



House of Commons  
Liaison Committee

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# Estimates Memoranda

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**Third Report of Session 2005–06**

*Report, together with appendix and formal minutes*

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## The Liaison Committee

The Liaison Committee is appointed to consider general matters relating to the work of select committees; to advise the House of Commons Commission on select committees; to choose select committee reports for debate in the House and to hear evidence from the Prime Minister on matters of public policy.

### Current membership

Mr Alan Williams MP (*Labour, Swansea West*) (Chairman)

The Chairmen for the time being of the Select Committees listed below:

Administration – Mr Frank Doran MP (*Labour, Aberdeen North*)  
Communities and Local Government – Dr Phyllis Starkey MP (*Labour, Milton Keynes South West*)  
Constitutional Affairs – Mr Alan Beith MP (*Liberal Democrat, Berwick-upon-Tweed*)  
Culture, Media and Sport – Mr John Whittingdale MP (*Conservative, Maldon and Chelmsford East*)  
Defence – Mr James Arbuthnot MP (*Conservative, North East Hampshire*)  
Education and Skills – Mr Barry Sheerman MP (*Labour/Co-op, Huddersfield*)  
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Human Rights (Joint Committee) – Mr Andrew Dismore MP (*Labour, Hendon*)  
International Development – Malcolm Bruce MP (*Liberal Democrat, Gordon*)  
Northern Ireland Affairs – Sir Patrick Cormack MP (*Conservative, South Staffordshire*)  
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Public Accounts – Mr Edward Leigh MP (*Conservative, Gainsborough*)  
Public Administration – Dr Tony Wright MP (*Labour, Cannock Chase*)  
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Selection – Rosemary McKenna MP (*Labour, Cumbernauld, Kilsyth and Kirkintilloch East*)  
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Statutory Instruments – David Maclean MP (*Conservative, Penrith and The Border*)  
Trade and Industry – Peter Luff MP (*Conservative, Mid Worcestershire*)  
Transport – Mrs Gwyneth Dunwoody MP (*Labour, Crewe and Nantwich*)  
Treasury – Mr John McFall MP (*Labour/Co-op, West Dunbartonshire*)  
Welsh Affairs – Dr Hywel Francis MP (*Labour, Aberavon*)  
Work and Pensions – Mr Terry Rooney MP (*Labour, Bradford North*)

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The powers of the Committee are set out in House of Commons SO No 145. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### **Publication**

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 [www.parliament.uk/parliamentary\\_committees/liaison\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/liaison_committee.cfm).

### **Committee staff**

The current staff of the Committee are Helen Irwin (Clerk), Robert Wilson (Second Clerk), Catherine Close (Committee Assistant) and Anwen Rees (Secretary).

### **Contacts**

All correspondence should be addressed to the Clerk of the Liaison Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5675; the Committee's email address is [liaisoncommittee@parliament.uk](mailto:liaisoncommittee@parliament.uk)



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## Estimates Memoranda

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1. Estimates Memoranda were introduced in 2004, at our request, and are a potentially valuable tool for select committees scrutinising both the Estimates and the financial management of departments more generally. However, as the note by the Committee Office Scrutiny Unit appended to this Report indicates, the Memoranda are not yet fulfilling that potential. We welcome the improvement in the quality of the memoranda since their introduction. Nevertheless, committees too often need to pursue information which ought to have been provided in the Memorandum. Committees' time is therefore spent seeking more information, rather than, as it should be, examining the substance of the Estimates.
2. The Scrutiny Unit has identified areas for improvement in four of the eight sections of the Estimates Memoranda, relating to the summary of changes sought in the Estimate, impact on Public Service Agreement targets, Departmental Expenditure Limits and end-year flexibility.
3. When Estimates Memoranda were introduced, the Treasury issued guidance but left the detail of what was to be included for bilateral agreement between departments and their committees.<sup>1</sup> In the light of experience since then, we believe a greater consistency of approach is needed, taking account of the additional guidance provided by the Scrutiny Unit.<sup>2</sup> It would still be open to individual committees to agree with their departments that less, or more, information should be provided. **We recommend that departments follow the Scrutiny Unit's guidance in compiling their Estimates Memoranda, subject to any individual agreements with committees.**
4. The Scrutiny Unit has also made a specific suggestion about Estimates Memoranda relating to Main Estimates, which we agree would be helpful to committees.<sup>3</sup> **We recommend that Estimates Memoranda for Main Estimates identify and explain significant differences both from the Spending Review budgets and from the previous year's Estimates.**
5. It would be helpful if the Treasury examined the possibility of consolidating its own guidance and that of the Scrutiny Unit in a single document.
6. We note that Estimates Memoranda need to be comprehensible to the non-expert reader, and that this has not always been the case.<sup>4</sup> We draw to departments' attention the willingness of the Scrutiny Unit to advise on how Estimates Memoranda could be made more easily comprehensible.

