



BRIEFING PAPER

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The Estimates process and 2017-18 Main Estimates

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Summary

What are Estimates?

One of Parliament's longest standing functions is the consideration and authorisation of the government's spending plans, requiring the government to obtain parliamentary consent before spending public money.

Main Estimates are the documents which contain the detail of those spending plans for a particular year. There is a separate Estimate for each Government Department. Changes are presented at the end of each year through *Supplementary Estimates*. Each must be authorised by Parliament before they take effect. In the early part of the year, funding is provided through an advance, known as the *Vote on Account*.

How decisions on spending are reached

The key decisions on spending priorities for 2017-18 were taken and announced in the 2015 Spending Review. At that time, the new government decided to bear down on planned overall public spending within Departmental Expenditure Limits, in order to reduce the budget deficit, while protecting certain large budgets within those limits, such as the NHS, schools, the police and international aid. Other measures sought to reduce spending outside Departmental Expenditure Limits, particularly to working age benefits. While the overall effect of this was to reduce planned public spending as a share of GDP year by year, overall spending was still set to rise each year in absolute terms, albeit modestly.

The 2017-18 Main Estimates

Since the Spending Review, the Government has made a few changes to its spending plans for 2017-18, including allocating additional funding for social care, announced in the Spring 2017 Budget. Some benefits changes planned have also been modified, withdrawn or delayed.

These changes have been reflected in the 2017-18 Main Estimates, which were published before Parliament dissolved for the 2017 General Election. While published before the election, the Estimates have yet to be formally approved.

Public spending overall in 2017-18 is planned to be some 3.8% higher¹ than in 2016-17, rising from £772.8 billion in 2016-17 to £802.4 billion in 2017-18.

Parliament's role in considering Estimates

Parliament's role in considering Estimates is, in reality, quite limited. Normally Estimates day debates are held before Estimates are approved, and the House of Commons may reject, or propose downward amendments to, Estimates which have been selected for debate. Proposals to increase spending are not allowed, due to the *Crown Prerogative* (which means only the Government can initiate spending plans). In reality Estimates day debates are often only tenuously linked to the content of the actual Estimates.

The 2017 General Election has meant that the usual process of committees recommending topics for Estimates day debates to the Liaison Committee (chairs of Select committees) will not be possible, because Main Estimates have to be authorised by 5 August and committees are unlikely to be established by then. Accordingly, all Main

¹ In nominal terms, i.e. before taking account of inflation.

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Estimates are expected to be formally approved by the House on 4 July 2017, without debate.

The House of Lords has no role in the Estimates process, although it does pass the Supply and Appropriation Act without debate.

Proposals for reform

In the last Parliament, the House of Commons Procedure Committee published a report which made recommendations for future reform of the Estimates process. The recommendations included changing the way Estimates are selected for debate, with the intention of making debates more closely linked to the content of Estimates. Other proposals included allowing for more time to consider Estimates, improving the quality of Estimates documentation, and better explaining how funding for devolved administrations is linked to UK spending decisions.

1. What are “Estimates”?

1.1 Introduction

One of Parliament’s longest standing functions is the consideration and authorisation of the government’s spending plans, requiring the government to obtain parliamentary consent before spending public money.

Estimates, sometimes known as Supply Estimates, are the documents presented to Parliament setting out the government’s plans for spending for a given year. The process of obtaining Parliamentary approval to those plans is known as *Supply*. With a few specific exceptions,² the Government is required to obtain authority from Parliament³ through the supply process before it can spend public money.

