House of Commons
Committee of Public Accounts

Excess Votes 2008–09

Thirteenth Report of Session 2009–10

Report, together with formal minutes

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The Committee of Public Accounts

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Angela Eagle MP (*Labour, Wallasey*)
Mr Philip Dunne MP (*Conservative, Ludlow*)

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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 Sîan Woodward (Clerk), Emily Gregory (Senior Committee Assistant), Pam Morris and Jane Lauder (Committee Assistants) 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. The Committee scrutinises the reasons behind individual departments exceeding their allocated resources, or 'Supply', and makes a recommendation to Parliament on whether to authorise the appropriate funding to make good the excesses. The authorisation of additional grant by Parliament regularises the excesses incurred by departments. The Committee may make recommendations to departments concerning the causes.

Resource-based Supply requires departments to estimate the resources they will need during a financial year on an accruals basis and for commitments to provide services and the cash they will need as commitments mature. Parliament authorises both cash spending and the use of resources.

In 2008–09, three departments incurred excesses in the use of resources totalling £23.9 billion.

The specific cases were:

- **HM Treasury** incurred net resource expenditure of £23,815,859,000 in excess of the amount authorised as a result of its obligations under the Government's Asset Protection Scheme, introduced as part of a range of measure to reinforce financial stability and increase market confidence. The excess arose because of the need to account for a provision of £25 billion to cover the then expected future losses, but this could not be estimated until confirmation in March 2009 of which banks would be covered by the Scheme. This occurred too late in the financial year to allow HM Treasury to secure advance funding through the Parliamentary Supply process;

- **The Home Office** incurred a resource excess of £79,094,000 as a result of providing for an additional £130m in back payments owed to police pensioners as a result of a judicial review that concluded in March 2009 that new lump sum commutation factors should be backdated to December 2006. Again, this was too late in the financial year for the Home Office to seek additional funding through the Parliamentary Supply process, and

- **The United Kingdom Atomic Energy Authority Pension Schemes** incurred a resource excess of £6,406,000 due to a failure to seek sufficient Parliamentary Supply for the transfer of some staff to the Nuclear Decommissioning Authority Pension Scheme. The transfer occurred later than originally envisaged, but an additional grant was not sought through a Supplementary Estimate.

On the basis of our examination of the reasons why these three bodies exceeded their voted provision, we recommend that Parliament provide the necessary amounts by means of an Excess Vote.

Conclusions and recommendations

1. Resource excesses in 2008-09 totalled £23,893,853,000 across three departments. This was an exceptional year due to late, and significant, resource requirements for the financial stability measures introduced by the Government.

2. **The two excesses, at HM Treasury and the Home Office occurred in 2008–09 as a result of significant events crystallising late in the financial year.**

- **HM Treasury** incurred a resource excess of £23 billion as a result of a provision in the balance sheet at 31 March 2009 for the potential losses expected at that point for the support provided to two banks under what has since been formalised as the Asset Protection Scheme. As this Scheme was being developed at the year end, and the extent of the support had not been finalised, it had not been possible for HM Treasury to predict the resource requirements in time for a Supplementary Estimate to be prepared. The scheme was not formalised until November 2009, and it now seems that a loss of this magnitude is unlikely. However, at the time the accounts were prepared and audited, the potential exposure appeared significantly higher, and so financial reporting standards required recognition of a liability and, therefore, Supply financing was required.

- The **Home Office** is required to make good any deficit on the Police Pension Scheme in any given year. The Department had provided for back payments to be made to police pensioners as a result of new commutation factors retrospectively applicable from 1 October 2007. However, in March 2009 a subsequent Judicial Review determined that application of new commutation factors should be backdated to 1 December 2006. This resulted in the Department being liable for an additional £130 million.

- The Department conducted a review of risks and the financial consequences, concluding that it was probable the case would be won and so the provision made would be sufficient. When the Judicial Review findings were made, it was too late for the Department to request additional resources through the Supplementary Estimates.

3. **The excesses that occurred in 2008–09 at the United Kingdom Atomic Energy Authority Pension Schemes (UKAEA) were due to poor financial forecasting.** The UKAEA Pension Schemes Consolidated Accounts failed to budget correctly for anticipated pension requirements due to dates of pension transfer not being included in the forecasting process. This resulted in a resource excess of £6 million. This Resource Account was also qualified in 2007-08 for incurring an excess vote, the accounts breached the Net Cash Requirement limit by £5.8 million as the Authority retained receipts that should have been paid to the Consolidated Fund and therefore under estimated the Net Cash Requirement for the year.

