

A

CONVENTIONS

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

Rounding conventions

A.2 The figures in this publication are generally shown to the nearest £1 million, except that the figures for the main spending aggregates – DEL, AME, and TME – and the DEL Reserve and AME Margin are rounded to the nearest £100 million from 2004-05 onwards.

A.3 In all chapters, (with the exception of chapter 2), dashes in the tables show that there are no data and zeros where there are data and the value rounds to 0 ie. normally between \pm £0.5 million. In chapter 2 tables dashes are shown where there is no datum and when the value is too small to be rounded to a whole number.

A.4 Figures in tables may not sum due to rounding.

Real terms

A.5 A number of the tables in this publication give figures in real terms. Real terms figures are the current price (“cash”) outturns or plans adjusted to a constant price level by excluding the effect of general inflation as measured by the GDP deflator at market prices. The real terms figures in this publication are given in 2003-04 prices. The GDP deflators used in this publication are those recorded on the Treasury website at http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_fig.cfm on 7 April 2005, when PESA 2005 was published.

GDP Measure

A.6 In tables that give spending as a proportion of GDP, PESA uses the central view of the GDP forecast. That may lead to differences from the FSBR which uses the cautious view.

2004-05 estimated outturn

A.7 The estimated outturns for individual departments for 2004-05 are based on the latest information available from departments. The estimated outturns for resource and capital DEL for 2004-05 include identified allowances 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.8 Except in the long run tables covering years before 1998-99, data are generally presented on an accruals basis.

Consistency with Previous PESAs

A.9 Data in previous PESAs may not be directly consistent with PESA 2005 due to changes in data coverage and classification changes. This publication therefore presents a number of summary analyses incorporating data for earlier years adjusted to current definitions to show trends over a longer period.

Population by country and region

A.10 The population numbers used in chapter 8 of PESA 2005 are as follows (source: mid-year estimates online at www.statistics.gov.uk/popest under 'Population estimates – current releases'; population projections for 2004 for England, Scotland, Wales and Northern Ireland are from the Government Actuary's Department at <http://www.gad.gov.uk>; projections for the English regions were supplied by the ONS).

| | Thousands | | | | | |
|--------------------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | mid-1999 | mid-2000 | mid-2001 | mid-2002 | mid-2003 | mid-2004 |
| North East | 2,550 | 2,543 | 2,540 | 2,538 | 2,539 | 2,535 |
| North West | 6,773 | 6,774 | 6,773 | 6,783 | 6,805 | 6,811 |
| Yorkshire and Humberside | 4,956 | 4,959 | 4,977 | 4,993 | 5,009 | 5,022 |
| East Midlands | 4,152 | 4,168 | 4,190 | 4,223 | 4,252 | 4,275 |
| West Midlands | 5,272 | 5,270 | 5,281 | 5,304 | 5,320 | 5,330 |
| South West | 4,881 | 4,917 | 4,943 | 4,968 | 4,999 | 5,031 |
| Eastern | 5,339 | 5,375 | 5,400 | 5,422 | 5,463 | 5,499 |
| London | 7,154 | 7,237 | 7,322 | 7,371 | 7,388 | 7,431 |
| South East | 7,955 | 7,991 | 8,023 | 8,044 | 8,080 | 8,122 |
| England | 49,033 | 49,233 | 49,450 | 49,647 | 49,856 | 50,057 |
| Scotland | 5,072 | 5,063 | 5,064 | 5,055 | 5,057 | 5,065 |
| Wales | 2,901 | 2,907 | 2,910 | 2,923 | 2,938 | 2,955 |
| Northern Ireland | 1,679 | 1,683 | 1,689 | 1,697 | 1,703 | 1,710 |
| United Kingdom | 58,684 | 58,886 | 59,113 | 59,322 | 59,554 | 59,788 |

A.11 These mid year numbers are then directly applied to the relevant financial year (eg mid 1999 to financial data for 1999-00).

B

THE ACCOUNTING ADJUSTMENTS IN THE BUDGETING PRESENTATION OF TME

NEED FOR ACCOUNTING ADJUSTMENTS

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

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

B.3 So a number of adjustments are needed to relate Total DEL and AME to TME, as is shown in table 1.1. More detail of the adjustments is shown in table 1.13. The sub-headings below show what is in each of the rows in that table. The operator (ie “add” or “subtract”) describes the adjustment needed to derive TME from Total DEL plus departmental and other AME.

CHANGES SINCE PESA 2004

B.4 The following obsolete adjustment has been retired (the numbers given refer to the number in Appendix B of PESA 2004 except where otherwise identified):

17 [VAT refunds to NHS trusts] NHS trusts were reclassified to the central government sector by the ONS effective from the Blue Book Summer 2004. In contrast to the treatment of other VAT refunds to central government bodies, ONS decided not to adjust for VAT refunds in the calculation of TME. ONS’ decision was based on the wish not to distort the GDP series. Other changes to reflect the reclassification of NHS trusts are the removal of Adjustment 8 [purchase of NHS services – amount representing depreciation], changes to PESA 2005 Adjustments 16 and 21 and a new PESA 2005 Adjustment 42.

B.5 The following accounting adjustments are new in PESA 2005:

15. Hydro benefit.

46 [Public corporations’ market and overseas borrowing] reflects certain finance leases.

52 Accruals adjustment in connexion with income from the EU.

54 Balancing reconciliation item (estimated outturns and plans).

B.6 The list of capital/ current adjustments has been expanded and the presentation clarified to link in better with the lay-out of tables 1.3 and 1.4.

B.7 There is a new Table B.1 that shows the reconciliation of the GAAP based measures of the costs of unfunded public service pensions schemes and the way in which pensions score in the national accounts based TME.

LIST OF THE ACCOUNTING ADJUSTMENTS

Tax credits for individuals

B.8 Departmental AME shows expenditure on tax credits following the OECD basis for deciding what element, if any, of a tax credit should be treated as expenditure, rather than as an adjustment to tax receipts. Normally, that means that only amounts payable in excess of an individual's tax liability count as expenditure. In the national accounts, some elements of some tax credits for individuals also score as government expenditure even when they are less than the individual's tax liability.