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1 Appendix 1, para 5

2 At [www.parliament.uk/documents/upload/GuidePreparingEstimateMemoranda.doc](http://www.parliament.uk/documents/upload/GuidePreparingEstimateMemoranda.doc)

3 Appendix 1, paras 22–3

4 Defence Committee, Ninth Report of Session 2005–06, *Ministry of Defence Main Estimates 2006–07*, HC 1366, para 16

# Appendix: Estimates Memoranda Note by the Scrutiny Unit

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## Introduction

The requirement for government departments to produce an explanatory Estimate Memorandum alongside their Main and Supplementary Estimates was introduced in late 2004 (with other changes), in time for the Winter Supplementary Estimates 2004/05.

This note sets out the experience of the Scrutiny Unit in using the Estimates Memoranda to help committees scrutinise the Estimates, and indicates aspects of the Memoranda which could be improved.

## Background

The proposal for government departments to produce an Estimate Memorandum for the relevant select committee was first put forward by the Liaison Committee in a letter to the Chief Secretary to the Treasury in November 2003. It was the intention of the Liaison Committee that the Estimate Memorandum would explain the consequences of the Estimate and how it linked to departmental targets.

The Chief Secretary observed that the additional reporting requirement could be significant for departments, but he acknowledged the potential benefits for select committees and supported the suggestion.<sup>5</sup>

The Procedure Committee, in its report of February 2004 on *Estimates and Appropriation Procedure*, welcomed the Chief Secretary's offer to provide Estimates Memoranda to select committees.<sup>6</sup> In response, the Treasury committed itself to providing guidance to departments on the provision of Estimates Memoranda. It said that:

The Estimate Memorandum would be expected to provide an explanation of the changes sought in the Estimate and how these changes relate to public spending limits and departmental targets. The Treasury will issue advice to departments ... to this effect but will leave the detail of what is included for bilateral agreement between departments and their select committees.<sup>7</sup>

## Format and content of Estimates Memoranda

The Treasury guidance was issued in September 2004.<sup>8</sup> In accordance with the guidance Estimates Memoranda should contain three mandatory sections and up to five additional sections.

The mandatory sections are (i) a summary of changes sought in the Estimate, (ii) a detailed explanation of the changes, and (iii) the impact on Public Service Agreement targets.

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5 Procedure Committee, First Report of Session 2003–04, *Estimates and Appropriation Procedure*, HC 393, Annex B

6 *Ibid.*, para 25

7 Procedure Committee, First Special Report of Session 2003–04, *Estimates and Appropriation Procedure: The Government's Response to the Committee's First Report*, HC 576, Recommendation 7

8 *Treasury PES (Public Expenditure System)*, guidance note PES (2004) 14, HM Treasury, Annex D: House of Commons Library deposited paper 05/202

The additional sections, to be completed where relevant, concern (i) Departmental Expenditure Limits, (ii) end-year flexibility (EYF), (iii) administration budgets, (iv) machinery of government changes, and (v) provisions and contingent liabilities.

The purpose and content of each of these sections is set out in Table 1.

## Experience

Since the Treasury guidance was issued Estimates Memoranda have been presented by departments to select committees on six occasions, either on or before the date of publication of the related Main or Supplementary Estimates. Some select committees have published the Estimates Memoranda they have received.

The Scrutiny Unit has assisted committees in their scrutiny of the Estimates. In doing so the Unit's staff have made significant reference to the Estimate Memoranda in order to put the funds requested in context. As well as checking that the Treasury guidance has been followed and identifying issues of interest to individual committees, the Unit is able to compare the Memoranda from different departments and to make observations which relate to all departments.

The quality of the first set of Estimates Memoranda, presented with the Winter Supplementary Estimates 2004/05, was judged by the Scrutiny Unit to be extremely disappointing. It concluded that none of the mandatory sections were adequate. Major funding changes were not linked to departmental policy initiatives in sufficient detail and few Memoranda provided a clear description of the link between the changes proposed and performance in relation to PSA targets. Significantly, none removed the need for committees to seek further clarification of the changes.

