

# A

## CONVENTIONS AND ECONOMIC ASSUMPTIONS

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**A.1** This appendix gives details of the various conventions used for the figures presented in this publication

### Rounding conventions

**A.2** 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 and AME Margin are rounded to the nearest £100 million from 2003–04 onwards.

**A.3** Dashes in tables either show that there are no data, or that the value is too small to be included when rounded, i.e. normally between ±£0.5 million.

### Real terms

**A.4** A number of the tables in this publication give figures in real terms. Real terms figures are the cash 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 2002–03 prices. The GDP deflators used in this publication are those recorded on the Treasury website at [www.hm-treasury.gov.uk/economic\\_data\\_and\\_tools/gdp-deflators/data\\_gdp\\_fig.cfm](http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp-deflators/data_gdp_fig.cfm) on 19 April 2004, when PESA 2004 was published. See also paragraph A.9 below.

### 2003–04 estimated outturn

**A.5** The estimated outturns for individual departments for 2003–04 are based on the latest information available from departments. The estimated outturn for resource DEL for 2003–04 includes an allowance for shortfall of £2.6 billion reflecting the difference between the sum of individual departments' estimates of outturn and the Treasury's overall assessment.

### Data in tables

**A.6** In this edition of PESA all data are presented on an accruals basis. Consistent data on a resource basis are only available back to 1998–99. As a result most of the tables that show plans or projections to 2005–06 cover a period of eight years, from 1998–99 to 2005–06.

**A.7** It is not possible to look at trends over a longer period by simply comparing figures in successive public expenditure publications as such figures are not always on a consistent basis due to changes in coverage and classification changes. This publication presents a number of summary analyses incorporating data for earlier years adjusted to current definitions to show trends over a longer period.

### Economic assumptions

**A.8** The following economic assumptions underlie the figures in this publication:

- Income related social security benefits are updated annually in April in line with the change in the Rossi (a modified measure of inflation based on the Retail Prices Index) in the year up to the previous September. Other non income-related benefits are also updated in April, but in line with the change

in the Retail Prices Index over the same period. The uprating factors used for the projections in this publication were, Rossi, 2 per cent in 2003–04, 1½ in 2004–05 and 2¼ in 2005–06; for the RPI, 3 per cent for 2003–04 and 2004–05, and 2¾ per cent for 2005–06.

- (b) UK claimant unemployment is assumed to remain at recent levels of 0.92 million. This planning assumption has been audited by the National Audit Office. (See the NAO Report: Audit of Assumptions for the 2004 Budget, published as HC 434).
- Further details on economic assumptions can be found in the March 2004 Financial Statement and Budget Report, (HC 301), pages 250–251.

## Economic growth and inflation

**A.9** General inflation as measured by the GDP deflator is forecast to be 2¼ per cent in 2003–04, 2½ per cent in 2004–05 and 2½ per cent in 2005–06.

**A.10** GDP at market prices (money GDP) is projected to rise from £1,054 billion in 2002–03 (outturn) to £1,115 billion in 2003–04 (estimate) to £1,176 billion in 2004–05 and £1,243 billion in 2005–06 (projections).

## Population by country and region

**A.11** The population numbers used in Chapter 8 of PESA 2004 are as follows (source: mid-year estimates in Population Trends 115 Spring 2004):

	Thousands				
	mid-1998	mid-1999	mid-2000	mid-2001	mid-2002
North East	2,544	2,531	2,523	2,519	2,513
North West	6,762	6,738	6,737	6,767	6,771
Yorkshire and Humberside	4,950	4,947	4,950	4,971	4,983
East Midlands	4,125	4,144	4,157	4,183	4,215
West Midlands	5,267	5,265	5,260	5,283	5,304
South West	4,843	4,874	4,909	4,937	4,961
Eastern	5,306	5,341	5,375	5,401	5,420
London	6,969	7,041	7,104	7,308	7,355
South East	7,891	7,955	7,982	8,021	8,038
England	48,789	48,987	49,167	49,390	49,562
Scotland	5,077	5,072	5,063	5,064	5,055
Wales	2,896	2,897	2,904	2,908	2,919
Northern Ireland	1,678	1,679	1,683	1,689	1,697
<b>United Kingdom</b>	<b>58,440</b>	<b>58,635</b>	<b>58,817</b>	<b>59,051</b>	<b>59,232</b>

**A.12** These mid-year numbers have been applied to the financial year series, mid 1998 to 1998–99 and so on.

# B

## THE ACCOUNTING ADJUSTMENTS IN THE BUDGETING PRESENTATION OF TME

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### NEED FOR ACCOUNTING ADJUSTMENTS

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**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 drawn from national accounts.

**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 E) 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 1.12**. The sub-headings below show what is in each of the rows in that table. The operator (ie “add” or “subtract”) describes the adjustment needed to derive TME from Total DEL plus departmental and other AME.

### CHANGES SINCE PESA 2003

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**B.4** The arrangement of the accounting adjustments in this Appendix and the arrangement of the rows in **Table 1.12** has been changed. The logic of the order now reflects whether adjustments are related to:

- Central government programmes and expenditure (including central government support for local authorities in the form of VAT refunds);
- Accruals concepts in departments’ budgets that are not in TME;
- Expenditure financed by revenue receipts – mainly relating to central government bodies but also affecting local authorities;
- Local authorities;
- Consolidation of general government (general government is central and local government);
- Public corporations;
- Financial transactions (since TME represents the current and capital expenditure of the public sector, not financial transactions);
- Data adjustments, where the same concepts apply in resource budgets and TME but different data are used; and
- Balancing reconciliation item.