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

B.9 No adjustment is needed for the new tax credits (Working Tax Credit and Child Tax Credit) as they are treated in the same way under both the OECD and national accounts bases.

Pensions

B.10 As detailed in Appendix D, the costs in Departmental AME in respect of pensions are measured as the gross increase in the liabilities held by pension schemes, less contributions received. TME measures the cost of unfunded public service pensions differently. The contribution of the pension schemes to TME is:

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

B.11 So the adjustments to get from the costs in AME are as follows:

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

B.12 Employers' contributions to unfunded public service pensions schemes impact on budgets. The costs in budgets broadly match the unfunded pensions schemes' receipts of employer contributions. Similarly, staff pay mostly impacts on budgets and is the source for employee pension contributions. (In some cases, the costs of staff pay and of employers' payments of pensions contributions are covered by trading income.) So in effect the impact of unfunded public service pensions on TME is given by pensions in payment. That is also the amount that impacts on the current balance.

B.13 Table B.1 shows:

- The three main contributors to the Net public service pensions line (see Appendix D):
 - The change in liability;
 - Pensions contributions received;
 - Pensions and transfer payments made that are not covered by a previously recognised liability;
- The pensions element of the Non-cash items line (see Appendix D);
- The sum of these elements, which is the contribution of pension schemes to Departmental AME. It is a GAAP-based measure of the cost of the schemes net of contribution income;
- The different components of the pensions line in the accounting adjustments in table 1.13;
- The contribution of the main public service pensions schemes to TME. This line is prepared on the same basis as the Net public service pensions line in Table C.11 in the FSBR, though in some cases more up to date data have been used. This line excludes pensions paid in DEL, which are included in tables 3.6 and 4.5, and certain local authority unfunded pension payments included in table 3.6; and
- The components of the contribution of the schemes to TME. As the cost of most contributions is in budgets, it is in effect the pensions in payment line that represents the overall impact of pensions on TME.

B.14 In Table B.1 bulk and individual transfers out are included in pensions in payment along with survivors' benefits &c. Bulk and individual transfers in are included in contributions received.

Table B.1 Unfunded public service pensions schemes in AME and in TME, 1999–00 to 2007–08

| | £ million | | | | | | | | |
|---|---------------------|----------------|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|
| | National Statistics | | | | | | | | |
| | 1999–00 | 2000–01 | 2001–02 | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 | 2007–08 |
| | outturn | outturn | outturn | outturn | outturn | estimated outturn | plans | plans | plans |
| Departmental AME (GAAP basis) | | | | | | | | | |
| Change in liability | 9,157 | 10,050 | 12,367 | 14,970 | 15,542 | 17,522 | 20,746 | 21,427 | 22,405 |
| Contributions received* | -7,504 | -8,344 | -9,862 | -12,597 | -14,279 | -15,470 | -16,997 | -17,625 | -18,421 |
| Cash payments in OCS not covered by release of provision* | 60 | -16 | 849 | 2,197 | 786 | 162 | 148 | 89 | 91 |
| Net public service pensions (GAAP basis) | 1,713 | 1,690 | 3,354 | 4,570 | 2,049 | 2,214 | 3,897 | 3,890 | 4,075 |
| Unwinding of discount rate (= contribution to non-cash items) | 16,636 | 16,277 | 18,405 | 19,446 | 22,469 | 24,539 | 25,989 | 27,569 | 29,248 |
| Total Departmental AME (GAAP basis) | 18,349 | 17,967 | 21,759 | 24,017 | 24,518 | 26,753 | 29,886 | 31,460 | 33,323 |
| Accounting adjustments | | | | | | | | | |
| Remove change in liability (FRS17 basis) | -9,157 | -10,050 | -12,367 | -14,970 | -15,542 | -17,522 | -20,746 | -21,427 | -22,405 |
| Remove increased liability due to unwinding of discount rate | -16,636 | -16,277 | -18,405 | -19,446 | -22,469 | -24,539 | -25,989 | -27,569 | -29,248 |
| Add pensions in payment covered by release of provision* | 12,355 | 13,035 | 13,937 | 14,330 | 15,364 | 16,363 | 17,628 | 17,962 | 18,645 |
| Accounting adjustments (Pensions) | -13,437 | -13,292 | -16,835 | -20,086 | -22,647 | -25,698 | -29,107 | -31,034 | -33,007 |
| Contribution to TME (national accounts basis) | 4,911 | 4,675 | 4,925 | 3,931 | 1,871 | 1,055 | 779 | 426 | 316 |
| <i>of which:</i> | | | | | | | | | |
| Pensions in payment* | 12,415 | 13,019 | 14,786 | 16,528 | 16,150 | 16,525 | 17,776 | 18,051 | 18,737 |
| Contributions received* | -7,504 | -8,344 | -9,862 | -12,597 | -14,279 | -15,470 | -16,997 | -17,625 | -18,421 |

* includes bulk and individual transfers

European Community contributions

B.15 The national accounts treat most payments made by the UK to the institutions of the European Communities as taxes paid direct to the EC by households and enterprises. Only the GNI-based 4th resource contribution and the UK's budget abatement count in TME as UK government contributions. By contrast, the Net Payments line in AME includes the full gross contribution to the EC. The accounting adjustments therefore need to deduct those elements of the gross contribution that do not score in TME:

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

B.16 Similarly, most payments to households and enterprises that are funded by the EC are treated in national accounts as direct payments to them by the EC, even if they pass through the Government's books. By contrast, DEL and departmental AME score expenditure that passes through Government and that is funded by EC receipts like UK government expenditure. The Net Payments to EC Institutions line in AME deducts receipts from the EC, thus bringing levels of expenditure and receipts onto a TME basis. Most EC receipts are not netted off DEL; where they are netted off DEL (as well as in the Net Payments line), a further adjustment is needed to reverse that second deduction.

