

House of Commons
Committee of Public Accounts

EXCESS VOTES 2001–02

Seventh Report of Session 2002–03

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*Together with the
Proceedings of the Committee
relating to the Report*

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Committee of Public Accounts

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Footnotes

In the footnotes of this Report, references to oral evidence are indicated by ‘Q’ or ‘Qq’ followed by the question number; references to the written evidence are indicated by the page number as in ‘Ev’.

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SEVENTH REPORT

The Committee of Public Accounts has agreed to the following Report:

EXCESS VOTES 2001–02

INTRODUCTION

1. The Report by the Committee of Public Accounts on Excess Votes is part of the framework of Parliamentary control over government spending. Once the audited accounts of each Department have been laid in Parliament, the Committee meet to consider the reports by the Comptroller and Auditor General on the accounts of those Departments that have exceeded the limits of expenditure authorised by Parliament. The Committee's Report recommends whether Parliament should approve further grants to the Departments concerned, thereby authorising the excess expenditure. Where the Excesses are the results of failures in control within Departments, the Committee may make recommendations for improvements.

PARLIAMENTARY CONTROLS UNDER RESOURCE-BASED SUPPLY

2. 2001–02 saw an important change in Parliamentary control of expenditure: the long standing purely cash-based method was replaced by resource-based Supply. Under the new system, Parliament authorises and sets limits on departmental expenditure on two bases – 'resources' and 'cash'. Each Department has one Supply Estimate setting out the use of resources for one or more Requests for Resources, and cash to be applied to services in a Net Cash Requirement. These are incorporated into Appropriation Acts.

3. Requests for Resources are expressed on an accruals basis in terms of the objectives of the Department, and relate to current expenditure. Expenditure is recognised when it is incurred rather than when payment is made. Expenditure includes non-cash items such as the depreciation of fixed assets and notional interest on capital employed (the 'cost of capital' charge).

4. Amounts authorised for Requests for Resources are net of forecast income (for example from fees and charges) known as operating Appropriations in Aid. For each Request, Parliament separately authorises and sets a limit on the amount of operating Appropriations in Aid that can be applied towards meeting expenditure. Together, the amounts authorised represent a limit on the gross expenditure that may be incurred under each Request for Resources.

5. The Net Cash Requirement is the overall limit on the cash made available to the Department from the Consolidated Fund. A Department's Net Cash Requirement covers all of its Requests for Resources, plus its capital expenditure and other working capital requirements. Within the Net Cash Requirement, capital expenditure is offset by non-operating Appropriations in Aid, for which Parliament authorises a separate limit. This income is typically from the disposal of assets or recovery of loan capital and may only be applied towards capital expenditure.

6. In summary, for each Department, Parliament authorises amounts for:

- net limit(s) for one or more Requests for Resources;
- the amount of operating Appropriations in Aid that may be applied in addition to the net limit for each Request for Resources;
- the Net Cash Requirement; and

- the (single) amount of non-operating Appropriations in Aid that may be applied towards capital expenditure.

7. The Treasury also sets an Administration Costs Limit for most Departments, to promote economic and efficient administration. The Administration Costs Limit is disclosed in the Estimate, but is not voted on or set by Parliament. The Treasury will normally refuse an application to vire into the Administration Costs subhead, since the effect of doing so would be to circumvent the Administration Costs Limit. The refusal of virement approval brings the breach of the Administration Costs Limit to Parliament's attention through an Excess Vote, and is an extension of arrangements adopted under cash-based Supply.

SUMMARY OF THE EXCESSES IN 2001-02

8. The introduction of resource-based Supply has seen a significant increase in the number and value of Excesses. Fifty-nine Departments and Pension Schemes were granted Supply Estimates for 2001-02. Of these, eight incurred Excesses in the use of resources totalling £1.5 billion and four incurred Excesses in the application of cash totalling £200 million. In addition three Departments breached their Administration Cost Limits. The details of the Excesses and the Administration Cost Limit breaches are summarised in Tables 1 and 2.

