

CHAPTER 1 – OVERVIEW – INTRODUCTION TO BUDGETING

Purpose of Public Expenditure Control

22. The budgeting system has two main objectives:
 - # To support the achievement of macro-economic stability by ensuring that public expenditure is controlled in support of the Government's fiscal framework; and
 - # To provide good incentives for departments to manage spending well so as to provide high quality public services that offer value for money to the tax-payer.
23. In addition, we try to keep down the compliance costs of the budgeting system and of the overall public spending control framework.

Fiscal Framework

24. The government has two fiscal rules:
 - # the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
 - # the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.
25. So the fiscal rules inform the balance between current and capital public expenditure and the amounts that the Government has to raise by taxes and other revenues and by borrowing.
26. Achievement of the fiscal framework is measured using the National Accounts. These are prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA 95). ESA95 in turn is consistent with the System of National Accounts (SNA93), which was prepared under the auspices of the United Nations and is in use across the globe. The Office for National Statistics (ONS), acting as an independent agency, is responsible for the national accounts.
27. Key fiscal aggregates, measured at the level of the public sector, are:
 - # The **Surplus on the Current Budget** is used to measure achievement of the Golden Rule. It aims to measure current revenues and expenditure on an accruals basis. It includes a measure of depreciation and does not include provisions.
 - # **Public Sector Net Debt** (PSND) is a measure of the stock of debt that includes the government's financial liabilities (such as gilts and National Savings) less liquid assets. Finance leases and on-balance sheet PFI will be included in PSND once better quality data are available. Lending under financial transactions made for policy reasons, such as lending to students, increases PSND; placing surplus money on deposit creates a liquid asset which offsets gross debt.

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Comparison with Departmental Resource Accounts

28. Departmental resource accounts (DRAs) are based on UK Generally Accepted Accounting Practice (UK GAAP). Many transactions are treated in the same way in DRAs and national accounts: pay is a current expense in any system of accounts. But there are a number of differences between the two systems of accounts, for example:
- # Capital grants are treated as part of capital expenditure in national accounts, but are resources (i.e. current operating expenditure) in DRAs;
 - # Provisions score in DRAs when they are created and charged to the Operating Cost Statement; subsequent transactions are dealt with on the balance sheet. National accounts score expenditure that takes place when the costs against which the provision had been created crystallise;
 - # While national accounts include depreciation, the ONS uses its own model for calculating depreciation, which gives a different measure from that in DRAs. ONS are expected to use the DRA measure presently in the national accounts. When they do so, it is likely that some but not all impairments and revaluations that pass through the DRA operating cost statement will affect the national accounts measure of the golden rule;
 - # DRAs do not differentiate between income from taxes, rents, transfers and sales of services; national accounts do. That may lead to differences in the budgeting treatment of different sorts of income and in the timing of recording of income;
 - # GAAP accounts include balance sheet asset categories of pre-payments, debtors and creditors. The national accounts balance sheet also includes trade creditors/ debtors. However, the fiscal framework measure of Net Debt is almost a pure cash measure. So we need to keep an eye on cash. Normally, the accruals measures offer adequate control of cash. However, the budgeting rules may bring large movements in working capital and some other flows into the control regime even if they would normally be excluded from accruals-based controls
 - # National accounts cover sectors of the economy, while DRAs follow the departmental boundary, as defined in the FREM. It follows that certain transactions appear differently, or not at all, in the national accounts or DRAs. For example, the national accounts ignore transactions between NDPBs and departments, because both are in the central government sector and offset each other, while DRAs show transactions with NDPBs as external transactions and include them in their Operating Cost Statements and Balance Sheets.
29. These differences in accounting treatment explain some of the cases where DRAs and budgets treat transactions differently, since budgets are trying to achieve objectives expressed in terms of the national accounts rather than GAAP accounts.

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30. Annex A lists the main differences between budgets and DRAs.

Management Incentives

31. The budgeting system tries to ensure that departments have good incentives to manage their business well, to prioritise across programmes, and to obtain value for money.
32. So, for example departments are given three-year budgets with end-year-flexibility to allow sensible planning. Departments face a charge for the cost of capital. Provisions score in budgets close to the time that decisions are taken. And there are rules allowing departments to offset certain income against budgets when that helps good management.

Compliance Costs

33. We try to keep down compliance costs by basing the budgeting rules on the DRAs that departments draw up for parliamentary and public reporting purposes.
34. However, where it is desirable either because of the need to support the fiscal framework or because controlling spending against information in DRAs would not provide the right incentives for departments, the budgeting rules have a different treatment from DRAs.

Rôle of HM Treasury

35. The Treasury is responsible for the design of the budgeting system. We will always be happy to explain the budgeting rules. It is only the Treasury who may finally determine the budgeting treatment of a transaction.
36. The guidance does not cover every case. Sometimes we have deliberately kept the guidance simple for departments because certain transactions are rare or typically small. But there might be cases where if a large instance of such a transaction were to take place it would impact on achievement of the fiscal framework. So we will sometimes impose restrictions even if the guidance does not provide for them. If departments face new circumstances which might lead to difficulties for the fiscal framework they should contact their Treasury spending team before they undertake the transaction.
37. Sometimes departments' or public bodies' consultants offer them suggestions for ways round the spending control framework. We have no interest in such schemes. Departments are asked to go with the spirit of the spending control framework. If a transaction is clearly just a way round the letter of the rules, then departments should follow the spirit of the rules. If you are in doubt, talk to your spending team .
38. Treasury Ministers have the right to modify the budgeting guidance at any time, although in practice we try to keep changes to a minimum and we generally consult departments before making significant changes.

