



House of Commons
Committee of Public Accounts

Excess Votes 2006–07

Seventh Report of Session 2007–08

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).

Current membership

Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)
Mr Richard Bacon MP (*Conservative, South Norfolk*)
Angela Browning MP (*Conservative, Tiverton and Honiton*)
Mr Paul Burstow MP (*Liberal Democrat, Sutton and Cheam*)
Rt Hon David Curry MP (*Conservative, Skipton and Ripon*)
Mr Ian Davidson MP (*Labour, Glasgow South West*)
Mr Philip Dunne MP (*Conservative, Ludlow*)
Angela Eagle MP (*Labour, Wallasey*)
Nigel Griffiths MP (*Labour, Edinburgh South*)
Rt Hon Keith Hill MP (*Labour, Streatham*)
Mr Austin Mitchell MP (*Labour, Great Grimsby*)
Dr John Pugh MP (*Liberal Democrat, Southport*)
Geraldine Smith MP (*Labour, Morecombe and Lunesdale*)
Rt Hon Don Touhig MP (*Labour, Islwyn*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)
Phil Wilson MP (*Labour, Sedgefield*)

Annette Brooke MP (*Liberal Democrat, Mid Dorset and Poole North*) was also a Member of the Committee during the period of the enquiry.

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.

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 <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 Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Pam Morris (Committee Secretary) and Alex Paterson (Media Officer).

Contacts

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Summary

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 estimate 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.

In 2006–07, two bodies (the Teachers' Pensions Scheme (England and Wales) and the Ministry of Defence) incurred Excess Votes, with an excess in the use of resources totalling £38.6 million after deducting excess Appropriations in Aid of £64.1 million. In 2005–06, three bodies incurred a resource excess of £795.8 million and a single cash excess of £5.1 million. In 2006–07, the Excess Votes arose solely from the bodies underestimating their resource requirements, rather than overspending cash.

- i. The Teachers' Pension Scheme (England and Wales) incurred an excess of £81.9 million, £59.1 million of which can be offset by excess Appropriations in Aid earned in the year, primarily because Scheme managers did not allow fully for higher costs than expected on notional items of expenditure.
- ii. The Ministry of Defence incurred a resource excess of £20.9 million, £5.0 million of which can be offset by excess Appropriations in Aid earned in the year, mainly as a result of higher than expected non-cash costs on depreciation and costs of capital charges relating to assets and equipment in use on operations.

Conclusions and Recommendations

1. The total of excesses in 2006–07 were £38.6 million (cash excess £nil). This is a lot less than in 2005–06 when there was a resource excess of £795.8 million and a cash excess of £5.1 million. The causes for the excess in 2006–07 were:
 - i. The Teachers' Pension Scheme (England and Wales), where the Scheme managers did not accurately forecast the impact of scheme modernisation; and
 - ii. The Ministry of Defence, where they were not able to forecast accurately the depreciation costs of assets in operational use.
2. In both cases the bodies made requests for additional resources in the Spring Supplementary Estimates to reflect their revised forecasts of outturn, but these proved to be insufficient to cover additional costs. Each body has reviewed its operations to identify areas of weakness and has taken steps to improve its resource budgeting.
3. It is unfortunate that these excesses arose, through underestimation of resource requirements, since they marred what was otherwise a satisfactory outcome for the year. The result across all voted expenditure was the best performance in the round since the introduction of resource accounting and budgeting in 2001–02, with no cash excesses and just the two resource excesses. It suggests that departments and other bodies funded by Parliamentary vote are increasingly able to manage the level of their expenditure in cash and resource terms. It will be important for Accounting Officers to maintain and build upon this progress.
4. We recommend that Parliament provides the necessary amount by means of an Excess Vote, as set out in **Figure 1**.

Excess Votes in 2006–07

1. Resource-based Supply requires departments to forecast and manage the resources they will consume on an accruals basis and their cash spending in delivering services. Parliament authorises both cash spending and the use of resources. In 2006–07, Parliament granted total net resources of £412.1 billion and total cash of £388.7 billion in Supply Estimates to 57 departments, pension schemes and other vote-funded bodies.¹ The difference in the provision of cash and resources is primarily the result of the inclusion of non-cash charges in resources covering items such as depreciation of assets, the charge equivalent to the cost of borrowing money if it was not funded by Supply or notional items relating to changes in value of assets or liabilities. In 2006–07, two of these bodies overspent net resources by £38.6 million (cash excesses £nil). Also, as in 2005–06, there were no instances of administration budgets being exceeded. The details are in **Figure 1**.

Figure 1: Summary of 2006–07 Excess Votes required

Department	Resources		Cash	
	Excess £	Amount to be voted £	Excess £	Amount to be voted £
Teachers' Pension Scheme (England & Wales). RfR1: Teachers' Pensions Excess: Gross Resources Less: Additional income payable to the Consolidated Fund. ²	81,859,000 <u>(59,095,000)</u>	22,764,000		
Ministry of Defence. RfR2: Conflict Prevention Excess Gross Resources Less: Additional income payable to the Consolidated Fund. ²	20,894,000 <u>(5,047,000)</u>	15,847,000		
Total		38,611,000		Nil

1 Central Government Supply Estimates 2006-07, HC (2006–07) 293, February 2007

2 These amounts are the income earned on these Request for Resources above the wholly earned and applied Appropriations in Aid limit. The limit for the Teachers' Pension Scheme was £153,000 and for the Ministry of Defence was £15,557,000. It is proposed in both cases to seek approval from Parliament for the increase of the limit on Appropriations in Aid by these amounts.

