



Research Briefing  
**Budget Series 4: Budget  
Glossary**

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Author: **Martin Jennings**  
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**National Assembly for Wales**  
Research Service

The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales, agrees Welsh taxes and holds the Welsh Government to account.

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Author: **Martin Jennings**

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## Contact Us

**Research Service**  
**National Assembly for Wales**  
**Tŷ Hywel**  
**Cardiff Bay**  
**Cardiff**  
**CF99 1NA**

 : 0300 200 6306

 : [Martin.Jennings@Assembly.Wales](mailto:Martin.Jennings@Assembly.Wales)

 : [Assembly.Wales/InBrief](http://Assembly.Wales/InBrief)

 : [@SeneddResearch](https://twitter.com/SeneddResearch)

 : [Assembly.Wales/Research](http://Assembly.Wales/Research)

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# Budget Series 4: Budget 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.

## Action

The Welsh Government's budget is broken down into several levels of detail for monitoring and control purposes. Actions are the most detailed level published in the budget documentation and indicate policy or initiative areas. However, it should be noted that actions may not necessarily provide detail of allocations at the level of specific policy or programme. Previously known as **budget expenditure lines (BELs)**.

## Affordability

One of the four basic principles of financial scrutiny. Relates to the consideration of whether sufficient resources are available to meet spending plans, and whether these are appropriately balanced. For further information on the principles of financial scrutiny see the Quick Guide **Budget Series 3: Scrutiny of the budget**.

## Ambit

Descriptions of the purposes for which the Welsh Ministers can use resources, these are set out in the budget motion and generally correspond to Ministerial portfolios and/or **main expenditure groups (MEGs)**.

## Annual Budget motion

This represents the **final budget** stage of the budget process in Wales, and is the means by which the National Assembly for Wales grants authorisation for the Welsh Ministers to spend resources, retain income and draw cash from the **Welsh Consolidated Fund**.

## Annually managed expenditure (AME)

Expenditure which is less predictable than that in **departmental expenditure limits (DEL)** and covers spend which is generally demand-led and therefore provision cannot reasonably be subject to multi-year limits, (for example, the issue of student loans). This is reviewed and set twice a year by HM Treasury. AME can only be allocated to the purpose for which it is assigned; therefore the Welsh Government has no discretion over its allocation. Further AME can be drawn from HM Treasury if required, while any unspent AME must be returned.

## Appropriation

The act of a legislature authorising money to be paid from the Treasury for a specified use.

## Assigned budget

The **unhypothecated** portion of **departmental expenditure limits**, over which the Welsh Ministers have full discretion to determine where to allocate expenditure. The assigned budget is commonly termed the 'block' budget.

## Auditor General for Wales (AGW)

The external auditor of the Welsh Government, **Welsh Government Sponsored Bodies**, NHS and local government bodies and other public sector bodies in Wales. The Auditor General is appointed in accordance with Public Audit (Wales) Act 2013.

## Barnett formula

A formula used to allocate a population-based share of changes in planned expenditure on comparable services by departments of the UK Government to the devolved administrations of Scotland, Wales and Northern Ireland. The Barnett formula calculates the size of **changes** to the **assigned budget** rather than the **total assigned budget**. The Barnett formula was revised as part of the **Fiscal Framework**. From 2018-19, a **Needs Based Factor** was introduced into the Welsh Block grant calculations. This means that if the consequentials for Wales are greater than 0 from 2018-19 going forward, this **will be multiplied by 1.05 (105%)**. If the consequential is 0 or less, it will be left as is. This factor will be increased to 115% only at the point at which relative Welsh funding per person converges to 115% of the level in England.

## Baseline

The reference position against which change can be measured. In terms of budgets this usually refers to the previous financial year. For example, in the 2018-19 budget round, the baseline figures refer to the latest allocations for the 2017-18 financial year.

## Block grant

The block grant is the sum of money voted by Parliament to the Secretary of State for the relevant devolved administration. It constitutes the **assigned budget** within the **departmental expenditure limit (DEL)**, and is calculated from the existing baseline using the **Barnett formula**.

## Budget exchange system (BES)

Historic mechanism in place before the Fiscal Framework was agreed for the Welsh Government to carry forward any underspends of the **assigned budget** from one financial year to the next, subject to the agreement of HM Treasury and up to an agreed cap of 0.6 per cent of revenue **DEL** and 1.5 per cent of capital **DEL**. This system has been superseded by the **Wales Reserve**.

