HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

Number CBP-8302, 21 May 2018

Main Estimates: Government spending plans for 2018-19

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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 that 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 of the Estimates 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.*

The 2018-19 Main Estimates

The 2018-19 Main Estimates were published on 19 April 2018. They show the initial budgets which the Government is seeking for each department, divided into separate limits for current, **day-to-day spending**, on staff and other running costs, on goods and services and grants; and capital **(investment) spending**, covering purchase and sale of assets, loans and capital grants. Costs are further divided into spending subject to fixed limits, based broadly on the plans outlined for 2018-19 in the 2015 Spending Review, known as **Departmental Expenditure Limits**; and less predictable and more demand led spending, known as **Annually Managed Expenditure**. **Cash block grant** proposed to Scotland, Wales and Northern Ireland is also included under a separate heading.

Public spending overall (including that within Estimates) in 2018-19 is forecast[1] to be 1.9% higher[2] than in 2017-18, rising from £797.4 billion in 2017-18 to £812.9 billion in 2018-19.

What has changed since last year?

Day-to-day spending on health is up by £2.2 billion (+1.8%) and on education by £2.4 billion (+3.8%) compared to last year. Both are likely to face increased costs and rising demand, as the numbers of elderly and school age children rise. Increases in budget reflect both the original Spending Review plans, including commitments to protect health and schools funding, and additional money announced since.

Day-to-day spending on defence is also up by £0.5 billion (+1%) and may rise further later in the year, when the costs of any military operations are better known. The day-to-day budget for Foreign and Commonwealth Office (FCO) also rises by £0.1 billion (+6%).

Most other budgets for day-to-day spending are lower than their equivalents last year, with the biggest reductions arising on justice and on local government (where business rates are increasingly devolved).

In terms of investment budgets, an extra £2.4 billion has been allocated to the Ministry of Housing, largely for housing investment (+35%), with transport also seeing a rise – planned in the Spending Review – as HS2 costs start to increase.

Spending on benefits and pensions overall remains broadly flat, with DWP's share rising and HMRC's falling as tax credits are increasingly replaced by Universal Credit. The overall share of spending on working age benefits as a share of the whole continues to fall, while spending on pensions and on disability benefits rises. Working age benefits rates continue to be frozen, while other benefits and pensions rates have continued to be uprated.

Parliament's role in considering Estimates

Before the latest Main Estimates can be approved, Estimates day debates will take place on the floor of the House of Commons. Under new arrangements introduced in February 2018,[3] any backbench member may bid for a topic for one of these debates, which should be linked to the spending, or an aspect of spending, of a department or other body presenting an Estimate.

The Backbench Business Committee will consider bids for debates at one of its forthcoming meetings, and decisions will be announced in a future business statement. Two days of debates on the Main Estimates are provisionally scheduled for the first week in July.[4]

Following the debates, the House is invited to agree motions on those Estimates selected for debate. Members may agree or reject these motions, or suggest amendments reducing expenditure. There is a further "roll up motion" covering the remaining Estimates, which members may accept or reject. Under the "Crown prerogative" only Government can propose spending, so amendments to increase spending are not permitted.

Once motions have been authorised, a Supply and Appropriation bill is presented. Unlike most bills there is no committee stage, and as with other financial legislation the House of Lords' role is purely formal. On receiving Royal Assent, departments are able to draw upon the agreed funds set out in the Act for the purposes Parliament has authorised.

[3] on a pilot basis for the current parliament

[4] Which would normally allow for four, three hour debates, although that is for the Backbench Business committee to decide

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,[5] the Government is required to obtain authority from Parliament through the supply process before it can spend public money.[6]

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.[7]

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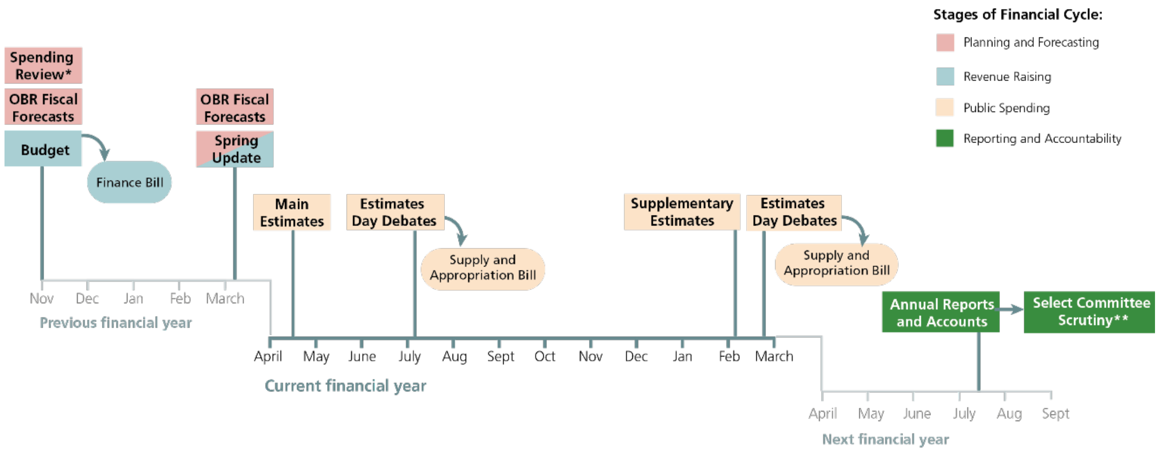
5 Exceptions are Consolidated Fund Standing Services, covering specific functions such as judges' salaries, returning officers' expenses and payments to the EU.
6 References to Parliament refer to the House of Commons only. The House of Lords has no role in the process of approval of public spending.
7 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.



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 and 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.

1.4 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.

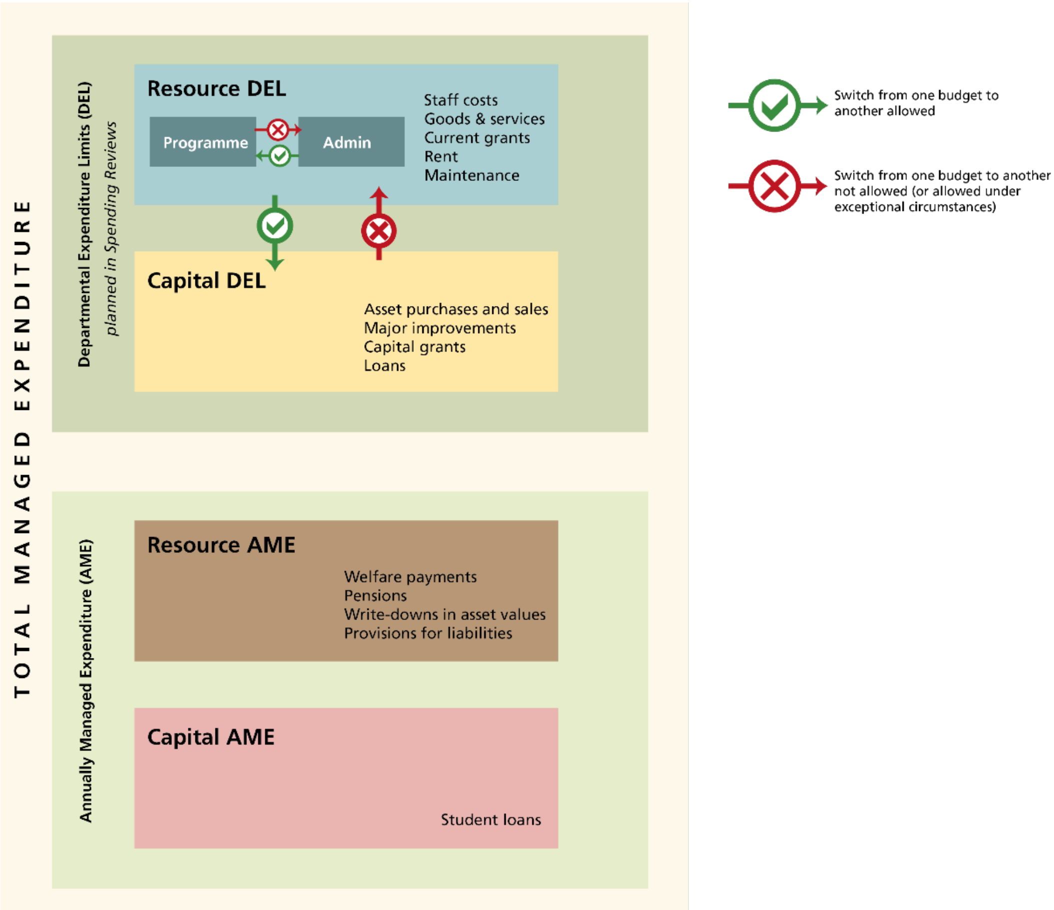
- **Resource DEL** (also referred to as "day-to-day spending") covers costs of running and purchasing goods and services; staff costs; current grants; rent; and maintenance costs. It also includes profit or loss on the sale of assets; depreciation; and some impairments.[8]
- **Capital DEL** (also referred to as "investment spending") covers the purchase, disposal and major improvement of 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;[9] and provisions for liabilities.[10]
- **Capital AME** covers student loans and some financial transactions, mainly relating to the post 2008 financial crisis.

8 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.
9 HM Treasury determines which impairments score as DEL and which as AME.
10 Provisions for liabilities are current financial obligations as a result of past events, where cash may not be payable for some time.

Switches of funding are not normally permitted by the Treasury from capital to resource (although exceptions, such as for health, are sometimes made), 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.



1.5 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. Should it do so, it would constitute an "excess vote", i.e. illegal spending outside the authority authorised by Parliament.

