

# Quick guide

## Budget

October 2009

### A glossary

**Accounts:** A series of documents produced to show how bodies and departments have used the resources that were at their disposal.

**Accruals accounting:** A method of recording income and expenditure during an accounting period. Expenditure or income is accounted for in the year in which it is incurred / earned, **not** when the cash changes hands

**Ambit:** A description of the specific purposes for which resources are authorised in the budget. Ambit descriptions and resource limits are described in the **annual budget motion**. Ambits correspond to **main expenditure groups (MEGs)**. Resources under an ambit cannot be used for purposes other than that described in the ambit.

**Annual budget motion:** In the Welsh budget process: following consideration of the **draft budget**, a Welsh Minister is required (under SO 27.17-27.20) to table the annual budget motion on or before 3 December. This will request authorisation by the Assembly for the resources that can be used, income that can be retained and cash that can be drawn from the **Welsh Consolidated Fund (WCF)**. No amendments may be tabled to the annual budget motion, Members are limited to abstaining, or voting to support or oppose the motion.

**Annual budget process:** The budget cycle for the Welsh Government can be broken down into distinct stages: **draft budget**, **annual budget motion** and **supplementary budget motions**.

**Annually managed expenditure (AME):** Expenditure in AME is generally less predictable and controllable than expenditure in **departmental expenditure limits (DEL)** and therefore is negotiated with HM Treasury on an annual basis, rather than set as multi-year limits. AME is demand led and can only be allocated to the programme for which it is assigned. Further AME can be drawn down from HM Treasury if required, while any unspent portion will be reclaimed by HM Treasury.

**Assembly Government Sponsored Body (AGSB):** A body which has a role in the processes of government, but is not a government department or part of one. AGBSs operate at arms length from Welsh Ministers. AGBSs are the Welsh equivalent of non departmental public

bodies in the UK. For example, the Arts Council for Wales.

**Assigned budget in DEL:** The portion of **departmental expenditure limit (DEL)** which the Welsh Government has full discretion in terms of allocating expenditure.

**Auditor General for Wales (AGW):** The external auditor of the Welsh Government, **AGSBs**, NHS bodies and other public sector bodies in Wales.

**Barnett formula:** Population-based formula used to allocate a share of **changes** in planned expenditure on comparable services by departments of the UK Government to the devolved administrations. The Barnett formula calculates the size of **changes** to the **assigned budget** rather than the total **assigned budget**.

**Base year:** The year immediately prior to the first year of a **spending review**.

**Block grant:** The block grant is the money voted by the UK Parliament to the Secretary of State for the devolved administrations. It constitutes the **assigned budget in DEL** and is calculated from the existing baseline using the Barnett formula.

**Budget expenditure lines (BEL):** The Welsh Government's budget is broken down into several levels of detail for monitoring and control purposes. Budget expenditure lines (BEL) are the smallest level of detail published within the budget and are grouped together to form **spending programme areas (SPAs)**.

Note that in the 2010-11 budget, these will be replaced by 'Activities'.

**Budget motion and resolution:** A Budget motion and resolution is the mechanism in the *Government of Wales Act 2006* to ensure the regularity of expenditure from the **Welsh Consolidated Fund**. There must be at least one **annual budget motion each year**, which may be augmented by **supplementary budget motions**. A motion may only be moved by a Welsh Minister, and must detail the amounts of resources to be used for specified services and purposes, the amount of resources which may be retained and the amounts of cash that may be issued from the **Welsh Consolidated Fund**.

**Capital charges:** Capital charges are levied to approximate the cost of using assets in service delivery. This is made up of the cost of capital and depreciation and represents the opportunity cost of tying capital to a particular asset. This is a resource accounting measure to ensure that the full cost of departmental activities are measures.

**Capital expenditure:** Spending on **fixed assets** (buildings, equipment and land) intended to benefit future accounting periods or spending that increases the capacity, economy, efficiency or lifespan of an existing fixed asset. Fixed assets tend to **depreciate** in value over time.

