Financial scrutiny uncovered

2nd Edition

A guide for Members by the Committee Office Scrutiny Unit
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This guide was written by staff of the Scrutiny Unit. The Scrutiny Unit forms part of the Committee Office in the House of Commons. It exists to strengthen the scrutiny function of the House. It provides specialist expertise to select committees, especially (but not exclusively) on financial matters and draft bills.

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Foreword by Sir Alan Beith MP,
Chair of the Liaison Committee

I am pleased to introduce the second edition of Financial Scrutiny Uncovered, prepared by the Scrutiny Unit of the House of Commons.

In my experience many Members find the terms and processes of Government finance opaque and mystifying, yet these processes involve the allocation of billions of pounds of public money. It is very important that select committees lift the veil on what is happening. The aim of this guide is to give Members a sound and up-to-date knowledge of how the Government manages its finances and the role of parliamentary scrutiny. In recent years, there have been notable changes in the way Government monitors its performance and submits financial information to Parliament. Reforms in financial management have meant that the different sets of financial data that are presented to Parliament in departments’ Estimates, accounts and budgets are more closely aligned, a positive step towards making Government’s finances more transparent and easing parliamentary scrutiny.

Scrutiny of the way in which Government manages its finances is one of the most important responsibilities of Parliament. In times of fiscal austerity, it is even more crucial to ensure that Government achieves value for money with the limited resources available, and delivers policies and strategies as effectively as possible. It is important that such financial decisions are open to full and thorough examination; and that those making and delivering policies are held to account for the money they spend on behalf of taxpayers.

I hope this Guide plays its part in encouraging Members to take a greater part in the scrutiny of Government’s financial and performance management in their work in select committees and elsewhere.
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1 Introduction

Why financial scrutiny matters
Each year Parliament authorises around £500 billion of public expenditure and the taxes necessary to fund that expenditure. The amount of money that the Government spends, how it spends that money and the value for money achieved influence the effectiveness with which Government policies are implemented. Parliament and select committees play a crucial role in financial scrutiny and holding the Government to account in this regard.

What financial scrutiny involves
Financial scrutiny is a broad term that covers the examination, analysis and challenge of the whole process of how and why decisions are taken to spend money; how wisely and effectively that money is spent; and how effective the outcomes of that spending are.
Every spending proposal by Government consists of a series of decisions on policy aims, delivery and implementation that can be scrutinised individually or collectively (see diagram on next page). Financial scrutiny of Government spending could include examination and challenge of any of these decisions, including:

- How policy is determined and whether the costs have been fully considered in reaching decisions;
- Whether the delivery mechanisms proposed are likely to prove an effective use of public money or whether alternative strategies or options might offer better value or be more effective;
- Whether there are suitable ways of ensuring that the impact and outcomes of the spending are measured to determine whether they are worthwhile, effective and good use of public funds;
- In the light of the outcomes, whether spending should continue, or plans should be modified, funding diverted to other more effective routes or pressing priorities, or be withdrawn altogether.
Scrutiny Unit
Introduction

Policy aims
- How is policy determined?
- Have costs been fully considered?

Strategy
- Is the strategy well thought out?
- Is it clear what the strategy is?

Delivery
- Are delivery mechanisms (likely to be) effective?
- Do they offer value for money?

Implementation
- Is implementation well planned?
- On time and budget?
- Cost effective?

Monitoring
- Are outcomes and impact measured?
- Has spending altered outcomes?

Review effectiveness
- Was there a successful outcome?
- How could it be improved?
- Should delivery and implementation be modified?
2 Parliamentary scrutiny of financial management

There are a variety of bodies which contribute to Parliament’s financial scrutiny.

- **Departmental select committees:** There are departmental select committees for each of the main Government spending departments. Their membership reflects the party proportions of the House. From the 2010 Parliament, the House has elected the committees’ chairs, and each party elected that party’s committee membership. Select committees make recommendations to Government departments. Although departments do not have to implement them, their recommendations often receive press coverage and are a crucial mechanism by which Parliament can influence Government and Government is held accountable to Parliament. One of the departmental select committees’ main roles is to examine the expenditure plans and performance of the associated department.

- **Treasury Select Committee:** The Treasury Committee is one of the departmental select committees. As well as the Treasury and its arm’s length bodies (ALBs), the Committee also scrutinises the work of HM Revenue & Customs. It also covers the Bank of England, the Financial Services Authority (soon to be replaced with the Prudential Regulation Authority and the Financial Conduct Authority) and the Office for Budget Responsibility. Thus, it has a general remit to examine the Government’s management of the economy, including the Government’s Spending Reviews, Budgets and Autumn Statements.

- **The Public Accounts Committee:** The Committee of Public Accounts examines reports from the Comptroller and Auditor General (C&AG) on value for money studies on the efficiency and effectiveness with which government departments and other bodies have used their resources to meet their objectives. The PAC also examines some accounts where the C&AG has qualified his audit certificate or made a specific report to the House. Unlike departmental select committees, the PAC usually takes oral evidence from departmental officials rather than Ministers, because the PAC does not generally question policy. Instead, it examines the way in which policy is implemented.