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

Other central government programmes

8. **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.
9. **Privatisation programme** (applies to outturn years only): add current and capital expenditure on privatisations which is borne outside DEL.
10. **Tax Credits for Companies and Charities.** As with tax credits for individuals (see above), national accounts score as expenditure some elements of tax credits for companies and charities that reduce the taxpayer's liability. This adjustment adds in such payments in respect of Research and Development Tax 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 shown in Other departmental expenditure in AME.
11. **Loan guarantees:** add the imputed subsidies for certain loan guarantees which are included in national accounts.
12. **DfiD loan and debt write-offs:** Deduct the cost of interest forgone by the Department for International Development in respect of debts forgiven under Retrospective Terms Adjustments arrangements which forms part of DfiD's DEL but is not in TME. Add capital grants when DfiD writes-off certain debts owed to it. In national accounts, writing off a debt for policy reasons is treated as a capital transfer. Write-offs are recorded in DfiD's resource budget but are removed along with other non-cash items below.

13. **ECGD debt write-offs:** add the UK government's top-up to the loan write-offs to heavily indebted poor countries agreed by the Paris Club. This top-up represents a gift rather than a forced write-off during the normal course of ECGD's business so it is recorded as a capital transfer in national accounts.
14. **Student Loan debt write-offs:** add an amount of capital grants for student loans as they are written off, as the scheme does not set out to recover the full amount of write-offs from borrowers collectively.
15. **Hydro benefit:** add in an amount of imputed subsidy paid by the Scottish Electricity generating industry to the distribution industry to reflect the high cost of distribution in northern Scotland.

VAT refunds

16. 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 in respect of non-business services are however exceptionally not added in to the figures to arrive at TME.)
17. 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.
18. Add VAT refunds paid to the BBC and ITN in respect of non-business activities. These are treated as subsidies in TME.
19. Add VAT refunds paid to DIY house builders. These are treated as capital grants in TME.

Central government capital consumption

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

Non-cash items not in TME

B.17 Both budgets and TME measure expenditure on an accruals basis as regards timing. A number of accruals concepts – such as depreciation – appear in both measures, although the coverage or data may be different (see the later subsection Data adjustments). However, a number of non-cash items appear in budgets produced on a GAAP basis (see Appendix D) that do not have a TME counterpart. They are removed here:

21. Deduct the cost of capital charge, debt write-offs, notional audit fee, and other such non-cash items recorded in departmental budgets but not in national accounts. Following the reclassification of NHS trusts to the central government sector, this item now includes the removal of the profit or loss of NHS trusts (England and Wales) which scores in budgets.

22. Deduct the take-up, movements in the value, and release of provisions that score in budgets. That leaves in the consumption of resources that is offset in budgets by the release of provisions and which scores in TME.
23. Deduct the provision that represents the overall cost of the interest support element of student loans that scores in DEL as the loans are granted. In the national accounts the current balance is determined by the difference between interest payments on government debt and interest income from students.
24. Add the purchase of stocks, subtract the sales of stocks, and subtract reductions in the value of stocks due to consumption of stock items. National accounts treat purchases and sales of stocks as capital expenditure. When stocks are drawn down to be used, TME scores both the draw-down of stocks as a reduction in value and their consumption as an expense. Under RAB purchases and sales of stocks are cash adjustments, and the draw-down of stocks is a balance sheet entry. RAB records as expenditure only the consumption of stocks or the production of goods for stock.

Expenditure financed by revenue receipts

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

B.19 For departments and NDPBs the receipts are:

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

B.20 For local authorities, the receipts are:

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

Local authorities

32. Add the value of local government non-trading capital consumption (i.e. depreciation) as modelled by ONS for national accounts.
33. Add subsidies paid to LA trading bodies. These are deducted from the figure for the operating surplus of LA trading bodies, one of the revenue items in the calculation of locally financed expenditure, but are included as LA expenditure in national accounts.
34. Deduct capital grants paid by local authorities to public corporations since these are a flow within the public sector that adds to 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.

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

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

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

General government consolidation

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

38. Deduct debt interest paid by local authorities to central government and to other local authorities. The small amounts of debt interest paid by local authorities to public corporations are also deducted here.
39. Deduct payments of national non-domestic rates paid by central and local government, which are in budgets and locally financed expenditure, and which are consolidated out for TME.
40. Deduct debt repayment grants from central government to local authorities which score in budgets. Debt repayment is not expenditure.
41. Deduct 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.
42. 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 should be consolidated out.

Public corporations

B.23 Departments' resource and capital budgets normally include certain items in respect of public corporations:

- subsidies and capital grants paid by the department to public corporations;
- loans given by the department to public corporations – either voted or from the National Loans Fund;
- public corporations' net market and overseas borrowing (PCMOB), including finance leases and on balance sheet PFI and excluding movements in balances;

- interest, dividends and equity withdrawals received from public corporations;
- a capital charge on the loans and public dividend capital invested in public corporations.

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

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

B.26 Forest Enterprises have a different budgeting treatment. Their profit/loss and actual capital expenditure score in budgets rather than grants and loans given and the interest and dividends actually received. These profits/ losses have to be removed in the accounting adjustments.

B.27 So the adjustments needed are:

43. Add receipts from public corporations of interest, dividends and equity withdrawals that are netted-off in budgets.
44. Add interest and dividends paid by public corporations to the private sector and abroad.
45. Deduct the profit/loss of Forest Enterprises.
46. Deduct PCMOB.

Financial transactions

B.28 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:

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

Data adjustment

B.29 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.
52. Accruals adjustment reflecting the timing of income from the EU which is recorded on a cash basis in the Net Payments line.

Balancing reconciliation

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

ADJUSTMENTS AFFECTING THE SPLIT BETWEEN CURRENT AND CAPITAL EXPENDITURE

B.30 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 1.13. 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 1.3 and 1.4. The main adjustments are described below:

Resource budget items treated as capital in national accounts

- Departmental budgets record capital grants to the private sector in resource budgets, as the government does not acquire an asset by giving a grant. In the national accounts, investment grants are treated as capital expenditure because an asset is created somewhere in the economy.
- Capital grants to public corporations also form part of the resource budget, although the capital expenditure of the public corporations which they finance counts as capital expenditure in TME.
- All debt write-offs go through Resource DEL. Those that are intended to convey a benefit to the debtor – as opposed to the department being unable to recover the debt because the debtor cannot pay – are treated as capital grants in the national accounts.
- Similarly, a proportion of DFID's bilateral aid budget is deemed to be a capital grant to the rest of the world in the national accounts, as it supports debt write offs, although all bilateral aid grants are shown in resource DEL

- Under RAB, the resource budget includes the profit/loss, relative to book value, when capital assets are sold. National accounts records all of the sale price as a capital receipt. So an adjustment removes the profit/loss from current expenditure and adds it to capital expenditure. The sign convention is: if an asset were sold at a profit relative to book value this accounting adjustment would increase current expenditure (relative the amount recorded in budget) and reduce capital expenditure.