**B.5** With this presentation, the contents of the rows in **Table 1.12** are described more transparently by the adjustments shown under the equivalent sub-heading in this Appendix. Inevitably, in some cases a judgement had to be made about which row would be the best place to put an adjustment that could fall into more than one category.

**B.6** The following obsolete adjustments have been retired (the number given refers to the number in Appendix B of PESA 2003):

(xvii) [capital expenditure of local authority public corporations] is now part of Public Corporations Own-Financed Expenditure in AME;

(xx) [local authority debt interest ultimately funded by housing subsidy] is shown in LASFE in AME;

(xxxii) [expenditure of the Financial Services Authority (FSA)] is no longer needed as the FSA has been reclassified by the ONS as a public corporation and so its capital expenditure is shown alongside that of other public corporations;

(xxxv) [accruals adjustment] is no longer needed as ONS can now use RAB data;

(xxxvii) [Finance Leases] is obsolete as the last year with data was 1997-98.

**B.7** In addition, adjustments (xiv) and (xviii) [receipts of interest from public corporations] have been merged.

**B.8** The following accounting adjustments are new in PESA 2004:

9. Add interest on special drawing rights;

15. Add capital grants representing student loan write-offs;

39. Consolidate out general government payment of non-domestic rates;

40. Consolidate out grants in budgets to help local authorities repay debt.

## LIST OF THE ACCOUNTING ADJUSTMENTS

### Tax credits for individuals

**B.9** 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 tax credits following, add the amount of the tax credit that scores as expenditure in TME and that is less than an individual's tax liability: Mortgage Interest Relief, Life Assurance Premium Relief, Vocational Training Relief, Working Families Tax Credit and Disabled Persons Tax Credit. Add the whole amount of Private Medical Insurance Premium Relief.

**B.10** 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 national accounts bases.

## Pensions

**B.II** As detailed in Appendix E, the costs in AME in respect of pensions are measured as the increase in the liabilities held by pension schemes. TME measures expenditure on unfunded or pay-as-you-go public service pensions differently. TME disregards both accruing liabilities and employer contributions and instead counts:

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

**B.I2** So the adjustments to get from the costs in AME are as follows:

2. Remove increases in liabilities scored in the net public sector pension line and arising from:
  - current and past service costs,
  - employee and employer additional contributions, and
  - group and individual transfers into the scheme.
3. Remove increases in liabilities arising from the unwinding of the discount rate that is scored in the Other non-cash items line in AME.
4. Add in the expenditure charged directly to the scheme's balance sheet. Typically this will be cash payments for members' continuing pensions, lump sums, spouses' benefits and similar payments, and bulk and individual transfers out of the scheme.

## European Community contributions

**B.I3** The national accounts treat most payments made by the UK to the institutions of the European Communities as taxes paid direct to the EC by households and enterprises. Only the GNI-based 4th resource contribution and the UK's budget abatement count in TME as UK government contributions. By contrast, the Net Payments line in AME includes the full gross contribution to the EC. The accounting adjustments therefore need to deduct those elements of the gross contribution that do not score in TME:

5. Deduct the customs duties, agricultural and sugar levies, and the VAT-based contribution paid to the institutions of the European Communities.
6. Deduct any Net Lending to the European Investment Bank, which is treated as a UK government transaction, but is not in TME as TME does not include financial transactions.

**B.I4** Similarly, most payments to households and enterprises that are funded by the EC are treated in national accounts as direct payments to them by the EC, even if they pass through the Government's books. By contrast, DEL and departmental AME score expenditure that passes through Government and that is funded by EC receipts like UK government expenditure. The Net Payments to EC Institutions line in AME deducts receipts from the EC, thus bringing levels of expenditure and receipts onto a TME basis. Most EC receipts are not netted off DEL: where they are netted off DEL (as well as in the Net Payments line), a further adjustment is needed to reverse that second deduction.

7. Add receipts for EU funded research projects that are netted-off in DEL.

### Other central government programmes

8. **Purchase of NHS Services.** The prices paid by government for the services of NHS trusts cover the full economic costs of those services and so include an amount to cover depreciation. The amount of these charges that scores in DEL excludes the element that covers depreciation. That element is shown here since TME includes the full cost of services bought.
9. **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.
10. **Privatisation programme** (applies to outturn years only): add current and capital expenditure on privatisations which is borne outside DEL.
11. **Tax Credits for Companies and Charities.** As with tax credits for individuals (see above), national accounts score as expenditure some elements of tax credits for companies and charities that reduce the taxpayer's liability. This adjustment adds in such payments in respect of Research and Development Tax Credit (from 2001–02), 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 shown in Other departmental expenditure in AME.
12. **Loan guarantees:** add the imputed subsidies for certain loan guarantees which are included in national accounts.
13. **DfID loan and debt write-offs:** Deduct the cost of interest forgone by the Department for International Development in respect of debts forgiven under Retrospective Terms Adjustments arrangements which forms part of DfID's DEL but is not in TME. Add capital grants when DfID writes-off certain debts owed to it. In national accounts, writing off a debt for policy reasons is treated as a capital transfer. Write-offs are recorded in DfID's resource budget but are removed along with other non-cash items below.
14. **ECGD debt write-offs:** add the UK government's top-up to the loan write-offs to heavily indebted poor countries agreed by the Paris Club. This top-up represents a gift rather than a forced write-off during the normal course of ECGD's business so it is recorded as a capital transfer in national accounts.
15. **Student Loan debt write-offs:** add an amount of capital grants for student loans as they are written off, as the scheme does not set out to recover the full amount of write-offs from borrowers collectively.

