

# Finance glossary

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

## Accounting Officer

The senior official ultimately responsible for all spending of a government department or arm's length body. The Accounting Officer for a government department is usually the Permanent Secretary. The Accounting Officer must personally sign off the Annual Report and Accounts of the body s/he has responsibility for, and may be called to appear before a select committee to answer questions on financial management.

## Accounts Direction

A written document instructing officials how to prepare accounts.

## Accruals Accounting

A method of recording expenditure as it is incurred (i.e. when the activity which generates the costs arises), and income as it is earned, rather than when cash is paid or received. This method of accounting is now used in the UK throughout the public and private sectors (with the exception of very small charities and businesses). In the public sector context it is also sometimes known as 'Resource' accounting. UK Government Budgets (the DEL and AME limits) are also set in accruals rather than cash terms, and although departments still have to forecast cash movements, they are free to seek as high a cash requirement in their Estimates as is necessary to support the accruals budgets allocated.

The principal advantage of accruals accounting over cash accounting (where cash movements are all that is recorded) is that accruals accounting allows better financial management and scrutiny by:

- matching expenditure in any period to revenues earned and obligations incurred in that period; and
- matching the cost of assets to the period in which they are used or consumed, by charging depreciation on them.

## Administration budget

Budget limits controlling the resources set aside for the running costs (largely staff and associated costs) of a government department, and which form part of its Resource Departmental Expenditure Budget (DEL). Administration budgets are ring-fenced budgets, set at the time of a Spending Review. The other part of the Resource DEL, outside of the Administration Budget is referred to as programme expenditure. If the department's administration budget is breached, the department's accounts will be qualified by the auditor (see qualified accounts).

## Ambit

A description of what the funding sought in the Estimate will be spent upon. Departments can only incur expenditure that is reflected in the relevant ambit. The accounts will be qualified by the auditor if expenditure is incurred which falls outside the ambit. Income outside the ambit cannot be used to offset expenditure within the budgetary limits, but must be surrendered as a Consolidated Fund Extra Receipt (CFER).

## Annually Managed Expenditure (AME)

Spending included in departmental budgets, but which is difficult to predict, manage or forecast, so, unlike DEL, is not subject to multi-year spending limits set in Spending Reviews. Main categories of AME include demand led funding such as social security benefits, pensions and tax credits for individuals, and difficult to forecast items such as impairments in asset value, and provisions for liabilities. Once the AME forecast is put before Parliament within Estimates it becomes a fixed limit, and any excess of spending over budget becomes an excess vote. There are separate Resource and Capital AME budgets.

## Annual Report and Accounts

Published statutory documents of government departments and other public bodies produced annually, presenting details of the spending and performance of a government department or public body over the last year.

Departments publish and present their Annual Report and Accounts to parliament each year, usually within four months of the end of the financial year.

Annual Report and Accounts includes three core elements:

- A performance report, which summarises overall performance, spending and delivery of objectives
- An accountability report, which gives reports on corporate governance, remuneration and a comparison of actual spending against the amounts approved by Parliament
- Financial statements, which include the Statement of Comprehensive Net Expenditure, Statement of Financial Position (Balance Sheet) and Cash Flow Statement, and associated notes.

The accounts are audited, usually by the National Audit Office. Some smaller public bodies may be audited by other auditors.

## Appropriations in Aid (A in A)

Income recorded in Estimates and which is allowed to be used to support spending of a government department or other body. A in A will usually be receipts of a commercial nature such as contributions from partners, sales, etc. A in A is distinct from income known as CFERs, which are surrendered to HM Treasury.

### Arm's length bodies (ALBs)

Public sector bodies which while not forming part of a government department, 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.

### Balance sheet

One of the core financial statements within the Annual Report and Accounts. Its formal name is now the "Statement of Financial Position" and it shows the total assets and liabilities of an organisation at the end of the year.

### Budget exchange

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. While essentially a set of rules determined by the Treasury, Government Departments still need to formalise the changes in Estimates and gain Parliamentary approval to changes in the normal way by presenting a Supplementary Estimate reducing budgets in one year, and including the additional funds in a Main or Supplementary estimate in a subsequent year.

