

A Sources, data quality and conventions

A.1 This annex outlines the main sources used in producing PESA and provides information on data quality, the treatment of certain transactions, and on consistency with the FSBR and previous editions of PESA. It also explains the main conventions that are used throughout the publication.

Sources of data

Central government and public corporation data

A.2 Most expenditure data in PESA are taken directly from the Treasury's public expenditure database, the Combined On-line Information System (COINS). Departments and the devolved administrations maintain up to nine years of live data depending on the year of the latest Spending Review. For PESA 2009 departments maintained the years 2003-04 to 2010-11 on COINS, updating throughout the year:

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

A.3 Data entered onto COINS by departments cover their own income and expenditure, including support for local government and for public corporations. Departments also enter information on the income and expenditure of NDPBs and on the capital expenditure of public corporations¹.

Local government data

A.4 The Department for Children, Schools and Families supplies data on local government spending on education in England. The Department for Work and Pensions supplies data on local government spending on social protection in all countries except Northern Ireland. All other data on local government spending in England are supplied by the Department for Communities and Local Government. The devolved administrations provide local government spending data for Scotland, Wales and Northern Ireland.

National Accounts aggregates

A.5 The Office for National Statistics (ONS) supplies outturn numbers for the following National Accounts aggregates used in PESA:

- Total Managed Expenditure;
- public sector current expenditure, gross investment and net investment;
- public sector, central and local government, and public corporations' depreciation;
- central government own expenditure (total, current and capital);
- local government expenditure (total, current, capital); and
- public corporations expenditure (total, current and capital).

¹ The departmental reporting requirements in relation to public corporations result from the fact that only PC capital expenditure is treated as spending in the National Accounts. The current spending (except debt interest paid to the private sector) is included in the calculation of the gross operating surplus, which scores on the revenue side of the account.

Forecasts of these aggregates for estimated outturn (2008-09) and plan years (2009-10 and 2010-11) are made by the Treasury at the time of the Budget.

To avoid confusion:

- the public sector or total expenditure on services (TES) aggregate used in PESA is a Treasury aggregate that broadly follows the National Accounts framework and so is broadly consistent with TME. **Annex E** provides a detailed definition of TES; and
- depreciation in budgets is a number sourced from departments consistent with their resource accounts. The depreciation numbers used in the National Accounts are derived by the ONS.

Classification Of the Functions Of Government (COFOG)

A.6 The Treasury assigns level 2 United Nations COFOG categories to departmental and local government data in consultation with departments and the devolved administrations. Where we identify data streams that cover more than one sub-functional category, departments are asked to change their reporting so that spending on each sub-function is recorded separately. However, we do not ask departments to make changes where the amounts involved would be less than £10m.

A.7 With the exception of the Department of Health, all departments and the devolved administrations are reporting data against level 2 COFOG. The Department of Health are currently unable to report on this basis as the NHS is neither financed nor organised along the lines of COFOG level 2. The health sub-functional analysis is therefore presented against Treasury defined sub-functions.

Timing of PESA production

A.8 Most of the data contained in PESA are reported by departments on the Treasury's COINS database and extracted approximately one week prior to publication. The two main exceptions to this are:

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

Data quality

General

A.9 Departments, devolved administrations and NDPBs aim to produce good quality data for internal management and control, as well as external reporting via audited accounts. They also seek to ensure that the data they feed into COINS are of high quality. Several outputs directly relevant to Whitehall departments' operations and reporting are produced straight from COINS, including Main Estimates presented to Parliament, Departmental Reports, and Supplementary Budgetary Information. So Whitehall departments have a clear incentive to ensure the accuracy of the data they supply to COINS.

A.10 However, there are also factors that act against data quality:

- the public expenditure system is complicated. Data need to be coded so as to produce a wide range of outputs. Some data will be miscoded;
- those recording data need to apply judgement to determine the right coding. Views on the right judgement to make may differ according to the use to which the data are to be put;

- while the budget-based numbers in PESA (for example in **Chapter 1**) are key control totals for departments and devolved administrations that are closely monitored, some of the economic category and sub-function analyses do not appear in departmental outputs so may be less robust. The devolved administrations do not draw outputs direct from the Treasury's database; and
- the need to keep compliance costs down means that some data checks are not worth doing, and some disaggregation of data is not worthwhile.

A.11 The aim of PESA is to provide a broad picture of where public expenditure goes. As a general rule, the more detailed the presentation, the less accurate the attribution to detailed categories. Small differences in numbers should not be taken as significant. While we present many figures to the nearest £m, this is so that people using the data do not introduce rounding errors rather than because the data is necessarily this accurate.

Coverage of public bodies

A.12 PESA aims to include the expenditure of all public sector bodies on the appropriate basis. However, when new public bodies are set up, or when bodies are reclassified to, or within, the public sector by the ONS, there may be a delay before data are recorded in a way that allows their correct inclusion in PESA. The following explains the PESA 2009 treatment of some of the larger bodies affected:

- ONS classified **Great North Eastern Railways (GNER)** to the public corporation sector from 10 December 2006 to 9 December 2007, during which time GNER operated under an amended version of the Franchise Agreement signed in May 2005. For PESA 2009 we have fully reflected this classification;
- **Metronet** and **Tubelines** have both been reclassified by the ONS to the public corporation sector from their inception. The central government support that scores in Department for Transport budgets was reflected in PESA 2008 but the capital spending of these bodies was unavailable. For PESA 2009 we have added this capital spending;
- Shortly before PESA 2008, **Northern Ireland Water** was classified by the ONS as part of central government from its inception. It was therefore shown in PESA 2008 as a public corporation but in PESA 2009 it is shown as part of central government;
- The **Financial Services Compensation Scheme** and **Financial Services Authority** are classified by the ONS to the public sector but are not currently incorporated within the budgeting framework so are not included within PESA 2009;
- ONS classified **Northern Rock** to the public corporation sector from 9 October 2007. The central government support that scores in HM Treasury budgets is reflected in PESA 2009. The capital spending of Northern Rock will be reflected in future editions of PESA after it is included within the National Accounts;
- ONS classified **Bradford and Bingley** to the public corporation sector from 26 September 2008. The central government support that scores in HM Treasury budgets is reflected in PESA 2009. The capital spending of Bradford and Bingley will be reflected in future editions of PESA after it is included within the National Accounts; and
- ONS classified **Royal Bank of Scotland** and **Lloyds Banking Group** to the public corporation sector from 13 October 2008. The central government support that scores in HM Treasury budgets is reflected in PESA 2009. The capital spending of these bodies will be reflected in future editions of PESA after it is included within the National Accounts.

Treatment of certain transactions in PESA

The Private Finance Initiative

A.13 The private finance initiative (PFI) is a means of procuring capital-intensive services. Instead of the public sector being responsible, for example, for building and maintaining a school building, the public sector contracts with the private sector for the provision of serviced school premises. The government entity that is purchasing services pays a single unitary charge to the PFI provider for as long as the services are provided to the required standard.

A.14 PFI deals may be on or off the Government's balance sheet depending on where the balance of risks in the project lies. Independent public sector auditors take the balance sheet decision, and that decision is normally used for the National Accounts by the independent Office for National Statistics. If the project is on the government's balance sheet, the capital expenditure is treated as part of public sector capital expenditure and counts towards TME. If the project is off the Government's balance sheet then the capital expenditure is recorded as undertaken by the private sector.

A.15 For on-balance sheet projects, PESA includes:

- the capital expenditure imputed to the public sector;
- the service and debt interest elements of the unitary charge;
- the depreciation on the imputed asset; and
- the cost of capital charges and credits.

A.16 For off-balance sheet projects, where the asset economically as well as legally belongs to the private sector, PESA includes the whole general government payment of unitary charges as payments for services.

British Nuclear Fuel Limited

A.17 In 2005-06 British Nuclear Fuel Limited (BNFL), a public corporation, transferred the bulk of its assets and liabilities to the Nuclear Decommissioning Authority (NDA), which is part of central government. In the National Accounts these assets were shown as having a large (circa £15.6bn) negative value due to the decommissioning and clean-up liabilities associated with the assets being far in excess of their remaining productive value. The transfer from the public corporation sector to the central government sector has no impact on TME, or the overall public finances, as this is an intra-public sector set of transactions. However, the components of the public sector finances are affected as follows:

- increase to public corporations gross fixed capital formation (GFCF);
- corresponding reduction to central government GFCF;
- increase to central government payments of capital grants to public corporations, which finances the increased PC GFCF; and
- corresponding increase in receipts of capital grants by public corporations.

A.18 The sectoral contribution to TME is shown as the 'own' expenditure of each sector. Payments from one sector that are used to finance the expenditure of another sector are therefore excluded from these sectoral totals as are the corresponding receipts. As a result, the imputed GFCF transactions add to the public corporation contribution to TME, reducing the central government contribution by a corresponding amount. As transactions imputed for the National Accounts are generally not included within the budgeting or expenditure on services frameworks, there

are larger than usual accounting adjustments in 2005-06 for the central government and public corporation sectors.

Financial sector interventions

A.19 The support given to financial institutions scores within the HM Treasury Annually Managed Expenditure (AME) budget, which is presented as part of the Chancellor's Departments departmental group in PESA. In the sectoral budgeting presentations (such as **Table 1.15**) this support is split between central government own spending and support to public corporations as follows:

- central government own spending comprises the support to depositors, including loans to the Financial Services Compensation Scheme (FSCS), and certain non-cash charges in respect of financial assets and liabilities; and
- support to public corporations mainly covers the purchase of equity in Royal Bank of Scotland and Lloyds Banking Group, and the loans (net of repayments) provided to Northern Rock and Bradford & Bingley.

A.20 The presentation of these transactions in the expenditure on services framework follows their impact on public spending in the National Accounts. The transactions do not generally have an impact on Total Managed Expenditure because:

- they take the form of financial transactions, such as loans or share purchases, which do not constitute spending (as one asset is exchanged for another);
- they are offset by recoveries imputed in the National Accounts, such as for liabilities borne by the FSCS; or
- they relate to banks classified to the public sector and so are classified as intra-public sector flows.

A.21 PESA reflects the treatment of the first and third sets of transactions but, as only transactions within departments' budgets/accounts are included in PESA, a slightly different treatment is needed where recoveries are imputed in National Accounts. Therefore, rather than showing capital grants to the private sector offset by imputed recoveries, PESA treats payments in respect of depositors as lending to the private sector (which doesn't constitute spending). As a result, the overall impact on public sector expenditure on services is equivalent to the impact on Total Managed Expenditure.