**Comprehensive Spending Review (CSR):** A Government-wide **spending review** first conducted in July 1998, of all departmental objectives, policies and spending. The most recent CSR was published in 2007 and outlined spending plans for 2008-09, 2009-10 and

2010-11.

**Contingency:** An allowance of cash or resources to cover unforeseen circumstances.

**Cost of capital:** The cost to the government of financing investment, i.e. the rate at which it borrows. This is charged to departments to improve transparency under **resource accounting** and encourage efficient use of assets

**DEL reserve:** A small reserve retained centrally to deal with emergencies and genuine contingencies outside DEL provision.

**Departmental expenditure limits (DEL):** Normally set over three years as part of the UK Government's **spending review**. Most of the DEL is **unhypothecated** and allows the Welsh Government full discretion over its spending priorities (known as '**assigned budget**' items). Changes in provision for these items are determined through the **Barnett formula**.

**Depreciation:** A measure of the wearing out, consumption or other reduction in the useful life of a **fixed asset**. This may be due to use, passage of time or obsolescence through technological or market changes.

**Draft Budget:** The first stage of the **budget process** in Wales. No later than 7 October each year, a Welsh Minister must lay a draft budget before the National Assembly. Setting out the amounts of resources and cash that the Government proposes to use for the next financial year (and usually indicative amounts for the subsequent two years). Both scrutiny committees and the Finance Committee have the opportunity to input at the draft budget stage. No motion may be moved in Plenary in respect of the draft budget until the Finance Committee has reported.

**End year flexibility (EYF):** Mechanism to carry over unspent provision in the DEL budget from one year to the next. Aims to avoid '*use it or lose it*' decision. This ensures that any underspend remains available rather than being returned to HM Treasury. Carry over and subsequent drawdown of EYF is subject to HM Treasury approval.

**Fiscal policy:** The use of Government spending and revenue collection to influence the economy and Government objectives.

**Gender Budgeting:** The method by which governments raise and spend money, with the aim of securing gender equality in decision making about public resource allocation.

**Government of Wales Act Part 5:** Part 5 of the *Government of Wales Act 2006* deals with finance. It provides for the creation of a **Welsh Consolidated Fund**, which will receive payments from the Secretary of State. Payments out of the Fund to meet the cost of Welsh Government programmes will be authorised by **annual and supplementary budget motions** adopted by the National Assembly.

**Hypothecated Funding: 'Ring-fenced'** funding, which must be spent on specified services or initiatives.

**Incremental Budget:** A budget which is determined by either decreasing or increasing last year's budget as opposed to **zero-based budgeting** which clears the decks and starts all over again. Tends to lead to budgetary increases over time, as it takes last year's budget as a starting point for the coming year.

**In-year changes:** Changes to expenditure allocations during the budget year ie between budgets.

**In-year monitoring:** Monitoring of departmental expenditure during the financial year against the agreed budget. Enables the adjustment of resource allocations to reflect changed circumstances in the year.

**Main expenditure groups (MEG):** The Welsh Government's budget is broken down into several levels of detail for monitoring and control purposes. Main expenditure groups (MEG) are at the highest level of this detail and correspond to Ministerial portfolios or **ambits**. Below MEG level, expenditure is identified by **spending programme areas (SPAs)** and, within these, **budget expenditure lines (BELs)**.

**Near cash:** "Nearly cash" – Takes account of differences between resources used and cashflows at the start and end of the financial year. For example, expenditure on gas/electricity supply is incurred as the fuel is used, though the cash payment might be made in arrears on a quarterly basis. Excludes **non cash** costs.

**Non cash:** Costs where there is no actual cash transaction but which are included in accounts to establish the true cost of an activity. (e.g. depreciation of a road)

These items will either never require a cash payment as such, (e.g. **cost of capital** charges), or will result in a cash payment in later years (e.g. provisions). See also **near cash**.

**Non-assigned DEL:** The part of the Welsh Government's budget that is **ring-fenced** for specific purposes in **departmental expenditure limit (DEL)**.

