HM Treasury 2019-20 Supplementary Estimate memorandum

1 Overview

1.1 Objectives

HM Treasury's (HMT's) objectives, as set out in its published Single Departmental Plan, are as follows:

1. Place the public finances on a sustainable footing, ensuring value for money and improved outcomes in public services
2. Ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU
3. Increase employment and productivity, ensuring strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms, taking advantage of the opportunities provided by leaving the EU
4. Build a great Treasury, by creating a more open, inclusive and diverse department, underpinned by professionalism, skills and management excellence

1.2 Spending controls

HMT's spending is broken down into a several different spending totals, for which Parliament's approval is sought.

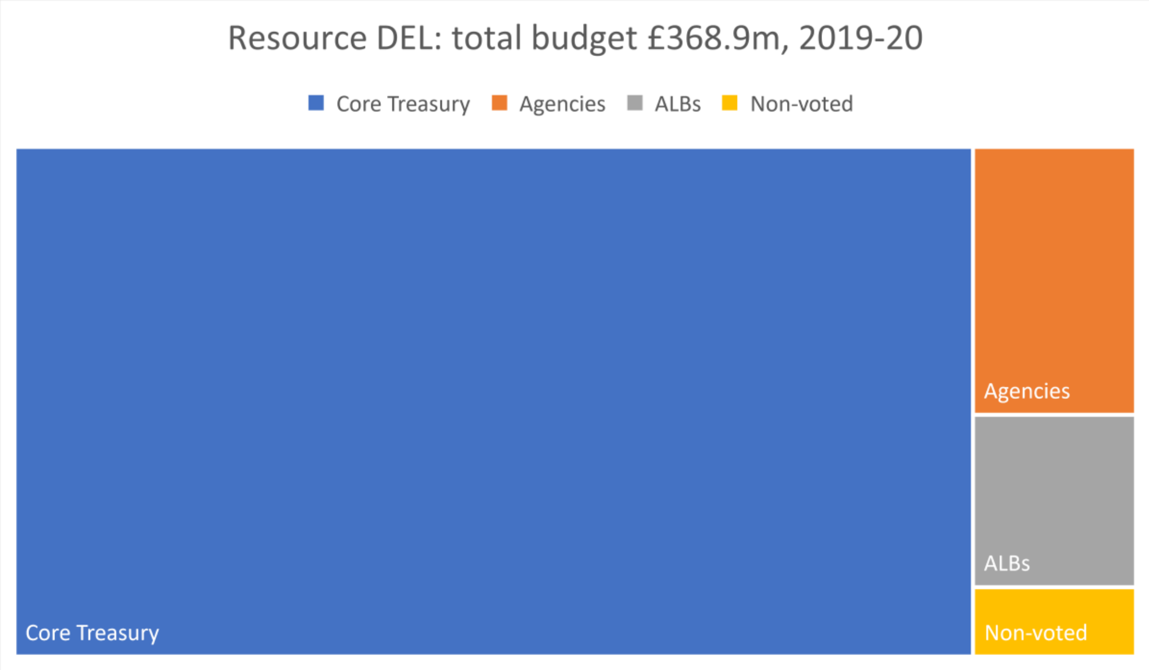
The spending totals which Parliament votes are:

- Resource Departmental Expenditure Limit ("**Resource DEL**")- day to day running costs
- Capital Departmental Expenditure Limit ("**Capital DEL**"): - investment in infrastructure
- Resource Annually Managed Expenditure ("**Resource AME**")- less predictable spending, on production of UK coinage and income from dividends and interest
- Capital Annually Managed Expenditure ("**Capital AME**"): less predictable investment spending: payments under the Help to Buy: ISA scheme and receipts from loan repayments

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets which require HMT to pay out cash in year

