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ANNEX 5.3 INCOME AND RECEIPTS

The rules on use of income and receipts are designed to control the circumstances in which they can finance use of public resources.

A.5.3.1 Parliament controls departments' use of income and receipts, just as it controls the raising of tax, since both may finance use of public resources. Departments should ensure that all income and associated cash is recorded in full and collected promptly.

A.5.3.2 Most cash receipts must be paid into the Consolidated Fund. Sometimes specific legislation requires this for certain income streams; for many others the Civil List Act 1952 classifies them as hereditary revenues to be paid into the Consolidated Fund.

A.5.3.3 Hereditary revenue is:

- virtually all non-statutory receipts;
- cash receipts received by virtue of statutory authority; and
- receipts where statute does not say.

Unless it can be established that a particular type of receipt or surplus cash is not hereditary revenue, the default position is that it is, and that the Civil List Act 1952 requires it to be paid into the Consolidated Fund.

A.5.3.4 The main categories of income and associated receipts are shown in Box A.5.3A.

box A.5.3A the different kinds of central government income

- the proceeds of taxation: paid into the Consolidated Fund
- repayment of principal and interest on NLF loans: paid direct to the NLF
- sums due under bespoke legislation: paid as specified, eg the proceeds of national insurance contributions paid into the National Insurance Fund
- receipts of trading funds: treated as specified in the founding legislation
- sums due to departments financed through Estimates:
 - either paid into the Consolidated Fund as CFERs
 - or appropriated in aid to finance Estimate provision.

A.5.3.5 Specific legislation, with Treasury approval, is normally required to authorise use of income directly to meet resource consumption, ie to appropriate it in aid. In effect this process means that the department needs to seek less finance through Estimates because part of the cost of the service is met from receipts. Parliament has an interest because otherwise resource consumption would require specific approval through the Estimates process.

A.5.3.6 The Treasury may also direct that an income stream may be appropriated in aid by laying a Treasury Minute before both Houses of Parliament (see *Estimates Manual* www.hm-treasury.gov.uk/media/A/1/estimatesmanual_011007.pdf). This power of direction is only ever used to allow departments to appropriate income in aid of resources or capital expenditure where there is a direct relationship between the two. Where there is no such relationship, the income is normally surrendered as Consolidated Fund extra receipts (CFERs).

A.5.3.7 Sometimes departments have excess appropriations in aid, ie more income than the expenditure stream it matches, or more income than was anticipated in the Estimate. When this happens the surplus is treated as CFERs.

Controls over use of income as appropriations in aid

A.5.3.8 Appropriation Acts limit the amounts of income which may be appropriated in aid against each Request for Resources (RfR) of the underlying Estimate. Each RfR has limits on operating appropriations in aid (income financing resource expenditure), but non-operating appropriations in aid (income financing capital) are set as a single limit for the Estimate as a whole. If income appropriated in aid is projected to be higher during the year, financing higher expenditure, the responsible department should seek Treasury approval and then present a Supplementary Estimate showing the revised figures. The relevant Appropriation Act will then have increased limits.

A.5.3.9 Pending approval of the Supplementary Estimate, departments may use excess operating and non-operating income to finance excess resource or capital expenditure respectively. The amounts and types should accord with the existing Estimate and should match.

A.5.3.10 Departments may generally offset excess appropriation in aid income on individual subheads against shortfalls of income in other subheads. This is acceptable where the excess arises as a result of reasonable estimating variations. Similarly, departments may use excess income to offset excess resources or capital expenditure in the same year pending the approval by Parliament of an Excess Vote. But income and receipts should match: eg excess non-operating appropriations in aid cannot be used to offset shortfalls in operating appropriations in aid. Nor can excess operating appropriations in aid in one RfR be used to offset shortfalls in other RfRs.

Net and gross subheads

A.5.3.11 Net subheads are used in Estimates only in carefully defined circumstances, notably for trading funds, which for example can obtain and repay short term voted loans several times during a single financial year. Otherwise all subheads of Estimates should show amounts to be spent gross, with appropriations in aid financing them specified where appropriate.