



House of Commons

Committee of Public Accounts

Excess Votes 2005–06

12th Report of Session 2006–07



House of Commons
Committee of Public Accounts

Excess Votes 2005–06

Twelfth Report of Session 2006–07

Report, together with formal minutes

*Ordered by The House of Commons
to be printed 26 February 2007*

HC 346

Published on 1 March 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

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 Richard Bacon MP (*Conservative, South Norfolk*)
Annette Brooke MP (*Liberal Democrat, Mid Dorset and Poole North*)
Greg Clark MP (*Conservative, Tunbridge Wells*)
Rt Hon David Curry MP (*Conservative, Skipton and Ripon*)
Mr Ian Davidson MP (*Labour, Glasgow South West*)
Mr Philip Dunne MP (*Conservative, Ludlow*)
Helen Goodman MP (*Labour, Bishop Auckland*)
Mr John Healey MP (*Labour, Wentworth*)
Mr Sadiq Khan MP (*Labour, Tooting*)
Mr Edward Leigh MP (*Conservative, Gainsborough*), (Chairman)
Sarah McCarthy-Fry MP (*Labour, Portsmouth North*)
Mr Austin Mitchell MP (*Labour, Great Grimsby*)
Dr John Pugh MP (*Liberal Democrat, Southport*)
Don Touhig MP (*Labour, Islwyn*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)
Iain Wright MP (*Labour, Hartlepool*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO 148. These are available on the internet via 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 Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Anna Browning (Secretary) and Luke Robinson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk

Contents

Report	<i>Page</i>
Summary	3
Conclusions and recommendations	5
1 Excess Votes in 2005–06	7
NHS Pension Scheme: Excess on Request for Resources 1	8
Assets Recovery Agency: Excess on Request for Resources 1	9
House of Commons Members Estimate: Excess on Request for Resources 1	10
Formal Minutes	12
List of Reports from the Committee of Public Accounts Session 2006–07	13

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 2005–06, three bodies (the NHS Pensions Scheme; the Assets Recovery Agency; and the House of Commons Members Account) incurred Excess Votes, with an excess in the use of resources totalling £795.9 million and a single cash excess of £5.1 million. In 2004–05, one Department incurred a resource excess of £188.2 million and there were no cash excesses. The total value of excesses in 2005–06 is far greater than in 2004–05, mainly as a result of a significant excess in the NHS Pensions Scheme Accounts.

In 2005–06 the Excess Votes arose predominantly from the bodies underestimating their resource requirements, rather than overspending cash.

- i. The excess on the NHS Pensions Scheme of £788.2 million was because Scheme Managers did not accurately budget for their appropriations in aid and also incurred significantly higher costs than expected on a range of non-cash items of expenditure.
- ii. The Assets Recovery Agency incurred a resource excess of £6.8 million and a cash excess of £5.1 million, because the Agency did not appreciate fully the impact of changes in its operating legislation and the method by which it received funding for its activities which led to the need to seek a Supplementary Estimate to cover these changes.
- iii. The House of Commons Members Account incurred a resource excess of £0.9 million, because the Department of Finance and Administration at the House of Commons did not allow sufficient Estimate cover for increases in the costs related to the Parliamentary Contributory Pension Fund or the level of Members' expenses.

Conclusions and recommendations

1. The total of excesses in 2005–06 was significant, with a resource excess of £795.9 million and a cash excess of £5.1 million. The causes were:
 - i. the NHS Pension Scheme, where the Scheme Managers did not accurately budget for their appropriations in aid and also incurred significantly higher costs than expected on a range of notional items of expenditure;
 - ii. the Assets Recovery Agency¹, a Non-Ministerial Department, which did not fully consider the impact of changes to its authorising legislation or the way in which it received funding for its activities from the Home Office; and
 - iii. the House of Commons Members Account, where the Department of Finance and Administration at the House of Commons did not allow sufficient Estimate cover for the value of the service cost² related to the Parliamentary Contributory Pension Fund and for increases in the level of Members' expense claims due to changes in the allowance structure.
2. In each of the three cases above, the bodies could have sought provision for at least some of the excess. Each body has reviewed its operations to identify areas of weakness and has taken steps to improve its resource budgeting. In considering the wider lessons to be learned, vote-funded bodies should:
 - i. assess fully the implications of changes in their authorising legislation or operating environment and consult the Treasury or other relevant departments to ensure that the implications of such changes are fully understood;
 - ii. assess the impact of changes in the valuation of their managed assets and liabilities, at the earliest opportunity, in order to determine any associated costs, to minimise the risk of an excess; and
 - iii. review carefully the level of appropriations in aid, resources and cash they require in time to seek a Supplementary Estimate, if necessary.
3. The Treasury should bring these points to the attention of departments and other vote-funded bodies.
4. We recommend that Parliament provides the necessary amount by means of an Excess Vote, as set out in Figure 1.