### VAT refunds

16. Add VAT refunded to central government departments in respect of contracted out services for non-business purposes, VAT refunds to free public museums in respect of non-business activities, and VAT refunds to local authorities in respect of all non-business activities. DEL and locally financed expenditure are measured net of these VAT refunds, but in TME the expenditure is recorded including the VAT paid.

17. Add VAT refunds paid to NHS trusts in respect of contracted out services in connexion with activities that are non-business for VAT purposes. TME records these refunds as subsidies to NHS trusts.
18. Add VAT refunds paid to the BBC and ITN in respect of non-business activities. These are treated as subsidies in TME.
19. Add VAT refunds paid to DIY house builders. These are treated as capital grants in TME.

### Central government capital consumption

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

### Non-cash items not in TME

**B.15** 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 GAAP basis (see Appendix E) that do not have a TME counterpart. They are removed here:

21. Deduct the cost of capital charge, debt write-offs, notional audit fee, and other such non-cash items recorded in departmental budgets but not in national accounts.
22. Deduct the take-up, movements in the value, and release of provisions that score in budgets. That leaves in the consumption of resources that is offset in budgets by the release of provisions and which is what scores in TME.
23. Deduct the measure of the subsidy and bad debt element of student loans that scores in DEL.
24. Add the purchase of stocks, subtract the sales of stocks, and subtract reductions in the value of stocks due to consumption of stock items. National accounts treat purchases and sales of stocks as capital expenditure. When stocks are drawn down to be used, TME scores both the draw-down of stocks as a reduction in value and their consumption as an expense. Under RAB purchases and sales of stocks are cash adjustments, and the draw-down of stocks is a balance sheet entry. RAB records as expenditure only the consumption of stocks or the production of goods for stock.

### Expenditure financed by revenue receipts

**B.16** 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.17** For departments and NDPBs the receipts are:

25. certain taxes imposed, including licences issued by the utility regulators;
26. certain fines;
27. current donations;
28. current compensation;
29. rent of land;
30. dividends and interest from the private sector and overseas.

**B.18** For local authorities, the receipts are:

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

## Local authorities

32. Add the value of local government non-trading capital consumption (i.e. depreciation) as measured by ONS for national accounts.
33. 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 national accounts.
34. Deduct capital grants paid by local authorities to public corporations since these are a flow within the public sector that adds to locally financed 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.
35. Adjust estimated outturn by an allowance for shortfall to align central government support and LASFE figures to forecast total local authority expenditure.

**B.19** 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:

36. Local authority receipts of investment grants from private sector developers;
37. Certain licence fees collected by local authorities.

## General government consolidation

**B.20** TME is consolidated public sector expenditure. So it records only those distributive 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.

38. Deduct debt interest paid by local authorities to central government.

39. 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.
40. Deduct debt repayment grants from central government to local authorities which score in budgets. Debt repayment is not expenditure.
41. Deduct current grants to local authorities by public corporations financed by subsidies from central government. 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.

## Public corporations

**B.21** Departments' resource and capital budgets normally include certain items in respect of public corporations:

- subsidies and capital grants paid by the department to public corporations;
- loans given by the department to public corporations – either voted or from the National Loans Fund;
- interest, dividends and equity withdrawals received from public corporations;
- a capital charge on the loans and public dividend capital invested in public corporations.

**B.22** TME includes the subsidies only, so the other items have to be deducted.

**B.23** 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, that is, capital expenditure less CG grant and loan finance for it. So the deduction of loans and capital grants is effected in other AME.

**B.24** NHS (England and Wales) trusts and Forest Enterprise are PCs that have a different budgeting treatment. Their profit/loss and actual capital expenditure scores in budgets rather than grants and loans given and the trust debt remuneration actually received. This profit has to be removed in the accounting adjustments. The Crown Estate is also different: subsidies to it score in departmental AME and the dividend it pays is outside budgets.

**B.25** So the adjustments needed are:

42. Add receipts from public corporations of interest, dividends and equity withdrawals that are netted-off in budgets.
43. Add interest paid by public corporations to the private sector and abroad. Such property income paid by public corporations is in TME, but not in departmental budgets.
44. Deduct the profit/loss of NHS trusts (England and Wales) and Forest Enterprise.

## Financial transactions

**B.26** 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 cash flow management. Typical transactions are purchases of shares and lending to businesses and individuals. The specific adjustments are described below:

45. Deduct loans, net of repayments of loans, to the private sector and overseas that score in DEL and departmental AME.

46. Deduct the net acquisition of private sector company securities that scores in DEL and departmental AME.

47. Deduct the profit/loss on the sale of shares and other financial assets recorded in DEL or departmental AME. This profit/loss represents a financial transaction in national accounts and so is outside TME.