### Capital

A body's net assets, which may include fixed capital (machinery, buildings, and so on) and working capital (cash held at the bank). May also refer to capital expenditure (see below).

### Capital expenditure

In the context of Government, investment expenditure (controlled through capital DEL and AME limits), including net spending on the acquisition of assets, grant to support acquisition of assets, and loans paid out, less assets sales and loan repayments.

### Cash Accounting

A method of accounting which records cash payments and cash receipts as they occur in an accounting period. While cash accounting was used for UK Government Departments and other public bodies for many years it was replaced by accruals accounting in the UK in 2002. Cash accounting is still used around the world by the majority of governments to control and record public spending, although its use in the private sector internationally and within the UK is much more limited.

### Cash Flow Statement

One of the core financial statements within the Annual Reports and Accounts. It shows the total cash held at the beginning of the year, cash flows in and out, and cash held at year end. While

Government departments' budgets are now measured on an accruals basis, Departments still need to monitor and record cash movements and not exceed the total amount of cash they forecast as a net cash requirement within their Estimates. The cash flow statement is audited, usually by the NAO.

#### Charter for Budget Responsibility

A document, approved by Parliament, which sets out the government's aims in its management of the economy and against which the OBR assesses government performance- sometimes known as the "fiscal mandate". The Charter remains in place until amended by Parliament.

#### Comptroller and Auditor General (C&AG)

The head of the National Audit Office, and an officer of Parliament, who is wholly independent of Government. He gives an opinion ("certifies") the accounts of all major Government departments and many ALBs.

#### Comprehensive Statement of Net Expenditure

One of the core financial statements within the Annual Report and Accounts. It sets out the total spending and income of the Department or body concerned. It is equivalent to the Income Statement or Profit and Loss Account for private sector companies. It is audited, usually by the NAO.

#### Consolidated Fund

Equivalent to the Government's current account. Government revenue from taxes and other sources is collected daily and paid into the Consolidated Fund. Government Departments draw down cash from the Consolidated Fund, subject to the limit of their annual Net Cash Requirement, to make all their payments.

#### Consolidated Fund Extra Receipts (CFERs)

Receipts which are outside the ambit of the Estimate and cannot be used to support expenditure of a Department. Instead they are recorded and passed to the Treasury's Consolidated Fund. These include taxes collected by Departments.

#### Consolidated Fund Standing Services (CFSS)

Spending which doesn't require annual approval by Parliament because other legislation provides for its funding without annual approval in Estimates. CFSS includes judges' salaries and some election costs. Shown as "non-voted" within Estimates.

#### Contingencies Fund

A fund used by the Treasury to support emergency spending in advance of approval by Parliament. Advances from the Contingencies Fund should be notified to Parliament through a Ministerial Statement.

### Contingent liabilities

Liabilities which it is possible, but are unlikely, to arise. The Estimates and the Accounts contain details of a Department's contingent liabilities.

### Cyclically adjusted

Adjusted to take account of the economic cycle i.e. fluctuations in economic growth.

### Debt

Accumulated borrowings over time. Annual deficits add to debt. The main measure of debt used by the UK government is Public Sector Net Debt (PSND).

### Deficit

The shortfall between spending plans and taxation revenue, which has to be funded through borrowing.

### Departmental Expenditure Limit (DEL)

Expenditure which is subject to limits set in Spending Reviews, and which it is assumed Government departments can control. Separate DELs are set for each Government Department's Resource and Capital spending each year.

### Departmental Unallocated Provision (DUP)

A part of a Government department's budget which has been set aside as a contingency. DUP forms part of a Department's Resource or Capital DEL, and is included within the Estimate. DUP may be vired to other budgets in the same department's DEL, reallocated in a Supplementary Estimate; or surrendered for possible carry forward into a future year through Budget Exchange.

### 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.

Departments and other bodies are required to set a depreciation policy for each type of asset which they hold. 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

Days which are allotted for debates in the House of Commons to consider the Estimates. Certain Estimates are selected for debate by Parliament, although the actual debate may in reality be only about one aspect of the Estimate, or relate to a Select Committee report on a policy area for which funding is provided in the Estimate. Members may propose amendments reducing expenditure for Estimates selected for debate on Estimates day.