9. The aggregate resource Excesses of £1,527 million represents 0.5% of total net resources of £284,621 million authorised for use by Parliament. The majority of the overspending on resources is attributable to four Departments:

- £602 million by the Ministry of Defence due to unforecast charges arising from decisions to withdraw certain defence assets from service and the reassessment of the operational capability of other defence assets;
- £562 million by the Department for Transport, Local Government and the Regions, including £456 million overspending on roads due to failures to distinguish properly between current and capital expenditure or allow fully for non-cash expenditure in its Estimate and in subsequent monitoring of outturn;
- £60 million by the Foreign and Commonwealth Office arising from errors in distinguishing between capital and current expenditure and a fall in the valuation of overseas properties; and
- £285 million by the Northern Ireland Office, where a breakdown in communications with the Treasury resulted in a request for additional funding being omitted from the Spring Supplementary Estimates.

The balance of the resource Excesses is attributable to four other Departments: the Postal Services Commission, the Royal Mint, the Serious Fraud Office and the Teachers' Pension Scheme.

10. The aggregate cash Excesses of £200 million represents less than 0.1% of the total sum of £280,622 million authorised for issue from the Consolidated Fund. The two principal cash Excesses were £148.7 million overspending by the Northern Ireland Office following the omission of its request for additional funds from the Spring Supplementary Estimates, and £50.9 million by the Department for Culture, Media and Sport following the prepayment to sponsored bodies of grant-in-aid funding for the financial year 2002-03. Other cash Excesses were incurred by the Postal Services Commission and the Serious Fraud Office.

11. Three Departments exceeded the Administration Costs Limits agreed with the Treasury: the Charity Commission, the Foreign and Commonwealth Office and the Serious Fraud Office.

Figure 1: Summary of 2001–02 Excess Votes required, excluding breaches of Administration Costs Limits

Department	Resource Excess £	Cash Excess £	Excess A-in-A to be applied to meet Resource Excess £	Excess A-in-A to be applied to meet Cash Excess £	Amounts to be voted	
					Resource £	Cash £
Department for Culture, Media and Sport	–	50,921,641.90 (2%)	–	–	–	50,921,641.90
Department for Transport, Local Government and the Regions (RfR2)	562,348,526.61 (6%)	–	6,363,266.82	–	555,985,259.79	–
Foreign and Commonwealth Office (RfR1)	59,853,207.72 (5%)	–	–	–	59,853,207.72	–
Ministry of Defence (RfR1)	601,816,500.45 (2%)	–	–	–	601,816,500.45	–
Northern Ireland Office (RfR5)	285,248,000.00 (4%)	148,702,911.36 (2%)	–	–	285,248,000.00	148,702,911.36
Postal Services Commission (RfR1)	325,564.49 (638%)*	352,471.22 (47%)	324,564.49	319,921.42	1,000.00	32,549.80
Royal Mint (RfR1)	225,752.00**	–	–	–	225,752.00	–
Serious Fraud Office (RfR1)	1,780,897.41 (8%)	298,647.03 (1%)	–	–	1,780,897.41	298,647.03
Teachers' Pension Scheme (England & Wales) (RfR1)	15,187,567.51 (1%)	–	15,186,567.51	–	1,000.00	–
Totals	1,526,786,016.19	200,275,671.51	21,874,398.82	319,921.42	1,504,911,617.37	199,955,750.09

Percentages are in relation to limits authorised by Parliament in the Appropriation Act

* The excess was 638% of the Postal Services Commission's Request for Resources of £51,000. The Department's estimated gross expenditure was £5.351 million, and estimated A-in-A was £5.3 million.

** The Royal Mint received a token Request for Resources of £1,000 so expressing the Excess as a percentage of the RfR is not meaningful.

Abbreviations

RfR = Request for Resources

A-in-A = Appropriation in Aid

Figure 2: Details of 2001–02 breaches of Administration Costs Limits

Department	Excess over Administration Costs Limit £	Amounts to be applied to meet the Excess		Amounts to be voted
		Savings £	Excess A-in-A £	Resource £
Charity Commission	424,952.51 (2%)	423,952.51	–	1,000.00
Foreign and Commonwealth Office	31,244,283.26 (5%)	–	–	Nil#
Serious Fraud Office	229,000.00 (1%)	–	–	Nil#
Totals	31,898,235.77	423,952.51	–	1,000.00

Substantive amounts are required to be voted for excess resource consumption (see Figure 1) and so no additional amounts are required for the breach of the Administration Costs Limit.