1.6 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.

1.7 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 Unit uses the memoranda to prepare briefings for select committees and other Members.[11]

[11] 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. The 2018-19 Main Estimates

2.1 Publication

The Main Estimates for 2018-19 were published on 19 April 2018, following the Spring Statement given by the Chancellor on 13 March 2018. The Office for Budget Responsibility (OBR)'s latest forecasts for public spending were also published on the same day as the Spring Statement.

2.2 Overall spending plans

The OBR's latest forecasts show that overall Total Managed Expenditure – the usual measure of total government spending – is expected to rise from £797.4 billion in 2017-18 to £812.9 billion in 2018-19, an increase of 1.9%.[12] While Main Estimates do not include all of this spending, with some of it being authorised through other means, the individual departmental budgets contained within Estimates can be expected to be broadly consistent with these totals.

2.3 Key changes from last year

The charts below show changes to Resource and Capital DEL budgets planned, comparing 2018-19 Main Estimates (i.e. initial budgets) to 2017-18 Supplementary Estimates (final budgets).

In some cases, comparing an initial budget (Main Estimates 2018-19) with a final budget (Supplementary Estimates 2017-18) may overstate likely actual year-on-year differences. This is because, for some departments, significant changes usually take place at Supplementary Estimates (such as adding additional funds for Ministry of Defence operations or re-distributing joint funds between departments).

Actual spending in either year could also, in the end, differ from the budgets sought in Estimates.

Large absolute increases can often be small in percentage terms, and vice versa, as the charts show. All figures and comparisons are in nominal terms and take no account of inflation.

2.4 Day-to-day spending

The biggest components of Resource DEL (day-to-day spending), together making up more than two thirds of the total, are[13]

- Health: £123,518 million (37.6% of the total)
- Education: £68,370 million (20.8% of the total)
- Defence: £36, 707 million (11.2% of the total)

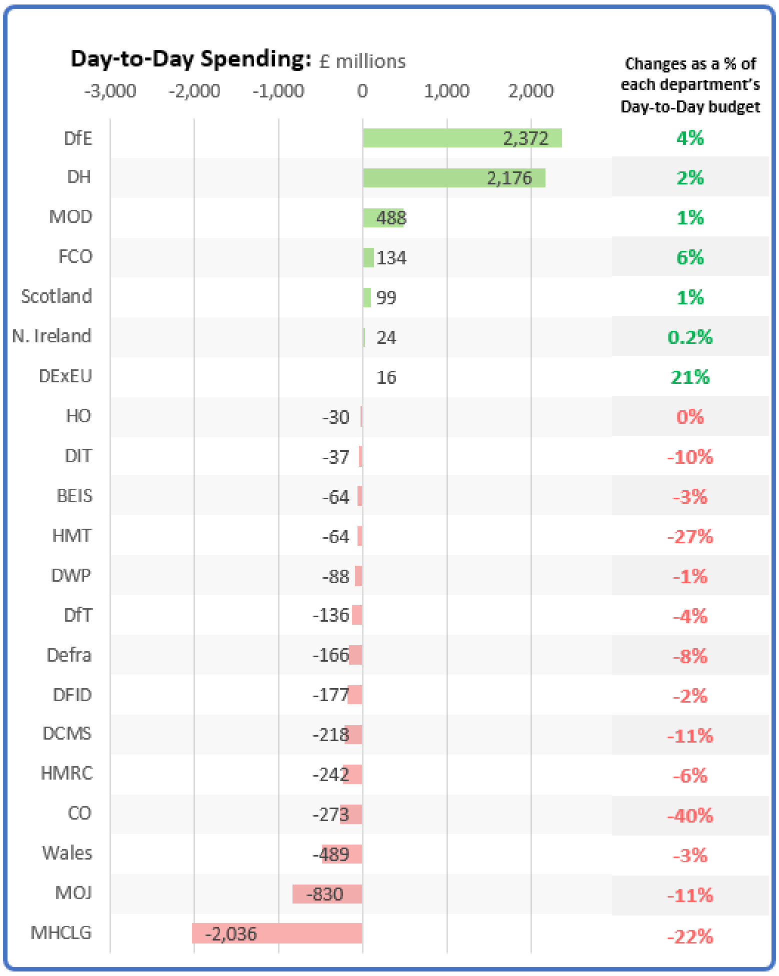
[12] Economic and Fiscal outlook, March 2018
[13] Total taken from Table 3, p 36, Main Estimates 2018-19

Day-to-day spending on health is up by £2.2 billion (+1.8%) and on education by £2.4 billion (+3.8%) compared to last year.[14] Both are likely to face increased costs and rising demand, as the numbers of elderly and school age children rise. Increases in budget reflect both the original Spending Review plans, including commitments to protect health and schools funding, and additional money announced since.

Day-to-day spending on defence is also up by £0.5 billion (+1%) and may rise further later in the year, when the costs of any military operations are better known. Judging by past trends, some ongoing defence capability funding is also likely to be transferred to capital when the balance of funding needed between resource and capital becomes clearer.

Most other budgets for day-to-day spending are lower than their equivalents last year, with the biggest reductions arising on justice and housing and local government, where business rates are increasingly devolved (and which scores in a separate budget).

Resource DEL (day-to-day spending): changes to budgets, compared to last year



14 If a large write down in the estimated value of the student loan book, which added over £14 billion to DFE's Resource DEL budget for last year is excluded, to enable a like-for-like comparison.

2.5 Investment spending

The biggest components of capital DEL (investment spending), together making up more than half of the total,[15] are:

- Business, Energy and Industrial Strategy: £10,768 million (17.2% of the total)
- Housing and Communities: £9,416 million (15.0% of the total)
- Defence: £8,761 million (14.0% of the total)
- Transport: £8,069 million (12.9% of the total)

Amongst departmental capital budgets, the housing and communities budget sees the biggest increase for Whitehall departments (some £2.4 billion or 35%) with around a £1 billion extra for "land and housing delivery", £0.8 billion for Help to Buy and increases in grant for affordable housing in London and for social housing investment. Transport's spending also rises significantly (by 25%) as HS2 costs start to increase.

While Health's investment budget shows a rise, the last four years has seen significant amounts of investment funding moved to fund day-to-day spending later in the year, with switches being made in Supplementary Estimates, significantly reducing the actual total capital spent. Whether the rise planned for Health's capital spending actually happens in full must therefore be in doubt.

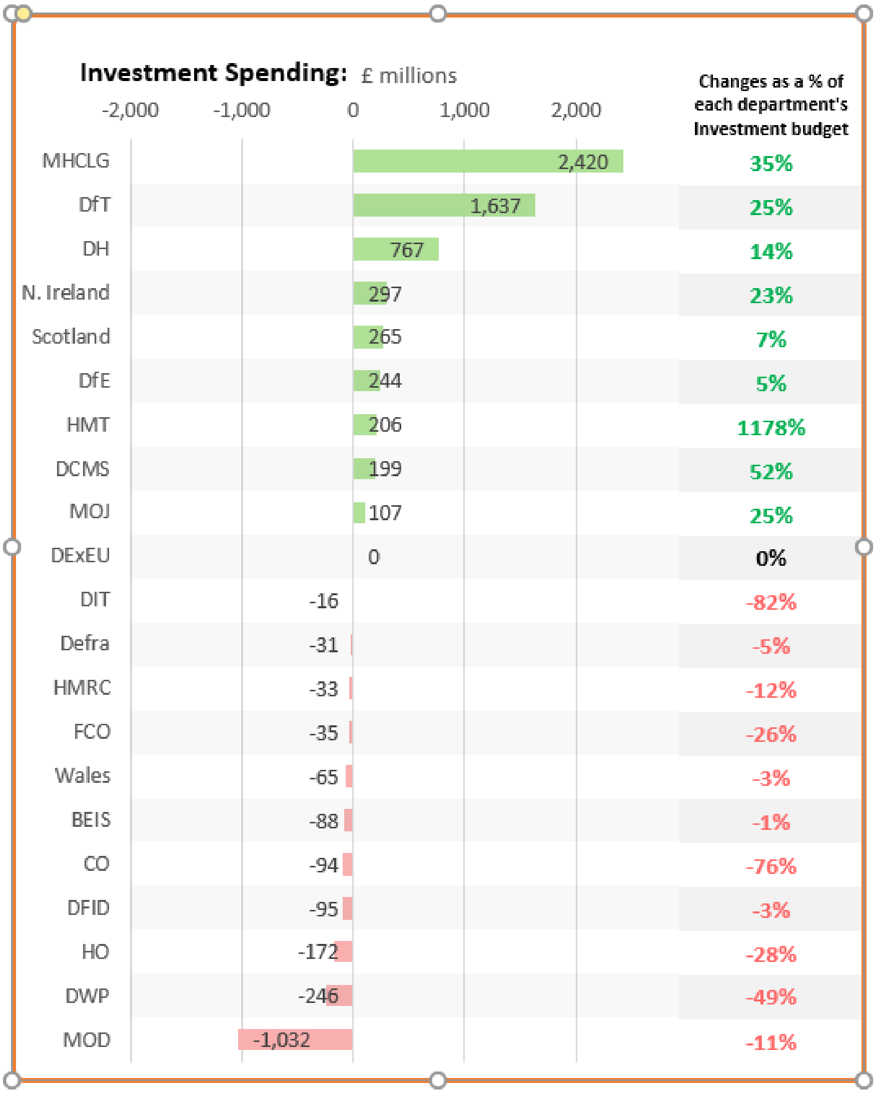
Science and research funding, funded by the Business, Energy and Industrial Strategy (BEIS) department, remains protected, and has been increased once again, following commitments made in the Spending Review and subsequent Budgets. But because of falls in support in other areas, overall, BEIS's capital investment is down.

