

**DEPARTMENT: HM TREASURY, Supplementary Estimate 2017-18****INTRODUCTION and KEY POINTS**

The Estimate covers the administration costs of the core Treasury, programme spending on UK coinage, financial stability and the Help to Buy ISA and spending by the department's agencies the Debt Management Office (DMO), Government Internal Audit Agency (GIAA), National Infrastructure Commission and the department's Arm's Length Bodies (ALBs):

United Kingdom Financial Investments Limited (UKFI);

UK Government Investments Limited (UKGI);

Office for Budget Responsibility (OBR);

IUK Investments Limited;

IUK Investments Holdings Limited;

Royal Mint Advisory Committee (RMAC);

Financial Services Compensation Scheme (FSCS);

Money Advice Service (MAS);

The Sovereign Grant to the Royal Household;

UK Asset Resolution Limited (UKAR);

Help to Buy (HMT) Limited; and

HM Treasury UK Sovereign SUKUK plc.

**Changes sought in the 2017-18 Supplementary Estimate**

2017-18 Budgets and net cash requirement	Current limit	Change		New limit
		<i>Voted</i>	<i>Non- voted</i>	
<b>Departmental Expenditure Limit (DEL)</b>				
Resource	168,761	68,159	-	236,920
<i>Of which Administration</i>	<i>151,778</i>	<i>19,144</i>	-	<i>170,922</i>
Capital	186,965	-169,435	-	17,530

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<b>Annually Managed Expenditure (AME)</b>				
Resource	-629,281	24,816,405	-	24,187,124
Capital	- 13,240,600	10,247,567	-	-2,993,033
<b>Net cash requirement</b>	354,913	- 14,102,182	n/a	- 13,817,523

**Significant differences in provision compared to the 2017-18 Main Estimate.****DEL**

The Main Estimate provided resource DEL of £168.7m, which included an administration budget of £151.2m, and capital DEL of £186.9m. The Supplementary Estimate increases resource DEL by £68.2m. This is mainly the net impact of a DEL Reserve claim of £59m comprising £42.5m for Oil and Gas decommissioning, £0.8m for the Financial Management Reform programme, £5.7m for Bank Mellat legal costs, £4m for the Government Internal Audit Agency and £5.4m for Brexit costs. In addition there is an increase of £0.02m under the Treasury's Cash Management Scheme for improved forecasting, transfers in from other Government departments of £12.2m, transfers out to other Government departments of £0.6m and a reduction of £2.5m arising from additional interest and fee income received by Infrastructure Finance Unit Limited (IFUL).

Capital DEL decreases by £169.4m arising from a Reserve claim of £12.6m of which £1.6m relates to PF2 projects and £10.9m which is being transferred to the Department for International Development (DfID) together with £80m of existing capital provision to finance the third instalment to the Asian Infrastructure Investment Bank (AIIB). DfID have made the third instalment to the AIIB on the Treasury's behalf. In addition, there is a reduction of £91m arising from loan repayments to IFUL

**AME**

Resource AME provision in the 2017–18 Main Estimate was –£629.2m. The Supplementary Estimate increases the total by £24.8bn. The bulk of this change relates to a reduction in the fair value of assets within the Bank of England Asset Purchase Facility Fund (BEAPFF) which are forecast to decrease in value by £25bn.

Capital AME increases by £10.2bn. This is mainly the effect of the Ripon sale of Bradford and Bingley mortgages which were forecast to be sold in 2017–18 when the Main Estimate was being finalised. In the event the sale occurred in 2016–17 therefore the provision is now being removed from the Estimate.

**DETAILED BREAKDOWN** (Section lettering reflects the Supplementary Estimate changes)

**DEL**

**Section A *Core Treasury*** – increases of £19.2m administration, £44.0m programme and of £0.3m capital.

Administration budget

The administration increase of £19.2m is the effect of DEL Reserve claims of £0.8m for the Financial Management Reform (FMR) programme, £5.7m for Bank Mellat legal costs and £5.4m for costs associated with exiting the EU. There is also an increase £0.02m following a rebate under the Cash Management Scheme for improved cash flow forecasting.

Also included within this amount are transfers between other Government departments of:

£0.3m from HMRC as a contribution towards the costs of the Office for Tax Simplification

£0.56m from FCO's Prosperity Fund

£0.2m from FCO as a contribution towards the costs of a G20 conference

£0.007m to CPS for the Chair of the Civil Service Rainbow Alliance;

£0.2m to DH to cover the costs of the transfer of staff; and

transfers from BEIS of £0.3m, CO £0.5m, MOD £0.3m and DfE £0.4m to cover work undertaken by UKGI on behalf of the departments. These transfers are being taken into section A as the work was initially financed from the core Treasury budget.

There are net transfers into and out of the section as follows:

- £0.6m from section B DMO;
- £1.5m from section M NIC;
- £1.6m from Section N UKGI and
- £2m from Departmental Unallocated Provision (DUP).