CONCLUSIONS AND RECOMMENDATIONS ON EXCESSES

12. Resource-based Supply places new demands on Departments' planning and control of expenditure. Departments are now required to forecast the resources they will consume in delivering services, including changes in the value of assets and liabilities for which they are responsible. We recognise the new challenges faced by Departments under resource-based Supply, but this does not diminish the seriousness of an Excess. We expect Departments to plan and control their consumption of resources and their cash requirements within the limits authorised through the Appropriation Act.

13. The requirement to manage within the Net Cash Requirement is essentially no different from the previous requirements of cash-based Supply, with which Departments should have been familiar. The four cash Excesses incurred in 2001–02 arise from circumstances that were within the control of the Departments concerned and could have been avoided if the required standards of financial control had been applied.

14. Several of the resource Excesses in 2001–02 could also have been avoided if Departments had taken the steps necessary to prepare for resource accounting and resource-based Supply. We noted that:

- (i) Some Departments still had not implemented full accruals accounting systems. As a consequence, they were unable to monitor and forecast properly their performance during the year and therefore they missed the opportunity to seek a Supplementary Estimate;
- (ii) Some Departments lacked sufficient skilled and trained finance staff, this contributed to their failure to identify overspending against budgets and take the necessary steps to control expenditure or, where appropriate, seek additional Supply;
- (iii) Some Estimates included errors in the classification between resource and capital expenditure; or were constructed on the basis of inappropriate accounting policies;
- (iv) In some Departments, the financial consequences of operational developments or decisions were not considered or realised fully at the time.

15. As the experience of 2001–02 shows, however, when preparing their resource budgets Departments will not always be able to anticipate the timing and nature of events that might affect their resource consumption. During the year, and sometimes after the year end, new events may occur or new information may emerge which will lead a Department to reassess the value of its assets and liabilities. The timing and nature of these events may be beyond the Department's control, and when such events fall close to or after the end of the financial year, prior Parliamentary authority for the resulting resource expenditure may not always be possible. For example, the actuarial valuation of pension liabilities which contributed £199 million to the Department for Transport, Local Government and the Regions' Excess was received by the Department after the end of the financial year. Similarly, the Ministry of Defence's decision to withdraw certain defence assets from service early shows how operational decisions taken close to the end of the financial year can have a material effect on resource outturn.

16. Parliament has traditionally authorised the overspending against provision by means of an Excess Vote, and we recommend that the sums set out in Tables 1 and 2 should be provided accordingly.

17. We take note of the actions identified by the Departments concerned to address the weaknesses that led to the Excesses in 2001–02. We will take a close interest in

monitoring the progress made by these Departments in bringing their financial management up to the standards necessary under resource-based Supply. We also look to the Treasury to bring our concerns to the attention of Departments more generally. In particular, we recommend that:

- (i) Departments should develop appropriate accruals-based financial systems to support their planning and monitoring of resource outturn as well as cash spending;
- (ii) Departments should take particular care to ensure that Requests for Resources are based on appropriate accounting policies, which properly distinguish between capital and current expenditure and are in line with the requirements of the Resource Accounting Manual;
- (iii) In their monitoring of resource outturn, Departments should pay particular attention to identifying the resource consequences of events and operational decisions, for example asset additions, disposals and revaluations or changes in demand for services, that may not have been allowed for in Estimates;
- (iv) Departments should ensure that all managers with budget responsibility are made aware through training of the resource consequences of operational decisions, and that all such decisions are communicated to finance staff at an early stage so that their effects on the Department's Estimates can be fully assessed;
- (v) Supplementary Estimates should be presented where Departments are faced with changes in circumstances which cannot be managed within the resource and cash limits; and
- (vi) The proposals presented by Departments should be formally acknowledged by the Treasury and the Estimates and Supplementary Estimates should be confirmed by Departments before presentation by the Treasury to Parliament.
- (vii) Accounting Officers have a personal responsibility to observe the limits on expenditure laid down by Parliament, whether in resource terms or in cash. They should give the highest priority to satisfying themselves that their Departments are able to fulfil that responsibility, within the new accrual accounting standards on which their Estimates are now based.