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

2. The Teachers' Pension Scheme (England and Wales) had a resource excess of £81.9 million (0.95% of the allocation of £8.6 billion) on Request for Resource 1 (Teachers' Pensions). The excess was caused by the in-year scheme service cost exceeding forecasts by £69 million because of unexpectedly higher employer and employee contributions and other in-year scheme expenses being £13 million higher than estimated. The excess in resource expenditure can be offset in part by £59.1 million of excess Appropriations in Aid.

3. Following the completion of a consultation exercise, changes to the Scheme rules for both new and existing members (Scheme modernisation) were implemented from January 2007. As a result of changes in the rules, the level of income from employer and employee contributions into the Scheme increased in 2006–07 and at the year-end it was £53.7 million (1.49%) higher than forecast by Scheme managers. The Actuary then took into consideration this higher income figure when calculating the liability to meet future pension costs. Consequently, the actuarial assessment of in-year service costs³ was £69 million higher than expected by Scheme Managers. Scheme Managers made requests for additional resources in the Spring Supplementary Estimate to take account of the impact of Scheme modernisation, but these were insufficient to cover the additional costs.

4. In addition, other in-year expenses exceeded expectation, in particular the lump sum payments due upon retirement. The increase in these costs was due to more teachers than expected by Scheme Managers opting to commute their pension into lump sum payments on retirement. These were £13 million higher than estimated.

5. As a result of the need for this Excess Vote the Department for Children, Schools and Families commissioned its internal auditors to establish the causes for the inaccuracy in forecasting. They concluded that sound budgetary controls were in place; that the Department's arrangements were consistent with HM Treasury requirements; and that the Excess Vote was a result of the impact of scheme modernisation rather than a breakdown in risk management or internal control. On the basis of these findings, the Department is refining its predictive estimate model for calculating Supply Estimates.

Ministry of Defence: Excess on Request for Resources 2

6. The resource excess on the Ministry of Defence's Request for Resources 2 (Conflict Prevention) of £20.9 million (1.5% of the £1.4 billion allocation for Request for Resources 2) was primarily the result of significantly higher than originally forecast operational activity in Afghanistan and Iraq. The main contributing items were the firing and consequent accelerated depreciation of a greater number of Hellfire missiles in Afghanistan than originally forecast and the incomplete capture of depreciation costs associated with the operational use of capital spares. The excess in resource expenditure can be offset in part by an excess in Appropriations in Aid relevant for this Request for Resources of £5.0 million.

³ The service cost is the increase in the value of the pension liability due to in-year employment.

7. The nature of the operations whose resources are attributed to Request for Resources 2 makes it difficult to estimate the final costs as the level of activities are subject to unpredictable fluctuations. As a result, the bulk of the Ministry's forecast expenditure for 2006–07, including that for Iraq and Afghanistan, was provided via the Winter Supplementary Estimates made in November 2006.

8. The Ministry provided a final request for additional resources of £340 million in the Spring Supplementary Estimates approved by Parliament in February 2007. In spite of this, the resources provided were not sufficient to prevent the Ministry exceeding the limit on Request for Resources 2. This limit for resource in Request for Resources 2, after both Supplementary Estimates, was £1.4 billion.

9. In order to understand better the reasons for the excess, the Ministry has undertaken a detailed review of the treatment of asset depreciation and stock consumption in operations with a particular focus upon Urgent Operational Requirements. The results will be considered in the preparation of the 2007–08 Supply Estimates.

10. In addition, the Ministry has already identified the following important improvements for both forecasting and accounting for Request for Resources 2:

- i. The relevant guidance to the major departmental groupings and budget holders will be re-issued with an emphasis on the importance of accounting properly for urgent requirements.
- ii. There will be an increased focus on accurate forecasting at the mid-year point so that additional resource can be requested, if required, in the Spring Supplementary Votes.
- iii. At the mid-year point, the Ministry will carry out a robust review of the consumption of stock and spares that are charged to Request for Resources 2, the depreciation of equipment damaged or destroyed in conflict, and of weapons fired, to ensure that the accounting is accurate and provides a firm basis for forecasting.

Formal Minutes

Monday 28 January 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Mr Philip Dunne
Mr Nigel Griffiths
Mr Keith Hill

Mr Austin Mitchell
Dr John Pugh
Geraldine Smith
Mr Don Touhig

Draft Report (*Excess Votes 2006–07*), 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 Seventh Report of the Committee to the House.

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

[Adjourned until Wednesday 30 January 2008 at 3.30 pm.]

List of Reports from the Committee of Public Accounts 2007–08

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Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175
Fifth Report	Evasion of Vehicle Excise Duty	HC 227
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228
Seventh Report	Excess Votes 2006–07	HC 299