

Consolidated budgeting guidance from 2006-07

13 December 2005



HM TREASURY

Consolidated Budgeting Guidance from 2006-2007

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NEW FOR 2006-07

Years of applicability

1. This budgeting guidance applies to in-year control from 2006-07 and to baselines for the next Spending Review.

Substantive Changes to Budgets

2. This section sets out the main areas where the guidance has been changed for 2006-07:
3. **Capital Grants** will be in Capital Budgets – see Chapters 2, 6 & 11. Provisions associated with capital grants will also be in capital budgets. The routine ring-fencing of capital grants in Resource DEL will not carry forward into Capital DEL. Specific policy ring fences may be imposed on certain capital grants within Capital DEL where appropriate. Note that underspends on capital grants RDEL that generate an EYF entitlement will form part of Capital DEL EYF. The 2006 PES paper on EYF will explain how to handle the transition.
4. Certain large **Pre-Payments** will now score in capital budgets, in order to protect cash flows that impact on Public Sector Net Debt - see Chapters 2 & 6.
5. The timing of recording certain income should match the timing when it scores in the national accounts – see Chapters 3 and 7.
6. **Income from the EC** will be treated as wholly negative DEL where the spending is in DEL. Arrangements will be set out in the 2006 PES paper on EYF on how to handle the transition for ring-fenced EYF. See Chapters 3, 7 & 15.
7. The limits on **income retention** set out in PES(98)5 and the Wider Markets guidance are now too low for some departments, as well as being opaquely expressed. There has been some doubt as to whether they still applied. New clearer rules tie the level of income that departments may retain to the amounts taken into account in the SR with a reasonable margin to encourage discovery of new sources of income. Capital income may no longer be used to support current expenditure on PFI (or anything else). See Chapters 3 & 7.
8. The limit of £100m that departments may retain from any one disposal without Treasury agreement will be abolished as a budgetary restriction. However, departments and spending teams should agree a level of asset disposals above which Treasury agreement is needed to the disposal process, an idea loosely equivalent to the delegated authorities for spending. *Government Accounting* will be amended presently to reflect this requirement. See Chapter 7.
9. For **public corporations** (chapter 11):
 - # All capital grants to PCs scored on the external finance basis will score in capital budgets;

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- # Equity withdrawals from Public Corporations scored on the external finance basis are now in capital budgets. The guidance reaffirms the obligation to remove excess cash from PCs;
 - # Cost of capital charges for PCs and SFPCs will be set in or at the time of the SR;
 - # Cost of capital charges will be set for budgets for those public corporations where no cost of capital charge is set in accounts, except where the Treasury agrees that it would be clearly inappropriate to do so. This charge will be covered by including the PC's profit in budgets where appropriate;
 - # The criteria for SFPCs have been broadened.
 - # The arrangements for the control of SFPCs have been clarified. There will be a forward plan agreed at the time of the SR, with formal monitoring in the run-up to the Budget and the Pre-Budget Report. The Treasury's CPF team will contact SFPC sponsor departments to make transitional arrangements until the next SR.
10. **Debt repayment grants to local authorities** have been made non-budget. However, each scheme of such grants needs specific Treasury approval – see chapter 10.
11. Changes to **End Year Flexibility** - see Chapter 15 - will simplify the scheme by reducing the number of ring-fenced EYF streams. The 2006 PES paper giving instructions on the preparation of EYF carry-forward from 2005-06 into 2006-07 will give details on the transition:
- # The separate two-way EYF scheme for former nationalised industries is abolished. Former nationalised industries in DEL will now form part of the normal overall EYF scheme. Departments are free to give these bodies special EYF if they choose to do so out of their own budgets;
 - # The separate scheme for structural funds EYF is abolished;
 - # The need to keep separate EYF on capital grants in Resource DEL is abolished; and
 - # There is a new separation of EYF between Near-cash in Resource DEL and non-cash in Resource DEL.
12. **Interest on PFI deals** – departments are no longer required to split interest payable between amounts above and below 3.5%. Both are now in budgets as is the cost of capital credit on the outstanding liability (see Chapter 14). (Note that under previously issued guidance the interest payable was split into two components; an amount payable above 3.5% and an amount payable below 3.5%. The amount of interest payable below 3.5% and the cost of capital credit on the liability were outside of budgets. They should have been opposite and equal, meaning the full OCS cost was in resource DEL. By now placing both these items (interest below 3.5 and cost of capital credit) inside the resource budget the overall impact on the Resource Budget is unchanged (it still equals the OCS cost), but there is no longer a need to split the interest payment.) This change should simplify reporting.

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Note that the interest payment scores as Near-cash and the cost of capital charge as non-cash.

Changes to Recording in Budgets

13. The following change has no net effect on budgets, but should provide simpler or more accurate recording:
 - # **Capitalised provisions (other than provisions for capital grants)** - are unusual transactions, which impact on capital budgets - see Chapter 6.

Near-Cash in Resource DEL

14. SR04 settlement letters set out the degree of flexibility on movements between **non-cash and near-cash** in resource budget DEL plans. Subsequent guidance (FD letter MS FD (05) 24) clarified by reference to a draft of this budgeting guidance how budgetary controls relating to the element of departments' SR04 near-cash figures impacting on the golden rule would operate from 2005-06.

