A Sources, Data Quality and Conventions

A.1 This appendix gives information on the main sources of data and methods used in producing PESA, notes on data quality, and on the various conventions used for the figures presented in this publication.

What's new

A.2 There is an additional section on data quality in relation to COFOG following the reclassification of government functional spending to the level of COFOG Level 2 in PESA 2007.

A.3 There is an additional section on data quality on the Country and Regional Analysis (CRA) data following the introduction this year of a formal signoff from the department that the data have been produced in accordance with the CRA guidance.

A.4 The population figures that underpin the CRA analyses that used to be in this appendix are now in Appendix F.

Sources of data

Central government and public corporation data

A.5 Most expenditure data in PESA are taken directly from the Treasury's public expenditure database, the Combined On-line Information System (COINS). Departments and the Devolved Administrations maintain on COINS up to nine years worth of live data depending on the year of the latest Spending Review. In the case of the PESA 2007 period departments maintained the years 2001-02 to 2007-08 on COINS. Departments update throughout the year:

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

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

Local authority data

A.7 The Department for Education and Skills supplies data on local authority spending in England on education. In addition, the Department for Work and Pensions supplies data on local authority spending on social protection. All other data on local authority spending in England are supplied by Communities and Local Government (CLG). The Devolved Administrations provide local authority spending data for Scotland, Wales and Northern Ireland. The data are then loaded onto COINS by Treasury in order to produce the PESA analyses.

National Accounts aggregates

A.8 The Office for National Statistics (ONS) supplies outturn numbers for the below national accounts aggregates used in PESA. Forecasts of these numbers for estimated outturn (2006-07) and plan years (2007-08) are made by the Treasury in the FSBR on a basis consistent with the ONS' numbers. The aggregates are then loaded onto COINS by Treasury in order to produce the PESA analyses:

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

To avoid confusion:

- the Total Expenditure on Services (TES) aggregate used in PESA is a Treasury aggregate. Appendix E contains further information on the definition of TES;
- depreciation in departmental budgets is a number sourced from departments.

METHODS

Classification of the functions of government (COFOG)

A.9 The Treasury's PESA branch assigns COFOG categories to departmental and local authority data in consultation with departments and the Devolved Administrations during the course of the year. COFOG categories are held on COINS. Where data streams cover more than one detailed functional category we ask departments to split the data out so that each can be recorded separately. However, we do not split out data where the amount would be less than £10m.

PESA production

A.10 The data contained in most of PESA are extracted from COINS approximately 1 week prior to publication using purpose built reports.

A.11 The two main exceptions to this where a different process is used are:

- the production of the historical information that goes back before the years that are maintained live on the COINS – described in Chapter 4;
- the country and regional analysis of expenditure – described in Chapter 9.

TREATMENT OF CERTAIN TRANSACTIONS IN PESA

The Private Finance Initiative

A.12 The private finance initiative (PFI) is a means of procuring capital-intensive services. Instead of the public sector being responsible for building and maintaining a school building, for example, the public sector contracts with the private sector for the provision of serviced school premises. The government entity that is purchasing services pays a single unitary charge to the PFI provider for as long as the services are provided to the required standard.

A.13 PFI deals may be on or off the government's balance sheet depending on where the balance of risks in the project lies. The balance sheet decision for outturns is taken by independent public sector auditors, and that decision is normally used for the national accounts by the independent Office for National Statistics. If the project is on the government's balance sheet, the capital expenditure is treated as part of public sector capital expenditure and counts towards TME. If the project is off the government's balance sheet then the capital expenditure is recorded as undertaken by the private sector.

A.14 PESA includes information on PFI projects. This information is not separately identified. PESA shows:

- For on balance sheet projects, PESA capital expenditure includes the capital expenditure imputed to the public sector. PESA also includes the service and debt interest elements of the unitary charge under those economic categories. The debt repayment element of the unitary charge is excluded from the expenditure numbers. The depreciation on the imputed asset is included in the depreciation numbers. Cost of capital charges and credits are included in budgets; and

- For off balance sheet projects, where the asset economically as well as legally belongs to the private sector, PESA includes the whole of general government payments of unitary charges as payments for services (part of current procurement).

BNFL

A.15 British Nuclear Fuel Limited (BNFL), a public corporation, has transferred the bulk of its assets and liabilities to the Nuclear Decommissioning Authority (NDA), which is part of central government. In the national accouonts these assets were shown as having a large (circa £15.6bn) negative value due to the decommissioning and clean-up liabilities associated with the assets being far in excess of their remaining productive value. The transfer from the PC sector tothe CG sector has no impact on TME, or the public finances overall, as this is an intra public sector set of transactions. However, the components of the public sector finances are affected as follows:

- Increase to public corporations gross fixed capital formation (GFCF)

- Corresponding reduction to central government GFCF

- Increase to central government payments of capital grants to public corporations, which finances the increased PC GFFC

- Corresponding increase in receipts of capital grants by public corporations.

A.16 Both the expenditure and receipt imputed to the PC sector are included in the Public Corporations Own Financed Capital Expenditure (PCOFCE) line in non-departmental AME. This means the PCOFCE is not distorted by this set of transactions, and is in line with other PC capital spending where that is financed from central government departmental budgets.

A.17 TME is a consolidated measure of expenditure, and in PESA the sectoral split of TME records only the 'own' expenditure components that relate to an individual sector. That is payments from one sector which are used to finance the expenditure of another sector are excluded from the paying sector's own expenditure breakdown, as are the corresponding receipts in the counterpar;ty sector. This is consistent with TME being a consolidated measure of public sector expenditure.

A.18 As such the imputed capital spending of BNFL described above adds to the total PC contribution to TME as presented throughout this publication, and likewise the reduction in central government capital expenditure reduces the CG contribution to TME as presented in PESA.

COVERAGE OF PUBLIC BODIES

A.19 PESA aims to include the expenditure of all public sector bodies on the appropriate basis. However, when new public bodies are set up, or when bodies are reclassified to, or within, the public sector, there may be a delay before data are recorded in a way that allows their correct inclusion in PESA. The PESA 2007 treatment of some of the larger bodies affected is:

- **S4C** (Channel 4 Wales) was reclassified by the ONS as a central government body at the start of 2006. PESA 2007 currently treats S4C's expenditure as central government's own, but for data reasons the economic category analysis treats the current expenditure as subsidies to S4C rather than as S4C pay and procurement. S4C spends a little under £100m a year.
- ONS reclassified **London and Continental Railways** (LCR) to the public corporations sector, back to February 1999, when a restructuring of LCR was implemented[1]. This expenditure and treatment is now fully reflected in the PESA 2007 analyses.
- In PESA 2007, **Network Rail's** capital expenditure in 2002-03 is now shown separately in table 8.3 and in all TES analyses contained in **Chapters 4 to 8**. It is included in the national accounts based TME number for 2002-03. However, because of the earlier timing of the Country and Regional Analysis (CRA) data collection exercise it is not included in **Chapters 9 and 10**.

DATA QUALITY

General

A.20 Departments, Devolved Administrations and NDPBs aim to produce good quality data for internal management and control and external reporting via audited accounts. They also seek to ensure that the data they feed into COINS are of high quality. Several outputs directly relevant to Whitehall departments' operations and reporting are produced straight

[1] For further information on the ONS' reclassification please see the following article: http://www.statistics.gov.uk/cci/article.asp?id=1409

from COINS, including: Main Estimates presented to Parliament, Departmental Reports, and Supplementary Budgetary Information. So Whitehall departments have a clear incentive to ensure that the data they supply to COINS, and that are also used in PESA, are right.

A.21 However, there are also factors that act against data quality:

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

A.22 The aim of PESA is to provide a broad picture of where public expenditure goes. As a general rule, the more detailed the presentation, the less accurate the attribution to detailed categories will be. Small differences in numbers should not be taken as significant. We present many figures rounded to the nearest £1m so that people using the data do not introduce errors from working with rounded numbers.

New COFOG presentation

A.23 PESA 2007 contains the first presentation of UK functional spending at the level of detail of COFOG level 2. Treasury has worked with departments and the Devolved Administrations since January 2005 to record data on the COINS database at the detailed UN COFOG Level 2 level to a £10m de minimis. Further information on COFOG is available on the UN website. The sub-function analysis of health is unchanged from PESA 2006, and is not yet reported on a full COFOG level 2 basis. This is because the NHS is neither financed nor organised along the lines of COFOG level 2, and an exercise to capture the additional required information to National Statistics standards could not be completed for this year's PESA. Where data are available Treasury has completed a quality assurance process with departments and the Devolved Administrations on the new COFOG classifications, however, we will continue to review the new classifications over summer with both which may lead to larger than usual revisions to tables 5.2 and 6.5 in PESA 2008.

CRA (Country and Regional Analysis)

A.24 This year Treasury introduced a requirement for departments to formally sign off their return as being produced in accordance with the CRA guidance, and to accompany this with a statement on data quality if there were specific issues on data. With the exception of Department for Transport who have badged their statistics as experimental, all other departments have formally signed off their return. However, in their accompanying statements on data quality some departments have identified areas of their CRA return where methods have been used that are either provisional or do not fully meet the methodology set out in the CRA guidance. Specific comments made from departments on data quality are:

- DfT – suitable sources are not always available to allocate expenditure to regions on a 'who benefits' basis. This is particularly a problem for Highways Agency expenditure, which covers motorways and trunk roads, and accounts for about a quarter of all DfT expenditure. Further work is needed to assess the bias from allocating this on an 'in' basis and consider whether it can be reduced. Further work will be carried out in the coming year with the aspiration that the DfT CRA return will meet NS standards in future.

- DCA – the regional allocations of legal aid administration costs and non-criminal legal aid expenditure are based on 1999-2000 data. Obtaining more recent data to inform these parts of our allocation will be a key priority. More generally, DCA will also consider whether ongoing developments in their operational and financial data systems will allow them to produce better quality regional allocations of court and judicial expenditure. This affects the allocation of new identifiable expenditure on courts, data on which are provisional.

- DCMS – there is an inconsistency across allocation methods between NDPBs with similar underlying information e.g. museums differed in their treatment of visitor survey data to estimate regional allocations. Explanations of the allocation methods were often brief from the NDPBs and the underlying detail was not usually provided making it very difficult to assess the robustness of the method.

- DFES – the derivation of training and development agency (TDA) estimates and the evaluation and reporting of any biases in estimates will be improved for PESA 2008.

- DWP – further work will be undertaken in advance of next year's exercise to provide a more accurate assignment of administrative expenditure to the region of residence of the ultimate beneficiary. However, in the context of overall departmental expenditure, the discrepancies arising from the approach taken for administrative expenditure are likely to be very small.