Capital budget items treated as current in national accounts

- Expenditure on single use military equipment (fighting equipment) that is capital under GAAP rules is recorded as capital expenditure in departmental budgets but treated as current expenditure in national accounts.
- Departmental budgets record all expenditure on capital grants to local authorities as capital expenditure including where the grants have been funded by the EC. EC-financed expenditure has to be deducted in moving to TME. The reason for the deduction depends on how the local authority spends the money. First, the local authority might make a capital grant to the private sector – which would be regarded in the national accounts as the EC's own expenditure, not the UK Government's. Or second the grant from the EU would finance, and in the calculation of TME offset, the local authority's own direct capital expenditure. EC grants are deducted through the Net payments to EU institutions line in AME. But this line is all treated as current expenditure. So, to record the government's own capital expenditure correctly on a national accounts basis there is an adjustment that subtracts EC funded capital grants to LAs from total capital expenditure in budgets, and adds that amount to current expenditure in budgets.

NOTE ON CONSOLIDATION IN TOTAL MANAGED EXPENDITURE

B.31 Interest and dividend payments and receipts within the public sector are consolidated out. So TME scores only the public sector's interest and dividend payments to the private sector and overseas. The same is also true of other transfer payments such as current and capital grants, and rent.

B.32 The same is not true for transactions in goods and services between general government and public corporations and government's payments of subsidies: these are not consolidated out. General Government's purchases of services from, and subsidies to, public corporations and trading bodies score as public sector current expenditure. The public corporations' and trading bodies' receipts of these payments form part of their Gross Trading Surplus which is on the revenue side of the public accounts.

C

DEPARTMENTAL GROUPINGS

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

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

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

D

PUBLIC EXPENDITURE BUDGETING AND CONTROL AGGREGATES

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

Recent Developments

D.2 Recent changes include:

- Locally Financed Expenditure now includes expenditure in Northern Ireland financed by borrowing from the National Loans Fund under the Reinvestment and Reform Initiative (RRI).

RESOURCE BUDGETING

D.3 Since 2001-02, departmental budgets have been set and monitored in resource terms, and Parliament votes resources as well as cash in the Supply Estimates. There are separate departmental budgets for resources and capital expenditure.

Resource Budget

D.4 The resource budget measures total resources consumed by a department. The Resource budget largely follows the contents of resource accounts. Resource accounts are prepared in accordance with the Resource Accounting Manual, which follows Generally Accepted Accounting Practice (GAAP) with such adaptations as are necessary for the public sector.

D.5 Resource accounts measure expenditure when it accrues rather than when the cash is spent. They do not include prepayments for goods and services not consumed in that year but will include resources consumed but paid for later. Stock consumption scores in the resource budget while spending on adding to stocks does not. They include non-cash costs such as movements in provisions and charges for bad debts. Resource budgets record the cost of lending to students on the basis of an assessment of the grant implied in the low interest rate charged and the bad debt provision that is needed.

D.6 The annual resource cost to departments of the assets they use to deliver services is included in resource budgets. This cost is in the form of charges for capital consumed in that year (depreciation) and the opportunity cost of tying up capital in these assets (the cost of capital charge). The cost of capital charge is 3.5 per cent of the net assets (fixed capital and financial assets, net of financial liabilities and provisions) employed by each department.

D.7 The Resource budget includes all administration costs of Government departments such as pay and employer pensions contributions or superannuation changes paid to unfunded public service pensions schemes. It also includes most of their other purchases of services. It includes grants and subsidies paid to the private sector, including investment grants (other than those financed by the Capital Modernisation Fund (CMF)).

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

D.9 Non-Departmental Public Bodies. Resource and capital budgets include the expenditure of most non-departmental public bodies (NDPBs) classified to the central government sector. Normally the actual expenditure of NDPBs is recorded, rather than the grant-in-aid from the parent department. This treatment remains a difference with the accounting treatment in departmental resource accounts which just record the grant-in-aid paid by the department.

D.10 Resource budgets include most of the department's transactions with **public corporations** sponsored by the department (as recorded in resource accounts), but lending to public corporations is in the capital budget. So the resource budget scores:

- subsidies paid to the public corporation by the department;
- investment grants paid to the public corporation (other than those financed by the CMF)
- dividends and interest received from the public corporation, and equity withdrawals;
- a capital charge in respect of the department's loans and Public Dividend Capital invested in a public corporation.

D.11 NHS trusts (England) – formerly public corporations and now central government bodies – and **Forest Enterprises** (which are public corporations) have a different budgeting treatment. For them, the resource budget includes their operating profit/loss and the capital budget shows their capital expenditure.

D.12 Central Government Support for Local Authorities. The resource budget scores current grants to local authorities. Capital grants (in England called Supported Capital Expenditure (Capital) from 2004-05) score in capital budgets. Capital budgets also include amounts for local authority borrowing where central government has agreed to fund the resultant loan charges (up to 2003-04: credit approvals (capital consents in Scotland); from 2004-05 Supported Capital Expenditure (Revenue) in England (supported borrowing in Scotland)). More information on local authorities is in chapter 6.

D.13 The sum of departmental resource budgets is reconciled to public sector current expenditure – a national accounts concept which is part of TME – in Table 1.3.