4. In the case of UKAEA Pension Schemes, the excess could have been avoided by more thorough oversight and better reporting of the information necessary to administer the resource requirements. This is the second successive year this entity has breached a Parliamentary limit.

5. We are concerned that a Resource Account has incurred an excess vote for two consecutive years. In both years, failings have been identified in managing the estimates process and communication between the relevant teams within the organisation. Whilst improvements have been made, these have not gone far enough to introduce robust resource budgeting. It is essential that steps are taken at the UKAEA Pension Schemes to minimise the risk of an excess vote occurring in future years.

6. With the introduction of the Joint Personnel Administration system in 2007 and removal of previous capability, the **Ministry of Defence** could not provide sufficient evidence to demonstrate that the 'Votes A' ceilings on the numbers of certain categories of service reservists had not been breached. Parliament vote annually on the maximum number of service personnel reservists that the Ministry can retain, and the maximum numbers maintained are reported in the resource accounts. If the Department exceed the levels voted by Parliament, this excess would require retrospective Parliamentary approval in a similar way to an overspend of resources.

7. **We recommend that Parliament provides the additional resources requested by means of an Excess Vote, as set out in Figure 1.**

1 Excess Votes in 2008–09

1. Resource-based Supply requires departments to estimate and manage the financial resources necessary during each financial year on an accruals basis, and for commitments to provide services and the cash they will require as commitments mature. Parliament authorises departments' cash spending and use of resources.

2. In 2008–09, Parliament granted total net resources of £493.2 billion and total cash of £516.4 billion in Supply Estimates to 56 departments, pension schemes and other vote-funded bodies.[1] This total included an unusual 'out-of-turn' estimate, a provision of resources outside the usual supplementary estimates, for an additional £42,200 billion to HM Treasury's net cash requirement.[2]

3. The resource-based Estimates reflect accruals and non-cash consumption of resources, such as depreciation. However, a cash limit is also voted by Parliament. A breach of the total resource-based Estimates, or a cash limit, result in an Excess Vote.

Figure 1: Summary of 2008–09 Excess Votes required

Department	**Resources**	
	Excess £'000	**Amount to be voted £'000**
HM Treasury RfR 1 (Raising the rate of sustainable growth and achieving rising prosperity)		
Excess Expenditure	23,815,859	
Less: Savings available from elsewhere within the RfR	(7,289)	**23,808,570**
Home Office RfR 1: (Working together to protect the public)		
Excess Expenditure	79,094	**79,094**
BERR UKAEA Pensions Schemes. RfR 1: (UKAEA Pensions Schemes)		
Excess Expenditure	6,406	
Less: Savings available from elsewhere within the RfR	217	**6,189**
Total		**23,893,853**

1 HM Treasury, *Central Government Supply Estimates 2008–09*, February 2009, HC 265.

2 HM Treasury, *Central Government Supply Estimates 2008–09, Out of Turn Supplementary Estimates*, October 2008, HC 1061

4. Three departments overspent net resources by a total of £23.9 billion in 2008–09. This was an exceptional year due to the financial stability measures government introduced towards the end of the period. **Figure 1** shows the gross excess, the capacity of each department to apply savings from elsewhere to meet some of the overspend, and the net additional resource that Parliament is therefore being asked to approve.

HM Treasury: Excess on Request for Resource

5. In January 2009, the Government announced its intention to offer an Asset Protection Scheme, as part of a range of measures to reinforce financial stability and increase market confidence. Under this Scheme, HM Treasury will provide banks with protection against future credit losses on certain assets in exchange for a fee. A 'first loss' remains with the bank but the Government's protection will cover 90% of credit losses above this amount, with the participating bank retaining the residual exposure.

6. On 26 February 2009, HM Treasury announced further details of the Scheme and an agreement in principle that the Royal Bank of Scotland Group would participate in the Scheme by seeking to protect some £325 billion of eligible assets for a fee made up of £6.5 billion of non-voting ordinary shares. The Bank will also agree, over a period to be finalised, not to claim certain UK tax losses or allowances. On 7 March, Lloyds Banking Group announced that it would also participate in the Scheme.