A.22 However, the imputed flows in the National Accounts have an impact on the sectoral breakdown that can't be replicated in PESA by using just those transactions in budgets/accounts. There are therefore larger than usual offsetting central government and public corporation accounting adjustments in 2008-09, which reconcile the sectoral components of expenditure on services to the equivalent measures in the National Accounts.

Consistency with other publications

The Financial Statement and Budget Report

A.23 Total Managed Expenditure (TME) and its sectoral components for 2009-10 and 2010-11 are consistent with the forecasts published in the FSBR (HC407; 22 April 2009). TME and its sectoral components for 2008-09 and earlier years are consistent with the joint ONS/HM Treasury Public Sector Finance Statistics monthly release of 22 April 2009.

A.24 All other data contained in **Chapters 1 to 8** are consistent with the numbers published in the FSBR except in a few places where later information has become available. The Country and Regional Analysis data contained in **Chapters 9 and 10** were extracted from the COINS database

in December 2008, so will not reflect any changes that have since been made. Further information on this can be found in **Chapter 9**.

A.25 TME by budgetary category is shown in PESA **Table 1.1** (and the National Statistics updates) as well as in FSBR **Table C.11** and the equivalent table in the Pre-Budget Report (PBR). TME and the DEL numbers are on the same basis in both presentations.

A.26 However, there are differences in the presentation of the AME lines. PESA follows the budgeting system and so divides AME into departmental AME and other AME. The FSBR and the PBR combine the AME categories and exclude certain transactions in order to give a presentation more closely aligned with the fiscal aggregates. As a result the accounting adjustments in PESA and FSBR/PBR are also different.

A.27 The main differences in the presentation of AME lines are:

- the predecessor payments to Child Tax Credits (child allowances in Income Support and Jobseekers Allowance) are included in the FSBR/PBR tax credits line whereas in PESA these payments are shown as part of social security benefits;
- net lending to students is shown in departmental AME in PESA and is not shown in the FSBR/PBR;
- the main public service pension schemes are shown on a GAAP basis in PESA and on a National Accounts basis in the FSBR/PBR. **Annex C** explains the treatment in PESA and **Annex D** includes a reconciliation table;
- the BBC's dividend income is shown as part of the BBC domestic services line in PESA but part of the other current expenditure line in the FSBR/PBR. PESA also presents the BBC capital spending separately whereas the FSBR/PBR includes this spending within other capital expenditure;
- the FSBR/PBR does not include a non-cash AME line while PESA does; and
- the other departmental expenditure and other capital expenditure lines in the FSBR/PBR essentially only include items that contribute to TME, whereas PESA shows all expenditure in departmental AME.

Previous editions of PESA

A.28 Data in previous editions of PESA may not be directly consistent with PESA 2009 due to changes in data coverage and classification changes. Details of the main budgetary classification changes are shown in **Annex C**. Readers are therefore strongly advised against simply splicing together data in different editions of PESA. The summary analyses in **Chapter 4** incorporate historical data adjusted to current definitions in order to show trends over a longer period.

Conventions

Rounding

A.29 The figures in this publication are generally shown to the nearest £1 million, except that the figures for the main spending aggregates (DEL, AME and TME) and the DEL Reserve are rounded to the nearest £100 million for 2009-10 and 2010-11.

A.30 In all chapters dashes in the tables show that there are no data, while zeros show that there are data that round to 0 (which normally indicates between -£0.5 million and £0.5 million).

A.31 Figures in tables may not sum due to rounding.

Real terms

A.32 A number of the tables in this publication give figures in real terms. Real terms figures are the current price outturns or plans adjusted to a constant price level by excluding the effect of general inflation as measured by the GDP deflator at market prices. The real terms figures in this publication are given in 2007-08 prices. The GDP deflators used in this publication are those given in **Annex F**.

GDP measure

A.33 In tables that give spending as a proportion of GDP, PESA 2009 uses the cautious view of the GDP forecast. This is consistent with Budget 2009.

2008-09 estimated outturn

A.34 The estimated outturns for individual departments for 2008-09 are based on the latest information made available by departments for the Budget 2009, updated in some cases for later information. The estimated outturn for resource DEL for 2008-09 includes an allowance for shortfall reflecting the difference between the sum of individual departments' estimates of outturn and the Treasury's overall assessment.

Use of accruals data in tables

A.35 Except in the long run tables covering years before 1998-99, all data are presented on an accruals basis.

Revisions policy

A.36 Where we discover errors after the production of PESA 2009 we will take the following action:

- minor errors will be corrected at the next National Statistics update or the next edition of PESA; and
- larger errors will lead to the publication of revised tables on the Treasury's website together with an explanatory note.

B

Departmental groups

B.1 A number of tables in this publication present analyses by department. Rather than showing figures for all individual government departments separately, departments are grouped together broadly on the basis of Ministerial responsibilities. These groupings are set out below.

Title	Departments included
Children, Schools and Families	Department for Children, Schools and Families Office for Standards in Education, Children's Services and Skills (Ofsted)
Health	Department of Health Food Standards Agency
Transport	Department for Transport Office of the Rail Regulator
Innovation, Universities and Skills	Department for Innovation, Universities and Skills
CLG Communities	Communities part of Communities and Local Government
CLG Local Government	Local Government part of Communities and Local Government (mainly grants to English local authorities, the Greater London Authority, and Regional Development Agencies)
Home Office	Home Office Assets Recovery Agency
Justice	Ministry of Justice The National Archives: Public Record Office and Historical Manuscripts Commission Electoral Commission Northern Ireland Court Service Land Registry Scotland Office Wales Office UK Supreme Court
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

Title	Departments included
Energy and Climate Change	Department of Energy and Climate Change Office of Gas and Electricity Markets
Business, Enterprise and Regulatory Reform	Department for Business, Enterprise and Regulatory Reform UK Trade and Investment Office of Fair Trading Office of Communications Postal Services Commission Export Credits Guarantee Department
Environment, Food and Rural Affairs	Department for Environment, Food and Rural Affairs Forestry Commission Water Services Regulatory Authority
Culture, Media and Sport	Department for Culture, Media and Sport
Work and Pensions	Department for Work and Pensions Government Equalities Office
Scotland	Scottish Executive and its departments
Wales	Welsh Assembly Government
Northern Ireland Executive	Northern Ireland departments
Northern Ireland Office	Northern Ireland Office
Chancellor's Departments	HM Treasury National Savings and Investments Government Actuary's Department HM Revenue and Customs National Investment and Loans Office Royal Mint Office of Government Commerce Crown Estate Office
Cabinet Office	Cabinet Office Central Office of Information Charity Commission National School of Government Security and Intelligence Agencies
Independent Bodies	House of Commons House of Lords National Audit Office Statistics Board Office of the Parliamentary Commissioner for Administration and Health Service Commissioners for England



Public expenditure budgeting and control aggregates

C.1 This annex describes the budgeting and control regime under the current resource budgeting framework that was first introduced for the 2002 Spending Review (full resource budgeting) and that has been modified since then. Departments have separate resource and capital budgets. These are split into Departmental Expenditure Limits (DEL) and departmental Annually Managed Expenditure (AME). Within DEL there are separate control totals for capital and resource DEL budgets; and within resource DEL there are further control totals for near-cash and administration budgets. In addition to departmental AME, other AME covers spending that is not tied to a departmental budget. DEL plus AME, including accounting adjustments, sum to Total Managed Expenditure (TME), an aggregate that is drawn from National Accounts.

Recent developments

C.2 There are a number of changes to the budgeting framework that departments will be controlled on from 2009-10 onwards:

- the ASB Financial Instrument Standards (the IFRS equivalents) were implemented in-year in 2008-09. This change to resource accounting has created differences in the measurement of financial instruments on balance sheets; some of these changes impact on budgeting;
- the take-up and release of provisions relating to capital expenditure have been moved to non-cash from capital budgets;
- realised gains and losses on hedging contracts will now be split between capital and current budgets according to associated spending/income that the hedging contract was intended to cover; and
- donations in kind have previously not appeared in budgets; in future the recording will show a capital grant matched by an asset purchase that net to zero within budgets.

C.3 The provisions relating to capital expenditure have been reclassified in all years, the remaining changes will only be implemented in 2009-10 onwards.

C.4 The Treasury has published an updated version of Consolidated Budgeting Guidance² for departments, which contains other changes to the control framework that do not directly impact on the figures produced in PESA. The guidance explains in detail what is in budgets.

Resource budgeting

C.5 In 2003-04 the Government completed its staged move to a full resource basis for financial reporting and control. Since this point, budgets have been set and monitored in resource terms, as described below, and Supply Estimates vote resource requirements as well as cash.

C.6 There are separate departmental budgets for resource (i.e. current) and capital expenditure. These are also laid out in more detail below and are summarised in C.24.

Resource budget

C.7 The **resource budget** controls the current expenditure of a department and largely follows the contents of resource accounts. Resource accounts are prepared in accordance with the

² http://www.hm-treasury.gov.uk/psr_bc_consolidated_budgeting.htm

Government Financial Reporting Manual, which follows Generally Accepted Accounting Practice (GAAP) with such adaptations as are necessary for the public sector.

C.8 Resource accounts measure expenditure when it accrues rather than when the cash is spent. They do not include, as an in-year cost, prepayments for goods and services not consumed in that year but they will include resources consumed but paid for in later years or where pre-financed in earlier periods. Stock consumption scores in the resource budget while spending on adding to stocks does not. They include non-cash costs such as movements in provisions and charges for bad debts. Resource budgets record the cost of lending to students on the basis of an assessment of the grant implied in the low interest rate charged and the bad debt provision that is required.

C.9 The annual resource cost to departments of the assets they use to deliver services is included in resource budgets. This cost is in the form of charges for capital consumed in that year (depreciation) and the opportunity cost of tying up capital in these assets (the cost of capital charge). The cost of capital charge is 3.5 per cent of the net assets (fixed capital and financial assets, net of financial liabilities and provisions) employed by each department.

C.10 The resource budget (DEL) includes all administration costs of central government departments such as pay and employer pension contributions or superannuation charges paid to pay as you go public service pensions schemes. It also includes most of departments' other purchases of services. It includes current grants and subsidies paid to the private sector.

