



House of Commons

Committee of Public Accounts

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# **Excess Votes 2003–04**

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**Fifth Report of  
Session 2004–05**





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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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Mrs Angela Browning MP (*Conservative, Tiverton and Honiton*)  
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### Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

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/pac>. 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), Ronnie Jefferson (Secretary), and Luke Robinson (Media Officer).

### Contacts

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# Contents

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<b>Report</b>	<i>Page</i>
<b>Summary</b>	<b>3</b>
<b>Conclusions and recommendations</b>	<b>4</b>
<b>Excess Votes in 2003–04</b>	<b>5</b>
Teachers' Pension Scheme: Excess on Request for Resources 1 and breach of the Net Cash Requirement	6
HM Customs and Excise: Excess on Request for Resources 1	6
<b>Formal minutes</b>	<b>8</b>
<b>List of Reports from the Committee of Public Accounts Session 2004–05</b>	<b>9</b>



## Summary

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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 before Parliament, the Committee considers 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 grant 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, introduced in 2001–02, requires Departments to forecast and manage the resources they will consume in delivering services on an accruals basis, as well as their cash spending. Parliament authorises both cash spending and the use of resources up to different limits.

In 2003–04 one Department and one Pension Scheme incurred Excess Votes. Excesses in the use of resources totalled £107 million. In 2002–03 five departments incurred resource excesses of £18.7 million. There was one cash excess of £69.5 million in 2003–04, compared with one in 2002–03 of £1,188. There were no breaches of Administration Cost Limits in 2003–04. Although the total value of excesses in 2003–04 is much greater than the previous year, the results in both years represent a considerable improvement since 2001–02 when resource based supply was introduced and there were eight resource excesses with a total value of £1,527 million. Cash excesses have followed a similar pattern.

The Teachers' Pension Scheme incurred a resource excess of £106.8 million (some of which can be offset by the use of excess appropriations in aid) because the Scheme's Estimate did not allow for the full implications of changes to accounting standards and changes to Treasury discount rates. This is the second excess the Scheme has incurred in three years. HM Customs and Excise incurred a resource excess of £0.2 million (which, apart from a token £1,000, can be offset by the use of savings on other expenditure subheads) as a result of incurring expenditure for which there was no prior Parliamentary authority.

The single breach of a Net Cash Requirement was also on the Teachers' Pension Scheme and amounted to £67.6 million. This was caused by a failure to allow for the repayment of sums due to the Consolidated Fund in determining the Scheme's cash requirements.

## Conclusions and recommendations

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1. Although the value of excesses incurred in 2003–04 was significant, only one Department and one Pension Scheme were unable to manage their consumption of resources and cash requirements within the amount or scope approved by Parliament. The resource and cash excesses in 2003–04 incurred by the Teachers' Pension Scheme could have been avoided had changes in resource accounting guidance on calculating pensions liabilities been correctly followed by the Department for Education and Skills, which is responsible for the management of the Scheme. The resource excess incurred by HM Customs and Excise could have been avoided if expenditure incurred had been kept within the ambit of the Request for Resources.
2. The Department for Education and Skills has acted to improve the financial model used to support the preparation of the Pension Scheme Estimates. Customs and Excise has strengthened the oversight of expenditure proposals to confirm that they fall within the ambit of the Request for Resources. We recommend that:
3. Departments review financial models used to support the preparation of Estimates to ensure that they fully reflect the requirements of resource accounting;
4. Departments review the controls over the use of cash resources to ensure that they do not inadvertently spend cash that they are liable to surrender to the Consolidated Fund; and
5. Departments are reminded that the type as well as the amount of expenditure needs to be kept within the scope set by Parliament in the ambit of the Request for Resources.
6. We look to the Treasury to bring our concerns to the attention of Departments more generally.
7. The Committee is satisfied that the Departments concerned have taken the necessary steps to address the reasons for the overspending against provision in 2003–04, and recommends that Parliament provides the necessary amounts and approves the revised ambit for HM Customs and Excise by means of an Excess Vote, as set out in Figure 1.

## Excess Votes in 2003–04

1. Resource-based Supply requires Departments to forecast and manage the resources they will consume in delivering services on an accruals basis, as well as their cash spending. Parliament authorises both cash spending and the use of resources up to the limits set. In 2003–04 Parliament authorised total net resources of £392,833 million and total cash of £321,844 million in Supply Estimates granted to 58 Departments and Pension Schemes. Of these, one Department and one Pension Scheme incurred excesses. Two excesses in the use of resources totalled £107 million, and one excess in the application of cash amounted to £67.6 million. Details are summarised in **Figure 1**.

2. For the first time since the introduction of resource-based Supply, there were no breaches of Administration Cost Limits.