7. The banks signed pre-accession agreements with HM Treasury on the dates the announcements were made.[3]

8. In accounting for this Scheme, HM Treasury have concluded that, at the balance sheet date, it had a 'present obligation' under Accounting Standards to make payments arising from this Scheme. HM Treasury had no legal obligation at the balance sheet date, but it had taken actions which created an expectation that the Scheme would be implemented. These actions included public statements, ongoing negotiations with the participating banks, and advertising for the post of Chief Executive of the Asset Protection Agency, the body set up to administer the Scheme.

9. At this stage, HM Treasury has estimated the scale of the expected losses on the Scheme at some £25 billion. It was known from the outset that the Scheme would result in a significant loss but the amount could not be estimated until the banks had confirmed their participation in March. It was therefore too late at this stage for HM Treasury to seek extra resources from Parliament to meet these losses which it has recorded as a provision against expenditure. It therefore breached its expenditure limit on Request for Resources 1.[4]

Home Office: Excess on Request for Resource

10. The Police Pension Regulations 2007 (the Regulations) require police authorities to maintain a police pension fund into which officer and employer contributions are paid, and out of which pension payments for retired officers are made. Under the Regulations if, in any given year, a deficit or surplus arises on these funds, they are to be balanced through a top up grant from the Home Office, or payment back to the Department by the police authority.

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3 Since this time, Lloyds TSB have confirmed that they will no longer participate in the Scheme. The terms of the RBS participation have also changed as a result of due diligence and to ensure consistency with EU requirements in relation to State Aid.

4 HM Treasury, *Annual Report and Accounts*, July 2009, HC 611

11. In May 2008 the Home Secretary, on the advice of the Government Actuary's Department, introduced new tables of lump sum commutation factors for the police pension schemes to be applied from 1 October 2007. On 17 March 2009, a Judicial Review judged that application of the new commutation factors should be backdated to 1 December 2006. This ruling resulted in an additional £130m in back payments owed to police pensioners (and associated HM Revenue and Customs charges), for which, in accordance with its obligations under the Regulations, the Department was liable. The Department has provided for these costs in its 2008–09 Resource Accounts. The funding payments to police authorities were made in 2009–10.

12. The risks and the financial consequences of the Review ruling against the Department before the financial year end were assessed by operational teams and reported to management at the highest level. The Department concluded that it was probable that it would win the case and did not request resource cover in its Supply Estimate for the £130m, estimated as costs of back dating the commutation rates to December 2006. As the Review ruling came in March, after the final Supplementary Estimate for 2008–09, the Department did not then have the opportunity to make a further request for resources and, as a consequence, breached the expenditure limit authorised by Parliament.[5]

13. In May 2009, a report by the C&AG[6] concluded that the Department had improved substantially its financial management since weaknesses had been highlighted by the Public Accounts Committee (PAC) in 2006.[7] It was noted, however, that the Department had not reached the stage of maturity at which good financial management is part of 'business as usual' operations.[8]

14. The Department had assessed the financial risk of losing the court case but had not fully anticipated the funding and accounting consequences. However, we do not consider that the Excess Vote can be attributed wholly to this failure. As he set out to the PAC in June, the Accounting Officer is aware of the challenge of ensuring that the business understands and acts on the financial impacts of operational and policy decisions and has an appropriate financial improvement strategy in place to address it.

UKAEA Pension Schemes: Excess on Request for Resource

15. The UKAEA Pension Schemes have many participating employers, including former employees of British Nuclear Fuels plc (BNFL). When the Main Supply Estimate was being constructed by the Department, the timing of the transfer of a large number of BNFL staff to the Nuclear Decommissioning Authority (NDA) Pension Scheme was uncertain and an assumption had to be made. In March 2008, the NDA confirmed to UKAEA that the

5 Home Office, *Resource Accounts*, July 2009, HC 466

6 C&AG's Report, *Financial Management in the Home Office*, HC (2008–09) 299

7 Committee of Public Accounts, Sixtieth Report of Session 2005–06, *Home Office Resource Accounts 2004-05 and follow-up on Returning failed asylum applicants*, HC 1079

8 The PAC heard evidence in June 2009 and reported their findings in October, (Committee of Public Accounts, Forty-sixth Report of Session 2008–09, *Financial Management in the Home Office,* HC 640), recommending that "the Home Office needs to sustain momentum by incorporating strong financial management as standard across its business".

transfer would take place on 24 November 2008. This was later than had been assumed when the Main Estimate was prepared.