DETAILS OF THE EXCESSES IN 2001–02

Department for Culture, Media and Sport: Excess on the Net Cash Requirement

18. The Committee have considered the Comptroller and Auditor General's report on the Excess in the accounts of the Department for Culture, Media and Sport for 2001–02. The cash overspending of £50.9 million arose because, on 27 March 2002, the Department prepaid £153 million to sponsored bodies for grant-in-aid funding for the financial year 2002–03.

19. The prepayments were properly recorded as an asset on the Department's balance sheet at 31 March 2002, and will be charged against resource outturn in the Department's 2002–03 financial statements. However, in approving the pre-payment of grant-in-aid funding, the Department failed to recognise that the cash payments would be recorded against its net cash requirement for 2001–02.

20. The Department is reviewing the method of paying grant-in-aid to its sponsored bodies to avoid similar problems in the future.

Department for Transport, Local Government and the Regions: Excess on Request for Resources 2

21. The Committee have considered the Comptroller and Auditor General's report on the Excess in the accounts of the Department for Transport, Local Government and the Regions for 2001–02. Expenditure on Request for Resources 2 (Promoting modern, integrated and safe transport and providing customer-focused regulation) exceeded the authorised amount by £562 million.

22. The main components of the Excess were overspends of £456 million on roads by the Highways Agency and £96 million on railways, mainly the Channel Tunnel Rail Link, together with unforecast charges of £199 million to increase pension provisions and £74 million to cover the Department's losses on its stake in National Air Traffic Services (No 2) Limited. These excesses were partly offset by savings elsewhere. The Department remained within its Net Cash Requirement, and the excesses largely arose from failures to distinguish properly between current and capital expenditure or to allow fully for non-cash expenditure both in preparing Estimates and in subsequent monitoring of outturn. Some of the excesses were the result of adjustments made to reflect information which only became available after the end of the financial year.

23. The Highways Agency's £456 million overspending on roads was attributable to a number of factors. The Agency incurred £174 million of additional depreciation charges which were not reflected in its budget. The Agency also spent £128 million that had been classed as capital expenditure in its budget which related to maintenance rather than enhancement of the network and was therefore charged directly against the resource outturn. The Agency also did not budget for differences of £108 million between the valuation of completed construction work for new roads and road widening schemes and the cost of the work, which had to be written off against resource outturn. An increase in the Agency's provisions for bridge strengthening schemes contributed most of the remaining overspending.

24. The financial reporting and monitoring systems operated by the Agency during 2001–02 did not identify these additional resource costs at an early enough stage to enable the Department to seek a Supplementary Estimate. The Agency introduced an accruals based accounting and financial management system in May 2002, which is expected to be fully operational from April 2003. The new system should help the Agency to report and forecast the full accruing costs of its activities and so reduce the risk of Excesses in future.

25. In addition to the Highways Agency's overspending, unbudgeted expenditure by the Department in three other areas contributed a further £369 million to the Excess on Request for Resources 2. An extra £96 million was incurred by the Department on railway expenditure, mainly because grants for the Channel Tunnel Rail Link accrued at the year-end had not been included in the Estimate. Additional charges of £199 million were also incurred as a result of increases to provisions for pensions, principally for former railway employees, following actuarial reports received after the year-end. And an unexpected loss on the part disposal of the government's stake in National Air Traffic Services (No 2) Limited, combined with the government's share of the company's operating loss for the year, resulted in charges of £74 million to the resource outturn.

26. During 2001–02, the Department's financial procedures were not geared to producing accruals based information, and it lacked staff with appropriate financial management skills. This hampered the Department's ability to monitor its performance against its budgets on a full accruals basis during the year and so identify the likelihood of Excesses.