## Data adjustment

**B.27** In some cases, TME and budgets have the same concepts but use different data. Adjustments are needed to put budgets data onto the TME basis:

48. 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.

49. For outturn years, add the amounts recorded by ONS, less the amounts recorded in budgets, for central government grants to LAs.

## Balancing reconciliation to national accounts

50. 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.

## ADJUSTMENTS AFFECTING THE SPLIT BETWEEN CURRENT AND CAPITAL EXPENDITURE

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**B.28** These adjustments have no impact on the sum of current and capital expenditure, and so are not shown in Table 1.12. They do however affect the split of total TME into current and capital expenditure.

- 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.
- Departmental budgets record all expenditure on capital grants to local authorities as capital expenditure including those funded by the EC. This expenditure has to be deducted in moving to TME since it is regarded in national accounts as the EC's own expenditure, not the UK Government's. It is deducted through the net payments to EU institutions line in AME, but this is

all treated as current expenditure. So to record government's own capital expenditure correctly it is necessary to have an adjustment that subtracts EC funded capital grants to LAs from total capital expenditure, and adds that amount to current expenditure.

- 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 it is necessary to have an adjustment that removes the profit/loss from current expenditure and adds it to capital expenditure. Reminder of sign convention: 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.

## NOTE ON CONSOLIDATION IN TOTAL MANAGED EXPENDITURE

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**B.29** Interest and dividend payments and receipts within the public sector are consolidated out. So TME scores only the public sector's interest and dividend payments to the private sector and overseas. The same is also true of other transfer payments such as current and capital grants, and rent.

**B.30** The same is not true for transactions in goods and services between general government and public corporations and government's payments of subsidies: these are not consolidated out. General Government's purchases of services from, and subsidies to, public corporations and trading bodies score as public sector current expenditure. The public corporations' and trading bodies' receipts of these payments form part of their Gross Trading Surplus which is on the revenue side of the public accounts.



# 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.

<b>Title</b>	<b>Departments included</b>
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 Northern Ireland Court Service Land Registry Scotland Office <sup>(1)</sup> Wales Office <sup>(1)</sup>
Attorney General's Departments	The Crown Prosecution Service Serious Fraud Office Treasury Solicitor's Department
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 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 Customs and Excise Inland Revenue 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 Electoral Commission Privy Council Office Security and Intelligence Agencies Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England

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<sup>1</sup> Scotland Office and Wales Office are no longer separate departments, but are now entities within the Department for Constitutional Affairs.

# D

## PUBLIC CORPORATIONS

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**D.1** This appendix groups current major public corporations according to the departmental groups used in the statistical tables. It also shows some public corporations that are accountable to local authorities. Public corporations marked with an “S” are self-financing public corporations; those marked with an “T” are trading funds. A fuller list of public corporations is available on the ONS website at [http://www.statistics.gov.uk/downloads/theme\\_economy/MA23.xls](http://www.statistics.gov.uk/downloads/theme_economy/MA23.xls) Sector Classification for the National Accounts.

<b>Department</b>	<b>Public Corporations</b>
Health	Medicines Control Agency (T) NHS Trusts (England) NHS Foundation Trusts Estates Directorate
Transport	Driving Standards Agency (T) Civil Aviation Authority Vehicle and Operator Services Agency South Eastern Trains Ltd
Office of the Deputy Prime Minister	Queen Elizabeth II Conference Centre (T) Ordnance Survey
Local Government	Audit Commission Fire Service College
Home Office	Forensic Science Service
Constitutional Affairs	HM Land Registry (T)
Defence	Defence Science and Technology Laboratories Hydrographic Office (T) Meteorological Office (T) Qinetiq (S) NAAFI
Foreign and Commonwealth Office	BBC World Service British Council
International Development	Commonwealth Development Corporation (S)
Trade and Industry	Companies House (T) Patent Office (T) British Nuclear Fuels Limited (S) Royal Mail Holdings (S)
Environment food and rural affairs	Forest Enterprise British Waterways

Culture, Media and Sport	The Tote (S) Royal Parks Agency Historic Royal Palaces Trust British Broadcasting Corporation (S) Channel 4 Television (S) Welsh Fourth Channel Authority
Work and pensions	Remploy
Scotland	Caledonian MacBrayne Highlands and Islands Airports Scottish Water Authorities
Wales	Welsh Development Agency NHS Trusts (Wales)
Northern Ireland Executive	HSS Trusts NI Housing Executive NI Public Trust Port Authorities
Chancellor's Departments	Royal Mint (S) Crown Estate (S) Financial Services Authority Office of Government Commerce-Buying Solutions
Cabinet Office	Central Office of Information
Local Authorities	Businesses reporting to Transport for London London Underground Manchester Airport plc

**E.1** This Appendix describes the budgeting and control regime under full resource budgeting (RAB stage 2) that was introduced for the 2002 Spending Review (SR2002) which set budgets for 2003–04 to 2005–06. The key budgetary control aggregates are Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME), which are applied to departments' resource and capital budgets. AME is split into Departmental and Other AME. DEL plus AME including accounting adjustments together sum to Total Managed Expenditure (TME), an aggregate drawn from national accounts.

## RESOURCE ACCOUNTING AND BUDGETING

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**E.2** Since 2001–02, departmental budgets have been set and monitored in resource terms, and Parliament votes resources as well as cash in the Supply Estimates. There are separate departmental budgets for resources and capital expenditure.