Changes in the Format and Coverage of Guidance

15. The guidance has been substantially expanded and recast. We have aimed to ensure that the guidance is more consolidated than the previous version, so that as much as practicable of the budgeting guidance is in one place.
16. The guidance has in some cases been updated to reflect changes in the control regime since it was issued. That updating process will have led to minor changes in for example the way limits are expressed.
17. We have also clarified a number of budgeting policies where we have been asked questions. These are not changes in the budgeting system, but are existing rules that may not have been well known. So some of this guidance may be new to some departments, even where the text has not been flagged up as a change in the previous section.

Withdrawn Guidance

18. The following guidance is withdrawn and replaced by the guidance in this Consolidated Budgeting Guidance with effect from 2006-07:
 - # Consolidated Budgeting Guidance – SR04
 - # PES (94) 9 on policy changes with resource implications affecting more than one department
 - # PES (96) 26 on donations, and developer contributions
 - # PES (97) 07 – Ending double counting of NDPB grants to local authorities
 - # PES (98) 5 on Treatment of Asset Sale receipts
 - # PES (98) 7 (revise), on receipts in DEL; payments of rent of land; netting off
 - # PES (98) 19 ESA95 Dividends and equity withdrawal from Public Corporations to General Government

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- # PES (98) 23 on the treatment of receipts: royalties, insurance, compensation, licences & developer contributions
- # PES (99) 08 – Implementation of ESA95 and DEL/AME changes
- # PES (99) 11 – Write-offs of loans and debts
- # PES (99) 16 – DEL/AME treatment of levy-funded bodies
- # PES (2000) 30 – Recording Barter Deals, including PFI deals involving property transfers
- # PES (2001) 10 - In-year Control and End-Year Flexibility (EYF) under RAB
- # PES (2001) 28 on twinning, and handling of EC receipts
- # PES (2002) 06 – Classification Change: Unfunded pensions in NDPBs and other organisations
- # PES (2002) 09 – Judicial Pensions: Introduction of an accruing superannuation liability charge (ASLC) from 1 April 2003
- # PES paper (2002) 10, Treatment of Public Corporations in Spending Review 2002
- # PES (2002) 15 – Budgetary control of new provisions and changes in existing provisions in 2002-03 and beyond
- # PES (2002) 16 – Capital grants to the private sector: Treatment from 2003-04
- # PES (2002) 23 – Recording of Pension scheme Accounts, Estimates and Budgets under FRS17
- # PES (2002) 30 – Refinancing of contracts under the private financing initiative
- # PES (2003) 03 on income from competitively- or commercially-let research contracts funded from the EC budget, and associated expenditure
- # PES (2003) 11 – Unfunded by-analogy and funded pension schemes: Recording under FRS17
- # PES(2003) 38 – on the definition and operation of the administration costs regime
- # PES (2004)10 – on the introduction on Administration Budgets from 2005-06
- # Footnote 7 [income retention] of *Selling into Wider Markets: A Policy Note for Public Bodies* (December 2002)

Changes since 11 August Draft

19. On 11 August 2005 the Treasury sent a draft of this guidance to Finance Directors for comment as to the clarity and comprehensiveness of the guidance. We have tidied up the drafting in a number of places throughout the document. The main substantive changes since that draft are:
- # We have set out that changes to the recording of **interest on PFI deals**, while RDEL neutral, have an impact on the Near-cash/ Non-cash split (What's new chapter).
 - # The guidance now incorporates material formerly in PES(94)9 [**policies that affect more than one department**] – see Chapter 1 and PES(99)16 [DEL/AME treatment of **levy-funded bodies**] – see chapter 1.
 - # We have clarified that even where a public sector body prepares accounts under **international accounting standards** it is the UK GAAP accounts that matter for budgeting (Chapter 1).
 - # We have simplified the recording of **debts written off by mutual consent**, but ask that departments inform the Treasury where they plan to do so in large cases (see chapter 2).
 - # The lack of clarity on when certain **pre-payments** would count as net lending in capital budgets attracted some concern. We have therefore written a clearer rule (Chapters 2 & 6).
 - # We have added into this guidance the **definition of Near-Cash** and Non-Cash spending by reference to COINS accounting codes (Appendix 1 to Chapter 4). The detailed definition is unchanged from that given in terms of PES codes in MS FD (05) 24.
 - # As with resource budget income, we have added a passage on the **timing of income** to the capital income chapter, chapter 7.
 - # We have added new guidance on **capitalisation directions** to local authorities (Chapter 10).
 - # We have clarified the description of the budgeting treatment where **trading funds** that are government departments in their own right **borrow directly from the National Loans Fund** (Chapter 11).

Further Changes to Come

20. As the budgeting system develops in year, we will amend the Consolidated Budgeting Guidance and inform departments of changes.
21. Such changes may reflect changes in accounting requirements for departmental resource accounts to which departments will have been alerted through the normal RABIG-based consultation process.