27. The Department has taken steps to improve its financial management which should help it to avoid incurring an Excess in the future. It implemented a new resource

accounting system in April 2002, and is reviewing its past budgeting performance. It is increasing the financial skills of its staff through an expanded managed training programme.

Foreign and Commonwealth Office: Excess on Request for Resources 1 and breach of the Administration Costs Limit

28. The Committee have considered the Comptroller and Auditor General's report on the Excess in the accounts of the Foreign and Commonwealth Office for 2001–02. The £59.8 million Excess against Request for Resources 1 (Promoting internationally the interests of the UK and contributing to a strong world community) and the breach of the Administration Costs Limit by £31.2 million occurred because of failures to distinguish properly between current and capital expenditure and a fall in the valuation of some overseas properties.

29. The Foreign and Commonwealth Office carried out a review of its expenditure which identified that £42.5 million of transactions, mainly for property maintenance, had been correctly classified as capital. The Department reclassified these transactions as current expenditure, to comply with the Resource Accounting Manual and accounting standards. This reclassification was the main reason for the overspending of £46.5 million on Subhead A (Administration, international organisations, programmes and monitoring subscriptions) and for the breach of the Administration Costs Limit. It also led to the Department underspending its capital expenditure budget by £49.7 million. There was also overspending of £2.9 million on Subhead B (World Service Broadcasting Grant-in-aid).

30. The Department also carried out a routine triennial revaluation of some of its overseas properties, which resulted in a write-down in value of £14.1 million and a corresponding charge against the resource outturn. This charge, to some extent offset by savings elsewhere, contributed to the £10.4 million excess of expenditure on Subhead C (Administration Costs within the Department's Annually Managed Expenditure).

31. The Department made savings of £3.3 million in aggregate on other subheads, but the Treasury refused approval for those savings to be vired into Subheads A to C. As a result, the Excess Vote requested of £59.8 million is £3.3 million higher than the net overspending on Request for Resources 1 of £56.5 million as shown in the Department's resource accounts.

32. The Department is taking action to improve its financial management and is investing in a new computerised system for accounting and human resource management which will be implemented in stages from Summer 2003 onwards. It is also reviewing its administrative and capital budgets for 2002–03 with a view to seeking timely Parliamentary approval for any necessary adjustments.

Ministry of Defence: Excess on Request for Resources 1

33. The Committee have considered the Comptroller and Auditor General's report on the Excess in the accounts of the Ministry of Defence for 2001–02. The excess of £601.8 million against Request for Resources 1 (Provision of Defence Capability) occurred because of unforecast charges arising from decisions to withdraw certain defence assets from service and the reassessment of the operational capability of other defence assets.

34. On 28 February 2002 the Minister of State for the Armed Forces announced that the Royal Navy's fifty-six Sea Harrier FA2 aircraft were to be withdrawn from service by 31 March 2006, six years earlier than planned. Fifteen aircraft were identified for immediate disposal; their value and the associated development costs, totalling £262 million, were written off immediately. Extra depreciation charges of £24 million were recorded against

the remaining Sea Harriers, to reflect the shortening of their expected useful life, bringing the total effect of the decision on the Department's 2001–02 resource outturn to £286 million.

35. At or after the year end, the Department also carried out reviews that identified other assets which no longer met their planned capability. Additional charges were included in the resource outturn to reflect the reduction in the balance sheet value of these assets. They included £106 million against Skynet satellites, £76 million relating to the disposal of other aircraft, £59 million for a class of submarine, and £175 million for other fighting equipment and spares holdings. In total, these extra impairment and depreciation charges amounted to £702 million. Savings on other items reduced the net Excess on Request for Resources 1 to £602 million.

36. In 2001–02, the Department's financial monitoring concentrated on remaining within the Treasury spending controls, which excluded depreciation, cost of capital charges and other non-cash items. Consequently, the Department did not consider the effect of the decision to withdraw assets early on its resource outturn. It did not seek additional resource provision through the Spring Supplementary Estimate.

37. To help prevent an Excess during 2002–2003, the Department has implemented a more effective system for monitoring all resource consumption during the year, and will review closely forecasts of non-cash expenditure when considering the need for a 2002-03 Spring Supplementary Estimate.