### Resource Budget

**E.3** The resource budget measures total resources consumed by a department. A department's resource budget is divided into Resource DEL and Resource Departmental AME.

**E.4** Resource accounts measure expenditure when it accrues rather than when the cash is spent. Resource budgets include non-cash costs such as depreciation, provisions and charges for bad debts in accordance with the Resource Accounting Manual, which follows Generally Accepted Accounting Practice (GAAP) with such adaptations as are necessary for the public sector.

**E.5** 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 now 3.5 per cent of the net assets (fixed capital and financial assets, net of financial liabilities and provisions) employed by each department (numbers are presented as if a 3.5 per cent charge had always applied).

**E.6** Resource budgets include most of the department's transactions with public corporations sponsored by the department (as recorded in resource accounts), including capital grants; but lending to public corporations is in the capital budget. Resource budgets include capital grants to the private sector. They also include current grants to local authorities, but capital grants to local authorities (called Supported Capital Expenditure (Capital) in England from 1 April 2004) are in capital DEL.

**E.7** The sum of departmental resource budgets is reconciled to public sector current expenditure – a national accounts concept which is part of TME – in **Table 1.5**.

### Capital Budget

**E.8** The capital budget is also split into DEL and AME components. The sum of departmental capital budgets is reconciled to public sector net investment in **Table 1.6**.

## Resource budgeting: some points to note

**E.9** Both resource and capital budgets include costs as they are incurred – they measure accruals. They do not include prepayments for goods and services not consumed in that year but will include resources consumed but paid for later. Stock consumption scores in the resource budget while spending on adding to stocks does not.

**E.10** Defence fighting equipment with no civilian use (sometimes called Single Use Military Equipment) is treated as capital expenditure, but national accounts treat it as current.

**E.11** The DEL of the Department for Health is adjusted to avoid counting both the capital expenditure of NHS trusts in Capital DEL and, in Resource DEL, an element of charges for services paid by the department that finances that expenditure. The adjustment equals the depreciation recorded in the accounts of NHS trusts.

## DEPARTMENTAL EXPENDITURE LIMITS

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**E.12** 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.

**E.13** DELs are set for three years in a Spending Review. They represent firm plans for departmental spending that can only be increased in exceptional circumstances with the Treasury's agreement through a claim on the DEL Reserve. Departments can carry forward unspent DEL from one year to the next. SR2002 set firm spending plans for 2003–04 to 2005–06.

**E.14** DEL includes all administration costs of Government departments and most of their other purchases of services. It includes grants and subsidies paid to public corporations and the private sector. For the FCO and DFID it includes an attributed share of the EC's expenditure on overseas aid and the Common Foreign and Security Policy.

**E.15** Capital DEL includes expenditure on fixed capital assets, capital grants to local authorities and the acquisition of certain financial assets acquired or sold for policy reasons. Capital DEL is net of the book value of receipts from the sale of capital assets. The profit/loss on asset sales is in resource DEL so that it aligns with the recording in the operating cost statement in resource accounts.

**E.16** Capital DEL generally includes loans on the basis of new loans issued less repayments of loan principal. Public lending to students is treated differently: resource DEL records the cost of lending on the basis of an assessment of the subsidy implied in the low interest rate charged and the bad debt provision that is needed. Actual lending to students is outside budgets.

**E.17** DEL is net of certain receipts, mainly payments for services, asset sales, dividends, interest, rent of land, 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.

**E.18** 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.

**E.19 Non-Departmental Public Bodies.** DEL includes the expenditure of most non-departmental public bodies (NDPBs) classified to the central government sector. Normally the actual expenditure of NDPBs is recorded, rather than the grant-in-aid from the parent department. This treatment remains a difference with the accounting treatment which just records the grant-in-aid.

**E.20 Central Government Support for Local Authorities.** Resource DEL scores current grants to local authorities. Capital grants (in England called Supported Capital Expenditure (Capital) from 2004–05) score in Capital DEL. Capital DEL also includes 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 6.

**E.21 Public Corporations.** For most public corporations, DEL scores

- subsidies and capital grants paid to the public corporation by the department (resource DEL);
- dividends and interest received from the public corporation, and equity withdrawals (resource DEL);
- loans given to the public corporation, voted or from the National Loans Fund, (capital DEL);
- a capital charge in respect of the department's loans and Public Dividend Capital invested in a public corporation (resource DEL).

**E.22** For self-financing public corporations everything except the first item is in departmental AME rather than DEL.

**E.23** NHS trusts (England and Wales) and Forest Enterprise have a different budgeting treatment. For them, DEL includes their operating profit/loss and their capital expenditure.

**E.24** More information on the scoring of public corporations is given in Chapter 7.

## ANNUALLY MANAGED EXPENDITURE

**E.25** This part describes the components of AME, which may be divided into:

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

### Departmental Annually Managed Expenditure

**E.26** 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.

**E.27** The main programmes in departmental AME are:

- Social security benefits;
- Tax credits for individuals;
- Common Agricultural Policy expenditure funded by the EU;
- Net public service pensions; and
- Expenditure financed by the proceeds of the National Lottery.

**E.28 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 and Council Tax Benefit. It now also includes central government support for local authorities' payments of Rent Rebates which is now the responsibility of DWP (Housing Subsidy in England and Wales and Housing Support Grant in Scotland are now included in the Other departmental expenditure line). Includes Inland Revenue payments in respect of Child Trust Funds.