Budgeting Policies

Resource and Capital Budgets; Near-Cash in Resource DEL and Administration Budgets

39. Departments have separate budgets for
- # **Resources** – current expenditure such as pay and including the current costs resulting from the ownership of assets, such as depreciation and a cost of capital charge. Within the Resource Budget DEL there are separate budgets set in Spending Reviews for:
 - ~ **Near-Cash within Resource DEL** – expenditure that impacts directly on the Golden Rule, for example pay and current procurement; and
 - ~ **Administration Budgets** - expenditure on running central government departments but excluding their frontline activities.
- Note that while these two budgets overlap, they are separate control totals; they are not cumulative. So departments need to stick within their Administration Budget and within their near-cash within Resource DEL budget. However, they do not have a specific limit for the near-cash element of the Administration Budget.
- # **Capital** – for new investment and net policy lending.
40. Appendix 1 to this chapter summarises the contents of budgets. Appendix 2 sets out the control totals diagrammatically. Appendix 3 presents diagrammatically the link between the budgeting aggregates and the fiscal framework.
41. **Cash** is not controlled directly through the budgeting system. However, the Net Cash Requirement for Supply Expenditure is controlled through the Supply Estimates processes. Changes in the expected level of use of cash provide useful monitoring information. Departments should discuss the reasons for planned increases in the level of cash spending with their Treasury Spending Teams.

Purpose of Budgetary Control Totals

42. These controls support the achievement of the fiscal framework and provide management incentives for departments.
43. **Near-Cash within Resource Budget DEL** is a control aggregate close to the measure of current spending that impacts on the current balance used to assess the Golden Rule. It excludes non-cash items such as depreciation (although depreciation impacts on the current balance, it is measured on a different basis), cost of capital charges (not in the current balance) and movements in provisions (not in the current balance, but expenditure that in GAAP terms is financed by release of provisions is in the current balance and is in near-cash). In order to support achievement of the Golden Rule departments have to go through certain

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procedures if they wish to make significant increases in near-cash by transfers from non-cash within Resource Budgets.

44. **Resource Budget** includes both near-cash and non-cash current spending. Departments are expected to manage non-cash costs like other costs, because for example changes in depreciation and provisions convey useful information to managers. So if necessary departments have to make offsetting savings in any part of their resource budget if non-cash items rise. Similarly, where material savings on non-cash reflect management action, the Treasury will consider allowing switches of provision to near-cash in order to maintain incentives to manage non-cash costs (see passage on switches below).
45. **Administration Budgets** are controlled to ensure that as much money as practicable is available for front line services and programmes. Provision in the Resource Budget that is not in Administration Budgets is termed programme spending.
46. **Capital budget** spending is controlled because net investment increases Net Borrowing and hence the level of debt. We need to ensure that Net Debt remains at or below sustainable levels.
47. Within each of these control totals, departments are expected to pursue efficiencies and prioritise expenditure in order to optimise the value for money of spending.

Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME)

48. Departmental Resource and Capital Budgets are divided into:
 - # **DEL** – firm three year plans are set in the Spending Review. So departments may not exceed the limits that they have been set.
 - # **AME** – programmes are reviewed twice a year by the Treasury with departments in the run-up to the Budget and the Pre-Budget Report. So departments need to monitor AME closely and should account in full to the Treasury for any changes in AME projections, or significant risks and challenges that may arise.

Criteria for Treatment in DEL or AME

49. All programmes are in DEL unless the Chief Secretary has determined that they should be in AME. The Chief Secretary may agree to put programmes into AME if:
 - # They are demand-led or exceptionally volatile in a way that could not be controlled by the department and where the programmes are so large that departments could not be expected to absorb the effects of volatility in their DELs; or
 - # For other reasons they are not suitable for inclusion in firm three year plans set in the spending review. For example: Lottery spending is the product of

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the hypothecated tax on the National Lottery and may not be reprioritised elsewhere. Certain levy-funded bodies which serve particular industries are in AME – see Appendix 4 to this chapter.

50. Not all departments have AME programmes.
51. The Treasury regularly reviews whether programmes in AME are still suitable for AME treatment. Where appropriate programmes are moved into DEL.
52. Normally, a programme will have both its resource and capital budget impact in either DEL or AME. But there are some exceptions:
 - # Roads spending scores in DEL, but the cost of capital charge scores in AME, due to its size and volatility
 - # The spending of the Nuclear Decommissioning Authority scores in DEL, but the movement in provisions and cost of capital credit relating to nuclear decommissioning itself scores in AME due to its scale and volatility
 - # Certain programmes of the Northern Ireland Executive
 - # Resource Budget transactions in respect of student loans are in DEL, but the debt principal transactions are outside budgets.

Management of DEL Programmes

53. Both DEL and AME programmes need to be managed to maximise effectiveness, efficiency and economy in the use of public funds. For programmes in DEL that is well understood. Because DEL programmes compete for resources within a fixed envelope departments are under a clear pressure to review programmes, re-prioritise and pursue efficiency measures.
54. Where appropriate in the management of DEL programmes:
 - # the impact of DEL spending on AME spending needs to be considered. For example, DEL usually includes the cost of administering AME programmes and the quality of administration can have a significant impact on AME expenditure. And some DEL and AME programmes are complementary;
 - # If a proposed DEL spending changes has extra costs for AME spending, then the proposal needs to be cleared with the Treasury before being implemented.

Management of AME Programmes

55. AME programmes are spending like any other. They impact on the fiscal framework in the same way as DEL spending. They need taxes to be raised to finance them. So careful monitoring and management is just as important as it is with DEL. And the nature of certain AME programmes means that some aspects of management, eg forecasting, are more important than with most DEL programmes.
56. The management of AME programmes serves the same ends as the management of DEL programmes, but the system for managing AME

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programmes is different. AME programmes are often demand-led or otherwise volatile programmes when it would be unreasonable to expect departments alone to bear the risks associated with variations in demand or spending. The volatility of many AME programmes means that careful management is important.