- **The Liaison Committee** includes the Chairs of the departmental and other select committees (a total of 33 in the 2010–12 Session). It is appointed to consider general matters relating to the work of select committees, but also chooses select committee reports for debate in the House (e.g. Estimate Day Debates)

- **The Scrutiny Unit:** The Scrutiny Unit was set up by the House in 2002 to assist the
departmental select committees in their role of scrutiny, particularly in the areas of finance and draft legislation. It examines Supply Estimates and the publications reporting departmental financial performance and carries out pre-legislative scrutiny, assists committees in inquiries more generally, and responds to ad hoc requests from select committees for financial and legal expertise.

**The National Audit Office:** The NAO is headed by the Comptroller and Auditor General (C&AG). The C&AG, supported by the staff of the National Audit Office, audits the accounts of all government departments. The C&AG also produces value for money studies each year on the economy, efficiency and effectiveness of public expenditure. Most NAO reports form the basis of PAC evidence sessions. Although most of the NAO’s work is channelled through the PAC, it also provides ad hoc briefing and reports for departmental select committees when requested.

**The Office for Budget Responsibility:** This was set up by the Coalition Government as an independent fiscal watchdog. It judges progress towards the Government’s fiscal targets, assesses the long-term sustainability of the public finances, scrutinises the Treasury’s costing of Budget measures and produces forecasts for the economy and public finances (see page 13).
3 Financial Management – An Overview

While financial management is a continuing process, with spending decisions being made by Government departments all the time, there is an overarching framework within which budgets must be planned and approved; and spending accounted for. This can be broken down into a number of stages:

- **The planning cycle:** The Government plans its finances in the medium term through the Spending Review process. Departments agree to multi-year plans for expenditure.

- **The Budget cycle:** The Budget cycle is an annual process through which the Government makes its assessment of the state of the economy and plans how it will raise revenue in the coming year. Members vote on the Budget - which sets out the Government’s plans for taxation, fees and levies - and have the opportunity to debate specific aspects of the Budget.

- **The Estimates cycle:** The Estimates cycle (sometimes known as the supply cycle) is the process by which Parliament approves departments’ resources and cash for the year. Departments submit Supply Estimates which set out how they plan to spend their funding and seek approval from Parliament to spend those funds.

- **The reporting cycle:** The reporting cycle is the process through which the performance of departments is reported to Parliament and other stakeholders. Departments produce an Annual Report and Accounts which sets out the Department’s spending in the financial year and balance sheet position at year end (rather like a company’s balance sheet and profit and loss account) as well as an account of departments’ progress in meeting their performance targets and an indication of future plans.
Timeline – Parliamentary Scrutiny of Government Finances

- **Budget Cycle**
  - Budget
  - [See chapter 5]

- **Estimates Cycle**
  - Main Estimate
  - [See chapter 6]

- **Reporting Cycle**
  - PESA* [Public Exp Statistical Analysis] – information on govt spending
  - Annual Report and Accounts
  - [See chapter 7]

- **Autumn Statement**

1. Supplementary Estimate
2. Statement of Excesses for Previous Year
3. Vote on Account for Following Year

*This used to be published in July. It is now proposed that it will be published in May.

**NOTE:** Timings of events are approximate and can vary by a month

The diagram shows the timing of the main events in the annual cycles: Budget cycle, Estimates cycle and reporting cycle.
The Government uses the Spending Review process to plan Government finances in the medium term. Departments agree multi-year plans for expenditure referred to as the Spending Review settlement. The Spending Review sets ceilings for departments’ expenditure for all years of the Spending Review period. The most recent Spending Review which took place in October 2010 covered four years: 2011–12, 2012–13, 2013–14 and 2014-15, the last year corresponding to the final year of the Coalition’s term before the General Election. The 2010 Spending Review was a notable one because it initiated significant spending cuts after years in which departments experienced budget increases. Departmental budgets other than health and overseas aid were cut by an average of 19% over four years.

Spending Reviews set expenditure budgets broken down by department. The individual departments then decide how to allocate this between their various programmes. **Total Managed Expenditure** comprises:

1. **Departmental Expenditure Limits** (DELs) covering departmentally-controllable spending, for which firm multi-year departmental budgets are set. There are separate Resource (covering current spending) and Capital DELs (covering investment) for each Department; and

2. **Annually Managed Expenditure** (AME) for expenditure which is volatile and demand-led and which is not controllable on short term basis e.g. welfare benefits. Indicative figures for the major programmes in AME are agreed during the Spending Review periods, but changes can be agreed at the start of each year and during the year. Other AME budgets are agreed annually and can be changed annually. Departments require Treasury approval before introducing any policy change that impacts on AME spending.

Spending Reviews set expenditure ceilings for each department for a number of years ahead. The individual departments then decide how to distribute the funding they have been allocated between their various programmes. The process of allocation and reallocation is a continuous one, with initial breakdowns of budgets generally being determined only at the highest level at the time of the Spending Review and more detailed breakdowns following in the months ahead, which are then published in Estimates and annual reports.