The department with the biggest reduction in capital budget – both in absolute and percentage terms – compared to last year's supplementary estimate is Defence (although if compared to last year's *Main* Estimate, capital defence spending is up). This year-on-year reduction may well disappear, or be reduced, later on in the year, as big changes to defence funding normally take place at year end, when some resource funding is usually transferred to capital, and additional costs of operations (both resource and capital) are added.

Generally, for many departments capital budgets are more prone to fluctuation year-on-year – particularly where they are set primarily to manage time limited projects – than resource budgets.

[15] Totals taken from table 5, p 39, Main Estimates 2018-19

Capital DEL (investment spending): changes to budgets, compared to last year



2.6 Other budgets: Annually Managed Expenditure

Spending on benefits and pensions overall remains broadly flat, with DWP's share (£183,307 million) rising and HMRC's[16] (£35,000 million) falling as tax credits (paid by HMRC) are increasingly replaced by Universal Credit (paid by DWP). The overall share of spending on working age benefits continues to fall, while both the share of spending and actual spending levels on pensions and on disability benefits continue to rise. This is partly because working age benefits rates continue to be frozen, while other benefits and pensions rates have continued to be uprated, but also because of changes as Universal Credit is rolled out, alongside other measures.

[16] Spending on child benefit and personal tax credits

Budgets for other areas, such as increases in the estimated share of student loans which will never be recovered, and provisions for liabilities such as nuclear decommissioning, are difficult to compare on a year on year basis, as the rises fluctuate so much from year to year, and are in any case best estimates of sometimes very long-term commitments.

2.7 Original plans for 2018-19 spending: The 2015 Spending Review

Plans for 2018-19 public spending by department were first set out in November 2015, following the 2015 Spending Review, in the context of Government plans to reduce the deficit (the annual gap between total government spending and total revenues) and eliminate it altogether by 2019-20. To meet that objective, the Government planned to modestly increase overall spending in cash terms, but to reduce current spending by an average of 0.8% each year in real terms.[17]

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, quoted as cumulative real rates of reduction of 19% by 2019-20.[18]

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 polices such as the triple lock and as a consequence of increased life expectancy.[19]

The Library briefing Spending Review and Autumn Statement 2015: a summary has more on the Spending Review.

2.8 Changes since the Spending Review

Since then a number of factors have led to amendments to the 2018-19 budgets originally planned:

- In 2016, the new Chancellor, Philip Hammond, decided to ease targets for reducing the deficit in the "fiscal mandate". Instead of eliminating the deficit by 2019-20, the Government amended its fiscal mandate target. Henceforth a new target would be measured on a "cyclically adjusted" (sometimes known as

17 Figure relates to Resource Department Expenditure Limits. See para 1.61 of Spending Review and Autumn Statement 2015
18 Also in para 1.61, see footnote above
19 Further details are contained in the Library briefing *Spending Review and Autumn Statement 2015: a summary*.

"structural") basis;[20] and rather than aiming to eliminate the deficit altogether, the new goal is now reduce it to less than 2% of GDP by 2020-21,[21] a less demanding objective;

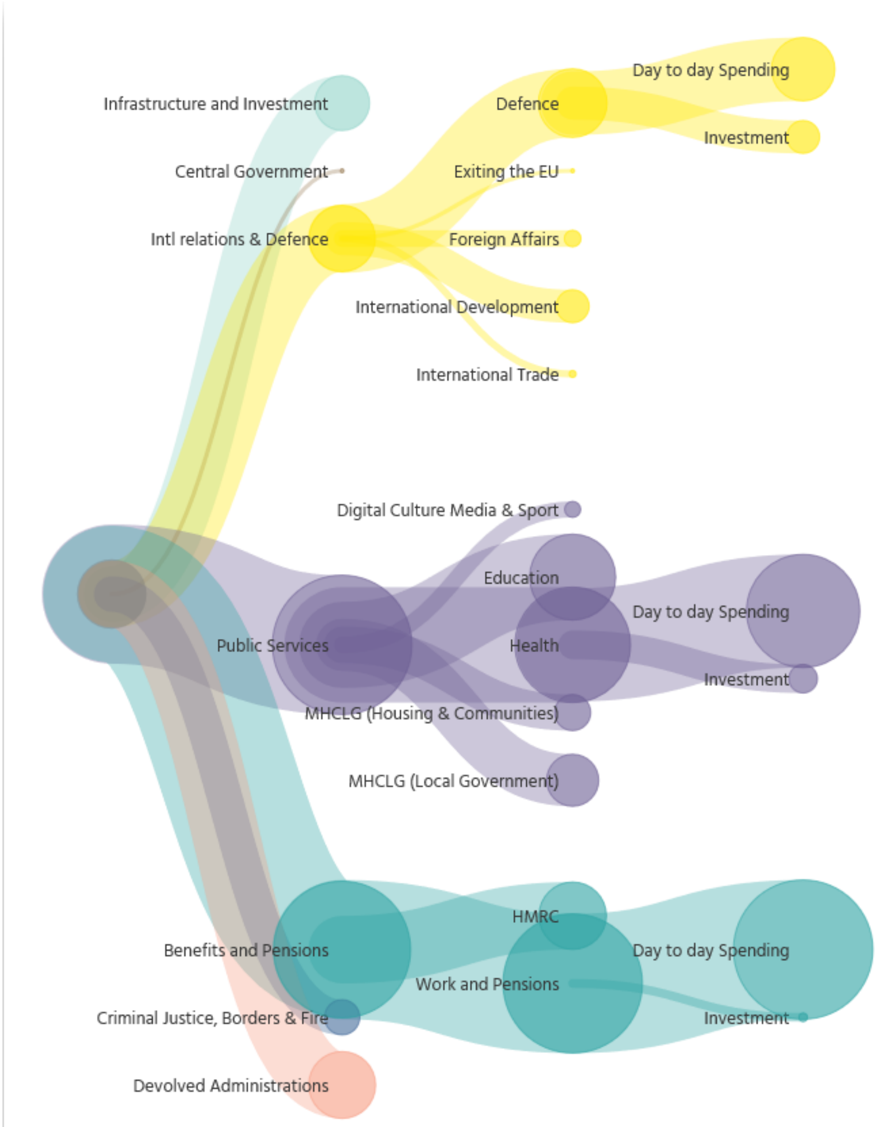
- Budgets and Autumn Statements since Autumn 2015 have announced some changes to funding, for instance additional funding for social care announced in the Spring 2017 Budget and additional funding for health announced in the Autumn 2017 Budget;
- Additional funding has been earmarked for EU exit costs (Autumn Budget 2017: £1,500 million in each of 2018-19 and 2019-20), but this funding has, as yet, to be included in 2018-19 Estimates – it is expected to be allocated by department, added to the totals, in Supplementary Estimates, published later this financial year;
- 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;
- New departments have been created (Department for Exiting the EU and Department for International Trade); and some 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 and the transfer of higher and further education from BIS to the Department for Education;
- There have been some other more minor changes, due to the timing of programme spending changing since the 2015 Spending Review. Planned investment spending has also been re-profiled in some cases as projects have progressed.

2.9 Interactive budget chart

The diagram below gives a visual representation of the balance of funding between different functions in government contained in the 2018-19 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, as these are included in the Estimates.

20 For more details see Box 3.5 of *Spring Statement 2018: Background briefing.*

21 The new fiscal mandate is contained within the revised Charter for Budget Responsibility, approved by the House in early 2017



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.

3. Parliament's role in considering Estimates

3.1 Estimates day debates

Three days are set aside for debates on Estimates each year. The Backbench Business Committee selects the Estimates topics for debate on these days.[22]

Following recommendations from the Procedure Committee, in future these will be allocated as follows:

- Two days (usually four debates) for Main Estimates, in July;
- One day (usually two debates) for Supplementary Estimates, in late February or early March.

Roles of the Committees

This section mentions three House of Commons Committees. Below is a short summary of their respective roles:

- The Backbench Business Committee chooses the business to be debated in the House of Commons during backbench time.
- The Liaison Committee considers general matters relating to the work of select committees. It is made up of the Chairs of Select committees meeting together.
- The Procedure Committee considers, and makes recommendations on the practices and procedures of the House of Commons

3.2 Submitting a bid for an Estimates day debate

Bids for new Estimates day debates should give the names of those members who will take part in the debate and submitted to Backbench Business Committee using a new variant of the bid form which will be made available on the committee's webpage. The Committee will use the list of names to gauge the likely level of cross-party interest in a debate.

In order to ensure that the Estimates day debates remain relevant to the public spending in the Estimates the title of the topic to be debated should take the form:[23]

- The spending of [name of Department] *or*
- the spending of [name of Department] on [name of programme/name of arms length body/name of activity] *or*

[22] Under Standing Order 54, the liaison committee is required to determine topics for debate. Under a pilot agreed for the remainder of this Parliament, the Liaison Committee has agreed to endorse the recommendations of the Backbench Business Committee

[23] A few specific items of spending (eg judges' salaries) are not annually voted by Parliament in Estimates. For this reason, bids for debates on spending on these items should not be made.

- [name of Department] spending and its consequences for grants to the devolved institutions"

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.

3.3 Selection of Estimates day debates

Debates will be considered by the Backbench Business Committee, and endorsed by the Liaison Committee, before being announced in the weekly Business Statement in the usual way. Successful bidders for debates will be notified in the usual way by the Backbench Business Committee.