Capital Budget

D.14 Capital budgets include expenditure on fixed capital assets, capital grants to local authorities and the acquisition of certain financial assets acquired or sold for policy reasons. Capital grants to the private sector and public corporations are generally in resource budgets, except those that are financed from the Capital Modernisation Fund, which score in capital budgets. Capital budgets include capital expenditure implied by finance leases and on balance sheet Private Finance Initiative transactions. Capital budgets are net of the book value of receipts from the sale of capital assets. The profit/loss on asset sales is in resource budgets so that it aligns with the recording in the operating cost statement in resource accounts.

D.15 Capital budgets generally include loans on the basis of new loans issued less repayments of loan principal. The principle transactions on lending to students are outside budgets.

D.16 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 accounts, but national accounts treat it as current.

D.17 The sum of departmental capital budgets is reconciled to public sector net investment in Table 1.4.

Resource and Capital Budgets – Summary Table

D.18 This table summarises the main contents of resource and capital budgets:

| | Resource Budget | Capital Budget |
|--------------------------------------|---|--|
| Department's own Transactions | Income and expenditure on an accruals basis, including administration costs, grants to individuals, subsidies and investment grants to private sector companies (other than those funded by the CMF), take-up of provisions and movement in value of provisions, bad debts Cost of capital charge in respect of net assets Depreciation and impairments on the department's assets Profit/loss on disposal of assets | Expenditure on new fixed assets Net lending to the private sector Net book value of sales of fixed assets Investment grants to the private sector funded by the CMF |
| NDPB transactions | As the department | As the department |
| NHS Trusts (England) | Health authorities' purchases of health care from trusts (excluding the element of purchases that covers trusts' depreciation) Cost of capital charge in respect of net assets Profit/loss on NHS trusts | Capital expenditure of NHS trusts |
| Local Authorities | Current grants to local authorities | Capital grants to local authorities Supported capital expenditure (revenue) |
| Public Corporations | Cost of capital charge in respect of public corporations Interest and dividends received from public corporations Subsidies and investment grants paid to public corporations (except those from the CMF) | Investment grants paid to public corporations from the CMF Net lending to public corporations Public corporations' market and overseas borrowing |

DEPARTMENTAL EXPENDITURE LIMITS

D.19 A little under 60 per cent of public expenditure (TME) by value is in DEL. But because AME includes a small number of large programmes by far the majority of public expenditure programmes are in DEL. The main programmes in AME are set out later in this section.

D.20 DELs are set for three years in a Spending Review. They represent firm plans for departmental spending that can only be increased in exceptional circumstances with the Treasury's agreement through a claim on the DEL Reserve. Departments can carry forward unspent DEL from one year to the next. SR2004 set firm spending plans for 2005-06 to 2007-08.

D.21 DEL is net of certain receipts, mainly payments for services, asset sales, dividends, interest, rent of land, and also certain levies and fines where the Chief Secretary to the Treasury has given specific agreement for a department to retain them in their DEL.

D.22 DEL includes a Reserve to meet unexpected needs, and the unallocated provision for the Invest to Save Budget (ISB), a challenge fund. When sums are allocated, from either the Reserve or the ISB, individual departments' DELs are increased and the Reserve/ISB lines reduced by the same amounts.

D.23 **Public Corporations.** Most transactions in respect of public corporations score in DEL but those in respect of self-financing public corporations score in DEL but self-financing public corporations score in departmental AME (unless they receive grants and subsidies, which would score in DEL).

ANNUALLY MANAGED EXPENDITURE

D.24 This part describes the components of AME, which may be divided into:

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

Departmental Annually Managed Expenditure

D.25 Departmental AME programmes are set out in departmental reports, and are identified under this heading in Estimates. A programme is included in AME if it cannot reasonably be subject to firm three-year limits as for DEL. Typically this is where the programme expenditure is demand-led, volatile, and large in relation to the size of the department. But those are neither necessary nor sufficient conditions for inclusion in AME. Discretionary new spending programmes are always in DEL except where a special case can be made to demonstrate that treatment as AME is likely to deliver better control of expenditure.

D.26 The main programmes in departmental AME are:

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

D.27 Social Security Benefits. Includes payments of social security and National Insurance benefits by the Department for Work and Pensions (DWP) and the DSS (Northern Ireland). It includes central government support for certain social security benefits paid by local authorities, eg Housing Benefit, Council Tax Benefit and Rent Rebates.

D.28 Tax Credits for Individuals. Tax credits paid to households that are classified as public expenditure under OECD guidelines followed by HM Treasury in the calculation of Net Taxes and Social Security Contributions. Mainly tax credit payments to non-tax-payers, or otherwise in excess of total tax liability. Also payments in respect of contributions to stakeholder pensions of non-tax-payers or in excess of tax paid.

D.29 Common Agricultural Policy (CAP). Includes expenditure on the CAP funded by the EC.

D.30 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, as measured under 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). Where the contributions received in respect of today's workers exactly cover the expected liability that the scheme is taking on, there will be no charge shown in this line as a result of taking on the liability.

D.31 Most pension schemes follow GAAP Financial Reporting Standard 17 to report any increase (or decrease) in liabilities accrued in the period. The measure is prospective. So, in broad terms, there is a charge (or benefit) shown in this row if either:

- pension contributions are set at a level that is not expected to cover the full costs of providing pensions; or
- there is a reduction (or increase) in the rate used to discount the cost of providing benefits in the future back to today's values.

D.32 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 was recognised when the right to the pension accrued. However, if any cash payment is made that is not covered by a previously recognised liability then that payment would score in this AME line.

D.33 Relevant receipts include employers' contributions (including accruing superannuation liability charges paid by departments to the Principal Civil Service Pension Scheme), employees' contributions for ordinary pensions (including widows'/widowers' pensions) and for added years, and receipts of bulk and individual transfers in.

D.34 This line does not reflect changes to the pension provision on the balance sheet resulting from changes in the assumptions made about the future (for example life expectancy, pay growth, inflation etc). 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) and do not score in Budgets.

D.35 For some small unfunded schemes information is not available on an FRS17 basis and these schemes report the difference between the cash paid out during the year and any contributions received.

D.36 In addition, grants outside DEL to enable NDPBs in the central government sector with their own pay as you go pension schemes to make bulk transfer payments are recorded in this AME line.