## Budget expenditure line (BEL)

See **Action**.

## Budget motion and resolution

A budget motion and resolution is the mechanism in the Government of Wales Act 2006 to ensure that expenditure from the **Welsh Consolidated Fund** is regular. See **annual budget motion**.

## Budget process

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

## Capital borrowing

Part of the new powers legislated for in the Wales Act 2014. Welsh Government can borrow up to £1 billion for capital projects with a limit of £125 million per annum (£150 million from 2019-20).

## Capital charges

Annual charges reflecting the cost of using fixed assets (**depreciation**) and the opportunity cost of tying up funds in such assets (**cost of capital charge**) to ensure the full cost of departmental activities is measured.

## Capital expenditure

Spending which is generally invested in 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. In the budget, both **departmental expenditure limits** and **annually managed expenditure** have separate revenue and capital limits.

## Cash terms

The expression of monetary value, taking no account of **inflation**. Also commonly referred to as nominal terms.

## Clear line of sight (Alignment)

A project introduced in 2007, by the then Labour UK Government. This project aims to simplify, modernise and improve public expenditure systems across the UK. The project intends to create a single, coherent financial regime with improved transparency and accountability. It involves making changes to the budgeting and accounting frameworks, and therefore will also affect aspects of the public spending and reporting system in Wales. Further information on the project can be found in the Quick Guide

## Contingency

An allowance of cash or resources to cover unforeseen circumstances.

## Cost of capital

The cost to the government of financing investment, (ie. the rate at which it borrows). This is charged to departments to improve transparency and encourage efficient use of assets.

## Departmental expenditure limit (DEL)

Normally set over three or four years as part of the UK Government's **spending review** process, this is the multi-year budget limit for the Welsh Government. Most of the DEL is **unhypothecated** (the **assigned budget**) and allows the Welsh Government full discretion over its spending priorities. Changes in provision for these items are determined by the **Barnett formula**. Some elements of DEL however, are **hypothecated** and can only be used for specified purposes (the **non-assigned budget**).

## Devolved taxes

The Wales Act 2014 set up the process for the devolution of tax raising powers to Wales. Non-domestic rates were fully devolved on 1 April 2015, Landfill and Land Transaction Taxes on 1 April 2018 and income tax partly devolved on 1 April 2019. The Act also gives the Assembly a general power to propose completely new taxes in devolved areas, however the Welsh Government would need to get permission of both Houses of Parliament and the Assembly before it could pass legislation for a new tax.

## Depreciation

A decrease in the value of assets due to the passage of time, wear and tear or obsolescence through technological or market changes. In the Welsh Government's budget depreciation is part of the **departmental expenditure limit**, but is a **non-fiscal resource** item.

## Direct charges

Expenditure which is legally required to be charged on the **Welsh Consolidated Fund** and so does not score against the budgets of the Welsh Government or other body. These charges include the remuneration of the Presiding Officer, Public Services Ombudsman for Wales and **Auditor General for Wales**.

## Direct funded bodies

The National Assembly for Wales Commission, **Auditor General for Wales** and Public Services Ombudsman for Wales.

## Draft budget

From Autumn 2017, the Assembly had a **new budget process**, set out in Standing Orders and **Budget Protocol** agreement. This includes a high level outline budget followed by a detailed draft budget. The Finance Committee concentrates scrutiny on high level strategic prioritisation, taxation, forecasting and borrowing. Other Committees of the National Assembly will scrutinise the Welsh Government's detailed budget prior to a debate and vote on the annual budget motion.

## Economy

The process of minimising the cost of resources used by government. This is one of three elements essential for achieving **value for money**. See also **effectiveness** and **efficiency**.

## Effectiveness

The relationship between the intended and actual results of public spending. This is one of three elements essential for achieving **value for money**. See also **economy** and **efficiency**.

## Efficiency

The relationship between the **output** from goods or services provided by government and the resources used to produce them. This is one of three elements essential for achieving **value for money**. See also **economy** and **effectiveness**.

## End year flexibility (EYF)

See **Budget exchange system (BES)**.

## Final budget

See **annual budget motion**.

## Fiscal policy

Government policy on levels of spending and taxation. In the UK, responsibility for fiscal policy lies with HM Treasury.