1.2 The Estimates cycle

The approval of public spending through Estimates (the supply process) operates on the basis of “annuality”, whereby money is voted for use in a particular financial year only. The normal steps in this process are:

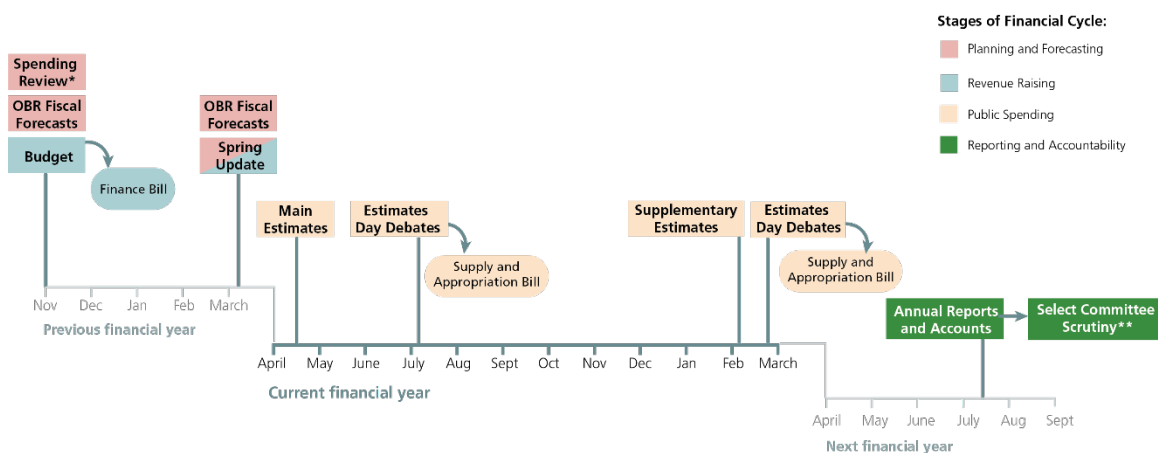
- **Vote on Account:** consideration and approval of an advance of funding for the first four months of the financial year (April to July) for each government department. The Vote on Account is normally published in February and approved by Parliament in March, in time for the start of the new financial year commencing in April.
- **Main Estimates:** consideration and approval of the spending plans for the new financial year for each government department. Main Estimates are normally published in April, but not approved until July. Money already authorised through the Vote on Account is deducted from the amounts required for the year to provide government with funding for the remainder of the financial year.
- **Supplementary Estimates** (where required): consideration and approval of any changes to amounts or purposes of money required by departments. Supplementary Estimates are normally published in February and approved in early March to allow for any additional funds to be spent before the end of the financial year.
- **Statement of excesses** (where required): consideration and retrospective approval of any spending beyond the level or coverage previously approved by Parliament. This normally occurs only where inevitable spending is incurred or where mistakes have arisen, and is exceptional.⁴

² Exceptions are Consolidated Fund Standing Services, covering specific functions such as judges’ salaries, returning officers’ expenses and payments to the EU.

³ References to Parliament refer to the House of Commons only. The House of Lords has no role in the process of approval of public spending.

⁴ In such cases a report is prepared by the Comptroller and Auditor General, and the Public Accounts Committee may call for explanation and detail of measures taken to prevent recurrence.

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Notes:
 * Spending Review happens once every 3-4 years
 ** Select Committee Scrutiny of Departmental Annual Reports and Accounts may continue well into the financial year

1.3 Content of an Estimate

Separate Estimates and Votes on Account are produced for each government department, published together by HM Treasury in a single volume.

The key components of each Estimate are *spending limits* and *ambits*, which in each case apply to a single department for a single year only.

Spending limits

Within each Estimate, spending is divided into a number of distinct budgetary limits for each department, covering spending of a specific type determined by HM Treasury. (Changes to the categorisation of spending between categories require prior consultation with Parliament.)

Box 1: Types of spending

Departmental Expenditure Limits (DELs) cover net spending which is subject to limits set in Spending Reviews and which it is assumed government departments can control.

- **Resource DEL** covers costs of running and purchasing goods and services, staff costs, current grants, rent and maintenance costs. It also includes profit or loss on the sale of assets, depreciation and some impairments.⁵
- **Capital DEL** covers the purchase and disposal of assets and major improvements to assets, capital grants (i.e. grants to purchase or enhance assets) and loans.

