

Debate Pack

Number CDP-0169 (2022)

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21 October 2022

Out-of-turn Supplementary Estimates relating to HM Treasury and BEIS

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1 Background: the Estimates process

There will be a debate in the House of Commons Chamber on Monday 24 October to approve out-of-turn Supplementary Estimates for the Department for Business, Energy and Industrial Strategy (BEIS) and HM Treasury. The debate will last for up to two hours and (if the motion is passed) will be followed by all stages of a Supply and Appropriation (Adjustments) Bill.

1.1 Parliamentary approval of public spending

One of the key principles of the British constitution, going back many centuries, is that the Government may not spend money without Parliament's approval.¹ This approval is given through the Estimates process, in which the Government lays a document before the Commons with the amounts that it is requesting, and the Commons then votes on whether to approve these amounts. More details on the process can be found in section 1 of the Library's briefing on the most recent Main Estimates, which passed the House in July 2022.²

Estimates motions are usually considered at two points in the year: Main Estimates in the summer and Supplementary Estimates in the spring.³ Proceedings on these Estimates are governed by Standing Orders Nos. 54 and 55.

The Main Estimates present the amounts that each Government department expects to spend over the financial year. Just before the end of that financial year, the Supplementary Estimates then update those totals to take into account any changes that happened over the year.

This year's Main Estimates were initially laid on 12 May 2022, but were then updated and re-laid on 23 June to include extra funding to help with the cost of living that had been announced on 26 May. They were then approved by the House on 6 July.

The most recent Main Estimates provided a total of £89.1 billion to the Department for Business, Energy and Industrial Strategy (BEIS), and £22.0 billion for HM Treasury; these are also further broken down in the Library's Main Estimates briefing.

¹ See discussion in chapter 33 of Erskine May, particularly paragraph 33.2, [Financial relations between the Crown and Parliament](#).

² Commons Library briefing CBP-9563, [Main Estimates: Government spending plans for 2022/23](#)

³ Supplementary Estimates are usually considered at the same time as Votes on Accounts and Excess Votes, as well as Ministry of Defence Votes A.

1.2

Emergency spending approval

If the Government wishes to spend more money than Parliament has approved and does not have time to wait until the next scheduled round of Supplementary Estimates, it has a few options:

- Departments can use the Contingencies Fund, which advances them extra money to meet urgent demand. This money is then paid back in the next Supplementary Estimates. In order to avoid departments using this as a source of unlimited and unapproved money, the Fund is limited by law to 2% of the total amount of spending authorised by Parliament in the previous financial year. In 2022/23, this means that the Fund cannot advance more than £15.1 billion in total.⁴
- Spending could simply go above the agreed limits anyway, in which case it can be retrospectively approved through Excess Votes. The procedure for doing so is complex, involving reports from the Comptroller and Auditor-General and the Committee of Public Accounts, and HM Treasury guidance strongly urges departments to avoid having to do this whenever possible.⁵
- New Supplementary Estimates for individual departments can be laid at any time without having to wait for the normal round of Supplementary Estimates in February. These are called ‘out-of-turn’ Estimates, and HM Treasury typically only allows them to be laid in exceptional circumstances.⁶

During the Covid-19 pandemic, spending increased sharply for a number of Government departments as the Government brought in various measures to help deal with the effects of the pandemic. The Government chose to use the Contingencies Fund to meet this higher spending, passing two Acts (the [Contingencies Fund Act 2020](#) and the [Contingencies Fund Act 2021](#)) to temporarily increase the limit on the size of the Fund in 2020/21 and 2021/22, respectively. There was some criticism of this method at the time, with MPs expressing concern that using the Contingencies Fund in this way weakened Parliament’s already relatively ineffective control of public spending.⁷

In the current case, the Government has chosen to use out-of-turn Supplementary Estimates to meet the higher spending associated with its energy bills support package and the Asset Purchase Facility (see later sections for more details on this). This may be because the amounts involved would exceed the Contingencies Fund limit. The Government has used

⁴ Library calculation based on net cash requirement in HM Treasury, [Supplementary Estimates 2021-22](#), 22 February 2022

⁵ See paragraph 2.80 of HM Treasury, [Supply Estimates guidance manual](#), 22 July 2011

⁶ Erskine May, paragraph 34.19, [Out-of-turn Supplementary Estimates](#)

⁷ See Commons Library briefing CBP-9155, [Contingencies Fund \(No.2\) Bill](#)

Contingencies Fund advances this year to pay for spending already incurred on these schemes (£3.5 billion on the energy bills package and £0.8 billion on the APF), but the overall totals required are much higher. The Contingencies Fund advances received so far will also be repaid in this Estimate.⁸

Out-of-turn Estimates are unusual. A Business of the House motion is usually tabled to enable proceedings to take place notwithstanding the Standing Orders. Many of the usual features associated with Estimates consideration do not apply. For instance, topics are not selected for debate by the Backbench Business and Liaison Committees.

