



House of Commons
Committee of Public Accounts

Excess Votes 2002–03

**Thirteenth Report of
Session 2003–04**

Report together with formal minutes

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The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/committee_of_public_accounts.cfm. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Leslie Young (Committee Assistant), and Ronnie Jefferson (Secretary).

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Summary

Introduction

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 regularising the excess expenditure. Where the Excesses are the results of failures in control within Departments, the Committee may make recommendations for improvements.

Resource-based Supply was introduced in 2001–02. It requires Departments to forecast and manage the resources they will consume in delivering services, including changes in the value of assets and liabilities for which they are responsible, as well as their cash spending.

Conclusions and recommendations

1. In 2002–03 the second year of resource-based Supply, the total value of the Excesses incurred by Departments was much lower than in 2001–02. In 2002–03 five Departments incurred resource Excesses with a total value of £18.7 million, compared with £1,527 million incurred by eight Departments in 2001–02. There was one cash Excess in 2002–03 of £1,188, compared with four in 2001–02 totalling £200 million.
2. We welcome the reduction in the total value of resource and cash Excesses incurred between 2002–03 and 2001–02. This does not, however, diminish the significance of the individual Excesses. We expect Departments to plan and control their consumption of resources and their cash requirements within the limits authorised through the Appropriation Act.
3. Most of the resource Excesses in 2002–03 could have been avoided if the Departments concerned had correctly operated the resource accounting and resource-based Supply procedures. Errors in the preparation of Estimates and the failure to monitor and forecast properly financial performance during the year resulted in Departments not identifying overspending against budgets. As a consequence they did not recognise the need to take the steps to control expenditure and, where appropriate, seek additional Supply.
4. The presentation of audited resource accounts to Parliament in accordance with the statutory deadline is fundamental to Supply procedure and Parliament's control over the annual expenditure of departments. We are therefore very concerned that the Cabinet Office did not prepare its 2002–03 resource accounts and transmit these to the Comptroller & Auditor General by 30 November 2003, as required by the Government Resources and Accounts Act. Instead the accounts were transmitted on 23 January 2004 leaving insufficient time for them to be audited by the statutory deadline of 31 January 2004.
5. We note the Cabinet Office's reported resource Excess of £2.4 million and the reasons given for the overspending and we also note that limitations on the Comptroller & Auditor General's audit prevented him from expressing an opinion on the accounts, and the accuracy of the net resource outturn. We are particularly concerned about the significant reduction in finance staff which contributed to these problems. The Cabinet Office is taking steps to strengthen its financial management capability and to address the failures in its financial reporting. We expect them to give these high priority and to ensure that they provide the Comptroller & Auditor General with 2003–04 resource accounts of an auditable quality in accordance with the statutory deadline. The Comptroller & Auditor General has said that he will report to this Committee if his examination of the 2003–04 resource accounts calls in to question the net resource outturn for 2002–03 reported by the Cabinet Office.
6. Accounting Officers have a personal responsibility to observe the limits on expenditure laid down by Parliament, whether in resource or cash terms. They should give the highest priority to satisfying themselves that their departments can fulfil that responsibility under resource-based Supply. We expect the Treasury to

bring our concerns to the attention of Departments more generally and in particular that:

- i. Departments must ensure that resource accounts of an appropriate quality are submitted to the Comptroller & Auditor General for examination in accordance with the timetable laid down in statute;
 - ii. Departments should provide the financial staff to maintain and develop the quality and timeliness of their financial management and reporting;
 - iii. Departments, where they have not already done so, should implement appropriate accruals-based financial systems to support their planning and in-year monitoring of resource outturn as well as cash spending;
 - iv. Departments should ensure that Requests for Resources properly distinguish between capital and revenue expenditure and are in line with the requirements of the Resource Accounting Manual; and
 - v. In monitoring resource outturn, Departments should identify the resource consequences of changes in the valuation of fixed assets, including any impairment to those assets, that have not been allowed for in Estimates.
7. Parliament has traditionally authorised the overspending against provision by means of an Excess Vote, and we recommend that the sums set out in Figures 1 and 2 should be provided accordingly.

1 Summary of the Excesses in 2002–03

1. In 2002–03 Parliament authorised total net resources of £319,659 million in Supply Estimates granted to 57 Departments and Pension Schemes. Altogether, six Departments incurred Excess Votes. Five of these were Excesses in the use of resources totalling £18.7 million, and one of the Departments also incurred an Excess in the application of cash of £1,188. Two Departments also breached their Administration Cost Limits. The details of the Excesses and the Administration Cost Breaches are summarised in Figures 1 and 2.