57. Departments are reminded that with AME programmes also, just as with DEL, they need to:
- # Put in place processes to monitor spending in year, to identify longer-term trends in spending, and to provide robust projections of future spending. Early identification of changes in AME spending are needed to allow risks to be managed effectively;
 - # Review AME programmes regularly to ensure that they are helping to achieve Government objectives effectively and efficiently. Departments should discuss with the Treasury proposals for optimising AME spending programmes;
 - # Agree with HM Treasury prior to implementation any policy change which would increase AME spending;
 - # Consider carefully the impact of DEL spending on AME spending and vice versa. For example, DEL usually includes the cost of administering AME programmes and the quality of administration can have a significant impact on AME expenditure. And some DEL and AME programmes are complementary;
 - # If a proposed DEL spending change has extra costs for AME spending, then the proposal needs to be cleared with the Treasury before being implemented;
 - # Consider with the Treasury whether to take steps to support fiscal discipline and value for money if spending on AME programmes rises above expectation; and
 - # Monitor the balance of non-cash and near-cash spending in Resource AME and ensure that they take steps where appropriate to prevent undue increases in spending that affects the Surplus on the Current Budget.

Switches

Switches and Classification Changes

58. Switches are real changes in provision reflecting real world changes in spending or plans. They need to be distinguished from classification changes, which restate budgets to reflect new ways of scoring an unchanged activity.
59. Suppose a department has activity X which costs £50m and which is within administration budgets:
- # If the department cuts the costs of activity X by £10m, it has made a real reduction in spending. It then has £10m that it may reallocate to other

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spending in administration budgets or that it may switch to programme spending;

- # If the Treasury agrees that activity X should no longer be in administration budgets, then budgets are restated: the administration budget is reduced by £50m, and the programme budget increased by £50m within an unchanged Resource Budget DEL. The reclassification does not create spending headroom within the administration budget.

60. There is a passage below on Types of Adjustment to Budgets.

Restrictions on Switches

61. So that the control totals can work, departments are restricted in the switches they may make between them:

- # Departments may not switch provision from AME to DEL. Such switches would prejudice the functioning of firm three year budgets for DEL. If Departments believe there is a good case for transfer, they should discuss this with their Treasury spending team. Where the actions/inaction of a Department increase AME, they may be called upon to fund the increases in AME by reductions in their DEL budgets;
- # Departments may not switch provision from Capital Budgets to Resource Budgets. Such switches would mean that money that had been earmarked for investment was used for current spending. Such switches would also prejudice achievement of the Golden Rule. Departments may switch provision from the Resource Budget DEL to the Capital Budget DEL;
- # Departments are expected to manage their Resource Budget: DEL as an integrated whole, optimising spending across programmes (including programmes managed by NDPBs and those involving public corporations) and across economic categories of spending. In order to encourage value for money and to support achievement of the fiscal framework, there are two general restrictions on the freedom to move provision across Resource DEL:
 - ~ Departments may not switch from programme budgets to Administration Budgets unless the change is agreed by the Chief Secretary to the Treasury. Such switches would mean increasing provision for back-office or policy staff at the expense of front-line staff and programmes. Departments are free to switch provision from Administration Budgets to programme budgets; and
 - ~ Departments may switch from non-cash to near-cash within Resource Budget DEL in accordance with the procedures set out in the relevant chapter in this budgeting guidance. These procedures are designed to ensure that increases in near-cash from savings on non-cash are the result of good management, and, where necessary, to protect achievement of the Golden Rule. Departments may freely switch provision from near-cash to non-cash.

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- # Where policy ring fences have been set in the SR, switches are restricted by the rules applying to the specific ring-fences.

Policy Ring-fences

62. In addition, as part of the SR settlement, some spending might be subject to specific ring-fences. If so, departments may not move money across the ring-fence, except as specified in the SR settlement. Departments will normally need to track separately the EYF of provision subject to a policy ringfence. Ring fences are normally set at the level of RDEL or CDEL. However, closer controls (eg on Near-cash) may be set.

End Year Flexibility

63. End Year Flexibility (EYF) is a mechanism whereby departments may carry forward unspent DEL provision into later financial years. Entitlements to EYF are calculated each year and published in the Public Expenditure Outturn White Paper. The EYF chapter in this guidance sets out more details on the scheme.

Departmental Unallocated Provision

64. Departments are encouraged not to allocate their DELs fully against their programmes at the start of a financial year but to hold some provision back to deal with unforeseen pressures that emerge subsequently, including their known contingent liabilities. This Departmental Unallocated Provision (DUP) is published in Main Estimates and Supplementary Budgetary Information.

The Reserve

65. Departments are expected to manage their DEL budgets so as to stay within them. If pressures arise in one part of a DEL, departments should respond by:
- # Managing the pressures down
 - # Using their DUP
 - # Re-prioritising and making offsetting savings elsewhere in the budget
 - # Deferring spending elsewhere in the budget; and
 - # Transferring provision from Resource DEL to Capital DEL (if the pressure is in Capital DEL).
66. Exceptionally, a department may make a claim on the Reserve. As part of the sending plans announced in Spending Reviews, the Government allocates a Reserve for genuinely unforeseen contingencies that departments cannot absorb within their DELs. Separate Reserves are held for Resource and Capital DEL; both are small. Increases to departments' Resource or Capital DELs arising from Reserve claims are non-recurrent i.e. they do not affect departments' SR baselines. Increases are generally set aside when baselines are agreed for Spending Reviews.
67. Non-cash claims on the Resource DEL Reserve are treated equally seriously by the Treasury as near-cash claims which have an immediate impact on the fiscal

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framework. That is because many non-cash Reserve claims reflect future impacts on the fiscal framework that need to be managed. And both sorts of Reserve claims call into question the quality of departmental management.