Annually Managed Expenditure covers net spending which is more difficult to control and forecast:

- **Resource AME** covers benefits and state pensions, some impairments,⁶ and provisions for liabilities.⁷

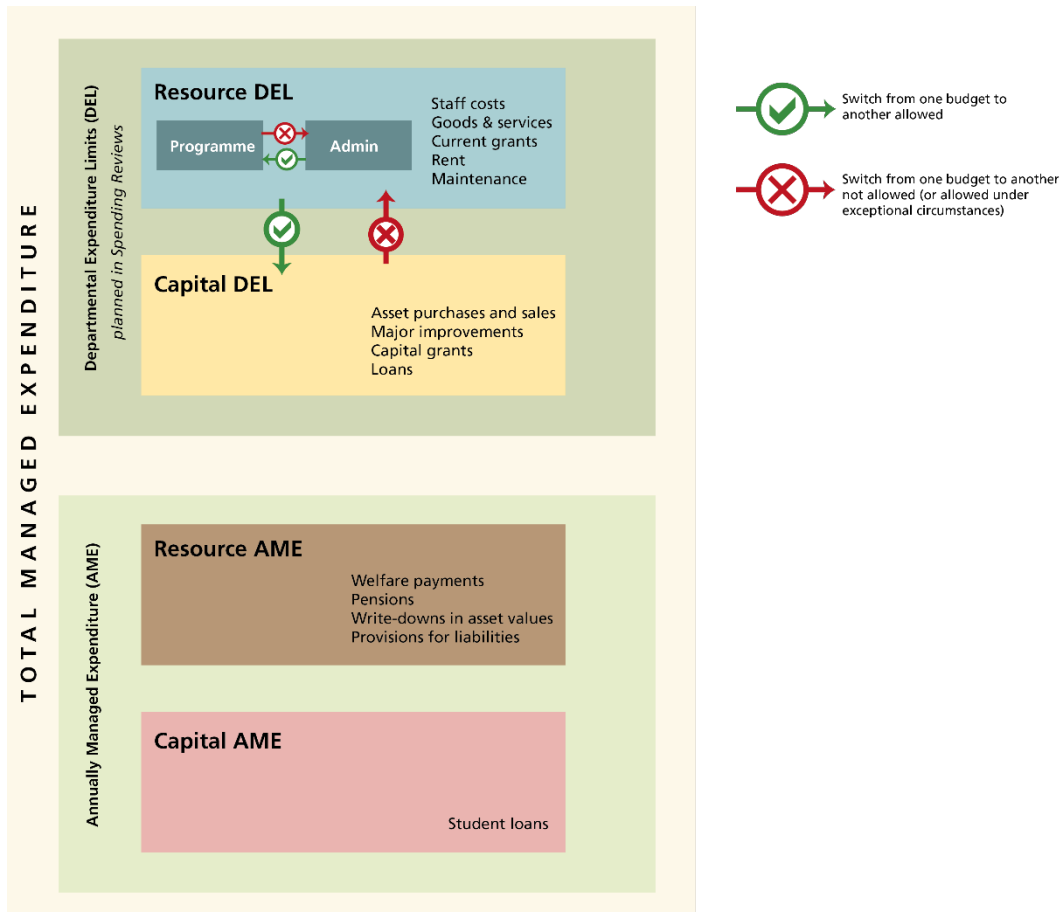
⁵ Depreciation and impairments are reductions in the value of assets. Depreciation is routine reduction in the value of assets over their lifetime; impairments are specific reductions in asset values following a revaluation.

⁶ HM Treasury determines which impairments score as DEL and which as AME.

⁷ Provisions for liabilities are current financial obligations as a result of past events, where cash may not be payable for some time.

- **Capital AME** covers student loans and some financial transactions, mainly relating to the post 2008 financial crisis.

Switches of funding are not permitted by the Treasury from capital to resource, or from AME to DEL. Once Parliament has voted the limits, savings on *any* voted limit (DEL or AME) are not permitted to be used in support of spending under another.



