt write offs, although all bilateral aid grants are shown in resource DEL.
- Under RAB, the resource budget includes the profit/loss, relative to book value, when capital assets are sold. National accounts records all of the sale price as a capital receipt. So an adjustment removes the profit/loss from current expenditure and adds it to capital expenditure. The sign convention is: if an asset were sold at a profit relative to book value this accounting adjustment would increase current expenditure (relative the amount recorded in budget) and reduce capital expenditure.

Capital budget items treated as current in national accounts

- Expenditure on single use military equipment (fighting equipment) that is capital under GAAP rules is recorded as capital expenditure in departmental budgets but treated as current expenditure in national accounts.

B.38 In table 1.3, only those Resource Budget items listed above that score in Near-cash in Resource Budgets are included in the line that removes items classified as capital, namely: DFID grants.

C

DEPARTMENTAL GROUPINGS

C.I A number of tables in this publication present analyses by department. It is not possible to show figures for all individual government departments separately and so departments are grouped together in these analyses, broadly on the basis of Ministerial responsibilities. These groupings are set out below.

Title	Departments included
Education and skills	Department for Education and Skills Office for Her Majesty's Chief Inspector of Schools in England (Ofsted)
Health	Department of Health Food Standards Agency
Transport	Department for Transport Office of the Rail Regulator
Office of the Deputy Prime Minister	Office of the Deputy Prime Minister (except Local Government)
Local Government	Local Government – mainly block and transitional grants to English local authorities, the Greater London Authority, and Regional Development Agencies
Home Office	Home Office Charity Commission Assets Recovery Agency
Constitutional Affairs	Department for Constitutional Affairs The National Archives: Public Record Office and Historical Manuscripts Commission Electoral Commission Northern Ireland Court Service Land Registry Scotland Office Wales Office
Law Officers' Departments	The Crown Prosecution Service Serious Fraud Office HM Procurator General and Treasury Solicitor Revenue and Customs Prosecution Office
Defence	Ministry of Defence
Foreign and Commonwealth Office	Foreign and Commonwealth Office
International Development	Department for International Development
Trade and Industry	Department of Trade and Industry UK Trade and Investment Office of Fair Trading Office of Gas and Electricity Markets Office of Telecommunications Postal Services Commission Export Credits Guarantee Department

Environment, food and rural affairs	Department for Environment, Food and Rural Affairs Forestry Commission Office of Water Services
Culture, Media and Sport	Department for Culture, Media and Sport
Work and pensions	Department for Work and Pensions
Scotland	Scottish Executive and its departments
Wales	National Assembly for Wales
Northern Ireland Executive	Northern Ireland Departments
Northern Ireland	Northern Ireland Office
Chancellor's Departments	HM Treasury Office for National Statistics National Savings and Investments Government Actuary's Department HM Revenue and Customs National Investment and Loans Office Registry of Friendly Societies Royal Mint Office of Government Commerce Crown Estate Office
Cabinet Office	Cabinet Office Central Office of Information House of Commons House of Lords National Audit Office Privy Council Office Security and Intelligence Services Office of the Parliamentary Commissioner for Administration and Health Service Commissioners for England

Note: The allocation of spending to departments in PESA 2006 does not reflect the machinery of government changes announced on 5 May 2006

D

PUBLIC EXPENDITURE BUDGETING AND CONTROL AGGREGATES

D.1 This Appendix describes the budgeting and control regime under full resource budgeting that was introduced for the 2002 Spending Review and that has been modified since then. Departments have separate resource and capital budgets. These are split into the control totals Departmental Expenditure Limits (DEL) and Departmental Annually Managed Expenditure (AME). Within Resource Budget DEL there are separate controls on Near cash and on Administration Budgets. In addition to Departmental AME, Other AME covers spending that is not tied to a departmental budget. DEL plus AME including accounting adjustments together sum to Total Managed Expenditure (TME), an aggregate drawn from national accounts.

RECENT DEVELOPMENTS

D.2 Recent changes include:

- Income from the European Union that was non budget is now netted off DEL.
- Spending on the Common Agricultural Policy has moved from AME into DEL.
- Those capital grants that were in Resource Budgets have been moved into Capital Budgets.
- The element of payments from health authorities to NHS trusts (England) that covers their depreciation costs has moved from non budget into DEL.
- The definition of Near-cash in Resource DEL as a control total has been clarified.
- Net lending to students was non budget and is now in Departmental AME.
- BBC domestic broadcasting expenditure is now in Departmental AME.
- The AME row Net Payments to European Communities Institutions has been replaced by a row showing Net expenditure transfers to EU institutions.
- The Treasury has published its Resource Budgeting Guidance for departments.

RESOURCE BUDGETING

D.3 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. This Stage I regime moved to full resource budgeting from 2003-04. There are separate departmental budgets for resource (ie current) and capital expenditure.

Resource Budget

D.4 The resource budget controls the current expenditure of a department. The Resource budget largely follows the contents of resource accounts. Resource accounts are prepared in accordance with the Government Financial Reporting Manual, which follows Generally Accepted Accounting Practice (GAAP) with such adaptations as are necessary for the public sector.

D.5 Resource accounts measure expenditure when it accrues rather than when the cash is spent. 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. They include non cash costs such as movements in provisions and charges for bad debts. Resource budgets record the cost of lending to students on the basis of an assessment of the grant implied in the low interest rate charged and the bad debt provision that is needed.

D.6 The annual resource cost to departments of the assets they use 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 capital in these assets (the cost of capital charge). The cost of capital charge is 3.5 per cent of the net assets (fixed capital and financial assets, net of financial liabilities and provisions) employed by each department.

D.7 The Resource budget includes all administration costs of Government departments such as pay and employer pensions contributions or superannuation charges paid to unfunded public service pensions schemes. It also includes most of departments' other purchases of services. It includes current grants and subsidies paid to the private sector.

D.8 For DfID and the FCO the resource budget includes an attributed share of the EC's expenditure on overseas aid and the Common Foreign and Security Policy.

D.9 The Resource Budget is divided into Near-cash and Non-cash. **Near cash in Resource DEL** is a control total. Near cash is expenditure that impacts directly on the Surplus on the Current Budget, used to measure the Government's performance against the Golden Rule. Near-cash expenditure includes pay, procurement, grants, and payments made where provisions that had been taken in the past are now being released. Near cash expenditure is measured on an accruals basis, and normally results quickly in a cash outflow. Non cash expenditure includes depreciation, cost of capital charges, and the take up and release of provisions. Ministry of Defence has a slightly different definition of Near-cash.

D.10 Non-Departmental Public Bodies. Resource and capital budgets include the expenditure of most non departmental public bodies (NDPBs) classified to the central government sector rather than the grant-in-aid from the parent department. This treatment remains a difference with the accounting treatment in departmental resource accounts which just record the grant-in-aid paid by the department.

D.11 Resource budgets include most of the department's current transactions with **public corporations** sponsored by the department (as recorded in resource accounts), but capital grants and lending to public corporations are in the capital budget. So the resource budget scores:

- subsidies paid to the public corporation by the department;
- dividends and interest received from the public corporation;
- a capital charge in respect of the value of the public corporation.

D.12 NHS trusts (England) – formerly public corporations and now central government bodies – and **Forest Enterprises** (which are public corporations) have a different budgeting treatment. For them, the resource budget includes their operating profit/loss and the capital budget shows their capital expenditure.

D.13 Central Government Support for Local Authorities. The resource budget scores current grants to local authorities. Capital grants (in England called Supported Capital Expenditure (Capital) from 2004-05) score in capital budgets. Capital budgets also include amounts for local authority borrowing where central government has agreed to fund the resultant loan charges (up to 2003-04: credit approvals (capital consents in Scotland); from 2004-05 Supported Capital Expenditure (Revenue) in England (supported borrowing in Scotland)). More information on local authorities is in chapter 5.

D.14 The sum of departmental resource budgets is reconciled to public sector current expenditure – a national accounts concept which is part of TME – in Table 1.3.

