The Consolidated Fund

Consolidated Fund or the **Consolidated Revenue Fund** is the term used for the main bank account of the government in many of the countries in the Commonwealth of Nations.

Establishment

The idea of a single government bank account was first established in 1787 by Prime Minister William Pitt the Younger as part of his reform of government finances influenced by the ideas of Adam Smith. Prior to this, funds had accrued through the Exchequer of Receipt into three main funds: the Aggregate Fund, the General Fund, and the South Sea Fund. The Consolidated Fund was so named as it consolidated these existing accounts together, and ensured proper parliamentary oversight of the spending of the executive – it was defined as *"one fund into which shall flow every stream of public revenue and from which shall come the supply of every service"*.

The Treasury established this account, formally known as **The Account of Her Majesty's Exchequer**, at the Bank of England where it remains to this day, and the legal term 'Consolidated Fund' refers to the amount of credit held in this particular account. Under the Exchequer and Audit Departments Act 1866[1] most of the revenue from taxation, and all other money payable to the Exchequer must be paid into the Consolidated Fund.

Earlier funds

The General Fund was established in 1617, the Aggregate Fund in 1715, the South Sea Fund in 1717. These funds were established in relation to specific Government borrowing authorized by Parliament, which had a defined type of revenue appropriated to put towards the interest and repayment. That particular revenue would be paid into the fund related to the loan. For example, the South Sea Fund was related to the debts of the South Sea Company. The Aggregate Fund was paid all the hereditary revenues of the English Crown, such as profits from the Crown Estate and the Royal Mail. The hereditary revenues of Scotland were paid into the Consolidated Fund from 1788 onwards.

From 1716 onwards the surplus of the first three funds, after the interest and principal payments, flowed into a fourth fund, the Sinking Fund. This was intended to be applied to the repayment of the National Debt but was instead mainly used for day-to-day necessities. It was eventually placed into the hands of the National Debt Commissioners, and was abandoned in the 1820s.

In 1752, before the Consolidated Fund was formed, the debts owed to the three existing funds had themselves been consolidated, and became irredeemable (the principal would only be repaid if the Government chose to do so). They therefore became annuities, paying an annual rate of interest of 3%, and known as Consolidated Annuities, or Consols.

Ireland's Consolidated Fund

The Consolidated Fund Services of Great Britain and Ireland were merged by the Consolidated Fund Act 1816 into the single Consolidated Fund of the United Kingdom that exists to this day.

Payments into the fund

All tax revenue is paid into the fund unless Parliament has specifically provided otherwise by law.

Any money received by the government which is not taxation, and is not to be retained by the receiving department (for example, fines), is classed as a Consolidated Fund extra receipt (CFEG). These are to be paid into the Consolidated Fund as soon as they are received.

Payments out of the fund

Appropriation Acts and Consolidated Fund Acts

Parliament gives statutory authority for the Government to draw funds from the Consolidated Fund by Acts of Parliament known as Appropriation Acts and Consolidated Fund Acts. Funds are made available under the Acts only for a specified financial year, a concept known as *annuality*, although an individual Act can cover more than one financial year, listing separate amounts for each. Often a two-year period is covered by a Consolidated Fund Act, and roughly two or three are passed in each parliamentary year.

A Consolidated Fund (Appropriation) Bill is brought in and passed at the end of the parliamentary year before the Summer recess. When passed, this is known as the Appropriation Act, and allocates the monies from the Consolidated Fund to the purposes set out in the main annual departmental expenditure estimates (the annual government department budgets, known as Estimates).

In the interim period between the start of the financial year and the passing of the Appropriation Act, a process known as Votes on Account is used to grant to departments up to 45% of the amounts they were allocated in the preceding financial year. These Votes on Account, and any necessary changes to departmental budgets (Supplementary Estimates) are passed as Consolidated Fund Acts, normally twice each year in November and February. Additional funds may be requested at any time, and will either require an additional Consolidated Fund Act, or will be included within other legislation.