Treasury will work with departments on addressing these issues for PESA 2008.

Other

A.25 Some specific data quality issues apply to:

- historical data – see chapter 4
- local authority data – see chapter 7
- public corporations data – see chapter 8.
- the country and regional analysis of spending – see chapter 9

WHAT WE DO WHEN WE MAKE A MISTAKE

A.26 Where we discover errors after the production of PESA 2007 we will take the following action:

- minor errors will be corrected at the next National Statistics update or the next edition of PESA;

- larger errors will lead to the publication of revised tables on the Treasury's website together with a note explaining what the difference is.

CONSISTENCY WITH THE FINANCIAL STATEMENT AND BUDGET REPORT

Data

A.27 Total Managed Expenditure (TME) for 2006-07 and 2007-08 and its sectoral components are consistent with the numbers published in the FSBR (HC342; 21 March 2007). TME and its sectoral components for 2005-06 and earlier has been updated since the Budget and is consistent with the joint ONS/HMT Monthly Public Sector Finance Statistics release of the 24 April 2007. The rest of the data contained in Chapters 1 to 8 are consistent with the numbers published in FSBR except in a few places where later information has become available. The Country and Regional data contained in Chapters 9 and 10 were extracted from COINS in December 2006.

TME Table Presentation

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

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

A.30 The main differences are:

- The social security line in PESA includes net lending from the Social Fund which is excluded from the FSBR.
- The predecessor payments to Child Tax Credits (child allowances in Income Support and Jobseekers Allowance) are included in the FSBR "Tax credits" line and excluded from Social security benefits. In PESA, these payments are in the Social security data.
- Net lending to students is shown in departmental AME in PESA and is not shown in the FSBR.
- The main public service pension schemes are shown on a GAAP basis in PESA and on a national accounts basis in the Budget. Appendix D explains the treatment in PESA and Appendix C includes a reconciliation table.
- The "BBC domestic services" line in the FSBR includes outturn data supplied by ONS while PESA takes outturn and plan data supplied by DCMS. The FSBR numbers exclude the BBC's dividend income while that forms part of the PESA numbers.
- The FSBR does not include a "Non-cash" AME line while PESA does.
- The other departmental expenditure line in the FSBR only includes items that contribute to TME, whereas PESA shows all other expenditure in

departmental AME.

- As a result of these differences, there are differences in the Accounting Adjustments

CONSISTENCY WITH PREVIOUS PESAs

A.31 Data in previous PESAs may not be directly consistent with PESA 2007 due to changes in data coverage and classification changes. Readers are advised against simply splicing together data in different editions of PESA. This publication presents a number of summary analyses incorporating data for earlier years adjusted to current definitions to show trends over a longer period.

CONVENTIONS

Rounding

A.32 The figures in this publication are generally shown to the nearest £1 million, except that the figures for the main spending aggregates – DEL, AME, and TME – and the DEL Reserve are rounded to the nearest £100 million for 2007-08.

A.33 In all chapters dashes in the tables show that there are no data and zeros where there are data and the value rounds to 0 – ie normally less than £0.5 million.

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

Real terms

A.35 A number of the tables in this publication give figures in real terms. Real terms figures are the current price outturns or plans adjusted to a constant price level by excluding the effect of general inflation as measured by the GDP deflator at market prices. The real terms figures in this publication are given in 2005-06 prices. The GDP deflators used in this publication are those given in Appendix F.

GDP Measure

A.36 In tables that give spending as a proportion of GDP, PESA 2007 uses the cautious view of the GDP forecast. That is consistent with the Spending Review 2004 and the FSBR.

2006-07 estimated outturn

A.37 The estimated outturns for individual departments for 2006-07 are based on the latest information made available by departments for Budget 2007, updated in the some cases for later information. The estimated outturn for resource DEL for 2006-07 includes an allowance for shortfall reflecting the difference between the sum of individual departments' estimates of outturn and the Treasury's overall assessment.

Use of accruals data in tables

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

B DEPARTMENTAL GROUPS

B.1 A number of tables in this publication present analyses by department. It is not possible to show figures for all individual government departments separately and so departments are grouped together in these analyses, broadly on the basis of Ministerial responsibilities. These groupings are set out below.

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

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

C PUBLIC EXPENDITURE BUDGETING AND CONTROL AGGREGATES

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

RECENT DEVELOPMENTS

C.2 There are a number of changes to the budgeting framework that departments will be controlled on from 2007-08 onwards:

- Impairments for certain classes of asset are now split between DEL and AME (see C.11 below for further information)
- Similarly the treatment of the profit/loss on disposal of assets has changed (see C.18 below for further information)
- Large acquisitions of stock are treated as capital in budgets from 2007-08
- The treatment of underperforming SFPCs has been revised and a specific near-cash underperformance charge has been introduced that will score in departmental DEL
- Education Maintenance Allowances have moved from AME to DEL
- Interest receivable on student loans has moved from DEL to AME
- Contributions to international development organisations that are treated as financial transactions in the national accounts have moved from near-cash Resource DEL to Capital DEL
- London and Continental Railways (LCR) is now included as a public corporation in the budgeting framework. ONS reclassified LCR to the public corporation sector on 20 February 2006, effecting the classification change in TME at the same time back to 1999. The impact of including LCR as a public corporation in DEL is therefore offset by removing the LCR element of the accounting adjustments to TME included in PESA 2006.

C.3 The Treasury has published an updated version of Consolidated Budgeting Guidance[1] for departments, which contains other minor changes aimed at simplifying or clarifying rules. The figures presented in PESA 2007 budgetary tables have been adjusted to reflect the new control regime across all years to provide a consistent run of numbers.

[1] http://www.hm-treasury.gov.uk/documents/public_spending_and_services/consolidated_budgeting_guidance.cfm

RESOURCE BUDGETING

C.4 Since 2001-02, departmental budgets have been set and monitored in resource terms, and Parliament votes resources as well as cash in the Supply Estimates. This Stage I regime moved to full resource budgeting from 2003-04. There are separate departmental budgets for resource (i.e. current) and capital expenditure.

Resource Budget

C.5 The Resource Budget controls the current expenditure of a department. The resource budget largely follows the contents of resource accounts. Resource accounts are prepared in accordance with the Government Financial Reporting Manual, which follows Generally Accepted Accounting Practice (GAAP) with such adaptations as are necessary for the public sector.

C.6 Resource accounts measure expenditure when it accrues rather than when the cash is spent. They do not include, as an in year cost, prepayments for goods and services not consumed in that year but will include resources consumed but paid for in later years or where pre-financed in earlier periods. Stock consumption scores in the resource budget while spending on adding to stocks does not. They include non-cash costs such as movements in provisions and charges for bad debts. Resource budgets record the cost of lending to students on the basis of an assessment of the grant implied in the low interest rate charged and the bad debt provision that is required.

C.7 The annual resource cost to departments of the assets they use to deliver services is included in resource budgets. This cost is in the form of charges for capital consumed in that year (depreciation) and the opportunity cost of tying up capital in these assets (the cost of capital charge). The cost of capital charge is 3.5 per cent of the net assets (fixed capital and financial assets, net of financial liabilities and provisions) employed by each department.

C.8 The Resource budget (DEL) includes all administration costs of government departments such as pay and employer pensions contributions or superannuation charges paid to unfunded public service pensions schemes. It also includes most of departments' other purchases of services. It includes current grants and subsidies paid to the private sector.

C.9 For DfID and the FCO the resource budget includes an attributed share of the EC's expenditure on overseas aid and the Common Foreign and Security Policy.

C.10 The Resource Budget is divided into Near-cash and Non-cash. **Near-cash in Resource DEL** is a control total. Near-cash is expenditure that impacts directly on the Surplus on the Current Budget, used to measure the Government's performance against the Golden Rule, in year. Near-cash expenditure includes pay, procurement, grants, and payments made where provisions had been taken in the past and are now being released. Near-cash expenditure is measured on an accruals basis, and normally results quickly in a cash outflow. Non-cash expenditure includes depreciation, cost of capital charges, and the take up and release of provisions.

C.11 **Impairments** are recorded where there is the permanent loss or write-off of recoverable value of an asset below the value recorded on the balance sheet in the accounts. From 2007-08, impairments for certain classes of asset will be split between DEL and AME. Impairments are being split to provide support for sound management decisions and to remove any disincentive they may create for managerially worthwhile decisions. They are to be split between six different categories, each category scoring in either DEL or AME depending on the nature of the impairment. **The following classes of impairment score in DEL**:

- Loss or damage resulting from normal business operations
- Abandonment of projects
- Gold plating – which is the unnecessary over specification of assets

Impairments that score in **AME** are:

- Loss caused by a catastrophe
- Unforeseen obsolescence
- Other: including
  - write downs of development land to open market value
  - write downs where an asset is to be used for a lower specification purpose than originally intended
  - write downs as result of the asset being seized without compensation

C.12 **Non-Departmental Public Bodies.** Resource and capital budgets include the expenditure of most non-departmental public bodies (NDPBs) classified to the central government sector, rather than the grant-in-aid from the parent department. This treatment remains a difference with the accounting treatment in departmental resource accounts which just record the grant-in-aid paid by the department.

C.13 Resource budgets include most of the department's current transactions with **public corporations** sponsored by the department (as recorded in resource accounts), but capital grants and lending to public corporations are in the capital budget. So the resource budget scores:

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

C.14 Consolidated PCs – **London Continental Railways** (LCR) and **Forest Enterprises** (which are public corporations) have a different budgeting treatment. For them, the resource budget includes their operating profit/loss and the capital budget shows their capital expenditure. NHS Trusts have a similar treatment.

C.15 **Central Government Support for Local Authorities.** The resource budget scores current grants to local authorities. Capital grants (in England called Supported Capital Expenditure (Capital) from 2004-05) score in capital budgets. Capital budgets also include amounts for local authority borrowing where central government has agreed to fund the resultant loan charges (up to 2003-04 these were termed credit approvals (or capital consents in Scotland); from 2004-05 these are termed Supported Capital Expenditure (Revenue) in England (or supported borrowing in Scotland)). More information on local authorities is in chapter 7.

C.16 The sum of departmental resource budgets is reconciled to public sector current expenditure – a national accounts concept which is part of TME – in Table 1.3.

Capital Budget

C.17 Capital budgets include expenditure on fixed capital assets, capital grants and the acquisition of certain financial assets acquired or sold for policy reasons. Capital budgets include capital expenditure financed by finance leases and on balance sheet Private Finance Initiative transactions. Capital budgets are, from 2007-08, net of the sale value of receipts from the sale of capital assets.