16. Although the timing of this confirmation provided sufficient time to change the forecasts underpinning the Main Estimate, and for the Department to seek additional funding via the Winter or Spring Supplementary Estimates, this information was not factored into any revised forecasts. By the time the Government Actuary was asked in February 2009 to provide revised estimates to take account of the actual timing of the transfer, this was too late for the approved Request for Resources to be changed via a Supplementary Estimate.

17. Consequently, the Spring Supplementary Estimates continued to be based on an assumption that the BNFL employees would leave earlier in the year than was actually the case, leading to the current service cost for accrued benefits exceeding the amount authorised, and it is this that led to the resource excess.[9]

18. Following the breach of the Net Cash Requirement last year,[10] the Department concluded that responsibilities for sponsorship and communication with the UKAEA pension managers had been eroded. To address this, the Department took steps to reinstate the sponsorship role for the Pension Schemes within the Department's Shareholder Executive.

19. The Department has examined the circumstances giving rise to the current resource excess and has concluded that the action taken last year did not go far enough, and that more needs to be done to ensure that all aspects of the Pension Schemes' finances are managed in a co-ordinated manner.

20. There are a number of parties involved in managing the financial aspects of the Pension Schemes: the Pension Administrators within UKAEA; the Government Actuary's Department; the Departmental Sponsor in the Shareholder Executive; the Shareholder Executive Finance Team; and the Department's Central Finance Team. However, no one party currently has lead responsibility. Consequently, the Department intends to further strengthen its sponsorship role by appointing a lead in the Central Finance Team who will liaise with all of the parties involved. Formal meetings are planned to coincide with the planning for the Main Estimate in time to reflect any changes necessary to the Winter and Spring Supplementary Estimates.

21. The steps taken by the Department in response to the breach of the Net Cash Requirement last year to reinvigorate its sponsorship role for the UKAEA Pension Schemes have failed to prevent another Excess Vote this year. The Department recognises that, because the Resource Account has now experienced Excess Votes in the last two years, further action needs to be taken as a matter of priority to prevent any recurrence.

9 Department for Business, Enterprise and Regulatory Reform, *Combined Resource Accounts for the UKAEA Pension Schemes 2008–09*, July 2009, HC 490

10 Department for Business, Enterprise and Regulatory Reform, *Combined Resource Accounts for the UKAEA Pension Schemes 2007–08*, August 2008, HC 876

Ministry of Defence: Limitation of Scope on Votes A

22. During the audit of the 2008–09 financial statements, the C&AG was unable to obtain sufficient evidence to support the accuracy of certain service personnel numbers reported to Parliament as part of Votes A as shown in Note 38 to the Resource Accounts.[11] The Army have been unable to provide the maximum number of Service Reserves as monthly figures for Reserves have not been collated during the year. The Royal Navy have also been unable to provide numbers for the Royal Navy reserve 'List 7'. Whilst they have been able to provided maximum numbers for the Royal Fleet Reserve (Navy and Marines), the Royal Naval Reserve and the Royal Marines Reserve they have been unable to provide evidence to fully support the figures that have been disclosed.

23. The evidence available was not maintained to a sufficient standard to enable a report to Parliament to be made as to whether or not the approved Estimates (Votes A) had been exceeded.

24. The Department needs to pay particular attention to ensuring that it can meet its statutory requirements for reporting to Parliament on Votes A manning levels.

11 Ministry of Defence, *Resource Accounts*, July 2009, HC 467

Formal Minutes

Monday 8 February 2010

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon	Mr Austin Mitchell
Mr Douglas Carswell	Dr John Pugh
Rt Hon Keith Hill	Rt Hon Alan Williams

Draft Report (*Excess Votes 2008–09*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 24 read and agreed to.

Conclusions and recommendations 1 to 7 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 make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 22 February at 4.30 pm

List of Reports from the Committee of Public Accounts 2009–10