Recent Estimates debates

The first new style Estimates debates, chosen by the Backbench Business Committee and focused on Estimates and spending, took place in February 2018. Topics selected for debate on this occasion were:

- The spending of the Ministry of Defence
- The spending of the Department for Exiting the European Union
- The spending of the Ministry of Housing, Communities and Local Government on homelessness
- The spending of the Department for Transport

The Backbench Business Committee may consider which topics have previously been selected for debates in considering bids, in order to enable Estimates debates, over time, to cover a range of different spending issues of interest to Members.

3.4 Motions

Estimates selected for debate may be amended downwards or rejected outright by the House in motions following debates

Remaining Estimates which are not the subject of debates are put to the House as a "roll up motion"– they cannot be amended, although they can theoretically be rejected outright.

All Estimates presented – those debated and those not debated – are then put into effect (if approved) through the passage of a Supply and Appropriation Act. Following Royal Assent, departments may draw down the additional funds contained in the Main Estimate. Up until this point, funds for 2018-19 have been provided via the Vote on Account- an advance of funding approved by Parliament in March 2018.

3.5 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.

4. Proposals for reform

4.1 The Procedure Committee's inquiry

In 2016 the House of Commons Procedure Committee established an inquiry to look into reform of Estimates and Estimates procedure. The Procedure Committee's inquiry reported in 2017 making a number of recommendations for reform.[24]

4.2 The Procedure Committee's recommendations

Some of these recommendations have now been either accepted by the Government or implemented by the House:

- Under a pilot arrangement for the current Parliament, the Backbench Business Committee now considers bids for Estimates days debates from backbenchers, on topics related to the Estimates, rather than Liaison Committee choosing topics based on bids from Select committees on their reports;
- The Government has agreed to alter the allocation of Estimates days between spring and summer, with effect from July 2018 – increasing Estimates days from one to two each summer (Main Estimates) and reducing Estimates days from two to one in spring (Supplementary Estimates);
- The Government published detailed calculations in December 2017 for the first time on how the amounts payable to the devolved institutions have been calculated;
- The House of Commons Scrutiny Unit has been conducting a review of Estimates memoranda and the Government has agreed to support the Scrutiny Unit in this work; and
- The Government has agreed to look at improvements to the format of Estimates, and to make more information available in spreadsheet format.

Other recommendations, such as suggested changes to allow greater time for Estimates consideration and bring this forward to before the start of each financial year, have not been accepted.[25]

[24] Procedure Committee, 5th report, session 2016-17, *Authorising government expenditure: steps to more effective scrutiny*, HC 190, 19 April 2017, https://publications.parliament.uk/pa/cm201617/cmselect/cmproced/190/19002.htm

[25] Government response to the fifth report of the Committee, Session 2016-17, *Authorising government expenditure: steps to more effective scrutiny* http://www.parliament.uk/documents/commons-committees/procedure/hc739-response-fifth-report-201617-hc-190.pdf

A further report, by the Procedure Committee of the new Parliament, was published on 22 January 2018,[26] following up the Government's response and implementation of changes.

It is possible that further future inquiries on related subjects may be conducted by the Procedure Committee.

[26] Procedure Committee, 3rd report, session 2017-19, *Debates on Estimates days: piloting new arrangements* https://publications.parliament.uk/pa/cm201719/cmselect/cmproced/739/73902.htm

Annex A: Summary of content of 2018-19 Main Estimates

Definitions

Resource Department Expenditure Limits (RDEL): day to day spending on services, pay and running costs, including grants to support such spending

Capital Department Expenditure Limits (CDEL): investment spending, including loans and capital grants

Resource Annually Managed Expenditure (RAME): spending on benefits and pensions and other day to day spending which is demand led or difficult to forecast. Long term provisions for liabilities are also included.

Capital Annually Managed Expenditure (CAME): spending on investment or loans which is demand led or difficult to forecast

Non-budget: cash block grant to the devolved institutions, which they decide how to spend. Devolved institutions use this cash, voted by the Westminster Parliament, to support the spending power which HM Treasury allows them through the DELs which it sets (but which are not voted by the Westminster Parliament), and which can be increased as a result of the Barnett formula and other changes

Note: HM Treasury has confirmed that additional money announced to cover Brexit costs across government departments in 2018-19 has not been included in Main Estimates, but will be added later in the year in Supplementary Estimates

Cabinet Office

The Cabinet Office plans a Resource DEL (day-to-day) budget in 2018-19 of £407 million, **40% below** last year's final budget of £680 million.

This significant year-on-year reduction results from the 2017-18 Estimate including two significant one-off items of spending not included in 2018-19. These were £150 million of funding for the Official Receiver of Carillion and £118 million for costs of the 2017 General Election.

Excluding these one-off items from last year, the underlying day-to-day budget for 2018-19 is very similar to the prior year.

In 2018-19 Cabinet Office also plans a reduced capital DEL budget of £30 million, **76% below** last year's final budget of £123 million. The Cabinet Office capital investment budget is low compared to other departments and its day-to-day budget, so small changes will have a significant impact on the year-on-year percentage change.

Department for Business, Energy and Industrial Strategy

BEIS plans a Resource DEL (day-to-day spending) budget in 2018-19 of £1,938 million, **3.2% below** last year's final budget of £2,002 million.

BEIS' resource budget covers industrial strategy and investment, including where Government acts as stakeholder (£316 million); nuclear decommissioning and other energy legacy spending (£660 million); competition and markets (£147 million); science and research (£224 million); energy (£68 million); tackling climate change (£40 million) and capability (central and administrative functions) (£483 million).

Major changes compared to last year include:

- £204 million less for Energy Intensive Industries;
- £35 million less in Post Office network subsidy; and
- £71 million less for science and research (mainly because, last year, extra depreciation funding was required).[27]
- £278 million net extra spending (both higher spending and lower receipts) on nuclear decommissioning

BEIS also plans a reduced Capital DEL (investment spending) budget of £10,769 million in 2018-19, **0.8% below** last year's final budget of £10,856 million.

BEIS' capital spending in 2018-19 is heavily centred on science and research (£7,951 million) and nuclear decommissioning (£1,851 million). Other spending includes Industrial strategy and investment (£427 million); tackling climate change (£255 million) and "capability" (administration and central functions) (£226 million).

Additional research and development spending is funded by extra money announced in Autumn statement 2016, over and above previous Spending Review plans. A new body, UK Research and Innovation has been established from April 2018 to manage research funding.

Compared to last year, there are increases of:

- £490 million for science and research;
- £188 million for tackling climate change, including £124 million extra in Heat funding, and £65 million extra for energy R & D; and
- An extra £24 million for the "Midlands Engine".

There is a significant reduction in net capital spending on financial transactions, investments and loans, including Government shareholdings. This may be because loan repayments or sales of government shareholdings are increasing, amounts loaned out or invested are decreasing, or both. Reductions include £421 million less for British Business Bank; £212 million less for the Enterprise Capital fund; and £56 million less for "launch investments".

In addition, there is £45 million less for Post Office transformation (as planned in Spending Review 2015) and a decrease in Regional Growth Fund expenditure of £41.9 million.

BEIS' resource Annually Managed Expenditure (a separate budget for less predictable spending) for 2018-19 is much lower than last year (£4,194 million compared to £85,746 million). This is largely because last year there were significant increases in long term costs of provisions

[27] Most science and research funding is capital, see below

for liabilities (primarily, but not exclusively nuclear decommissioning) when Treasury changed the discount rate[28] for provisions. This meant that last year there was a "spike" in costs to recognise this rise, which has not (as yet) re-arisen this year, but may reoccur in supplementary estimates if there is another change in discount rates later in the year.

Department for Digital, Culture, Media and Sport

DCMS plans a Resource DEL (day-to-day spending) budget in 2018-19 of £1,680 million, **11% below** last year's final budget of £1,898 million. Within this, the administration budget is planned to increase by 2%.

The main components of DCMS' spending are museums, galleries and libraries, arts and heritage, broadcasting and media, and sports. Since the 2015 Spending Review plans were published, the department has also taken on board the Office for Civil Society.

The major change compared to last year is a result of a one-off addition in last year's Supplementary Estimates of £213 million, for fee repayment liabilities after a court ruling that increases in the annual licence Ofcom charges to mobile networks should be reversed. This budget is not repeated in 2018-19.

Meanwhile, DCMS plans a Capital DEL (investment spending) budget of £585 million, **52% above** last year's final budget of £386 million. Major changes compared to last year include:

- Around £125 million additional funding for 5G and Fibre, announced at Autumn Statement 2016 (as part of a total of £740 million through to 2020-21 from the National Productivity Investment Fund);
- Around £34 million exchanged from last year for Blythe House, the archive for London museums,[29] which is being replaced with more modern facilities; and
- Around £31 million from a re-profiling of investment Broadband Delivery UK; this follows a £57 million underspend last year 'as a result of efficiency savings in delivery'.[30]

Department for Education

DFE plans a Resource DEL (day-to-day spending) budget in 2018-19 of £66,470 million, **3.6% above** last year's final budget of £64,178 million (if the additional costs of student loan impairments included in last year's supplementary estimate are excluded, to enable a better like-for-like comparison).[31]

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28 Discount rates are used to assess the time value of money. Expected costs in future years are adjusted to reflect the difference in the value in making a payment now to making a payment many years in the future.

29 Under the Budget Exchange scheme the Treasury allows departments to carry forward forecast DEL underspends for one year.