The “ambit”

The ambit is the description of what the spending within each of the limits will be spent upon. Government departments must ensure that their ambits are accurate and, subsequently, that no spending falls outside their scope, as should it do so, it would constitute an “excess vote”, i.e. illegal spending outside the authority authorised by Parliament.

1.4 Detail of spending plans

Further detail of spending plans – breaking them down into a number of *subheads* within the totals above – is given within each Main and Supplementary Estimate. These breakdowns represent the Government’s best estimation of planned spending within the totals at the time the Estimates are prepared, but do not constitute limits within the totals. Government departments are totally free to switch resources from one subhead to another, providing they do not exceed the overall spending limits, or incur expenditure beyond the scope of the ambit.

1.5 Estimates memoranda

Government Departments are required to produce an explanatory memorandum to explain the content of each Main and Supplementary Estimate. This memorandum should compare spending plans to previous years and explain the reasons for changes proposed.

Select committees currently publish memoranda on their webpages and the Scrutiny Unit⁸ uses the memoranda to prepare briefings for committees.

⁸ The Scrutiny Unit is a specialist support unit, within the House of Commons, which provides impartial advice and support to Committee members, primarily on financial and legal issues.

2. How decisions on planned spending are reached

2.1 Spending Reviews

Periodically – usually every two to three years – the Government conducts a *Spending Review*. This is an internal Government process, involving discussions between government departments and the Treasury. The outcome of a Spending Review is a pair of spending limits – Resource and Capital DELs – for each department for each of the future years under review, usually within an overall spending envelope determined by the Treasury.

The process is generally quite secretive, with only the outcome of the Review being announced and published by the Chancellor. With relatively minor modifications, DELs proposed for future years usually form the basis of the Main Estimates subsequently presented to Parliament. Until the Estimates are approved, the figures contained in Spending Reviews have no statutory basis and are effectively simply statements of intent by a government.

2.2 Spending Forecasts

Annually Managed Expenditure is sometimes considered as part of a Spending Review, but the Review outcome does not result in fixed, planned totals for AME spending by year. Instead, the Office for Budget Responsibility periodically forecasts AME and it is these forecasts which are used to construct the levels of AME sought in Estimates (although government may decide to seek more in its Estimates than the central forecast by OBR to allow some scope for forecast error).

2.3 Barnett formula

The amounts which devolved administrations (Scottish and Welsh Governments and Northern Ireland Executive) receive are determined by the Barnett formula. The Barnett formula aims to give each country the same pounds per person change in funding as the change in funding for comparable government services in England.⁹

Votes on Accounts, Main and Supplementary Estimates for Scotland, Wales and Northern Ireland Offices include a figure for cash grant payable to the devolved administrations which is based on these calculations and any adjustments required for income from taxation. This is classed as Non-Budget Expenditure within the Estimate.¹⁰

⁹ Further detail on the Barnett formula is available in a [Commons Library briefing paper](#).

¹⁰ Devolved administrations use this cash as the funding for their own spending plans which are contained in the Estimates they present to their own parliaments.

3. The 2017-18 Main Estimates

3.1 Publication

The Main Estimates for 2017-18 were published immediately before Parliament was dissolved for the General Election, in April 2017.

3.2 Spending plans for 2017-18

Spring Budget 2017 set out the updated overall Government spending plans, reflected in the 2017-18 Main Estimates published a few weeks later. These show overall Total Managed Expenditure rising from £772.8 billion in 2016-17 to £802.4 billion in 2017-18.

3.3 The 2015 Spending Review

The Main Estimates for 2017-18 broadly reflect decisions made in the (November) 2015 Spending Review, in the context of government plans at that time to reduce the deficit (the annual gap between total Government spending and total revenues).

In the Spending Review, Government planned to modestly increase overall spending in cash terms, but to reduce spending overall by an average of 0.8% in real terms, to reduce spending as a share of GDP and to eliminate the annual deficit by 2019-20. This target has since been modified, although the spending plans remain.