2. The majority of the overspending is attributable to two departments: the Home Office incurred an Excess of £14.4 million because it failed to distinguish between maintenance and capital expenditure in its budgets for prison maintenance; and the Cabinet Office incurred an Excess of £2.4 million because of a fall in the value of assets acquired to support the work of the e-Envoy.

3. The number and value of Excesses in 2002–03 has fallen significantly from the previous year, when resource based supply was introduced. In 2001–02, eight Departments incurred Excesses in the use of resources totalling £1,527 million, four Departments incurred Excesses in the application of cash totalling £200 million, and three Departments breached their Administration Cost Limits.

Figure 1: Summary of 2002–03 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
					£	£
Home Office	14,358,588.20 (0.6%)	-	1,725,767.97	-	12,632,820.23	-
Office of Her Majesty's Chief Inspector of Schools in England	1,554,373.15 (0.08%)	1,188.38	-	-	1,554,373.15	1,188.38
Office of the Rail Regulator (ORR)	444,298.30 (3.4%)	-	3,000.00	-	441,298.30	-
Privy Council Office (PCO)	9,570.61 (0.3%)	-	8,570.61	-	1,000.00	-
Cabinet Office	2,366,570.34 (0.7%)	-	1,022,000.00	-	1,344,570.34	-
Totals	18,733,400.60	1,188.38	2,759,338.58	-	15,974,062.02	1,188.38

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

No excess in appropriations-in-aid is available to be applied to meet the cash excess.

Abbreviations:

RfR = Request for Resources

A-in-A = Appropriations in Aid

4. Departments are also required to keep administrative expenditure within a limit set by the Treasury and specified in the Estimates. If a Department incurs administration costs above this limit, the Treasury will normally not approve the application of savings generated on other areas of activity. Where this approval is refused, Parliamentary authority in the form of a token vote is required under the Excess Vote procedure.

Figure 2: Details of 2002–03 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 £
Office of the Rail Regulator (ORR)	643,000.00 (5.17%)	198,701.70	3,000.00	441,298.30 *
Postal Services Commission (PSC)	120,364.01 (3.55%)	119,364.01	-	1,000.00
Totals	763,364.01	318,065.71	3,000.00	442,298.30

*The amount of £441,298.30 has been required to be voted to meet the Office of the Rail Regulator's excess resource consumption (see Figure 1) and so no additional resources are required for the Administration Cost Limit.

2 Details of the Excesses in 2002–03

Home Office: Excess on Request for Resources 2

5. The Committee have considered the Comptroller and Auditor General's Report on the Excess in the accounts of the Home Office for 2002–03. The net Excess of £14.4 million against Request for Resources 2 (Protecting the public by holding prisoners in decent conditions and reducing re-offending after release) occurred because of inconsistencies in the accounting treatment of maintenance expenditure on prisons between the Resource Budget and the Resource Accounts outturn.

6. In 2002–2003, the Home Office was voted a capital allocation of £278.8 million for prison construction work. As some of this work does not increase the value of Prison building stock, it is classified as maintenance expenditure and charged against the revenue element of Request for Resources 2. However, the Home Office's normal practice has not been to identify and split construction expenditure between capital and revenue until project completion stage. Consequently, the Department did not allocate expenditure on prison construction between capital and revenue elements until after the financial year end. It was then too late for any excesses to be met by a Supplementary Estimate. The final position for 2002–2003 was that revenue expenditure exceeded the amount approved by Parliament by £14.4 million, after off-setting savings elsewhere within Request for Resources 2 were taken into account.

7. The Home Office is taking steps to improve its in-year monitoring controls to minimise the risk of a future breach. This will include the monthly reporting of construction expenditure analysed between capital and maintenance to enable spend against budgets to be monitored effectively and additional resources sought where necessary in good time.

Office of the Rail Regulator: Excess on Request for Resources 1 and breach of Administration Cost Limit

8. The Committee have considered the Comptroller and Auditor General's Report on the Excess in the accounts of the Office of the Rail Regulator ("the Office"). The net excess expenditure of £441,000 incurred by the Office on the Request for Resources (To create a better railway for passengers and freight and better value for public funding authorities through independent, fair and effective regulation) and the breach of the Administration Cost Limit by £643,000 arose because of weaknesses in the Office's monitoring of consultancy and legal expenditure.