## Estimates

See Supply Estimates

## Excess vote

Where a Department has spent more - as recorded in its audited end year accounts - than was voted by Parliament in Estimates, or has spent beyond the coverage of its ambit i.e. its voted authority has been exceeded. This can be against any one of the individual voted totals - Resource DEL, Capital DEL, Resource AME, Capital AME, non-budget expenditure or the net cash requirement. In such cases Parliament retrospectively authorises the departmental overspends, approving a Statement of Excesses. Excess votes automatically lead to accounts being qualified by the Comptroller and Auditor General, which will often lead to a hearing by the Public Accounts Committee.

## Finance Bill

A bill which gives 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 Advisory Board (FRAB)

An independent committee overseeing financial reporting standards in the public sector. It considers forthcoming changes to International Financial Reporting Standards and whether any adaptations are necessary for the public sector before incorporation in the Financial Reporting Manual (FReM). FRAB members include representatives from the accounting profession, Government departments and ALBs, academia, the NAO, the Office for National Statistics and Parliament.

## Financial Reporting Manual (FReM)

The authoritative statement of accounting guidance against which Departments' accounts are prepared and audited. The manual is based on International Financial Reporting Standards 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.

### Fiscal mandate

The government's aims for management of the economy, which it sets out in the Charter for Budget Responsibility.

### Grant-in-aid

A grant made by a Government department from voted money to a particular body, usually an Arm's Length Body (ALB). Grant-in-aid can be used in any way towards an ALB's objectives i.e. it is not linked to specific activities.

### Gross Domestic Product

A measure of economic activity which captures the value of goods and services that a country produces during a given period. GDP can be measured through output, income or expenditure approaches, and can be expressed in nominal or real terms.

### International Financial Reporting Standards (IFRS)

A set of standards for producing accounts and which are widely used throughout the world. In the UK, the FRAB advises on possible adaptations to IFRS before they are adopted in the public sector.

### Key Performance Indicators (KPIs)

Measures of performance which are considered to be good indicators of a department or other body's success or otherwise in meeting its targets or objectives. These are published periodically by Government online, in updates to the Single Departmental Plans and in the Annual Report and Accounts.

### Main Estimate

The first set of full proposed budgets produced for the financial year, covering the expected spending of a department, including its arm's length bodies, for the whole financial year, April to March. The Main Estimates are presented to Parliament— usually in April, or sometimes later in a General Election year. Once approved they become that year's budgets, unless and until they are amended later in the year by means of a Supplementary Estimate.

### Managing Public Money

The government's guidance to departments on manage public money effectively. The guide sets out rules and responsibilities, as well as guidance on best practice to achieve value for money.

### Ministerial Direction

A written document from Minister/s instructing officials to pursue a certain course of action. Sometimes these may be sought from the Accounting Officer if s/he has doubts over the value for money or propriety of a spending proposal.

### National Accounts

A statistical measure of public sector spending used by the Treasury, OBR and ONS. Figures for borrowing, debt and total spending quoted by the Chancellor are usually measured according to the National Accounts. National Accounts follow the European Standards of Accounts as set by Eurostat. The National Accounts give a different picture of total public spending and debt to the Whole of Government Accounts, which are compiled according to different standards (IFRS). National Accounts do not for instance include public sector pension liabilities, or make provision for liabilities where payment has yet to be made.

### National Audit Office

The body which audits and 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 total cash which is estimated to be required in support of the spending by a Government Department. Departments calculate their estimated net cash requirement based on the total DEL, AME and non-budget spending limits, which all record spending on an accruals basis, adjusted to take account of non-cash items (such as depreciation) and timing differences e.g. where cash is paid in advance or arrears of a service being provided. Once the Net Cash Requirement has been voted it is a fixed total and can only be amended by a Supplementary Estimate. Cash drawn down in excess of the Net Cash Requirement at year end constitutes an excess vote.

### Net operating cost

A sum comprising the total of the net administration costs and the net programme costs included in Statement of Comprehensive Net Expenditure. It is not a control or voted total, but an accounting measure. It is broadly similar to the sum of the Resource DEL plus the Resource AME, with some adjustments e.g. the addition of capital grants.