Northern Ireland Office: Excesses on Request for Resources 5 and the Net Cash Requirement

38. The Committee have considered the Comptroller and Auditor General's report on the Excess in the accounts of the Northern Ireland Office for 2001–02. The excess of £285.2 million against Request for Resources 5 (Transfers to the Northern Ireland Consolidated Fund) and cash overspending of £148.7 million was caused by a breakdown in communications between the Treasury and the Northern Ireland Office. As a result, a request for additional funding for the Northern Ireland Consolidated Fund was not included in the Spring Supplementary Estimates.

39. The Department of Finance and Personnel (part of the Northern Ireland Executive) presented the Northern Ireland Office with a request for an increase in funding of £62 million for the Northern Ireland Consolidated Fund to be voted as part of the Spring Supplementary Estimates in March 2002. This request was subsequently increased by £285 million to £347 million, following the identification of a requirement for additional funding.

40. The Northern Ireland Office told the Comptroller and Auditor General that it had sent this additional request for funds to the Treasury by e-mail. The e-mail was incorrectly addressed, however, and there was no record that it was received by the Treasury. There was a further failure in communications between the Departments when the Treasury e-mailed the draft Supplementary Estimate, excluding the additional £285 million, to the Northern Ireland Office for confirmation. In the absence of a response from the Northern Ireland Office, the Treasury assumed that the original request of £62 million was correct. Consequently, the extra £285 million in resources and cash was not included in the Supplementary Estimate. It was only when the Spring Supplementary Estimates were published that the omission was discovered. In the absence of Parliamentary approval for the additional funding from the Consolidated Fund, the Department of Finance and Personnel's funding requirements were met through funds held by the Northern Ireland Office and the Contingencies Fund.

41. The Treasury is reviewing the system for obtaining confirmation of funding requirements.

Postal Services Commission: Excesses on Request for Resources 1 and the Net Cash Requirement

42. The Committee have considered the Comptroller and Auditor General's report on the Excess in the accounts of the Postal Services Commission for 2001–02. The Excess of £325,564 against Request for Resources 1 (Ensuring the provision of a universal postal service at a uniform tariff, protecting consumers, and promoting competition) and cash overspending of £352,471 occurred because the Postal Services Commission, a relatively new body, failed to make appropriate provisions for changes in its circumstances.

43. The Postal Services Commission was established in November 2000. Its policy is to recover its costs in full through licence fees charged to companies operating in the licensed postal market. As a new regulatory entity the Department found it difficult to predict reliably how its workload would develop, and what resources it would require. In its Main Estimate for 2001–02, the Department requested the same level of resources and cash as in 2000–01 (its first year), and as the Department expanded, it obtained Winter and Spring Supplementary Estimates to cover its increasing costs.

44. The Department made certain errors in preparing its Main and Supplementary Estimates. Firstly, it included in its Estimates £750,000 for cash expenditure on fixed asset additions, but it did not take into account the effect of those additions on its resource outturn. As a result, depreciation and cost of capital charges for the year were £316,000 higher than budgeted. Secondly, the Department increased its charges to the licensee companies to recover its increased costs, but it failed to seek an increase in the limit on operating appropriations in aid. Therefore, additional operating income of £326,000 could not be offset against the higher expenditure. Thirdly, the Department did not make any allowance in its Estimates for the effect of changes in working capital balances on the Net Cash Requirement. An adverse working capital movement resulted in a net cash outflow of £402,000.

45. During the year, the Department used cash-based reports to monitor its expenditure and attempted to adjust these to an accruals basis through manual processes. It lacked sufficient skilled finance staff to do this work.

46. Since the year end, the Department has recruited a new Head of Finance and plans to implement an accruals based accounting system. Forecast cash and resource outturn are now reviewed closely against budgets at regular stages during the year and follow-up action is taken where appropriate.