## Fiscal resource

Within revenue **departmental expenditure limits**, this is an accruals measure of transactions which will normally turn into cash flow soon; it takes account of differences between resources used and cash flows at the start and end of the financial year. For example, expenditure on utilities is incurred as the utility is used, although the actual cash payment might be made in arrears on a quarterly basis. Other examples, pay, current procurement, resource grants and subsidies. Excludes **non-fiscal resource** spending.

## GDP deflators

Used as a measure of general **inflation** in the domestic economy. A series for the GDP deflator in index form is produced by HM Treasury from data provided by the Office for National Statistics. Forecasts are produced by the Office for Budgetary Responsibility and are usually updated around the time of major policy announcements, namely; the Chancellor's Autumn Statement, and the Budget.

## Hypothecated funding

Ring-fenced funding, which must be spent on specified services or initiatives and cannot be used for other purposes.

## Incremental budgeting

Budgets arrived at by either decreasing or increasing last year's budget, as opposed to **zero-based budgeting** which clears the decks and starts all over again. It is based on projected changes in operations and conditions. It tends to lead to budgetary increases over time, as it takes last year's budget as a starting point for the coming year.

## Inflation

A measure of the changes in prices for goods and services over. The **GDP deflators** are often used as a measure of general inflation for the public sector. Amounts shown in **cash terms** do not take account of inflation, whereas those expressed in **real terms** take account of inflation.

## In-year changes

Changes to spending plans between **annual budget motions**; generally authorised via **supplementary budget motions**.

## In-year monitoring

Comparison of actual expenditure against spending plans for a given financial year, enabling the adjustment of allocations to reflect changed circumstances in that year.

## Macroeconomics

The study of the economy as a whole, concentrating on economy-wide factors such as interest rates, **inflation** and unemployment. Also encompasses the study of economic growth and how governments use **monetary policy** and **fiscal policy** to moderate the harm caused by economic shocks, such as recessions. In the UK, HM Treasury holds overall responsibility for macroeconomic policy.

## Main expenditure group (MEG)

The Welsh Government's budget is split into several categories 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, **actions**.

## Monetary policy

The tool of **macroeconomic** policy operated by the Bank of England's Monetary Policy Committee that seeks to achieve the UK Government's **inflation** target by influencing aggregate demand through movements in the money supply and interest rates.

## Non fiscal resource

Within revenue **departmental expenditure limits** this is an accruals measure of transactions included in budgets to ensure they reflect the full economic cost of activities, even though there may be no direct link to cash flows in the relevant time period. Such transactions will either never give rise to an actual cash cost, or will only give rise to cash payments in the future. For example, the budget includes charges for **depreciation**. Cannot be used to fund **fiscal resource** spending.

## Non-assigned budget

The **hypothecated** portion of **departmental expenditure limits**, over which the Welsh Ministers have no discretion to determine how to allocate expenditure.

## Outcome

The end results from the delivery of goods or services to the public. The outcome should provide the rationale behind the supply. For example, children able to read, or patients recovered. Outcomes can be measured by set targets or objectives. However, it can be difficult to link the outcome directly to a specific input or **output**, (for example, children may have learned to read at home rather than as a result of a specific education programme).



## Output

The quantity of goods or services provided in absolute quantities. For example, the number of students, surgeries or doses.

## Outturn

Expenditure actually incurred or estimates made on the basis of actual expenditure to date. Outturn is the actual result reported in **accounts**. Expenditure shown at outturn prices reflects the price level applying when the expenditure was incurred. Comparisons of expenditure over time at outturn prices will show increases due to **inflation** as well as real changes in service levels, etc.

## Part 5 to the Government of Wales Act 2006

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 out of monies voted by Parliament. Payments out of the Fund to meet the cost of Welsh Government programmes will be authorised by **budget motions** adopted by the Assembly.

## Paymaster General

The UK Government Minister who has statutory responsibility for the government accounts held in his or her name at the Bank of England.

## Prioritisation

One of the four basic principles of financial scrutiny. Relates to the consideration of whether the division of resources between different portfolios, sectors, programmes, policy areas is appropriate, and accurately reflects the stated priorities and objectives of government. For further information on the principles of financial scrutiny see the Quick Guide **Budget Series 3: Scrutiny of the budget**.