1.3 Main areas of spending

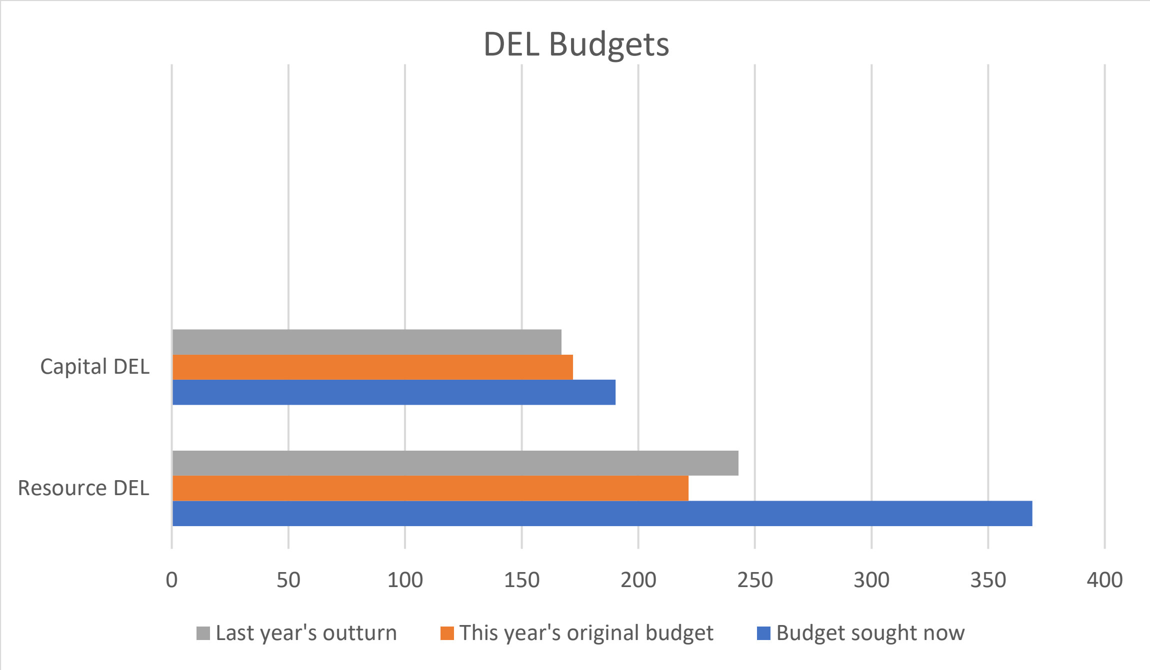
The graphic below shows the main components of HMT's proposed budget for the year, included in the Supplementary Estimate, and the proportions of funds spent by bodies within the Group.