Protections were given to NHS spending (a headline £10 billion real terms increase on NHS funding between 2014-15 and 2020-21); to maintain the schools, police and science budgets in real terms; to maintain international aid at 0.7% of GNI and to ensure defence spending did not fall below 2% of GDP (the NATO target). As a consequence most other departments saw real terms falls in Resource DEL funding over the Spending Review period.

Capital DEL spending was set to rise, with commitments to £120 billion of infrastructure over the Spending Review period.

In addition, the Government sought to reduce spending on benefits by around £12 billion by 2019-20. Pensions spending was forecast to continue to rise, despite the increased state pension age, as a result of policies such as the triple lock and as a consequence of increased life expectancy.¹¹

3.4 Changes since the Spending Review

Since then a number of factors have required some amendments to the 2017-18 budgets originally planned:

- Subsequent Budgets and Autumn Statements (i.e. since 2015) have announced some changes to funding, for instance additional funding for social care announced in the Spring 2017 Budget;

¹¹ Further details are contained in the Library briefing [Spending Review and Autumn Statement 2015: a summary](#).

- The leave vote in the EU referendum has led to new departments being created (Department for Exiting the EU, Department for International Trade);
- Other changes to departmental responsibilities have also been made (e.g. the merger of the Department of Energy and Climate Change into the Department for Business, Innovation and Skills (BIS) to form the Department for Business, Energy and Industrial Strategy, transfer of higher and further education from BIS to Department for Education);
- Some of the benefits changes planned in 2015 have since been amended, delayed or withdrawn;
- Annually Managed Expenditure (e.g. benefits and pensions) has been regularly reforecast by the Office for Budget Responsibility.
- There have been some other more minor changes, due to the timing of programme spending changing since the 2015 Spending Review.

Box 2: What the 2017-18 Main Estimates show

Protections for three of the biggest budgets remain in place.

- Within Health spending, the NHS budget remains protected, and some additional funding is provided. Department of Health resource DEL spending rises from £117.6 billion in 2016-17 to £119.2 billion in 2017-18 (+1.4%)
- Resource DEL spending on grants to schools also rises, from £47.3 billion to £48.5 billion (+2.6%), with the government protecting overall schools funding on a per pupil basis
- Ministry of Defence resource DEL budgets rise (+1%) with the government committed to overall defence spending remains within the NATO target of 2% of GDP

International aid spending is also protected at 0.7% of GDP, DFID resource spending rises by 1% to £7.6 billion.

Spending on pensions, within resource AME, continues to be forecast to rise, from £91.8 billion in 2016-17 to £93.9 billion (+2.3%). Benefits spending is forecast to increase slightly (+0.6%), although many benefits rates remain frozen.

Funding for local government, channelled through DCLG, was, under the 2015 Spending Review, set to reduce in 2017-18, with income from other sources forecast to increase.¹² The 2017-18 Main Estimates additionally include a reduction for the proposed 100% business rate retention pilots, offset by an increase for social care funding provided in Budget 2017. If these pilots do not go ahead, DCLG's budget may need to be increased later in the year.