### Non-budget expenditure

Expenditure included in the Estimates, but which is not part of a UK Government department's budget (DEL or AME). The main elements are cash grants to devolved administrations. These cash grants, sometimes known as block grant, provide the cash to support spending by the devolved governments. Devolved government score their actual spending, on an accruals basis, against their own DEL and AME totals, which are voted by their own Parliaments/Assemblies.

### Non-Departmental Public Body (NDPB)

A public sector organisation which has a role in the process of government but which is not in itself either a government department or part of a department. It can incur expenditure on its own account and is usually financed primarily from public funds via grant-in-aid from a sponsor

department. Generally now known, along with some other types of bodies which are also not part of a department, as “arm’s length bodies”. NDPBs are colloquially known as “quangos” or “quasi non-governmental organisations”. NDPB expenditure scores against the DEL or AME of a specified relevant Government Department, is consolidated into the Department’s Supply Estimate, and included in the consolidated Annual Report and Accounts of the Department- being treated in a similar way to subsidiaries within a “Company Group”.

#### Notes to the accounts

Numbered notes which give additional information on individual figures in the accounts or provide further disclosure, as required by the Financial Reporting Manual. They are included in the Annual Report and Accounts.

#### Office for Budget Responsibility (OBR)

An arm’s length body set up in 2010 as an independent fiscal watchdog to forecast public spending. 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.

#### Office for National Statistics (ONS)

A public body which provides independent authoritative statistics for the UK, and which is independent of Government Departments.

#### Programme expenditure

The resources that the Department uses directly to deliver its policy objectives and excludes spending within a Department’s administration budget. Programme expenditure may still include or support staff costs, but generally only those of staff involved in front line services. The dividing line between programme and administration spending is determined by HM Treasury for each Department. Programme budgets within Resource DEL may not be used to support spending within the administration budget in Resource DEL.

#### Provision for liabilities

A cost, recognised when an organisation takes on a liability, often not actually payable for many years to come. Provisions normally score against Resource AME. Notable provisions in government include the provision for nuclear decommissioning, and a provision for medical negligence. When some or all of the payment is actually made, Resource AME is credited, and the cost scores against Resource DEL in the normal way in order to avoid the same spending being measured twice. Liabilities recognised through Provisions must be probable, unavoidable and quantifiable at the time they are recognised. If they are less certain they are not recognised as costs, but noted as contingent liabilities instead i.e. they do not count as spending until and unless they become more certain.

## Public Expenditure Statistical Analyses (PESA)

The annual publication of statistical information on government spending. It gives information on spending by Department, function and region over a number of years.

## Qualified accounts

Accounts which are considered by the auditor in some way deficient, incomplete or unsupported fully by evidence, and which the auditor has been unable fully to consider present a true and fair view of the organisation's affairs.

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 is clearly indicated in the auditor's certificate within 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, its seriousness depending on the cause and nature of the qualification.

## The Reserve

A small central funding pot held by the Treasury, which is used to top up Departmental DEL budgets in exceptional circumstances, usually at Supplementary Estimates.

## Resource Accounts

A department's annual accounts or financial statements, prepared on an accruals basis, consolidating the expenditure of a department and its arm's length bodies. They form part of the Annual Report and Accounts. Resource Accounts are prepared on the basis of International Financial Reporting Standards and the Government Financial Reporting Manual (FRM). They are audited, usually by the NAO.

## Roll up motion

The motion put before the House of Commons for approval of all Estimates which are not the subject of Estimates day debates. Most Estimates are included within the roll up motion and cannot therefore be amended by Parliament, although theoretically the whole motion, covering most of public spending, could be rejected by the House of Commons.

## Single Departmental Plan

A plan set out by the Government, stating government priorities, objectives and key performance indicators. It is updated online from time to time.

### Spending Review

Internal Government reviews of future spending plans held every few years. The outcome of a Spending Review is announced in Parliament, and sets out the proposed Resource and Capital DEL limits for each department for each of a number of years ahead. The Spending Review totals form the basis of subsequent Main Estimates voted by Parliament.

### Statement of Cash Flows

See “Cash flow statement”.

### Statement of Comprehensive Net Expenditure

One of the core financial statements within the Annual Reports and Accounts. It is similar to the income statement (formerly known as the profit and loss account in a company’s accounts) and shows resources consumed during the year by the department in providing its services. It is audited, usually by the NAO.