C.11 The resource budgets for the Department for International Development (DfID) and the Foreign and Commonwealth Office (FCO) include an attributed share of the EC's expenditure on overseas aid and the Common Foreign and Security Policy.

C.12 The resource budget is divided into near-cash and non-cash. Near-cash in resource DEL is a control total. Near-cash expenditure includes pay, procurement, grants, and payments made where provisions had been taken in the past and are now being released. Near-cash expenditure is measured on an accruals basis, and normally results quickly in a cash outflow. Non-cash expenditure includes depreciation, impairments, cost of capital charges, and the take-up and release of provisions.

C.13 Non-Departmental Public Bodies – resource and capital budgets include the expenditure of most non-departmental public bodies (NDPBs) classified to the central government sector, rather than the grant-in-aid from the parent department. This budgeting treatment remains different from the accounting treatment in departmental resource accounts, which just record the grant-in-aid paid by the department.

C.14 There are two budgeting treatments for **public corporations**. On an external finance basis resource budgets include most of the department's current transactions with public corporations that it sponsors (as recorded in resource accounts) but capital grants, lending to public corporations, and private sector borrowing by public corporations are in the capital budget. So the resource budget scores:

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

C.15 London and Continental Railways (LCR) and Forest Enterprises (which are public corporations) have a consolidated budgeting treatment. For them, the resource budget includes their operating profit/loss and the capital budget shows their capital expenditure.

C.16 Central government support for local government – the resource budget scores current grants to local government. Capital support scores in capital budgets. More information on local government is in **Chapter 7**.

C.17 The sum of departmental resource budgets is reconciled to public sector current expenditure (a National Accounts concept that is part of TME) in **Table 1.3**.

Capital budget

C.18 **Capital budgets** include expenditure on fixed capital assets, capital grants and the acquisition of certain financial assets acquired or sold for policy reasons. Capital budgets include capital expenditure financed by finance leases and on balance sheet Private Finance Initiative transactions. From 2007-08 capital budgets are set net of the sale value of receipts from the sale of capital assets.

C.19 In resource accounts proceeds from sales of assets are split between the book value and any profit/loss on disposal. Receipts relating to the book value have always been recorded in capital budgets. Formerly the profit/loss on disposal was recorded as a non-cash item in resource budgets. From PESA 2007 this has also been recorded in capital budgets so the proceeds from the sale score as a benefit, which aligns with the treatment in public sector net investment, part of TME.

C.20 Capital budgets generally include loans on a net basis. I.e. new loans issued *less* repayments of loan principal. Large (over £20m) prepayments and debtors score in capital budgets if they last more than 12 months.

C.21 Long-lasting defence fighting equipment with no civilian use (sometimes called Single Use Military or Fighting Equipment) is treated as capital expenditure in budgets and departmental resource accounts, but National Accounts treat it as current.

C.22 **Central government support for local government** – capital grants (called Supported Capital Expenditure (Capital) in England and Wales 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. Until 2003-04 these were termed credit approvals in England and Wales, and capital consents in Scotland; from 2004-05 these are termed Supported Capital Expenditure (Revenue) in England and Wales, and supported borrowing in Scotland. Current support scores in resource budgets. More information on local government is in **Chapter 7**.

C.23 The sum of departmental capital budgets is reconciled to public sector net investment in **Table 1.4**.

Resource and capital budgets – summary table

C.24 This table summarises the main standard contents of resource and capital budgets:

	Resource budget		Capital budget
	Near-cash	Non-cash	
Department's own transactions	Pay, current purchases, grants to individuals, subsidies. Release of provisions <i>Less</i> income from sales of goods and services	Depreciation and impairments on the department's assets Cost of capital charge in respect of net assets Take-up of provisions, movement in value of provisions <i>less</i> release of provisions Bad debts	Expenditure on new fixed assets <i>Less</i> sale proceeds of fixed assets Net lending to the private sector Investment grants to the private sector

	Resource budget		Capital budget
	Near-cash	Non-cash	
NDPB transactions	As the department	As the department	As the department
	<i>Note: the department's grant in aid to NDPBs is not in budgets</i>		
Local government	Current grants to local government		Capital grants to local government Supported capital expenditure (revenue)
Public corporations on an external finance basis	Subsidies paid to public corporations <i>Less interest and dividends received from public corporations</i>	Cost of capital charge in respect of public corporations	Investment grants paid to public corporations Net lending to public corporations (including equity withdrawals from public corporations) Public corporations' market and overseas borrowing
Consolidated public corporations	Subsidies paid to and purchases of services from public corporations <i>Less profit or loss of the public corporation</i>	Cost of capital charge in respect of public corporations Take-up of provisions, movement in value of provisions <i>less</i> release of provisions in respect of subsidy, grant, or other amounts payable	Expenditure on new fixed assets <i>Less</i> sale proceeds of fixed assets

Departmental Expenditure Limits

C.25 Around half of public expenditure (TME) by value is in DEL. But because AME includes a small number of large programmes, by far the majority of public expenditure programmes are in DEL. The main programmes in AME are set out later in this section.

C.26 DELs are set for three years in a Spending Review. They represent firm plans for departmental spending that may only be increased in exceptional circumstances with the Treasury's agreement through a claim on the DEL Reserve. Departments may carry forward unspent DEL from one year to the next. The 2007 CSR set firm spending plans for 2008-09 to 2010-11.

C.27 DEL is net of certain receipts, mainly from sales of goods and services, asset sales, dividends, interest, rent of land, income from the European Community, and also certain taxes, levies and fines where exceptionally the Chief Secretary to the Treasury has given specific agreement for a department to retain them in their DEL.

C.28 DEL includes a Reserve to meet unexpected needs, and the unallocated provision from the Modernisation Fund, which is a challenge fund. When sums are allocated from either the Reserve or the Modernisation Fund, individual departments' DELs are increased and the Reserve/ Modernisation Fund lines reduced by the same amounts.

C.29 Public corporations – most transactions in respect of public corporations score in DEL but those in respect of self-financing public corporations score in departmental AME (except where they receive grants and subsidies, which would score in DEL).

C.30 Total DEL is not a control total but a standard way of presenting the sum of current and capital spending in DEL. Total DEL is defined as resource budget DEL *plus* capital budget DEL *less* depreciation. Depreciation here includes impairments and the release of the donated assets and government grant reserves.

Annually Managed Expenditure

C.31 The following text describes the components of AME, which for the purposes of PESA is divided into departmental AME and other AME. The items in bold correspond to the row names of **Table 1.1**.

Departmental Annually Managed Expenditure

C.32 Departmental AME programmes are set out in departmental reports. A programme is included in AME if it cannot reasonably be subject to firm three-year limits as for DEL. Typically this is where the programme expenditure is demand-led, volatile, and large in relation to the size of the department. But those are neither necessary nor sufficient conditions for inclusion in AME. Discretionary new spending programmes are always in DEL except where a special case can be made to demonstrate that treatment as AME is likely to deliver better control of expenditure.

C.33 The main programmes in departmental AME are:

- social security benefits;
- tax credits for individuals;
- net lending to students;
- BBC domestic services;
- net public service pensions; and
- expenditure financed by the proceeds of the national lottery.

C.34 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 government, such as Housing Benefit, Council Tax Benefit and Rent Rebates. It includes payments by DWP to the BBC in respect of free television licences for the over 75s.

C.35 Tax credits – those tax credits that effectively reduce the amount of tax paid by an individual will net off tax receipts and not be counted as expenditure. Where tax credit payments to an individual or enterprise exceed the tax liability, the payment will be counted as public expenditure. These are also payments in respect of contributions to stakeholder pensions of non tax-payers or in excess of tax paid.

C.36 Student loans – the transactions of loan principal score in capital departmental AME while resource departmental AME contains interest receivable and, since PESA 2008, certain offsetting non-cash transactions moved from DEL. Resource DEL continues to score the changes in the provision liability recognised by the issuing departments in their resource accounts.

C.37 BBC domestic services – the expenditure of the BBC on domestic broadcasting scores in departmental AME. The BBC World Service scores in the Foreign and Commonwealth Office DEL. The BBC Monitoring Service also scores in DEL. Certain trading operations of the BBC are treated as self-financing public corporations in AME.

C.38 Net public service pensions – this line scores the majority of the operating costs, net of income, for the main public service pay as you go pension schemes. Operating costs are measured under Financial Reporting Standard 17 (FRS17) compliant with UK GAAP as amended for the public sector. The main schemes are those for NHS staff, the civil service, teachers and the armed forces. This line comprises an assessment of the increase in the liability relating to current employees *less* relevant receipts. It does not include an amount for the unwinding of the discount rate, which is shown as part of the non-cash items in AME.

C.39 All the major pay as you go pension schemes follow FRS17 to report any increase (or decrease) in liabilities accrued in the period. In broad terms, there is a charge (or benefit) shown in this row equal to the gross increase in the provision that impacts on the operating statement of the scheme (excluding the unwinding of the discount rate) *less* pension contributions receivable from employers and employees, and less other income.

C.40 Note that there may be several reasons for a difference in the level of contributions and the FRS17 charge. In particular, calculations of contributions and of the FRS17 charge use different discount rates and different actuarial methodologies. In addition, contribution rates are revised only every three or four years, after full actuarial valuations, so the contribution rate is set to reflect previous over- and under-assessment of contributions due to scheme-specific experience on issues such as pay and demography.

C.41 Cash payments of members' continuing pensions, lump sums, spouses' benefits and similar payments, and bulk and individual transfers out are all normally charged directly to the pension provision shown on the balance sheet. That means that they do not impact on the cost of the scheme as measured in this line, because the obligation to pay the pension had been recognised as adding to liabilities by an increase in the pension provision when the right to the pension accrued. However, if any cash payment is made that is not covered by a previously recognised liability then that payment would score in this AME line.

C.42 Relevant receipts include employers' contributions (including accruing superannuation liability charges such as those paid by departments to the Principal Civil Service Pension Scheme), employees' contributions for ordinary pensions (including widows'/widowers' pensions) and for added years, and receipts of bulk and individual transfers in.

C.43 This line does not reflect changes to the pension provision on the balance sheet resulting from changes in the actuarial assumptions made about the future (for example life expectancy, pay growth, inflation 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 then the overall liability of a scheme will rise. The effects of these changes are shown in a separate statement (Statement of Recognised Gains and Losses) in the pension schemes' resource accounts and do not score in budgets.

C.44 For simplicity, and because of the immateriality of the amounts, some small pay as you go schemes may report the difference between the cash paid out during the year and any contributions received.