C.18 In resource accounts proceeds from sales of assets are split between the book value and any profit/loss on disposal. Receipts relating to the book value have always been recorded in capital budgets. Formerly the profit/loss on disposal was recorded as a non-cash item in resource budgets. From 2007-08 this will be recorded in capital budgets also, meaning the capital budget scores the sale proceeds as a benefit to capital budgets, which aligns with the treatment in Public Sector Net Investment, which is part of TME.

C.19 Capital budgets generally include loans on the basis of new loans issued less repayments of loan principal. Large (over £20m) prepayments or debtors that are long term (lasting more than 12 months) score in capital budgets on the same basis.

C.20 Long-lasting defence fighting equipment with no civilian use (sometimes called Single Use Military or Fighting Equipment) is treated as capital expenditure in budgets and departmental resource accounts, but national accounts treat it as current.

C.21 The sum of departmental capital budgets is reconciled to public sector net investment in Table 1.4.

Resource and Capital Budgets – Summary Table

C.22 This table summarises the main standard contents of resource and capital budgets:

	Resource Budget		**Capital Budget**
	Near-Cash	**Non-Cash**	
Department's own Transactions	Pay, current purchases, grants to individuals, subsidies. Release of Provisions *Less* income from sales of services	Depreciation and impairments on the department's assets Cost of capital charge in respect of net assets Take-up of provisions, movement in value of provisions *less* release of provisions Bad debts	Expenditure on new fixed assets *Less* sale proceeds of fixed assets Net lending to the private sector Investment grants to the private sector`
NDPB transactions	As the department *Note: the department's grant in aid to NDPBs is not in budgets*	As the department	As the department

	Resource Budget		Capital Budget
	Near-Cash	Non-Cash	
NHS Trusts (England Wales Northern Ireland)	Purchases of services from Trusts *plus* profit or loss of Trusts	Costs of capital charge in respect of net assets	Capital expenditure of NHS Trusts
Local Authorities	Current grants to local authorities		Capital grants to local authorities Supported capital expenditure (revenue)
Public Corporations on an external finance basis	Subsidies paid to public corporations *Less* interest and dividends received from public corporations	Cost of capital charge in respect of public corporations	Investment grants paid to public corporations Net lending to public corporations (including equity withdrawals from public corporations) Public corporations' market and overseas borrowing
Consolidated public corporations	Subsidies paid to and purchases of services from public corporations *Less* Profit/Loss of the public corporation	Costs of capital charge in respect of public corporations Take-up of provisions, movement in value of provisions *less* release of provisions in respect of subsidy, grant, or other amounts payable	Expenditure on new fixed assets *Less* sale proceeds of fixed assets

DEPARTMENTAL EXPENDITURE LIMITS

C.23 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.

C.24 DELs are set for three years in a Spending Review. They represent firm plans for departmental spending that may only be increased in exceptional circumstances with the Treasury's agreement through a claim on the DEL Reserve. Departments may carry forward unspent DEL from one year to the next. SR2004 set firm spending plans for 2005-06 to 2007-08.

C.25 DEL is net of certain receipts, mainly payments for services, asset sales, dividends, interest, rent of land, income from the European Community, and also certain taxes, levies and fines where the Chief Secretary to the Treasury has given specific agreement for a department to retain them in their DEL.

C.26 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.

C.27 **Public Corporations.** Most transactions in respect of public corporations score in DEL but those in respect of self-financing public corporations score in departmental AME (except where they receive grants and subsidies, which would score in DEL).

C.28 **Total DEL** is not a control total but a standard way of presenting the sum of current and capital spending in DEL. Total DEL is defined as resource budget DEL *plus* capital budget DEL *less* depreciation. Depreciation here includes impairments and the release of the donated assets and government grant reserves.

ANNUALLY MANAGED EXPENDITURE

C.29 The following text describes the components of AME, which for the purposes of PESA is divided into:

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

Departmental Annually Managed Expenditure

C.30 Departmental AME programmes are set out in departmental reports. 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.

C.31 The main programmes in departmental AME are:

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

C.32 **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, e.g. Housing Benefit, Council Tax Benefit and Rent Rebates. It includes payments by DWP to the BBC in respect of free television licences for the over 75s.

C.33 **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. These are mainly tax credit payments to an individual or enterprise where the amount of tax credit exceeds the tax liability. These are also payments in respect of contributions to stakeholder pensions of non-tax-payers or in excess of tax paid.

C.34 **Net Lending to Students. The transactions of loan principal score in Departmental Capital AME.** Since the publication of PESA 2006, data have been received from Northern Ireland and Scotland and included so that PESA 2007 table 1.1 now has UK coverage. Resource DEL continues to score the changes in the provision liability recognised by the issuing departments in their resource accounts. Interest receivable on student loans (England) now scores in AME.

C.35 **BBC domestic services.** The expenditure of the BBC on domestic broadcasting scores in Departmental AME. The BBC World Service scores in FCO's DEL. The BBC Monitoring Service also scores in DEL. Certain trading operations of the BBC are treated as self-financing public corporations in AME.

C.36 **Net Public Service Pensions.** This line scores the majority of the operating costs, net of income, for the main public service un-funded pension schemes. Operating costs are measured under Financial Reporting Standard 17 (FRS17) compliant with UK GAAP as amended for the public sector. The main schemes are those for the civil service, armed forces, teachers and NHS staff. The line comprises an assessment of the increase of liability relating to current employees less relevant receipts (see below). The line does not include an amount for the unwinding of the discount – see below.

C.37 All the major pension schemes follow FRS17 to report any increase (or decrease) in liabilities accrued in the period. In broad terms, there is a charge (or benefit) shown in this row equal to the gross increase in the provision that impacts on the operating statement of the scheme (excluding the unwinding of the discount rate, which is shown in the other non-cash items in this AME line) less pension contributions receivable.

C.38 Note that there may be several reasons for a difference in the level of contributions and the FRS17 charge. For example, the contribution is set to reflect previous over- and under assessment of contributions due to scheme-specific experience on issues such as pay and demography. Calculations of contributions and of the FRS17 charge use different discount rates and different actuarial methodologies. Contribution rates are revised only every three or four years, after full actuarial valuations.

C.39 Cash payments of members' continuing pensions, lump sums, spouses' benefits and similar payments, and bulk and individual transfers out are all normally charged directly to the pension provision shown on the balance sheet. That means that they do not impact on the cost of the scheme as measured in this line, because the obligation to pay the pension had been recognised as adding to liabilities by an increase in the pension provision when the right to the pension accrued. However, if any cash payment is made that is not covered by a previously recognised liability then that payment would score in this AME line.

C.40 Relevant receipts include employers' contributions (including accruing superannuation liability charges such as those paid by departments to the Principal Civil Service Pension Scheme), employees' contributions for ordinary pensions (including widows'/widowers' pensions) and for added years, and receipts of bulk and individual transfers in.

C.41 This line does not reflect changes to the pension provision on the balance sheet resulting from changes in the actuarial assumptions made about the future (for example life expectancy, pay growth, inflation etcetera). Such changes result in the cost of providing already accrued pensions being higher (or lower) than previously thought. So if for example pensioners are living longer than previously thought the overall liability of a scheme will rise. The effects of these changes are shown in a separate statement (Statement of Recognised Gains and Losses) in the pension schemes' resource accounts and do not score in Budgets.

C.42 For simplicity, and because of the immateriality of the amounts, some small unfunded schemes may report the difference between the cash paid out during the year and any contributions received.

C.43 Note that this line does not cover:

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

C.44 Future payments of pensions are discounted in order to obtain the value of the liability in today's terms. Each year, future payments come a year closer and so the effects of discounting are reduced. That **unwinding of the discount rate** is a cost that is recognised in the accounts.

C.45 In budgets, the amount for the unwinding of the discount rate on the liability is part of the 'non cash items' row (see below). The amount scores in non-cash items because there is no cost of capital credit recognised on the liability in scheme accounts; this credit would normally offset the increase. Therefore to score just the increase without the credit would distort the numbers.

C.46 In addition, the amount for the unwinding of the discount rate could be seen as loosely equivalent to the amount of interest the government would have had to pay if the schemes had been funded with government debt, and is sometimes referred to as interest on scheme liabilities (note that the discount rate is set in accordance with GAAP principles as endorsed by the Financial Reporting Advisory Board and is not automatically a gilt rate). So this item reflects the fact that the schemes are unfunded. Showing this item in the non-cash items row separates out the costs that the Government bears as employer from guaranteeing the schemes (that is, the costs in the Net public service pensions row) from the notional costs because the schemes are unfunded.

C.47 The cost of pensions schemes as measured on a GAAP basis does not impact directly on TME or the fiscal framework. Appendix D shows how the GAAP measures for the main public service pension schemes in AME can be reconciled to TME, and Table B.1 gives more detailed information.

C.48 The overall change over the year in the schemes' balance sheet pensions liability measured on a GAAP basis is normally given by:

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

plus unwinding of the discount rate

less pensions paid out

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

C.49 With the exception of the last item, which is not an expenditure or budget item, figures for the components listed above are shown in Table C.1.

C.50 TES includes the cost of public service pensions on a TME basis in the social protection function. Table 9.19 sets out cash spending by the departments responsible for pension schemes on pensions in payment net of contributions.

C.51 **National Lottery.** Expenditure on good causes funded from the proceeds of the National Lottery is in this line. The Big Lottery Fund was officially established by parliament on 1 December 2006 and at the same time assumed the residual responsibilities of the dissolved National Lottery Charities Board (Community Fund) and the New Opportunities Fund, and the Millennium Commission. The Big Lottery Fund rolls out grants to health, education, environment and charitable causes across the UK. 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.

C.52 **Non-cash items in AME.** Consists mainly of:

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

C.53 **Other departmental expenditure in AME** includes:

- Transactions in respect of Self-Financing Public Corporations;
- Export Credits Guarantee Department (part);
- Expenditure on tax credits for companies (research and development for Small and Medium Enterprises, contaminated land clearance) and charities calculated on an OECD basis, that is payments in excess of tax liability;
- Inland Revenue payments in respect of Child Trust Funds;
- Rates paid on behalf of embassies, net of beneficial portion receipts;
- Housing Subsidy in England and Wales and Housing Support Grant in Scotland;
- For outturn years, expenditure by DEFRA in connection with Foot and Mouth disease
- Redundancy Payments Scheme;

- Coal Health Liabilities;
- Expenditure of certain levy-funded bodies; and
- Acceptances of artworks in lieu of Inheritance Tax.

