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How does HM Government spending take place? A Thread:

HM Government spending begins in Parliament via various annual legislative mechanisms: Supply and Appropriation Bills (Main Estimates) and Supply and Appropriation (Anticipation and Adjustments) Bills.

As per the Exchequer and Audit Departments Act 1866, S.15 para.2, HM Treasury places a request, known as a requisition, with the Comptroller and Auditor General, who first scruntinises and then grants HM Treasury a ‘credit’ on the 'Exchequer Account' at the Bank of England.

The grant of credit is not a balance of money, but a ledger balance that shows how much money will be made *available* for HM Treasury to spend, according to the requirements of government departments and in accordance with parliamentary Supply and Appropriation Acts.

In theory a government department could draw down its Exchequer credit on an annual basis, as it does not require a money balance to be put immediately at its disposal. Typically, however, government departments draw down their Exchequer credit on a monthly basis.

Each government department holds an account (in reality several accounts) called a ‘Resource Account’ within the Government Banking Service (GBS) into which they receive their allocation of Exchequer credits. The GBS is run by HMRC.

Commercial banks are contracted to the GBS to provide banking transmission services, such as BACS. NatWest, for eg, is contracted on the expenditure side.

And so, as far as a government department is concerned, a Resource Account operates to all intents and purposes just like a normal, standard bank account.

On any business day a government department will present its payment requirements to its GBS bank, NatWest, for eg salary payments, which will then be submitted into the BACS system for clearing and settlement 3 days later.

There are 3 protocols within the BACS system. BACS grade 3 protocol applies only to government and substitutes the Resource Accounts of government departments, which hold Exchequer credits, for a GBS ‘Drawing Account’ at the Bank of England, which hold Bank of England money.

The Exchequer Funds and Accounts Team (EFA) working in HM Treasury run the Central Funds, including the Consolidated Fund (CF), which is also held at the Bank of England. During the business day the GBS presents forecasts to the EFA of spending requirements.

As a result of GBS forecasts, and according to the Exchequer and Audit Departments Act 1866, S.15 para.3, HM Treasury submits a Treasury Order to the Bank of England to issue funds from the Consolidated Fund to credit the GBS 'Supply Account'.

The Consolidated Fund begins and ends each business day with a zero balance. Thus, there are no funds to draw upon. Instead, the Consolidated Fund goes overdrawn as the Bank of England extends intra-day credit. The intra-day credit is Bank of England money, public deposits.

As necessary, when payments require settlement, the GBS Supply Account feeds sums of Bank of England money into the GBS Drawing Account. Thus, the GBS Drawing Account has a money balance on hand to settle payments.

3 days after BACS submission, clearing and settlement of government payments occurs by both the GBS Resource Accounts of government departments and the GBS Drawing Account being marked down.

Simultaneously, 'Reserve Accounts' of commercial banks held at the Bank of England and commercial bank deposit accounts of their various customers, the recipients of government payments, are marked up.

And that is how HM Government spending takes place. Simple! For much more detail, see: #End https://t.co/8EeQhVlvLb