



House of Commons
Committee of Public Accounts

**Excess Votes in 2010–
11**

Sixty-sixth Report of Session 2010–12

*Report, together with formal minutes, oral and
written evidence*

*Ordered by the House of Commons
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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

Rt Hon Margaret Hodge (*Labour, Barking*) (Chair)
Mr Richard Bacon (*Conservative, South Norfolk*)
Mr Stephen Barclay (*Conservative, North East Cambridgeshire*)
Jackie Doyle-Price (*Conservative, Thurrock*)
Matthew Hancock (*Conservative, West Suffolk*)
Chris Heaton-Harris (*Conservative, Daventry*)
Meg Hillier (*Labour, Hackney South and Shoreditch*)
Joseph Johnson (*Conservative, Orpington*)
Fiona Mactaggart (*Labour, Slough*)
Mr Austin Mitchell (*Labour, Great Grimsby*)
Chloe Smith (*Conservative, Norwich North*)
Nick Smith (*Labour, Blaenau Gwent*)
Ian Swales (*Liberal Democrats, Redcar*)
James Wharton (*Conservative, Stockton South*)

The following Members were also Members of the committee during the parliament:

Dr Stella Creasy (*Labour/Cooperative, Walthamstow*)
Justine Greening (*Conservative, Putney*)
Eric Joyce (*Labour, Falkirk*)
Rt Hon Mrs Anne McGuire (*Labour, Stirling*)

Powers

The powers of the Committee are set out in House of Commons Standing Orders, principally in SO No 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 www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

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Summary

The Committee of Public Accounts scrutinises the reasons behind individual Departments exceeding their allocated resources, and reports to the House of Commons on whether it has any objection to the amounts needed to rectify the reported excesses. The Committee may also make recommendations to Departments concerning the causes of these excesses.

In 2010-11, two bodies breached their expenditure limits:

- **The Department for Transport** breached its Net Cash Requirement by £335.2 million, primarily because of weaknesses in monitoring its budget for the operation of its rail franchises.
- **The Teachers' Pension Scheme (England & Wales)** breached its Net Cash Requirement by £11.9 million because the Department for Education underestimated the number of members that would retire in 2010-11 and overestimated the contributions that would be collected from employers.

On the basis of our examination of the reasons why these two bodies exceeded their voted provisions, we have no objection to Parliament providing the necessary amounts by means of an Excess Vote. Nevertheless, we expect both bodies to set out to us what actions they have taken to improve their financial management and avoid exceeding their allocated resources in the future.

We also expect HM Treasury, as the UK's Ministry of Finance, to ensure departments are fully aware of the need to operate within their voted provisions. HM Treasury should monitor the progress departments are making against their Estimates on a more timely basis and, where necessary, take appropriate action to stop departments exceeding their provision.

Conclusions and Recommendations

- 1. In 2010-11, the Department for Transport and the Teachers' Pensions Scheme (England & Wales) exceeded spending limits approved by Parliament.** The excesses occurred as a result of weaknesses in cash management. Under the terms of the Standing Order of the House of Commons number 55(3)(c), we recommend that Parliament provides the additional resources and cash requested by means of an Excess Vote, as set out in **Figure 1** on **page 4**.
- 2. The Department for Transport breached its Net Cash Requirement by £335.2 million due to the Department monitoring its overall budget for the operation of rail services on a net basis rather than a gross basis.** The Department received £527.7 million income in excess of its Appropriations in Aid limit approved by Parliament but, instead of surrendering receipts related to the excess income to the Consolidated Fund, they spent £335.2 million of it. The surplus cash was available because the Department generated more income than expected on its rail franchises, but the Department did not seek a Supplementary Estimate to increase its operating Appropriations in Aid limit. The Department for Transport should set out in its reply to us what it has done to improve the financial management of its rail budget and how these actions will prevent a similar breach occurring in the future.
- 3. The Teachers' Pension Scheme breached its Net Cash Requirement by £11.9 million because it underestimated the number of members that would retire in 2010-11 and overestimated the contributions that would be collected from employers.** The Scheme has incurred four excess votes in recent years, three times due to poor cash forecasting. The Department for Education should set out in its reply to us what measures it has taken to prevent future excess votes in the Teachers' Pension Scheme. We would expect the Department's internal auditors to review the Scheme in the coming year to assess the adequacy of the measures put in place.
- 4. The reduction in the number of opportunities for departments to apply for additional funds through Supplementary Estimates, coupled with reductions in departmental budgets, may increase the risk of departments breaching approved spending limits in future.** In its reply to us, we expect HM Treasury to set out what more it will be doing to monitor departments' spending and take action where necessary to avoid breaches of spending limits.