The Spending Review also operates in the context of the Treasury’s fiscal strategy. As announced in the June 2010 Budget, the Government has set a forward looking fiscal mandate to achieve a cyclically-adjusted current balance by the end of the rolling five year forecast period, which at that time was 2015–16. The cyclically adjusted deficit is the element of the deficit which is not affected by the economic cycle and whether the economy is in recession or boom. The fiscal mandate is supplemented by an additional target for public sector net debt as percentage of GDP to be falling at a fixed date of 2015–16.
If departments expect to underspend against their budget at the end of the financial year, there is a system in place called Budget Exchange, whereby they can surrender their underspend in the Supplementary Estimate in return for an increase in the budget in the Main Estimate for the following year. There are limits on the amount departments can carry forward, depending on the size of the department’s DEL budget. Departments with DEL budgets between £2bn and £14bn are allowed to carry forward 1% of resource DEL and 2% of capital DEL. Also, to ensure that spending power is not allowed to accumulate over time, departments are not allowed to carry forward under spends by more than one year.

The Treasury Committee conducted an inquiry and produced a report on the 2010 Spending Review. All select committees undertook an examination of the repercussions of the 2010 Spending Review on their own particular department, with a few committees producing a report with recommendations.
5 The Budget Cycle

The Budget cycle is an annual process through which the Government makes its assessment of the state of the economy and plans how it will raise revenue in the coming year. It is worth noting that while the term “budget” is generally understood to refer to revenue and expenditure, only revenue measures (taxes and duties) are managed through the Parliamentary Budget cycle, with spending being managed through the separate Estimates Cycle (see chapter 6).

The Autumn Statement
The Autumn Statement was re-introduced by the Coalition Government, replacing the Pre-Budget Report. It focuses on the latest growth and economic forecast published by the Office for Budget Responsibility.

The Budget
The Chancellor’s Budget speech is delivered in March and generally falls into two parts: a summary of the economic situation and a detailed account of the measures needed to raise the revenue required.

The Finance Bill
At the end of the Budget speech, a resolution is usually moved to give immediate provisional effect to some of the proposals (for example, increases in duty on tobacco, alcoholic drinks and petrol) under the Provisional Collection of Taxes Act 1968. This enables the new rates of duty to take effect immediately for a specified period. The subsequent Finance Act provides full statutory authority for these temporary measures, as well as including provisions for other measures. It is therefore essential that the Finance Bill receives Royal Assent before the time limit for the specified period finishes. Other revenue-related measures include:

- changes to levels and types of taxation;
- changes to administration of the tax system; and
- renewal of taxes already in force.

The Bill is split into two parts for its scrutiny process. Clauses relating to the most significant and controversial proposals are referred to the whole House of Commons. The rest of the Bill is referred to a public bill committee, typically comprising thirty to forty members.

After the Bill goes through the House of Commons, it goes to the House of Lords. Consideration in the House of Lords is a formality because the Commons asserts its financial privilege. The Lords cannot amend the Bill and it therefore proceeds to Royal Assent and becomes an Act.
Scrutiny Unit
The Budget Cycle

Scrutiny in practice
The Treasury Committee reviews the Autumn Statement and the Budget by gathering evidence from external experts, the Office for Budget Responsibility and the Government. On the Budget, it produces a report with recommendations for the Government that the Government has to respond to.

THE OFFICE FOR BUDGET RESPONSIBILITY  http://budgetresponsibility.independent.gov.uk/

The Office for Budget Responsibility was created in 2010 to provide independent and authoritative analysis of the UK’s public finances. It is one of a growing number of official independent fiscal watchdogs around the world.

- It publishes five-year forecasts twice a year in the Economic and Fiscal Outlook (EFO) publication. The spring EFO is published at the same time as the Budget and incorporates the impact of any tax and spending policy measures announced in it. The annual Forecast evaluation report examines what lessons can be learned so that forecasting techniques can be improved.

- It judges progress towards the Government’s fiscal targets and in the EFO, assesses whether there is a greater than 50 per cent probability of hitting these targets under current policy. It also tests how robust this judgement is, given the uncertainty inherent in all fiscal forecasts.

- It sets out long-term projections for different categories of spending and revenue. It publishes a Fiscal Sustainability Report once a year, providing an analysis of the sustainability of the public finances in the long term, the public sector’s balance sheet and different indicators of long-term sustainability.

- It scrutinises the Treasury’s costing of Budget measures: during the run-up to Budgets and other policy statements, it subjects the Government’s draft costings of tax and spending measures to detailed challenge and scrutiny. It then states in the EFO and the Treasury’s costing documents whether it endorses the costings that the Government finally publishes as reasonable central estimates.
6 The Estimates Cycle

Supply Estimates are the means by which departments seek parliamentary authority to incur expenditure and draw down financing from the Consolidated Fund (the Government’s main current account). The constitutional practice is that:

- the Government demands money,
- the House of Commons grants that money and
- the House of Lords assents to the grant.