This out-of-turn Estimate is the first to be considered since October 2008, when an Estimate was presented to provide HM Treasury with an extra £42.2 billion to help meet the costs of bailing out banks during the financial crisis.⁹

1.3 Summary of the Estimates

There are two Supplementary Estimates for central government departments as part of this out-of-turn Estimate: one relating to HM Treasury and one relating to the Department for Business, Energy and Industrial Strategy.

As a result of this out-of-turn Supplementary Estimate, the overall spending in Estimates and the Net Cash Requirement have increased by £71.4 billion when compared with the Main Estimate (initial budget).

Breaking this down into spending categories, this out-of-turn Estimate results in the following changes compared with the Main Estimate:

- Resource DEL increases by £176 million, from £455.7 billion to £455.9 billion;
- Capital DEL remains the same, at £110.9 billion;
- Resource AME increases by £60 billion, from £469 billion to £529 billion (+13%); and
- Capital AME increases by £11.2 billion, from £37.6 billion to £48.8 billion (+30%).

⁸ HM Treasury, [Out-of-Turn Supplementary Estimates 2022-23](#), 18 October 2022, pp 36 & 61

⁹ [CJ \(2007-08\), 615](#); for context, see Commons Library briefing SN-05748, [Bank rescues of 2007-09: outcomes and cost](#)

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

1.4

Supply and Appropriation Bills

The Business of the House motion passed on 20 October 2022 provides for two hours of debate on the out-of-turn Estimates. If they are approved by the House of Commons, they will be immediately followed by proceedings on a Supply and Appropriation (Adjustments) Bill. A Bill of this kind provides the actual legislative authority for the Government to spend money – technically, the Estimates motions are only resolutions allowing the Bill to be brought in.¹⁰

Under the Standing Orders of the House of Commons, proceedings on Supply and Appropriation Bills are purely formal, with the votes for second and third reading being put forthwith (that is, without debate or amendment).¹¹

¹⁰ Erskine May, paragraph 34.35, [Supply and Appropriation Bills](#)

¹¹ [Standing Orders of the House of Commons: Public Business 2021, SO 56](#)

2 Estimate for the Department for Business, Energy and Industrial Strategy

2.1 Background

Wholesale energy prices have increased sharply in 2022, due mainly to Russia's invasion of Ukraine. As a result, domestic energy prices have also increased, with Ofgem's price cap for summer 2022 reaching levels 54% higher than in winter 2021/22. Originally, the price cap for winter 2022/23 was set to be 80% higher again. Further details and some more background context can be found in the Commons Library briefing [Domestic energy prices](#).

In response to these higher prices, the Government has introduced the [Energy Prices Bill](#), which had all of its Commons stages on 17 October 2022. This Bill implements the Government's [Energy Price Guarantee](#) (EPG) and [Energy Bills Relief Scheme](#) (EBRS), among other things. Considerably more detail and background context can be found in the Library's briefing [Energy Prices Bill 2022/23](#).

The Library briefing also lists estimates of the cost of these schemes. The total cost is very uncertain (as it depends on wholesale gas prices, and the amount of energy that people use, among other things), but the Government has estimated that the Energy Price Guarantee alone could cost around £95 billion in Great Britain over two years (and £2 billion in Northern Ireland). Estimates from other organisations vary from £72 billion to £140 billion over the same timescale.

Over the next six months (which is roughly the amount of time before a Supplementary Estimate could be brought in on the normal timescale), the Government estimates that the EPG could cost £31 billion and the EBRS £29 billion; these are the main amounts being requested in the Estimate.