68. Departments that think they might make a claim on the Reserve should contact their Treasury spending team early so that alternative courses of action can be fully discussed while there is still time to put them into effect. Department's proposals should set out:
- # The size of the pressure
 - # The cause of the pressure and why it was unforeseen
 - # The offsetting actions they have taken and plan to take to manage the pressure and to absorb it
 - # The next further actions that could be taken
 - # The residual pressure, split into capital and resource, and within resource identifying separately the near-cash and non-cash elements and the Administration Costs and programme elements
 - # The corrective action they mean to take if a Reserve claim is agreed

The Reserve and EYF

69. If a department in receipt of additional DEL funded from the Reserve subsequently underspends, its EYF entitlement to be carried forward will be reduced up to a maximum of the level of the Reserve claim. See the EYF chapter in this guidance for more information.

The Reserve and Contingent Liabilities

70. Departments are required to report contingent liabilities to Parliament. This process is separate from budgeting. The recording of contingent liabilities does not guarantee departments access to the Reserve. If a contingent liability matures, the normal budgeting procedures apply. That is, departments are expected to cover the costs by making offsetting savings as normal.

Keeping Track of the Numbers

71. Departments are expected to keep track of their authorised control totals as these change with Machinery of Government changes, other classification and transfer changes, issues from central funds such as the Invest to Save Budget, authorised transfers to near-cash, and – exceptionally – issues from the Reserve. Departments and spending teams should at all times have a common understanding of the authorised levels of:
- # Resource Budget DEL and within it:
 - ~ near-cash – after allowing for the flexibilities set out in the relevant chapter below
 - ~ Administration Budgets

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- # Capital Budget DEL
72. Departments and spending teams should also have a common understanding of the planned levels – and risks of variances to plans – of:
- # Resource Budget AME
 - # Capital Budget AME
 - # Cash in Supply
73. Departments are expected to monitor spending against plan and to share information with their Treasury spending team (via bilaterally agreed information supply) and the Treasury collectively (via COINS).

Retaining Income/ Receipts

74. Only some of the income that come to a department benefits budgets. Separate chapters in respect of Resource and Capital Budgets set out when departments may set income against DEL spending. That covers both which sorts of income count as negative RDEL/ CDEL and also when departments may obtain the benefit of income higher than the levels taken into account in the SR.

Breaches of Budgetary Limits

75. Any breach of a budgetary limit is treated seriously, and departments need to take remedial action.
76. This passage sets out the process to follow where a department's final outturn breaches the final level set for any of the following limits:
- # Resource Budget – DEL
 - # Near-cash in Resource DEL (see below for determining final limit)
 - # Administration Budget
 - # Capital Budget - DEL
77. The responsible Minister should write to the Chief Secretary as soon as practicable after the end of the year setting out:
- # The size of the breach;
 - # Why it occurred; and
 - # The remedial action that the department is proposing, including:
 - ~ An offsetting reduction in the limit for the year following the year of the breach;
 - ~ Improvements in financial management to deal with the specific cause of the breach;
 - ~ Improvements in financial management to improve overall forecasting and control of the department's control totals; and

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Information that will be provided to the Departmental Board and to the Treasury to evidence these improvements.

78. Departments should discuss with their Treasury spending teams their proposals before their Minister writes.

Determining the Final Limit for Near-Cash in Resource DEL

79. In the case of Near-Cash in Resource DEL, departments are free to increase provision within an unchanged Resource Budget DEL by an immaterial amount (see subsequent Chapter in this guidance). Larger increases are permitted by agreement with the Treasury, either by a transfer from non-cash provision within Resource DEL or where – exceptionally – a claim on the Reserve has been allowed.
80. Where departments' outturn for near-cash in RDEL is higher than the amount as provided for above, the same procedure should be followed as for breaches of Resource Budget DEL.

Departmental AME

81. Plans for Departmental AME are not control totals in the same way as DEL plans are, and spending above plan is not a breach. Unforeseen changes in spending may, however, indicate poor management by departments. The Treasury would expect to be notified as soon as departments identify a risk.
82. Where spending has been markedly higher than expected, departments should discuss with the Treasury:
 - # Why the spending was higher than expected and why this excess had not been forecast;
 - # Measures to improve forecasting; and
 - # What might be done to mitigate the risk of this higher spending continuing in future.

Policies that affect other Departments' Spending

83. One department's policies may affect the spending of another department. Sometimes the link is obvious, for example where several departments have joint responsibility for a PSA target. In other cases the link may be less clear: for example, the creation of a new offence may impose burdens on the police, prosecutors, legal aid, and offender management budgets. European Community directives may also impose costs on a range of departments.
84. There has been a long standing set of general principles governing the question of policy changes with resource implications affecting more than one department. These include:
 - # any department proposing new policies, in whatever context, must always quantify the effects on public expenditure prior to a policy decision being made. In doing so, it must assess the effects not only on its own spending

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but also on the spending of other government departments, the devolved administrations for Scotland, Wales and Northern Ireland, and local authorities;

- # decisions on how to finance a new proposal must be taken simultaneously with the policy decision. It is for the department proposing a change to consult those concerned (including HM Treasury) and agree new policy, including the finance of that policy, before a proposal goes forward for collective consideration;
- # the agreement on financing the downstream costs of new policy on another department may provide either that the costs be met by the originating department or that they be met by the department on which those costs fall;
- # in the absence of explicit agreement to the contrary, the normal presumption is that the originating department will absorb the cost;
- # where consultation has not taken place, the strong presumption is that all costs, including those affecting other departments, will be absorbed by the department responsible for the new policy;
- # where the originating department absorbs the cost it should make budget transfers to affected departments covering the whole of the SR period;
- # where the costs fall, or come fully on stream, in the next SR period, it is for the department(s) that will meet the costs to conduct the SR discussions with the Treasury on funding in the next SR period. Where that department is the originating department, it should make budget transfers after the conclusion of the SR;
- # these arrangements include cases where a department's policies impact on the AME spending of another department. The originating department may be expected to make DEL offsets to cover increases in AME spending (see passage on *Management of AME Programmes* above);
- # Treasury agreement is needed for all new policies with expenditure implications (see *Government Accounting*, chapter 2.4.4). However, the Treasury does not arbitrate between departments on the question of who should bear downstream costs and will not provide funding where no agreement has been reached.