Prior to, and during each year, departments are constantly reviewing the balance of funding between different programmes and redistributing resources between programmes within the overall Departmental Expenditure Limits, in the light of changing priorities, events, slippage and new pressures. Most departments maintain a small contingency pot or “Departmental Unallocated Provision” for unforeseen pressures, but this is often rapidly exhausted. For additional spending to be incurred, therefore, savings must be often found elsewhere from other budgets within a department’s Departmental Expenditure Limit.

Departments are free to switch or “vire” the level of funding between their budgets within their Departmental Expenditure Limits during the year, without reference to Parliament, providing they have the legal authority in statute and in the Estimates to spend money on a particular activity. So a department could change the balance of funding between two existing programmes without Parliamentary authority, but could not start spending any money on a new programme without such authority. Large variances between spending plans published in Estimates and actual, final, expenditure need to be explained in the end year Annual Report and Accounts (see chapter 7). In order for there to be effective financial scrutiny, members and select committees need to be aware of major shifts in departments’ spending priorities in the year and also what has driven them. Often this can only be ascertained through asking the relevant questions after analysis of the Estimates or the Accounts.

Main Supply Estimates

The Main Estimates are the Government’s first opportunity to seek Parliament’s formal approval for spending plans for the financial year, following the advance which departments receive for the start of the year through the Vote on Account. The overall Departmental Expenditure Limits included in the Main Estimates are essentially those which the Government has previously set out in the Spending Review (see chapter 4), adjusted for relatively minor changes or transfers of funding between departments which have been agreed in the interim. The Main Estimates are presented to Parliament within five weeks of the Budget, usually in April.

Each department’s Main Estimate includes the limits on those spending categories where the department incurs expenditure. There are six possible limits:

- The net resource DEL\(^1\) requirement
- The net capital DEL requirement
- The net resource AME requirement

\(^1\) Certain elements of DEL and AME are not “voted” by Parliament as they do not technically require Parliament’s approval through the Estimate. Such expenditure is included in the Estimate, but is shown as “non voted”.
The net capital AME requirement

The net non-budget requirement (not applicable for most departments; mainly authorisation of grant to the devolved administrations which scores against their own DEL and AME limits)

The net cash requirement for the Estimate as a whole

Supplementary Estimates
Supplementary Estimates are used where departments wish to draw down additional funding beyond that already authorised in the Main Estimates. They are also necessary if a department takes on new functions during the financial year.

The Supplementary Estimate is passed through a Supply and Appropriation (Anticipation and Adjustments) Bill which becomes the Supply and Appropriation (Anticipation and Adjustments) Act when passed.

Following recent financial management reform, there is only one Supplementary Estimate in the year, in January/February. Previously there had been the opportunity for departments to present up to three Supplementary Estimates in the year, though in practice departments generally only sought two Supplementary Estimates in a given year.

Excess votes and Statement of Excesses
Excess votes arise when any of the above limits are exceeded, or spending takes place beyond the activities (the “ambit”) authorised by Parliament. In such cases the National Audit Office prepares a report for the Public Accounts Committee, which will in turn normally question the department’s Accounting Officer (usually the Permanent Secretary) in public on the causes of the excess, corrective actions and lessons learned.

Formally, the excess vote needs also to be retrospectively approved through the Statement of Excesses (SoE), which is published alongside the Spring Supplementary Estimates.

(See diagram on page 9 for timing of events in the Estimates cycle)

Vote on Account
The Vote of Account is published alongside the Supplementary Estimates. Through the Vote on Account, Parliament authorises resources, capital and cash funding to allow departments to continue to operate existing services from 1 April of the next financial year until the passing of the Supply and Appropriation (Main Estimates) Act in July which authorises the Main Supply Estimate for that year.
Scrutiny in practice

Estimate Memorandum
At the same time as the Estimates are placed before Parliament, departments send an explanatory memorandum on their estimate (the Estimate Memorandum) to the relevant select committee. The memorandum explains differences between the current and previous estimates, as well as the impact of the changes sought, and enables committees to carry out a more rigorous scrutiny of estimates. The Scrutiny Unit has been active in assisting departmental select committees to scrutinise and improve the quality of the memoranda. On the basis of this Memoranda, departmental select committees will also ask questions from the Department.

Estimate Day Debate
These are days which are allotted for debates in the House of Commons to consider the Estimates. Three days are allotted in each Parliamentary session to debate Estimates, one for the Main Estimate and two for the Supplementary Estimates and Vote on Account. The choice of Estimate is made by the Liaison Committee: these Estimates act as a peg for a debate on a select committee report that is more commonly about the policy or administration of a department than about the funds sought in the Estimate. However, Estimates Days can be used to explore a major financial issue in depth or departmental spending priorities as a whole.