Additional guidance<sup>9</sup> and an example of good practice (the Estimate Memorandum produced by the Department for International Development) were subsequently made available by the Scrutiny Unit for select committees to forward to departments if they chose to, and many committees did so. But a year after the introduction of Estimates Memoranda the Unit's view was that those presented with the Winter Supplementary Estimates 2005/06 still failed to provide the necessary level of detail to enable effective analysis of funding changes.

The Spring Supplementary Estimates were published on 14 February 2006. Some improvement in the Estimates Memoranda was noted by the Scrutiny Unit, possibly in response to the good practice example circulated by some committees. But in some Memoranda the mandatory section on PSA targets was either missing or weak. Full details of the stock of EYF and comparative figures for DEL were also repeatedly absent. The Environment, Food and Rural Affairs Committee rejected the Estimate Memorandum from its Department for failing to meet minimum standards. It was resubmitted to the committee over a month after the House had voted on the Estimate. The Defence Committee found it disappointing that Scrutiny Unit guidance had not been followed in a number of respects, and recommended that the Ministry of Defence ensure that the Unit's guidance was followed in future.<sup>10</sup> Only the Estimate Memorandum presented to the International Development Committee contained sufficient detail to require no follow up.

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9 At [www.parliament.uk/documents/upload/GuidePreparingEstimateMemoranda.doc](http://www.parliament.uk/documents/upload/GuidePreparingEstimateMemoranda.doc)

10 Defence Committee, Fourth Report of Session 2005–06, *Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06*, HC 980, para 19

## **Areas for improvement**

As well as the use in some cases of technical language not suitable for a lay audience, the Scrutiny Unit has identified areas for improvement in four of the eight sections of the Estimate Memorandum, as follows.

### ***Summary of changes sought in the Estimate***

This section is interpreted by some departments as an opportunity to generalise and provide totals, rather than to highlight and explain the reasons for the main changes. The result can be a section even less informative than the Estimate itself. The heading 'Summary' is probably misleading in this respect. Failure to provide sufficient detail in the Memorandum ultimately leads to more work both for the committee and the Department due to the number of follow-up questions that have to be asked.

### ***Impact on Public Service Agreement (PSA) Targets***

Explanations of how changes to departmental funding will impact on the ability to achieve targets are often absent or weak. Not everything a department spends money on will promote the achievement of a PSA target and some changes may be too small to make much impact, but select committees need to know how additional resources or reallocations will impact on the ability to meet targets and to gain some understanding of how and why funding has been prioritised.

Some departments have claimed they are unable to map their resources to the achievement of specific PSA targets. This could indicate deficiencies either in financial management systems or in the way the targets relate to departmental activities, and departments should explain, if it is the case, why they are unable to link resources and PSA targets.

### ***Departmental expenditure limit (DEL)***

Most Estimates Memoranda lack comparative data from previous years or forecasts of future spending, although these were given by the Treasury as specific examples of information that should be provided in addition to that in the notes to the Estimate. Such information is also often missing from the section on administration budgets. If insufficient information on changes in DEL is provided, it can be difficult to reconcile the Estimate and the Estimate Memorandum with the Written Statement which accompanies the laying of the Estimate.

### ***End year flexibility (EYF)***

Explanations of how and why stocks of EYF had accumulated were generally weak or omitted. Departments were particularly unforthcoming about their plans for making use of the funding carried over from earlier years. This section is important for select committees to assess departments' financial management skills, as information on the stock of EYF is otherwise only available annually in the Public Expenditure Outturn White Paper, presented in July each year.

## **Main Estimates**

The comments above apply mostly to Estimates Memoranda accompanying Supplementary Estimates which request resources in addition to the Main Estimate for the year.

Departments are also expected to provide an Estimate Memorandum in respect of their Main Estimate.

The current guidance on Estimates Memoranda is aimed primarily at Supplementary Estimates. When preparing Memoranda to accompany their Main Estimates departments have interpreted the requirement to explain changes in different ways. Some have identified and explained the differences that have arisen since the Spending Review 2004 budgets were agreed in July 2004 and others have explained large variances compared to one of their prior-year Estimates.

The interpretations each have their merits but the Estimate Memoranda accompanying the Main Estimates would be significantly improved if both sorts of information were given.

### Summary

The quality of the first set of Estimates Memoranda was judged to be extremely disappointing by the Scrutiny Unit. Some improvement has since been noted, but follow-up enquiry by select committees is almost always required in the absence of sufficient information in the Estimates Memoranda. Also, the Memoranda need to be written in language suitable for non-expert readers.