New Burdens on Local Authorities

85. Where departments add to the burdens of local authorities they need to make funding available to local authorities by a budget transfer.
86. The policy applies to any new burden imposed on local authorities except for policies which apply the same rules to local authorities and to private sector bodies (for example a change in the rate of employers' National Insurance contributions).

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87. Departments contemplating a new burden should contact ODPM on the procedures to be followed – see Annex B for contacts.

Budget Tax Increases

88. Where the Chancellor announces tax increases that impact on departments the normal rule is that tax lies where it falls.

Types of Adjustments to Budgets

89. Adjustments to departments' overall budgetary limits fall into three categories. In summary:
- # **Policy / Plan adjustments** reflect deliberate decisions by departments to increase or decrease spending in a particular policy area, or in the way a policy is delivered (i.e. moving to a charging regime);
 - # **Classification adjustments** reflect changes in budgetary totals driven by changes in the way we account or budget for spending rather than by actual changes in the level of activity or an increase/ decrease in spending. For example the changes in budgeting policy announced in this guidance will be implemented as classification adjustments. Classification adjustments also include **Machinery of Government** changes where responsibility for spending moves from one central government body to another;
 - # **Inter departmental adjustments / Budget cover transfers** reflect changes in detailed spending plans as a result of an agreed transfer of budgetary cover from one Department to another. Examples of where a transfer is appropriate is where there is an allocation from a 'shared pot', for example, the Criminal Justice Reserve, or when a Department agrees to transfer cover to another Department to cover one-off costs incurred as a result of a change in policy.
90. The changes are implemented in different ways in budgets:
- # Departments are expected to accommodate the effects of **policy / plan adjustments** in their budgets, making offsetting cuts or utilising EYF if available and benefiting from reductions in spending;
 - # **Classification adjustments** lead to budgets being restated, normally across all the 8 or 9 open years on the COINS system;
 - # **Interdepartmental adjustments / Budget cover transfers** lead to restated limits of the departments concerned.
91. In addition departments may record changes to their expenditure numbers as **Budgetary Outturn adjustments**, which are not a change to the budget – they are used to describe changes against final budget allocations and are used for recording outturn.
92. It is the Treasury that determines finally what type of adjustment a change is. Departments that are in doubt should contact their Treasury spending team.

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93. Annex C sets out where to find further guidance on types of adjustment.

Public Sector and Public Bodies

94. The public sector in the national accounts comprises central government and local government, which together make general government, and public corporations (bodies which are publicly owned or controlled and which operate in a market or which trade). Budgeting rules apply to all bodies in the public sector.
95. It is the Office for National Statistics (ONS) that determines whether a body is in the public sector. You can look up the sector classification of bodies where that has been determined by the ONS in their publication MA23 (see Annex C for the link).
96. The Treasury publishes a guidance note on sector classification (see Annex C for the link). In broad terms, bodies are in the public sector if they are owned or controlled by public sector bodies. A body will be controlled for example if a majority of Board members are appointed by the sponsoring department. Sometimes a lesser degree of influence can still be held to give control. The legal form of a body does not tell you what sector it is in. So, for example, if an NDPB sets up a wholly owned subsidiary in the form of a limited company under the Companies Act that body would be public sector because it would be wholly controlled by the NDPB.
97. Departments and public bodies who are in doubt about an actual or proposed body's sector classification should approach the Treasury for advice. The ONS should only be approached via the Treasury. That restriction on direct access to the ONS is so that the Treasury can:
- # advise departments on the interaction of classification and policy (the ONS do not involve themselves in policy formulation),
 - # consider the implications for budgeting of any proposal, and
 - # provide the right information to ONS in the right way, without lobbying, and respecting the ONS' operational independence.
98. Departments that are setting up a new body that will be or might be in the public sector should contact the Treasury's budgeting and classification branch with their proposals for budgeting, accounting and recording the body. The Treasury will pass the information on to:
- # the ONS;
 - # the Treasury's CA team (see below);and
 - # the Cabinet Office (see the section on Non-Departmental Public Bodies (NDPBs) below) who are responsible for ensuring proper governance, which includes accountability and financial management, of central government public bodies and PCs.
99. Departments should not spend money on consultancy advice on national accounts sector classification and should discourage their sponsored bodies from

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doing so. Sector classification is unlikely to be an area where consultants have expertise. The Treasury will provide advice on request.

GAAP and the National Accounts

100. Normally the decision whether a body is a subsidiary under GAAP and whether it is a public sector body in the national accounts under ESA95 will be consistent, although differences may arise.
101. Note that DRAs and NDPB accounts are drawn up under adapted accounting rules that exclude a number of bodies that would be subsidiaries under pure GAAP accounts. So exclusion from DRAs and NDPB accounts is not always a good guide to whether a body is in the public sector. Differences may also arise in the treatment of associates under GAAP, since ESA95 does not have such a category.
102. In any case where the decision under GAAP and the decision under the national accounts are different it is the treatment in the national accounts that is binding for the fiscal framework, and hence that determines the budgeting.