9. A delay in the start of the Office's interim review of Network Rail Access Charges resulted in a higher than planned level of consultancy taking place in the last three months of the financial year. Because of staff shortages the Office did not review its consultancy budgets until February 2003, when it found that consultancy expenditure was well over budget. By then it was too late to seek a Supplementary Estimate. The overspending on consultancy was compounded by the Office's inability to establish the level of legal expenditure incurred under its newly outsourced legal services contract. The weaknesses in the Office's management information prevented the Office from identifying a backlog of

legal services invoices, dating back to August 2002 and amounting to £841,000, until late in the financial year.

10. The breach of the Administration Costs Limit also arose because of these weaknesses and because the Office did not ensure that administration costs were properly forecast in the Estimate.

11. The Office accepts that it needs for more stringent budgeting and monitoring of consultancy costs. It has strengthened its arrangements for reviewing expenditure against budget forecasts, and should thereby be aware of any need to seek additional resources. Internal Audit have been asked to review the changes in procedures.

Office of Her Majesty's Chief Inspector of Schools in England: Excess on Request for Resources 1 and Net Cash Requirement

12. The Committee have considered the Comptroller and Auditor General's Report on the Excesses in the accounts of the Office of Her Majesty's Chief Inspector of Schools in England for 2002–03. The Excess of £1,554,000 against Request for Resources 1 (Improving the quality and standards of education and childcare through independent inspection, regulation and advice), and cash overspending of £1,188 occurred because of a shortfall in fee income from childcare providers and an increase in expenditure following a higher than expected number of inspections being completed.

13. The Office's Estimate provided for income of £4.25 million to be appropriated in-aid of expenditure, whereas actual appropriations in aid earned were only £2.64 million. The shortfall of £1.61 million arose because the Office's estimates of annual fee income from Early Years childcare providers were overstated as a result of errors in data received from local authorities.

14. The Office did not seek a Supplementary estimate to cover this shortfall in income because its monitoring up to the end of February 2003 indicated that its net expenditure was within budget. However, the final outturn was higher than forecast because a number of reports on school inspections, the cost of which is recognised on completion, were completed earlier than anticipated, just before the year end. By the time the Office realised the implications of the shortfall on income and the overspending on inspections it was too late for it to take any corrective action.

15. The Office is taking steps to improve its budgetary control system to ensure that income and expenditure and cash consumed are monitored more effectively, and to ensure that any expenditure commitments are managed within forecast income.

Postal Services Commission: Breach of Administration Cost Limit

16. The Committee have considered the Comptroller and Auditor General's Report on the Excess in the accounts of the Postal Services Commission for 2002–03. The breach of the Administration Cost Limit by £120,000 arose because of a failure to allow for outstanding business rates and the mis-classification in the Estimate and in budgets of agency staff costs.

17. In May 2003 the Commission received a request for outstanding business rates of £89,000 covering the period from 1 April 2000, when it first occupied its headquarters in part of Hercules House, until 1 April 2003. This arose from a Local Authority revaluation of the building's rateable value. Whilst the Commission was aware that a revaluation was being undertaken, it had not been notified by the major building occupier that the revaluation was to be backdated to 1 April 2000. In addition, the Commission's Estimate and in-year monitoring incorrectly classified agency staff costs, amounting to £109,000, as programme expenditure, rather than administration.

18. The Commission has incurred excess expenditure in successive years. In 2001–2002 the Commission exceeded its Request for Resources and its Net Cash Requirement. During 2002–2003 the Commission's routine financial management remained cash-based with resource expenditure only being monitored against aggregate estimates and not at the level of programme and administration costs.

19. The Commission accepts that it needs to monitor and use resource information more effectively. Steps taken towards improving its financial controls include devolved budgeting and monitoring of expenditure to line directors and monthly analysis of the main areas of expenditure by the Finance Branch. The Comptroller and Auditor General has also recommended the introduction of further measures, including profiling of budgets, monthly reconciliations against Parliamentary and Treasury control totals, better cash flow forecasting and a rigorous management review of financial and accounting information.

Privy Council Office: Excess on Request for Resources 1

20. The Committee have considered the Report of the Comptroller and Auditor General on the Excess in the accounts of the Privy Council Office for 2002–03. The excess of £9,600 against Request for Resources 1 (Ensuring the orderly conduct of Privy Council Office business) occurred because of the effects of a downward revaluation of fixed assets and unforeseen severance payments to special advisers following the resignation of the Minister and President of the Council were not sufficiently offset by underspending in other areas. As there were spare appropriations in aid to set against the excess, a token excess vote of £1,000 only is required.