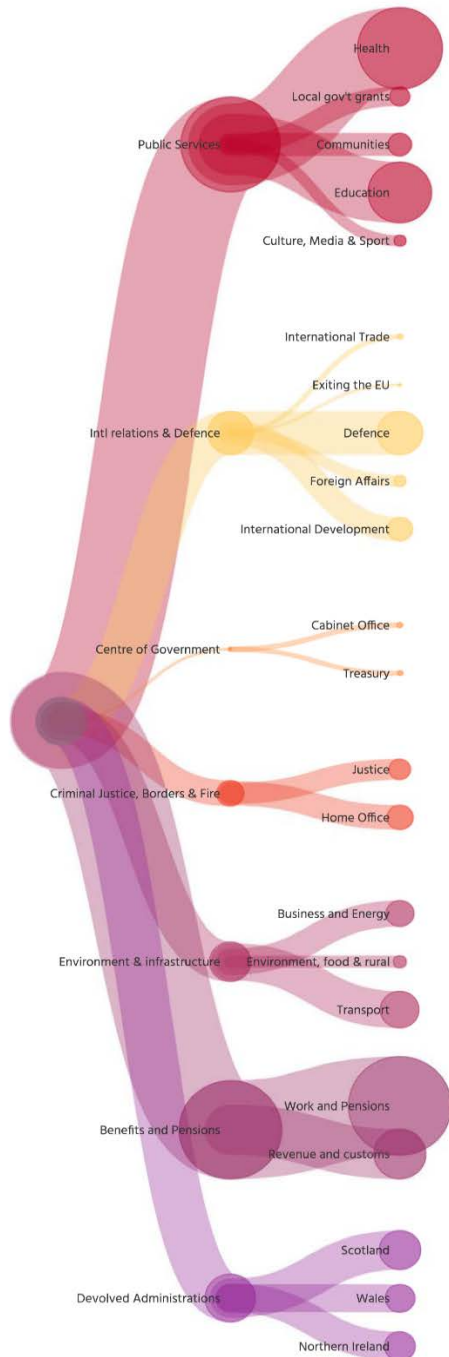
Capital budgets tend to vary more between years. Significant capital DEL budgets, and changes, are:

- Business, Energy and Industrial strategy (£10.9 billion, down 3.3% compared to last year), of which £6 billion is for science and research;
- Transport (£6.4 billion in DEL, up by 16.7% including £1 billion for HS2, plus a further £6 billion capital AME spending by Network Rail)
- Defence (£8.5 billion- a reduction of 2.6%).
- Communities (£6.5 billion, including £3.7 billion for the Homes and Communities Agency) (up 25%)
- Health (£6 billion) (up 31%). In previous years, the government has chosen to transfer funding from the Department of Health capital budget to its Resource DEL later in the year
- Education (£5.2 billion) (down 13%)
- International Development (£2.9 billion) (up 10%)

¹² DCLG has two Resource DEL: this refers to the DCLG local government estimate which is for its funding of local authorities

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The diagram below gives a visual representation of the balance of funding between different functions in government contained in the 2017-18 Main Estimates. For simplicity DEL and AME spending is not identified here separately, and only the spending of main departments is shown. Some AME spending (particularly in relation to accounting provisions) has also been excluded. Non-budget spending on cash grant to devolved administrations is also included.



An interactive version of this graphic, with budget allocations, lower level detail, and a split between resource and capital spending is available [at this link](#). This is best viewed in Google Chrome or Safari rather than Internet Explorer.

4. Parliament's role in considering Estimates

4.1 Estimates day debates

Three days are set aside¹³ for consideration of Estimates each year. The Liaison Committee (chairs of select committees) selects topics for debate on these days.

In practice, for some time:

- The three days have been divided into six debates, two each day;
- One day (two debates) has been set aside for Main Estimates in July;
- Two days (four debates) have been set aside for Supplementary Estimates in early March.

The Liaison Committee has selected topics for debate linked to recent select committee reports. Sometimes the link to Estimates has been somewhat tenuous, although efforts have been made to favour reports on financial topics or with a strong financial component.

The title of the debate restricts the scope of the debate. Members need to adhere to the topic of the debate, and may be warned or prevented from speaking by the Speaker if their remarks stray beyond this.

4.2 Voting Estimates and opportunities for amendment

Votes on the floor of the House may only take place on those Estimates tagged as relevant to the debates. Furthermore it is a long standing convention that only the government may propose *additional* spending (this is known as the Crown Prerogative).

Accordingly, while it is possible for an Estimate selected for debate to be rejected or amended downwards,¹⁴ for such a vote to be successful is extremely rare.

The remainder of Estimates not selected for debate (i.e. the vast majority) are put together in a "roll up" motion and voted without debate.