Excess Votes in 2010-11

1. This Report is part of the framework of Parliamentary control over government spending. Resource-based Supply requires Departments to estimate and manage the financial resources needed during each financial year; on an accruals basis for commitments to provide services, and on a cash basis to meet commitments as they mature. Parliament authorises Departments' proposed cash spending and use of resources.

2. Resource-based Estimates reflect accruals and non-cash consumption of resources, such as depreciation. A cash limit is also voted by Parliament. A breach of either the total resource-based Estimates or the cash limits results in an Excess Vote. In 2010-11, Parliament granted total net resources of £537.4 billion and total cash of £488.9 billion in Supply Estimates to 53 Departments, pension schemes and other vote-funded bodies.¹

3. Under Standing Orders of the House of Commons number 55(3)(c)², the Committee of Public Accounts scrutinises the reasons behind any individual bodies exceeding their allocated resources, and reports to the House of Commons on whether it has any objection to making good the reported excesses. Once the Committee has reported, HM Treasury presents the Statement of Excesses to Parliament, to be voted into the Supply and Appropriation (Anticipation & Adjustments) Act. The passing of this Act authorises the additional grant by Parliament to regularise the excesses incurred by Departments.

4. **Figure 1** shows the excesses incurred in 2010-11. Parliament is being asked to approve additional cash for the Department for Transport and for the Teachers' Pension Scheme (England & Wales).

1 Central Government Supply Estimates 2010-11: Spring Supply Estimates, February 2011, HC 790

2 Standing Orders of the House of Commons Public Business, April 2011, HC 700

Figure 1: Summary of 2010-11 Excess Votes required

Department	Resources		Cash	
	Excess £	Amount to be voted £	Excess £	Amount to be voted £
Department for Transport RfR 1: Transport that works for everyone				
Excess Expenditure	0	0	335,197,000	335,197,000
Teachers' Pension Scheme (England & Wales)				
Excess Expenditure	0	0	11,875,000	11,875,000
Total	0	0	347,072,000	347,072,000

Department for Transport: Excess on Net Cash Requirement³

5. The Department received more Appropriations in Aid than Parliament had approved but, instead of surrendering this excess to the Consolidated Fund, they spent a large proportion of it. The main reason for the Department spending more cash than Parliament had approved was that the Department monitored its budget for the operation of its rail franchises on a net basis rather than a gross basis. Some train companies receive subsidies from the Department and others pay a premium under the terms of their franchise agreements. The Department's accounting policies required it to account for this expenditure and income separately.

6. Income from rail franchises in 2010-11 was £411 million more than the Department for Transport had predicted. However, because the Department monitored the rail budget on a net basis, taking income and expenditure together, the Department did not have the necessary information to assess whether it needed to submit a Spring Supplementary Estimate to increase its operating Appropriations in Aid limit. Overall, during 2010-11, the Department received £527.7 million of cash in excess of its authorised operating Appropriations in Aid limit of £1,202.6 million.

7. Any income that departments receive in excess of their Appropriations in Aid limits must be surrendered to the Consolidated Fund. As the Department for Transport was not

aware it had excess income that should have been surrendered to the Consolidated Fund, the Department for Transport spent £335.2 million more cash than Parliament had approved.

8. Clear Line of Sight reforms, which align budgets, Estimates and Resource Accounts, mean that, from 2011-12, the Department for Transport does not need to monitor income and expenditure from train operating companies separately for parliamentary control purposes.

9. However, the Department for Transport recognises that it needs to improve its financial management of the overall rail budget and has taken a number of actions designed to help prevent a similar event happening in future. It intends to issue clearer guidance to its Directors General with regard to its parliamentary control totals, and it will revise its approach to monitoring the need to request Supplementary Estimates in future years.