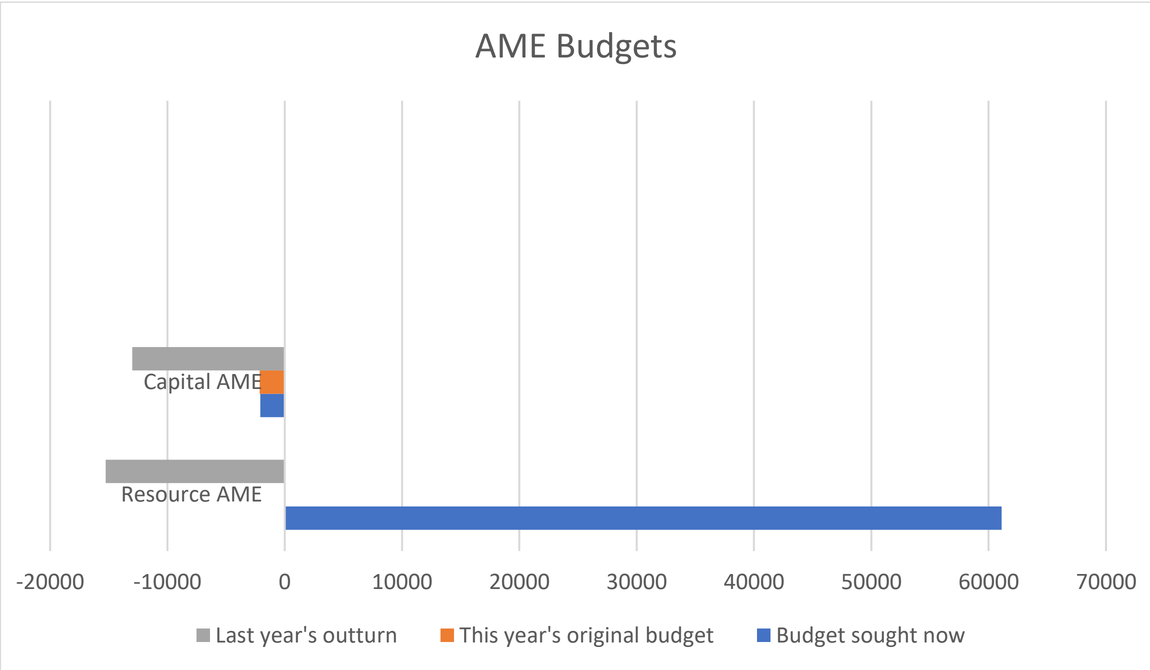


1.4 Comparison of spending totals sought

The table and graphic below show how the totals sought for HMT this year compare with last year:

Spending total **Amounts sought this year** **(Supplementary Estimate 2019-20)**		**Compared to original budget this year.** **(Main Estimate 2019-20)**		**Compared to final budget last year** **(Outturn 2018-19)**	
		£ m	**%**	**£m**	**%**
Resource DEL	£368.9 m	+£147.3m	+66.5%	+£122.9m	+49.9%
Capital DEL	£190.3 m	+£18.3m	+10.6%	+£23.2m	+13.9%
Resource AME	£61,099.7m	+£61,175.0m	n/a	+£76,378.0m	n/a
Capital AME	-£2,096.7m	-£2,153.2m	+2.7%	+£10,901.4m	+519.9%





1.5 Key drivers of spending changes since original budget

Increased Resource DEL spending plans have increased from the original budget set in the Main Estimate due to the receipt of Reserve claims to finance spending on Oil and Gas Decommissioning payments, the settlement of a legal claim and EU exit related spending.

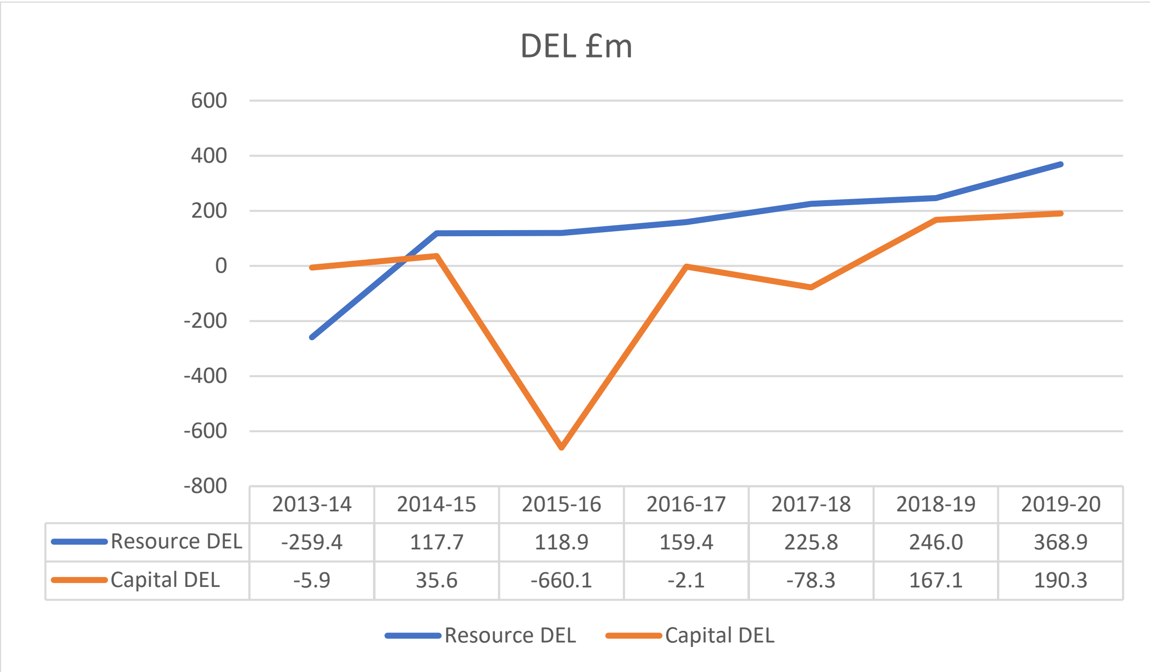
Resource AME spending plans have increased mainly due to the inclusion of a provision for the EU Withdrawal Agreement financial settlement and a change in the fair value of the Bank of England Asset Purchase Facility Fund (BEAPFF).