C.45 Note that this line does not cover:

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

C.46 Future payments of pensions are discounted in order to obtain the value of the liability in today's terms. Each year, future payments come a year closer and so the effects of discounting are reduced. That unwinding of the discount rate is a cost that is recognised in the accounts.

C.47 In budgets, the amount for the unwinding of the discount rate on the liability is part of the **non-cash items** row (see C.54 below). The amount scores in non-cash items because there is no cost of capital credit recognised on the liability in scheme accounts; this credit would normally offset the increase. Therefore to score just the increase without the credit would distort the numbers.

C.48 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, and is sometimes referred to as interest on scheme liabilities (note that the discount rate is set in accordance with GAAP principles as endorsed by the Financial Reporting Advisory Board and is not automatically a gilt rate). So this item reflects the fact that the schemes are pay as you go. Showing this item in the non-cash items row separates out the costs that the government bears as employer from guaranteeing the schemes (which are the costs in the net public service pensions row) from the notional costs that result because the schemes are pay as you go.

C.49 The cost of pension schemes as measured on a GAAP basis does not impact directly on TME or the other fiscal aggregates. **Annex D** explains how the GAAP measures for the main public service pension schemes in departmental AME can be reconciled to their impact on TME, and this is shown in detail in **Table D.1**.

C.50 The overall change over the year in the schemes' balance sheet pensions liability measured on a GAAP basis is normally given by:

- current service cost and other pension costs (e.g. liabilities transferred in);
- *plus* unwinding of the discount rate;
- *less* pensions paid out;
- *plus* or *less* changes in actuarial assumptions and other balance sheet adjustments.

C.51 With the exception of the last item, which is not an expenditure or budget item, figures for the components listed above are shown in **Table D.1**.

C.52 Expenditure on services includes the cost of public service pensions on a TME basis in the social protection function.

C.53 **National lottery** – expenditure on good causes funded from the proceeds of the national lottery is in this line. The Big Lottery Fund was officially established by Parliament on 1 December 2006 and at the same time assumed the residual responsibilities of the dissolved National Lottery Charities Board (Community Fund), the New Opportunities Fund and the Millennium Commission. The Big Lottery Fund rolls out grants to health, education, environment and charitable causes across the UK.

C.54 Non-cash items include:

- large, demand led non-cash items that could not reasonably be included in DEL budgets, such as the cost of capital charge for the road network, provisions for nuclear decommissioning liabilities, and the increase in the liability of public service pensions schemes due to the unwinding of the discount rate; and
- non-cash items in respect of departmental AME programmes.

C.55 Other departmental expenditure includes:

- transactions in respect of Self-Financing Public Corporations;
- Export Credits Guarantee Department (part);
- expenditure on tax credits for companies (research and development for Small and Medium Enterprises, contaminated land clearance) and charities calculated on an OECD basis, which reflects payments in excess of tax liability;
- HM Revenue and Customs (HMRC) payments in respect of Child Trust Funds;
- rates paid on behalf of embassies, net of beneficial portion receipts;
- Housing Subsidy in England and Wales, and Housing Support Grant in Scotland;
- for outturn years, expenditure by DEFRA in connection with Foot and Mouth disease;
- Redundancy Payments Scheme;
- coal health liabilities;
- adjustments to prior years National Non-Domestic Rates (NNDR) collection;
- support to local government in respect of police-officers and fire-fighters pension schemes;
- expenditure of certain levy-funded bodies; and
- acceptances of artworks in lieu of Inheritance Tax.

Other Annually Managed Expenditure

C.56 Locally Financed Expenditure (LFE) – this line comprises the following items:

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

C.57 LASFE is that part of total local authority expenditure not met by central government support. Its largest single financing component is the product of the Council Tax. Other components include the surpluses of trading activities, interest receipts, unsupported borrowing and the use of reserves.

C.58 NIRR are set by the central government in Northern Ireland and can be used to finance any public sector expenditure within Northern Ireland. By convention it is treated in PESA as locally financed central government expenditure. The product of NIRR is treated as a transfer from AME into DEL, so this means that DEL is set net of the product of the NIRR.

C.59 Expenditure financed by borrowing from the National Loans Fund under the RRI is shown under LFE because the loans will be serviced and repaid out of the product of the NIRR.

C.60 **Net expenditure transfers to the European Community** – transactions with the institutions of the European Community are shown in **Table C.1** and comprise the following concepts:

- net expenditure transfers to the European Community, which reflects the main TME impact of membership of the European Community;
- net payments to EC institutions; and
- the net contribution to the EC budget.

Table C.1 Transactions with the institutions of the EC

	£ million							
	National Statistics					2008–09 estimated outturn	2009–10 plans	2010–11 plans
	2003–04 outturn	2004–05 outturn	2005–06 outturn	2006–07 outturn	2007–08 outturn			
GNI-based contribution	7,322	8,628	8,077	8,213	9,352	8,654	10,739	11,133
UK abatement	-3,874	-3,722	-3,641	-3,560	-3,960	-5,595	-5,090	-3,257
Net expenditure transfers to the EC	3,448	4,907	4,435	4,652	5,392	3,060	5,649	7,875
Receipts to cover collection costs in respect of collecting Traditional Own Resources (TOR) to give contribution to TME	2,957	4,361	3,856	4,071	4,785	2,378	4,938	7,206
TOR ⁽¹⁾	1,963	2,195	2,319	2,326	2,430	2,728	2,842	2,678
VAT payments to the EC	2,576	1,904	1,964	2,287	2,571	2,455	1,331	2,138
Gross contribution to the EC budget	7,496	8,461	8,139	8,685	9,786	7,561	9,112	12,021
Public sector EC receipts (except European coal and steel community receipts) ⁽²⁾	-4,235	-4,555	-3,750	-5,164	-5,585	-4,524	-5,045	-5,669
Net contributions to the EC budget	3,261	3,906	4,389	3,521	4,200	3,037	4,066	6,352
less Attributed Aid ⁽³⁾	796	694	700	706	701	758	801	822
less Common Foreign and Security Policy ⁽⁴⁾	3	3	3	3	4	23	29	34
less other attributed costs ⁽³⁾	-	-	-	-	-	-	69	43
European coal and steel community receipts	-2	-	-	-	-	-	-	-
Net payments to EC institutions	2,460	3,208	3,685	2,812	3,495	2,256	3,168	5,452

(1) Traditional Own Resources, comprising customs duties (including those on agricultural products) and sugar levies.

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

(3) The UK's contribution to the cost of EU aid to states outside the EU, which is attributed to departmental budgets.

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

C.61 The TME effect of EU membership is therefore given by:

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

C.62 **Public Corporations' Own-Financed Capital Expenditure** – this line comprises the capital expenditure of public corporations net of any capital grants or loans given by its parent department and net of public corporations' market and overseas borrowing where that scores to departmental budgets. This excludes London and Continental Railways and Forest Enterprises, which follow a different budgeting regime whereby their spending is in DEL.

C.63 This line also includes the whole amount of capital expenditure of public corporations accountable to local government, whether own-financed or supported by local government: an accounting adjustment removes local government support to public corporations to avoid this spending being double counted.

C.64 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.

C.65 AME margin – this is an allowance for estimating changes.

C.66 Accounting adjustments are described in **Annex D**.

Total Managed Expenditure

C.67 TME is an aggregate drawn from National Accounts. It covers the current and capital expenditure of the public sector, net of some receipts. It therefore 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 (as it is a consolidated measure) as well as all financial transactions (such as lending). So TME is the expenditure side of the equation that gives public sector net borrowing, a measure of the fiscal stance.

C.68 As in **Table 1.1**, TME can be shown to equal DEL + AME (including accounting adjustments).

C.69 In addition, TME may be expressed as the sum of:

- public sector current expenditure;
- public sector net investment; and
- public sector depreciation.

C.70 In this presentation, depreciation represents the amount of capital expenditure required to make good the depreciation of assets, and net investment represents the amount of capital expenditure that adds to the overall stock of assets.



The accounting adjustments in the budgeting presentation of TME

The need for accounting adjustments

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

D.2 Government departments budget and account for their spending in resource terms. Resource accounting is based on generally accepted accounting practice (GAAP), which differs in several ways from National Accounts.

D.3 As a consequence of this, a number of adjustments are needed to relate budgets to the component parts of TME. **Table 1.1** shows resource DEL plus resource AME equalling public sector current expenditure, and capital DEL plus capital AME equalling public sector gross investment. Public sector current expenditure plus public sector gross investment then equals TME. In this presentation the AME totals include the adjustments, which are set out in more detail in **Table 1.14**.

D.4 The sub-headings in this annex correspond to the rows in that table, and a description of the nature of the adjustment is given. Individual adjustments are specified as resource or capital adjustments and numbered 1 through x. The operator (i.e. "add" or "remove") describes the adjustment needed to derive the relevant component of TME from budgets.

List of the accounting adjustments

Tax credits for individuals

D.5 The tax credits line in departmental AME shows expenditure on tax credits following the OECD basis for deciding what element, if any, of a tax credit should be treated as expenditure rather than as an adjustment to tax receipts. Accordingly, only amounts payable in excess of an individual's tax liability count as expenditure in this line. However, in the National Accounts certain tax credits for individuals score as government expenditure even when they are less than the individual's tax liability. The resource adjustment is therefore as follows:

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

D.6 No adjustment is needed for the Working Tax Credit and Child Tax Credit as they are treated in the same way under both the OECD (and so departmental AME) and National Accounts definitions.

Pay as you go public service pensions

D.7 Pensions are measured differently in National Accounts compared to the way in which resource accounts present these costs. This is due to differences in the way these frameworks deal with provision liabilities. The contribution of the pay as you go public service pension schemes to public sector current expenditure is as follows:

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

D.8 In resource accounts a provision liability is recognised on the balance sheet equal to the net present value of the expected future cash benefits to be paid. Broadly speaking, changes in this liability impact on the operating cost statement. The net public service pensions line in departmental AME presents expenditure on this basis. The line consists of the following:

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

D.9 The unwinding of the discount rate that is applied to the future cash flows is also a cost in the operating statement in accounts. This cost is recorded separately in the non-cash items in departmental AME. See **Annex C** for further details.