**Non-departmental public body (NDPB):** A body which has a role in the processes of government, but is not a government department or part of one. (e.g. The Environment Agency) In Wales, these are generally termed **Assembly Government Sponsored Bodies (AGSBs)**.

**Programme Expenditure:** Expenditure other than administration costs.

**Real terms:** Values adjusted to take account of general price inflation. Enables comparisons of spending across years without the distortion caused by price changes.

**Receipt:** Represents the actual cash received in return for providing a good, or service, or from the sale of capital **assets**.

**Reserve:** The reserve is an amount within **DEL**, not allocated to departmental programmes,

which provides a buffer to cover emergencies and genuinely unforeseen contingencies.

**Resource Accounting and Budgeting (RAB):** Introduced **generally accepted accounting practice (GAAP)** into government accounting. The main changes were the adoption of **accruals accounting** for all departmental expenditure, and the inclusion of depreciation and cost of capital charges.

**Resource accounts:** Resource accounts are prepared annually and present the financial results of the department for the relevant financial year.

**Revenue expenditure:** Recurrent expenditure that is financed from current income (ie. not through borrowing). Consists of day-to-day running costs including staff salaries. Loan charges and repaying money borrowed for capital expenditure, are also part of revenue expenditure.

**Ring-fenced:** Expenditure that is specific to a particular programme and therefore cannot be used for any other purpose.

**Spending programme area (SPA):** The Welsh Government's budget is broken down into several levels of detail for monitoring and control purposes. Spending programme areas (SPAs) are the second level of detail below **main expenditure groups (MEG)** and define discrete groups of expenditure within every MEG.

**Spending Review (SR):** Spending Reviews set firm and fixed three-year **departmental expenditure limits** and, through **Public Service Agreements**, define the key improvements that the public can expect from these resources. Since the 1998

**Comprehensive Spending Review** there have been four Spending Reviews, in 2000 (which set spending plans and Public Service Agreements for 2001-02 to 2003-04), 2002 (setting spending plans and Public Service Agreements for 2003-04 to 2005-06), 2004 (for 2005-06 to 2007-08) and 2007 (outlining spending plans for 2008-09, 2009-10 and 2010-11).

**Supplementary budget motion:** Supplementary budget motions may be tabled by Welsh Ministers at any time after the **annual budget motion** has been passed. A supplementary budget must be laid if the Welsh Ministers wish to move amounts between **ambits**, extend the scope of an existing **ambit**, create a new **ambit**, or increase the amounts of any resources accruing that they are authorised to retain under an **ambit**. The authorisation of a supplementary budget motion by the National Assembly is required to prevent any irregular expenditure from occurring.

**Total managed expenditure (TME):** The combined total of the two budget elements **annually managed expenditure (AME)** and **departmental expenditure limits (DEL)**.

**Unhypothecated funding:** Funding allocated without restrictions on how it should be spent.

**Vires:** Legal authority for a body to take any specific action, which may be provided for or

limited by statute, by the body's constitution or other authority.

**Wales Audit Office (WAO):** The organisation that supports the **Auditor General for Wales** in discharging his duties.

**Welsh Consolidated Fund (WCF):** The account into which payments and receipts (not specifically directed elsewhere) to Wales flow. A neutral place to hold the public money allocated to Wales by the UK Government, via the Secretary of State for Wales, and that received from other sources.

**Zero-based budgeting:** A method of budgeting in which all expenditures must be justified for each new financial year, as opposed to only explaining the amounts requested in excess of the previous financial years' funding.

## Further information

For further information on aspects of the budget, please contact **Dr. Eleanor Roy**, Members' Research Service ([Eleanor.Roy@Wales.GSI.Gov.UK](mailto:Eleanor.Roy@Wales.GSI.Gov.UK))

Further information on the budget process can be found in the following Members' Research publications:

- [The Budget Process in Wales](#)
- [The Draft Budget](#)
- [The Annual Budget Motion](#)

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