**E.29 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.

**E.30 Common Agricultural Policy (CAP).** Includes expenditure on the CAP funded by the EU.

**E.31 Net Public Service Pensions.** This line comprises payments in respect of unfunded public sector occupational pensions schemes less relevant receipts. The main examples are the schemes for the civil service, armed forces, teachers and NHS staff.

**E.32** The main unfunded public service pension schemes, following Financial Reporting Standard 17, report any increase in liabilities accrued in the period less contributions received from employers, employees and inward transfers. This line does not include an amount for the unwinding of the discount rate on the liability (which scores elsewhere in AME). For some small un-funded schemes information is not available on an FRS17 basis and these schemes report the difference between the cash paid out during the year and any contributions received.

**E.33** 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 balance sheet. However, if any cash payment is made that is not covered by a previously recognised liability, that payment would score in this AME line.

**E.34** Relevant receipts include employers' contributions (including accruing superannuation liability charges paid by departments to the Principal Civil Service Pension Scheme), employees' contributions for ordinary pensions (including widows'/widowers' pensions) and for added years, and receipts of bulk and individual transfers in.

**E.35** 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.

**E.36** Note that this line does not cover:

- Pension schemes with a real pensions fund, eg local authority and most public corporations' pensions;
- the main police and fire pensions, which are run by local authorities, and whose costs are in local authority expenditure;
- pensions of some NDPBs and other offices in the central government sector which operate their own pay-as-you-go pensions schemes – although the intention is that these will eventually be recorded in the same way as the main schemes; and
- the increase in the liability due to the unwinding of the discount rate, which is scored under 'non cash' items (see below). The increase in the liability due to the unwinding of the discount 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.

**E.37 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 (health, education and environment). 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.

**E.38 Non-cash items in AME.** Consists 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.

**E.39** Other departmental expenditure in AME includes:

- Capital expenditure of NHS foundation trusts;
- Export Credits Guarantee Department (part);
- Expenditure on tax credits for companies (research and development, contaminated land clearance) and charities calculated on an OECD basis;
- Rates paid on behalf of embassies, net of beneficial portion receipts;
- Housing Subsidy in England and Wales and Housing Support Grant in Scotland were formerly shown as part of a separate line and are now included in the Other departmental expenditure line. Central government support for local authorities' payments of rent rebates is now included in the social security benefits line;
- 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

**E.40 Locally Financed Expenditure.** This line comprises the following items:

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

**E.41** 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 bulk of the product of NIRR is treated as a transfer from AME into DEL. AME also records – as a payment for a service reducing TME – the remaining element of NIRR that represents receipts of water charges.

**E.42** 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, investment grants from the EU, unsupported borrowing and the use of reserves.

**E.43** Net Payments to European Community Institutions. This line is mainly made up of the following components:

- Import duties
- plus Agricultural & sugar levies
- plus VAT contribution
- plus GNI-based contribution (including payments to EC budget reserves)
- less the UK's abatement
- less receipts from the EC that come to or pass through government
- less European Coal & Steel Community receipts
- less receipt reflecting the cost of collecting tariffs & levies
- plus net lending to the European Investment Bank
- less attributed aid and Common Foreign & Security Policy expenditure, which are in DEL.

**E.44** **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. Excludes NHS trusts (England and Wales) and Forest Enterprise which have a different budgeting regime. This line includes the own-financed capital expenditure of public corporations accountable to local authorities.

**E.45** **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**

**E.46** **AME Margin.** The AME margin is an allowance for estimating changes.

**E.47** **Accounting adjustments** are described in Appendix B.

## **TOTAL MANAGED EXPENDITURE**

**E.48** 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.

**E.49** TME equals DEL + AME (including accounting adjustments).

**E.50** In addition, TME may be expressed as the sum of :

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



# F

## EXPENDITURE ON SERVICES

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**F1** The tables in Chapters 3 and 4 which show public expenditure disaggregated by function and by economic category and the tables in Chapter 8, which show public expenditure by country and by region, all focus on Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure (TME).

### Recent Developments

**F2** The definition of TES has been changed for PESA 2004 as part of the changes to measure spending on functions in line with the United Nations Classification of Functions of Government. It now includes:

- Payments of debt interest to the private sector and the rest of the world; and
- Payments of unfunded public service pensions on the same basis as in TME, that is: pensions in payment less receipts of employer and employee pensions contributions (the payment of employer pension contributions scores as part of pay under the relevant functional heading).

**F3** EU transactions score in aggregate in TES in the same way as in TME. However, TES includes EU-funded payments within functional expenditure of government, for instance on agriculture, that the national accounts score as direct payments from the EU to enterprises and households. The EU transactions line in TES includes EU receipts, thus bringing the total into line with TME. TES also includes the contribution to the EU on the TME basis (GNI-based contribution, less abatement, less attributed aid), rather than on the broader basis in the Net Payments to EU institutions line in the AME table (for which see Appendix E).

**F4** More information on the changes in definition is set out in the introduction and in Chapter 3, and in a memorandum published on 17 March 2004 on the Treasury's website at [http://www.hm-treasury.gov.uk/media//B83D5/natstat\\_techpesa04.pdf](http://www.hm-treasury.gov.uk/media//B83D5/natstat_techpesa04.pdf).