D.10 **Table D.1** provides a reconciliation between the measures of pensions expenditure as presented in the component parts of **Table 1.1**, in resource accounts, and in TME. So the table presents:

- the three main contributors to the net public service pensions line (as above);
- the pensions element of the non-cash items line (i.e. the unwinding of the discount on the liability);
- the sum of these elements, which is the contribution of pension schemes to departmental AME;
- the accounting adjustments required to reach TME (see below); and
- the contribution of the main public service pensions schemes to TME.

D.11 The resource accounting adjustments are as follows:

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

Table D.1 Pay as you go public service pensions schemes in AME and in TME, 2003-04 to 2010-11

	£ million							
	National Statistics					2008-09	2009-10	2010-11
	2003-04	2004-05	2005-06	2006-07	2007-08	estimated	plans	plans
	outturn	outturn	outturn	outturn	outturn	outturn		
Departmental AME (GAAP basis)								
Change in gross liability	15,357	15,309	20,918	21,074	24,426	25,504	21,915	22,744
Contributions received*	-14,279	-15,119	-17,368	-17,934	-19,066	-19,500	-20,033	-20,684
Cash payments in OCS not covered by release of provision*	719	162	105	172	29	106	3	14
Net public service pensions (GAAP basis)	1,796	352	3,656	3,312	5,388	6,111	1,884	2,073
Unwinding of discount rate (= contribution to non-cash items)	22,303	24,102	27,378	29,545	32,805	36,727	38,404	40,826
Total Departmental AME (GAAP basis)	24,099	24,453	31,033	32,857	38,193	42,838	40,288	42,900
Accounting adjustments								
Remove change in gross liability	-15,357	-15,309	-20,918	-21,074	-24,426	-25,504	-21,915	-22,744
Remove increased liability due to unwinding of discount rate	-22,303	-24,102	-27,378	-29,545	-32,805	-36,727	-38,404	-40,826
Add pensions in payment covered by release of provision**	15,361	16,216	17,536	18,908	21,327	22,456	24,148	25,272
Accounting adjustments (Pensions)	-22,299	-23,195	-30,760	-31,711	-35,903	-39,433	-35,806	-38,584
Contribution to TME (National Accounts basis)	1,801	1,258	274	1,147	2,290	3,062	4,118	4,602
<i>of which:</i>								
Pensions in payment*	16,080	16,377	17,641	19,080	21,356	22,562	24,151	25,286
Contributions received*	-14,279	-15,119	-17,368	-17,934	-19,066	-19,500	-20,033	-20,684

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

+ offsets change in gross liability

Other central government programmes

D.12 There are a number of resource accounting adjustments included in this line as follows:

5. **interest on Special Drawing Rights (SDRs)** – add payments of interest on SDRs held by the UK at the International Monetary Fund that are treated in the National Accounts as current expenditure on goods and services;
6. **tax credits for companies and charities** – as with tax credits for individuals (see adjustment 1 above), the National Accounts score as expenditure all elements of tax credits for companies and charities (including those that reduce the taxpayer's liability) where the ONS have judged that the tax credits are not integral to the tax system. This adjustment adds in such payments in respect of Research and Development tax credits for large companies and for small and medium enterprises, payments of transitional relief to charities formerly entitled to receive tax credits on dividends, and tax relief on clearing contaminated land. The element of these tax credits that is paid in excess of tax liabilities is already shown in other departmental expenditure in AME;
7. **collection costs for Traditional Own Resources (TOR)** – the UK receives a payment from the EU for collecting TOR (customs duties, agricultural and sugar levies) on behalf of the EU. This receipt (which is actually netted off the payment made to the EU) is treated as a government receipt and reduces TME. This income is recorded here;
8. **loan guarantees** – add the imputed subsidies that are included in National Accounts in relation to certain loan guarantees. In the current balance, imputed receipts match these imputed subsidies;

9. **Attributed Aid, Common Foreign and Security Policy (CFSP) and other attributed costs** – remove the attributed share of the EU’s aid and CFSP expenditure. Departmental budgets include this attributed expenditure, but it doesn’t increase TME as it is actually part of EU spending, and so this attributed spending needs to be deducted;
10. **hydro benefit** – add in an amount of imputed subsidy paid by the Scottish Electricity generating industry to the distribution industry to reflect the high cost of distribution in northern Scotland;
11. **debts written off by ECGD for policy reasons** – add the amounts that are routed through central government in National Accounts; and
12. **Renewable Obligation Certificates (ROCs)** – add imputed subsidies in respect of ROCs, which are balanced in the National Accounts by imputed current receipts.

VAT refunds

D.13 VAT is a tax that is paid by final consumers, i.e. government and households. Producers pay VAT on materials that they use in the course of production, but are able to claim those VAT payments back from HMRC. Producers then charge VAT on sales and pass these monies to HMRC. Where a public sector body is engaged in production and receives such a VAT refund it will not add to TME, nor would it be included in their spending data, which is measured net of recoverable VAT. Therefore in these cases no adjustment is needed to reconcile to TME.

D.14 However, some public sector bodies additionally receive refunds of VAT that they have paid in respect of contracted out services for non-business purposes, including the free-to-enter public museums. These VAT payments by general government bodies form part of the prices paid as a final consumer, and therefore form part of final government consumption within TME (as well as part of current receipts). However, departmental budgets, and other spending data, are net of all recoverable VAT.

D.15 The following resource adjustments are therefore required:

13. add VAT refunded to central government departments in respect of contracted out services for non-business purposes and VAT refunds to free public museums in respect of non-business activities. (VAT refunds to NHS trusts and the BBC in respect of non-business services are however exceptionally not added in to the figures to arrive at TME.);
14. add VAT refunds to local government 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; and
15. add VAT refunds paid to ITN in respect of non-business activities. These are treated as subsidies in TME.

D.16 The capital adjustment required is:

16. add VAT refunds paid to DIY house builders. These are treated as capital grants in public sector gross investment.

Central government capital consumption

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

Non-cash items not in TME

D.17 Both budgets and National Accounts measure expenditure on an accruals basis in respect of timing. A number of accruals concepts (such as accounts payable/receivable) appear in both GAAP and National Accounts datasets. However, a number of non-cash items appear in resource budgets produced consistent with the Government Financial Reporting Manual that do not have a National Accounts counterpart. They are removed here:

18. remove the cost of capital charge, debt write-offs (other than debts written off by mutual consent, which count as capital grants in the National Accounts), notional audit fees, and other such non-cash items recorded in departmental budgets but not in National Accounts;
19. remove the take-up, movements in the value, and release of provisions that score in budgets. That leaves in the underlying cash payments made when provisions are utilised, which are offset in budgets by the release of provisions, and which score in public sector current expenditure or gross investment as appropriate; and
20. remove the provision that represents the net present value of the interest support element of student loans that scores in DEL as the loans are issued. In the National Accounts the impact on the current balance is determined by the difference between interest payments made on government debt and interest income receivable from students.

Resource budget items treated as capital in National Accounts

D.18 Central government 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.

D.19 A proportion of the Department for International Development's bilateral aid budget is deemed to be a capital grant to the rest of the world in the National Accounts, although all bilateral aid grants are shown in resource DEL budgets.

D.20 The equal pay settlement scores as capital in the National Accounts but is largely being funded from local authorities' revenue accounts.

21. Switch spending outlined in D.18 to D.20 from the resource budget into public sector gross investment.

Capital budget items treated as current in National Accounts

D.21 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.

22. Switch spending outlined in D.21 from the capital budget into public sector current expenditure.

Expenditure financed by revenue receipts

D.22 Some receipts benefit resource budgets even where they are included on the revenue side of the National Accounts. The deduction of such receipts needs to be reversed in the calculation of TME.

D.23 For departments and NDPBs the receipts are:

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

- 24. certain fines;
- 25. current donations;
- 26. current compensation;
- 27. rent of land; and
- 28. dividends and interest from the private sector and overseas.

D.24 For local government, the receipts are:

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

Local government

D.25 Central government support to local government is included within departmental budgets. Locally financed expenditure as reported by local authorities is shown within other AME. Further adjustments in relation to local government expenditure are additionally required in the calculation of TME.

D.26 The following resource adjustments are required in the calculation of public sector current expenditure:

- 30. add the value of local government non-trading capital consumption (i.e. depreciation) as modelled by ONS for National Accounts;
- 31. add an amount equivalent to the subsidies paid to local authority trading bodies. These are included within central government budgets but deducted from the operating surplus of these trading bodies, one of the revenue items in the calculation of locally financed expenditure. The adjustment is therefore required so that these amounts are included as part of TME;
- 32. deduct adjustments to National Non-Domestic Rates (NNDR) in respect of prior years as these score in the revenue side of the National Accounts; and
- 33. add imputed subsidies to the public corporation sector for the injection of equity into Housing Revenue Accounts (HRAs). These are offset in the current balance by imputed public corporation receipts.

D.27 Local government capital expenditure includes grants paid to public corporations. The capital expenditure that this finances is included as part of Public Corporations' Own-Financed Capital Expenditure. An adjustment is therefore required to avoid double-counting this spending in TME.

- 34. Remove capital grants paid by local government to public corporations. This mainly concerns payments by Transport for London.

D.28 In some cases receipts are treated as financing expenditure in AME when National Accounts treat them as reducing expenditure. The value of the receipts needs to be included in TME:

- 35. add local authority receipts of investment grants from private sector developers to public sector net investment; and
- 36. add certain licence fees collected by local authorities to public sector current expenditure.

D.29 Further adjustments are made to both the current and capital in-year expenditure of local government.

37. Adjust estimated outturn to align central government support and LASFE figures with the forecast total local government expenditure.

General government consolidation

D.30 The National Accounts presents a consolidated measure of public sector expenditure, so adjustments are required to ensure that certain intra-public sector transactions are excluded. Payments of certain taxes, grants and interest that are wholly within the public sector do not form part of TME.

D.31 The required resource adjustments are:

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 respectively, but do not form part of TME;
40. deduct an amount equivalent to the subsidies paid by central government to public corporations that finance current grants to local authorities. The subsidies are in DEL but as they are recorded as subsidies rather than support for local government, the subsequent local government spending forms part of locally financed expenditure. This adjustment therefore avoids double counting this spending in TME; and
41. deduct departments' receipts of interest and dividend from NHS trusts (England and Wales). Departments pay NHS trusts enough to enable them to remunerate their capital. Now that trusts have been reclassified to the central government sector, those payments do not score in TME.