Royal Mint (Wider Commercial Operations): Excess on Request for Resources 1

47. The Committee have considered the Comptroller and Auditor General's report on the Excess in the Royal Mint (Wider Commercial Operations) Accounts for 2001–02. The Excess of £225,752 against Request for Resources 1 (Increasing the commercial focus of the Royal Mint thereby increasing its competitiveness in the UK and overseas) occurred because the income from these new services was insufficient to cover the expenditure incurred.

48. The Royal Mint is an executive agency and operates as a trading fund. During 2000–01 and 2001–02, the Agency also engaged in the development of wider commercial operations, involving manufacturing and trading in 'non-coin' gifts and collectibles, such as jewellery and crystal. As these wider commercial operations were outside the scope of its Trading Fund Order, the Agency obtained Supply provision from Parliament. The

Estimate was a token £1,000 as the Agency expected to make a profit on the new product lines.

49. In preparing its Estimate, the Agency's management assumed incorrectly that promotional and development expenditure on the new product lines would generate sufficient revenue to cover the expenditure in 2001–02. The Agency's finance staff were unfamiliar with the requirements of Parliamentary Supply, so they failed to appreciate the implications of the shortfall in revenues for the Resource Accounts. Additionally, the Agency's accounting system did not readily provide management information on the performance of individual product lines, which meant that the excess was not identified and reported to senior management until after the end of the financial year.

50. From 1 April 2002 the Royal Mint's Trading Fund Order was amended to enable the Agency to administer and report its wider commercial operations within the Trading Fund. The inclusion of non-coin operations within the Trading Fund will remove the Agency from the Supply procedure and so prevent a similar Excess Vote recurring. However, the Agency will need to review and strengthen the management accounting and budgetary processes in respect of its wider commercial operations to ensure that they are commercially viable.

Serious Fraud Office: Excesses on Request for Resources 1, the Net Cash Requirement and breach of the Administration Costs Limit

51. The Committee have considered the Comptroller and Auditor General's report on the Excesses in the accounts of the Serious Fraud Office for 2001–02. The £1.78 million excess against Request for Resources 1 (Reducing fraud and the cost of fraud and delivering justice and the rule of law), cash overspending of £299,000, and breach of the Administration Costs Limit by £229,000 occurred because the Department did not have the financial systems in place to manage its expenditure on a resource basis properly during the year, and overestimated its operating income.

52. The management and financial accounting systems used by the Department during 2001–02 were cash-based. Consequently, the Department could only assess fully its performance on an accruals basis after the year-end. The Department attempted to monitor accrued expenditure during the year by adding an assumed value for month end accruals to the cash figures each month. It assumed that the value of accruals would remain constant throughout the year, but in fact the value of trade creditors and accruals increased by £1 million between 31 March 2001 and 31 March 2002. This meant that expenditure on a resource basis was £1 million higher than expenditure on a cash basis. The Department did not identify the extra resource expenditure until it began work on preparing its resource accounts after the year end.

53. The majority of the Serious Fraud Office's workload is from referrals of alleged fraud from various sources, including the Police, and the Crown Prosecution Service. This creates uncertainty in demand which makes the Department's expenditure difficult to estimate. During 2001–02 the Department lacked reliable in-year accruals information and so management were not able to anticipate an Excess arising.

54. The Department receives operating income from costs awards which may result from a successful prosecution. For each successful prosecution, the Courts decide if costs should be awarded to the Department, and at what amount. The amount and timing of income is outside the Department's control which makes accurately estimating income difficult. The Department estimated operating Appropriations in Aid of £470,000, for 2001–02 an amount similar to the cost awards in preceding years. However, actual cost awards in 2001–02 were only £19,000.

55. In order to reduce the risk of an Excess recurring, the Department has committed to implementing a system capable of supplying in-year accruals information for the 2003–04 financial year, with interim procedures in place for 2002–03.

Teachers' Pension Scheme (England and Wales): Excess on Request for Resources 1

56. The Committee have considered the Comptroller and Auditor General's report on the Excess in the accounts of the Teachers' Pensions Scheme (England and Wales) for 2001–02. The excess of £15.2 million against Request for Resources 1 (Teachers' pensions) occurred because of a change in accounting policy for premature retirement compensation and the correction of accounting estimates.