Other Annually Managed Expenditure

C.54 **Locally Financed Expenditure (LFE).** This line comprises the following items:

- Local Authority Self Financed Expenditure (LASFE) in the UK;
- expenditure financed from the product of the Scottish Non Domestic Rate; and
- central government expenditure financed from the product of Northern Ireland Regional Rates (NIRR) and from borrowing from the National Loans Fund under the Re-investment & Reform Initiative (RRI).

C.55 LASFE is that part of total local authority expenditure not met by central government support. Its largest single financing component is the product of the Council Tax. Other components include the surpluses of trading activities, interest receipts, unsupported borrowing and the use of reserves.

C.56 NIRR are set by the central government in Northern Ireland. The product is not hypothecated to financing specific expenditure. By convention it is treated in PESA as locally financed central government expenditure. The product of NIRR is treated as a transfer from AME into DEL; that is DEL is set net of the product of the NIRR.

C.57 Expenditure financed by borrowing from the National Loans Fund under the RRI is shown under LFE because the loans will be serviced and repaid out of the product of the NIRR.

C.58 Table C1, Net Payments to the European Community sets out the following concepts:

- Net Expenditure Transfers to the European Community: this line reflects the main TME impact of membership of the European Community;
- Net Payments to EC Institutions;
- Net Contributions to the EC budget.

Table C.1 Transactions with the institutions of the European Community, 2001–02 to 2007–08

£ million

	National Statistics						
	2001–02 outturn	2002–03 outturn	2003–04 outturn	2004–05 outturn	2005–06 outturn	2006–07 estimated outturn	2007–08 plans
GNI based contribution	3,737	6,016	7,322	8,628	8,077	8,213	8,685
UK abatement	–4,427	–3,233	–3,874	–3,722	–3,641	–3,560	–3,675
Net expenditure transfers to the EC	**–690**	**2,782**	**3,448**	**4,907**	**4,435**	**4,652**	**5,010**
Receipts to cover collection costs in respect of collecting Traditional Own Resources (TOR)	–209	–507	–490	–545	–580	–581	–500
to give contribution to TME	*–899*	*2,275*	*2,957*	*4,361*	*3,855*	*4,071*	*4,510*
TOR(1)	2,093	1,710	1,963	2,195	2,319	2,326	2,000
VAT payments to the EC	3,592	2,519	2,576	1,904	1,964	2,287	2,113
Gross contribution to the EC budget	**4,786**	**6,504**	**7,496**	**8,461**	**8,139**	**8,685**	**8,624**
Public sector EC receipts (except European coal and steel community Receipts)(2)	–3,309	–3,424	–4,235	–4,555	–3,750	–5,439	–5,332
Net contribution to the EC budget	**1,477**	**3,080**	**3,261**	**3,906**	**4,389**	**3,246**	**3,291**
less Attributed Aid(3)	633	734	796	694	700	665	701
less Common Foreign and Security Policy(4)	2	2	3	3	3	3	4
European coal and steel community Receipts	–1	—	–2	—	—	—	—
Net payments to EC institutions	**841**	**2,344**	**2,460**	**3,208**	**3,685**	**2,577**	**2,586**

(1) *Traditional Own Resources, made up of customs duties, including those on agricultural products, and sugar levies.*

(2) *Total public sector EC receipts are shown here on a cash basis. EC receipts in budgets are on an accruals basis.*

(3) *The UK's contribution to the cost of EU aid to States outside the EU, which is attributed to the aid programme.*

(4) *The UK's contribution to the cost of the EU's Common Foreign and Security Policy, which is attributed to the FCO's programme.*

C.59 So the TME effect of EU membership is given by:

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

C.60 **Public Corporations' Own-Financed Capital Expenditure.** This line comprises the capital expenditure of public corporations net of any capital grants or loans given by a PC's parent department and net of public corporations' market and overseas borrowing where that scores to departmental budgets. Excludes London and Continental Railways and Forest Enterprises which have a different budgeting regime.

C.61 This line also includes the whole amount of capital expenditure of public corporations accountable to local authorities, whether own-financed or supported by local government: an accounting adjustment removes local government support to public corporations.

C.62 **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

C.63 **AME Margin.** The AME margin is an allowance for estimating changes.

C.64 **Accounting adjustments** are described in Appendix D.

TOTAL MANAGED EXPENDITURE

C.65 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.

C.66 TME equals DEL + AME (including accounting adjustments).

C.67 In addition, TME may be expressed as the sum of:

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

C.68 In this presentation, Depreciation represents the amount of capital expenditure required to make good the depreciation of assets, and Net Investment represents the amount of capital expenditure that adds to the overall stock of assets.

BUDGETING GUIDANCE

C.69 The Treasury has published the Consolidated Budgeting Guidance for departments for 2007-08 on its website[2]. The Guidance explains in detail what is in budgets.

[2] http://www.hm-treasury.gov.uk/documents/public_spending_and_services/consolidated_budgeting_guidance.cfm

D THE ACCOUNTING ADJUSTMENTS IN THE BUDGETING PRESENTATION OF TME

NEED FOR ACCOUNTING ADJUSTMENTS

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

D.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 C) are different; and sometimes other factors lead to an alternative approach – for example data availability.

D.3 Table 1.1 shows DEL plus AME equalling TME. Because of the facts set out in paragraph D2 above a number of adjustments are needed to relate Total DEL and the component parts of AME, which are Treasury control aggregates, to TME as measured in the national accounts. More detail of the adjustments is shown in table 1.14.

D.4 The sub headings in this annex correspond to the rows in that table, and a description of the nature of the adjustment is given. Individual adjustments are numbered 1 through x. The operator (i.e. "add" or "subtract") describes the adjustment needed to derive TME from Total DEL plus departmental and other AME.

CHANGES SINCE PESA 2006

D.5 The following obsolete adjustments have been retired (the numbers given refer to the number in Appendix B of PESA 2006 except where otherwise identified):

D.6 Adjustment to remove capital grants to LCR (42 in last year's PESA). At the time of last year's PESA LCR had been reclassified to the public sector and their capital spending added to TME. In addition the DfT were budgeting for capital grants to LCR, and so an adjustment was required to remove these capital grants. The budgeting treatment for LCR has since changed so that this adjustment is no longer necessary, as DfT now budget for LCR capital spending not capital grants to them.

D.7 Capital/current switching adjustment for profit or losses on disposal of capital assets has been dropped, as changes to the budgeting framework mean that budgets are now aligned with the national accounts definitions.

D.8 The adjustment for debt write off by ECGD for policy reasons (45 in last year's PESA) has been moved from the public corporations to the central government adjustments following the ONS decision to show these policy write off s as transfers for central government not public corporations.

D.9 In Blue Book 2006 the ONS added imputed amounts of tax and expenditure to the national accounts in respect of Renewable Obligation Certificates (ROCs). This has the effect on increasing both current receipts and current expenditure. As such a new accounting adjustment is required with the other central government programmes line to add in the imputed subsidy which increases TME.

LIST OF THE ACCOUNTING ADJUSTMENTS

Tax credits for individuals

D.10 The tax credits line in 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. As such, only amounts payable in excess of an individual's tax liability count as expenditure in this line. However, in the national accounts and so TME, certain tax credits for individuals score as government expenditure even when they are less than the individual's tax liability. An adjustment is required therefore to add in those amounts which score in TME, but which have not scored in the tax credits line in departmental AME. The adjustment is as follows:

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

D.11 No adjustment is needed for the new tax credits (Working Tax Credit and Child Tax Credit as they are treated in the same way under both the OECD (and so departmental AME) and national accounts bases.

Pensions

D.12 Pensions are measured differently in national accounts compared to the way in which resource accounts present these costs. This is due to differences in the way these frameworks deal with provision liabilities. The contribution of the pension schemes to TME is as follows:

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

D.13 In resource accounts a provision liability is recognised on the balance sheet equal to the net present value of the expected future cash benefits to be paid, and, broadly speaking, changes in this liability impact on the operating cost statement. The Net public service pensions line in departmental AME presents expenditure on this basis. The line consists of the following:

- The gross change in the liability that scores in the operating statement of the schemes;
- *less* pensions contributions received and transfers in;
- *plus* any pensions or transfer payments out that are not covered by a previously recognised liability;

D.14 The unwinding of the discount rate that is applied to the future cash flows is also a cost in the operating statement in accounts. This cost is recorded separately in the non-cash items in departmental AME. See Annex C for further details.

D.15 Table D.1 provides a reconciliation between the measures of pensions expenditure as presented in the component parts of table 1.1, in the resource accounts, and in TME. So the table presents:

- The three main contributors to the Net public service pensions line (as above):
  - The gross change in the liability that scores in the operating statement of the schemes;
  - *less* pensions contributions received and transfers in;
  - *plus* any pensions or transfer payments out that are not covered by a previously recognised liability;
- The pensions element of the Non cash items line (i.e. the unwinding of the discount on the liability);
- The sum of these elements, which is the contribution of pension schemes to Departmental AME. It is a GAAP based measure of the cost of the schemes, which is net of contribution income and transfers in;
- The accounting adjustments required to reach TME (see below); and
- The contribution of the main public service pensions schemes to TME.

D.16 The accounting adjustments are as follows:

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

D.17 Employers' pay costs include the cost of making both employer contributions to unfunded pensions schemes and an amount to cover any employee contributions. These elements of the pay bill of central government bodies are a cost in TME. These costs, which are in the main borne by individual departmental DEL budgets, broadly match the unfunded pensions schemes' receipts of employer and employee contributions scored in AME, (although note that some schemes receive contributions from employers and their staff that fall out with the departmental budgeting system). This means that the impact of pensions on TME can be expressed as either (a) those elements of the paybill that finance contributions to unfunded pension liabilities *plus* the net pensions paid (i.e. net of receipts of contributions), or (b) simply the pensions in payment. The impact on the overall fiscal position is the same as the impact on TME.