### Statement of excesses

A document presented to Parliament detailing the extent to which, exceptionally, a Department has exceeded spending limits or spent outside its ambit in a past year. It is voted on and approved by Parliament in the year after it arose, giving formal retrospective approval from Parliament to overspends which have already happened.

### Statement of Financial Position

One of the core financial statements within the Annual Report and Accounts. Formerly (and colloquially still) known as the “balance sheet”, it shows the total assets and liabilities of an organisation at the end of the year. It is audited, usually by the NAO.

### Statement of Parliamentary Supply

A statement within the Annual Report and Accounts which compares outturn (actual expenditure or “actuals”) with the Estimate (budget) for both resource expenditure and the overall cash requirement. It is audited, usually by the NAO. This forms part of the Accountability report within the Annual Report and Accounts.

### Supply and Appropriation Acts

Legislation which gives formal legal authority for departments to spend money. In addition, these Acts limit the ways in which money can be used by prescribing the services particular budgets are used for. Both spending limits and spending ambits included in the Supply and Appropriation Acts are derived from relevant Estimates presented to Parliament. The Main Estimate is approved by Parliament through a Supply and Appropriation (Main Estimates) Bill/Act. The Supplementary Estimate is passed through a Supply and Appropriation (Anticipation and Adjustments) Bill/Act.

### Supplementary Estimate

Documents presented to Parliament when Government departments wish to change their voted budget limits or cash requirement after a financial year has started and Main Estimates have been approved. Supplementary Estimates are also necessary if a department takes on new functions during the financial year, including functions transferred under Machinery of Government changes, or to draw down money unspent from past years through Budget Exchange. Supplementary Estimates are normally only presented to Parliament on one occasion each year, usually in February.

### Supply

The overall term for the means by which Parliamentary authority is secured for most government spending i.e. the Estimates and Appropriation process.

### Supply Estimates

The documents 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)

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 Limits (DELs) and Annually Managed Expenditure (AME), less depreciation.

### Trading Fund

Public bodies which make most of their money through trading rather than voted funds. Trading Funds may however receive voted funds from time to time, usually for specific purposes.

### Value for Money Studies

Studies examining the economy, efficiency and effectiveness of public spending. The National Audit Office (NAO) has a programme of VFM reports every year, many of which form the basis for subsequent hearings and reports by the Public Accounts Committee.

### Virement

The use of savings on one budget to fund increased spending against another, without reference to Parliament, or the need for a Supplementary Estimate. A Department may only vire resources within a particular Estimate (i.e. within a Department's area of responsibility and not to another Department or Estimate) and within a particular year.

Funding is allowed to be vired within Resource DEL, Capital DEL, Resource AME or Capital AME budgets or between Resource DEL and Capital DEL, and from the administration budget to programme spending within Resource DEL.

Funding may not be vired from Capital to Resource, from Programme to Administration budgets or between AME, DEL and non-budget expenditure. Departments may still have to explain in their accounts reasons for variations in expenditure at year end if spending varied significantly from published budgets, even where virement was within the rules.

### Voted funds or Votes

Funds for which Parliamentary authority is required on an annual basis, through Supply and Appropriation Acts. The majority of funds shown within an Estimate are voted. The exceptions are a few “non-voted” items of spending, where legal authority is obtained through other means e.g. Consolidated Fund Standing Services, and which are included for completeness in Estimates, but labelled as “Non-voted”.

### Vote on Account

Money advanced 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 (usually in July). Normally the Vote on Account is calculated based on 45% of the previous year’s budgets. Votes on Account are approved by Parliament before the start of the new financial year begins in April, usually in March.

### Whole of Government Accounts (WGA)

An annual set of consolidated financial statements covering the whole of the public sector, prepared by HM Treasury, and following accounting standards. 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 and academies. Parliamentary bodies (including the House of Common, the House of Lords and the National Audit Office) are not included. WGA follows the Financial Reporting Manual and comply with International Financial Reporting Standards, as adapted for the UK public sector context by FRAB. The accounts are audited by the NAO. WGA follows different standards to the National Accounts, and unlike those accounts, is not generally used for economic or fiscal purposes.

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