Whole of Government Accounts (WGA)

103. The Government is preparing WGA, GAAP-based accounts that are a consolidation of the accounts of most public sector bodies. Because of the treatment of subsidiaries in DRAs and NDPB accounts mentioned above, WGA will include bodies that are excluded from DRAs, for example: public corporations.
104. Departments that are setting up new public sector bodies should inform the Treasury of how they mean to account for the body and they think it should be accounted for in WGA. In many cases that will mean the department obtaining separate accounting advice as regards WGA and their DRAs.
105. The Treasury will discuss the WGA treatment with the NAO's WGA team. Departments should discuss with the Treasury's CA team how to ensure that their discussions with NAO on DRA treatment and the Treasury's on WGA and ONS treatment are synchronised.

Non-Departmental Public Bodies (NDPBs)

106. The Cabinet Office determines which of the bodies that have been classified as central government by the ONS are NDPBs. Designation as an NDPB means that certain rules need to be followed on public appointments and other non-financial matters. The Cabinet Office designates central government bodies into the various categories of NDPB and other public bodies.
107. Where departments are setting up a new body that might be an NDPB they should contact the Cabinet Office to discuss the governance & c arrangements.

Budgets, Estimates and Accounts

108. Budgets differ from accounts and Estimates. These three elements of the framework serve different purposes and contain different numbers.

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109. In broad terms however, in order to keep down compliance costs for departments, the budgeting treatment of items is generally based on the treatment in departmental resource accounts. Annex A sets out the main differences between DRAs and budgets, but that list is not complete: there are other smaller differences, and some department-specific differences.
110. In practice therefore when considering how to score a transaction you should:
- # Start by considering the treatment of the transaction in the GAAP DRAs;
 - # Consider whether the budgeting treatment is the same as the DRA treatment or different, and so establish the budgeting treatment;
 - # Once you know the accounting and budgeting treatment you can determine the Estimates treatment.

Accounts

111. Departments and other public bodies have to produce audited accounts that report for the public and for parliament on how they have used the resources at their disposal (defined in terms of accounting aggregates rather than budgeting aggregates). These accounts are normally for the body in question, and for subsidiaries or other bodies within the accounting boundary.
112. The underlying rules for departmental accounts are specified in the Financial Reporting Manual (FReM), produced by the Treasury and based on generally accepted accounting practice (UK GAAP). UK GAAP in DRAs provides a different cut of information from that used for budgeting or the fiscal framework.
113. Department's accounts are audited annually by the National Audit Office (NAO) who report their findings to parliament.
114. Accounting rules change from time to time. When they do, we consider the impact on budgets. Sometimes changes to accounting rules are not carried through into budgets. Departments are consulted on changes to accounting through the RABIG process.
115. A link to where you can find full guidance on accounts is given in Annex C.
116. In some places this Budgeting Guidance summarises or describes accounting rules. That is done to provide context for the definitive statement of the budgeting rules. However, the only authoritative description of the accounting rules is in the FReM, and the summary in this budgeting guidance should be seen as indicative only.

International Accounting standards

117. The Treasury's general approach to public sector GAAP-based reporting is to follow the strategy of the UK Accounting Standards Board (ASB) for convergence with International Financial Reporting Standards (IFRS), which involves a timetable for the adoption of IFRS requirements. Some public sector bodies intend to produce accounts under IFRS ahead of the convergence timetable. Even so, it is the results under 'converged' UK GAAP that should be taken for

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budgeting. Departments should consult the Treasury where any sponsored body is contemplating moving to IFRS ahead of the ASB conversion timetable.

Supply Estimates

118. Estimates are the mechanism by which Parliament authorises departmental spending. A link to where you can find full guidance on Estimates is given in Annex C.
119. Note that while the treatment in budgets influences the treatment in Estimates, the reverse does not apply. So for example:
 - # In Estimates, you may normally only appropriate income that is negative DEL in budgets in aid of DEL expenditure. So you need to know the budgeting treatment of income before you can work out the Estimates treatment;
 - # That income has been appropriated in aid or treated as a Consolidated Fund Extra Receipt (CFER) does not tell you anything about the budgeting treatment. You may have negative DEL CFERs and non-budget Appropriations in Aid. So you need to address the budgeting treatment separately from the Estimates treatment.

Presentation of Total Spending

Total Managed Expenditure

120. The Government's main measure for reporting overall public spending is Total Managed Expenditure (TME), a measure drawn from the national accounts. TME may be defined as the sum of the public sector's current and capital expenditure. Capital expenditure is presented as net of sales proceeds.
121. Capital expenditure may be divided into
 - # the element that replaces the extent to which the capital stock has depreciated; and
 - # net investment.
122. Therefore, TME may be defined as the sum of public sector current expenditure, net investment, and depreciation.
123. TME is also the sum of DEL, Departmental AME and non-Departmental AME (including accounting adjustments).

Resource Budget, Capital Budget

124. A department's Resource Budget is the sum of the Resource Budget: DEL and the Resource Budget: AME. The Capital Budget is the sum of the Capital Budget: DEL and the Capital Budget: AME.
125. Neither the Resource Budget nor the Capital Budget is a control total, since departments may not make switches from AME to DEL.

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126. But they are useful numbers to present since they show the total current and capital spending in the budgets of the department. And they remind readers of spending data that both DEL and AME spending are spending: both need to be financed by taxes and borrowing.

Total DEL

127. In addition to the control totals, there is a presentational aggregate, Total DEL. Total DEL is not a control total. It is a standard way of showing total current and capital spending in DEL. It is defined as:
- # Resource Budget: DEL
 - # *Plus* Capital Budget: DEL
 - # *Less* Depreciation in DEL
128. Depreciation here includes impairments, release from donated assets reserve and release from government grants reserve.
129. Depreciation is excluded from Total DEL because adding together depreciation and investment may be seen by some as in a sense double counting.