TIMINGS [see timeline on page 9]
There are three main publication events in the Estimate and Reporting Cycle:

1. April/May - The Main Estimates booklet and Public Expenditure Statistical Analyses (PESA) are presented to Parliament by the Treasury
2. June/July - Annual Report and Accounts are published by each department
3. January/February - Supplementary Estimates booklet are presented to Parliament by the Treasury which incorporate the Statement of Excesses for the previous year and the Vote on Account for the following year (money granted by the Parliament to carry on public services from 1 April of the next financial year until the passing of the Appropriation Act which approves the Main Estimate)
**SCRUTINY IN PRACTICE**

**Spending announcements**

While the planning, budgeting, estimates and reporting cycles operate on a regular cycle, in reality day to day decisions on spending take place throughout the year at different times. Following the announcement of the three or four year Spending Review settlement for instance, a department is unlikely to have a hugely detailed plan for spending of every pound it has been allocated, although it will know its broad intentions for the balance of funding being different spending areas under its control. However even within the year, events, changing priorities, and the success or otherwise of differing programmes will affect how funding is distributed.

As a consequence, Government ministers and departments often make spending announcements — of differing degrees of detail—throughout the year. Normally, these will simply be allocations or reallocations of money within the existing announced Spending Review DEL totals; occasionally the Treasury will offer a department additional money.

Where the overall DEL or AME totals for the department for the year are affected, this will be reflected in the Main Estimate presented to Parliament, or if it happens in year, it will be reflected in the Supplementary Estimate. If an internal reallocation is involved, there may not be any change needed to an Estimate, as departments will be free to switch resources within the total, sometimes requiring the agreement of the Treasury, but not needing Parliament’s agreement. In order to conduct effective financial scrutiny, select committees need to have an understanding of how departments are reallocating resources to meet their priorities. Often they can only get this information through asking pertinent questions at the Main Estimate and Supplementary Estimate stages.
7 The Reporting Cycle

Departments’ Business Plan
The Coalition Government introduced business plans as a key tool for monitoring departmental performance.

The Departments’ Business plans include:
- the particular Department’s vision;
- structural reform priorities - these represent the Department’s objectives;
- structural reform plan - these are described on the No.10 website as a key tool of the Coalition Government for ensuring that departments are accountable for the implementation of the reforms set out in the Coalition Agreement. The structural reform plan sets out the set of actions with timescales that will enable the Department to achieve its structural reform priorities. All the departments’ business plans are available on the No.10 website;
- expenditure plans over the 2010 Spending Review period (2011–12 to 2014-15);
- data which can be used to measure the department’s progress against the structural reform priorities (input and impact indicators).

Annual Report and Accounts
Departments publish an Annual Report and Accounts (normally a combined document) on a yearly basis. These are normally presented to Parliament around June or July. Occasionally, publication may be delayed, although this should only happen exceptionally and be notified to the Departmental Select Committee. The Annual Report and Accounts includes Statutory Annual Accounts, audited by the National Audit Office. They are similar to accruals accounts produced by private sector companies under International Financial Reporting Standards and report on spending in the financial year, balance sheet position at year end and cash flow. The Government Financial Reporting Manual requires additional transparency disclosures.

The Annual Report and Accounts (also like private sector accounts) include a management commentary and information on past activity and future plans. This includes reporting on the Department’s performance. (The Annual Report highlights the number of deadlines the Department has missed within its structural reform plan and shows progress against structural reform priorities using impact indicators).

All accounts are produced on an accruals accounting basis.
ACCRUALS ACCOUNTING

Departmental accounts are based on accruals accounting. The principal advantage of accruals accounting is that it allows better financial management and scrutiny by:

- matching expenditure in any period to revenues earned and obligations incurred in that period. For example, a department may have incurred an electricity cost in a given year but received the bill after the end of the financial year. Under the accruals basis, the cost actually incurred in that period would be recorded in the accounts for that period. (Under the old system of cash accounting, the same cost would only have been recognised in the following year, when it was actually paid).

- charging depreciation for capital assets. Depreciation is the measure of the reduction in value of assets. In accruals accounts, assets are recorded in the balance sheet and depreciation is charged as a cost. (Previous cash accounts did have an assets and liabilities statement but did not charge depreciation, which meant that they did not reflect wear and tear of assets). Accruals accounting is standard practice for the production of commercial accounts.

SCRUTINY IN PRACTICE

The Scrutiny Unit analyses Annual Reports and Accounts on behalf of select committees. Select committees often hold an oral session on the Annual Report and Accounts and/or follow up by submitting questions to the department on them. Some committees produce a report with recommendations on the Annual Report and Accounts.
Finance glossary

*Note: This glossary focuses in particular on financial terms relevant to the UK Government.*

**Accruals Accounting**
This is a method of recording expenditure as it is incurred, and income as it is earned, during an accounting period, rather than when cash is paid or received. Private sector accounts generally use accruals accounting. 'Resource' accounting is another term used for accruals accounting in a public sector context. The principal advantage of accruals accounting is that it allows better financial management and scrutiny by:

- Matching expenditure in any period to revenues earned and obligations incurred in that period. For example, a Government department may have used electricity and received an electricity bill in the year, but may pay it after the financial year ends. The cost would be recognised in resource accounts in the financial year in which the cost was incurred. It is referred to as an accrual. The same cost would only have been recognised in cash-based accounts in the following year, when it was actually paid.
- Matching the cost of assets to the period in which they are used or consumed, by charging depreciation on them. Depreciation is the measure of the reduction in the value of assets. In accrual accounts, assets are recorded in the balance sheet and depreciation is charged as a cost.