30 DCMS Supplementary Estimates 2017-18 Memorandum

31 If the student loan revaluation of student loan write downs (impairments) within DFE's 2017-18 supplementary estimate is included, DFE (voted) Resource DEL for

The 2015 Spending Review committed the Government to protecting the schools budget in real terms, and always planned to increase DFE spending in 2018-19 in cash terms. The 2018-19 Main Estimate broadly reflects those 2015 plans with some limited additional funding announced since, most notably £407 million extra associated with the National Funding Formula.

The main components of DFE's resource spending in 2018-19 are grants for schools (local authorities and academies) (£50,052 million); higher education (£5,857 million, including increased costs of student loans); further education (£482 million, including increased costs of advance learner loans); Education and Skills Funding Agency (£3,954 million); curriculum, standards, teaching, social care and administration functions (including new Teacher Regulation agency) (£6,124 million).

From April 2018, a new Teaching Regulation Agency assumes functions formerly undertaken by the National College for Teaching and Leadership; and a new arms length body, Social Work England, has been set up to act as a regulator for social workers, jointly funded with the Department of Health and Social Care. Functions related to Equalities (Government Equalities Office and the Equality and Human Rights Commission) are being transferred to Home Office, along with associated funding (£39.7 million).[32]

Notable funding increases, compared to last year are:

- £1,077 million extra in grants to schools (+2.2%);
- £837 million extra in apprenticeship funding, reflecting increased participation;
- £265 million extra spending for further education, including training/improvement initiatives and increased loan write downs;
- Extra funding for education standards, curriculum and qualifications including £40 million extra for teacher bursaries, £81 million extra for the Strategic School Improvement Fund, £46 million for curriculum improvement and £40 million supporting life skills and disadvantage;
- £66 million extra (in total) for opportunity areas and Risk protection arrangement (insurance for academies) claims; and
- Increased costs of student loans (due to increases in the repayment threshold and freezing tuition fees); and for advanced learner loans.

Decreases include:

- £202 million less in higher education funding through arms length bodies, including a £70 million reduction in teaching grant; and a

2017-18 is £14.7 bn higher than this and 2018-19 shows a decrease compared to 2017-18. Figures shown on the face of DFE's Main Estimates and in DFE's Main Estimates memorandum include this additional £14.7 billion in 2017-18. DFE may make further revaluations of the student loan book leading to further write downs in its 2018-19 Supplementary Estimate.

[32] Following the recent appointment of a new Home Secretary, these functions are now expected to further move to the Department for International Development later in the year.

fall of £140 million caused by some spending originally planned for 2018-19 being brought forward in 2017-18;

- £148 million less for the Restructuring facility budget of the Education and Skills funding Agency; and
- A £46.8 million reduction in administration spending for DFE and its arms length bodies, plus a further reduction of £19.9 million as equalities functions move from DFE.

DFE plans a Capital DEL (investment spending) budget of £5,182 million, **5% above** last year's final budget of £4,938 million. The main increases are:

- £154 million extra for the second phase of the Priority Schools building Programme (phase 2); and
- £67 million extra for increased spend on the Institutes of Technology and enhancements to the Apprenticeship Service.

Department for Environment, Food and Rural Affairs

DEFRA plans a Resource DEL (day-to-day spending) budget of £1,809 million, **8%** below last year's final budget of £1,975 million. Of this year's total, programme spending is planned to decrease by 6% to £1,348 million,[33] and administration spending to decrease by 14% to £461 million. The main components of DEFRA's spending are support for farming, the environment and biodiversity, flood protection, and animal and plant welfare.

Major changes compared to last year include:

- Continued savings across numerous programmes, reflecting DEFRA's Spending Review 2015 settlement;
- As yet, no additional EU Exit funding. Last year, additional funding of £56 million for costs associated with Brexit was included in the Supplementary Estimates. Although the Spring Statement 2018 announced an additional £310 million for EU Exit for Defra in 2018-19, this has not been included in the Main Estimate and it is presumed will be added in the 2018-19 Supplementary Estimate in February 2019; and
- These reductions are offset by an increase in the resource budget for Environment Agency (EA) projects- uncertainty about project spending at the beginning of the year means that budget is held in resource until capital spend becomes identifiable, and a switch is made to Capital DEL in the Supplementary Estimate (as Treasury rules prevent switching the other way).

DEFRA plans a Capital DEL (investment spending) budget of £613 million, **5% below** last year's final budget of £644 million. The largest component of DEFRA's Capital DEL relates to flood protection, through 'Flood and Coastal Risk Management' (FCRM), which is a ring-fenced budget. The major changes compared to last year include:

[33] Programme Spending is spending other than on central administration.

- The effect of the Environment Agency resource/capital switch, outlined above;
- Continued savings relating to the Spending Review 2015 settlement, with increased investment in estates and IT infrastructure, required to deliver efficiency savings, having peaked in 2017-18; and
- Reprofiling of Flood and Coastal Risk Management budgets across the Spending Review years.

Department for Exiting the European Union

The Department for Exiting the European Union (DExEU) is a new department set up in 2016–17, responsible for overseeing negotiations to leave the EU and establishing the future relationship between the UK and EU.

DEXEU plans a Resource DEL (day-to-day spending) budget of £92 million, **21% above** last year's final budget of £76 million. In last year's Supplementary Estimate, the Department revised its budget *downwards* by £25 million from £101 million to £76 million, returning £20 million of this saving to the Treasury.

The Department has a small capital budget of £0.75 million.

As a new department, DExEU's spending pattern is likely to continue to be small, but less predictable than many other departments as the nature, timing and costs of its activities vary depending on decisions taken on the EU exit process.

Department of Health and Social Care

The Department for Health and Social Care plans a Resource DEL (day-to-day spending) budget of £123,518 million, **1.8% above** last year's final budget of £121,342 million.

Planned Resource DEL spending for 2018-19 is higher than the expected level of spending set out in the 2015 Spending Review – it includes additional funding of £1,601 million announced in the Autumn 2017 Budget.

The vast majority of this funding is spent by NHS Providers. The 2018-19 Estimates forecast that NHS Providers will spend £72,177 million (58%) of the total day-to-day budget. This, combined with other NHS England expenditure, amounts to £111,109 million, 90% of DHSC's day-to-day budget for 2018-19.

Significant movements compared to the final Resource DEL budgets of last year include:

- Total combined spending of NHS Providers and NHS England is planned to increase by £1,585 million (+1.4%);
- Special Health Authorities forecast an increase of £1,187 million (+42%); and

- Central departmental expenditure decreases by £307 million (-16%)

Over the past few years, towards the end of the financial year, through the Supplementary Estimates, the Department has moved significant amounts of capital funding into its Resource DEL. It remains possible that this will happen again towards the end of 2018-19.

In March 2018 the Secretary of State for Health and Social Care announced in a statement on NHS pay that NHS staff would get pay rises of between 6.5% and 29% over the next three years.[34] The Main Estimate and memorandum from the Department does not give any further detail on the costs of the deal in 2018-19.

Department for Health and Social Care plans a Capital DEL (investment) budget of £6,364 million, **14% above** last year's final budget of £5,598 million.

Whether this increase does, in reality, materialise depends on whether DHSC, as it has done for the last few years, reduces its capital budget later in the year to fund increases in the resource budget, and if it does, how much it decides to transfer.

Department for International Development

The Department for International Development (DFID) plans a Resource DEL (day-to-day spending) budget of £7,479 million, **2% below** last year's final budget of £7,656 million.

The main components of DFID's spending are:

- Regional programmes – £3,437 million (reduction of 8% from last year);
- Policy priorities – £2,815 million (reduction of 6% from last year);
- Conflict, Stability and Security Fund – £104 million (reduction of 10% from last year);[35]
- Operating costs – £316 million (increase of 8% from last year);
- Other central programmes – £273 million (revised budget was only £9 million last year. However, funds tend to be transferred out of this budget line in year);
- Scholarships – £26 million (increase of 5% from last year);
- Independent Commission for Aid – £3 million (reduction of 30% from last year);

[34] Statement on NHS pay, Secretary of State or Heath and Social Care, 21 March 2018.

[35] This is a cross-government fund set up in support of National Security Council objectives related to promoting security and projecting UK global influence. Various departments can bid for funds. The funds are initially placed on DFID's Main Estimate but the bulk of it is transferred out to be spent by other departments, mainly the FCO. It aims to enable a more holistic and integrated approach to conflict prevention and increasing stability.

- Prosperity Fund – £40 million (this is a new budget item);[36]
- European Union Attributed Aid - £464 million (reduction of 7% from last year). (These are amounts attributed to DFID to reflect spending on development activities by the European Commission from its budget).

DFID's spending was "protected" and set to increase in the 2015 Spending Review plans because the 2015 International Development (ODA target) Act commits the Government to achieving the UN target of spending 0.7% of Gross National income (GNI) on Overseas Development Aid.[37]

Since then, significant changes compared to the Spending Review Settlement are:

- A reduction of £614 million due to Gross National Income reductions (DFID needs to spend less than forecast for the Government to achieve it ODA target);
- An increase of £526 million due to a transfer from capital to resource. Of this, £397 million reflects a technical accounting reclassification of Research and Development from capital to resource, with a further £109 million transferred out of DFID's capital (investment) budget for other reasons. This follows the 2017-18 Supplementary Estimates last year, when DFID transferred £137 million from capital to resource. Generally, Treasury does not allow such transfers from capital to resource as it aims to protect the capital "investment" budgets, but clearly exceptions have been made for DFID;
- DFID's baseline included the Conflict, Stability and Security Fund, which is a cross-departmental fund, which any department can bid funding from. DFID has retained £104 million of the total £1,100 million. The remainder has been transferred out to other departments. Such changes were always expected to take place as the balance of projects, and hence funding between departments is determined.

