DEPARTMENT: HM TREASURY, Supplementary Estimate 2018-19

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):

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);
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 2018-19 Supplementary Estimate

2018-19 Budgets and net cash requirement		**£'000**		
	Current limit	**Change** *Voted*	*Non-voted*	**New limit**
Departmental Expenditure Limit (DEL)				
Resource	172,510	89,330	-	261,840
Of which Administration	*145,812*	*44,330*	-	*190,142*
Capital	224,000	-42,810	-	181,190
Annually Managed Expenditure (AME)				
Resource	-383,257	11,605,834	-	11,222,577
Capital	-6,433,800	-2,093,250	-	-8,527,050
Net cash requirement	-4,504,828	-1,756,645	n/a	-6,261,473

Significant differences in provision compared to the 2018-19 Main Estimate.

DEL

The Main Estimate provided resource DEL of £172.5m, which included an administration budget of £145.8m, and capital DEL of £224.0m. The Supplementary Estimate increases resource DEL by £89.3m. This is mainly the net impact of a DEL Reserve claim of £86.7m comprising £43.3m for Oil and Gas decommissioning, £1.2m for the Financial Management Reform programme, £6.6m for Bank Mellat legal costs, £2.7m for the Government Internal Audit Agency, £3.6m for the OSCAR II project and £4m for loss of income due to the early repayment of a loan. In addition there are net transfers with other Government departments of £2.4m.

The total Reserve claim also included £24.8m to fund the department's Brexit related costs. This additional funding, together with savings from within the existing budget and staff re-prioritised from elsewhere within core HM Treasury, will fund additional staffing requirements and:

- Brexit related legal costs drafting Statutory Instruments and legal work supporting negotiations with the EU on financial services;
- Consultancy for EU budget valuation work;
- External analytical work on the impact of withdrawal from the EU on the financial services sector, the supporting professional services sector, and the wider economy;
- Brexit related OBR work to reflect developments in the economy and public finances into their forecasts, as the UK withdraws from the EU. This includes the economic impact of new international trade arrangements and new migration regime, and the associated impact on the public finances.

Capital DEL decreases by £42.8m arising from the re-profiling of spending on the Digital Infrastructure Investment Fund (DIIF) (-£20m) and the Charging Infrastructure Inverstment Fund (CIIF) (-£40m) offset by additional spending of £17.2m on the Asian Infrastructure Investment Bank (AIIB) due to exchange rate fluctuations and a transfer to CO of £0.062m.

AME

Resource AME provision in the 2018-19 Main Estimate was -£383.3m. The Supplementary Estimate increases the total by £11,606m. 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 up to £11,970m.

Capital AME decreases by £2,093m. This is mainly due to two transactions – a decrease of £876m for UK Asset Resolution (UKAR) mainly from the sale of equity release mortgages and for the Bank of England a capital injection of £1,200m to bring the Bank's capital base up to a new target level. More details on these transactions are shown in the relevant sections below.

DETAILED BREAKDOWN (Section lettering reflects the Supplementary Estimate changes)

DEL

Section A *Core Treasury* – increases of £40.7m administration, £44.4m programme and a reduction of £135.5m capital.

Resource Administration budget

The administration increase of £40.7m is the effect of DEL Reserve claims of £1.2m for the Financial Management Reform (FMR) programme, £6.6m for Bank Mellat legal costs, £3.6m for OSCAR II development costs, £24.8m for costs associated with exiting the EU, £4m for loss of income due to the early repayment of a loan and £0.5m towards the costs of exchange rate fluctuations.

Also included within this amount is a transfer of £0.4m from HMRC towards the costs of the Office of Tax Simplification offset by a reduction due to a charge of £0.005m under the Treasury's Cash Management Scheme.

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

- £0.4m from section L NIC;
- £1.5m from Departmental Unallocated Provision (DUP); and
- £1.7m to Section M UK Government Investments;
- £0.23m to Section D Office of Tax Simplification.

Resource Programme budget

The increase in the resource programme budget of £44.4m is funded by a Reserve claim of £43.3m to finance payments under the Decommissioning Relief Deeds, transfers from CO of £0.2m for Project Manchester, less a transfer to DfE of £0.5m for interest and fees received in connection with PF2 projects and £0.3m to Ministry of Justice for three small Justice Impact Tests (JIT). There is also the transfer of £1.7m from Section M UKGI.

Capital budget

The capital decrease of £135.5m reflects reductions arising from the reprofiling of DIIF (-£2.7m) and the CIIF (-£40m) and transfers of £75m to Section F to cover DIIF payments, £17.2m to Section L to cover exchange rate fluctuations, £0.4m to Section M and a transfer to CO of £0.062m related to PF2 projects.

Section C *Government Internal Audit Agency* – an increase of £2.7m administration costs funded from the Reserve to finance the continued expansion of the Agency.

Section D *Office of Tax Simplification* – an increase of £0.3m funded by a transfer from Section A.

Section F *Infrastructure Finance Unit Limited (Net)* - an increase in capital spending of £75m. The Unit will administer the DIIF and CIIF for the Treasury and the increase represents the transfer of DIIF provision from Section A.

Section K *Asian Infrastructure Investment Bank* – increases of 0.5m resource and £17.2m capital to cover exchange rate fluctuations on payments to the AIIB.