1.6 New policies and programmes; ambit changes

The ambits of the Estimate have been expanded to include spending by core Treasury on the tax costs and associated interest payments for certain retired police and fire service officers, creation and use of provisions relating to the EU Withdrawal Agreement financial settlement and the settlement of legal claims.

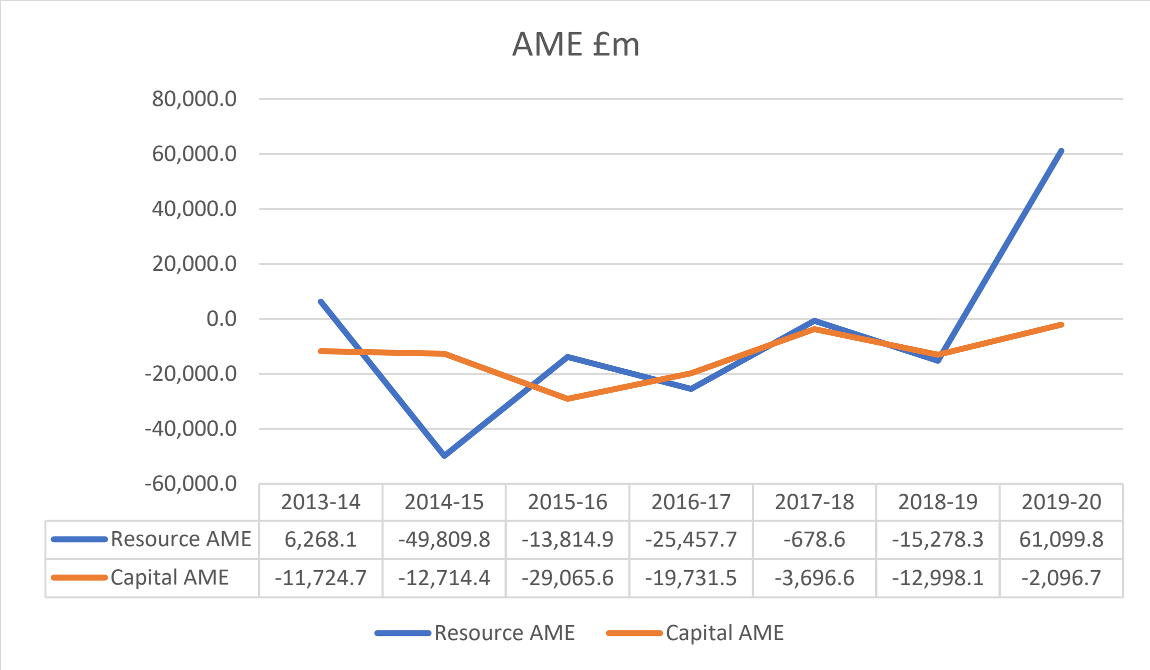
1.7 Spending trends

The charts below show overall spending trends for the last five years and plans presented in Estimates for 2019-20.