DFID plans a Capital DEL (investment budget) of £2,652 million in 2018-91, **3% below** last year's final budget of £2,747 million. The Spending Review always planned lower capital spending by DFID in 2018-19 compared to last year, and since the Spending Review Settlement there has also been a £526 million transfer of funds from capital to resource.

In addition, DFID plans to inject £683 million into the CDC Group – the government's international development finance institution.[38] Last year it injected £395 million.

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[36] The Prosperity Fund is a cross-government fund which works in a similar way to the Conflict, Stability and Security Fund, whereby funds are held on DFID's baseline and then reallocated to other departments at the Main Estimate and Supplementary Estimate stage. It aims to promote growth and prosperity in developing countries.

[37] 2015 Spending Review, para 2.23

[38] This is classified by HM Treasury as Annually Managed Expenditure, rather than being subject to Departmental Expenditure Limits.

Department for International Trade

The Department for International Trade (DIT) plans a Resource DEL (day-to-day) budget of £354 million, **9.5% below** last year's final budget of £391 million.

DIT is one of the lowest spending departments and the Main Estimate does not break down this total further. While total day-to-day spending is lower than last year, it is 5% higher (£16 million) than the original budget for 2018-19 set when the Department was created in 2016, following some transfers of funding from other departments.

The Department for International Trade only spends a small amount of its overall budget on capital investment. DIT plans a Capital DEL (investment) budget of £3.5 million, **82% below** last year's final budget of £19.1 million. The 2017-18 figure was boosted by the inclusion of an additional £12 million, included in the 2017-18 Supplementary Estimate for investment in IT systems.

Department for Transport

The Department for Transport (DfT) plans a Resource DEL (day-to-day) net expenditure in 2018-19 of £3,761 million, **3.5% below** last year's final budget of £3,897 million.

The highest area of day-to-day expenditure included in this budget is Highways England: spending is due to amount to £2,637 million, 70% of the total net Resource DEL budget.

Other significant areas of Resource DEL spending in 2018-19 are Local Authority transport of £373 million (over £300 million of this is an annual grant for Private Finance Initiative schemes) and the Maritime and Coast Guard Agency which amounts to £356 million.

The Resource DEL budget is presented net of income. Net income from rail passenger services is forecast to amount to £404 million in 2018-19.

Significant movements compared to the final net Resource DEL budgets of last year include:

- A reduction in net income of £360 million (-47%) from Passenger Rail services;
- An increase in net income of £60 million (+44%) from Tolled Road crossing; and
- The withdrawal of resource grant to Transport for London entirely this year (this amounted to £255 million in the prior year)

Network Rail's day-to-day spending is not included in DFT's Resource DEL, instead forming the main part of a separate budget total, Resource Annually Managed Expenditure (AME). Overall DFT Resource AME- the vast bulk of which is for Network Rail – is more than double the DFT Resource DEL total. In 2018-19 Network rail's planned budget for day-to-day spending is £8,717 million, **5.1%** above last year's final budget of £8,290 million.

The Department for Transport plans a Capital DEL budget in 2018-19 of £8,070 million, **25.5% above** last year's final budget of £6,432 million.

37% of the Capital DEL total is allocated for planned investment in High Speed Two, totalling £2,991 million.

Other significant areas of expenditure with DFT's Capital DEL budgets are: Highways England: some £2,706 million, 34% of the total; and Local Authority Transport (the majority of which is for road maintenance) which amounts to £1,338 million, 17% of the total.

Compared to last year, proposed capital budgets represent:

- an increase of £2,049 million (+217%) for High Speed Two;
- an increase of £378 million (+16%) for Highways England; and
- a decrease in £408 million (-23%) for Local Authority Transport.

Network Rail's capital investment spending is not included in DFT's Capital DEL, instead forming part of a separate budget total, Capital Annually Managed Expenditure (AME). In 2018-19 Network Rail's planned budget for capital spending is £5,314 million, **20% below** last year's final budget of £6,634 million.

Department for Work and Pensions

Much of DWP's spending, including all spending on benefits and pensions, falls within the budget total known as Resource Annually Managed Expenditure (AME). The budget sought for this spending in 2018-19, reflecting latest forecasts, is £183,307 million, **1.8% above** last year's final budget of £180,099 million (or 3.6% above the original budget set last year in main Estimates of £176,901 million).

Some of this increase arises from DWP taking a greater share of benefit costs as a whole, as Universal Credit not only replaces legacy DWP benefits, such as housing benefit, wholly funded by DWP, but also tax credits, where claimants previously will have received funding via HMRC (In 2018-19 HMRC spending on tax credits is forecast to fall by £2,775 million compared to 2017-18).

Compared to DWP's Main Estimate for last year:[39]

- Spending on pensions and pensioner benefits is forecast to rise by 1.9%;
- Spending on disability and carer benefits is forecast to rise by 8.5%, partly, DWP says, as a result of new modelling of forecast Personal Independence Payment spending;
- Spending on incapacity benefits is forecast to rise by 3.5%; and
- Spending on Universal Credit and legacy DWP benefits is forecast to be 8% higher than last year (although the total of spending on Universal Credit, legacy DWP benefits and tax credits paid by HMRC is forecast to be practically the same as last year).

[39] This is the preferred comparison used by DWP itself, and included in its Estimates memorandum, as certain adjustments are made at year end that have yet to be made for 2018-19.

By contrast, DWP plans a Resource DEL budget (covering the administration of DWP and other, day-to-day, spending) of £6,150 million, **1.4% below** last year's final budget of £6,328 million:

- around 75% (£4,700 million) of this total – around 1% less than last year- is planned to be spent on DWP's own running costs, including staff;
- planned spending on employment programmes rises by 4% to £375 million; and
- support to local authorities – to administer some benefits- remains static at £261 million.

DWP's plans a capital spending (within Capital DEL) budget- funding DWP's estate and IT- of £255 million, **49% below** last year's final budget of £501 million. In proportion to DWP's other spending, capital represents a very small fraction of DWP's costs, and the 2015 Spending Review always planned that capital spending would peak in 2017-18, suggesting that the costs relate to specific plans or projects.

Foreign and Commonwealth Office

The Foreign and Commonwealth Office (FCO) plans a Resource DEL (day-to-day spending) budget in 2018-19 of £2,351 million, **6% above** last year's final budget of £2,217 million. This rise is mainly driven by increases in its conflict prevention and peacekeeping budgets (increasing by 32% and 10% respectively). However, the admin and programme budget (this is mainly the cost of running the embassies) has reduced by 6% from last year. FCO's overall spending was protected in real terms in the 2015 Spending Review.

The main components of FCO's day-to-day spending are:

- Administration and programme (this is mainly costs of running the embassies) – £870 million (reduction of 6% from last year);
- Grants to third parties (including international subscriptions e.g. OECD) – £383 million (increase of 5% from last year);
- British Council – £164 million (reduction of 1% from last year);
- Net funding for non-departmental public bodies – £6.5 million (increase of 9% from last year);
- Prosperity Fund – £57 million (increase of 28% from last year);
- Conflict prevention – £497 million (increase of 32% from last year); and
- Peacekeeping (contributions to UN peacekeeping) – £373 million (increase of 10% from last year).

FCO's conflict prevention and peacekeeping budgets are funded through the Conflict, Stability and Security Fund (CSSF). This is a fund set up in support of National Security Council objectives related to promoting security and projecting UK global influence. At the start of each year, the funds are initially included in Department for International Development's Main Estimate, but some of it is subsequently transferred out (in supplementary estimates) to be spent by other departments, although FCO usually remains the biggest funding department. Any department can bid for funding, as long as the funds are to be spent on CSSF's objectives. Similar arrangements exist for the Prosperity Fund which aims to promote growth and prosperity in developing countries.

FCO plans a Capital DEL (investment) budget of £102 million, **26% below** last year's final budget of £138 million. In reality, FCO's estimated actual outturn in 2017–18 is expected to show income from asset sales exceeded spend by £270 million because of proceeds from sale of its Bangkok residence. In a letter to the FCO Committee dated 14 March 2018, the FCO indicated it expected that its gross expenditure, before netting of income, will be around £150 million in 2017-18; and the Treasury is allowing the FCO to carry forward some £413 million into future years. There are often fluctuations in FCO's investment budgets year-on-year due to the investment profile of capital projects as well as one-off income gains from sales of assets.

Home Office

The Home Office plans a Resource DEL (day-to-day spending) budget in 2018-19 of £10,509 million, **0.3%** below last year's final budget of £10,539 million. The budget for programme spending is flat, while the administration budget will be reduced by 8%, driving the small reduction in overall funding.

Around 80% of Home Office spending is on its crime, policing and fire functions. The Office for Security and Counter Terrorism receives about 7% and just under 5% is spent on UK Border Force and other immigration programmes.

The planned changes to the budget are in line with the 2015 Spending Review. There is a planned reduction in spending by the central department 'enablers' of around 20%. Around £240 million extra budget is planned for crime, policing and fire, in line with the Police Settlement. The department's planned budget also includes an additional £21 million for the Government Equalities Office, which had transferred from the Department for Education.[40]

An additional £395 million for EU Exit will be received and apportioned in the Supplementary Estimates and is not yet included in the headline figures.

The Home Office plans a Capital DEL (investment spending) budget of £441 million, **28% below** last year's final budget of £613 million. Nearly half this reduction is in the crime, policing and fire area. By contrast, an additional £28 million is planned for the Office for Security and Counter Terrorism, and £26 million extra for HM Passport Office.

HM Revenue and Customs

[40] Following the recent appointment of a new Home Secretary, these functions are now expected to further move to the Department for International Development later in the year.