Capital Budget

D.15 Capital budgets include expenditure on fixed capital assets, capital grants and the acquisition of certain financial assets acquired or sold for policy reasons. Capital budgets include capital expenditure implied by finance leases and on balance sheet Private Finance Initiative transactions. Capital budgets are net of the book value of receipts from the sale of capital assets. The profit/loss on asset sales is in resource budgets so that it aligns with the recording in the operating cost statement in resource accounts.

D.16 Capital budgets generally include loans on the basis of new loans issued less repayments of loan principal.

D.17 Long lasting defence fighting equipment with no civilian use (sometimes called Single Use Military or Fighting Equipment) is treated as capital expenditure in budgets and departmental resource accounts, but national accounts treat it as current.

D.18 The sum of departmental capital budgets is reconciled to public sector net investment in Table 1.4.

Resource and Capital Budgets – Summary Table

D.19 This table summarises the main standard contents of resource and capital budgets:

	Resource Budget		Capital Budget
	Near-Cash	Non-Cash	
Department's own Transactions	Pay, current purchases, grants to individuals, subsidies. <i>Note: includes expenditure offset in accounts by the release of provisions</i> Less income from sales of services, the European Community, interest & c	Depreciation and impairments on the department's assets Cost of capital charge in respect of net assets Profit/ loss on disposal of assets Take up of provisions, movement in value of provisions, release of provisions Bad debts	Expenditure on new fixed assets Less net book value of sales of fixed assets Net lending to the private sector Investment grants to the private sector

	Resource Budget		Capital Budget
	Near-Cash	Non-Cash	
NDPB transactions	As the department <i>Note: the department's grant in aid to NDPBs is not in budgets</i>	As the department	As the department
NHS Trusts (England)	Health authorities' purchases of health care from trusts Profit/ loss of NHS trusts	Cost of capital charge in respect of net assets	Capital expenditure of NHS trusts
Local Authorities	Current grants to local authorities		Capital grants to local authorities Supported capital expenditure (revenue)
Public Corporations	Subsidies paid to public corporations <i>Less interest and dividends received from public corporations</i>	Cost of capital charge in respect of public corporations	Investment grants paid to public corporations Net lending to public corporations (including equity withdrawals from public corporations) Public corporations' market and overseas borrowing

DEPARTMENTAL EXPENDITURE LIMITS

D.20 A little under 60 per cent of public expenditure (TME) by value is in DEL. But because AME includes a small number of large programmes by far the majority of public expenditure programmes are in DEL. The main programmes in AME are set out later in this section.

D.21 DELs are set for three years in a Spending Review. They represent firm plans for departmental spending that may only be increased in exceptional circumstances with the Treasury's agreement through a claim on the DEL Reserve. Departments may carry forward unspent DEL from one year to the next. SR2004 set firm spending plans for 2005-06 to 2007-08.

D.22 DEL is net of certain receipts, mainly payments for services, asset sales, dividends, interest, rent of land, income from the European Community, and also certain levies and fines where the Chief Secretary to the Treasury has given specific agreement for a department to retain them in their DEL.

D.23 DEL includes a Reserve to meet unexpected needs, and the unallocated provision for the Invest to Save Budget (ISB), a challenge fund. When sums are allocated, from either the Reserve or the ISB, individual departments' DELs are increased and the Reserve/ISB lines reduced by the same amounts.

D.24 Public Corporations. Most transactions in respect of public corporations score in DEL but those in respect of self-financing public corporations score in departmental AME (unless they receive grants and subsidies, which would score in DEL).

D.25 Total DEL is not a control total but a standard way of presenting the sum of current and capital spending in DEL. Total DEL is defined as Resource Budget DEL plus Capital Budget DEL *less* depreciation. Depreciation here includes impairments and the release of the donated assets and government grant reserves.

ANNUALLY MANAGED EXPENDITURE

D.26 This part describes the components of AME, which may be divided into:

- Departmental AME
- Other AME.
- AME Margin
- Accounting Adjustments

Departmental Annually Managed Expenditure

D.27 Departmental AME programmes are set out in departmental reports, and are identified under this heading in Estimates. 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 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.

D.28 The main programmes in departmental AME are:

- Social security benefits;
- Tax credits for individuals;
- Net lending to students;
- BBC domestic services;
- Net public service pensions; and
- Expenditure financed by the proceeds of the National Lottery.

D.29 Social Security Benefits. Includes payments of social security and National Insurance benefits by the Department for Work and Pensions (DWP) and the DSS (Northern Ireland). It includes central government support for certain social security benefits paid by local authorities, eg Housing Benefit, Council Tax Benefit and Rent Rebates. It includes payments by the DWP to the BBC in respect of free television licences for the over 75s.

D.30 Tax Credits for Individuals. Tax credits paid to households that are classified as public expenditure under OECD guidelines followed by HM Treasury in the calculation of Net Taxes and Social Security Contributions. Mainly tax credit payments to non tax payers, or otherwise in excess of total tax liability. Also payments in respect of contributions to stakeholder pensions of non tax payers or in excess of tax paid.

D.31 Net Lending to Students. The transactions of loan principal score in Departmental Capital AME. Resource DEL scores the provision in respect of new lending. For data reasons, in PESA 2006 this line covers England and Wales only.

D.32 BBC domestic services. The expenditure of the BBC on domestic broadcasting scores in Departmental AME. The BBC World Service scores in the FCO's DEL. The BBC Monitoring Service also scores in DEL. Certain trading operations of the BBC are treated as self financing public corporations in AME. For data issues in PESA 2006, see Appendix A and Chapter 6.

D.33 Net Public Service Pensions. This line scores the majority of the operating costs, net of income, for the main public service un-funded pension schemes. Operating costs are measured under Financial Reporting Standard 17 (FRS17) compliant with UK GAAP as amended for the public sector. The main schemes are those for the civil service, armed forces, teachers and NHS staff. The line comprises an assessment of the increase of liability relating to current employees *less* relevant receipts (see below). The line does not include an amount for the unwinding of the discount – see below.

D.34 All the major pension schemes follow FRS17 to report any increase (or decrease) in liabilities accrued in the period. The measure is prospective. In broad terms, there is a charge (or benefit) shown in this row if the pension contributions receivable fall below or exceed the full costs of providing pensions as measured under FRS17.

D.35 Note that there may be several reasons for a difference in the level of contributions and the FRS17 charge. For example, the contribution is set to reflect previous over- and under-assessment of contributions due to scheme-specific experience on issues such as pay and demography. Calculations of contributions and of the FRS17 charge use different discount rates and different actuarial methodologies. Contribution rates are revised only every three or four years, after full actuarial valuations.

D.36 Cash payments of members' continuing pensions, lump sums, spouses' benefits and similar payments, and bulk and individual transfers out are all normally charged directly to the pension provision shown on the balance sheet. That means that they do not impact on the cost of the scheme as measured in this line, because the obligation to pay the pension had been recognised as adding to liabilities by an increase in the pension provision when the right to the pension accrued. However, if any cash payment is made that is not covered by a previously recognised liability then that payment would score in this AME line.

D.37 Relevant receipts include employers' contributions (including accruing superannuation liability charges such as those 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.

D.38 This line does not reflect changes to the pension provision on the balance sheet resulting from changes in the actuarial assumptions made about the future (for example life expectancy, pay growth, inflation &c). Such changes result in the cost of providing already accrued pensions being higher (or lower) than previously thought. So if for example pensioners are living longer than previously thought the overall liability of a scheme will rise. The effects of these changes are shown in a separate statement (Statement of Recognised Gains and Losses) in the pension schemes' resource accounts and do not score in Budgets.

D.39 For simplicity, and because of the immateriality of the amounts, some small unfunded schemes may report the difference between the cash paid out during the year and any contributions received.

D.40 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.

D.41 Note that this line does not cover:

- pension schemes with a real pensions fund, eg local authority and most public corporations' pensions schemes;
- the schemes for police officers and fire fighters, which are run by local authorities, and whose costs are in local authority expenditure; and
- pensions of some NDPBs and other offices in the central government sector which operate their own pay-as-you-go pensions schemes and which are in DEL, generally on an FRS17 basis.