Table D.1 Unfunded public service pension schemes in AME and in TME, 2001–02 to 2007–08

£ million

	National Statistics						
	2001–02 outturn	2002–03 outturn	2003–04 outturn	2004–05 outturn	2005–06 outturn	2006–07 estimated outturn	2007–08 plans
Departmental AME (GAAP basis)							
Change in liability	13,205	14,871	15,357	15,304	20,971	21,503	28,933
Contributions received *	–9,861	–12,610	–14,279	–15,122	–17,395	–18,005	–19,252
Cash payments in OCS not covered by release of provision*	569	1,888	719	162	130	84	109
Net public service pensions (GAAP basis)	**3,913**	**4,150**	**1,796**	**344**	**3,706**	**3,582**	**9,789**
Unwinding of discount rate (= contribution to non-cash items)	18,575	19,458	22,303	24,080	27,463	29,578	32,464
Total departmental AME (GAAP basis)	**22,488**	**23,608**	**24,099**	**24,424**	**31,169**	**33,160**	**42,253**
Accounting adjustments							
Remove change in liability	–13,205	–14,871	–15,357	–15,304	–20,971	–21,503	–28,933
Remove increased liability due to unwinding of discount rate	–18,575	–19,458	–22,303	–24,080	–27,463	–29,578	–32,464
Add pensions in payment covered by release of provision*	14,204	14,628	15,361	16,216	17,534	19,097	21,295
Accounting adjustments (pensions)	**–17,576**	**–19,701**	**–22,299**	**–23,167**	**–30,900**	**–31,984**	**–40,102**
Contribution to TME (National Accounts basis)	**4,912**	**3,907**	**1,801**	**1,256**	**270**	**1,176**	**2,151**
of which:							
Pensions in payment*	14,773	16,517	16,080	16,378	17,665	19,181	21,404
Employer/employee contributions*	–9,861	–12,610	–14,279	–15,122	–17,395	–18,005	–19,252

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

Other central government programmes

5. **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.

6. **Tax Credits for Companies and Charities:** As with tax credits for individuals (see above), national accounts score as expenditure all elements of tax credits for companies and charities, including those that reduce the taxpayer's liability, where the ONS have judged that the tax credits are not integral to the tax system. This adjustment adds in such payments in respect of Research and Development Tax Credits for large companies and for small and medium enterprises, payments of transitional relief to charities formerly entitled to receive tax credits on dividends, and tax relief on clearing contaminated land. The element of these tax credits that is paid in excess of tax liabilities is already shown in Other departmental expenditure in AME.

7. **Collection costs for Traditional Own Resources (TOR):** The UK receives a payment from the EU for collecting on behalf of the EU TOR (customs duties, agricultural and sugar levies). This receipt (which is actually netted off of the payment made to the EU) is treated as a government receipt and reduces TME. This income is recorded here.

8. **Loan guarantees:** add the imputed subsidies for certain loan guarantees which are included in national accounts. In the current balance imputed receipts match these imputed subsidies.

9. **Attributed Aid and Common Foreign and Security Policy (CFSP)**: Departmental Budgets include an attributed share of the EU's aid and CFSP expenditure.

10. **Hydro benefit:** add in an amount of imputed subsidy paid by the Scottish Electricity generating industry to the distribution industry to reflect the high cost of distribution in northern Scotland.

11. Add **debts written off by ECGD for policy reasons**, which are routed through central government in national accounts.

12. **Renewable Obligation Certificates**. Add imputed subsidies in respect of ROCs, which are balanced in the national accounts by imputed current receipts.

VAT refunds

D.18 VAT is a tax that is paid by final consumers, that is government and households. Producers pay VAT on materials that they use in the course of production, but are able to claim those VAT payments back from HMRC. Producers then charge VAT on sales and pass these monies to HMRC. Where a public sector body is engaged in production and receives such a VAT refund it will not add to TME therefore, nor would it be included in their spending data, which is measured net of recoverable VAT. Therefore in these cases no adjustment to TME needs to be made.

D.19 However, in addition some public sector bodies receive refunds of VAT that they have paid in respect of contracted out services for non-business purposes, including the free to enter public museums. These VAT payments by general government bodies form part of the prices paid by general government as a final consumer, and therefore form part of final government consumption and so TME. Departmental budgets, and other spending data, however are net of all recoverable VAT, which means the following adjustments are required to get to TME.

13. Add VAT refunded to central government departments in respect of contracted out services for non-business purposes and VAT refunds to free public museums in respect of non business activities. (VAT refunds to NHS trusts and the BBC in respect of non business services are however exceptionally not added in to the figures to arrive at TME.)

14. Add VAT refunds to local authorities in respect of all non-business activities. Central government support in DEL and locally financed expenditure are measured net of these VAT refunds, but in TME the expenditure is recorded including the VAT paid.

15. Add VAT refunds paid to ITN in respect of non-business activities. These are treated as subsidies in TME.

16. Add VAT refunds paid to DIY house builders. These are treated as capital grants in TME.

Central government capital consumption

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

Non-cash items not in TME, and stocks

D.20 **Non-cash items not in TME.** Both budgets and TME measure expenditure on an accruals basis as regards timing. A number of accruals concepts – such as accounts payable/receivable – appear in both GAAP and national accounts datasets. However, a number of non cash items appear in budgets produced on a basis consistent with the Government Financial Reporting Manual (see Appendix C) that do not have a TME counterpart. They are removed here:

18. Deduct the cost of capital charge, debt write offs (other than debts written off by mutual consent, which count as capital grants in the national accounts), notional audit fee, and other such non cash items recorded in departmental budgets but not in national accounts. This item also includes the removal of the profit or loss of NHS trusts which scores in budgets.

19. Deduct the take up, movements in the value, and release of provisions that score in budgets. That leaves in the underlying cash payments made when provisions are utilised, which are offset in budgets by the release of provisions, and which score in TME.

20. Deduct the provision that represents the net present value of the interest support element of student loans that scores in DEL as the loans are issued. In the national accounts the impact on the current balance is determined by the difference between interest payments made on government debt and interest income received from students.

D.21 **Stocks.** Net changes to inventories form part of capital expenditure in national accounts. This means that both when stocks are purchased and finished goods are added to stocks, this increases capital spending. When they are either consumed or sold this reduces capital expenditure. In addition the production account scores the consumption of stocks as a cost (part of intermediate consumption), and the value of finished goods added to stocks as part of final output. In Resource accounts purchases and sales of stocks are cash adjustments, and the draw down of stocks is a balance sheet movement. Budgets generally only record as expenditure or income the consumption of stocks or the production of goods for stock. The adjustment is as follows;

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

Expenditure financed by revenue receipts

D.22 Some receipts benefit budgets and so reduce certain expenditure presentations even where national accounts do not treat them as negative expenditure in TME but, instead, as entries on the revenue side of the government's account. The deduction of such receipts needs to be reversed.

D.23 For departments and NDPBs the receipts are:

22. certain taxes collected, including licences issued by the utility regulators;

23. certain fines;

24. current donations;

25. current compensation;

26. rent of land;

27. dividends and interest from the private sector and overseas.

D.24 For local authorities, the receipts are:

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

Local authorities

29. Add the value of local government non-trading capital consumption (i.e. depreciation) as modelled by ONS for national accounts.

30. 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.

31. Deduct capital grants paid by local authorities to public corporations since these are a flow within the public sector that adds to the calculation of local government expenditure but the capital expenditure they finance is in the line for Public Corporations' Own Financed Capital Expenditure. This mainly concerns payments by Transport for London.

32. Adjust estimated outturn by an allowance for shortfall to align central government support and LASFE figures to forecast total local authority expenditure.

D.25 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:

33. Local authority receipts of investment grants from private sector developers.

34. Certain licence fees collected by local authorities.

General government consolidation

D.26 TME is consolidated public sector expenditure. So it normally records only those transactions that are paid outside the public sector. Payments of certain taxes and of grants and interest that are within the public sector do not score in TME.

35. Deduct debt interest paid by local authorities to central government and to other local authorities. The small amounts of debt interest paid by local authorities to public corporations are also deducted here.

36. 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.

37. Deduct payments by the Department for Work and Pensions to the BBC in respect of free television licences for the over 75s which are in Departmental AME but are consolidated out of TME (the national accounts now show TV licence fee income without imputing a payment from the over 75s).

38. Deduct payments from local authorities to the Office of the Deputy Prime Minister in respect of pooled housing receipts. These payments score in Local Authority Self Financed Expenditure and not in TME.

39. Deduct subsidies from central government to public corporations that finance the payment by the corporation of current grants to local authorities. The subsidies are in DEL (outside support for LAs) and in addition the LA expenditure is in locally financed expenditure. National accounts treat the public corporation as an agent of central government in this regard. So the flow is treated as a central government grant to local government and does not add to TME.

40. Deduct the element of English health authorities' purchases from NHS trusts that covers trust depreciation and scores in DEL. The depreciation of NHS trusts is recorded as part of the adjustment above that brings in central government capital consumption as measured by the ONS and so this adjustment removes a double count.

41. Deduct departments' receipts of interest and dividend from NHS trusts (England and Wales). Departments pay NHS trusts enough to enable them to remunerate their capital. Now that trusts have been reclassified to the central government sector, those payments do not score in TME.

Public corporations

D.27 Departments' resource and capital budgets normally include certain items in respect of public corporations scored on the external finance basis:

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

D.28 TME includes the subsidies only, so the other items have to be deducted.

D.29 TME includes PC capital expenditure, and interest and dividends paid by PCs to the private sector. Other AME includes public corporations' own-financed capital expenditure (PCOFCE), that is, capital expenditure less CG grant and loan finance for it, and less PCMOB. So the deduction of loans and capital grants is effected in other AME.

D.30 So the adjustments needed are:

42. Remove receipts from public corporations of interest, dividends and equity withdrawals, which are netted-off in budgets.

43. Add interest and dividends paid by public corporations to the private sector and abroad.

D.31 **Forest Enterprises and London and Continental Railways (LCR)** are scored on what is termed the consolidation basis and have a different budgeting treatment. Their profit/loss and actual capital expenditure score in budgets rather than grants and loans given and interest and dividends received. Their capital expenditure is not included in PCOFCE, as it has scored in budgets already, but their profits/losses have to be removed in the accounting adjustments.

44. Deduct the profit/loss of Forest Enterprises and LCR that are scored on the consolidation basis.

D.32 **Export Credits Guarantee Department** (ECGD) is a public corporation in the national accounts. It is treated in the same way as insurance corporations in national accounts. It is also a department in its own right, and it has a unique budgeting framework.

D.33 The impact of ECGD on the national accounts aggregates is as follows. Its Gross Operating Surplus scores as a current receipt. This is partly financed by a subsidy from Central Government. Interest payments that it receives on its assets are a benefit to the current budget also. Depreciation on its assets is a cost to the Golden Rule. Any capital spending that it undertakes is a cost in PSNI and forms part of TME. When ECGD pays claims to holders of financial assets it will often take over those assets and seek to recover the value. In certain cases these assets may be written off as a distinct act of policy, such as the debt cancellation to Nigeria announced in 2005. These kinds of debt write off score as capital transfers in the national accounts, and TME, as a gift is being made to the recipient. These are routed through government as ECGD is seen to be acting as an agent of government in these cases.