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Resource DEL	-259.4	117.7	118.9	159.4	225.8	246.0	368.9
Capital DEL	-5.9	35.6	-660.1	-2.1	-78.3	167.1	190.3

- Resource DEL - the increase in 2014-15 over 2013-14 is principally due to receipt of £318m fine income from the Financial Conduct Authority being scored in 2013-14 as negative resource DEL. Since 2014-15, fine income has been surrendered to the Consolidated Fund and reported in a separate Trust Statement.
- Capital DEL – the troughs in 2015-16 and 2017-18 resulted from the sale of Eurostar shares and the repayment of the Greater Manchester Waste loan respectively. The increase in 2018-19 arises from the inclusion of the Digital Infrastructure Investment Fund (DIIF) and the Charging Infrastructure Investment Fund (CIIF).



- Resource AME – the general volatility arises from changes in the fair value of the BEAPFF derivative and from 19-20 the inclusion of a provision for the EU Withdrawal Agreement financial settlement.
- Capital AME – the differences between years arise from changes in the level of UK Asset Resolution asset sales and Lloyds/RBS share sales.

1.8 Administration costs and efficiency plans

In SR15, administration costs were set to fall by 5.1% in 2019-20 from the previous year. Following the addition of Reserve claims for EU Exit spending, the correction of a £10m misalignment between programme and administration spending in SR15 and other Reserve claims, the 2019-20 final budget is 11.7% higher than the original budget set in the Main Estimate.

Spending total **Amounts sought this year** **(Supplementary Estimate 2019-20)**		**Compared to original budget this year.** **(Main Estimate 2019-20)**		**Compared to final budget last year** **(Outturn 2018-19)**	
		£ m	**%**	**£m**	**%**
Administration costs	£214.6 m	+£22.5 m	+11.7%	+£28.5 m	+14.8%

1.9 Funding: Spending Review and Budgets

The levels of DEL funding for HMT for 2019-20 are based on plans published in the 2015 Spending Review for the department. Since that time, the Government has made a number of changes to 2019-20 spending plans including announcements of some additional funding in Budgets and Autumn Statements and additions from the Reserve. Details of funding changes are set out in the table at Annex B.

Notable amongst these changes are:

RDEL

- Reserve claims for spending on EU Exit of £47m.
- Machinery of government change transferring Infrastructure UK (IUK) to the Cabinet Office, which reduced RDEL funding by £7.1m.
- Additional RDEL funding of £15 million and £4 million to compensate HMT for the loss of IUK and IFUL income respectively.
- Budget 18 allocated HMT £2m for the Affordable Credit Challenge Fund and £1m for the prize-linked saving scheme for credit unions.

CDEL

- Additional funding provided at Budget 16 for the DIIF of £100 million, subsequently re-profiled to £70m and at Budget 17 £80m for the CIIF, subsequently re-profiled to £20m.

2 Spending detail

2.1 Explanations of changes in spending

Resource DEL

The table below shows how HMT's spending plans for resource DEL compare with earlier this year.

Subheads	Description	**Resource DEL**				
		£ million			%	
		This year (2019-20 Supplementary Estimates budget sought)	*This year (2019-20 Main Estimates budget approved)*	change from Main Estimate		see note number
A	Core Treasury	304.8	158.9	**145.9**	**91.8%**	1
B	Debt Management Office	20.8	20.8	**0**	**0%**	
C	Government Internal Audit Agency	2.4	0.4	**2.0**	**500.0%**	
D	Office of Tax Simplification	1.0	0.8	**0.2**	**25.0%**	
E	Office for Budget Responsibility	3.4	3.0	**0.4**	**13.3%**	
I, J	HMT owned companies with token £1k provision	0.0	0.0	**0.0**	**0.0%**	
K	Asian Infrastructure Investment Bank	9.5	9.4	**0.1**	**1.1%**	
L	National Infrastructure Commission	5.0	5.0	**0**	**0%**	
M	UK Government Investments Limited	14.7	12.5	**2.2**	**17.6%**	
N	Banking and gilts registration services (Non-voted)	7.3	7.3	**0**	**0%**	
	total voted and non-voted	**368.9**	**221.6**	**147.3**	**66.5%**	

Differences of more than 10% which are more than £10 million are explained below. Numbers relate to the relevant row in the table above. Further detail of spending within these totals is given in the Table at Annex A.