21. In 2002–03 the Privy Council Office commissioned an external professional valuation of its antique furniture. Although the valuation was planned, the Office omitted to consider any changes to fixed asset carrying values that might arise from the revaluation exercise when setting its expenditure budget. The resulting downward revaluation to antique furniture and other fixed assets generated an unforeseen charge of £24,000 to the Operating Cost Statement. The valuation had not been scheduled in time for a Supplementary Estimate to be presented to provide for these additional charges.

22. The Minister and President of the Council resigned from the government on 17 March 2003. His special advisers, who resigned with him, received severance pay of £35,000 which was charged to the Office's Operating Cost Statement. The Office could not have foreseen this event or its financial consequences.

23. The Privy Council Office will in future undertake annual asset impairment reviews, ensure that five-yearly asset revaluations are conducted earlier within the relevant financial years, improve monthly monitoring arrangements and make greater use of external financial expertise.

Cabinet Office: Excess on Request for Resources 1

24. The Committee have considered the Comptroller and Auditor General's Report on the Excess in the resource accounts of the Cabinet Office. The accounts show an excess of £2,367,000 against Request for Resources 1 (Supporting the Prime Minister's Office closely in ensuring the delivery of Government objectives), arising from a fall in the value of information technology assets.

25. The Cabinet Office does not yet prepare monthly, resource-based, management accounts. It was only during the year-end accounts production process, which commenced in September 2003, that the Department began to consider the valuation of assets within its balance sheet. As a result of this work, and following consultation with the National Audit Office, the Department concluded that the values of software assets used by the e Envoy in the development of websites for the Government Gateway and the Knowledge Network were overstated. The overall effect of the review was unbudgeted expenditure of some £4.5 million being charged to the Department's Request for Resources.

26. The Department presented the Comptroller and Auditor General with signed accounts on 23 January 2004, some weeks after the statutory deadline for submission of 30 November 2003. This delay resulted in the Comptroller and Auditor General's staff having insufficient time to complete an audit within the statutory timetable and prevented certified resource accounts being laid before the House of Commons by 31 January 2004. As a result of this limitation on the scope of the Comptroller and Auditor General's work, he was unable to express an opinion on the Cabinet Office's resource accounts and the accuracy of the Department's Net Resource Outturn.

27. The Department's difficulties in preparing its resource accounts were attributable to a number of factors, including a significant reduction in the number of staff employed in the Department's Financial Management Division from April 2003, and unfilled vacancies and high staff turnover among the remaining finance posts. This led to a critical shortage of staff with sufficient accounting and financial management skills and a working knowledge of the Cabinet Office to prepare the resource accounts. The staff shortages were compounded by the need to work on a new financial accounts consolidation system; the development of a fixed asset register; and the complication of accounting for Machinery of Government changes. There was also an insufficient appreciation by non-finance staff of the importance of providing timely and accurate accounting information.

28. The Department has taken steps to improve the quality and timeliness of financial management and reporting. A new Finance Director, who is a qualified accountant, has been appointed with a specific mandate to improve financial management throughout the Cabinet Office. For the 2003–04 resource accounts, the Department plans to ensure that the accounts production team is fully staffed and skilled in advance of 31 March 2004, so that all possible preparatory work can be completed in good time. Looking further ahead, a project has been launched to make significant changes to the accounting system to

facilitate the production of automated monthly accruals based management accounts. In particular this is expected to enable the Cabinet Office to track their outturn more precisely and on a more timely basis.

29. The Comptroller and Auditor General will closely monitor the Cabinet Office's initiatives to strengthen its financial capability and management capacity within the central and wider finance function and the steps proposed to improve the quality and timeliness of financial management and reporting.

30. In order to be in a position to form an opinion over the 2003–04 accounts, the Comptroller and Auditor General will also seek to gain assurance that the balances carried forward to 1 April 2004 are fairly stated. This work could result in the restatement of 2002–03 account balances presented in the 2003–04 accounts as comparative figures. Any such restatement of comparative figures in the Cabinet Office's 2003–04 accounts will necessitate full explanations of the changes to be disclosed and further Parliamentary authority if the Comptroller & Auditor General's audit shows that the actual Excess was greater than the amount the Department had reported.

Formal minutes

Monday 1 March 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mr Frank Field
Mr Brian Jenkins

Mr Gerry Steinberg
Jon Trickett

The Committee deliberated.

Draft Report (Excess Votes 2002–03), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 30 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirteenth 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 Monday 8 March at 4.30 pm

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