The funds are formally authorised first by Supply Resolutions, and subsequently through a Supply and Appropriation Bill. There are two of these each year: one for the Main Estimates, and one for the Supplementary Estimates and Vote on Account.

In reality, opportunities for Members to influence government spending plans within Estimates through the formal Estimates process are limited and rarely exercised.

¹³ Under Standing Order 54.

¹⁴ If proposed, a token reduction of £1,000 is conventional.

4.3 The impact of the 2017 General Election on Parliament's consideration of 2017-18 Main Estimates

The 2017 Election has led to a period without select committees. Select committees are not expected to be up and running again until September 2017. As result there has been no Liaison Committee to select topics for Estimates day debates for the 2017-18 Main Estimates.

As in previous General Election years (e.g. 2010 and 2015), *all* Main Estimates will therefore be included in the roll up motion on 4 July 2017 and voted on collectively, without the possibility of amendment (although the entire Estimates could in theory be rejected).

The scope for Parliamentary consideration of the 2017-18 Estimates is therefore more constrained than in non-election years.

Under the [Supply and Confidence agreement](#) between the Conservatives and the Democratic Unionist Party (DUP), the DUP has agreed to support the Government in authorising Estimates. Up to £1 billion of additional resources are expected to be made available for Northern Ireland. None of this additional funding is included in 2017-18 Main Estimates, but is likely to appear in future Estimates.

4.4 Select committees

Select committees have a continuing role in financial scrutiny. The Liaison Committee has set out a number of core tasks which are common to select committees. There is a specific core task:

“to examine the expenditure plans, outturn and performance of the department and its arms length bodies and the relationship between spending and the delivery of outcomes”

Committees are supported in this role by the House of Commons Scrutiny Unit. The Scrutiny Unit routinely provides analysis and data visualisations of Estimates for committees, which are subsequently available on its webpages.

5. Proposals for reform

5.1 The Procedure Committee's inquiry

It has long been recognised¹⁵ that the present arrangements for parliamentary consideration and authorisation of spending set out in Estimates are less than ideal. In 2016 the House of Commons Procedure Committee established an inquiry to look into what could be done to improve the situation.

5.2 Recommendations

The inquiry reported in April 2017. Its main recommendations were:

- The Backbench Business committee¹⁶, rather than the Liaison Committee, should select topics for debate on Estimates days. In return, the Liaison Committee would select topics on three of the days available for Backbench business. This should enable Estimates days to be genuinely used for debate of Estimates rather than primarily select committee reports;
- The timetable for publication and approval of the Estimates should be reviewed, to enable more time for consideration of Estimates before decisions on debates are made, and for authorisation of Main Estimates before the year starts;
- There should be greater transparency in the links between UK government spending decisions and the Barnett consequentials, enabling the drivers of changes in funding for devolved administrations to be identified;
- Documentation, both of Estimates and accompanying memoranda, should be improved.

5.3 Implementation

The committee report envisages the new arrangement for selection of committee reports to be implemented from 2018-19.

The House of Commons Library and the Scrutiny Unit will work together to provide briefing material for the reformed Estimates day debates. This will include visual material to aid understanding of the content of the Estimates selected for debate.

Other recommendations are dependent upon government; a formal response to the report is awaited.

5.4 Further possible reform

In its report, the Procedure Committee suggested it might look at further suggestions for reform in the future, such as the merits of a

¹⁵ For instance by the Hansard Society in its 2006 report, *the Fiscal Maze: Parliament, Government and Public Money*.

¹⁶ The Backbench Business Committee allocates business of the House of Commons on selected days on behalf of backbench Members; the Liaison Committee consists of the chairs of the Departmental select committees.

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dedicated Budget committee or greater involvement by the House in consideration of Spending Reviews.

With the intervening General Election, whether a new Procedure Committee will want to look at these or other matters relating to Estimates will be entirely a matter for the new committee to decide.

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