1 On 11 January 2007 the Home Secretary announced that the asset recovery functions of the Assets Recovery Agency would, subject to parliamentary approval, transfer to the Serious Organised Crime Agency and the training functions would transfer to the new National Policing Improvement Agency, with effect from April 2008 at the earliest.

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

1 Excess Votes in 2005–06

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 2005–06, Parliament granted total net resources of £448.9 billion and total cash of £364.9 billion in Supply Estimates³, to 55 departments, pension schemes and other vote-funded bodies⁴. Three of these bodies overspent resources by £795.9 million and one of them overspent cash by £5.1 million. Details are in **Figure 1**.

2. As in 2004–05, there were no cases of administration budgets being exceeded in 2005–06.

Figure 1: Summary of 2005-06 Excess Votes required

Department	Resources		Cash	
	Excess £	Amount to be voted £	Excess £	Amount to be voted £
National Health Service Pension Scheme. RFR1: National Health Services Pension Scheme Excess: Gross resources Add: Deficiency in operating appropriations in aid realised	585,750,000 <u>202,477,000</u>	788,227,000		
Assets Recovery Agency. RFR1: Helping to reduce crime by recovering the proceeds of crime through criminal confiscation, civil recovery and taxation. Excess Resources/Cash ⁵ Less: Additional income payable to the Consolidated Fund.	6,779,000 <u>(114,000)</u>	6,665,000	5,070,000 <u>(114,000)</u>	4,956,000
House of Commons: Members. RFR1: Members' salaries, allowances and other costs. Excess Resources	<u>909,000</u>	909,000	-	-
Total		795,801,000		4,956,000

3 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.

4 Source: *Central Government Supply Estimates 2005–06*, HC (2005-06) 972

5 The resource excess for the Assets Recovery Agency is higher than the cash excess mainly as a result of timing differences between accounting for fees owed to receivers and the cash settlement of the bills.

NHS Pension Scheme: Excess on Request for Resources 1

3. The resource excess of £788 million (2.94% of the allocation of £26.8 billion) on the NHS Pension Scheme's Request for Resources 1 (National Health Service Pension Scheme) was due to £202 million lower than expected receipts appropriated in aid of the Vote and £780 million higher than expected notional (non-cash) expenditure, partly offset by lower than expected expenditure of some £194 million.

4. Income was £202 million (2.99%) lower than forecast, but Scheme Managers did not detect the changes in sufficient time to seek a Supplementary Estimate from Parliament to reduce the Excess. This shortfall was because:

- i. additional pension contributions to the Scheme and transfers in to the Scheme were £126 million and £43 million lower than forecast, because of incorrect assumptions by Scheme Managers that previous trends in membership would continue;
- ii. contribution income from premature retirements, resulting from the restructuring of Primary Care Trusts under the National Health Service's Agenda for Change Initiative, were £28 million lower than forecast, because the restructuring exercise was later than the Scheme Managers expected; and
- iii. charges to employers to recover the pension costs of staff retired early were £5 million lower than Scheme Managers forecast.

5. The Scheme also spent some £780 million more than expected because Managers incorrectly estimated the outturns of the following notional (that is non-cash) items of expenditure.

- i. In April 2006, the Scheme Actuary advised Scheme Managers that they had omitted £2.7 billion of 31 March 2005 liabilities from the valuation of Scheme liabilities, relating to hospital service of General Medical Practitioners. Reinstatement of these liabilities entailed unexpected additional charges of some £565 million in 2005–06.
- ii. The Scheme Managers underestimated the interest on Scheme liabilities charges by £200 million.
- iii. Enhancements to pensions exceeded forecast by £15 million.