1. Core Treasury.

Spending plans for core Treasury have increased by £145.9m since the Main Estimate set the original budget. The increase is principally to cover additional spending of £136m financed from the DEL Reserve for the following:

- At 31 March 2019, HMT carried a provision of £357m in its accounts for claims on Decommissioning Relief Deeds. The deeds were signed between members of the oil and gas industry and HM Treasury. The Deeds indemnify the industry for changes in tax codes or the default of their partners in decommissioning North Sea oil fields, allowing them to claim relief from HM Treasury potentially otherwise available to the field from HMRC through the tax system. The Supplementary Estimate provides for the utilisation of £54m of the provision.
- £84.2m to enable the Contingencies Fund to be repaid for an advance made to settle a legal claim.

Capital DEL

The table below shows how spending plans for capital DEL compare with earlier this year.

Subheads	Description	**Capital DEL**				
		£ million			%	
		This year (2019-20 Supplementary Estimate budget sought)	*This year (2019-20 Main Estimate budget approved)*	change from Main Estimate		see note number
A	Core Treasury	5.5	1.1	**4.4**	**400.0%**	
B	Debt Management Office	0.9	0.9	**0**	**0%**	
F	Infrastructure Finance Unit Ltd	90.0	90.0	**0**	**0%**	
K	Asian Infrastructure Investment Bank	93.3	80.0	**13.3**	**16.6%**	2
L	National Infrastructure Commission	0.7	0.0	**0.7**	*n/a*	
	total voted	**190.4**	**172.0**	**18.4**	**10.7%**	

Differences of more than 10% which are more than £10 million are explained below.

2 Asian Infrastructure Investment Bank (AIIB)

The AIIB payment is paid in US$ (US$122m). A reserve claim of £13.3m was made to cover exchange rate fluctuations.

Resource AME

The table below shows how spending plans for resource AME compare with earlier this year.

Subheads	Description	**Resource AME**				
		£ million			%	
		This year (2019-20 Supplementary Estimate budget sought)	*This year (2019-20 Main Estimate budget approved)*	change from Main Estimate		*note number*
O	Core Treasury (AME)	21.6	0	**21.6**	*n/a*	3
P	Provisions	7.0	-0.5	**7.5**	*n/a*	
Q, R	UK coinage	24.7	24.7	**0**	**0%**	
S	Royal Mint Dividend	-4.0	-4.0	**0**	**0%**	
T	Investment in the Bank of England	-50.0	-50.0	**0**	**0%**	
U	Administration of the Equitable Life Payments Scheme	0.3	0.3	**0**	**0%**	
V	Loans to Ireland	-57.1	-79.0	**22.0**	**27.8%**	4
W	Assistance to financial institutions	13,949.0	0	**13,949.0**	*n/a*	5
X	Sovereign Grant funding of the Royal Household	82.4	82.4	**0**	**0%**	
Y	Financial Services Compensation Scheme	61.0	21.0	**40.0**	**190.5%**	6
Z	UK Asset Resolution Limited	50.0	-75.0	**125.0**	*n/a*	7
AA	Help to Buy (HMT) Limited	0	0	**0**	**0%**	
AB	Help to Buy ISA	10.0	0	**10.0**	*n/a*	8
AC	UK Government Investments Limited	1.0	1.0	**0**	**0%**	
AD	EU Withdrawal Agreement Financial Settlement	47,000.0	0	**47,000.0**	*n/a*	9
AE	Royal Household Pensions	3.5	3.5	**0**	**0%**	
AF	Civil List	0.4	0.4	**0**	**0%**	
	total voted and non-voted	**61,099.9**	**-75.2**	**61,175.1**	**n/a**	

Differences of more than 10% which are more than £10 million are explained below.