D.32 The capital adjustment required is as follows:

42. deduct payments from local authorities to Communities and Local Government in respect of pooled housing receipts. These payments score in Local Authority Self-Financed Expenditure but do not form part of TME.

Public corporations

D.33 Departments' resource and capital budgets normally include the following items in respect of public corporations scored on the external finance basis:

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

D.34 Other AME includes public corporations' own-financed capital expenditure (PCOFCE), which is given by total capital expenditure less central government grant and loan support, and less PCMOB.

D.35 TME includes total public corporation capital expenditure plus interest and dividends paid by public corporations to the private sector. The resource adjustments needed to relate the above transactions to TME are:

43. remove central government receipts from public corporations of interest, dividends and equity withdrawals, which are netted-off in budgets; and
44. add interest and dividends paid by public corporations to the private sector and abroad.

D.36 Forest Enterprises and London and Continental Railways (LCR) are scored on what is termed the consolidation basis and have a different budgeting treatment. Their profit/loss and actual capital expenditure score in budgets rather than the grants and loans given by departments, and interest and dividends received. Their capital expenditure is not included in PCOFCE, as it has scored in budgets already, but their profits/losses have to be removed in the resource accounting adjustments.

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

D.37 Export Credits Guarantee Department (ECGD) is a public corporation in the National Accounts. It is treated in the same way as insurance corporations in National Accounts. It is also a department in its own right, and it has a unique budgeting framework.

D.38 The impact of ECGD on the National Accounts aggregates is as follows. Its Gross Operating Surplus scores as a current receipt. This is partly financed by a subsidy from central government. Interest payments that it receives on its assets are a benefit to the current budget while depreciation on its assets is a cost. Any capital spending that it undertakes is a cost in public sector gross investment. When ECGD pays claims to holders of financial assets it will often take over those assets and seek to recover the value. In certain cases these assets may be written off as a distinct act of policy, such as the debt cancellation to Nigeria announced in 2005. These kinds of debt write-off score as capital transfers in the National Accounts, as a gift is being made to the recipient. These are routed through government as ECGD is seen to be acting as an agent of government in these cases.

D.39 The resource budget (AME) scores the subsidy that finances part of the ECGD Gross Operating Surplus total and some receipts that are financed from elsewhere within TME. AME also scores the interest receipts that ECGD receives on its assets. Only this last item needs to be adjusted for (i.e. removed) to get to TME, as these receipts do not reduce TME.

D.40 The capital budget DEL scores only the direct capital spending of ECGD. Therefore an accounting adjustment is needed to add in debts written off for policy reasons, but this is shown in the central government line.

D.41 Finally the capital budget AME scores some financial transactions. These are removed in the general accounting adjustments for financial transactions below.

D.42 So the resource adjustment included in this line is:

46. remove ECGD interest receipts that do not form part of TME.

Financial transactions

D.43 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 capital 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 government expenditure;
48. deduct the net acquisition of private sector company securities that scores in DEL, departmental AME and local government 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 part of a financial transaction in National Accounts and so is outside TME; and
50. deduct movements in certain large pre-payments and debtors that score in capital budgets.

Data adjustment

D.44 In some cases, the National Accounts and budgets have the same concepts but use different data. Adjustments are needed to put budgets data onto the National Accounts basis.

51. Deduct depreciation and impairments in resource budgets and replace with the National Accounts number for non-trading capital consumption.

Balancing reconciliation

52. Add, for outturn years, the residual difference between the last published figure for TME as measured by ONS for National Accounts and the number as measured by latest Treasury sources. This can be necessary, for example, because of timing differences.
53. Add for estimated outturn and plan years the residual difference between the last published Treasury forecasts 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.

E

Expenditure on services framework

E.1 Tables in **Chapters 4 to 8**, showing public expenditure disaggregated by function and/or economic category, and tables in **Chapters 9 and 10**, showing public expenditure by country and region, are all based on public sector expenditure on services, or a sectoral element of it.

E.2 Public sector or total expenditure on services broadly represents the current and capital expenditure of the public sector, and so is similar to the National Accounts measure of Total Managed Expenditure (TME). The definition of expenditure on services in PESA 2009 is almost identical to that presented in PESA 2008. For the avoidance of doubt, expenditure on services is the spending required to deliver services, not just the purchasing of services.

E.3 Expenditure on services is a more stable measure of public spending than departments' budgets, as it is not affected by the creation or amalgamation of departments or by programmes of work moving between departments.

Expenditure on services and TME

E.4 TME is the current and capital expenditure of the public sector on a National Accounts basis. Public sector expenditure on services is similar, but with minor divergences. The divergences mainly reflect the difficulty of attributing the particular spending to the correct functions in all cases, which, if attempted, would result in a lack of consistency between functions. The main difference from TME is that expenditure on services does not include general government capital consumption (depreciation) 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. Public sector expenditure on services is worth about 95% of TME.

EU transactions in expenditure on services

E.5 EU transactions score in their entirety within public sector expenditure on services in the same way as in TME. However, expenditure on services scores EU funded payments, for instance on agriculture, as UK government spending within the appropriate function, whereas the National Accounts score these as direct payments from the EU to enterprises and households. The EU transactions line within expenditure on services includes EU receipts, thus bringing the total into line with TME. Similarly, expenditure on services scores attributed EU expenditure on aid and the Common Foreign and Security Policy under international services and deducts an appropriate amount under EU transactions. Numbers are given in **Table C.1**.

Expenditure on services and budgets

E.6 Expenditure on services can be built up from departmental budgets (resource DEL, capital DEL and departmental AME). Essentially, (most) transfers to other parts of the public sector are removed, as are transactions that do not score as spending in the National Accounts. Spending by local government and public corporations is then added.

Departmental budgets (resource Departmental Expenditure Limits + capital Departmental Expenditure Limits + departmental Annually Managed Expenditure)	
Less	<ul style="list-style-type: none"> grants to local government; capital grants to public corporations; non-cash items (except grant equivalent element of student loans and loan write-offs by mutual consent); spending classified as financial transactions in the National Accounts (including lending, interest payments/receipts within central government, local authority debt interest paid to central government, dividends received from public corporations); income that is netted off budgets but classified as revenue in National Accounts; profit/loss of public corporations (scores on the revenue side of the National Accounts); NHS/Foundation Trusts near-cash depreciation; EC receipts; other items that are not classified as spending in National Accounts (e.g. transfers between central government departments); and most intra-public sector transfers except subsidies to public corporations and trading bodies, grant-in-aid to an NDPB where more than one department contributes to the funding, and notional transfers between AME and DEL.
Plus	<ul style="list-style-type: none"> local government current and capital expenditure; Northern Ireland locally financed expenditure; public corporations' capital expenditure; public sector debt interest; and EU transactions.

E.7 **Table E1** shows the derivation of expenditure on services from departmental groups' budgets.

Classification changes

E.8 Classification changes since PESA 2008 are detailed in **Chapter 4**, where they affect expenditure on services or the functional split, and **Chapter 5**, where they affect expenditure on services, the sub-functional split or the economic breakdown.

Table E.1 Derivation of public sector expenditure on services from departmental groups' budgets, 2007–08

All data in this table are National Statistics																							£ million	
	Children, Schools and Families	Health	Transport	Innovation, Universities and Skills	CLG Communities and Local Government	Home Office	Justice	Law Officers' Departments	Defence	Foreign and Commonwealth Office	International Development	Energy and Climate Change	Business, Enterprise and Regulatory Reform	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	Independent Bodies	Total for all departments
Departmental budgets																								
Resource DEL	44,904	88,408	6,794	15,459	26,975	8,552	8,932	736	35,723	1,878	4,478	649	1,792	2,704	1,595	8,086	23,805	12,331	7,596	1,343	4,716	1,795	761	310,012
Capital DEL	5,228	3,815	7,053	2,059	6,102	736	753	11	7,945	226	739	1,486	8	559	517	101	3,563	1,461	1,051	9	256	322	62	44,063
Resource departmental AME	10,704	10,723	3,514	178	1,114	353	265	-	6,693	-4	135	5,979	518	-28	3,880	127,222	2,730	323	7,472	236	26,416	7,625	24	216,074
Capital departmental AME	-	37	-	4,034	-	-	-	-	-709	-	-	-419	-566	0	808	140	149	165	256	-	212	-	-	4,109
Remove																								
Grants to local government	-38,442	-1,954	-5,031	-2,043	-30,114	-6,738	-127	-	-	-	-	-	-915	-93	-344	-20,055	-8,718	-5,101	-64	-	-	-6	-	-119,746
Capital grants to public corporations	-	-	-	-	-3	-	-	-	-	-36	-	-	-	-14	0	-4	-26	-	-177	-	-	-	-	-260
Non-cash items in resource DEL	-15	-4,792	-240	-1,092	-140	-139	-291	-18	-11,039	-141	-32	22	-259	-384	-198	-240	-951	-399	-334	-364	-232	-207	-137	-21,622
Non-cash items in resource departmental AME ⁽¹⁾	-9,266	-12,888	-3,470	-1,202	-38	-	-260	-	-3,937	4	-24	-5,353	-219	90	-70	-2,849	-2,454	-406	-3,091	-94	-113	-6,900	-16	-52,557
Financial transactions	-	-37	-469	-4,058	0	-	-	-	10	-	-585	419	706	-2	3	-140	-386	-166	-41	-	3	0	-	-4,741
Interest and dividends	0	63	-31	766	47	-	-16	-	-4	-	-	0	16	28	46	0	118	-1	-2	-	57	0	-	1,089
Items classified as revenue in National Accounts	-	-	491	25	32	458	19	4	30	7	-	35	112	23	70	24	8	2	12	-	110	5	0	1,470
Profit/loss of PCs	-	-	-390	-	-	-	-	-	-	-	-	-	-	-1	-	-	-	-	-	-	-	-	-	-392
NHS Trusts depreciation in near cash	-	-1,748	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-1,748
EC receipts	-	-	57	4	176	1	0	-	0	-	-	-	171	1,825	26	564	585	456	296	-	-	-	1	4,165
Other items not in TME ⁽²⁾	-2,879	-	0	2,040	1,082	-29	-	0	0	-	-	-	-1	-118	10	-20	-	0	47	-	-	4	-	137
Add																								
Local government current expenditure	43,409	13,455	5,273	-	9,102	12,212	105	-	-	-	-	-	338	4,968	2,429	16,622	10,546	4,909	473	-	-	51	-	123,891
Local government capital expenditure	4,047	306	3,193	-	3,283	455	-	-	-	-	-	-	-270	454	669	1	1,445	813	136	-	-	-	-	14,532
Northern Ireland locally financed expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	520	-	-	-	-	520
Public corporations capital expenditure	-	-	1,552	-	2,137	4	40	-	133	35	42	224	265	-19	-	-13	857	105	225	-	-52	-	-	5,534
Public sector debt interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,249	-	-	31,249
EU transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-1,505	-	-	-1,505
Grant equivalent element of student loans	-	-	-	907	-	-	-	-	-	-	-	-	-	-	-	-	44	49	31	-	-	-	-	1,032
Loans written off by mutual consent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Public sector expenditure on services	57,691	95,389	18,297	17,079	19,756	15,867	9,420	733	34,845	1,969	4,755	3,043	1,697	9,991	9,443	129,438	31,315	14,541	14,407	1,130	61,117	2,689	695	555,304

(1) Grants to local government are consistent with definitions used in Table 7.1.