HM Revenue & Customs (HMRC) plans a Resource DEL (day-to-day) budget of £3,739 million, **6.1% below** last year's final budget of £3,981 million.

Most of HMRC's Resource DEL spending relates to its own administration, including staff and other running costs.

HMRC's spending on tax credits and welfare, as with DWP's on benefits and pensions, falls outside its Resource DEL, and is instead included in a separate total, Resource AME (Annually Managed Expenditure), reflecting the fact that actual payments are driven by demand, within predetermined rules. HMRC's planned Resource AME (£39,759 million) is **5.4% below** last year's budget of £42,045 million. This reduction is driven by the rollout of Universal Credit, which is gradually replacing tax credits, and is paid by DWP, not HMRC; and changes to rules, such as restrictions on payments of new claims for families with more than two children.

Compared to last year's Estimate, spending on:

- Personal Tax Credit is forecast to decrease £2,775 million (-10.6%) to £23,455 million;
- Child Benefit is forecast to decrease £209 million (-1.8%) to £11,546 million;
- Tax Free Childcare is forecast to increase £210 million (+562%) to £248 million; and
- Lifetime ISA, which is a new estimate line for 2018-19, is forecast to require spending of £480 million.

HM Revenue and Customs only spends a small amount of its overall budget on capital investment. In 2018-19 it has budgeted £250 million for Capital DEL. This is **11.5% below** last year's final budget of £282 million.

HM Treasury

HM Treasury plans a Resource DEL (day-to-day) budget for 2018-19 of £173 million, **27% below** last year's final budget of £237 million.

HM Treasury's final budget (after the Supplementary Estimate for 2017-18) included £68 million of additional funding – primarily to cover the cost reliefs for Oil and Gas commissioning. Excluding this funding budgeted for last year, Treasury's resource DEL shows a year-on-year increase of 2% (+£4 million).

HM Treasury plans a Capital DEL (investment) budget of £224 million in 2018-19, **1,178% above** last year's final budget of £18 million.

This significant increase compared to the prior year is because:

- In 2017-18 the Infrastructure Finance Unit, within HM Treasury, received income which reduced net capital expenditure by £93 million; and
- In 2018-19 HM Treasury are planning to invest £80 million in the Asian Infrastructure Bank.

Ministry of Defence

The Ministry of Defence (MoD) plans a Resource DEL (day-to-day spending) budget of £36,708 million, **1% above** last year's final budget of £36,220 million. This year's budget is likely to be increased later in the year, in Supplementary Estimates, when the costs of any military operations are clearer.[41]

Current plans are for an operations budget of £328 million, with around half of this for 'Counter Daesh' operations such as airstrikes and intelligence gathering in Iraq and Syria. The rest of the MoD budget is for the provision of defence capabilities. Around a quarter of this is for service personnel, a fifth for equipment costs and tenth for infrastructure.[42]

Aside from the lower planned spending on operations, major changes compared to last year include increases in spending on equipment and research and development (+11%) and on civilian personnel (+4%). However, there is a reduction in spending on service personnel (-2%).

The MoD plans a Capital DEL (investment spending) budget of £8,761 million in 2018-19, **11% below** last year's final budget of £9,793 million. Additional funding for operations spending, as well as transfers from resource to capital also likely to take place, in the Supplementary Estimate, in line with past practice.

Just over half of planned capital spending is on Single Use Military Equipment (SUME) such as munitions and missiles. Other 'dual use' equipment is about a third of planned spending, and research and development (R&D) about 15%. There are no obvious major changes since last year, but spending on both SUME and other capital are planned to decrease by slightly more than -15%, whilst R&D is planned to increase by 35%.

Ministry of Housing, Communities and Local Government

The Ministry of Housing Communities and Local Government (MHCLG) is the only department to separate its resource Departmental Expenditure Limits into two functional limits – there are separate DELs for housing and communities; and for local government.

MHCLG plans a **Housing and Communities** Resource DEL (day-to-day spending) budget of £2,818 million, **15% above** last year's budget of £2,440 million.

72% of this spending is for Housing and Planning, where the budget is set to rise by 14% (£258 million). Other budget lines (comprising 28% of the total) include Troubled Families, Decentralisation & Local Growth, and Staff and Building Costs.

Meanwhile, MHCLG plans a **Local Government** Resource DEL budget of £4,304 million, **36% below** last year's budget of £6,718 million.

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41 For example, in the Main Estimate 2017-18, MoD planned for £315 million in Resource DEL for Operations; this was increased in the Supplementary Estimate 2017-18 to £795 million.

42 Ring-fenced depreciation costs represent a further 25% of the MoD RDEL budget.

Nearly all of this fall is caused by a significant reduction in Revenue Support Grant to be paid to local authorities. This fall is greater than had been forecast at the Spending Review 2015 primarily because a larger number of local authorities now expect to pilot 100% business rates retention (rather than the previous approach of pooling and redistributing business rates) in exchange for reduced grant funding.

The reduction in direct grants from the Ministry is forecast to be offset by increased level of retained business rates which local authorities keep. This funding does not appear in the Resource DEL budget but is included in the Resource Annually Managed Expenditure budget. Local government is forecast to retain £21,573 million in business rates in 2018-19: **36% above** last year's final budget of £15,816 million.

The Ministry also plans a Capital DEL (investment spending) budget of £9,417 million, **35% above** last year's final budget of £6,997 million.

The majority of this capital investment is planned for housing.

The "Housing and Planning" budget lines total £7,596 million (81% of the Capital DEL). This represents an increase of 49% (£2,513 million) compared to last year's final budget Within this, significant movements compared to the Capital DEL budget for housing for last year include:

- Funding for Help-to-Buy loans is forecast to increase by £860 million (+26%) to £4,149 million;
- Social Housing investment (from both the Ministry and Homes England) is planned to increase by £354 million (+43%), to £1,180 million; and
- Investment for "Land & Housing Delivery" (which includes the Housing Infrastructure Fund and Small Sites) is expected to increase by £977 million, from £36 million to £1,013 million.

In addition, the planned "GLA settlement" budget line, covering affordable housing in London, is £644 million (7% of the total), an increase of £201 million (+46%).

The only significant area of capital investment by MHCLG not related to housing is expenditure on Decentralisation and Local Growth. This budget, which provides funding for Local Enterprise Partnerships and for devolution deals is set to decrease by £291 million (-20%).

Ministry of Justice

The Ministry of Justice (MoJ) plans a Resource DEL (day-to-day spending) budget in 2018-19 of £6,923 million, **11% below** last year's final budget of £7,753 million.

The main components of MOJ's spending are on prisons and probation, courts and tribunals, Legal Aid, and other agencies such as the Criminal Injuries Compensation Authority. Spending on prisons and probation represent around half of all spending.

The planned changes largely relate to:

- An increase in anticipated income, due to changes in fees charged, such as for probate;

- Planned reductions in budget as part of Spending Review 2015; and
- Reductions in budget for the Legal Aid Agency (-£42 million) and Criminal Injuries Compensation Agency (-£26 million), which are due to additional funding these received in the Supplementary Estimates 2017-18 in response to increased demand.

MOJ plans a Capital DEL (investment spending) budget in 2018-19 of £532 million, **25% above** last year's final budget of £425 million. This increase is due to expected capital expenditure on prison and court reform programmes as part of the Spending Review 2015 settlement. These modernisation programmes were intended to drive the significant efficiency savings expected of the MOJ. However, the department is currently reviewing the profile of its capital expenditure with the Treasury.

The MOJ also indicates that its budget allocations have not been fully concluded in time for the publication of its Estimates Memorandum. This is unusual, and may mean that the department makes greater than usual changes in the Supplementary Estimates as the breakdown of budgets in the Main Estimates is only provisional.

Northern Ireland

The Northern Ireland Office Main Estimate seeks authorisation for:

- the cash grant to the **Government of Northern Ireland**. The cash grant (shown in the Estimates as "Non-Budget" expenditure) provides funding for the Northern Ireland Consolidated Fund - the main source of funding for Northern Ireland Government expenditure; and
- funds for the **Northern Ireland Office** (this is a UK ministerial department responsible for the smooth working of the devolution settlement and relations between the UK and NI Governments).

Northern Ireland Government grant

The cash grant proposed for the Northern Ireland Government is £15,602 million, **2% above** the amount sought last year, £15,287 million.

The cash grant is based on a calculation worked out by taking the spending power (the Departmental Expenditure Limits allowed for the NI Government by the UK Treasury) plus Annually Managed Expenditure (this is expenditure such as welfare payments that is deemed more difficult to control than DEL), less non-cash items such as depreciation, and adjusted for timing differences.

Changes in DEL budgets

The Northern Ireland Government total DEL budget sought for 2018-19 is £12,385 million (£10,818 million resource and £1,568m capital), **increases** of **0.2%** (resource) and **23%** (capital) compared to last year's final budget. Of this, £410 million arises from the Confidence and

Supply Agreement and is included in this year's Main Estimate, whereas only £20 million was included in last year's final budget.[43]

Since the original Spending Review settlement for 2018-19 was determined in 2015, £800 million (7%) has been added to the Northern Ireland Government's budget for this year, including:

- £361 million (£170 million resource and £191 million capital) of "Barnett Consequentials" – additional funding for NI, given because the UK Government has decided to allocate additional money for other parts of the UK, and needs to give NI an equivalent amount; and
- £410 million arising from the Confidence and Supply Agreement (£210 million resource and £200m capital). A breakdown is shown in the table below:

	£ million
Resource	
Immediate health and education	80
Health transformation	100
Programmes to address mental health and severe deprivation issue	30
Capital	
Key infrastructure projects	200
Total	410

Northern Ireland Office spending

Northern Ireland Office's Resource DEL (day-to-day) spending is £22.3 million, 14% below last year's final budget. The main reason for this reduction is that last year's revised budget included £4.5 million additional funds for administering the General Election.