3. Core Treasury (AME)

Errors made in the calculation of commutation factors for certain police and firefighters' pensions resulted in the pensioners receiving either a lower lump sum than they should have or a smaller pension. £350m was earmarked to cover tax liabilities related to this case, which was included in HMT's 2015-16 Supplementary Estimate. At the time, the decision was made to enter into two contract settlements with HMRC, as 95% of payments were due to be made in 2015-16, with the remainder in 2016-17. One contract settlement was made to settle the majority of the liability (£325m) and the other was planned for 2016 to settle the remaining liability. However, schemes have been very slow in submitting their returns leading to a delay in the second contract settlement. Most schemes have now made their returns and the final figure is expected to be £21.6m.

4. Loans to Ireland

In 2010, the Government committed to providing a £3.2 billion bilateral loan to Ireland as part of an international assistance package of €67.5 billion including loans provided by the International Monetary Fund (IMF), European Union (EU), euro-area Member States and other bilateral lenders, Sweden and Denmark. The loan started to be repaid this year and we will therefore be receiving less interest than we have in the past. The figure used in the 2019-20 Main Estimate was lower than in past years to reflect the start of repayments but not sufficiently low to reflect the profile of the repayments. The revised forecast is for interest of £57m - £21m lower than originally forecast.

5. Assistance to financial institutions

The increase in this section arises from two transactions

- 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 £15,000m 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.
- Income of £1,051m arising from an RBS dividend and a special dividend.

6 Financial Services Compensation Scheme

An increase of £40.0 million to cover increases in compensation costs which are forecast to increase by £75m and management expenses by £5m. These increases are offset by a £14m increase in the levy on the financial services firms and an increase in other recoveries of £26m.

7 UK Asset Resolution

An increase of £125.0 million to cover lower expected profit after tax which is primarily driven by a £140.5m top-up of PPI customer remediation provisions and higher operating expenses reflecting a £13.2m charge in respect of onerous leases. This is partly offset by a £27.9m higher loan impairment credit primarily reflecting stronger house price growth, higher recoveries and revised economic and provisioning assumptions arising from increased PPI provision offset by a credit for loan impairments.

8 Help to Buy ISA

In 2018-19 the programme was run by UKAR Corporate Services (a subsidiary of UKAR), a part of the HMT Group. Transactions between members of the Group are eliminated from the Estimate and Accounts to avoid double counting. From 1 April 2019 the provider changed from UKAR CS to NS&I, which is not part of the HMT Group. As such any transactions must now be shown in the Estimate and spending on the provision of the Help to Buy ISA programme of £10m has been included in the Supplementary Estimate.

9 EU Withdrawal Agreement financial settlement

The European Union (Withdrawal Agreement) Act 2020 received Royal Assent on the 23 January. Under the Act, EU financial settlement payments will be paid as a Consolidated

Fund Standing Service until 31 March 2021, after which they will be funded through the Supply process. The Treasury is required to make non-cash provisions in its 2019-20 Supplementary Estimate for liabilities that could crystallise as cash payments after 31 March 2021. This figure represents the upper limit for the potential liabilities that may need to be recognised in the Treasury's accounts under the requirements of the HM Treasury Financial Reporting Manual. The actual figure recognised is likely to be lower. This figure in the Supplementary Estimates is not an estimate of the financial settlement with the EU and does not include receipts and other monies due back to the UK under the agreement.

The Government's assessment of the factors affecting the likely size of the settlement remains unchanged. The OBR's most recent estimate of the financial settlement, taking account of the Article 50 extension to 31 October 2019, was £32.8bn (published in their Fiscal Risks Report of July 2019). The OBR will publish an updated estimate at Budget, based on 31 January exit.