D.37 Note that this line does not cover:

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

D.38 Future payments of pensions are discounted in order to obtain the value of the liability in today's terms. Each year, future payments come a year closer and so the effects of discounting are reduced. That unwinding of the discount rate is a cost that is recognised in the accounts.

D.39 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 a no cost of capital credit recognised on the liability in scheme accounts; this credit would normally offset the increase. Therefore to score just the increase without the credit would distort the numbers.

D.40 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. 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 cost in the Net public service pensions row) from the notional costs because the schemes are unfunded.

D.41 The cost of pensions schemes as measured on a GAAP basis does not impact directly on TME or the fiscal framework. Appendix B shows how the GAAP measures for the main public service pension schemes in AME can be reconciled to TME, and Table B.1 gives more detailed information.

D.42 **National Lottery.** Expenditure on the six good causes funded from the proceeds of the National Lottery is in this line: the arts, sport, heritage, charities, projects to mark the Millennium and the New Opportunities Fund (education, health and the environment); the New Opportunities Fund and the Community Fund are to merge into the Big Lottery Fund. This line also includes expenditure funded by the National Endowment for Science, Technology and the Arts, which had been set up by grants from the National Lottery Distribution Fund.

D.43 **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; and
- some non-cash items in respect of departmental AME programmes; and
- an amount in respect of the increase in the liability of public service pensions schemes due to the unwinding of the discount (see above).

D.44 Other departmental expenditure in AME includes:

- Capital expenditure of NHS foundation trusts;
- 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;
- Redundancy Payments Scheme;
- Coal Health Liabilities;
- Education Maintenance Allowances;
- Expenditure of certain levy-funded bodies; and
- Acceptances of artworks in lieu of Inheritance Tax.

Other Annually Managed Expenditure**D.45 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 RRI.

D.46 LASFE is that part of total local authority expenditure not met by central government support. Its largest single financing component is the product of the Council Tax. Other components include the surpluses of trading activities, interest receipts, investment grants from the EC, unsupported borrowing and the use of reserves.

D.47 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. So the product of NIRR is treated as a transfer from AME into DEL.

D.48 Expenditure financed by borrowing from the National Loans Fund under the RRI is shown under LFE because the loans will be serviced and repaid out of the product of the NIRR.

D.49 Net Payments to European Community Institutions. This line is mainly made up of the following components:

- Traditional Own Resources (TOR), made up of
 - Customs duties, including those on agricultural products

- plus sugar levies
- plus VAT-based contributions
- plus GNI-based contribution (including payments to EC budget reserves)
- less the UK's abatement
- less receipts from the EC that come to or pass through government
- less European Coal & Steel Community receipts
- less an amount in respect of the cost of collecting TOR
- plus contributions to the European Investment Bank
- less attributed aid and Common Foreign & Security Policy (CFSP) expenditure, which are in DEL.

D.50 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 any exceptional market borrowing. Excludes Forest Enterprises which have a different budgeting regime.

D.51 This line includes the whole amount of capital expenditure of public corporations accountable to local authorities, whether own-financed or supported by local government: an accounting adjustment removes local government support to public corporations.

D.52 Central Government Debt interest. This line includes interest paid to the private sector and overseas, but not interest paid to other parts of the public sector. The capital uplift on index-linked gilts is scored as interest at the time it accrues. This line includes the amortisation of discounts/premia on gilts at issue.

AME Margin and Accounting Adjustments

D.53 AME Margin. The AME margin is an allowance for estimating changes.

D.54 Accounting adjustments are described in Appendix B.

TOTAL MANAGED EXPENDITURE

D.55 TME is an aggregate drawn from national accounts. It covers the current and capital expenditure of the public sector, net of some receipts. So it includes expenditure of central and local government and also the capital expenditure of public corporations. TME excludes grants and interest payments between parts of the public sector – it is a consolidated measure. TME does not include financial transactions. So TME is the expenditure side of the equation that gives Public Sector Net Borrowing, the government's preferred measure of the fiscal stance.

D.56 TME equals DEL + AME (including accounting adjustments).

D.57 In addition, TME may be expressed as the sum of :

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

E

EXPENDITURE ON SERVICES

E.1 The tables in Chapters 3 and 4, which show public expenditure disaggregated by function and by economic category, and the tables in Chapter 8, which show public expenditure by country and by region, all focus on Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure (TME). The definition of TES in PESA 2005 is identical to that presented in PESA 2004.

EU transactions in TES

E.2 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. Therefore the EU transactions line in TES includes EU receipts, thus bringing the total into line with TME. Similarly, TES scores attributed EU expenditure on aid and the Common Foreign and Security Policy under International Services and deducts an appropriate amount under EU transactions. TES also includes the contribution to the EU on the TME basis (GNI-based contribution, less abatement), rather than on the broader basis in the Net Payments to EU institutions line in the AME table (for which see Appendix D). Tables 3.6 and 4.5 show the derivation of the GNI-based contribution (net of abatement) from the gross contribution.

TES defined by reference to TME

E.3 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.

E.4 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.5 TES can also be built up from the budgeting aggregates (DEL, Departmental AME and other AME) (simplifying):

Departmental Expenditure Limits

- Spending in DEL
- depreciation and other non-cash items in DEL (other than the grant-equivalent element of student loans)
- the element of purchases of healthcare from NHS trusts that represents the funding of trust debt remuneration
- + Reverse the deduction in budgets of certain receipts that are revenue in the national accounts, including interest and dividend receipts from public corporations
- financial transactions
- debt repayment grants to local authorities
- profit/loss of public corporations 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 an AME basis
- + net public service pensions on an TME basis
- financial transactions
- + reverse the deduction of interest and dividend receipts from public corporations

Other Annually Managed Expenditure

- + net payments to EC Institutions (AME basis, except that tariffs, agricultural and sugar levies and the VAT contributions are not included)
- + locally financed expenditure
- local authority debt interest paid to central government
- capital grants paid by local authorities to public corporations
- + central government gross debt interest
- + public corporations' own-financed capital expenditure
- + public corporations' debt interest to the private sector and rest of world

E.6 To get TES for each department we first take total DEL and remove items as detailed in paragraph E.5. This total, combined with departmental AME on the same basis and local authority and public corporations spending gives the department's TES.