D.42 Future payments of pensions are discounted in order to obtain the value of the liability in today's terms. Each year, future payments come a year closer and so the effects of discounting are reduced. That **unwinding of the discount rate** is a cost that is recognised in the accounts.

D.43 In budgets, the amount for the unwinding of the discount rate on the liability is part of the 'non cash items' row (see below). The amount scores in non-cash items because there is no cost of capital credit recognised on the liability in scheme accounts; this credit would normally offset the increase. Therefore to score just the increase without the credit would distort the numbers.

D.44 In addition, the amount for the unwinding of the discount rate could be seen as loosely equivalent to the amount of interest the government would have had to pay if the schemes had been funded with government debt (note that the discount rate is set in accordance with GAAP principles as endorsed by the Financial Reporting Advisory Board and is not automatically a gilt rate). So this item reflects the fact that the schemes are unfunded. Showing this item in the non-cash items row separates out the costs that the Government bears as employer from guaranteeing the schemes (that is, the costs in the Net public service pensions row) from the notional costs because the schemes are unfunded.

D.45 The cost of pensions schemes as measured on a GAAP basis does not impact directly on TME or the fiscal framework. Appendix B shows how the GAAP measures for the main public service pension schemes in AME can be reconciled to TME, and Table B.1 gives more detailed information.

D.46 The overall change over the year in the schemes' balance sheet pensions liability measured on a GAAP basis is normally given by:

current service cost and other pension costs (eg. liabilities transferred in)

plus unwinding of the discount rate

less pensions paid out

plus or less changes in actuarial assumptions and other balance sheet adjustments

D.47 With the exception of the last item, which is not an expenditure or budget item, figures for the components listed above are shown in Table B.1.

D.48 TES includes the cost of public service pensions on a TME basis in the Social protection/public service occupational pensions sub-function. Table 8.19 sets out cash spending by the departments responsible for pension schemes on pensions in payment net of contributions.

D.49 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 (education, health and the environment); the New Opportunities Fund and the Community Fund are to merge into the Big Lottery Fund. This line also includes expenditure funded by the National Endowment for Science, Technology and the Arts, which had been set up by grants from the National Lottery Distribution Fund.

D.50 Non-cash items in AME. Consists mainly of:

- non-cash items that remained in AME and did not move into DEL under full resource budgeting in particular the cost of capital charge for the road network and provisions for nuclear decommissioning liabilities;
- some non cash items in respect of departmental AME programmes; and
- an amount in respect of the increase in the liability of public service pensions schemes due to the unwinding of the discount (see above).

D.51 Other departmental expenditure in AME includes:

- Capital expenditure of NHS foundation trusts in 2004-05 and 2005-06 only (from 2006-07 it scores in DEL);
- Transactions in respect of Self-Financing Public Corporations;
- Export Credits Guarantee Department (part);
- Expenditure on tax credits for companies (research and development for Small and Medium Enterprises, contaminated land clearance) and charities calculated on an OECD basis, that is payments in excess of tax liability;
- Inland Revenue payments in respect of Child Trust Funds;
- Rates paid on behalf of embassies, net of beneficial portion receipts;
- Housing Subsidy in England and Wales and Housing Support Grant in Scotland;
- For outturn years, expenditure by DEFRA in connexion with Foot and Mouth disease;
- Redundancy Payments Scheme;
- Coal Health Liabilities;
- Education Maintenance Allowances;
- Expenditure of certain levy-funded bodies; and
- Acceptances of artworks in lieu of Inheritance Tax.

Other Annually Managed Expenditure

D.52 Locally Financed Expenditure (LFE). 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
- central government expenditure financed from the product of Northern Ireland Regional Rates (NIRR) and from borrowing from the National Loans Fund under the Reinvestment and Reform Initiative (RRI).

D.53 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 surpluses of trading activities, interest receipts, unsupported borrowing and the use of reserves.

D.54 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 product of NIRR is treated as a transfer from AME into DEL.

D.55 Expenditure financed by borrowing from the National Loans Fund under the RRI is shown under LFE because the loans will be serviced and repaid out of the product of the NIRR.

D.56 **Net Expenditure Transfers to European Union Institutions.** This line reflects the main TME impact of EU membership. Footnotes to Table 1.1 also show **Net Payments to EU Institutions** and the **Net Contributions to the EU Budget**. The table overleaf sets out the contents of these three concepts:

Flow	Net Expenditure Transfers to EU Institutions	Net Payments to EU Institutions	Net Contributions to the EU Budget	Notes
Traditional Own Resources (TOR), made up of Customs duties, including those on agricultural products and sugar levies		✓	✓	Not in TME
<i>plus</i> VAT-based contributions		✓	✓	Not in TME
<i>plus</i> GNI-based contributions (including payments to EU budget reserves)	✓	✓	✓	In TME
<i>less</i> the UK's abatement	✓	✓	✓	In TME
<i>less</i> receipts from the EU that come to or pass through government		✓	✓	Now in DEL, where they offset the expenditure they finance so that there is no net effect on TME
<i>less</i> European Coal & Steel Community receipts		✓	✓	
<i>less</i> an amount in respect of the cost of collecting TOR		✓	✓	in TME – see the accounting adjustments in Appendix B
<i>plus</i> contributions to the European Investment Bank		✓	✓	Not in TME
<i>less</i> the UK's contribution to the cost of EU aid to States outside the EU, which is attributed to the aid programme, <i>and less</i> the UK's contribution to the cost of the EU's Common Foreign & Security Policy, which is attributed to the FCO's programme. Both sets of attributed spending are in DEL.		✓		The DEL scoring is removed in the accounting adjustments (see Appendix B)

D.57 So the TME effect of EU membership is given by:

- GNI-based contributions
- *less* the UK's abatement
- *less* an amount in respect of the cost of collecting TOR

D.58 **Public Corporations' Own-Financed Capital Expenditure.** This line comprises the capital expenditure of public corporations net of any capital grants or loans given by a PC's parent department and net of public corporations' market and overseas borrowing. Excludes Forest Enterprises which have a different budgeting regime.

D.59 This line includes the whole amount of capital expenditure of public corporations accountable to local authorities, whether own-financed or supported by local government: an accounting adjustment removes local government support to public corporations.

D.60 Central Government Debt interest. This line includes interest paid to the private sector and overseas, but not interest paid to other parts of the public sector. 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 and Accounting Adjustments

D.61 AME Margin. The AME margin is an allowance for estimating changes.

D.62 Accounting adjustments are described in Appendix B.

TOTAL MANAGED EXPENDITURE

D.63 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 the capital expenditure 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.

D.64 TME equals DEL + AME (including accounting adjustments).

D.65 In addition, TME may be expressed as the sum of :

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

D.66 In this presentation, Depreciation represents the amount of capital expenditure that makes good the depreciation of assets, and Net Investment represents the amount of capital expenditure that adds to the asset stock.

BUDGETING GUIDANCE

D.67 The Treasury has published the Consolidated Resource Budgeting Guidance for departments for 2006-07 on its website¹. The Guidance explains in more detail what is in budgets.

¹ http://www.hm-treasury.gov.uk/documents/public_spending_and_services/consolidated_budgeting_guidance_for_2006-07.cfm

E

EXPENDITURE ON SERVICES

E.1 The tables in Chapters 3, 4 and 5, which show public expenditure disaggregated by function and by economic category, and the tables in Chapter 7, which show public expenditure by country and by region, all focus on Total Expenditure on Services (TES), or a sectoral element of it. TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure (TME). The definition of TES in PESA 2006 is almost identical to that presented in PESA 2005.

What's New

E.2 The definition of TES has been changed to bring receipts of capital donations into TES in order to improve the alignment with TME. This change primarily affects the recreation and culture line, and reduces TES by about £100m a year.

E.3 There have been a number of COFOG (Classification of the Functions of Government) changes since PESA 05. These are described further below.