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

(3) EU transactions as defined in Annex E. EC receipts within this line are on a cash basis.

F

Population numbers and GDP deflators

F.1 This annex presents the population numbers and GDP deflators used in the PESA 2009 publication.

Population numbers by country and region

F.2 The population numbers used in **Chapter 9** of PESA 2009 are as follows:

Table F1 Population by country and region

	Thousands							
	mid-2003	mid-2004	mid-2005	mid-2006	mid-2007	mid-2008	mid-2009	mid-2010
North East	2,541	2,542	2,550	2,556	2,564	2,569	2,576	2,585
North West	6,800	6,820	6,840	6,853	6,864	6,911	6,944	6,979
Yorkshire and the Humber	5,028	5,064	5,108	5,142	5,177	5,231	5,279	5,328
East Midlands	4,254	4,291	4,328	4,364	4,400	4,452	4,498	4,544
West Midlands	5,312	5,327	5,351	5,367	5,382	5,417	5,446	5,476
East	5,475	5,511	5,563	5,607	5,661	5,715	5,773	5,831
London	7,364	7,389	7,456	7,512	7,557	7,621	7,686	7,752
South East	8,087	8,125	8,185	8,238	8,309	8,355	8,419	8,485
South West	5,005	5,042	5,087	5,124	5,178	5,217	5,267	5,318
England	49,866	50,111	50,466	50,763	51,092	51,488	51,888	52,297
Scotland	5,057	5,078	5,095	5,117	5,138	5,157	5,175	5,190
Wales	2,931	2,946	2,954	2,966	2,980	2,993	3,008	3,023
Northern Ireland	1,703	1,710	1,724	1,742	1,761	1,774	1,787	1,799
United Kingdom	59,557	59,846	60,238	60,587	60,971	61,412	61,858	62,309

(Source: mid-2003 to mid-2007 are on a 2007 basis; mid-2008 to mid-2010 are on a 2006 basis. Population numbers for the English regions are revised 2006-based sub-national population projections. All the population data were produced by the ONS³.)

F.3 These mid year numbers are then directly applied to the relevant financial year (e.g. mid 2004 to financial data for 2004-05).

GDP deflators

F.4 A number of the tables in this publication give figures in real terms. Real terms figures are the current price outturns or plans adjusted to a constant price level by excluding the effect of general inflation as measured by the GDP deflator at market prices. The real terms figures in this publication are given in 2007-08 prices. The GDP deflators used in this publication are those given below. The most up to date deflators can be found on the Treasury website⁴.

³ <http://www.statistics.gov.uk/>

⁴ http://www.hm-treasury.gov.uk/data_gdp_fig.htm

Table F2 GDP Deflators and Money GDP⁽¹⁾

Outturn data are based on 31 March 2009 National Accounts figures from ONS			
Forecast data are consistent with the Budget Report 2009			
Financial year	GDP deflator at market prices		Money GDP
	2007-08 = 100	per cent change on previous year	£ million
1967-68	7.625	2.86	40,980
1968-69	7.991	4.80	44,504
1969-70	8.426	5.44	47,749
1970-71	9.125	8.30	53,075
1971-72	9.939	8.92	59,324
1972-73	10.785	8.51	67,472
1973-74	11.564	7.22	75,339
1974-75	13.833	19.61	89,940
1975-76	17.353	25.45	112,088
1976-77	19.708	13.57	130,945
1977-78	22.407	13.70	152,377
1978-79	24.870	10.99	174,237
1979-80	29.072	16.89	209,623
1980-81	34.404	18.34	239,137
1981-82	37.714	9.62	263,031
1982-83	40.331	6.94	287,441
1983-84	42.203	4.64	313,012
1984-85	44.461	5.35	336,657
1985-86	46.961	5.62	369,917
1986-87	48.469	3.21	396,146
1987-88	51.245	5.73	440,760
1988-89	54.723	6.79	490,080
1989-90	58.621	7.12	536,859
1990-91	63.241	7.88	576,798
1991-92	66.986	5.92	607,334
1992-93	69.052	3.08	627,221
1993-94	70.942	2.74	664,973
1994-95	72.053	1.57	703,113
1995-96	74.138	2.89	744,100
1996-97	76.880	3.70	792,360
1997-98	78.898	2.62	843,145
1998-99	80.576	2.13	890,272
1999-00	82.160	1.97	944,630
2000-01	83.238	1.31	989,552
2001-02	85.093	2.23	1,031,458
2002-03	87.836	3.22	1,092,056
2003-04	90.340	2.85	1,156,815
2004-05	92.797	2.72	1,211,978
2005-06	94.697	2.05	1,268,395
2006-07	97.290	2.74	1,343,753
2007-08	100.000	2.79	1,419,549
2008-09	–	2½ ⁽²⁾	1,439,000 ⁽³⁾
2009-10	–	1 ⁽²⁾	1,411,000 ⁽³⁾
2010-11	–	1½ ⁽²⁾	1,461,000 ⁽³⁾

GDP Deflator: For years 1967-68 to 2007-08: calculated from ONS data for seasonally adjusted current and constant price GDP (YBHA and ABMI)
For years 2008-09 to 2010-11: derived from HM Treasury forecasts for GDP deflator increases at the Budget Report 2009

Cash GDP: For years 1967-68 to 2007-08: ONS data for money GDP (not seasonally adjusted, BKTL)
For years 2008-09 to 2010-11: HM Treasury forecasts for money GDP at Budget Report 2009.

1 For further information and the 'User Guide' to these series visit the following page on http://www.hm-treasury.gov.uk/data_gdp_fig.htm

2 For years 2008-09 to 2010-11, GDP deflators forecasts derived from unrounded forecast increases in GDP deflator, consistent with Budget Report 2009.

3 For years 2008-09 to 2010-11, money GDP forecasts as shown in the Budget Report 2009 rounded to nearest £ billion. These are the lower end of HM Treasury's forecast range.



Glossary of terms

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

Acronyms

AME	Annually Managed Expenditure
ASLCs	Accruing Superannuation Liability Charges
CAP	Common Agriculture Policy
COINS	Combined On-line Information System
CRA	Country and Region Analysis
DEL	Departmental Expenditure Limits
GAAP	Generally Accepted Accounting Practice
GDP	Gross Domestic Product
LASFE	Local Authority Self-Financed Expenditure
NDPBs	Non-Departmental Public Bodies
PCOFCE	Public Corporations Own-Financed Capital Expenditure
PSCE	Public sector current expenditure
PSND	Public sector net debt
PSNI	Public sector net investment
RAB	Resource Accounting and Budgeting
SUME	Single Use Military Equipment
TES	Expenditure on services
TME	Total Managed Expenditure

Terms

Accounting adjustments shown in, for example, Table 1.1 are certain items of expenditure that account for the difference between the **National Accounts** aggregate **TME** and the sum of the **resource budgeting** items **DEL**, **departmental AME** and **other AME**. Accounting adjustments are required because there are certain components in TME that 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. Annex D has full details.

Accruals – apart from some of the older data in the historical tables in Chapter 4, all the data in PESA are derived from material provided either for accruals accounts or for plans that are consistent with accruals accounting. Accruals accounting recognises when costs occur rather than when the payment is made. I.e. having the heating on is a cost that accrues each day whereas the bill might be paid quarterly.

Accruing Superannuation Liability Charges (ASLCs) are employer pension contributions paid to the bodies responsible for paying and accounting for pay as you go 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. ASLCs are included within **DEL**.

Administration budget – the costs of running a central government department that do not relate to the delivery of frontline services; it includes the pay of most of the civil servants who work in the department, and associated expenditure such as **ASLCs**, accommodation, travel and training. Administration budgets are a subset of resource **DEL** that are set net of income arising from departments' administrative activities.

Annually Managed Expenditure (AME) is spending included in **TME** that does not fall within **DELS**. Expenditure in AME is generally less predictable and controllable than expenditure in DEL. AME is split into **departmental AME** and **other AME**.

AME margin is an unallocated margin on total **AME** spending included as an allowance for estimating changes.

Area Based Grant, introduced in 2008-09, is a general non ring-fenced grant from central government to local authorities. It replaces the Local Area Agreement grant, but unlike that grant it is unhypothecated (i.e. available to support any local outcome). It is a pooled revenue grant that is paid by Communities and Local Government (CLG) to local authorities, and so they will receive a single payment of Area Based Grant from CLG, acting as agent for other contributing departments.

Asset Management Strategy 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.

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; and
- non-financial assets consist of fixed capital (such as buildings and vehicles); stocks; land and valuables.

Billion – a thousand million.

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

- **capital formation** and the acquisition of assets (including under finance leases) such as land, buildings, machinery and vehicles. In both capital budgets and **National Accounts**, acquisition of assets is recorded net of the sale value of any assets disposed of (where sale value is the aggregate of the net book value and any profit or loss on disposal);
- **Single Use Military Equipment** that is treated as capital in **resource** accounts (although it is treated as current expenditure in **National Accounts**);

- **net lending** undertaken for policy purposes; *net* means after the repayment of debt principal;
- in-house development of assets such as computer software and databases. This can be capitalised in government accounts provided certain conditions are met. It is sometimes called “own account capital formation”;
- large (over £20m) **debtors** or **prepayments** that are long term (over 12 months). These are included in capital budgets on the same basis as **net lending**. I.e. on an additions /less reductions basis; and
- **capital grants**.

Capital consumption – see **depreciation**.