2.2 Content of the Estimate

Budgets within the Estimate

BEIS's spending is broken down into several different spending totals, for which Parliament's approval is sought through the Estimates process. The spending totals which Parliament votes are:

- Resource Departmental Expenditure Limit (Resource DEL) - day to day running costs;
- Capital Departmental Expenditure Limit (Capital DEL) - investment in infrastructure, Research and Development;
- Resource Annually Managed Expenditure (Resource AME) - less predictable day to day spending: in BEIS's case, the new schemes for Energy Price Guarantee and Energy Bill Relief, together with the Renewable Heat Incentive, redundancy and shared parental leave payments, movements in the value of nuclear decommissioning and other provisions and movements in the fair value of liabilities incurred for Contracts for Difference (CFD) for the supply of low carbon electricity; and
- Capital Annually Managed Expenditure (Capital AME) - largely movements in the Post Office Working Capital Loan and surpluses in Coal Pension schemes, plus since 2020/21 the financial guarantees provided to lenders for Coronavirus business loan schemes.

Estimate Allocations

The Out-of-Turn Estimate for the Department for Business, Energy and Industrial Strategy contains increased allocations for both Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME) budget areas. Since the Main Estimate for 2022/23, the following changes have been made:¹²

- Resource DEL has **increased by £176.0 million (+1%)**, from £16,320.9 million to £16,496.9 million.
- Capital DEL has not changed from the Main Estimate allocation of £19,059.5 million.
- Resource AME has **increased by £60,000.0 million (+108%)**, from £55,335.5 million to £115,335.5 million.
- Capital AME has not changed from the Main Estimate allocation of £3,696.5 million.

Resource AME

The additional £60,000.0 million of Resource AME sought by the out-of-turn Estimate is to provide funding for energy bill support schemes. It will be used for the energy support packages announced in September and will last until March 2023:

¹² HM Treasury, [Out-of-Turn Supplementary Estimates 2022-23](#), 18 October 2022

- £31,000.0 million increase for the Energy Price Guarantee¹³ (including the suspension of green levies), implementing a per unit price cap for domestic energy users; and
- £29,000.0 million increase for the Energy Bill Relief Scheme,¹⁴ implementing a per unit price cap for non-domestic energy users.

As the EPG and EBRS schemes are per unit caps on energy costs to consumers, their cost to BEIS will be dependent on the wholesale price of energy, along with variable demand from consumers. The schemes are therefore demand led, and less predictable than traditional Resource DEL (or day-to-day) expenditure. BEIS have therefore sought the funding through their Resource AME budget.

Resource DEL

The additional £176.0 million sought by the out-of-turn Estimate is for the Energy Bills Support Scheme (EBSS) for Northern Ireland. The EBSS provides a £400 discount on energy bills for all domestic households, split over the winter months.

Energy policy is a devolved issue in Northern Ireland, so funding would usually be provided to the Northern Ireland Executive to implement the EBSS or a similar scheme. Due to the absence of an Executive in Northern Ireland, BEIS are seeking £176 million in Resource DEL to implement the scheme in Northern Ireland.

This decision was taken after the Main Estimates 2022/23 were published on 12th May 2022, and therefore BEIS are requesting the funding through the out-of-turn Estimate. An additional £166.0 million of funding originally allocated to Northern Ireland in the Main Estimate will be transferred to BEIS in the usual Supplementary Estimate round in early 2023.

Change to the BEIS departmental ambit

The out-of-turn Estimate includes changes to the BEIS departmental ambit.

An ambit is a description of what the funding sought in the Estimate will be spent upon. Departments can only incur expenditure that is reflected in the relevant ambit. The accounts will be qualified by the auditor if expenditure is incurred which falls outside the ambit.¹⁵

The ambit has been updated to include the following:

¹³ Department for Business, Energy and Industrial Strategy, [Energy bills support factsheet](#), 12 October 2022

¹⁴ Department for Business, Energy and Industrial Strategy, [Energy Bill Relief Scheme: help for businesses and other non-domestic customers](#), 10 October 2022

¹⁵ House of Commons Scrutiny Unit, [Finance glossary](#), 25 July 2017

- All sections – “The Energy Security Strategy, to enable or encourage the supply of energy, including acquisition, and making available or enabling access at government expense to, energy or related infrastructure”; and
- Annually Managed Expenditure: expenditure – “Support for consumer and household, business and other non-domestic energy bills”.