**Administration budget**
Administration budgets limit the resources set aside for the running costs of a Government department within its Departmental Expenditure Budget (DEL). Administration budgets are ringfenced budgets, set at the time of a Spending Review. The balance of the resource DEL is referred to as programme expenditure. The Statement of Comprehensive Net Expenditure in the resource accounts separates administration and programme expenditure. If the department’s administration budget is breached, the Department’s accounts will be qualified (see qualified accounts).

**Ambit**
This is a description of activities related to expenditure and income included in the Estimate. Departments can only incur expenditure or retain income that is reflected in the relevant ambit. The accounts could be qualified if expenditure is incurred outside the ambit. Income outside the ambit cannot be used to offset expenditure within the budgetary limits, but must be surrendered as a non budget Consolidated Fund Extra Receipt (CFER).

**Annually Managed Expenditure (AME)**
AME is public expenditure over which Government departments have less control than Department Expenditure Limit (DEL) expenditure. Departmental AME budgets are agreed with the Treasury annually and can be changed in-year, unlike DEL budgets which are set for a three or four year period in the Spending Review. Examples of AME are unemployment benefit expenditure incurred by the Department of Work and Pensions or revaluation losses in a department’s property.
**Annual Report and Accounts**
Departments publish their Annual Report and Accounts each year. They consist of (1) an Annual Report which includes a management commentary and information on past activity and future plans and (2) Accounts which are audited by the National Audit Office and report on spending related to the previous financial year and assets and liabilities as at the end of the financial year. The Annual Report also reports against the department’s business plan. It identifies the number of milestones in the structural reform plan where the department has not met its deadline and also sets out the Department’s impact indicators against each structural reform priority.

**Arm’s length bodies (ALBs)**
These are bodies not forming part of government department, but which are consolidated into the departments’ Estimates and Accounts. ALBs are often established, under specific legislation, to be semi-autonomous, or at “arm’s length”, from their departments, although their overall spending is usually tightly controlled by means of budgets set by departments. Non Departmental Public Bodies are a type of ALB.

**Budget exchange**
This is a mechanism which allows departments to surrender an underspend in advance of the end of the financial year in return for a corresponding increase in the following year, subject to a prudent limit. Budget exchange replaced the previous End-year Flexibility mechanism.

**Business plan**
The departments’ business plan includes the Department’s vision, coalition priorities (structural reform priorities), structural reform plan, expenditure over the 2010 Spending Review period and data which can be used to measure the department’s performance (input and impact indicators).

**Capital**
A body’s net assets are known as its capital, which may include fixed capital (machinery, buildings, and so on) and working capital. In the context of Government, capital expenditure represents spending on acquisition of assets, or a grant to support acquisition of assets.

**Cash Accounting**
This is a method of accounting which records cash payments and cash receipts as they occur in an accounting period. Prior to the financial year 2001–02, public expenditure was planned and subject to parliamentary control solely on a cash basis. The Government Resources and Accounts Act 2000 requires government departments to produce resource accounts based on accruals accounting.

**Cash Flow Statement**
See Statement of Cash Flows
Comptroller and Auditor General (C&AG)
The Comptroller and Auditor General (C&AG) is head of the National Audit Office. On a daily basis, he or his nominated deputy, authorises payments from and monitors receipts into the Consolidated Fund and the National Loans Fund, which is his Comptroller role.

Consolidated Fund
The Consolidated Fund essentially acts as the Government’s current account. Government revenue from taxes and other sources is collected daily into the Consolidated Fund. Payments from the Fund finance central government spending and grants to local authorities.

Contingent liabilities
See provisions and contingent liabilities.

Departmental AME
This is spending that is outside DEL but included in departmental budgets. Main categories include social security benefits and tax credits for individuals. Most departments also have Annually Managed Expenditure (AME) budgets for non cash items - mainly the take up and use of provisions. Generally, when the term ‘AME’ is used on its own, it will mean ‘Departmental AME’.

Departmental Expenditure Limit (DEL)
DEL is expenditure which Government departments can control. The DEL budget forms the department’s multi-year budget plan against which spending is managed. Within a department’s DEL budget separate elements are identified for capital and current spending.

Departmental Unallocated Provision
A specific proportion of a Government department’s budget set aside as a contingency. It is included within the Main Estimates but the sums cannot be used until they are reallocated to specific functions in a Supplementary Estimate.

Depreciation
A measure of the wear and tear of a fixed asset arising from use. It spreads the cost of an asset over its time in use and is often estimated in terms of the value of an asset and its useful life. The most common depreciation policy is “straight-line” and simply means dividing the value of an asset over its estimated useful life. Sometimes the depreciation policy allows for a residual value to the asset, which is generally the amount which an organisation can sell the asset for after it is no longer useful to it. Depreciation scores in the Resource DEL budget (where it is ring fenced) or in some specific cases, against Resource AME.