57. The Teachers' Pensions Scheme makes pension payments to teachers who retire at the normal age or take early retirement. Where teachers are granted early retirement, employers may discharge their liability for the extra pension payments up to normal retirement age of 60 by making a lump sum payment to the Scheme.

58. After the end of the financial year, the Scheme made two retrospective changes in the way it accounted for early retirement liabilities. These changes resulted in additional charges against resource outturn which were not included in the Scheme's Estimates. A change in accounting policy was made to ensure that the Scheme's financial statements included all income and expenditure relating to early retirement transactions for which it was responsible. This resulted in an additional charge of £11.7 million against resource outturn. A further charge of £3.5 million was incurred following a revision to the Scheme's method for estimating its liabilities for early retirement.

59. Since these changes were identified after 31 March 2002, it was not possible for the Scheme to apply to increase the Request for Resources via a Supplementary Estimate.

60. The Scheme proposes to avoid similar problems in the future by agreeing accounting policies at an early stage in the financial year and improving the monitoring and control of in year expenditure.

Charity Commission: breach of the Administration Costs Limit

61. The Committee have considered the Comptroller and Auditor General's report on the Excess in the accounts of the Charity Commission for 2001–02. The breach of the Administration Costs Limit by £424,953 occurred because the Department did not ensure that its Administration Costs were properly forecast in its Estimate, and did not have in place the management and financial systems necessary to budget for and monitor outturn on an accruals basis.

62. The Treasury sets the Administration Costs Limit for Departments based on information held in its Public Expenditure Survey (PES) database in respect of previous years. Departments are required to review the figures in the database and propose updates where necessary. The Charity Commission failed to do this and the revisions necessary to reflect changes in activity levels between 2000–01 and 2001–02 were not reflected in the Department's Administration Costs Limit. This included a failure to allow for £165,000 to be paid to early retirees in 2001–02.

63. The management and financial accounting systems used by the Department during 2001–02 were cash-based. Consequently, the Department could only assess fully its performance on an accruals basis after the year-end. The Department's financial control was weakened further by a shortage of qualified accountants. In particular, there was no Head of Finance from November 2001 to March 2002.

64. The Department has taken steps to improve its financial monitoring and control processes to reduce the likelihood of a future Excess. These include a tightening of procedures for forecasting and reporting against expenditure estimates, recruiting two additional accountants, and upgrading to accruals-based financial systems.

MINUTES OF PROCEEDINGS OF
THE COMMITTEE OF PUBLIC ACCOUNTS

SESSION 2002–03

WEDNESDAY 5 MARCH 2003

Members present:

Mr Richard Bacon
Mr Geraint Davies
Mr David Rendel

Mr Gerry Steinberg
Mr Alan Williams

In the absence of the Chairman, Mr Alan Williams was called to the Chair.

Sir John Bourn KCB, Comptroller and Auditor General, was further examined.

The Committee deliberated.

Mr Brian Glicksman, Treasury Officer of Accounts, was further examined.

* * * * *

Draft Report (Excess Votes 2001–02), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Paragraph 17 read, amended and agreed to.

Paragraphs 18 to 64 read and agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

* * * * *

[Adjourned until Wednesday 12 March at half past Three o'clock.]

REPORTS BY THE COMMITTEE OF PUBLIC ACCOUNTS
SESSION 2002–03

		<i>Publication Date</i>
1	Collecting the Television Licence Fee (HC 118)	18/12/02
	Government Reply (Cm 5770)	06/03/03
2	Dealing with pollution from ships (HC 119)	09/01/03
	Government Reply (Cm 5770)	06/03/03
3	Tobacco Smuggling (HC 143)	10/01/03
	Government Reply (Cm 5770)	06/03/03
4	Private Finance Initiative: redevelopment of MOD Main Building (HC 298)	30/01/03
5	The 2001 outbreak of Foot and Mouth Disease (HC 487)	14/03/03
6	Ministry of Defence: Exercise Saif Sareea II (HC 502)	12/03/03
7	Excess Votes 2001–02 (HC 503)	19/03/03
8	Excess Votes (Northern Ireland) 2001–02 (HC 504)	19/03/03

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