Section L *National Infrastructure Commission* – a decrease of a £0.4m in resources to cover an increase in capital spending. The resource decrease is being transferred to section A which will finance the capital increase.

Section M *UK Government Investments Limited (Net)* – an increase of £2.0m funded by an administration budget transfer from MHCLG of £0.3m to fund work carried out by UKGI on its behalf. There were also transfers from DfE of £1m and MoD of £0.7m received as programme spending. As UKGI spending on behalf of these departments is all within the administration budget, £1.7m programme spending is being transferred to Section A and being replaced with administration budget of a matching amount.

Departmental Unallocated Provision – the £1.5m provision in the section is being transferred to Section A *Core Treasury*.

AME

Section O *Provisions* – an increase in provisions of £49m comprising possible provisions for Decommissioning Relief Deeds, Help to Buy ISA and a change in the discount rate.

Section P *UK Coinage Manufacturing costs* and **Section Q** *UK Coinage metal costs* – a net increase of £8m. The increase is due to the demand for the new £1 coins being higher than forecast by the industry at the start of the year. Income is increasing due to the old £1 coin recovery project benefitting from higher than expected volumes. Total recoveries when the project started in 2017 were expected to be £41m but that volume has recently been exceeded with more expected to be returned in the coming months.

Section S *Investment in the Bank of England* – an increase of £1,200m On 21 June 2018 HM Treasury and the Bank of England announced reforms to the Bank's financial framework to boost transparency, reinforce Bank resilience and independence and strengthen the financial system. The new arrangements include a more transparent capital and income framework for the Bank, requiring an upfront injection of £1.2 billion to bring the Bank's capital base up to a new target level. This recognises the Bank's expanded remit since the financial crisis and will equip the Bank to perform its monetary policy and financial stability functions in the current operating environment.

Further details on the new financial relationship between the Bank and HM Treasury is available in the new Memorandum of Understanding [available here: https://www.gov.uk/government/publications/financial-relationship-between-the-treasury-and-the-bank-of-england].

Section U *Sale of shares* – reductions of £447m in resources and £2,394m capital from the sale of RBS shares.

Section W *Assistance to Financial Institutions* – an increase of £11,819m resources and a reduction of £24.5m capital. The bulk of the resource increase arises from a potential decrease in the fair value of the Bank of England Asset Purchase Facility Fund (BEAPFF) of £11,970m 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. The increase is offset by the receipt of a dividend of £150m arising from the RBS shareholding.

Net capital spending reduces by £24.5m due to a working capital loan facility for FSCS no longer being required.

Section Z *UK Asset Resolution* – an increase in resource spending of £125m arising from a reduction in operating profit of £127m and increased customer redemption provisions of £42m offset by a £13m favourable loan impairment, £12m higher income and a £10m reduction in tax payable. Capital spending is reducing by £875m reflecting the sale of £860m equity release mortgages and the redemption of the Ritz Hotel commercial loan of £150m offset by other loan sales being smaller than anticipated.

Section AC *UK Government Investments* – an increase of £1m to cover work being undertaken on behalf of RBS and UK Asset Resolution.

Money Advice Service – provision is reduced to zero following the Machinery of Government transfer of MAS to the Single Financial Guidance body which forms part of DWP.

Net cash requirement (NCR)

The NCR decreases by £1,757m to £-6,261m as a result of the cash elements of the changes set out above.

SUPPLEMENTARY INFORMATION

DEL and AME budgets

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

Resource DEL **£m**

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	225.8	-11.1 (-4.7%)
2018-19	254.5	7.3	261.8		
2019-20	149.7	7.7	154.2		

Administration Budget within Resource DEL **£m**

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	165.2	-5.7 (-3.3%)
2018-19	190.1	-	190.1		
2019-20	138.1	-	138.1		

Capital DEL £m

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%)
2016-17	4.5	-	4.5	-2.1	-6.6 (-146%)
2017-18	17.5	-	17.5	-78.3	-95.8 (-647%)
2018-19	181.2	-	181.2		
2019-20	172.0	-	172.0		

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	3.8	24,187.1	-678.6	-24,865.7 (-102.8%)
2018-19	11,218.7	3.9	11,222.6		
2019-20	-192.7	3.7	-196.4		

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%)
2016-17	-4,927.2	-	-4,927.2	-19,731.5	-14,804.3 (-300.4%)
2017-18	-2,993.0	-	-2,993.0	-3,696.6	-703.6 (-23.5%)
2018-19	-8,527.1	-	-8,527.1		
2019-20	126.1	-	126.1		

Provisions

The table below shows the balance of core Treasury and Agency provisions in 2018-19 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 2018	492.0	478.0	299.0	28.0	1,297.0
Provided in year	0	150	24	0	174.0
Provision written back	0	.0	0	0	0
Provision expected to be used in year	-35.0	-130	-43.0	-5.0	-213.0
Estimated balance at 31 March 2019	457.0	498	280	23.0	1,258.0

Changes to contingent liabilities

The following changes have been made to the list of contingent liabilities included in the 2018-19 Main Estimate:

No. 3 – amended following reduction in liability to £445bn;

No. 4 – liability increased by £3m;

Nos. 7 and 8 – new liabilities covering standard warranties following the sale of Bradford and Bingley and Northern Rock Asset Management loan books

No. 28 – amended text to reflect the latest AIIB contribution.

The former liability No 5 for the Hinkley Point guarantee has been removed as it is no longer required.

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