Capital expenditure can be understood in several ways:

- in **National Accounts**, capital expenditure is usually understood to mean **capital formation**, net acquisition of land, and expenditure on capital grants. Certain types of significant computer software development are treated as capital expenditure. The **pay** of civil servants engaged in in-house capital formation is also recorded as capital expenditure, not as pay. **Public sector net investment** is given by capital expenditure as defined above (also known as public sector gross investment) less **depreciation**;
- under **resource accounting**, 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**; and
- some presentations of the capital expenditure of central government, and capital DEL, include **credit approvals** (up to 2003-04) and provision for **Supported Capital Expenditure** (revenue) allocations (from 2004-05) given to local authorities in England and Wales (the equivalent in Scotland is supported borrowing). Northern Ireland does not have Supported Capital Expenditure (SCE) in the same way as the rest of the UK as their local government sector is much smaller.

Capital formation is expenditure, net of sales, on fixed assets (such as buildings, vehicles and machinery) and net stock building, and can be measured gross or net of **depreciation**. Fixed assets are assets that can be used repeatedly to produce goods and services and generally last more than one year. Sometimes a minimum cost threshold (say £1,000) is applied to further define capital assets. There are some borderline cases: for example in **National Accounts**, **Single Use Military Equipment** is defined as current but assets that can be used for both civil and military purposes count as capital. Under **resource accounting**, both single and dual use military equipment are treated as capital.

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

Central government is a sector in **National Accounts**. It comprises Parliament; government departments and their executive agencies; the devolved assemblies of Scotland, Wales and Northern Ireland; government funds such as the **National Loans Fund**; the foreign exchange official reserves; most **NDPBs**; and various other non-market public bodies that are controlled by central government. Central government does not include **public corporations**, nor those non-profit institutions that receive significant government funding but are not controlled by government and so belong in the private sector (for example universities, further education colleges, and housing associations).

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

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

Classification Of the Functions of Government (COFOG) – a UN-defined system for functional analysis of government spending. The PESA analysis is consistent with UN COFOG at level 2, with the exception of the health function, which continues to be presented against the HM Treasury's own sub-functional classification. Further information on COFOG is available within "How to use PESA" and on the UN website⁵.

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

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

Cost of capital charge is a non-cash charge applied to each department's budget in order to make departments aware of the full cost of holding assets. The rate reflects the opportunity cost of tying up the cash in an asset and is 3.5 per cent of the net assets of the department.

Country and Regional Analysis (CRA) – the CRA presents statistical estimates for the allocation of **identifiable expenditure** between the UK countries and the English regions. See Chapters 9 and 10 for more information.

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. 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 – this is spending on items that are consumed in the process of providing public services or, in other words, is recurring spending. This includes, for example, wages and salaries, benefits, and purchasing goods and services.

Current grants are unrequited payments to individuals or bodies, which means that no specific goods or services are received in return. In **National Accounts** current grants to persons are called **social benefits** and those to trading businesses are called **subsidies**.

⁵ <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>

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

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

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

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

Departmental 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**. It is a measure of the reduction in value of an asset due to the effects of wear and tear. **TME** includes depreciation as an item of **current expenditure**. **Public sector net investment** is given by deducting depreciation from gross **capital expenditure**.

Economic categories – these represent broad classifications of the economic impact of transactions. Examples of economic categories are **pay, social benefits** and **subsidies**. The main categories in expenditure on services, based on **National Accounts** definitions, are set out in Table 5.3 and described in Chapter 5. The equivalent budgeting presentation, based on resource accounting, is shown in Table 2.1 and described in Chapter 2.

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**.

European System of Accounts 1995 (ESA95) – This 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.

Expenditure on services (known as TES) is an aggregate used in PESA to analyse the capital and current spending of the public sector. The current and capital elements of expenditure on services are sometimes shown separately as current expenditure on services and capital expenditure on services. Note that TES and its components represent the overall cost of providing services, rather than just the cost of purchasing services from third parties, and includes expenditure on **assets**. See Annex E for a full definition.

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

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

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

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 (e.g. financial reporting standards), and the body of accounting knowledge built up over time. GAAP is used for **resource accounting**. GAAP is a different accounting framework from the **National Accounts** framework that is used for **TME**.

Grants – see **current grants** and **capital grants**.

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 **depreciation**. Economic data are often quoted as a per cent of GDP to give an indication of trends through time and to make international comparisons easier.

Housing Revenue Account (HRA) – the HRA represents the current income and expenditure of local authority social housing provision. The HRA is treated as a quasi-corporation in **National Accounts**. The surplus of income (which includes rent rebates and subsidies paid by other parts of government) over expenditure is treated as being paid over to local authorities as a notional dividend on the revenue side of the account. This means that the current expenditure of local authority housing departments is not included in **TME**. The cost of rent rebates and subsidies is included in TME; these items are within the **AME** lines for social security benefits and other departmental expenditure in AME. Local authority **capital expenditure** on housing associated with the HRA scores as capital spending in the **public corporation** sector, following the implementation of **ONS's** reclassification decision in June 2006. In prior years, PESA had shown this in the local government sector. Payments of interest on housing related debt will continue to be treated as part of local government expenditure.

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

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

International Financial Reporting Standards (IFRS) is the commercial accounting framework of the International Accounting Standards Board adapted and interpreted by HM Treasury for use by the **central government** sector as detailed in the Government Financial Reporting Manual⁶.

Local Authority Self-Financed Expenditure (LASFE) is aggregate **local government** expenditure less its receipts of **central government** current and capital support including distribution of **National Non-Domestic Rates** in England and Wales. It represents local government expenditure financed from local resources such as council tax, trading surpluses, investment income, capital receipts, self-financed borrowing, and use of reserves. LASFE does not include **depreciation**.

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

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

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. The National Accounts is presented in the Blue Book.

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

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

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

⁶ www.financial-reporting.gov.uk

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

Near-cash elements of **resource budgets** are those elements that turn into cash transactions quickly, such as **pay**, current **procurement**, and income from sales. Near-cash includes expenditure that in accounting terms is covered by the release of **provisions**, or financed from **prepayments**. Near-cash in resource **DEL** is a control total.

Net lending has two meanings:

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

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

Non-cash items refer to various transactions that appear in the **operating cost statement** under **resource accounting**, but are not directly included in the **National Accounts** measure of Surplus on the Current Budget and so are not included in **near-cash**. The major transactions in non-cash are GAAP **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 public bodies with day-to-day autonomy in their management and financial matters, and usually funded through grant in aid. An NDPB’s income and expenditure normally scores in its sponsoring department’s budget. The grant in aid paid to an NDPB is normally a non-budget flow. A list of NDPBs can be found on the Civil Service website⁷.

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

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

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

⁷ www.civilservice.gov.uk/about/public/bodies.asp

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.

Other AME is public spending that is outside both **DEL** and **departmental AME**. It includes net transfers to the EC, **locally financed expenditure**, debt interest, **public corporations’** own-financed capital expenditure and **accounting adjustments**.

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

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

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

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

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. Annex A has more information on the treatment of PFI in PESA.

Privatisation receipts 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.

Procurement within:

- **public sector current expenditure** is expenditure on goods and services. It includes, for example, purchases of stationery. Purchase of minor maintenance and minor pieces of equipment and IT systems that are not treated as capital would be counted as current procurement. Services include purchases of contracted out cleaning. Purchases of services from charities (as opposed to unrequited grants to them) or other not-for-profit organisations are included under current procurement; and
- public sector **capital expenditure** is expenditure on the purchase of fixed **assets** such as buildings, machinery and large-scale IT projects.

Current and capital procurement is normally shown net of income from sales of goods and services, or sales of assets respectively (see Chapter 2). Expenditure on **Single Use Military Equipment (SUME)** is treated as current procurement within **National Accounts**, but capital procurement in budgets.

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

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

Public Corporations' Own-Financed Capital Expenditure (PCOFCE) is aggregate **public corporation capital expenditure** less its receipts of **central government** capital support in budgets.

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 sector – the public sector comprises **general government** and **public corporations**.

Public sector current expenditure (PSCE):

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

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

Public sector net debt (PSND) is the sum of the public sector's financial liabilities at nominal value, less its liquid financial assets.

Public sector net investment (PSNI) is all **capital expenditure** by the **public sector** less an amount representing all public sector **depreciation**. Broadly, the amount of capital expenditure that equals the depreciation charge could be seen as keeping the stock of assets stable. Net investment therefore represents the increase in the asset base after allowing for depreciation.

Public sector gross investment (PSGI) – see **capital expenditure**

RAB – see **resource accounting** and **resource budgeting**.

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

Reserve – the Reserve is an amount within **DEL**, not allocated to departmental programmes, which provides a margin to cover emergencies and genuinely unforeseen contingencies. See also **AME margin**.

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

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

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

Revenue Support Grant is an unhypothecated (i.e. non ring-fenced) current grant from **central government** to local authorities.

Single Use Military Equipment (SUME) is equipment that can only be used for military purposes (e.g. a tank). By contrast, dual use military equipment (e.g. an army lorry) can be used for civilian or military purposes. In the **National Accounts** and **expenditure on services** frameworks all expenditure on SUME is treated as **current expenditure**. In **resource accounts** and **resource budgeting**, expenditure on SUME that is of a capital nature is treated as capital. Dual use military equipment is treated as capital in all presentations.

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

Spending Reviews (SRs) set **DELs** for the following three years. The first was the Comprehensive Spending Review in 1998 with further SRs held every two years. The latest was a Comprehensive Spending Review, which reported in autumn 2007 and set budgets for 2008-09 to 2010-11.

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

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 buildings within urban regeneration areas.

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

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

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

Tax credits are the Working Tax Credit and Child Tax Credit. They replaced former personal tax credits in 2003-04. Tax credits score in **TME** (within 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.

Total DEL – 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 double counting. In the calculation of Total DEL, depreciation includes **impairments**, release from donated asset reserve and release from government grant reserve. Total DEL is not a control total: it is purely used for presentation.

Total Expenditure on Services (TES) – see **Expenditure on services**.

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 can also be presented as the sum of **DEL** and **AME**.

Trading bodies – **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 (i.e. trading income covers at least half their costs) but that do not take a separate legal form. Examples are Export Credits Guarantee Department and local authority housing. They score in the **National Accounts** like public corporations (although interest on housing related debt is treated as local authority expenditure); and

- 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 such as some theatres and sports facilities.

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

Traditional Own Resources (TOR) – 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 that might otherwise have been performed in-house.