#### Programme budget

The increase in the programme budget of £44m is funded by Reserve claims of £42.5m to finance payments under the Decommissioning Relief Deeds, a transfer to DfE for interest and fees received in connection with PF2 projects and internal transfers of £1m from DUP and £0.9m from DMO.

**Section B *Debt Management Office*** – decreases in administration spending of £0.6m and programme spending of £0.9m to bring the Estimate provision into line with DMO's latest forecast of spending. Capital spending is reducing by £2.4m to reflect slippage in the Trading System Replacement project.

**Section C *Government Internal Audit Agency*** – an increase of £4m administration costs funded from the Reserve to finance the continued expansion of the Agency.

**Section G *Infrastructure Finance Unit Limited*** – a reduction in resource spending of £2.5m following receipt of interest and fee income. Capital spending reduces by £91m following receipt of loan repayments.

**Section H *IUK investments Limited*** – an increase in capital spending of £3.6m for PF2 projects of which £1.6m is funded from the Reserve and £2m from an underspend in Section B.

**Section L *Asian Infrastructure Investment Bank*** – an increase of £9.4m funded from the Prosperity Fund to finance the first of four annual payments to the AIIB Special Fund which provides project preparation assistance to low income countries in Asia. The UK's \$50m contribution to the Fund was announced by the Chancellor at the 2016 UK–China Economic and Financial Dialogue. Capital spending reduces by £80m to zero. The provision is being transferred to DfID along with a further £10.9m from the Reserve to finance the third capital instalment to the AIIB which DfID paid on our behalf before new legislation comes into force allowing HMT to make AIIB payments itself.

**Section M *National Infrastructure Commission*** – a decrease of a £1.5m due to an underspend which is being transferred to section A.

*Departmental Unallocated Provision* administration provision of £2m and programme provision of £1m transferred to section A.

#### **AME**

**Section P *Provisions*** – a net increase in provisions of £140.1m comprising a reduction of £41m for utilisation of provision for Decommissioning Relief Deeds offset by increases of £160m for Help to Buy ISA and £21m for the change in discount rate.

**Section Q *UK Coinage Manufacturing costs* and Section R *UK Coinage metal costs*** – a net reduction of £8m. The reduction is due to the demand for new coin being lower than expected due to a general decline in the use of cash. Income is reducing due to a change in the timing of sales of metal from returned coins which are now expected to be received in the next financial year.

**Section V *Sale of shares*** – reductions of £426m in resources and £935m capital from the sale of Lloyds shares.

**Section W *National Loan Guarantee Scheme*** – an increase of £59.6m due to a reduction in forecast income following the closure of the scheme

**Section Y *Assistance to Financial Institutions*** – an increase of £25,050m resources and a reduction of £13m capital. The bulk of the resource

increase arises from a decrease in the fair value of the Bank of England Asset Purchase Facility Fund (BEAPFF) of £25,000m non-cash. The fair value of the BEAPFF derivative represents the best estimate of the amount due to HM Treasury from the Bank of England on settlement of the scheme. It is arrived at by calculating the difference between the fair value of the assets as at the reporting date and their purchase price in the quantitative easing, less administration and interest charges.

Net capital spending reduces by £13m following loan repayments from Kaupthing and Dunfermline.

**Section AB *UK Asset Resolution*** – an increase in capital spending of £11,300m. When the Main Estimate was finalised the forecast of the ‘Ripon’ sale of part of the Bradford & Bingley loan book was that completion would be in early 2017–18. In the event, completion was in March 2016–17 therefore the 2017–18 capital provision is being removed.

**Section AD *Help to Buy ISA*** – a reduction of £104m as take up of bonuses has been lower than forecast.

**Section AE *UK Financial Investments*** – an increase of £0.9m to cover work being undertaken on behalf of Lloyds, RBS and UK Asset Resolution.

#### **Net cash requirement (NCR)**

The NCR decreases by £14,102m to £-13,817m as a result of the cash elements of the changes set out above and loan repayments mainly in connection with loans involving Bradford & Bingley.

### **SUPPLEMENTARY INFORMATION**

#### **DEL and AME budgets**

The tables below show plans and outturn by budget category from 2011–12 to 2019–20.