The changes reflect the additional areas of expenditure arising from the Energy security strategy and the Energy bills schemes respectively.

According to HM Treasury’s Supply Estimates guidance manual, departments should ordinarily consult HM Treasury before making any significant changes to their Estimate, and “they may also need to consult their relevant departmental select committee in the House of Commons”.¹⁶

The guidance manual explicitly names “significant changes to an ambit” as an instance where HM Treasury must be consulted, and the relevant select committee may also need to be consulted. There is no record of BEIS having consulted the select committee on this change to the ambit.

¹⁶ HM Treasury, [Supply Estimates guidance manual](#), 22 July 2011, paragraph 1.40

3 Estimate for HM Treasury

3.1 Background

Following the 2008/2009 financial crisis, the Bank of England began a programme of quantitative easing. Broadly speaking, the Bank bought financial assets to boost demand in the economy. Quantitative easing was expanded following the EU referendum result and, more significantly, during the coronavirus pandemic.

The Bank carries out its quantitative easing programme through a special purpose vehicle called the Bank of England Asset Purchase Facility (APF).¹⁷ Through the APF, the Bank has purchased financial assets (mainly government bonds) from private investors such as pension funds and insurance companies. The aim of these purchases was to lower the interest rates on assets, which should feed through to lower interest rates on loans for households and businesses. Spending in the economy should be boosted.¹⁸

The APF finances the purchases through a loan provided by the Bank. The interest rate the APF pays on the loan is Bank Rate, which is the headline rate of interest set by the Bank's Monetary Policy Committee. The APF therefore has an exposure to interest rate risk: it has borrowed at the floating Bank Rate and has invested in a range of fixed-rate assets.

The Treasury indemnifies the APF and Bank against any direct losses. The Treasury also receives any running profits, which occur when Bank Rate is lower than the average income from the assets held in the APF.

Thus far, the Treasury has been receiving profits from the APF, as Bank Rate has been sufficiently low. The Treasury estimates that the "APF has transferred circa £120 billion of excess cash to HMT from interest payments on purchased gilts."¹⁹ However, it has been known since the scheme's inception that the cash flows would eventually reverse, with the then-Governor of the Bank of England Mervyn King saying in 2012 that "under reasonable assumptions it is likely that the majority of any transfer of funds to the Government will eventually need to be reversed".²⁰

The Bank of England has been raising Bank Rate since December 2021 and the APF has begun unwinding quantitative easing. The Bank has not been purchasing replacement assets when assets mature and from November 2022

¹⁷ Other schemes are also now delivered through the APF. For instance, the Bank's recent purchases of long-dated gilts were carried out through the APF: see [HCWS319 Update on recent Bank of England asset purchases](#)

¹⁸ Bank of England. [What is quantitative easing?](#) [accessed on 18 October 2022]

¹⁹ Andrew Griffith MP (19 October 2022). [HCWS330 Contingencies Fund Advance](#).

²⁰ Mervyn King (9 November 2012). [Governor's letter to the Chancellor](#).

will begin selling some assets.²¹ The unwinding will crystallise the APF's losses on the assets it has purchased. The losses arise because the assets were purchased for a higher price than they will be sold for.

The APF is now in a position where the Treasury will need to make payments to it, under the Treasury's indemnity.

3.2

Content of the Estimate

Estimate Allocation

The out-of-turn Estimate for HM Treasury contains an increased allocation for Capital Annually Managed Expenditure (Capital AME). Since the Main Estimate for 2022/23, the following changes have been made:²²

- Resource DEL has not changed from the Main Estimate allocation of £366.6 million.
- Capital DEL has not changed from the Main Estimate allocation of £9.7 million.
- Resource AME has not changed from the Main Estimate allocation of £20,210.4 million.
- Capital AME has **increased by £11,175.0 million**, from £1,408.1 million to £12,583.1 million (+**793.6%**).

The increase of £11,175.0 million in Capital AME has also led to a corresponding increase in Net Cash Requirement.

Capital AME

The additional £11,175.0 million of Capital AME sought by the out-of-turn Estimate is to fund payments to the APF under the terms of its Indemnity by HM Treasury.