Derivation of Total Expenditure on Services from departmental budgets, 2003-04

| | Education and Skills | Health | Transport | Office of the Deputy Prime Minister | 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 | Total for all departments | |
|---|----------------------|---------------|---------------|-------------------------------------|---------------|------------------------|---------------------------|---------------|---------------------------------|---------------------------|--------------------|-------------------------------------|--------------------------|-------------------|---------------|---------------|----------------------------|-------------------------|--------------------------|----------------|---------------------------|--|
| Take: | 23,136 | 62,679 | 7,830 | 46,915 | 11,721 | 3,200 | 576 | 31,316 | 1,585 | 3,793 | 4,379 | 2,691 | 1,279 | 8,287 | 18,826 | 9,834 | 6,421 | 1,043 | 4,516 | 1,854 | 251,881 | |
| Res DEL | 3,242 | 2,539 | 3,034 | 2,766 | 929 | 130 | 11 | 6,073 | 50 | 27 | 578 | 355 | 147 | 186 | 1,401 | 807 | 360 | 54 | 253 | 522 | 23,464 | |
| Cap DEL | 6,842 | 6,328 | 3,088 | 507 | 40 | 58 | — | 4,609 | — | 128 | 902 | 2,173 | 1,592 | 103,940 | 1,868 | 726 | 5,389 | 165 | 19,967 | 5,017 | 163,339 | |
| Cap AME | 4 | — | — | 216 | — | — | — | -4 | — | — | -701 | 1 | 841 | 90 | — | 10 | 63 | — | — | — | 520 | |
| Remove: | | | | | | | | | | | | | | | | | | | | | | |
| Finance to LAs | -8,951 | -1,948 | -3,647 | -45,714 | -4,869 | -315 | — | — | — | — | -100 | -120 | -910 | -14,352 | -6,316 | -4,277 | -74 | — | — | -19 | -91,612 | |
| Finance to PCs | — | — | -19 | -68 | — | — | — | — | -37 | — | — | -1 | — | -7 | -8 | — | -28 | — | -1 | — | -169 | |
| Financial transactions | — | -3 | -8 | -16 | — | — | 9 | — | — | 19 | 373 | — | — | -90 | -42 | — | 83 | — | — | — | 325 | |
| Non-cash items in DEL | -775 | -2,406 | -514 | -30 | -349 | 101 | -5 | -10,020 | -147 | -22 | -27 | -200 | -150 | -88 | -363 | -196 | -155 | -109 | -165 | -376 | -15,996 | |
| Non-cash items in AME | -5,921 | -8,472 | -3,088 | — | — | -69 | — | -2,051 | — | -10 | -134 | -23 | 1 | -85 | -1,517 | -341 | -1,505 | -71 | -530 | -3,981 | -27,797 | |
| Profit/loss of PCs | — | 705 | — | — | — | — | — | — | — | — | — | -2 | — | — | -16 | 57 | 47 | — | — | — | 791 | |
| Other items not in TME | 39 | — | 37 | — | 45 | — | — | — | — | — | 118 | 14 | 70 | — | — | — | — | — | 13 | — | 336 | |
| Interest and dividends | 205 | — | 12 | 21 | 2 | — | — | 12 | — | — | 280 | — | — | — | 40 | — | 41 | — | 15 | — | 628 | |
| Trust debt remuneration | — | -831 | — | — | — | — | — | — | — | — | — | — | — | — | — | -66 | — | — | — | — | -897 | |
| Add: | | | | | | | | | | | | | | | | | | | | | | |
| PC capex | 0 | 5 | 694 | 64 | 9 | 24 | 0 | 99 | 37 | 5 | 670 | 5 | 122 | 5 | 409 | 0 | 28 | 0 | 37 | 0 | 2,213 | |
| LA Cap exp | 2,558 | 186 | 2,468 | 639 | 471 | 32 | — | — | — | — | 1 | 300 | 445 | — | 811 | 455 | 75 | — | — | — | 8,441 | |
| LA current exp | 30,688 | 14,805 | 4,392 | 7,775 | 9,916 | 417 | — | — | — | — | 278 | 3,811 | 2,045 | 13,228 | 8,440 | 3,930 | 289 | — | — | 31 | 100,045 | |
| Northern Ireland locally financed expenditure | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 384 | — | — | — | 384 | |
| Debt interest | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 22,776 | |
| EU transactions | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | -2,143 | |
| To give: | | | | | | | | | | | | | | | | | | | | | | |
| Total Expenditure on Services | 51,067 | 73,588 | 14,279 | 13,078 | 17,914 | 3,579 | 582 | 30,043 | 1,489 | 3,940 | 6,614 | 9,005 | 5,481 | 111,114 | 23,532 | 10,940 | 11,417 | 1,082 | 44,739 | 3,047 | 436,527 | |

F

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

Assets can be either financial or non-financial:

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

Billion – a thousand million

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

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

A department's **Capital Budget** covers **capital expenditure**. The capital budget is divided into **DEL** and **Departmental AME**. The capital budget includes gross capital formation, net acquisition of land and the net acquisition of financial assets acquired for policy purposes (net lending). The capital budget includes **capital grants** (from 2004-05 referred to as Supported Capital Expenditure (Capital)) to local authorities (treated as resource expenditure in accounts and **Estimates**), but not most other capital grants. It also includes single use military equipment treated as current expenditure in **national accounts**.

Capital expenditure can be understood in several ways.