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<b>Resource DEL</b>					<b>£m</b>
Year	Voted	Non-voted	Total DEL	Outturn	Variance
2011-12	151.2	13.0	164.2	141.2	-23.0 (-13.6%)
2012-13	-84.3	12.0	-72.3	-200.5	-128.2 (-192.2%)
2013-14	-187.9	11.5	-176.4	-259.4	-83.0 (-48.8%)
2014-15	136.1	12.3	148.4	117.7	-30.7 (-19.7%)
2015-16	125.6	11.0	136.0	118.9	-17.1 (-12.6%)
2016-17	175.6	7.3	182.9	159.4	-23.5(-12.84%)
2017-18	229.6	7.3	236.9		
2018-19	154.5	7.7	162.2		
2019-20	146.5	7.7	154.2		

<b>Administration Budget within Resource DEL</b>					<b>£m</b>
Year	Voted	Non-voted	Total DEL	Outturn	Variance
2011-12	141.4	-	141.4	125.7	-15.7 (-10.7%)
2012-13	134.4	-	134.4	129.6	-4.8 (-3.4%)
2013-14	131.3	-	131.3	120.5	-10.1 (-7.3%)
2014-15	138.8	-	138.8	134.6	-4.3 (-2.9%)
2015-16	134.0	-	134.0	133.6	-0.4 (-0.3%)
2016-17	173.9	-	173.9	159.8	-14.1 (-8.1%)
2017-18	170.9	-	170.9		
2018-19	145.8	-	145.8		
2019-20	137.8	-	137.8		

<b>Capital DEL</b>					<b>£m</b>
Year	Voted	Non-voted	Total DEL	Outturn	Variance
2011-12	60.7	-	60.7	36.5	-24.2 (-39.9%)
2012-13	27.5	-	27.5	18.0	-9.5 (-34.5%)
2013-14	14.1	-	-4.8	-5.9	-1.1 (-22.9%)
2014-15	47.1	-	47.1	35.6	-11.5 (-24.4%)
2015-16	-657.3	-	-657.3	-660.1	-2.8 -(0.4%)

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2016-17	4.5	-	4.5	-2.1	-6.6 (-146%)
2017-18	17.5	-	17.5		
2018-19	224.0	-	224.0		
2019-20	262.0	-	262.0		

Resource AME				£m	
Year	Voted	Non-voted	Total AME	Outturn	Variance
2011-12	-3,096.1	11.1	-3,085.0	- 18,755.5	-15,670.5 (- 507.9%)
2012-13	-15,712.5	3.3	- 15,715.7	- 18,729.9	-3,014.1 (- 19.2%)
2013-14	10,602.0	3.3	10,605.3	6,268.1	-4,337.2 (-40.9%)
2014-15	-42,314.1	3.4	- 42,317.5	- 49,809.8	-7,492 (-17.7%)
2015-16	18,739.8	3.7	18,743.6	- 13,814.9	-32,558.5 (- 173.7%)
2016-17	49,126.4	3.7	49,130.2	- 25,457.7	-74,587.9 (-151%)
2017-18	24,183.4	3.7	24,187.1		
2018-19	-130.2	3.7	-126.5		
2019-20	-130.2	3.7	-126.5		

Capital AME				£m	
Year	Voted	Non-voted	Total AME	Outturn	Variance
2011-12	-3,105.8	-	-3,105.8	-4,569.7	-1,463.9 (-47.1%)
2012-13	-2,286.9	-	-2,286.9	-3,591.8	-1,304.9 (- 36.3%)
2013-14	-5,723.1	-	-5,723.1	- 11,724.7	-6,001.6 (- 48.8%)
2014-15	-9,467.5	-	-9,467.5	- 12,714.4	-3,246.9 (-34.3%)
2015-16	- 25,665.8	-	- 25,665.8	- 29,065.6	-3,399.8 (-13.2%)

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2016-17	-4,927.2	-	-4,927.2	-	-14,804.3 (- 19,731.5 300.4%)
2017-18	-2,993.0	-	-2,993.0		
2018-19	398.0	-	398.0		
2019-20	539.0	-	539.0		

### Provisions

The table below shows the balance of core Treasury and Agency provisions in 2017-18 and their expected use.

Provisions for liabilities and charges	Equitable Life Payments Scheme	HTB ISA	Oil and Gas	Other	Total £m
Estimated balance at 1 April 2017	514.0	346.0	327.0	1.2	1,188.2
Provided in year	0	160	20	0.5	180.5
Provision written back	0	.0	0	0	0
Provision expected to be used in year	-35.0	-120	-44.0	-0.5	-199.5
Estimated balance at 31 March 2018	479.0	386	303	1.2	1,169.2

### Changes to contingent liabilities

The following changes have been made to the list of contingent liabilities included in the 2016-17 Main Estimate:

- Liability 3. Increased by £15,000m;
- Liability 4. reduced by £76m to £980m

- Liability 5. A new liability for market standard warranties on the sale of B&B loan book assets £11,400m;
- Liability 6. A further new liability on the sale of B&B mortgage book assets for regulatory, legislative and contractual compliance £790m;
- Liability 8. A previously unquantified liability now quantified at £522m;
- Liability 21. A new unquantifiable liability in respect of employer contributions payable to the PCSPS following the Royal Mint's pensions transferred to the scheme; and
- Liability 28. A new unquantifiable remote liability connected with exiting the EU.

This memorandum has been prepared with reference to the guidance in the Estimates Manual provided by HM Treasury.