Capital AME

The table below shows how spending plans for capital AME compare with earlier this year.

Subheads	Description	**Capital AME**				
		£ million			%	
		This year (2019-20 Supplementary Estimate budget sought)	*This year (2019-20 Main Estimate budget approved)*	change from Main Estimate		*note number*
V	Loans to Ireland	-1,613.5	-1,613.5	**0**	**0%**	
W	Sovereign Grant funding of the Royal Household	6.3	6.3	**0**	**0%**	
X	Financial Services Compensation Scheme	0.5	0.5	**0**	**0%**	
Y	UK Asset Resolution Limited	-650.0	-706.5	**56.5**	**8.0%**	10
AA	Help to Buy: ISA	160.0	160.0	**0**	**0%**	
	total voted and non-voted	**-2,096.7**	**-2,153.2**	**56.5**	**2.6%**	

10 UK Asset Resolution

An increase of £56.5m which is mainly due to a decrease in forecast possession sales and repayments of principal, offset by lower write offs.

2.2 Ring fenced budgets

Within the totals, the following elements are ring fenced ie savings in these budgets may not be used to fund pressures on other budgets

Resource DEL

Ring fenced budgets **Amounts sought this year** **(Supplementary Estimate 2019-20)**		**Compared to original budget this year.** **(Main Estimate 2019-20)**		**Compared to final budget last year** **(Outturn 2018-19)**	
		£ m	**%**	**£m**	**%**
Depreciation	£5.9m	0m	0%	-£2.4m	-40.7%

2.3 Changes to contingent liabilities

There are several changes to contingent liabilities in the Supplementary Estimate. Three liabilities relating to the sale of NRAM and B&B loans shown in the Main Estimate as numbers 1, 2 and 6 have been removed as the guarantees given at the time have expired. Five new liabilities have been included in the Supplementary Estimate (numbered 6 to 10) arising from the sale of NRAM and B&B loans. These are market-standard time and value capped warranties confirming regulatory, legislative and contractual compliance.

3 Priorities and performance

3.1 How spending relates to objectives

The table below shows how expenditure against relevant subheads contributes to Departmental priorities under the Single Departmental Plan

Objective>>>> Estimates subheads	1: Place the public finances on a sustainable footing, ensuring value for money and improved outcomes in public services	2: Ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU	3: Increase employment and productivity, ensuring strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms, taking advantage of the opportunities provided by leaving the EU	4: Build a great Treasury, by creating a more open, inclusive and diverse department, underpinned by professionalism, skills and management excellence
A	X	X	X	X
B	X			
C	X			
D	X		X	

E	X	X	X	
F, G, H, L	X		X	
I	X			
J, Q, P, S	X			
M, AC		X	X	
N		X		
P, AD	X	x	X	
T	X	X		
U, V, W		X		
Y		X		
Z		X		
AA, AB		X		

3.2 Measures of performance against each priority

HMT's Single Departmental plan (see here) sets out the following high-level objectives, and measures of performance, for the department for the current financial year.

1. Place the public finances on a sustainable footing, ensuring value for money and improved outcomes in public services

- Public sector Net Debt (PSND) as a percentage of GDP
- Cyclically-adjusted Net Borrowing as a percentage of GDP
- Public Sector Net Borrowing (PSNB) as a percentage of GDP

2. Ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU

- GDP Growth
- CPI Inflation

3. Increase employment and productivity, ensuring strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms, taking advantage of the opportunities provided by leaving the EU

- UK Employment Rate (%)
- Business investment as a share of GDP
- Output per hour

4. Build a great Treasury, by creating more open, inclusive and diverse department, underpinned by professionalism, skills and management excellence

- Civil Service People Survey

The latest update to these performance measures is here.

5. Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

The information in this Estimates Memorandum has been approved by myself as Departmental Accounting Officer.

Tom Scholar

Permanent Secretary

HM Treasury

12 February 2020