## Real terms

The value of expenditure at a specified general price level; amounts adjusted for general price **inflation** as measured by the **GDP deflator**. Expression of amounts in real terms enables comparisons of spending across years at consistent prices.

## Receipts

Represents cash received, for example from the sale or rental of capital assets. In the budget, receipts are shown as negative values.

## Reserve

The reserve is an unallocated amount within **departmental expenditure limits**, which is held centrally and not allocated to **main expenditure groups**. The reserve is generally allocated in-year via **supplementary budget motions**. Any unused reserves at the end of the financial year cannot be retained by the Welsh Government, but may be treated as underspend and carried forward under the **budget exchange system**.

## Resource accounting and budgeting (RAB)

The Welsh Government's budget is set on a resource basis, derived from **accruals** information, which measures resources as they are used rather than when cash is paid. For example, a resource budget includes a charge for **depreciation**. RAB moves away from the traditional, cash-based system of accounting for public expenditure, and takes account of resources, expenditure, cash and accruals, so providing a better measure of the actual cost of activities.

## Revenue expenditure

Can also be termed resource expenditure. This consists of day-to-day running costs including staff pay and the purchase of consumable goods and services. Loan charges and repaying money borrowed for **capital expenditure**, are also part of revenue expenditure. In the budget, both **departmental expenditure limits** and **annually managed expenditure** have separate revenue and capital limits. Within the revenue budget, revenue is further divided into **fiscal resource** and **non-fiscal resource** budgets.

## Resource borrowing

Part of the new powers legislated for in the Wales Act 2014. Welsh Government can borrow up to £500 million for tax fluctuations with a limit of £200 million per annum.

## Spending programme area (SPA)

The Welsh Government's budget is split into several categories for monitoring and control purposes. Within each **main expenditure group**, resources are allocated to SPAs according to the type of services they are intended to deliver. Below SPA level, expenditure is identified within **actions**.

## Spending Review

Every two to three years HM Treasury reviews spending for each UK Government department and sets their **departmental expenditure limit** for the forthcoming three to four years, according to their priorities. Spending levels for the devolved administrations are derived from these changes via the **Barnett formula**.

## Supplementary budget motion

The third stage in the **budget process**, a supplementary budget motion can be moved by a Welsh Minister at any time before, during or after the financial year to which it applies (i.e. any time after the **annual budget motion** has been passed). The purpose of the supplementary budget is to request authorisation for in-year changes to the **annual budget motion**.

## Total managed expenditure (TME)

The combined total of the two budget elements **annually managed expenditure** and **departmental expenditure limits**. Roughly equates to total **revenue** and **capital** spending by the public sector.

## Unhypothecated funding

Funding allocated without restriction on how it is to be spent, allowing complete discretion over its allocation

## Value for money (VfM)

One of the four basic principles of financial scrutiny. Relates to the consideration of the extent to which objectives are achieved in relation to costs. It is broadly about getting the best quality **outcomes** for the money spent. Value for money appraisals trace the cost of acquiring inputs (resources) through **outputs** to **outcomes**, and combine **economy**, **efficiency** and **effectiveness** concerns. For further information on the principles of financial scrutiny see the Quick Guide **Budget Series 3: Scrutiny of the budget**.

## Welsh Consolidated Fund (WCF)

Created by the *Government of Wales Act 2006*, this is a neutral bank account held by the **Paymaster General**. The grant from the Secretary of State for Wales (and other receipts not specifically directed elsewhere) is paid into the WCF. The **Auditor General for Wales** must grant approval to draw from the WCF and for this to occur there must be statutory authority to do so (ie. authorisation from the Assembly via a **budget motion**).

## Welsh Government Sponsored Body (WGSB)

A body which has a role in the processes of government, but is not a government department or part of one. WGSBs operate at arm's length from Welsh Ministers, and are the Welsh equivalent of non-departmental public bodies in the UK. Examples of WGSBs include the Arts Council of Wales, Natural Resources Wales, or the Higher Education Funding Council for Wales.

## Zero-based budgeting

A method of budgeting in which all expenditures must be justified from scratch and prioritised, as opposed to only explaining the amounts requested in excess of the previous periods' funding as in **incremental budgeting**.

## Further information

For further information on the budget, please contact **Martin Jennings** ([Martin.Jennings@Assembly.Wales](mailto:Martin.Jennings@Assembly.Wales)) Research Service.