Particular areas for improvement have been identified in four sections of the Estimates Memoranda: summary of changes sought in the Estimate, impact on Public Service Agreement (PSA) Targets, departmental expenditure limit (DEL) and end-year flexibility (EYF).

Further guidance on the contents of Estimates Memoranda relating to Main Estimates would also be helpful.

Table 1: Contents of Estimate Memoranda

	Section (heading in Treasury guidance)	Content (Treasury's summary of requirement)	Purpose (interpretation by the Scrutiny Unit)
<b>Mandatory</b>	<b>Summary of changes sought in the Estimate</b>	<b>Identification of the most significant issues arising, and how these relate to budgetary changes or policy initiatives.</b>	<b>To highlight and explain the largest and most important changes at a glance.</b>
	<b>Detailed explanation of the changes</b>	<b>Detailed analysis of the changes to provision and the sources of financing. Explanation of changes to the cash requirement.</b>	<b>To explain where additional funds are coming from and what they are being spent on.</b>
	<b>Impact on Public Service Agreement (PSA) Targets</b>	<b>Impact of the proposed changes on delivery against the Department's PSA targets.</b>	<b>To clarify how and why existing resources have been reallocated in the context of departmental performance measures.</b>
<b>As applicable</b>	Departmental Expenditure Limit (DEL)	Information additional to that already provided in the Estimate, e.g. comparative data for past or future years and the amount of Departmental Unallocated Provision (DUP) available to the department.	To identify the full impact of the Estimate on the DEL and allow comparisons to be made with other years.
	End year flexibility (EYF)	The stock of EYF available to the Department, and how this has been drawn down in the Estimate. Also, how the EYF has been accumulated, and whether it has been ring-fenced or earmarked for future use.	To explain how and why surplus funds have accumulated and what plans there are for making use of them.
	Administration budget	Explanations for changes to the administration budget, e.g. how additional resources will be applied and what benefits they will bring.	To explain increases in administrative expenditure against a background of downward pressure on the cost of back office functions from the Efficiency Programme.
	Machinery of government changes	Information additional to that already in the Estimate regarding changes to resources, income and cash. Details of transitional arrangements and issues still to be resolved.	To explain the financial consequences of machinery of government changes.
	Provisions and contingent liabilities	Information on the stock of provisions and the nature of contingent liabilities, including the risk of those liabilities crystallising, in addition to that already provided in the Estimate.	To explain the nature of potential costs facing the Department.

# Formal minutes

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**Thursday 26 October 2006**

Members present:

Mr Alan Williams, in the Chair

Mr James Arbuthnot	Mr Edward Leigh
Malcolm Bruce	Peter Luff
Michael Connarty	Andrew Miller
Sir Patrick Cormack	Mr Mohammad Sarwar
Mr John Denham	Dr Phyllis Starkey
Mr Andrew Dismore	Mr John Whittingdale
Mrs Gwyneth Dunwoody	Dr Tony Wright
Mike Gapes	Sir George Young
Mr Michael Jack	

\* \* \*

The Committee considered this matter.

Draft Report (Estimates Memoranda), 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 6 read and agreed to.

*Ordered*, That a paper be appended to the Report.

*Resolved*, That the Report be the Third Report of the Committee to the House.

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

\* \* \*

[Adjourned till Tuesday 21 November at 5.30pm

## Reports from the Liaison Committee since 1996

The following reports have been produced by the Committee since Session 1996–1997.

### Session 2005–06

First Report	Government Reply to the Annual Report for 2004	HC 855
Second Report	A New Publication Order for Select Committee Evidence	HC 1271

### Session 2004–05

First Report	Annual Report for 2004	HC 419
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### Session 2003–04

First Report	Annual Report for 2003	HC 446
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### Session 2002–03

First Report	Annual Report for 2002	HC 558
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### Session 2001–02

First Special Report	Evidence from the Prime Minister	HC 984
First Report	The Work of Select Committees 2001	HC 590
Second Report	Select Committees: Modernisation Proposals	HC 692

### Session 2000–01

First Report	Shifting the Balance: Unfinished Business	HC 321
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### Session 1999–2000

First Report	Shifting the Balance: Select Committees and the Executive	HC 300
Second Report	Independence or Control?	HC 748
Third Report	Resource Accounting and Budgeting	HC 841

### Session 1996–97

First Report	The Work of Select Committees	HC 323
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