Northern Ireland Office's Capital DEL (investment) spending is forecast to be £0.3 million. This is £1.4 million less than last year's final budget which included funds for improving the department's IT and security systems.

Political background

Routine Supply and Appropriation Bills approved by the Westminster Parliament authorise the amounts included in Main and Supplementary Estimates to be paid from the UK Consolidated Fund **into** the Northern Ireland Consolidated Fund.

There has been no Executive in Belfast since 9 January 2017, when the then Deputy First Minister of Northern Ireland resigned, which also resulted in the First Minister ceasing to hold office. The Northern Ireland Assembly has not met since its first post-election meeting in March 2017.

[43] The Confidence and Supply Agreement is an agreement between the Conservative Government and the Democratic Unionist Party (DUP) whereby the DUP agrees to support the Government in votes on supply, confidence motions and certain other finance related matters. In return, the UK Government has agreed to allocate the Northern Ireland Government specified additional funds over a five-year period.

As a consequence, the UK Parliament has also authorised the Northern Ireland Budget for 2017-18 through passing additional legislation: the Northern Ireland Budget Act 2017 and, more recently, the Northern Ireland (Anticipation and Adjustments) Act 2018. These pieces of additional legislation authorise spending of amounts **from** the Northern Ireland Consolidated Fund. There is the possibility the UK Parliament might pass similar additional legislation to authorise the Northern Ireland Budget for 2018-19, if the Executive does not form during the year.

The Secretary of State for Northern Ireland made a written statement[44] on 8 March 2018, which gave details of the Northern Ireland budget 2018-19, including an Annex with detailed allocations to departments. The Main Estimate Memorandum notes that the resource budget in the Written Statement is £37 million higher and the capital budget £19 million higher than the numbers included in the Main Estimate, because it is intended for more funds will be drawn down later in the year in the Supplementary Estimate.

Scotland

The Scotland Office Main Estimate seeks authorisation for:

- the **cash grant** to the **Government of Scotland**. The cash grant (shown in the Estimates as "Non-Budget" expenditure) provides funding for the Scottish Consolidated Fund - a main source of funding for Scottish Government expenditure. The cash grant has been reduced to reflect the fact that taxes such as stamp duty, landfill tax and income tax are now devolved to Scotland (these adjustments are referred to as block grant adjustments);
- **pay-over of Scottish rate of income tax** to the **Government of Scotland**. Income tax is a fully devolved tax for Scotland and is determined by Scottish Government policy. However, HMRC continues to collect it on behalf of Scotland. (Scotland collects its own stamp duty and landfill tax so these do not show up in the Main Estimate unlike income tax);
- funds for the **Scotland Office** (this is a UK ministerial department responsible for relations between the UK and the Scottish Government).

Scottish Government grant and pay-over of income tax

The cash grant proposed for the Scottish Government is £17,324 million, **3% above** the amount sought last year, £16,816 million.

The cash grant is based on a calculation worked out by taking the spending power (the Departmental Expenditure Limits allowed for the Scottish Government by the UK Treasury) plus Annually Managed Expenditure (this is expenditure that is deemed more difficult to control than DEL), less non-cash items such as depreciation, and adjusted for timing differences. Changes to the Departmental Expenditure Limit (DEL) budget, which affect the cash grant are outlined below.

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[44] Written statement, Secretary of State for Northern Ireland, 8 March 2018

Deductions have been made to the Departmental Expenditure Limit (DEL) budget to take account the fact that the grant no longer includes Scotland's share of devolved taxes. These deductions are referred to as block grant adjustments and calculated by estimating income from devolved taxes, had the Scottish government retained taxes in line with the rest of the UK.

In the case of **income tax**, while the tax is devolved, HMRC continues to collect the funds on the Scottish government's behalf. The actual amount of tax revenue expected, forecast by the Scottish Fiscal Commission and based on Scottish Government tax policies, is included as a separate line in the Estimate. The **pay-over of Scottish rate of income tax** to the Scottish government in the Main Estimate is £12,115 million (an increase of 2% compared from last year).

Changes in DEL budget
The Scottish Government total DEL budget sought for 2018-19 is £19,392 million (£15,493 million resource and £3,899 million capital), **increases** of **0.6%** (resource) and **7.3%** (capital) compared to last year's final budgets. The increase is partly driven by a rise in Barnett Consequentials for this year (£1,065 million this year compared to £708 million last year).

The following adjustments have been made to the Spending Review Settlement this year:

Increases of:

- £1,065 million (£500 million resource and £566 million capital) of "Barnett Consequentials"- additional funding for Scotland, given because the UK Government has decided to allocate additional money for other parts of the UK, and needs to give Scotland an equivalent amount; and
- £49 million for City Deals (Edinburgh - £20 million, Inverness - £11 million, Aberdeen - £18 million).

A decrease of:

- £12,472 million block grant adjustment. As explained earlier, the block grant adjustment are reductions in the grant to take into account of the fact that taxes such as stamp duty/landfill tax and income tax are now devolved and Scotland no longer receives their share of these taxes in the grant. The Scottish Government collects their own versions of stamp duty and landfill tax instead. Income tax in Scotland is now determined by Scottish Government policies, but is still collected by the HMRC and then paid over to the Scottish Government (see above).

Scotland Office spending

The Scotland Office's Resource DEL (day-to-day) budget is £9.5 million**,** 60% below last year's final budget of £23.6million. However, last year's revised budget included the costs of carrying out the General Election (£14 million). The Scotland's Office's proposed Capital DEL (investment) budget is small at £0.05 million. The 2015 Spending

Review sought to protect the spending of Territorial Offices in real terms.[45]

Wales

The Wales Office Main Estimate seeks authorisation for:

- the **cash grant** to the **Government of Wales**. The cash grant (shown in the Estimates as "Non-Budget" expenditure) provides funding for the Welsh Consolidated Fund - a main source of funding for Welsh Government expenditure; and
- funds for the **Wales Office** (the UK ministerial department responsible for relations between the UK and Welsh Governments).

Welsh Government grant

The cash grant proposed for the Welsh Government is £14,554 million, **2% below** the amount sought last year, £14,788 million. The reduction is driven by changes to the Departmental Expenditure Limit (DEL) budgets, explained below.

The cash grant is based on a calculation worked out by taking the spending power (the Departmental Expenditure Limits allowed for the Wales Government by the UK Treasury) plus Annually Managed Expenditure (this is expenditure that is deemed more difficult to control than DEL), less non-cash items such as depreciation, and adjusted for timing differences.

Two significant changes arising from the Wales Act 2017 and the Welsh Fiscal Framework are affecting the block grant calculation this year:

- From 2018-19, stamp duty and land fill tax has been devolved to Wales. A deduction (block grant adjustment) has been made to the Departmental Expenditure Limit (DEL) budget to reflect the fact that the grant no longer includes Wales' share of these devolved taxes. The deduction is calculated by estimating income from devolved taxes, had the Welsh government retained taxes in line with the rest of the UK. The Welsh Government now collects its own variants of stamp duty and landfill tax itself.
- From 2018-19 a needs-based factor will be included in the Barnett formula to determine changes to Welsh Government block grant funding in relation to spending. This was agreed in the Welsh Fiscal Framework as evidence suggested the needs of the Welsh population were higher relative to the rest of the UK. For 2018-19, a transitional factor of 105% applies. This will have the impact of increasing the Barnet Consequentials by 5% (see below).

Changes in DEL budget

The Welsh Government total DEL budget sought for 2018-19 is £15,827 million (£13,926 million resource and £1,900 million capital), a **reduction of 3.3%** (-£554 million) in both resource and capital budgets

[45] 2015 Spending Review, para 2.175

compared to last year's final budget. The reduction arises primarily because

- last year's revised budget included £300 million additional funds for student loan impairments, and £278 million (mostly capital) carried over from the previous year, neither repeated.
- This year's budget has been reduced by £269 million due to a block grant adjustment arising from devolution of stamp duty and landfill tax.

The following significant adjustments have been made, compared to the original Spending Review Settlement plans, for 2018-19:

Increases of:

- £591 million (£275 million resource and £316 million capital) of "Barnett Consequentials"- additional funding for Wales, given because the UK Government has decided to allocate additional money for other parts of the UK, and needs to give Wales an equivalent amount;
- £16 million (5% uplift on Barnett Consequential) – this is a result of the introduction of the needs-based formula agreed in the Welsh Fiscal Framework because evidence indicated the needs of the Welsh population were higher than the rest of the UK. This is a new adjustment for 2018–19; and
- £18 million for City Deals (£10 million resource for Cardiff and £8 million capital for Swansea).

Reductions of:

- £269 million block grant adjustment because stamp duty and land fill tax is now devolved and the grant no longer reflects Wales' share of these taxes. This is a new adjustment as it is the first year of devolution.

Wales Office spending

The Wales Office's Resource DEL (day-to-day) spending is forecast to be £4.65 million. This is **9% below** last year's final budget (£5.11 million) but still 17% higher than what it was at the beginning of the Spending Review period 2015–16 (£4.0 million). The Wales Office Capital DEL (investment) budget is small at £0.03 million. The 2015 Spending Review sought to protect the spending of Territorial Offices in real terms[46].

[46] 2015 Spending Review, para 2.175

BRIEFING PAPER
Number 08302
21 May 2018