### TES defined by reference to TME

**F5** 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 subsidy element of student loans. TES is worth about 95% of TME.

**F.6** 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
- + subsidy and bad debt 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

**F7** 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 that represents the funding of trust debt remuneration
- + reverse the deduction in budgets of certain receipts that are revenue in the national accounts, including interest and dividend receipts from public corporations
- financial transactions
- debt repayment grants to local authorities
- profit/loss of public corporations 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 payments to EC Institutions (AME basis, except that tariffs, agricultural and sugar levies and the VAT contribution are not included)
- + 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

**F8** The following table shows an alternative derivation of TES from spending in the budgeting aggregates DEL and Departmental AME via the national accounts spending sectors for 2002-03.

## Derivation of Total Expenditure on Services from departmental budgets

	2002-03, £ million														Total for all departments						
	Education and Skills	Health	Transport	Office of the Deputy Prime Minister	Home Office	Constitutional Affairs	Attorney Generals' departments	Defence	Foreign and Commonwealth Office	International Development	Trade and Industry	Environment, Food and Rural Affairs	Culture, Media and Sport Includes National Lottery financing	Work and Pensions	Scotland	Wales	Northern Ireland Executive	Northern Ireland Office	Chancellor's departments	Cabinet Office	
<b>Start with:</b>																					
Res DEL	21,214	55,946	6,209	41,266	11,113	3,341	487	36,437	1,546	3,596	3,968	2,319	1,236	7,271	16,560	9,110	6,610	1,101	1,628	235,314	
Cap DEL	2,720	1,976	3,103	1,695	654	88	8	6,149	108	17	349	254	44	275	1,600	679	494	53	203	20,729	
Res AME	7,069	4,569	3,055	411	2,013	101	—	6,151	1	51	3,137	1,800	1,514	99,975	2,217	366	5,640	35	4,572	157,833	
Cap AME	5	—	—	758	—	—	—	-50	5	—	184	1	308	77	—	7	—	—	—	—	1,297
<b>Remove:</b>																					
Finance to LAs	8,024	1,951	2,897	40,497	4,389	319	—	—	—	—	136	-154	372	14,567	5,962	3,681	58	—	19	82,718	
Finance to PCs	—	—	7	75	—	—	—	—	—	—	—	3	—	6	1	—	117	—	—	—	210
Financial transactions	—	—	62	-2	-2	—	—	-45	—	-6	313	-2	—	77	144	1	-2	—	—	—	538
Non-cash items in DEL	183	2,123	442	5	481	184	4	16,481	213	245	8	194	137	-284	438	340	674	179	242	22,679	
Non-cash items in AME	5,444	4,677	3,058	-4	324	65	—	3,658	—	-64	2,352	-79	1	146	1,650	253	1,648	-120	5,947	29,063	
Profit/loss of PCs	—	-1,154	—	—	—	—	—	—	—	—	—	—	—	—	-105	-41	-71	—	—	—	-1,370
Other items not in TME	—	—	-38	-5	—	—	—	—	—	—	-91	-174	-14	—	—	—	—	—	—	—	-344
Interest and dividends	—	—	-13	-29	11	—	—	-21	—	—	-226	—	—	—	-38	—	—	—	—	—	-343
Trust debt remuneration	—	1,277	—	—	—	—	—	—	—	—	—	—	—	—	175	91	—	—	—	—	1,544
<b>Add:</b>																					
PC capex	—	3	18	84	—	20	—	143	—	—	621	18	130	6	367	—	70	—	—	—	1,517
LA Cap exp	2,054	125	2,393	720	356	40	—	—	—	—	1	171	489	1	754	449	63	—	—	—	7,616
LA current exp	27,767	12,931	3,407	6,234	8,984	379	—	—	—	—	244	3,483	1,922	13,466	7,690	3,483	272	—	29	—	90,291
Northern Ireland locally financed expenditure	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	169	—	—	—	169
Debt interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
EU transactions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	21,298	—	21,298
<b>To give:</b>																					
<b>Total Expenditure on Services</b>	<b>47,178</b>	<b>66,676</b>	<b>11,770</b>	<b>10,631</b>	<b>17,918</b>	<b>3,403</b>	<b>491</b>	<b>28,757</b>	<b>1,446</b>	<b>3,490</b>	<b>6,013</b>	<b>8,256</b>	<b>5,146</b>	<b>106,559</b>	<b>20,961</b>	<b>9,769</b>	<b>10,894</b>	<b>1,130</b>	<b>38,808</b>	<b>225</b>	<b>399,518</b>

# G

## GLOSSARY OF TERMS

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*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 E). 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.

**Accruing Superannuation Liability Charges (ASLCs)** are employer pension contributions paid to the bodies responsible for paying and accounting for unfunded public sector 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 costs** – the gross 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 costs limits are set net of allowable income arising from activities whose costs fall within administration costs.

**Aggregate External Finance (AEF)** is central government support for expenditure on local authority main services. It comprises **Revenue Support Grant**; distribution of **national non-domestic rate** receipts; police grant and various other specific and special 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 gross capital formation, net acquisition of land and the net acquisition of financial assets acquired for policy purposes (net lending). The capital budget includes **capital grants** to local authorities (treated as resource expenditure in accounts and **Estimates**), but not other capital grants. It also includes single use military equipment treated as current expenditure in **national accounts**.