D.34 The resource budget (AME) scores the subsidy that finances part of the ECGD Gross Operating Surplus total and some receipts which are financed from elsewhere in TME. AME also scores the interest receipts that ECGD receives on its assets. Only this last item needs to be adjusted for (i.e. removed) to get to TME, as these receipts do not reduce TME.

D.35 The capital budget DEL scores only the direct capital spending of ECGD. Therefore an accounting adjustment is needed to add in debts written off for policy reasons, but this is shown in the central government line.

D.36 Finally the capital budget AME scores some financial transactions. These are removed in the general accounting adjustments for financial transactions below.

D.37 So the adjustments needed are:

45. Remove ECGD interest receipts that do not form part of TME

Financial transactions

D.38 TME measures the current and capital expenditure of the public sector and excludes net lending. Departmental budgets include the net acquisition of financial assets acquired for policy purposes rather than for cash flow management. Typical transactions are purchases of shares and lending to businesses and individuals. The specific adjustments are described below:

46. Deduct loans, net of repayments of loans, to the private sector and overseas that score in DEL, departmental AME and local authority expenditure.

47. Deduct the net acquisition of private sector company securities that scores in DEL, Departmental AME and local authority expenditure.

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

49. Deduct movements in certain large pre payments and debtors that score in capital budgets.

Data adjustment

D.39 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:

50. Deduct depreciation and impairments in departmental AME. Depreciation and impairments in DEL have already been deducted in arriving at Total DEL in Table 1.1. TME uses the national accounts number for Non trading Capital Consumption – see above.

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

Balancing reconciliation

52. Add, for outturn years, the residual difference between the last published figure for TME as measured by ONS for national accounts and the number as measured by latest Treasury sources. Differences can arise for example because of differences in the timing and sources of data.

53. Add for estimated outturn and plan years the residual difference between the last published number for TME forecast by the Treasury in the Budget and the component numbers held on the Treasury's public expenditure database. Differences may arise for example where later information is recorded by departments after the Budget. TME will not be re-forecast until the Pre Budget Report.

ADJUSTMENTS AFFECTING THE SPLIT BETWEEN CURRENT AND CAPITAL EXPENDITURE

D.40 For the most part, items in the resource budget are current expenditure in the national accounts and items in the capital budget are capital expenditure. But there are some exceptions, described below. These adjustments have no impact on the sum of current and capital expenditure, and so are not shown in table 1.14. They do however affect the split of total TME into current and capital expenditure. They are therefore part of the reconciliation from departmental budgets to national accounts measures of current and capital expenditure identified in tables 1.4, 6.2 and 6.3. The main adjustments are described below:

Resource budget items treated as capital in national accounts

- All debt write-offs of central government bodies go through Resource DEL. Those that are intended to convey a benefit to the debtor – as opposed to the department being unable to recover the debt because the debtor cannot pay – are treated as capital grants in the national accounts.

- Similarly, a proportion of DFID's bilateral aid budget is deemed to be a capital grant to the rest of the world in the national accounts, as it supports debt write offs, although all bilateral aid grants are shown in resource DEL budgets.

Capital budget items treated as current in national accounts

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

D.41 In table 1.3, only those Resource Budget items listed above that score in Near cash in Resource Budgets are included in the line that removes items classified as capital. That is the DfID grants.

E

Expenditure on Services

E.1 The tables in Chapters 4, 5, 6, and 7 which show public expenditure disaggregated by function and by economic category, and the tables in Chapter 9, and 10 which show public expenditure by country and by region, all focus on Total Expenditure on Services (TES), or a sectoral element of it. TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure (TME). The definition of TES in PESA 2007 is almost identical to that presented in PESA 2006.

What's New

E.2 The definition of TES has been changed to remove the income from the rent of land (not including buildings) from TES in order to improve the alignment with TME. The effect of this change is negligible and increases TES by less than £1m a year.

E.3 Functional analyses of TES are now published on a detailed COFOG basis. Chapters 4 and 5 contain further detail on what this change is.

E.4 There have been a number of COFOG (Classification of the Functions of Government) changes since PESA 2006. The most significant ones are described further below.

EU transactions in TES

E.5 EU transactions score in aggregate in TES in the same way as in TME. However, TES scores EU funded payments within functional expenditure as UK government spending, for instance on agriculture, that the national accounts score as direct payments from the EU to enterprises and households. The reason for including EU financed spending in the functional analysis is that the UK is a net contributor to the EU. Therefore the EU transactions line in TES includes EC receipts, thus bringing the total into line with TME. Similarly, TES scores attributed EU expenditure on aid and the Common Foreign and Security Policy under international services and deducts an appropriate amount under EU transactions. Numbers are given in table C1.

TES defined by reference to TME

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

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

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

\+ grant-equivalent element of student loans

\+ local authorities current expenditure

– local authorities debt interest paid to central government

\+ public corporations debt interest to private sector and rest of the world

\+ central government gross capital expenditure (net of asset sales)

\+ local authorities gross capital expenditure (net of asset sales)

\+ public corporations gross capital expenditure (net of asset sales)

TES defined by reference to budgeting aggregates

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

Departmental Expenditure Limits

spending in DEL

– non cash items in DEL

– the element of purchases of healthcare from NHS trusts (England and Wales) that represents the funding of trust debt remuneration

– the element of purchases of healthcare from NHS trusts (England) that represents the funding of trust depreciation

\+ reverse the deduction in budgets of certain receipts that are revenue in the national accounts, including interest and dividend receipts from public corporations

\+ reverse the deduction in budgets of income from the European Community

– financial transactions

– profit/loss of public corporations and NHS trusts recorded in DEL

Departmental Annually Managed Expenditure

\+ spending in departmental AME

– non-cash items (both those in individual rows and in the row for non cash items)

– net public service pensions on the AME basis

\+ net public service pensions on the TME basis

– financial transactions

\+ reverse the deduction of interest and dividend receipts from public corporations

Other Annually Managed Expenditure

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

+ locally financed expenditure

– local authority debt interest paid to central government

– capital grants paid by local authorities to public corporations

+ central government gross debt interest

+ public corporations' own financed capital expenditure

+ public corporations' debt interest to the private sector and rest of world

E.9 **Table E1** shows the derivation of TES from departmental groups' budgets.

Change in COFOG classification

E.10 There have been a number of functional classification changes since PESA 2006. These reclassifications ensure that data are consistent with the UN Classification of the Functions of Government (COFOG). The largest of these are:

- a re-classification of the Council for the Central Laboratory of the Research Councils, from enterprise and economic development to general public services £0.1bn in 2004-05 and 2005-06);
- the reclassification of local authority expenditure from social protection spending to general public services spending of about £0.3bn over years 2001-02 to 2005-06;
- a reclassification of tribunal services, from employment policies to public order and safety of up to £0.3bn a year as far as 2005-06.
- the reclassification of local authority expenditure from housing and community amenities spending to enterprise and economic affairs spending of between £0.4bn and £0.8bn over years 2001-02 to 2005-06;
- the reclassification of local authority expenditure from agriculture, fisheries, and forestry spending to enterprise and economic affairs spending of about £0.lbn over years 2001-02 to 2005-06;
- the reclassification of local authority expenditure from housing and communities amenities spending to environment protection spending of about £0.1bn over years 2001-02 to 2005-06;
- the reclassification of English and Welsh local authority expenditure on derelict land reclamation, from general public services to environment protection. The impact of this reclassification is around £0.1bn a year since 2001-02;

- the reclassification of a number of areas of regeneration spending from enterprise and economic development to housing and community amenities of between £0.2bn to £0.5bn a year between the years 2001-02 to 2005-06;
- the reclassification of local authority expenditure from transport spending to housing and community amenities spending of about £0.4bn over years 2001-02 to 2005-06;
- the reclassification of local authority expenditure from environment protection spending to housing and community amenities spending of about £0.2bn over years 2001-02 to 2005-06;
- the reclassification of local authority expenditure from public order and safety spending to housing and communities amenities spending of between £0.1bn and £0.2bn over years 2001-02 to 2005-06;
- the reclassification of local authority expenditure from social protection spending to housing and community amenities spending of about £0.2bn over most years;
- a re-classification of between £0.7bn and £1.lbn of National Lottery expenditure to health, education, environment protection and social protection from recreation and culture:
  (a) of £0.lbn to education;
  (b) of £0.4bn in 2001-02 falling to £0.2bn in 2005-06 to social protection;
  (c) of approximately £0.lbn to health;
  (d) of approximately £0.1bn to environment protection;
- a reclassification of some adult education spending, from education to training of between £0.1bn to £0.2bn a year in the years 2001-02 onwards;
- the reclassification of Connexions spending, from education to social protection of around £0.5bn a year in the years 2001-02 onwards;
- the reclassification of English local authority expenditure on retirement benefits from general public services to social protection. The impact of this reclassification is around £0.4bn a year since 2001-02;
- the reclassification of Department of Education and Skills expenditure from social protection to education. The impact being a change of £0.1bn and £0.4bn for 2004-5 and 2007-08 respectively;
- the reclassification of £0.1bn of Department of Constitutional Affairs' expenditure for 2004-05 and 2005-06, from public order and safety to general public services.