EU transactions in TES

E.4 EU transactions score in aggregate in TES in the same way as in TME. However, TES scores EU funded payments within functional expenditure as UK government spending, for instance on agriculture, that the national accounts score as direct payments from the EU to enterprises and households. The reason for including EU financed spending in the functional analysis is that the UK is a net contributor to the EU. Therefore the EU transactions line in TES includes EU receipts, thus bringing the total into line with TME. Similarly, TES scores attributed EU expenditure on aid and the Common Foreign and Security Policy under International Services and deducts an appropriate amount under EU transactions.

E.5 Following changes to the budgeting system (see Chapter 2) There is a new adjustment to reverse the deduction of income from the EC in departmental budgets in order to arrive at departments' TES number. The number used for overall EC receipts in TES is a central Treasury number which differs from the sum of departmental figures due to timing and other differences.

TES defined by reference to TME

E.6 TME is the current and capital expenditure of the public sector, on a national accounts basis. TES represents much the same, with minor divergences. The divergences reflect mainly the difficulty of attributing some data to functions, and consequent differences to maintain consistency between functions. The main difference to TME is that TES does not include general government capital consumption and does not reverse the deduction of certain VAT refunds in the budget based expenditure data. It also includes a small number of items that are in budgets but not in TME, for example the grant equivalent element of student loans. TES is worth about 95% of TME. For the avoidance of doubt, TES includes expenditure on goods as well as on services.

E.7 TES can be defined in terms of the current and capital expenditure of spending sectors on a national accounts basis as (simplifying):

Central government own current expenditure, including subsidies to public corporations but without central government support for local authorities and without capital grants or net lending to public corporations

- + Grant-equivalent element of student loans
- + Local authorities current expenditure
- Local authorities debt interest paid to central government
- + Public corporations debt interest to private sector and rest of the world
- + Central government gross capital expenditure (net of asset sales)
- + Local authorities gross capital expenditure (net of asset sales)
- + Public corporations gross capital expenditure (net of asset sales)

TES defined by reference to budgeting aggregates

E.8 TES can also be built up from the budgeting aggregates (DEL, Departmental AME and other AME) (simplifying):

Departmental Expenditure Limits

Spending in DEL

- non cash items in DEL
- the element of purchases of healthcare from NHS trusts (England and Wales) that represents the funding of trust debt remuneration
- The element of purchases of healthcare from NHS trusts (England) that represents the funding of trust depreciation – *a new adjustment following the budgetary system changes (see chapter 2)*
- + Reverse the deduction in budgets of certain receipts that are revenue in the national accounts, including interest and dividend receipts from public corporations
- + Reverse the deduction in budgets of income from the European Community
- financial transactions
- profit/loss of public corporations and NHS trusts recorded in DEL

Departmental Annually Managed Expenditure

- + spending in Departmental AME
- Non-cash items (both those in individual rows and in the row for non cash items)
- net public service pensions on the AME basis
- + net public service pensions on the TME basis
- financial transactions
- + reverse the deduction of interest and dividend receipts from public corporations

Other Annually Managed Expenditure

- + net expenditure transfers to EU Institutions *less* receipts from the European Community *and less* attributed and Common Foreign and Security Policy spending

- + locally financed expenditure
- local authority debt interest paid to central government
- capital grants paid by local authorities to public corporations
- + central government gross debt interest
- + public corporations' own financed capital expenditure
- + public corporations' debt interest to the private sector and rest of world

E.9 To get TES for each department we first take DEL and remove items as necessary to achieve the effects set out above. This total, combined with departmental AME on the same basis and local authority and public corporations spending gives the department's TES. The entry for EU transactions under the Chancellor's departments includes the deduction of total EC receipts.

Change in COFOG classification

E.10 There have been a number of classification changes since PESA 05. These reclassifications ensure that data are consistent with the UN Classification of the Functions of Government (COFOG):

- A reclassification of concessionary fares expenditure from transport to social protection. The impact of this is around £0.5bn a year since 2000-01:
- The reclassification of water supply expenditure from environment protection to the housing and community amenities function. The impact of this reclassification is between £0.3bn and £0.7bn a year since 2000-01:
- The reclassification of some expenditure on agriculture, food and fisheries research from agriculture to science and technology. The impact of this reclassification is below £0.1bn since 2000-01:
- The reclassification of some spending on strategic programme funds from social protection to international services. The impact of this is around £0.2bn a year from 2000-01 onwards;
- The reclassification of the Health and Safety Executive from general public services to employment policies.
- Expenditure on the security and intelligence service has been reclassified from general public services to defence. Across the whole time series, this has led to a switch in expenditure of approximately £1billion across all years.

Table E.1 Derivation of Total Expenditure on Services from departmental groups' budgets, 2004–05

	£ million																						
	Education and Skills	Health	Transport	Office of the Deputy Prime Minister & Local Government	Home Office	Constitutional Affairs	Law Officers' departments	Defence	Foreign and Commonwealth Office	International Development	Trade and Industry	Environment, Food and Rural Affairs	Culture, Media and Sport	Work and Pensions	Scotland	Wales	Northern Ireland Executive	Northern Ireland Office	Chancellor's departments	Cabinet Office	Public corporations accountable to local government	Total for all departments	
Take:																							
Res DEL	23,044	69,206	5,258	46,847	11,991	3,288	643	31,287	1,715	3,803	4,274	2,776	1,343	7,746	19,336	10,324	6,301	1,172	4,906	2,067	—	257,327	
Cap DEL	4,905	2,690	5,980	5,392	1,059	194	11	6,754	112	32	792	489	122	298	2,170	1,055	799	71	429	238	—	33,592	
Res AME	6,744	6,398	2,085	543	1	62	—	4,130	—	132	-506	72	3,620	110,791	1,775	233	5,807	—	21,661	5,383	—	168,930	
Cap AME	2,018	229	65	—	—	—	—	—	—	—	-342	1	1,186	80	172	—	248	—	228	—	—	3,885	
Remove:																							
Finance to LAs	-9,532	-2,288	-4,383	-48,329	-4,864	-345	—	—	—	—	-332	-116	-996	-16,914	-7,091	-4,170	-79	—	—	-18	—	-99,457	
Finance to PCs	—	—	—	-51	—	—	—	—	-39	—	—	—	0	-7	-11	—	-138	—	—	—	—	-246	
Financial transactions in																							
Capital Budgets	-2,015	—	-13	-9	—	—	—	74	—	-2	42	—	—	-80	-200	—	12	—	-8	—	—	-2,199	
Non-cash items in																							
Resource DEL	-707	-273	-622	-11	-460	702	-11	-9,672	-116	-81	-357	-311	-132	-88	-830	-311	-164	-254	-316	-394	—	-14,405	
Non-cash items in																							
Resource AME	-5,479	-8,743	-2,054	0	—	27	—	-5,087	—	-15	1,583	-11	-67	-327	-1,869	-318	-2,071	120	-92	-4,335	—	-28,739	
Add:																							
PC capex	—	—	34	30	—	35	—	124	39	-25	985	3	27	7	531	—	87	—	76	—	683	2,636	
LA capital exp	2,877	209	2,612	2,277	518	41	—	—	—	—	—	416	511	—	904	603	82	—	—	—	—	11,048	
LA current exp	32,631	16,121	4,618	8,716	10,656	437	—	—	—	—	288	4,098	2,107	14,032	8,999	4,192	314	—	—	36	—	107,245	
Northern Ireland locally financed expenditure	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	410	—	—	—	—	410	
Public sector debt interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	24,871	—	—	24,871	
EU transactions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-892	—	—	-892	
Other adjustments ⁽¹⁾	743	-1,745	160	46	79	-5	—	3,317	5	7	690	2,458	189	556	643	230	357	—	-196	2	—	7,541	
To give:																							
Total Expenditure on Services	55,229	81,804	13,740	15,451	18,980	4,436	643	30,927	1,716	3,851	7,117	9,875	7,910	116,094	24,529	11,838	11,965	1,109	50,667	2,979	683	471,547	

(1) Other adjustments includes: profit/loss of public corporations and NHS Trusts, trust debt remuneration, payments in respect of NHS trust depreciation, EU receipts, the grant-equivalent element of student loans and other adjustments.