This £780 million overspend was offset by some £194 million of lower than expected expenditure in other areas.

6. Of the total £788 million excess, some £565 million resulted from rectifying the accidental omission of GP liabilities and was outside the control of Scheme Managers. But the Scheme Managers should have monitored their expenditure and contribution income more effectively and requested a Supplementary Estimate, which would have reduced the excess by around £223 million.

7. The NHS Business Services Authority has commenced a fundamental review of its estimation and expenditure monitoring processes to ensure that future Excess Votes are avoided, and has instigated the following measures.

- i. Supply estimates produced by the Pensions Division will be reviewed robustly by the Director of Finance of the Authority and presented to the Executive Board prior to formal sign off by the Accounting Officer.
- ii. The Director of Finance of the Authority will receive and review regular financial monitoring reports on the Scheme Accounts. The Director of Finance will also ensure that appropriate staff have a greater understanding of the impact of any changes to accounting policies, and that these impacts are identified on a timely basis.
- iii. Scheme Managers will work closely with the Scheme Actuary to ensure they understand, and are consistent in their estimation process, with the calculation methodologies used by the Actuary in the composition of the Scheme liabilities statement.
- iv. The Actuary will ensure that a robust quality process is maintained to avoid a recurrence of the omission identified in 2005–06.

Assets Recovery Agency: Excess on Request for Resources 1

8. The Agency overspent the allocation of £16.7 million for Request for Resources 1 (Helping to reduce crime by recovering the proceeds of crime through criminal confiscation, civil recovery and taxation), by £6.8 million (40.5%) and exceeded the grant for the net cash requirement of £16.8 million by £5.1 million (30.2%). The excesses were mainly because the Agency did not fully identify the implications of changes in its operating legislation and in the provision of funding from the Home Office. Both excesses can be offset in part by £0.1 million of excess appropriations in aid.

9. The resource excess of £6.8 million occurred because the Agency did not seek Parliamentary approval to apply:

- i. receipts from its recovered assets activities to meet expenditure on receivers' fees, which resulted in excess expenditure of £6.1 million; and
- ii. funding received from the Home Office from the Recovered Asset Incentivisation Fund towards the cost of Incentivisation activities, which resulted in excess expenditure of £0.7 million.

10. These two issues contributed £4.6 million of the cash excess of £5.1 million against the Agency's Net Cash Requirement and a further £0.5 million was because the Agency did not accurately forecast other cash expenditure.

11. The introduction of the Serious Organised Crime and Police Act 2005 permitted the Director of the Assets Recovery Agency to apply from 1 July 2005 sums received from civil recoveries to meet the remuneration and expenses of any interim receiver appointed to recover assets. But the Agency did not appreciate that Parliamentary approval was also required through the Supply process.

12. As a result, the Agency budgeted for the income from the recovered assets to offset the costs of the receivers' fees. It should have presented a Supplementary Estimate both to seek an increase in gross expenditure on the fees and to appropriate a matching amount of fee income in aid of the Vote. Since it failed to do so, the income from recovered assets held by the Agency to cover receivers' fees had to be surrendered to the Consolidated Fund, resulting in £6.1 million of the resource excess.

13. The remainder of the excess results from changes in the way the Home Office provided funding for the Agency from the Recovered Assets Incentivisation Fund (RAIF). This Fund is used to finance projects that help to increase the recovery of the proceeds of crime. During 2005–06, the Home Office changed their method of providing funds to the Agency from a transfer from the Home Office's Supply Estimate to a quarterly reimbursement in arrears based on the Agency's accounting returns.

14. The Agency did not recognise that this change affected its own Supply Estimate. It did not, therefore, secure Parliamentary approval for funding from the Home Office to be applied as appropriations in aid for expenditure on RAIF activities. This contributed £0.7 million to the resource excess.

15. In the 2006–07 Supply Estimates, the Agency has secured Parliamentary approval to apply:

- i. recovered asset proceeds to meet the cost of interim receivers; and
- ii. funding received from the Home Office to meet the cost of incentivisation activities during the year.

16. The Agency has also reviewed its Estimates preparation process and changed to "gross" rather than "net" accounting. In future, the Agency will discuss the implication of all subsequent legislative and procedural changes with the Treasury, the NAO and any other bodies directly affected by the change.