Table E.1 Derivation of Total Expenditure on Services from departmental groups' budgets, 2005–06

All data in this table are National Statistics £ million

	Education and Skills	Health	Transport	CLG Communities and Local Government	Home Office	Constitutional Affairs	Law Officers' departments	Defence	Foreign and Commonwealth Office	International Development	Trade and Industry	Environment, Food and Rural Affairs	Culture, Media and Sport	Work and Pensions	Scotland	Wales	Northern Ireland Executive	Northern Ireland Office	Chancellor's departments	Cabinet Office	Public corporations accountable to local government	Total for all departmental groups
Departmental budgets																						
Resource DEL	25,467	76,372	6,076	49,751	12,703	3,631	689	33,388	1,874	4,114	5,237	2,817	1,423	7,732	20,662	10,986	6,722	1,183	4,947	2,234	—	278,008
Capital DEL	5,706	2,245	4,999	5,847	1,034	128	−23	6,410	132	397	1,198	836	145	354	2,390	1,208	847	55	393	243	—	34,547
Resource departmental AME	7,836	9,409	3,076	847	5	81	—	5,325	−22	140	231	126	3,378	115,327	2,211	292	6,439	212	23,268	5,726	—	183,905
Capital departmental AME	2,067	649	—	—	—	—	—	—	—	—	−958	0	1,082	17	150	121	247	—	235	—	—	3,610
Remove	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Grants to local authorities[1]	−10,989	−2,263	−4,142	−51,498	−6,073	0	—	—	—	—	−934	−195	−184	−17,929	−7,497	−4,570	−64	—	—	−1	—	106,340
Capital grants to public corporations	—	—	−1	−19	—	—	—	—	−39	—	—	—	—	−3	−42	—	−236	—	—	—	—	−340
Non-cash items in resource DEL	−979	−2,052	−264	−21	−518	229	−9	−11,053	−171	−66	−370	−468	−153	−258	−687	−324	−202	−200	−271	−442	—	−18,280
Non-cash items in resource departmental AME[1]	−6,935	−12,037	−3,041	−70	24	−86	—	−2,689	22	−36	1,135	−56	−35	−262	−2,384	−365	−2,629	−72	137	−5,683	—	−35,061
Financial transactions	−2,065	−357	−29	0	—	—	—	76	—	−367	1,141	4	—	−17	−317	−122	104	—	2	0	—	−1,948
Interest and dividends	352	2	−11	31	−10	—	—	27	—	2	123	3	144	0	89	—	−12	—	34	—	—	774
Items classified as revenue in National Accounts	—	—	256	34	377	2	0	—	—	1	145	61	—	93	0	—	9	—	—	0	—	980
Profit/loss of PCs and NHS Trusts	—	473	−316	—	—	—	—	—	—	—	—	−1	—	—	−13	—	61	—	—	—	—	203
Payments to NHS Trusts in respect of depreciation	—	−1,539	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	−1,539
EC receipts[2]	0	31	33	71	5	—	—	—	—	—	172	2,400	11	632	568	457	395	—	1	—	—	4,776
Other items not in TME	—	—	0	—	—	—	0	379	—	−5	−5	—	—	—	—	0	0	—	—	—	—	369
Add																						
Local authority current expenditure	34,458	17,243	4,802	8,993	11,419	4	—	—	—	—	316	4,441	2,229	14,841	9,714	4,460	429	—	—	49	—	113,397
Local authority capital expenditure	3,275	300	2,893	1,693	542	—	—	—	—	—	4	433	696	0	1,103	707	57	—	—	—	—	11,704
Northern Ireland locally financed expenditure	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	457	—	—	—	—	457
Public corporations capital expenditure	—	—	26	2,361	9	43	—	109	47	—	207	—	−33	3	655	65	104	—	50	—	1,009	3,646
Public sector debt interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	26,588	—	—	26,588
EU transactions[3]	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	−598	—	—	−598
NHS Trust Debt remuneration	—	−1,075	—	—	—	—	—	—	—	—	—	—	—	—	—	−78	—	—	—	—	—	−1,153
Grant equivalent element of student loans	574	—	—	—	—	—	—	—	—	—	—	—	—	—	62	32	—	—	—	—	—	669
Loans written off by mutual consent	—	—	—	—	—	—	—	—	—	3	—	—	—	1	—	—	—	—	—	—	—	3
Total Expenditure on Services	**58,767**	**87,401**	**14,357**	**18,023**	**19,517**	**4,032**	**657**	**31,971**	**1,844**	**4,182**	**7,640**	**10,401**	**8,702**	**120,531**	**26,666**	**12,869**	**12,725**	**1,180**	**54,787**	**2,127**	**1,009**	**499,387**

(1) *Grants to local authorities are consistent with definitions used in table 7.1.*

(2) *EC receipts are on an accruals basis and in departments budgets. These exclude those that are removed as part of the grants to local authority line. Chapter 7 text contains details.*

(3) *EU transactions as defined in footnote to table 6.5. EC receipts within this line are on a cash basis.*

F POPULATION NUMBERS AND GDP DEFLATORS

What's New

F.1 This is a new appendix for PESA 2007 that presents the population numbers and GDP deflators used in the PESA 2007 publication.

Population numbers by country and region

F.2 The population numbers used in chapter 9 of PESA 2007 are as follows (source: mid-2001 to mid-2005 estimates were supplied by the ONS[1]). Population projections for mid-2006 and mid-2007 for Scotland, Wales and Northern Ireland are 2004 based and are from the Government Actuary's Department[2]. Population projections for the English regions were obtained directly from the ONS.

Table F1 Population by country and region

Thousands

	mid-2001	mid-2002	mid-2003	mid-2004	mid-2005	mid-2006	mid-2007
North East	2,540	2,538	2,539	2,545	2,558	2,554	2,557
North West	6,773	6,783	6,805	6,827	6,846	6,871	6,890
Yorkshire and Humberside	4,977	4,993	5,009	5,039	5,064	5,104	5,133
East Midlands	4,190	4,223	4,252	4,280	4,306	4,335	4,361
West Midlands	5,281	5,304	5,320	5,334	5,365	5,373	5,390
Eastern	5,400	5,422	5,463	5,491	5,542	5,568	5,602
London	7,322	7,371	7,388	7,429	7,518	7,591	7,653
South East	8,023	8,044	8,080	8,110	8,164	8,205	8,245
South West	4,943	4,968	4,999	5,038	5,068	5,113	5,146
England	49,450	49,647	49,856	50,093	50,432	50,714	50,976
Scotland	5,064	5,055	5,057	5,078	5,095	5,108	5,114
Wales	2,910	2,923	2,938	2,952	2,959	2,977	2,990
Northern Ireland	1,689	1,697	1,703	1,710	1,724	1,733	1,741
United Kingdom	**59,113**	**59,322**	**59,554**	**59,834**	**60,209**	**60,533**	**60,821**

F.3 These mid year numbers are then directly applied to the relevant financial year (eg mid 2002 to financial data for 2002-03).

GDP deflators

F.4 A number of the tables in this publication give figures in real terms. Real terms figures are the current price outturns or plans adjusted to a constant price level by excluding the effect of general inflation as measured by the GDP deflator at market prices. The real terms figures in this publication are given in 2005-06 prices. The GDP deflators used in this publication are those below. The most up to date deflators can be found on the Treasury website[3].

1 http://www.statistics.gov.uk/statbase

2 http://www.gad.gov.uk/Population/index.asp

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

Table F2 GDP Deflators and Money GDP[1]

Outturn data are based on the 28 March 2007 national accounts figures from ONS
Forecast data are consistent with the Budget report 2007

GDP Deflator Table / Money GDP Table

Financial Year	GDP deflator at market prices 2005–06 =100	GDP deflator at market prices percentage change on previous year	Money GDP Financial Year	Money GDP Cash £ million
1967-68	8.025	2.87	1967-68	40,880
1968-69	8.407	4.76	1968-69	44,376
1969-70	8.861	5.41	1969-70	47,601
1970-71	9.596	8.30	1970-71	52,893
1971-72	10.459	8.99	1971-72	59,123
1972-73	11.343	8.46	1972-73	67,135
1973-74	12.136	6.99	1973-74	74,743
1974-75	14.516	19.61	1974-75	89,204
1975-76	18.214	25.47	1975-76	111,207
1976-77	20.671	13.49	1976-77	129,803
1977-78	23.493	13.65	1977-78	151,017
1978-79	26.090	11.06	1978-79	172,739
1979-80	30.486	16.85	1979-80	207,696
1980-81	36.037	18.21	1980-81	236,623
1981-82	39.478	9.55	1981-82	259,637
1982-83	42.271	7.08	1982-83	283,574
1983-84	44.235	4.65	1983-84	308,550
1984-85	46.558	5.25	1984-85	331,094
1985-86	49.103	5.47	1985-86	363,161
1986-87	50.693	3.24	1986-87	388,639
1987-88	53.538	5.61	1987-88	431,873
1988-89	57.271	6.97	1988-89	480,574
1989-90	61.366	7.15	1989-90	525,906
1990-91	66.184	7.85	1990-91	564,627
1991-92	70.229	6.11	1991-92	596,058
1992-93	72.491	3.22	1992-93	616,689
1993-94	74.381	2.61	1993-94	653,474
1994-95	75.505	1.51	1994-95	690,449
1995-96	77.802	3.04	1995-96	730,891
1996-97	80.421	3.37	1996-97	774,745
1997-98	82.759	2.91	1997-98	824,212
1998-99	84.863	2.54	1998-99	871,243
1999-00	86.579	2.02	1999-00	921,881
2000-01	87.796	1.41	2000-01	965,494
2001-02	89.880	2.37	2001-02	1,006,906
2002-03	92.661	3.09	2002-03	1,064,183
2003-04	95.416	2.97	2003-04	1,128,191
2004-05	98.047	2.76	2004-05	1,187,500
2005-06	100.000	1.99	2005-06	1,241,106
2006-07[2]	102.478	2.48	2006-07[3]	1,306,000
2007-08[2]	105.242	2.70	2007-08[3]	1,378,000
2008-09[2]	108.083	2.70	2008-09[3]	1,450,000
2009-10[2]	111.001	2.70	2009-10[3]	1,525,000
2010-11[2]	113.998	2.70	2010-11[3]	1,604,000

GDP Deflator: For years 1964-65 to 2005-06: calculated from ONS data for seasonally adjusted current and constant price GDP (YBHA and ABMI).
For years 2006-07 to 2010-11: derived from HM Treasury forecasts for GDP deflator increases at the Budget Report 2007.

Cash GDP: For years 1964-65 to 2005-06: ONS data for money GDP (not seasonally adjusted, BKTL).
For years 2006-07 to 2010-11: HM Treasury forecasts for money GDP at Budget Report 2007.

[1] For further information and the 'User Guide' to these series, please visit the following page on http://www.hm-treasury.gov.uk/Economic_Data_and_Tools/GDP_Deflators/data_gdp_index.cfm

[2] For years 2006-07 to 2010-11, GDP deflator forecasts derived from unrounded forecast increases in GDP deflator, consistent with Budget Report 2007

[3] For years 2006-07 to 2010-11, money GDP forecasts as shown in the Budget Report 2007 rounded to nearest £ billion. These are the lower end of HM Treasury's forecast range.

G Glossary of Terms

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

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

Accruals. Apart from some of the older data in the historical tables in Chapter 4 all the data in PESA are at least partly derived from material provided for accruals accounts or for plans that are consistent with accruals accounting. Accruals based data will reflect the timing of expenditure on an accruals basis. Whether other accruals accounting concepts are contained depends on the aggregate. Total Expenditure on Services (see Appendix E) does not include certain items common in accruals based financial accounts, such as movements in provisions or cost of capital charging. **Total Managed Expenditure** includes depreciation. The budgeting aggregates **DEL** and **Departmental AME** include **depreciation, cost of capital charge, provisions** &c.