F

GLOSSARY OF TERMS

Within an explanation of a term, words in bold are themselves explained elsewhere in the glossary.

Accounting adjustments shown in, for example, table 1.1 are certain items of expenditure that account for the difference between TME and the sum of DEL, Departmental AME and Other AME (see Appendix D). TME is drawn from **national accounts**. However there are certain components in national accounts which are not included in the **resource** and **capital budgets** that form the basis of planning and control of departmental spending under resource budgeting, and there are some items in **resource budgeting** aggregates that are not part of TME. These items form the accounting adjustments. Appendix B has full details.

Accruals in table headings means that the information is at least partly derived from material provided for accruals accounts or for plans that are consistent with accruals accounting. Accruals based data will reflect the timing of expenditure on an accruals basis. Whether other accruals accounting concepts are contained depends on the aggregate. Total Expenditure on Services (see Appendix E) includes almost no accruals accounting concepts. **Total Managed Expenditure** includes depreciation. The budgeting aggregates DEL and **Departmental AME** include **depreciation, cost of capital charge, provisions &c.**

Accruing Superannuation Liability Charges (ASLCs) are employer pension contributions paid to the bodies responsible for paying and accounting for unfunded public service occupational pensions. For example, government departments pay aslcs in respect of serving civil servants. The payments represent an actuarial assessment of the accruing discounted future cost of public expenditure on pensions arising from the current employment of staff. DEL includes aslcs.

Administration budget – the costs of running a central government department. It includes the pay of the civil servants who work in the department, and associated expenditure such as **aslcs**, accommodation, travel, and training. Administration Budgets are set net of income arising from departments' administrative activities.

Aggregate External Finance (AEF) is central government support for expenditure on local authority core services. It comprises Formula Grant (**Revenue Support Grant**, distribution of **national non-domestic rate** receipts and police grant) and various other specific grants which fund part of the current expenditure on a specific service or activity. AEF does not include the cost of VAT refunded to local authorities on their non-business operations.

Annually Managed Expenditure (AME) is spending included in **Total Managed Expenditure** which does not fall within **Departmental Expenditure Limits (DELs)**. Expenditure in AME is generally less predictable and controllable than expenditure in DEL. **Departmental AME** is spending in AME which is scored in departmental budgets.

AME Margin is an unallocated margin on total AME spending included for prudential reasons.

Appropriations in aid are departmental income that is retained by departments in their **Supply Estimates** and used to offset related expenditure. Typically the income arises from the sale of goods and services. Non-operating appropriations in aid relate to income from the sale of assets.

Assets can be either financial or non-financial:

- **Financial assets** include monetary gold, bank deposits, IMF Special Drawing Rights, loans granted, bonds, shares, accounts receivable, and the value of the government's stake in public corporations.
- **Non-financial assets** consist of fixed capital (such as buildings and vehicles); stocks; land and valuables.

Billion – a thousand million

The **Blue Book** is a publication by ONS that presents **national accounts**.

Capital consumption is also called **depreciation** and represents the amount of fixed capital used up each year.

A department's **Capital Budget** covers **capital expenditure**. The capital budget is divided into DEL and **Departmental AME**. The capital budget includes

- capital formation and the acquisition of assets such as land, buildings, machinery and vehicles. Acquisition is recorded net of the net book value of any assets disposed of (any profit or loss on disposal forms part of the Resource Budget). **Single use military equipment** that is treated as capital in **resource** accounts is included as capital in budgets, and is treated as current expenditure in national accounts;
- **net lending** undertaken for policy purposes; *net* means net of repayment of debt principal;
- capital grants.

Capital expenditure can be understood in several ways.

- In **national accounts** capital expenditure is usually understood to mean **capital formation**, the net acquisition of land, and expenditure on capital grants. **Capital formation** is expenditure, net of sales, on fixed assets (such as buildings, vehicles and machinery) and net stock building, and can be measured gross or net of **depreciation**. Fixed assets are assets that can be used repeatedly to produce goods and services and generally last more than one year. Sometimes a minimum cost threshold (say £1,000) is applied to further define capital assets. There are some borderline cases: for example in national accounts **Single Use Military Equipment** is defined as current; but assets that can be used for civil and military purposes count as capital. Certain types of significant computer software development are treated as capital expenditure. The **pay** of civil servants engaged in in-house capital formation is recorded as capital expenditure, not as pay.
- Capital expenditure includes the value of assets acquired under finance leases.
- In-house development of assets such as computer software and databases can be capitalised in government accounts provided certain conditions are met. It is sometimes called "own account capital formation".
- **Net investment** is public sector capital expenditure, as defined above, net of depreciation.

- Under **resource accounting**, and in various presentations of local authority finances, capital expenditure also includes loans that are given and the net acquisition of shares. In other words it includes the net acquisition of financial assets that are acquired for policy reasons rather than for managing the government's funds. Such policy lending also generally scores in DEL, in the capital budget, but is removed by the **accounting adjustments** as it does not score in TME.
- Some presentations of the capital expenditure of central government, and capital DELs include **credit approvals** (up to 2003-04) and provision for **Supported Capital Expenditure** (Revenue) allocations (from 2004-05) given to local authorities.

Capital grants (also called investment grants) are payments given by government on the condition that the recipient uses the funds for **capital formation** (for example: building a school or factory or buying a machine). Capital grants are also used in **national accounts** to record debt write-offs made by government for policy reasons. In such cases two transactions are recorded: a capital grant from government to the debtor; and the repayment of debt by the debtor. Capital grants are treated as current expenditure in resource accounts and **Estimates**. Capital grants are included in the **capital budget**.

The **Capital Modernisation Fund (CMF)** was a challenge fund from which departments could bid for provision to support capital projects aimed at improving the quality of public service delivery (see also **Invest to Save Budget**). The CMF was not allocated to any specific department when public expenditure was being planned. The CMF was discontinued in the 2003 Budget, and the remaining unallocated amounts were removed from DEL.

Central Government is a sector in **national accounts**. It comprises Parliament; government departments and their executive agencies; the devolved assemblies of Scotland and Wales; Northern Ireland departments; government funds such as the **National Loans Fund**; the foreign exchange official reserves; **non-departmental public bodies**; and various other public bodies that are controlled by central government. Central Government does not include **public corporations**, nor does it include some non-profit institutions that receive significant government funding – such as universities, further education colleges, and housing associations – this is because they are not controlled by government and so they belong in the private sector.

Central government own expenditure is expenditure that central government makes to the private sector plus subsidies to **public corporations**. It excludes central government support to local authorities and capital support to public corporations.

Classification changes are changes in the way public expenditure is recorded, rather than an actual change in the amount of cash spent or resources consumed. Classification changes can increase or decrease the recorded level of public expenditure. When there is a classification change the data are normally restated for all years in order to provide a consistent series.

Classification of the Functions of Government (COFOG) – a UN based code for functional analysis of government spending. The PESA functional analysis is largely consistent with UN COFOG. From PESA 2007 it will be wholly consistent. More information on COFOG is available on the UN's website¹.

¹ <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>

The **Code for Fiscal Stability** set out the fiscal policy framework and gave it a statutory basis in the 1998 Finance Act. It has five principles: transparency, stability, responsibility, fairness and efficiency.

Combined On-line Information System (COINS) – the Treasury’s database that holds public expenditure data.

Common Foreign and Security Policy (CFSP) is an EU programme. Its costs are attributed to the Foreign Office’s DEL.

Consolidated Fund is the Government’s main account with the Bank of England. Most of central government’s expenditure is financed from this fund, and most taxes and other receipts are paid into it.

Consolidated Fund Extra Receipt means income or receipts of a government department that it has to pay into the **Consolidated Fund** rather than keep in its **Supply Estimates** as an **appropriation in aid** to help finance its own expenditure. For example, most fines levied by the Crown Court are treated this way.