The preamble of these supply acts is different from that on most other Acts of Parliament. It currently reads:

Whereas the Commons of the United Kingdom in Parliament assembled have resolved to authorise the use of resources and the issue of sums out of the Consolidated Fund towards making good the supply which they have granted to Her Majesty in this Session of Parliament:—

Until a few years ago, an older form of wording was used:

Most Gracious Sovereign,
We, Your Majesty's most dutiful and loyal subjects, the Commons of the United Kingdom in Parliament assembled, towards making good the supply which we have cheerfully granted to Your Majesty in this Session of Parliament, have resolved to grant unto Your Majesty the sums hereinafter mentioned; and do therefore most humbly beseech Your Majesty that it may be enacted and be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

This follows the constitutional principle that the Crown (Government) demands money, the House of Commons grants it, and the House of Lords assents to the grant. Since the Glorious Revolution of 1688 only once, in 1784, has the Commons refused to grant access to funds.

If money paid from the Consolidated Fund is not spent by the end of the financial year, it must be repaid to the Fund. Grant-in-aid payments are however excluded from this rule.

Standing services

Certain expenditure is by law charged directly to the Consolidated Fund and is not subject to Parliament's annual budget process, ensuring a degree of independence of the government. Services funded in this way are known as Consolidated Fund Services and include judges' salaries, payments to the European Union, the Civil List payments, the salary of the Comptroller and Auditor General, and the expenses paid to returning officers at elections. In the case of the judges, this is to ensure the judicial independence introduced by the Act of Settlement 1701.

Other modern funds

National Loans Fund

The National Loans Fund is the government's main borrowing and lending account. It is closely linked to the Consolidated Fund, which is balanced daily by means of a transfer to, or from, the National Loans Fund.

Contingencies Fund

In the early part of the nineteenth Century the *Civil Contingencies Fund* was created in the United Kingdom. It is held by the Treasury, and its use is regulated by the Miscellaneous Financial Provisions Act 1946.[2] It may be used for urgent expenditure in anticipation that the money will be approved by Parliament, or for small payments that were not included in the year's budget estimates.

The Contingencies Fund Act 1974 sets the size of the fund as two percent of the amount of the government budget in the preceding year.[3]

When Parliament votes to approve the urgent expenditure, the monies are repaid into the Contingencies Fund. As Parliament is effectively forced to approve actions *ex post facto* (after they've happened), the Treasury's use of the fund is actually scrutinised in detail by the Public Accounts Committee.

Control of the Fund

Comptroller

The Comptroller (who is also Auditor General and head of the National Audit Office) controls both the Consolidated Fund and the National Loans Fund. The full official title of the role is *Comptroller General of the Receipt and Issue of Her Majesty's Exchequer*.

The Comptroller must authorise each requisition request received by the Bank of England from the Treasury, to assure that the request is compliant with the amounts and purposes authorised by Parliament in statute. If funds are mistakenly paid into the Consolidated Fund then both the Comptroller and the Treasury must agree to its return.

Principal accountants

Payments can only be made from the Consolidated Fund to one of the principal accountants defined by law. These are the Paymaster-General, the Commissioners of Revenue and Customs, the National Debt Commissioners, and the Chief Cashier at the Bank of England.

Devolved government

The Westminster Parliament provides a sum of money annually to provide a budget for the Scottish Government and fund the operation of the Scottish Parliament and the salaries for judges of Scottish courts. This money is transferred from the UK Consolidated Fund into an account known as the Scottish Consolidated Fund.

If the income tax varying powers of the Scottish Parliament were to be used (the rate can be changed by plus or minus three percent), the additional revenue raised would be paid by the HM Revenue and Customs directly to the Scottish Consolidated Fund. If the tax is reduced, then the amount paid from the UK Consolidated Fund in that year would be correspondingly reduced.

There is also a Welsh Consolidated Fund to provide a budget for the Welsh Assembly.

The Northern Ireland Consolidated Fund has existed since 1921.