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

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

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

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

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

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

Assets can be either financial or non-financial:

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

Billion – a thousand million

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

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

A department's **Capital Budget** covers **capital expenditure**. The capital budget is divided into **DEL** and **Departmental AME**. The Capital Budget is not a control total: Capital DEL is a control total and Capital AME is a planning total. The capital budget includes

- capital formation and the acquisition of assets such as land, buildings, machinery and vehicles. In capital budgets and **national accounts** acquisition of assets is recorded net of the sale value of any assets disposed of (where sale value is the product of the net book value and any profit or loss on disposal that is recorded in the accounts of the body concerned).
- **Single use military equipment** that is treated as capital in **resource** accounts is included as capital in budgets, and is treated as current expenditure in national accounts;
- **net lending** undertaken for policy purposes; *net* means net of repayment of debt principal;
- large (over £20m) **debtors or prepayments**, which are long term (that is over 12 months) are included in capital budgets on the same basis as **net lending**, i.e. on an additions less reductions basis.
- **capital grants**.

Capital expenditure can be understood in several ways.

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

- In-house development of assets such as computer software and databases can be capitalised in government accounts provided certain conditions are met. It is sometimes called "own account capital formation".

- **Net investment** is public sector **capital expenditure**, as defined above, net of **depreciation**.

- Under **resource accounting**, and in various presentations of local authority finances, capital expenditure also includes loans that are given and the net acquisition of shares. In other words it includes the net acquisition of financial assets that are acquired for policy reasons rather than for managing the government's funds. Such policy lending also generally scores in **DEL**, in the capital budget, but is removed by the **accounting adjustments**, as it does not score in **TME**.

- Some presentations of the capital expenditure of central government, and capital DELs include **credit approvals** (up to 2003-04) and provision for **Supported Capital Expenditure** (Revenue) allocations (from 2004-05) given to local authorities.

Capital grants (also called investment grants) are payments given by government on the condition that the recipient uses the funds for **capital formation** (for example: building a school or factory or buying a machine). Capital grants are also used in **national accounts** to record debt write-offs made by government for policy reasons, and some other transfers of accumulated wealth. In the case of debt write-offs 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 resource expenditure in resource accounts and **Estimates**. Capital grants are included in the **capital budget** however.

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 non-market public bodies that are controlled by central government. Central Government does not include **public corporations**, nor does it include some non-profit institutions that receive significant government funding- where they are not controlled by government, and so belong in the private sector, for example universities, further education colleges, and housing associations.

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

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

Classification of the Functions of Government (COFOG) – a UN based code for functional analysis of government spending. From PESA 2007 the PESA analysis is consistent with UN COFOG at level 2 (with the exception of the health function which continues to be presented on the basis of previous PESA presentations). The Treasury has published a document detailing the changes in full on its website[1]. Further information on COFOG is available on the UN's website[2].

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

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

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

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

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

Cost of capital charge is an annual non-cash charge applied to each department's budget. It is used to make departments aware of the full cost of holding assets. The rate reflects the opportunity cost of tying up the cash in an asset and is 3.5 per cent of the net assets of the department. Changes in the rate are effected as **classification changes**.

Credit approvals used to be given by central government to local authorities and represented the amounts that each local authority was allowed to borrow to finance capital expenditure. There were two types: Basic Credit Approvals (BCAs) – for any sort of capital expenditure), and Supplementary Credit Approvals (SCAs) – for particular projects or services. Supported credit approvals were those where current grants to local authorities were increased to finance the borrowing. Unsupported credit approvals carried no promise of future government support and scored in AME. Credit approvals ceased to exist from 1 April 2004 and have been replaced by **Supported Capital Expenditure (Revenue)**.

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

Debtors are assets on the balance sheet. They are recognised where a transactions has accrued, but cash is yet to be received. For example where a public sector body sells an asset but defers cash receipts. The fact that cash is yet to be received means that **PSND**, the measure of the **Sustainable Investment Rule**, has not benefited from the accrued transaction. Where a department or its NDPB has a large debtor (over £20m), which is long term (over 12 months), this is included in their capital budget on the same basis as net lending.

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

[1] http://www.hm-treasury.gov.uk/economic_data_and_tools/finance_spending_statistics/pes_function/function.cfm

[2] http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4

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

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

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

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

Dedicated Schools Grants (DSG) is a hypothecated current grant from central government to local authorities, allocated to schools on a formula basis. This was introduced from 2006-07.

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 F**inancial Statement and Budget Report (FSBR)** in a single Budget document published on Budget day (sometimes called the Red Book).

Economic Categories. These represent classifications in **national accounts** Examples of economic categories are: pay, social benefits and other grants paid to the private sector, and **subsidies**. The main categories in TES are set out in Table 5.3.

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 g**eneral government** gross debt below 60 per cent of **GDP**.

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

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

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

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

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

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

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

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

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

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

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

The **Housing Revenue Account (HRA)** represents the current income and expenditure of local authority social housing provision. The HRA is treated as a quasi-corporation in national accounts. The surplus of income (which includes 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 associated with the HRA scores as capital spending in the **public corporation** sector, following the implementation of **ONS**'s reclassification decision in June 2006. In previous years PESA has shown this in the LA sector. Payments of interest on housing related debt will continue to be treated as part of local authority expenditure.

Identifiable expenditure is expenditure that can be recognised as having been incurred for the benefit of individuals, enterprises or communities within particular regions. Examples are most health, education and transport services, and spending on social security and on pensions.

Impairments are recorded where there is the permanent loss or write-off of the recoverable value of a fixed or current asset below the value recorded on the balance sheet in accounts. Impairments are a non-cash charge in the **Resource Budget** alongside the depreciation charge, but are separately identified. In order to provide support for departments' management decisions, impairments are split into six different categories, some of which are scored in **AME** and other in **DEL**, see appendix C for further details. In the PESA budgeting based presentations (eg the calculation of **Total DEL**), impairments are included in the **depreciation** line. In the **national accounts** impairments resulting from accidental damage are included with depreciation/**capital consumption**; other sorts of impairment are not counted in the main expenditure measures.

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

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

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

Main Estimates – see **Supply Expenditure**

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

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

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

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

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

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

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

Net lending has two meanings.

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

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

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

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

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

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

Non-identifiable expenditure is expenditure that cannot be identified to particular regions, for example because it is deemed to be incurred on behalf of the United Kingdom as a whole, e.g. defence expenditure, overseas representation, and tax collection.

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

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

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

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

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

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

Prepayments are assets on the balance sheet. They are recognised where cash payments made to suppliers of services in advance of those services being delivered. In resource accounts these are cash movements on the balance sheet and do not score as expenditure in TME. The reduction in cash held by the public sector increases **PSND**, the measure of the **Sustainable Investment Rule**. Where a department or its NDPB makes a large (over £20m) prepayment that is long term (over 12 months) this is included in the capital budget on the same basis as net lending. When the service is delivered this is scored as appropriate, e.g. as the consumption of goods and services in **near cash resource DEL** within **TME**.

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

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

Procurement within **public sector current expenditure** is current expenditure on goods and services. It includes for example purchases of stationery and of minor pieces of equipment and IT systems that are not treated as **capital**. Purchase of minor maintenance that is not treated as capital would be counted as procurement. Services include purchases of contracted out cleaning. Purchases of services under off balance sheet **PFI** contracts are included in procurement; the element of payments under on balance sheet PFI contracts that covers purchases of services, where separately identifiable, is also treated as procurement. Purchases of services from charities (as opposed to unrequited grants to them) or other not for profit organisations are included under procurement. Procurement expenditure is normally shown net of income from sales of goods and services (but see Chapter 2). Expenditure on **Single Use Military Equipment** (SUME) is treated as current procurement – see entry for SUME.

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

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

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

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

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

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

Public sector current expenditure:

- is the sum of the **current expenditure of general government** and certain distributive transactions (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 where undertaken by public corporations – rather the surplus of sale receipts over operating costs for public corporations is scored as a public sector receipt and does not affect the expenditure measure;
- is net of certain receipts such as: grants within the public sector; interest flows within the public sector; receipts of contributions to public sector occupational pension schemes; receipts of grants from abroad including the EC abatement;
- includes **non-trading capital consumption**. This is the **depreciation** of the fixed assets of public bodies within **general government**. 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 all public sector **capital expenditure** less an amount representing all public sector **depreciation**. Broadly, the amount of capital expenditure that equals the **depreciation** charge could be seen as keeping the stock of assets stable. Net investment therefore represents the increase in the asset base after allowing for **depreciation**.

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

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

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

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

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

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

- there is a clear and direct link between the payment of the fee and the supply of goods or services to the payer of the fee (for this purpose, the supply of a service can include testing an ability, eligibility or quality); and
- the size of the payment is related to the cost of supplying the goods and services, such that the government is not exploiting a monopoly function to raise revenue. If the receipts do exceed the cost significantly the payments are treated as taxes. In some cases the payment is split between a sale and a tax.

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

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

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

Resource accounting is the accounting system used to record expenditure in departmental accounts. It applies **generally accepted accounting practice** (GAAP) to departmental transactions.

Resource budget is the budget for current expenditure on an accruals basis (including both near and non-cash items). It is divided into resource **DEL** (which is a control total) and resource **departmental AME** (a planning total).

Resource budgeting is the budgeting regime based on **resource accounting** introduced for the spending plans set in the 2000 Spending Review and which has been used for in-year spending control from 2001-02. Under RAB Stage I (2001-02 to 2002-03) resource **DEL** included **near-cash** transactions measured on an accruals basis while non-cash transactions were in Departmental **AME**. Under RAB Stage II (from 2003-04) most non-cash transactions were included in resource DEL. **Near-cash** controls were introduced in 2003-04 and clarified in 2005-06 such that near-cash in Resource DEL is a control total. Other developments include the move of **capital grants** into **capital budgets** from 2006-07 and the reclassification of profit/loss on disposal into capital budgets and of some **impairments** into AME both from 2007-08. Resource budgeting is largely derived from resource accounting rules, but there are a number of differences in treatment between resource accounts and resource budgets. For example, capital grants are capital in budgets (and in the **national accounts**), but current in departmental resource accounts. See appendix C.

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

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

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

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

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

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

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

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

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

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

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

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

Total DEL. See **DEL**.

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

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

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

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

- **Quasi-corporations** are entities that meet the economic definition of a public corporation (that is, trading income covers at least half their costs) but that do not take a separate legal form. Examples are Export Credits Guarantee Department and local authority housing. They score in the national accounts like public corporations (although interest on housing related debt is treated as local authority expenditure).

- There may also be some trading activities which are closely integrated within **general government** and do not have enough independence to be classified as a public corporation or quasi-corporation. Their **capital expenditure** is included in public expenditure measures, but their current expenditure and current receipts are including as a revenue item called gross trading surplus. There are examples in the **local government** sector: some theatres and sports facilities.

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

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

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

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

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