Cost of capital charge is an annual non-cash charge applied to each department’s budget. It is used to make departments aware of the full cost of holding assets. The rate reflects the social time preference rate and is 3.5 per cent of the net assets of the department. Changes in the rate are effected as **classification changes**. **Credit approvals** used to be given by central government to local authorities and represented the amounts that each local authority was allowed to borrow to finance capital expenditure. There were two types: Basic Credit Approvals (BCAs) – for any sort of capital expenditure), and Supplementary Credit Approvals (SCAs) – for particular projects or services. Supported credit approvals were those where current grants to local authorities were increased to finance the borrowing. Unsupported credit approvals carried no promise of future government support and scored in AME. Credit approvals ceased to exist from 1 April 2004 and have been replaced by **Supported Capital Expenditure (Revenue)**.

Current expenditure – see **public sector current expenditure**

Departmental AME – is spending that is outside DEL but included in departmental budgets. Main categories include social security benefits and tax credits for individuals.

Departmental Expenditure Limits (DELs) are firm plans for three years for a specific part of a department’s expenditure. In general the DEL will cover all running costs and all programme expenditure, except in certain cases where spending is included in **departmental AME** because it cannot reasonably be subject to close control over a three year period. Both resource and capital budgets are divided into DEL and departmental AME. DEL normally includes relevant non-cash items such as **depreciation, cost of capital charges, and provisions**. Total DEL is the sum of the **Resource Budget DEL** and the **Capital Budget DEL**, less **depreciation**. Depreciation is excluded from Total DEL as scoring both capital expenditure and depreciation may be seen as in a sense double counting. In the calculation of Total DEL, depreciation includes impairments, release from donated asset reserve and release from government grant reserve. Total DEL is not a control total: it is purely used for presentation.

Departmental Investment Strategy (DIS) is a statement by each department setting out its long term strategic plans for investment, the condition and suitability of its existing asset base, and the systems that will ensure value for money in delivery.

Departmental Unallocated Provision (DUP) is an amount that a department keeps within its budget to meet unplanned increases in spending, and which is not allocated to any particular programme at the start of a year.

Depreciation is also termed **capital consumption**. TME includes non-trading capital consumption as an item of **current expenditure**. TME includes **public sector capital expenditure** without a deduction for the depreciation of capital assets. **Public sector net investment** deducts an aggregate charge for all depreciation (market and non-market) from gross capital spending.

The **Economic and Fiscal Strategy Report (EFSR)** was first published by HM Treasury in June 1998 and describes the Government's fiscal policy. It now appears together with the **Financial Statement and Budget Report (FSBR)** in a single Budget document published on Budget day (sometimes called the Red Book).

Economic Categories. These represent classifications in **national accounts**. Examples of economic categories are: pay, social benefits and other grants paid to the private sector, and **subsidies**. The main categories in **TES** are set out in Table 3.7.

Efficiency Challenge Fund. Central fund set up within **Resource DEL** to which departments were able to bid for match funding in 2004-05 and 2005-06 towards restructuring costs necessary to catalyse SR04 (Gershon) efficiency gains. Sums allocated from the fund are added to departments' DELs but score outside **Administration Budgets**.

End Year Flexibility (EYF) is the set of rules by which departments are allowed to carry forward unspent DEL provision from one year to the next.

Estimates – see **Supply Expenditure**.

The **European System of Accounts 1995 (ESA95)** is the system used by the **Office for National Statistics** for measuring and presenting UK **national accounts**. The system is compulsory for EU member states reporting economic statistics to the EU Commission. ESA95 is consistent with the earlier System of National Accounts 1993 (SNA93) which was developed by a number of international organisations.

The **Exchange Equalisation Account (EEA)** is the government's account at the Bank of England that holds the official gold and foreign currency reserves.

Excessive Deficit Procedure is part of the Maastricht Treaty. It requires EU member states to keep their **general government** net borrowing below 3 per cent of GDP and **general government** gross debt below 60 per cent of GDP.

Financial Reporting Standard 17 (FRS17) sets out the **GAAP** basis for recording pensions

The **Financial Statement and Budget Report (FSBR)** is published each year by the Treasury on Budget day. It has been known as the Red Book. Since 1999 it has been published alongside the **Economic and Fiscal Strategy Report** in a single Budget document.

Financial transactions are payments and receipts relating to changes in holdings of financial assets or liabilities. Financial assets entitle their owners to unconditional financial claims on the units that have the liability (except for gold where there is no liability on another unit). Government departments' financial assets include bank deposits; foreign currency held; bonds and shares owned; loans given; accounts receivable in respect of, for example, income accrued but not yet paid; **public dividend capital** and the value of government's other stakes in **public corporations**. Physical assets such as buildings and land are not financial assets. Transactions in some financial assets are undertaken to manage cash flows for example

movements in bank deposits; but some are undertaken to further a policy such as lending to students. These types of financial transactions are sometimes called policy lending and are normally included in a department's **DEL capital budget**.

The **fiscal framework** is part of the government's policy for public finances and is based on the **golden rule** and the **sustainable investment rule**.

Fiscal Policy is the set of decisions made by government that determines the levels of taxes and public expenditure. See also the **Code for Fiscal Stability** and the **Fiscal Framework**.

General Government is the consolidated combination of the **central and local government sectors** in **national accounts**.

Generally accepted accounting practice (GAAP) There is no statutory definition of GAAP, but is taken to be the accounting and disclosure requirements of the Companies Act, pronouncements by the Accounting Standards Board (eg financial reporting standards), and the body of accounting knowledge built up over time. **GAAP** is used for **resource accounting**. **GAAP** is a different accounting framework from the **national accounts** used for **TME** and the government's **fiscal framework**.

The **Golden Rule** states that, on average over the economic cycle, the government will borrow only to invest and not to fund current expenditure. This means that, over the cycle, the **surplus on current budget** must not be negative. It is one of the Government's two fiscal rules underpinning its **fiscal policy**.

Grants are unrequited payments to individuals or bodies. In **national accounts** current grants to persons are called social benefits; and those to trading businesses are called **subsidies**. See also **capital grants**.

Grants in aid are grants voted in **Estimates** to a particular organisation where any unspent amount at the end of the year does not have to be returned to the **Consolidated Fund**. Many **Non-Departmental Public Bodies** are funded this way.

Gross Domestic Product (GDP) (at market prices) is the value of goods and services produced in the UK. "Gross" means there is no deduction for capital consumption. Economic data are often quoted as a percentage of GDP to give an indication of trends through time and to make international comparisons easier.

The **Housing Revenue Account (HRA)** represents the current income and expenditure of local authority social housing provision. The HRA is treated as a quasi-corporation in national accounts. The surplus of income (including rent rebates and subsidies paid by other parts of government) over expenditure is treated as being paid over to local authorities as a notional dividend on the revenue side of the account. This means that the current expenditure of local authority housing departments is not included in **TME**. The cost of rent rebates and subsidies is included in **TME**; these items are within the **AME** lines for social security benefits and other departmental expenditure in **AME**. Local authority **capital expenditure** on housing and payments of interest on housing related debt are treated as part of local authority expenditure.

The **Invest to Save Budget** is a challenge fund from which departments can bid for provision to support extra capital expenditure. It is within capital DEL but not allocated to any department at the planning stage. It is allocated to projects that involve different parts of the public sector working together to improve service delivery and cut costs.

Local Authority Self-Financed Expenditure (LASFE) is aggregate local government expenditure, less its receipts of government current and capital support including distribution of NNDR in England and Wales. It represents local government expenditure financed from local resources such as council tax, trading surpluses, investment income, capital receipts, self-financed borrowing, and use of reserves. LASFE is calculated on a sectoral basis, and therefore includes, for example, all interest paid by local authorities, even though interest paid to central government is consolidated out to arrive at TME. LASFE does not include **depreciation**. **Locally Financed Expenditure (LFE)** is LASFE plus expenditure financed by non-domestic rates in Scotland and Northern Ireland Regional Rates (NIRR).

Local Government is a sector in national accounts. It comprises all local authorities in the UK including county councils, metropolitan districts, parish councils, police and fire authorities, residuary bodies, passenger transport authorities, Transport for London, London boroughs, and the Greater London Assembly.