Estimates Days
These are days which are allotted for debates in the House of Commons to consider the Estimates. The choice of Estimate is made by the Liaison Committee, and these Estimates can act as a peg for a debate on a select committee report that is more commonly about the policy or administration of a department than about the
funds sought in the Estimate. However, Estimates Days can be used to explore a major financial issue in depth.

**Estimates**
See Supply Estimates

**Excess vote**
This is the means by which Parliament retrospectively authorises departmental overspends in terms of resources or cash. Excess votes lead to qualified accounts.

**Finance Bill**
The Finance Bill is ordered to give permanent legal effect to the Budget Resolutions and is generally presented at the end of the debate on the Budget. The Finance Bill deals with the revenue side of government finances. It includes
- changes to levels and types of taxation;
- changes to administration of the tax system;
- renewal for taxes already in force.

**Financial Reporting Manual (FReM)**
This is the authoritative statement of accounting guidance against which Departments’ accounts are prepared and audited. The manual is based on EU adopted International Financial Reporting Standards and interpretations as adapted and interpreted to take account of the public sector context. The Financial Reporting Manual (FReM) is produced by the Treasury and endorsed by the independent Financial Reporting Advisory Board.

**Grant-in-aid**
This is a grant made by a Government department from voted money to a particular body, usually a Arm’s Length Body (ALB). Grant-in-aid can be used in any way towards an ALB’s objectives.

**Impact indicator**
These are indicators established by the departments to monitor effectiveness of departments’ policies. Generally departments will be set impact indicators which monitor how effectively they are pursuing their structural reform priorities. Impact indicators form part of departments’ business plans and are published in their Annual Reports and Accounts.

**Input indicators**
These are indicators established by the departments to measure how effectively they are using their inputs. An example of an input indicator is rail subsidy per passenger mile for the Department of Transport. Input indicators form part of departments’ business plans and are published in their Annual Reports and Accounts.
Main Estimate
The Main Estimates are the initial Estimates for the financial year and cover the expected spending of a department, including its arm’s length bodies, for the whole financial year. The Main Estimates are presented to Parliament within five weeks of the Budget – usually in April. The totals may be modified later in the year by means of a Supplementary Estimate.

National Audit Office
The National Audit Office scrutinises public spending on behalf of Parliament. It audits the accounts of all central government departments and agencies, as well as a wide range of other public bodies, and reports to Parliament on the economy, efficiency and effectiveness with which they have used public money. It is totally independent of Government. The NAO is headed by the Comptroller and Auditor General.

Net Cash Requirement
The forecast Net Cash Requirement appears in the Supply Estimate and is the cash authorised to be issued from the Consolidated Fund in respect of the year to finance the estimated resource and capital consumption.

Net operating cost
This comprises the sum of the net administration costs and the net programme costs included in Statement of Comprehensive Net Expenditure.

Non-budget
Non-budget expenditure is expenditure funded through the Estimates, but which is not part of a Government department’s budget (DEL or AME). The main elements are grants to devolved administrations.

Non-Departmental Public Body
This is an entity that has a role in the process of government but is not a government department nor forms part of a department. It can incur expenditure on its own account and is usually financed at least in part from public funds via grant-in aid from a sponsor department. Generally now known, along with other bodies which are not part of a department, as “arm’s length bodies”. NDPBs are colloquially known as “quangos” or “quasi non-governmental organisations”. Their expenditure is consolidated into the Supply Estimate and Annual Report and Accounts.

Notes to the accounts
The notes to the accounts are supplied after the financial statements and give additional information on individual figures in the accounts or provide further disclosure, as required by the Financial Reporting Manual.

Office for Budget Responsibility (OBR)
The OBR was set up by the Coalition Government as an independent fiscal watchdog. It judges progress towards the Government’s fiscal targets, assesses the long-term sustainability of the public finances, scrutinises the Treasury’s costing of Budget measures and produces forecasts for the economy and public finances.
Other AME
This is public spending that is outside both DEL and departmental AME. It includes net transfers to the European Commission, locally financed expenditure, debt interest, public corporations’ own financed capital expenditure and accounting adjustments. Often, when the term ‘AME’ is used, it means ‘Departmental AME’ and excludes ‘other AME’.

Programme expenditure
These are the resources that the Department uses directly to deliver its policy objectives and excludes spending within a Department’s administration budget.

Public Expenditure Statistical Analysis (PESA)
PESA is the regular publication of information on government spending. PESA has two main objectives and is therefore based on two datasets:
- Budgets: To provide information on government spending plans and outturn expressed in terms of budgeting aggregates (DEL and AME). The Government uses the budgeting framework for expenditure planning and control.
- Total Expenditure on Services: For some statistical data it is more helpful to also include local authority spending. Where this is done, grants to local authorities are excluded to avoid double-counting.

Qualified accounts
Accounts may be qualified when the auditor deems:
- there is insufficient appropriate audit evidence obtained;
- the financial statements have not been prepared in accordance with accounting standards;
- the financial statements are affected by significant uncertainties;
- the financial statements do not give a true and fair view;
- there is irregular expenditure (i.e. it does not conform with Parliamentary intention).