**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 all assets with a purely military use are 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.
- 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 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** 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 to **public corporations** and the private sector are included in the **resource budget**, but capital grants to local authorities remain under 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 and mainly financed 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.

**Classification changes** are changes in the way items of public expenditure are 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.

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.

**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 now 3.5 per cent of the net assets of the department and is used to make departments aware of the full cost of holding assets. Previously the charge had been levied at a rate of 6 per cent. It was reduced to 3.5 per cent with effect from 2003–04. This change in rate was effected as a **classification change**, and therefore back years data were reworked as if the charge had been at 3.5 per cent throughout.

**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** on goods and services is a national accounts term. It is the sum of expenditure on pay and related staff costs, plus spending on goods and services. It is net of receipts from sales. It excludes **capital expenditure**, but includes expenditure on equipment that can only be used for military purposes. It differs from final consumption in that capital consumption is not included.

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

**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.

**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** and are one of the categories used to collect data from government departments on their expenditure. The main categories in TME are set out in a table in Chapter 3.

**Efficiency Challenge Fund.** Central fund set up within the **DEL Reserve** to contribute to the cost of efficiency measures in 2004–05 and 2005–06. Sums allocated from the fund are added to department's DELs and **administration costs** limits.

**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.

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**.

The **Financial Statement and Budget Report** 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's financial liabilities include Treasury Bills; British Government securities (gilts); loans received; deposits accepted for example in respect of National Savings; and accounts payable such as for goods received but not yet paid for. Government's financial assets include bank deposits; monetary gold; foreign currency held; bonds and shares owned; loans given; accounts receivable in respect of, for example, taxes 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 if undertaken by a department are normally included in its **DEL capital budget**.

**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**.

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 grants 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, unsupported borrowing, and use of reserves.

**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.

**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 and Wales are **public corporations** that sell health services to NHS service procurement bodies. In Scotland NHS trusts have been re-absorbed back into Health Boards.

**National Non-Domestic Rates (NNDR)** is a tax paid by the occupiers of non-domestic property, principally businesses. The bill for a property depends on its rateable value and the poundage. The poundage is set by central government at a common rate for England – sometimes called the Uniform Business Rate. 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). Until 31 March 2000 government departments (the Crown List) paid Contributions in Lieu of Rates directly into the pool; they now pay normal NNDR. The pool is distributed back to local authorities in proportion to their population 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** are consolidated out through the **accounting adjustments** to arrive at TME.

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 that receives a proportion of national lottery ticket sales (receipt of that proportion is treated as a tax in national accounts) and distributes money to good causes (treated as central government expenditure in AME).

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

**Non-Departmental Public Bodies (NDPBs)** are generally central government bodies with day to day autonomy in their management and financial matters, and usually funded through **grant in aid**. A list can be found in the Cabinet Office publication “Public Bodies”.

**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.

**Pay** includes salaries, employers' National Insurance Contributions, and accruing pension costs (actual or imputed, such as *aslcs*).

**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.

**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.

**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; central government **trading funds** such as the Meteorological Office and Companies House; and broadcasters such as BBC and Channel Four.

**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. (The surplus of sale receipts over operating costs for public corporations and general government trading bodies 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 EU 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 **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**.

**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);
- 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 in departmental expenditure budgets from either **DEL** or departmental **AME**. 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. It is derived from resource accounting rules, but there are a few differences in treatment between resource accounts and resource budgets.

**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.

**Spending sectors** are the part of the public expenditure recording system that identifies which sector is making the expenditure and how to integrate it into public expenditure aggregates.

**Spending Reviews** set DELs and plans for AME for the following three years. The first was the Comprehensive Spending Review in 1998. SR2000, which reported in July 2000, set spending plans for the years 2001–04. The most recent, SR2002, reported in July 2002, and set plans for 2003–06. SR2004 is to be the next.

**Standing Services** are payments for certain services that Parliament has decided by statute should be met directly from the **Consolidated Fund** (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 and to agricultural stocks held by the Intervention Board.

**Subsidies** are payments by government and the EU to trading businesses to help pay for current costs, for example: payments to farmers under the EU's Common Agricultural Policy.

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

**Supported Capital Expenditure** (SCE) – the term for most forms of central government support for local authority capital expenditure from 1 April 2004 when the Local Government Act 2003 brought in the new prudential capital finance system for England. Supported Capital Expenditure (Revenue) is the amount of expenditure towards which revenue grant support will be paid to a local authority on the costs of its borrowing. The borrowing support is provided through revenue grants to help local authorities with the costs of financing loans. Supported Capital Expenditure (Capital) is the term used for capital grants. Self-financed borrowing by local authorities will score in AME.

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 Managed Expenditure** 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 trading businesses.

- **Public corporations** are trading bodies.

- **Quasi-corporations** are entities that meet the economic definition of a public corporation but 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 (**capital expenditure** on housing and interest on housing related debt are treated as local authority expenditure).
- There are also 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** 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**.

**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.

**Welfare to Work** was a spending programme covering current and capital expenditure on a wide range of social activities. It was funded from receipts from the windfall tax levied on the privatised utilities in December 1997 and 1998 which raised over £5 billion. From 2001-02 the expenditure on equivalent programmes is not separately identified in PESA tables.

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