Main Estimates – see **Supply Expenditure**

National Accounts: this is a statistical system that represents the UK's economic transactions. The system provides a number of key economic statistics including **Gross Domestic Product (GDP)**, consumers' expenditure, the balance of payments with the rest of the world, and the public sector balances used in the **Code for Fiscal Stability**.

National Health Service (NHS) Trusts in England sell health services to NHS service procurement bodies. In Scotland NHS trusts have been re-absorbed back into Health Boards. NHS trusts throughout the UK are now in the central government sector.

The **National Insurance Fund** is the statutory fund into which all National Insurance contributions are paid and from which expenditure on contributory social security benefits is met.

The **National Loans Fund (NLF)** is a Government account with the Bank of England set up under the National Loans Fund Act 1968. All government borrowing and nearly all lending transactions are handled through this fund.

The **National Lottery Distribution Fund (NLDF)** is a central government fund, administered by the Department for Culture Media and Sports (DCMS). The Fund receives a proportion of the proceeds from national lottery ticket sales (receipt of that proportion is treated as a tax in national accounts). The Fund passes it to the Lottery Distributors, independent bodies responsible for awarding National Lottery grants to good causes. Payments by the Distributors are treated as central government expenditure in AME.

National Non-Domestic Rates (NNDR) is a tax paid by the occupiers of non-domestic property, principally businesses. Most NNDR is collected from businesses by local authorities and then paid into a central government pool. Some large businesses with national activity (such as utility companies) pay directly into the pool (the Central List). The pool is distributed back to local authorities as part of formula grant in AEF and is scored in expenditure as a central government grant to local authorities. Similar systems apply in Wales and Scotland. The grant is in DEL for England and Wales, but in the AME line for **Locally Financed Expenditure** in Scotland. NNDR payments by **general government** in respect of the occupation of property are consolidated out through the **accounting adjustments** to arrive at TME.

Near-Cash elements of resource budgets are those elements measured on an accruals basis that turn into cash transactions quickly, for example **pay**, current **procurement**, and income from sales. Near-cash includes expenditure that in accounting terms is covered by the release of provisions. Near-cash expenditure in resource budgets closely matches the expenditure that impacts on the **Golden Rule**. Near-cash in **Resource DEL** is a control total.

Net lending has two meanings.

- In national accounts it is the balance of the current and capital accounts and is often quoted with sign reversed as “net borrowing” – which is sometimes called the government deficit.
- In this publication net lending is more likely to mean lending by government net of any repayments of previous lending. It includes transactions in shares – so for example privatisation receipts count as negative net lending. Government lends to students, some industries such as aerospace, public corporations, local authorities, to some overseas governments and to some international bodies that supply foreign aid.

Net Taxes and Social Security Contributions is a Treasury measure of cash payments made to government. It includes taxes that are treated in the **national accounts** as paid to the European Community. In this measure all tax credits are treated as negative tax to the extent that the amount paid is less than the tax liability of the household. A full reconciliation to the national accounts measure of taxes is published in the **Financial Statement and Budget Report**.

New tax credits are the Working Tax Credit and Child Tax Credit. They replaced former personal tax credits in 2003-04. New tax credits score as **TME** (Departmental **AME**) when the amount paid exceeds the tax liability of the household but as negative tax when the amount paid is less than or equal to the tax liability of the household.

Non-Budget income and expenditure normally refers to income and expenditure that pass through a government department’s books and that are not included in **DEL** or Departmental **AME**. For example, the grant in aid paid to **NDPBs** is normally a non-budget transfer – it is the **NDPB’s** income and expenditure that scores in budgets.

Non-cash items refer to various notional transactions that appear in the **operating cost statement** under resource accounting, such as depreciation, cost of capital charges and the taking and release of provisions. Most non-cash items are in **DEL**, but some are in **AME**.

Non-Departmental Public Bodies (NDPBs) are central government bodies with day to day autonomy in their management and financial matters, and usually funded through **grant in aid**. An **NDPB’s** income and expenditure normally scores in its sponsoring department’s budget. The grant in aid paid to an **NDPB** is normally a non-budget flow. A list of **NDPBs** can be found on the Cabinet Office website.

Non-Voted expenditure is expenditure that is not voted by Parliament through the **Supply** procedure.

Operating Cost Statement: This is the statement in departmental resource accounts that shows the current income and expenditure of the department on an accruals basis. It is similar to the profit and loss statement in commercial accounts.

Outturn and estimated outturn describe expenditure actually incurred, or estimated on the basis of actual expenditure to date.

The **Office for National Statistics (ONS)** is the government department that produces many official statistics such as the **national accounts**. ONS decides classification issues for national accounts. ONS is operationally independent.

Pay includes salaries, employers' National Insurance Contributions, and accruing pension costs, such as **aslcs**. The pay of staff engaged in own-account **capital formation** is treated as **capital expenditure**.

Police grant is a current grant from central government to police authorities.

The **Private Finance Initiative (PFI)** is a system for purchasing capital intensive services for the public sector. Typically, the private sector designs, finances, builds, and maintains infrastructure, and other fixed capital assets, and then operates those assets to sell services to the public sector. In a proportion of cases the capital assets are accounted for on the balance sheet of the private sector operator; in other cases they are on the public sector's books. Appendix A has more information on the treatment of PFI in PESA.

Privatisation proceeds are the receipts from the sale of shares, other securities and debt, in **public corporations** that were sold as part of the privatisation programme. The proceeds are recorded as negative net lending. A corporation is said to be privatised when it is no longer controlled by government: in such cases it is classified to the private sector.

Procurement in public sector current expenditure is current expenditure on goods and services. It includes for example purchases of stationery and of minor pieces of equipment and IT systems that are not treated as **capital**. Purchase of minor maintenance that is not treated as capital would be counted as procurement. Services include purchases of contracted out cleaning. Purchases of services under off balance sheet PFI contracts are included in procurement; the element of payments under on balance sheet PFI contracts that covers purchases of services is also treated as procurement. Purchases of services from charities (as opposed to unrequited grants to them) are included under procurement. Procurement expenditure is normally shown net of income from sales of goods and services. Whether expenditure on **Single Use Military Equipment (SUME)** is treated as current procurement or as **capital expenditure** depends on context – see entry for SUME.

Departments take **provisions** in accounts and budgets when a past event means that they should recognise a future liability of uncertain amount or timing. Budgets also score the release of the provision and the expenditure that the release finances.

Public corporations are publicly controlled trading bodies with substantial financial and operational independence from central and local government. To be classed as trading they must receive the majority of their income from sales into a market, rather than grant funding from government. They include Royal Mail Holdings, and most **trading funds** such as the Meteorological Office and Companies House.

Public Dividend Capital (PDC) is a form of long-term government finance for some **public corporations**. The government receives a return in the form of dividends rather than fixed interest payments.

Public expenditure is spending by public bodies. The definition of aggregate public expenditure most frequently used in this publication is **Total Managed Expenditure (TME)**.

Public Private Partnerships (PPPs) are arrangements whereby, typically, the public sector and private sector form joint ventures to improve the efficiency of public sector operations. They can be classified in national accounts to either the public or private sectors depending on who has the most control over the PPP.

The **Public Sector** comprises general government and public corporations. The Bank of England is in a separate sector – the Central Bank Sector.

Public sector current expenditure:

- is the sum of the **current expenditure** of **general government** and some property income (interest and rent) paid by **public corporations** to the private sector and abroad;
- does not include expenditure incurred in producing goods and services for sale – rather the surplus of sale receipts over operating costs for public corporations is scored as a public sector receipt and does not affect the expenditure measure;
- is net of certain receipts such as: grants within the public sector; interest flows within the public sector; receipts of contributions to public sector occupational pension schemes; receipts of grants from abroad including the EC abatement;
- includes **non-trading capital consumption**. This is the **depreciation** of the fixed assets of public bodies that mostly produce goods and services that are not sold. It excludes depreciation on assets used to produce goods and services for sale including the assets of public corporations and local authority housing.