HM Treasury have classified the payments as Capital AME. The Consolidated Budgeting Guidance says that all areas of spend are generally DEL unless classified as AME by the Chief Secretary of the Treasury, for example because "they are not only demand-led but also exceptionally volatile in a way that could not be controlled by the department and where the areas of spend are so large that departments could not be expected to absorb the effects of

²¹ Bank of England. [Interest rates and Bank Rate](#) [accessed on 18 October 2022]

²² HM Treasury. [Central Government Supply Estimates 2022-23 - Out-of-Turn Supplementary Estimates](#) [accessed 20 October 2022]

volatility in their DELs”. Financial transactions are one of the main areas of capital budget.²³

Timing of the Estimate

As mentioned above in the Background section, it has been known for a long time that HM Treasury would eventually need to make cash payments to APF, particularly in the event of an increase in Bank Rate, the Bank of England unwinding quantitative easing, or other capital losses on gilt holdings.²⁴

When the 2022/23 Main Estimate was published in May 2022,²⁵ Bank Rate had risen repeatedly from 0.1% in December 2021 to 1% on 4 May 2022,²⁶ and the Bank had announced its intention to begin unwinding quantitative easing (it had already ceased reinvestment of bonds reaching maturity and, in its meeting of 4 May 2022, the Monetary Policy Committee confirmed that Bank staff had been asked to work on a strategy for selling the APF’s government bonds).²⁷

Despite that, the scale and speed of the impact leading to cash flowing from HM Treasury to APF may have been unexpected by HM Treasury, leading to this out-of-turn Estimate. It is also not clear how much of the impact may have been caused by events after the publication of the Main Estimate, for instance the hit to the gilt markets after the publication of the Government’s Growth Plan in September 2022.

Advance from the Contingencies Fund

Of the additional £11,175.0 million of net cash requirement sought by this out-of-turn Estimate, £828.3 million was advanced from the Contingencies Fund as cash required in before the laying of the Estimate. The amount requested in the Estimate is not reduced, as a corresponding amount is required to enable repayment to be made to the Contingencies Fund by November 2022.

Ordinarily, for payments such as this that are already covered by the existing ambit of the Estimate, the Contingencies Fund would be used to cover the period until the Supplementary Estimate at the start of the next calendar year. However, the Contingencies Fund is limited by the Contingencies Fund Act 1974 to 2% of the total authorised Supply expenditure (specifically the total of all authorised departmental net cash requirements) in the preceding financial year (in this case 2021/22).²⁸ As such, the limit in 2022/23 is

²³ HM Treasury. [Consolidated Budgeting Guidance 2022-23](#), section 1.47 [accessed 20 October 2022]

²⁴ HM Treasury (9 November 2012). [Changes to cash management operations](#) [accessed 20 October 2022]

²⁵ HM Treasury (12 May 2022). [Main Supply Estimates 2022 to 23](#) [accessed 20 October 2022]

²⁶ Bank of England. [Interest rates and Bank Rate](#) [accessed on 20 October 2022]

²⁷ Bank of England. [Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 4 May 2022](#) [accessed on 20 October 2022]

²⁸ HM Treasury. [Supply Estimates: a guidance manual](#), section 5.6 [accessed on 20 October 2022].

£15,135.9 million²⁹ for the Contingencies Fund to use for all Government departments, and this would be substantially used up by the requested increase of £11,175.0 million, potentially causing cash flow problems across Government. As a result, this out-of-turn Estimate has been submitted instead of relying on the Contingencies Fund.

²⁹ 2% of £756,793 million, per HM Treasury, [Central Government Supply Estimates 2021-22 – Supplementary Estimates](#), Table 1 [accessed on 20 October 2022].

4 Further reading

4.1 Financial procedure and Estimates

- Commons Library briefing CBP-9563, [Main Estimates: Government spending plans for 2022/23](#)
- HM Treasury, [Main Supply Estimates 2022 to 23](#), 23 June 2022
- HM Treasury, [Supply Estimates guidance manual](#), 22 July 2011
- Commons Library briefing CBP-9155, [Contingencies Fund \(No.2\) Bill](#)

4.2 Energy bills

- Commons Library briefing CBP-9491, [Domestic energy prices](#)
- Commons Library briefing CBP-9461, [Energy Bills Support Scheme: Government policy and FAQs](#)
- Commons Library briefing CBP-8081, [Energy bills and the price cap](#)
- Commons Library briefing CBP-9642, [Energy Prices Bill 2022/23](#)

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