Figure 1: Summary of 2003–04 Excess Votes required

Department/Pension Scheme	Resources		Cash	
	Excess £	Amount to be voted £	Excess £	Amount to be voted £
<b>Teachers' Pension Scheme Request for Resources 1 (Teachers' Pensions)</b>  Excess Expenditure Less: Surplus income to be appropriated as operating appropriations in aid	106,821,357.97 <u>(37,324,362.30)</u>	<b>69,496,995.67</b>	67,597,194.64 <u>0.00</u>	<b>67,597,194.64</b>
<b>HM Customs and Excise Request for Resources 1 (Administering the indirect tax and customs control systems fairly and efficiently, enabling individuals and businesses to understand and comply with their obligations) (1)</b>  Excess Expenditure Less: Savings available from elsewhere within the Request for Resource	167,140.00 <u>(166,140.00)</u>	<b>1,000.00</b>	–	–

(1) Revised ambit. Parliamentary authority is required to cover expenditure within previously voted resource limits but outside the coverage of the original ambit. The revised ambit includes the additional wording "the provision of resources to police authorities to facilitate the independent investigation of complaints and allegations against departmental staff".

## Teachers' Pension Scheme: Excess on Request for Resources 1 and breach of the Net Cash Requirement

3. The resource excess of £106.8 million against Request for Resources 1 (Teachers' Pensions) occurred because the Scheme's Estimate did not allow for the full implications of changes to accounting standards and to Treasury discount rates. The cash excess of £67.6 million occurred because the Scheme managers, the Department for Education and Skills, did not allow for the repayment of sums due to the Consolidated Fund in determining the Scheme's cash requirements.

4. 2003–04 was the first financial year in which Financial Reporting Standard 17 (FRS17 – Retirement Benefits) was applied to the Scheme in full. This standard requires the Scheme accounts to include provisions for liabilities in respect of future pensions for both existing Scheme members and those transferring into the Scheme. Because these changes were not fully incorporated in the financial model used to calculate the Scheme's Estimate, the Estimate did not reflect the full liabilities of the Scheme. The model did not provide for an additional liability of £82.4 million for new members transferring into the Scheme, nor for an additional liability of £25 million for existing Scheme members. It also failed to allow for the effect of a change in the discount rate used in the calculation of provision for premature retirement compensation, leading to a further understatement of £13 million. The overall shortfall in the Request for Resources amounted to £120.4 million. After allowing for savings elsewhere, the Scheme's net resource excess was £106.8 million. The Department proposes to apply excess appropriations in aid of £37.3 million to offset the resource excess, leaving an amount of £69.5 million to be granted by way of an Excess Vote.

5. In terms of the Scheme's cash requirements for 2003–04, the Department incorrectly included a balance of £128 million due to the Consolidated Fund in respect of 2002–03 as part of its cash available to meet 2003–04 expenditure. In meeting its liability to the Consolidated Fund, the Scheme incurred a cash excess of £67.6 million.

6. The Department has refined its financial model to support the preparation of the Supply Estimate so that all liabilities are recognised and appropriately valued. It has also introduced a control to ensure that all changes to the Treasury's discount rate are captured within the model. Controls over creditors have been strengthened so that amounts due to the Consolidated Fund in respect of prior periods are excluded from available cash resources. In future, all calculations affecting outturn will be performed at an early enough stage to allow for any significant changes to be addressed through a Supplementary Estimate.

## HM Customs and Excise: Excess on Request for Resources 1

7. A resource excess of £167,140 was incurred by HM Customs and Excise under Request for Resources 1 (Administering the indirect tax and customs control system fairly and efficiently, and enabling individuals and businesses to understand and comply with their obligations). The excess arose because the Department incurred expenditure which fell outside the ambit of its Request for Resources.

8. In conducting an investigation into serious allegations against a number of serving Customs Officers made in the context of a criminal trial, Customs and Excise found that it

had supported a wider criminal investigation by the police which it was not empowered to fund. Having stopped any further payments, the Department consulted the Treasury on the regularity of the expenditure. Out of total payments made of £700,416, the Treasury considered that expenditure of £533,276 incurred between October 2002 and December 2003 represented expenditure which discharged an obligation to the court and therefore fell within the ambit of the Department's Request for Resources. It was prepared to approve such expenditure retrospectively. The Treasury concluded, however, that the remaining expenditure of £167,140, in respect of costs incurred after the completion of the court case, was in support of continuing police criminal investigations and therefore fell outside of the ambit of the Request for Resources.

9. The Department proposes to ask Parliament to approve an amended ambit and to offset £166,140 of the excess through the allocation of savings elsewhere on Request for Resources 1. This will leave a token £1,000 excess as an additional use of resources to be authorised by way of an Excess Vote.

10. The Department has strengthened its controls to include the introduction of new arrangements for the systematic oversight and regular review of their terms of engagement with police forces in such investigations and to ensure that budget holders consult the Treasury at the earliest opportunity about expenditure proposals which might fall outside the ambit of a Request for Resources.

## Formal minutes

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**Monday 7 February 2005**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan	Jim Sheridan
Mr Richard Bacon	Mr Siôn Simon
Mrs Angela Browning	Mr Gerry Steinberg
Mr Ian Davidson	Mr Alan Williams
Mr Brian Jenkins	

The Committee deliberated.

Draft Report (Excess Votes 2003–04), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 10 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Fifth 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 9 February at 3.30 pm]

## List of Reports from the Committee of Public Accounts Session 2004–05

First Report	The management of sickness absence in the Prison Service	HC 146
Second Report	Tackling cancer in England: saving more lives	HC 166
Third Report	The BBC's investment in Freeview	HC 237
Fourth Report	Improving the speed and quality of asylum decisions	HC 238
Fifth Report	Excess Votes 2003–04	HC 310