Recording Income and Expenditure

130. Transactions should be recorded accurately on COINS. COINS supplies information for a wide range of users and uses:
- # The Treasury's planning and control of public spending;
 - # The Treasury's monitoring and forecasting of spending against the fiscal framework;
 - # Treasury publications, such as Public Expenditure Statistical Analyses;
 - # Operational publications, such as Main and Supplementary Estimates;
 - # Departmental publications, such as the common core tables in Departmental Reports;
 - # The national accounts, including measures of the fiscal framework; and
 - # The input side of ONS' measures of public sector productivity.
131. You can see that often departments themselves are directly affected by the accuracy of information on COINS.
132. Where to find the guidance on recording is shown in Annex C.

APPENDIX 1 TO CHAPTER 1: SUMMARY CONTENT OF BUDGETS

133. This table summarises the main standard contents of resource and capital budgets. Budgets are divided into DEL and AME. The Resource Budget DEL is divided into Administration and Programme, and into Near-Cash and Non-cash.

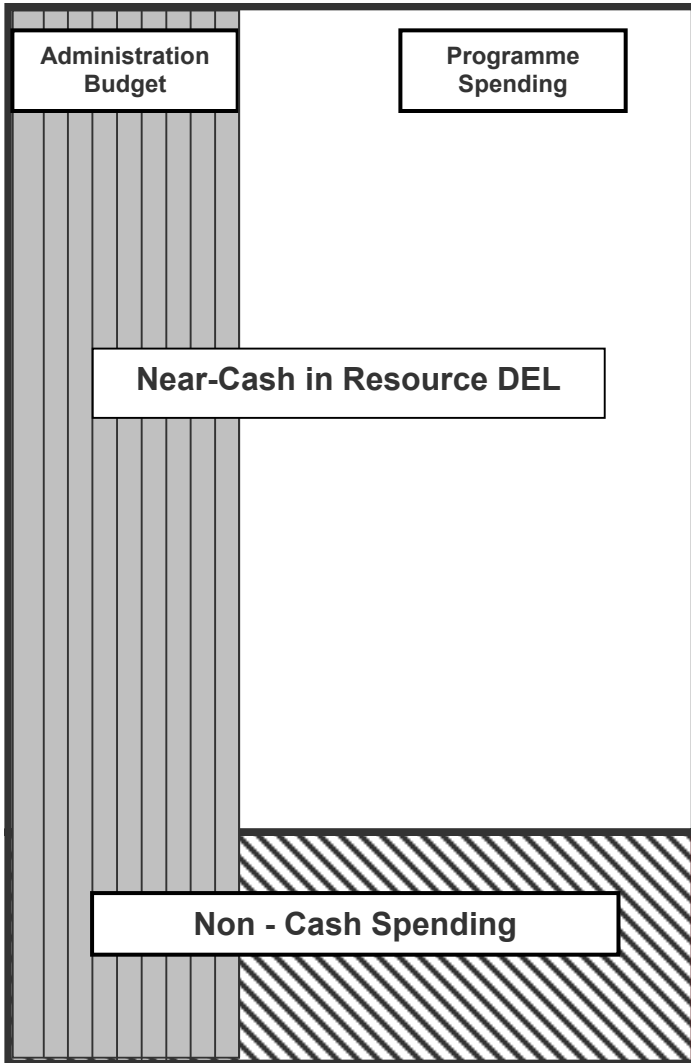
	Resource Budget	Capital Budget
Department's own transactions with the private sector	<p>Expenditure on an accruals basis, including administration costs, pay, accruing superannuation liability charges and other pensions contributions or current service pensions costs, grants to individuals, subsidies to private sector companies</p> <p>Take-up of provisions movement in value of provisions, and release of provisions (as well as the expenditure offset by the release of the provision) - except provisions related to capital grants</p> <p>Bad debts</p> <p>Cost of capital charges and credits in respect of assets and liabilities</p> <p>Depreciation and impairments on the department's assets</p> <p>Profit/ loss on disposal of assets</p> <p><i>Less income treated as negative DEL/ AME, for example sale of services</i></p> <p><i>Note: Excludes revaluations charged to revaluation reserve</i></p>	<p>Expenditure on new fixed assets on an accruals basis. Includes assets bought under finance leases and transactions that are in substance borrowing (i.e. on-balance sheet PFI deals)</p> <p><i>Less Net book value of sales of fixed assets</i></p> <p>Net policy lending to the private sector</p> <p>Capital grants to the private sector and take-up &c of associated provisions</p>
NDPB transactions with the private sector	<p>As the department</p> <p><i>Note: the department's grant in aid to the NDPB is excluded from budgets</i></p>	<p>As the department</p>

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<p>NHS Trusts (England)</p>	<p>Health purchasing bodies' purchases of health care from trusts (excluding the element of purchases that covers trusts' depreciation <i>exclusion is under review</i>)</p> <p>Cost of capital charge in respect of net assets</p> <p><i>Less profit/ plus loss of NHS trusts</i></p>	<p>Capital expenditure of Health purchasing bodies and NHS trusts</p>
<p>Support for Local Authorities</p>	<p>Current grants to local authorities</p>	<p>Capital grants to local authorities</p> <p>Supported capital expenditure (revenue)</p>
<p>Public Corporations (external finance basis)</p>	<p>Cost of capital charge in respect of public corporations</p> <p>Subsidies paid to public corporations</p> <p><i>Less Interest and dividends received from public corporations</i></p>	<p>Investment grants paid to public corporations</p> <p>Net lending to public corporations (Voted and NLF)</p> <p>Public corporations' market and overseas borrowing (including on-balance-sheet PFI)</p> <p><i>Less equity withdrawals from public corporations</i></p>
<p>Public Corporations (consolidation basis)</p>	<p>Cost of capital charge in respect of public corporations</p> <p>Subsidies paid to public corporations</p> <p><i>Less profit/ plus loss of public corporations</i></p>	<p>Capital expenditure of public corporations <i>net of</i> the book value of assets sold</p>