Public sector net investment is public sector **capital expenditure** less an amount representing **depreciation**. Broadly, the amount of capital expenditure that equals the **depreciation** charge could be seen as keeping the stock of assets stable. Net investment therefore represents the increase in the asset base after allowing for **depreciation**.

Public Sector net borrowing is the difference between public sector current and capital receipts and expenditure as measured by **national accounts**. It also equals the net balance of the public sector's net acquisition of financial liabilities less its acquisition of financial assets. Negative net borrowing is sometimes called **net lending**. Data imprecision means that the different ways of measuring net borrowing never give exactly the same answer. The difference is called the statistical discrepancy in ESA95 (it used to be called the balancing item).

Public Sector Net Debt is the sum of the public sector's financial liabilities at nominal value, less its liquid financial assets.

The **Public Sector Surplus on Current Budget** is the difference between the public sector's current receipts (including capital taxes) and its **current expenditure** (including **depreciation**). It is the key fiscal balance underlying the operation of the **Golden Rule**.

RAB: Resource Accounting and Budgeting – see **resource accounting** and **resource budgeting**

Real terms figures are amounts adjusted for the effect of general price inflation as measured by the GDP market price deflator.

Receipts from fees and charges. General Government final consumption in **national accounts**, and departmental expenditure for budgeting purposes, are measured net of receipts from certain fees and charges such as sales of publications and medical prescription charges. To be treated in this way two conditions must hold:

- there is a clear and direct link between the payment of the fee and the supply of goods or services to the payer of the fee (for this purpose, the supply of a service can include testing an ability, eligibility or quality); and

- the size of the payment is related to the cost of supplying the goods and services, such that the government is not exploiting a monopoly function to raise revenue. If the receipts do exceed the cost significantly the payments are treated as taxes. In some cases the payment is split between a sale and a tax.

There are a few receipts which in national accounts are not netted off public expenditure but which are netted off DEL. The **accounting adjustments** provide more information.

Requests for Resources (RfRs) in the Estimates presented to Parliament ask for permission for departments to spend. They show the resources required by each department based on accruals, rather than cash, concepts. Departments may have one or more RfRs, each representing a high level objective of the department.

The **Reserve** is an amount within DEL, not allocated to departmental programmes, which provides a margin to cover emergencies and genuinely unforeseen contingencies. The **AME margin** is a similar concept within AME and allows for estimating changes.

Resource accounting is the accounting system used to record expenditure in departmental accounts. It applies **generally accepted accounting practice** (GAAP) to departmental transactions. Spending is measured on an accruals basis.

Resource budget is the budget for current expenditure on an accruals basis. It is divided into resource DEL and resource **departmental AME**.

Resource budgeting is the budgeting regime based on **resource accounting** introduced for the spending plans set in the 2000 Spending Review and which has been used for in-year spending control from 2001-02. Under RAB Stage I (2001-02 to 2002-03) resource DEL included **near-cash** transactions measured on an **accruals** basis while **non-cash** transactions were in Departmental AME. Under RAB Stage II (from 2003-04) most non-cash transactions were included in resource DEL. **Near-cash** controls were introduced in 2003-04 and clarified in 2005-06 such that Near-cash in Resource DEL is a control total. Other developments include the move of **capital grants** into capital budgets from 2006-07. Resource budgeting is largely derived from resource accounting rules, but there are a number of differences in treatment between resource accounts and resource budgets. For example, capital grants are capital in budgets (and in the **national accounts**), but current in departmental resource accounts.

Resource outturn is the actual expenditure corresponding to approval for expenditure voted in a **Request for Resources**.

Revenue Support Grant is an unhypothecated current grant from central government to local authorities.

Single Use Military Equipment (SUME) is equipment that can only be used for military purposes (eg a tank). By contrast, dual use military equipment (eg an army lorry) can be used for civilian or military purposes. In the **national accounts**, **public sector current expenditure**, **public sector net investment**, **TES**, current expenditure on services and capital expenditure on services, all expenditure on SUME is treated as **current expenditure**. In **resource accounts** and **DEL**, expenditure on SUME that is of a capital nature is treated as capital. The capital/current treatment of dual use military equipment is the same in all presentations.

Social benefits include social security and similar payments to individuals. They also include unrequited grants to not for profit non-market bodies such as charities (purchases of services from charities count as **procurement**). Public service pension payments are included in social benefits.

Spending sectors are the sectors of the economy that are making the expenditure, for example: central government, local government and public corporations.

Spending Reviews set DELs for the following three years. The first was the Comprehensive Spending Review in 1998. SRs were held every two years. The most recent, SR2004, reported in July 2004, and set plans for 2005-06 to 2007-08. The next will be Comprehensive Spending Review to report in 2007 and to set budgets for 2008-09 to 2010-11.

Standing Services are payments for certain services that Parliament has decided by statute should be met directly from the **Consolidated Fund** without being voted in **Supply Estimates** (eg, salaries and pensions of judges).

Stock-building (also known as the net acquisition of inventories) is the value of the physical increase in stocks. In government accounts it relates mainly to MoD stocks.

Subsidies are payments by government and the EC to trading businesses to help pay for current costs, for example: payments to farmers under the EC's Common Agricultural Policy. Subsidies may be paid to public corporations as well as private sector firms.

Supply expenditure is expenditure financed through resources and cash voted by Parliament in the annual Main Estimates and the Supplementary Estimates in year: also termed voted in Estimates.

Supported Capital Expenditure (SCE) is the term used for central government capital support for local authorities in England from 2004-05. Supported Capital Expenditure (Revenue) (SCE(R)) is the amount of borrowing for capital expenditure by a local authority towards which central government is prepared to provide revenue grant support. This support is provided either through Revenue Support Grant (RSG) to help authorities with the costs of financing loans, or Housing Revenue Account subsidy. Supported Capital Expenditure (Capital) (SCE(C)) is the term used for capital grants.

The **Sustainable Investment Rule** is one of the two fiscal rules underpinning the Government's **fiscal policy** and states that **public sector net debt** as a proportion of **GDP** will be held at a stable and prudent level.

Total DEL. See DEL.

Total Expenditure on Services (TES) is an aggregate used in PESA to analyse capital and current spending of the public sector. It includes **current expenditure** on services and **capital expenditure** on services. Note that TES includes purchases of goods as well as of services. See Appendix E for a definition.

Total Managed Expenditure (TME) is a definition of aggregate public spending derived from **national accounts**. It is the consolidated sum of **current** and **capital expenditure** of **central** and **local government**, and **public corporations**. TME is the sum of DEL and AME.

Public sector **trading bodies** are publicly owned or controlled trading businesses.

- **Public corporations** are trading bodies. Although controlled by a public sector body, public corporations are legally separate institutional units responsible for their own day to day operations and producing their own accounts.

-
- **Quasi-corporations** are entities that meet the economic definition of a public corporation (that is, trading income covers at least half their costs) but that do not take a separate legal form. Examples are Export Credits Guarantee Department and local authority housing. They score in the national accounts like public corporations (although **capital expenditure** on housing and interest on housing related debt are treated as local authority expenditure).
 - There may also be some trading activities which are closely integrated within **general government** and do not have enough independence to be classified as a public corporation or quasi-corporation. Their **capital expenditure** is included in public expenditure measures, but their current expenditure and current receipts are including as a revenue item called gross trading surplus. There are examples in the **local government** sector: some theatres and sports facilities.

Trading Funds are government departments or parts of government departments. They have financing frameworks that allow them to meet outgoings without the cash flows passing through **Estimates**. Generally they cover their costs from trading receipts. In **national accounts** they are normally treated as **public corporations**.

The European Communities' **Traditional Own Resources** consist of: customs duties, including those on agricultural products; and sugar levies.

VAT refunds are given to departments in relation to payments for contracted-out services to remove a disincentive to contracting out services which might otherwise have been performed in-house.

Whole of Government Accounts (WGA) will be a set of consolidated financial statements, based on **Generally Accepted Accounting Practice** in the UK (UK GAAP), broadly covering the UK public sector.



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