17. On 11 January 2007 the Home Office announced that the asset recovery functions of the Assets Recovery Agency would, subject to Parliamentary approval, transfer to the Serious Organised Crime Agency and the training functions would transfer to the National Policing Improvement Agency, with effect from April 2008 at the earliest.

House of Commons Members Estimate: Excess on Request for Resources 1

18. The resource excess of £0.9 million on the £155.7 million provided for the House of Commons Members Request for Resources 1 (Members' salaries, allowances and other costs) occurred because:

- i. the liability of the Parliamentary Contributory Pension Fund due to in-year employment (the service cost) increased after the submission of the Spring Supplementary Estimate, contributing £0.6 million of the excess; and
- ii. the level of claims for reimbursement of costs by Members of Parliament increased after the year-end following changes in the allowance structure, which contributed

to £0.3 million of the excess, after allowing for compensating underspends in other expenditure.

19. In February 2006, the Department of Finance and Administration in the House of Commons submitted a Spring Supplementary Estimate for an additional £3 million of resources to cover the additional costs of the General Election. After this date two significant accruals adjustments led to the resource excess of £0.9 million. These related to the Parliamentary Pension Fund service cost and reimbursement of expenses to Members of Parliament.

20. The Parliamentary Contributory Pension Fund liability is recognised in the House of Commons Members Accounts Balance Sheet in accordance with United Kingdom Financial Reporting Standards. As such, the liability is subject to an annual actuarial valuation, which also provides an estimate of the annual service cost of the Fund to be recognised as operating expenditure. The final valuation received by the Department of Finance and Administration in the House of Commons in May 2006 showed a current service cost of £12.8 million, £0.6 million higher than the initial actuarial estimate, on which the Spring Supplementary Estimate was based.

21. The increase in the reimbursement of Members' expenses was a major factor contributing £0.3 million of the excess, after allowing for compensating underspends in expenditure. It was due to the total level of expenditure on allowances being significantly higher than expected during the two month period following 31 March 2006. A change to the structure of allowances was a factor in the increase in expenditure. From 1 April 2005, Members were allowed to transfer up to 10% of their annual Staffing Allowance to their Incidental Expenses Provision Allowance, to meet the costs incurred on their parliamentary duties. This resulted in a final outturn of the Incidental Expenses Provision of £12.7 million, some £4 million higher than that forecast when the Spring Supplementary Estimate was laid, with some £1.7 million claimed after the year-end. The Department of Finance and Administration did not expect this increased flexibility to lead to such significantly higher overall expenditure.

22. The House of Commons Department of Finance and Administration has undertaken a detailed review of its procedures to establish the factors contributing to the excess. In future years, the Department of Finance and Administration will take into account the lessons from this review and the increased expenditure in 2005–06 when it prepares Supply Estimates.

Formal Minutes

MONDAY 26 FEBRUARY 2007

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Mr Philip Dunne

Helen Goodman

Mr Austin Mitchell

Mr Alan Williams

Mr Iain Wright

Draft Report

A draft Report (Excess Votes 2005–06), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 22 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

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

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

[Adjourned until Tuesday 27 February at 3.30 pm.]

List of Reports from the Committee of Public Accounts Session 2006–07

First Report	Tsunami: Provision of support for humanitarian assistance	HC 25
Second Report	Improving literacy and numeracy in schools (Northern Ireland)	HC 108
Third Report	Collections Management in the National Museums and Galleries of Northern Ireland	HC 109
Fourth Report	Gas distribution networks: Ofgem's role in the sale, restructuring and future regulation	HC 110
Fifth Report	Postcomm and the quality of mail services	HC 111
Sixth Report	Gaining and retaining a job: the Department for Work and Pensions support for disabled people	HC 112
Seventh Report	Department for Work and Pensions: Using leaflets to communicate with the public about service and entitlements	HC 133
Eighth Report	Tackling Child Obesity—First Steps	HC 157
Ninth Report	The Paddington Health Campus scheme	HC 244
Tenth Report	Fines Collections	HC 245
Eleventh Report	Supporting Small Business	HC 262
Twelfth Report	Excess Votes 2005–07	HC 346