Teachers' Pension Scheme (England & Wales): Excess on Net Cash Requirement ⁴

10. The Department for Education prepares the Teachers' Pension Scheme Parliamentary Estimate using cash forecasts supplied by Capita Business Services, who are contracted to manage the day to day administration of the Scheme on behalf of the Department. These forecasts are reviewed, challenged and revised by the Department during the year, leading to requests for changes to the authorised Net Cash Requirement through Supplementary Estimates.

11. The main cash inflows of the scheme are contributions from employers and employees in respect of active (currently employed) members of the scheme. The main outflows relate to payments of pensions to retired members and dependants and payments of lump sums on retirement. The forecasts of receipts and payments are based primarily on historical trend data.

12. The Department for Education underestimated the number of active members that would retire in 2010-11 and overestimated the contributions that would be collected from employers. As a result the Scheme exceeded its Net Cash Requirement by £11.9 million.

13. The Scheme has now exceeded its voted resources four times since the introduction of Resource Accounting in 2001-02. On three of these occasions, the excess was due to poor cash forecasting.

14. As part of the Parliamentary Supply process, the Department made requests for additional cash of £168.5 million in the Winter Supplementary Estimate and £101.7 million in the Spring Supplementary Estimate. However, following the Spring Supplementary Estimate, contributions collected in February and March were lower than forecast due to an unexpected reduction in the number of active members. Members taking retirement are entitled to take a lump sum, which cannot be delayed and must be paid up front. An unexpected increase in retirements in 2010-11 resulted in payments exceeding forecast.

15. The Department has undertaken a number of actions to improve the forecasting of receipts and payments and to better understand the underlying trends. The Department has examined the forecast models used with Capita to understand whether these remain fit for purpose and has identified a need for all parties to have a better understanding of the factors affecting the cash management process. The Department also plans to further examine the robustness of trend data and quantify the impact of emerging trends.

16. The Department will also be facing other challenges which impact on its income and expenditure forecasting: the effect of the reforms to public sector pension schemes; an increase in the number of employers (academies) paying into the scheme; and a reduction in the number of opportunities to apply for additional funds through Supplementary Estimates.

HM Treasury's role

17. HM Treasury is responsible for ensuring that central government departments spend only those funds which have been voted to them. They do this through a series of budgetary controls designed to keep spend within Parliamentary approved limits.

18. The introduction of the Clear Line of Sight initiative from 2011-12, which were approved by the House of Commons in July 2010, brings a number of changes to the processes supporting Parliament's approval of the Estimates and include a reduction in the number of opportunities for departments to apply for additional funds through Supplementary Estimates. These changes are designed to make departments' in-year spending control more transparent and effective and improve financial management. In addition, reductions in departmental budgets across most of government may make it more difficult for departments to stay within their spending limits.

Formal Minutes

Monday 30 January 2012

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon

Matthew Hancock

Chris Heaton-Harris

Meg Hillier

Fiona Mactaggart

Austin Mitchell

Nick Smith

Ian Swales

Draft Report (*Excess Votes in 2010-11*) proposed by the Chair, brought up and read.

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

Paragraphs 1 to 18 read and agreed to.

Conclusions and recommendations 1 to 4 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Sixty-sixth Report of the Committee to the House.

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

[Adjourned till Wednesday 1 February at 3.00pm]

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty-third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397

Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398
Fifty-third Report	Managing high value capital equipment	HC 1469
Fifty-fourth Report	Protecting Consumers – The system for enforcing consumer law	HC 1468
Fifty-fifth Report	Formula funding of local public services	HC 1502
Fifty-sixth Report	Providing the UK's Carrier Strike Capability	HC 1427
Fifty-seventh Report	Oversight of user choice and provider competition in care markets	HC 1530
Fifty-eighth Report	HM Revenue and Customs: PAYE, tax credit debt and cost reduction	HC 1565
Fifty-ninth Report	The cost-effective delivery of an armoured vehicle capability	HC 1444
Sixtieth Report	Achievement of foundation trust status by NHS hospital trusts	HC 1566
Sixty-first Report	HM Revenue and Customs 2010-11 Accounts: tax disputes	HC 1531
Sixty-second Report	Means Testing	HC 1627
Sixty-third Report	Preparations for the roll-out of smart meters	HC 1617
Sixty-fourth Report	Flood Risk Management	HC 1659
Sixty-fifth Report	DfID: Transferring cash and assets to the poor	HC 1695
Sixty-sixth Report	Excess Votes 2010-11	HC 1796