- In **national accounts** capital expenditure is usually understood to mean **capital formation**, the net acquisition of land, and expenditure on capital grants. **Capital formation** is expenditure, net of sales, on fixed assets (such as buildings, vehicles and machinery) and net stock building, and can be measured gross or net of **depreciation**. Fixed assets are assets that can be used repeatedly to produce goods and services and generally last more than one year. Sometimes a minimum cost threshold (say £1,000) is applied to further define capital assets. There are some borderline cases: for example in national accounts all assets with a purely military use are defined as current; but assets that can be used for civil and military purposes count as capital. Certain types of significant computer software development are treated as capital expenditure.
- Capital expenditure includes the value of assets acquired under finance leases.
- In-house development of assets such as computer software and databases can be capitalised in government accounts provided certain conditions are met. It is sometimes called "own account capital formation".
- **Net investment** is public sector capital expenditure, as defined above, net of depreciation.
- Under **resource accounting**, and in various presentations of local authority finances, capital expenditure also includes loans that are given and the net acquisition of shares. In other words it includes the net acquisition of financial assets that are acquired for policy reasons rather than for managing the government's funds. Such policy lending also generally scores in **DEL**, in the capital budget, but is removed by the **accounting adjustments** as it does not score in **TME**.

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

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

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

Cash-Equivalent Budgets are the **near-cash** elements of budgets.

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

Classification changes are changes in the way items of public expenditure are recorded, rather than an actual change in the amount of cash spent or resources consumed. Classification changes can increase or decrease the recorded level of public expenditure.

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

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

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

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

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

Departmental Expenditure Limits (DELs) are firm plans for three years for a specific part of a department's expenditure. In general the DEL will cover all running costs and all programme expenditure, except in certain cases where spending is included in **departmental AME** because it cannot reasonably be subject to close control over a three year period. Both resource and capital budgets are divided into DEL and departmental AME. DEL normally includes relevant non-cash items such as **depreciation, cost of capital charges**, and provisions. 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. Total DEL is not a control total: it is purely used for presentation.

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

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

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

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

Economic Categories. These represent classifications in **national accounts** and are one of the categories used to collect data from government departments on their expenditure. The main categories in TME are set out in Table 3.7.

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

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

Estimates – see **Supply Expenditure**.

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

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

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

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's financial liabilities include Treasury Bills; British Government securities (gilts); loans received; deposits accepted for example in respect of National Savings; and accounts payable such as for goods received but not yet paid for. Government's financial assets include bank deposits; monetary gold; foreign currency held; bonds and shares owned; loans given; accounts receivable in respect of, for example, taxes accrued but not yet paid; **public dividend capital** and the value of government's other stakes in **public corporations**. Physical assets such as buildings and land are not financial assets. Transactions in some financial assets are undertaken to manage cash flows for example movements in bank deposits; but some are undertaken to further a policy such as lending to students. These types of financial transactions are sometimes called policy lending and if undertaken by a department are normally included in its **DEL capital budget**.

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

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

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

Generally accepted accounting practice (GAAP). There is no statutory definition of GAAP, but it 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 a different accounting framework from the **national accounts** used for TME and the government's **fiscal framework**.

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

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

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

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

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

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

Local Authority Self-Financed Expenditure (LASFE) is aggregate **local government** expenditure, less its receipts of government grants including distribution of NNDR in England and Wales. It represents local government expenditure financed from local resources such as council tax, trading surpluses, investment income, capital receipts, self-financed borrowing, and use of reserves.

Locally Financed Expenditure (LFE) is LASFE plus expenditure financed by non-domestic rates in Scotland and Northern Ireland Regional Rates (NIRR).

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

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

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

National Non-Domestic Rates (NNDR) is a tax paid by the occupiers of non-domestic property, principally businesses. The bill for a property depends on its rateable value and the poundage. The poundage is set by central government at a common rate for England – sometimes called the Uniform Business Rate. Most NNDR is collected from businesses by local authorities and then paid into a central government pool. Some large businesses with national activity (such as utility companies) pay directly into the pool (the Central List). Until 31 March 2000 government departments (the Crown List) paid Contributions in Lieu of Rates directly into the pool; they now pay normal NNDR. The pool is distributed back to local authorities in proportion to their population and is scored in expenditure as a central government grant to local authorities. Similar systems apply in Wales and Scotland. The grant is in DEL for England and Wales, but in the AME line for **Locally Financed Expenditure** in Scotland. NNDR payments by **general government** are consolidated out through the **accounting adjustments** to arrive at TME.

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

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

The **National Lottery Distribution Fund (NLDF)** is a central government fund that receives a proportion of national lottery ticket sales (receipt of that proportion is treated as a tax in national accounts) and distributes money to good causes (treated as central government expenditure in AME).

Near Cash elements of budgets are those elements measured on an accruals basis that turn into cash transactions quickly, for example **pay**, current procurement, **capital expenditure** and income from sales. Near-cash includes expenditure that in budgeting and accounting terms is covered by the release of provisions. In tables, near-cash is total budgets *less non-cash* items.

Net lending has two meanings.

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

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

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

Non-cash items refer to various notional transactions that appear in the **operating cost statement** under RAB, such as depreciation, 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 generally central government bodies with day to day autonomy in their management and financial matters, and usually funded through **grant in aid**. A list can be found in the Cabinet Office publication "Public Bodies".

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

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

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

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

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

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

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

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

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

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

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

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

Public sector current expenditure:

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

Public sector net investment is public sector **capital expenditure** less **depreciation**.

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

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

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

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

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

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

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

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

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

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

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

Resource budgeting is the budgeting regime based on **resource accounting** introduced for the spending plans set in the 2000 Spending Review and which has been used for in-year spending control from 2001-02. It is derived from resource accounting rules, but there are a few differences in treatment between resource accounts and resource budgets.

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

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

Spending sectors are the 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 are held every two years. The most recent, SR2004, reported in July 2004, and set plans for 2005-06 to 2007-08.

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

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

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

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

Supported Capital Expenditure (SCE) is the term used for central government capital support for local authorities in England from 2004-05. Supported Capital Expenditure (Revenue) (SCE(R)) is the amount of capital expenditure by a local authority towards which central government is prepared to provide revenue grant support. This is 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 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 covering at least half their costs) but that do not take a separate legal form. Examples are Export Credits Guarantee Department and local authority housing. They score in the national accounts like public corporations (although **capital expenditure** on housing and interest on housing related debt are treated as local authority expenditure).
- There may also be some trading activities which are closely integrated within **general government** and do not have enough independence to be classified as a public corporation or quasi-corporation. Their **capital expenditure** is included in public expenditure measures, but their current expenditure and current receipts are included 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 department. 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.

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

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