If accounts are qualified, this information will be readily available in the auditor’s certificate in the department’s accounts. A qualification of a Government department’s accounts will tend to reflect badly on the department and its management. It will usually be regarded as an indication of weakness in financial management and even general management, depending on the nature of the qualification by stakeholders.

The Reserve
A small funding pot held by the Treasury, which is used to top up Departmental DEL budgets in exceptional circumstances.
Resource Accounts
These are a department’s annual accounts or financial statements, consolidating the expenditure of a department and its arms length bodies. The term ‘resource’ was used in the past within government to indicate preparation on an accruals accounting basis, as opposed to old style ‘cash’ accounts. The ‘resource accounts’ form part of the Annual Report and Accounts. The accounts present the financial results of a department for the relevant financial year. They are prepared on the basis of International Financial Reporting Standards and the Government Financial Reporting Manual (FReM).

Spending Review
Spending Reviews are currently held every few years and set firm DEL plans for the subsequent three to four years. The 2010 Spending Review set departmental budgets for the years 2011–12 to 2014–15.

Statement of Cash Flows
This is a statement of cash in flows and out flows during an accounting period. For Government departments, this is produced according to guidance in the Financial Reporting Manual.

Statement of Comprehensive Net Expenditure
This is part of a Government department’s accounts. It is similar to the income statement (formerly known as the profit and loss statement) in a company’s accounts and shows resources consumed during the year by the department in providing its services. It separates both administration and programme expenditure.

Statement of Financial Position
This is part of a Government department’s accounts. This shows the assets and liabilities at year end and is similar to the statement of financial position or balance sheet in a company’s accounts.

Statement of Parliamentary Supply
This forms part of the Accounts. It compares outturn (actual expenditure or “actuals”) with the Estimate (budget) for both resource expenditure and the overall cash requirement. The summary also reconciles the cash figures to the resource figures.

Structural reform plans
These are described on the No.10 website as a key tool of the Coalition Government for ensuring that departments are accountable for the implementation of the reforms set out in the Coalition Agreement. The structural reform plan sets out the set of actions with timescales that will enable the Department to achieve its structural reform priorities.

Structural reform priority
These represent the department’s objectives. Each department has produced a set of impact indicators to measure how effectively they are achieving the structural reform priority.
Supply and Appropriation Acts
Supply and Appropriation Acts give parliamentary authority for departments to use the net resources and net capital amounts requested in their Main Estimate and Supplementary Estimate and to be issued with cash from the Consolidated Fund up to the level of the authorised net cash requirement. In addition, they limit the ways in which resources and capital can be used by prescribing the services particular budgets are used for. The Act also limits the income used to offset expenditure to the types of income described in the Estimate. The Main Estimate is approved by Parliament through a Supply and Appropriation (Main Estimates) Bill. The Bill becomes the Supply and Appropriation (Main Estimates) Act when passed. The Supplementary Estimate is passed through a Supply and Appropriation (Anticipation and Adjustments) Bill which becomes the Supply and Appropriation (Anticipation and Adjustments) Act when passed.

Supplementary Estimate
Supplementary Estimates are presented when Government departments wish to change their voted budget limits or cash requirement in the current financial year. They are also necessary if a department takes on new functions during the financial year, including functions transferred under Machinery of Government changes. Supplementary Estimates are now normally only presented to Parliament on one occasion each year, usually in January or February.

Supply
This is a means by which Parliamentary authority is secured for most government spending.

Supply Estimates
This is a statement presented by the Treasury to the House of Commons in which a department seeks approval for its spending for the coming financial year. The Estimates summarise the resources, capital and the cash required. The two types of Supply Estimates are the Main Estimates (setting initial budgets) and Supplementary Estimates (in year adjustments to budgets).

Total Managed Expenditure (TME)
This is a Treasury budgeting term which covers all current and capital spending carried out by the public sector (i.e. not just by central Government departments). It comprises the sum of Departmental-Expenditure Limit (DEL) and Annually Managed Expenditure (AME).

Trading Fund
These are bodies established under the Government Trading Funds Act 1973 as amended by the Government Trading Act 1990. Organisations that are so designated, normally earn their income from fees and charges, with more than 50% coming from trading activities.

Value for Money Studies
Value for Money studies examine the economy, efficiency and effectiveness of public spending. The National Audit Office (NAO) is primarily responsible for monitoring the value for money provided by the Government in the UK. By agreement, it may also conduct VFM studies on other bodies (such as the BBC).
Votes on Account
This is money granted by Parliament to carry on public services from 1 April of the forthcoming financial year until the passing of the Supply and Appropriations (Main Estimates) Act before August in that year.

Whole of Government Accounts
These are prepared by the Treasury. They are an annual set of consolidated financial statements covering the whole of the public sector. WGA includes many bodies: central government funds, departments and agencies, Non-Departmental Public Bodies, trading funds, the NHS, devolved administrations, local authorities, fire authorities, police authorities, waste authorities, passenger transport authorities. Parliamentary bodies (including the House of Common, the House of Lords and the National Audit Office) are not included. The first set of consolidated financial statements covering most of the public sector were presented for the year 2009-10 in 2011. The accounts were audited and subject to a number of qualifications.