**APPENDIX 2 TO CHAPTER 1:
DIAGRAM OF MAIN BUDGETARY CONTROL TOTALS**

Resource Budget: DEL



Capital Budget: DEL



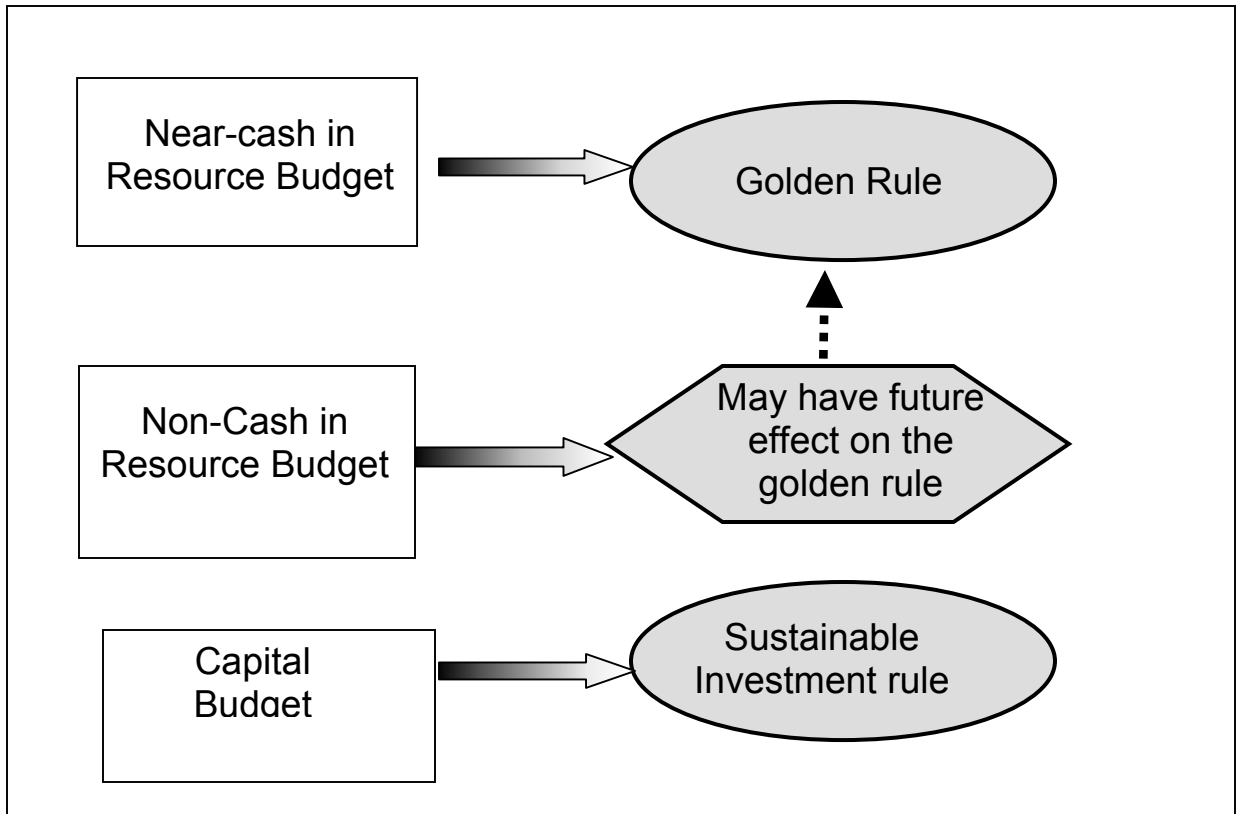
Resource Budget: AME



Capital Budget: AME



APPENDIX 3 TO CHAPTER 1: RELATIONSHIP OF MAIN BUDGETARY CONTROL TOTALS TO THE FISCAL FRAMEWORK



APPENDIX 4 TO CHAPTER 1: CRITERIA FOR AME TREATMENT OF LEVY FUNDED BODIES

134. The Chief Secretary has determined that the spending of a number of levy-funded bodies should be in AME rather than DEL. Such decisions are taken by the Chief Secretary case by case. The AME treatment of individual bodies is kept under review.
135. AME treatment is only a relevant option where the levy income is not treated as negative DEL – see Chapter on Income and Resource Budgets below.
136. While the Treasury has no plan to recommend to the Chief Secretary that any further levy-funded bodies should have AME treatment, the criteria that the Chief Secretary uses are set out below.

Criteria for deciding whether a levy-funded body should score in AME

1. The body should in broad terms provide services (“services” could include a compensation fund) to an industry or group of industries or the workforce in that industry.
2. The body should be wholly or mainly funded by a levy on the industry. There should be substantial industry consensus involved in the setting of the levy or the direction of the expenditure or both.
3. The expenditure must be suitably ring-fenced. Normally, that would mean that the whole body should fall into this category.
4. The body should be self-financing in cash terms, with no recourse to departmental grants or subsidies. Where, exceptionally, grants or subsidies are paid (including grants financed by the EC), they would score in DEL.
5. Draw-down of reserves should be permitted, and normal short term modest sized overdrafts. But the bodies should not normally borrow long term. Where, exceptionally, expenditure is financed by borrowing other than short term overdrafts, it would normally score in DEL.
6. The body should meet relevant efficiency and other criteria:
 - the licence or levy is appropriate, i.e. applied in the economically most advantageous way in the circumstances;
 - Introducing the levy or licence should not materially restrict the Government’s fiscal policy;
 - The activity financed by the levy or licence must further the Government’s economic goals;
 - There should be adequate efficiency regimes in place to keep costs down, including stretching targets and regular efficiency reviews;
7. Suitable arrangements should exist to prevent the body from abusing its power to set the level of the levy. For example, the levy might need approval by the Minister.

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8. There will be periodic reviews involving the Treasury of the operation of the levies, including whether they should exist at all, what scale of activity is appropriate, and the level of charges set.