



House of Commons
Committee of Public Accounts

Excess votes 2018–19

Sixth Report of Session 2019–21

*Report, together with formal minutes relating
to the report*

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The Committee of Public Accounts

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Publication

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Contents

Summary	3
Conclusions and Recommendations	4
Excess Votes in 2018–19	5
Introduction	5
Northern Ireland Office	6
Department for Education	7
Formal Minutes	9
List of Reports from the Committee during the current Parliament	10

Summary

The Committee of Public Accounts scrutinises, on behalf of Parliament, the reasons individual departments exceeded 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.

In 2018–19 the Northern Ireland Office breached its Resource Departmental Expenditure Limit by £231,000 as a result of failing to recognise in time legal costs incurred but not yet billed. It also breached its Resource Annually Managed Expenditure Limit by £785,000. The second breach was the result of not realising in time that it had liabilities in respect of compensation for unlawful stop and searches, and not adequately providing for restructuring costs of the Chief Electoral Officer for Northern Ireland.

In 2018–19 the Department for Education breached its Resource Annually Managed Expenditure Limit by £311 million. The breach was a result of inaccurate forecasting assumptions it had made about the future rate of inflation, which meant its effective interest income turned out to be lower than it expected. Because student loans effective interest income is the major determinant of the Department's Resource Annually Managed Expenditure Limit, the lower than anticipated income meant the spending limit was breached.

On the basis of our examination of the reasons why these bodies exceeded their voted provisions, we have no objection to Parliament providing the necessary amounts by means of an Excess Vote.

Conclusions and Recommendations

1. **The Northern Ireland Office breached its Resource Departmental Expenditure Limit by £231,000.** For the period up to 31 March 2019 the Northern Ireland Office identified additional costs incurred, but unbilled, in respect of engaging legal counsel. It had not requested cover for these costs in the Supplementary Estimate, causing it to exceed its Resource Departmental Expenditure Limit by £231,000 for the year.
2. **The Northern Ireland Office also breached its Resource Annually Managed Expenditure Limit by £785,000.** Towards the end of the financial year the Crown Solicitor's Office advised that it was probable the Northern Ireland Office had liabilities to compensate individuals, before the end of the financial year, in respect of unlawful stop and searches between 2009 and 2013, resulting in the Department having to recognise liabilities of £509,000 for which it had no budgetary cover. In addition, the Comptroller & Auditor General's audit found that the Northern Ireland Office had not established a provision of £306,000 in respect of restructuring costs of the Chief Electoral Officer for Northern Ireland. The Northern Ireland Office had not requested cover for these liabilities in the Supplementary Estimate, causing it to exceed its Resource Annually Managed Expenditure Limit by £785,000 for the year. The Northern Ireland Office has accepted responsibility for the mistakes which led to the breaches of both the Annually Managed Expenditure and Departmental Expenditure limits, and set out the steps taken to address the issues and minimise the risk of a recurrence.

Recommendation: *Under the terms of the Standing Order of the House of Commons number 55(2)(d), we recommend that Parliament provides the additional resources by means of an Excess Vote, as set out in Figure 1 on page 6.*

3. **The Department for Education breached its Resource Annually Managed Expenditure Limit by £311,077,000.** This was a result of inaccurate forecasting assumptions made by the Department about inflation, which meant its income from effective interest on student loans turned out to be lower than expected. The Department's effective interest income from student loans is the major determinant of its Resource Annually Managed Expenditure Limit, and its calculation of this income is based on expectations about the future rate of inflation. The Department made assumptions about the future inflation rate based on forecasts from the Office for Budget Responsibility, which set out a range of inflation forecasts relating to different economic scenarios. However, the forecasting assumptions that the Department made proved to be incorrect, resulting in lower than expected income from student loans effective interest and a consequent breach of its spending limit. The Department has given us a commitment to not repeating the mistake in future.

Recommendation: *Under the terms of the Standing Order of the House of Commons number 55(2)(d), we recommend that Parliament provides the additional resources by means of an Excess Vote, as set out in Figure 1 on page 6.*

Excess Votes in 2018–19

Introduction

1. This Report is part of the framework of control over government spending. Resource-based Supply requires Departments to estimate and manage the financial resources they need 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. HM Treasury is responsible for monitoring and overseeing Departments' compliance with the limits authorised by Parliament and for controlling adjustments to the approved limits during the financial year. If a Department needs to adjust its budget during the year it has one opportunity to do so via a Supplementary Estimate, which is approved by Parliament towards the end of the financial year. In 2018–19, Parliament granted total net resources of £580.46 billion and total cash of £512.87 billion in Supply Estimates to 52 vote-funded bodies.¹
3. Resource-based Estimates reflect accruals and non-cash consumption of resources, such as depreciation. A cash limit is also voted by Parliament together with a non-budget line, through which departments are required to record adjustments to their prior year costs. Parliament expects Departments to stay within the limits they are voted. Any expenditure outside the limits authorised by Parliament potentially undermines parliamentary control over public spending. A breach of any of the budgetary control limits, the cash limit or the non-budget line results in the need for the expenditure to be regularised through the Parliamentary Excess Votes process.
4. Under Standing Order of the House of Commons number 55(2) (d), 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, Statements of Excesses will be presented to Parliament, to be voted into the Supply and Appropriation (Anticipation and Adjustments) Act. The passing of this Act authorises the additional grant by Parliament to regularise the excesses incurred by departments.
5. **Figure 1** shows the excesses incurred in 2018–19. Parliament is being asked to approve additional budget for the excesses reported in the table.

1 Central Government Supply Estimates 2018–19: Main Supply Estimates for the year ending 31 March 2019, April 2018, HC 957; and Central Government Supply Estimates 2018–19: Supplementary Estimates, February 2019, HC 1966

Figure 1: Summary of 2018–19 Excesses

Department	Resource DEL		Resource AME	
	Excess £	Amount to be voted £	Excess £	Amount to be voted £
Northern Ireland Office	231,000	231,000	785,000	785,000
Department for Education			311,077,000	311,077,000

Northern Ireland Office

6. The Northern Ireland Office (NIO), including the Crown Solicitor's Office, engages external legal counsel to provide advice for its legal casework, including legacy claims for compensation under the Terrorism Act 2000 and the Justice and Security (Northern Ireland) Act 2007.

7. The NIO records the costs associated with engaging legal counsel on the basis of periodic statements for payment submitted by external counsel. Under the accruals accounting principles on which the NIO's financial statements are prepared, it should be recognising these costs and the associated liabilities as they are incurred. The NIO reviewed its records to establish the extent of incurred, but unbilled, external legal costs as at 31 March 2019 and, as a result, recognised additional resource expenditure of £0.296 million during 2018–19. The NIO had not requested cover for these costs in the Supplementary Estimate, causing it to exceed its Resource Departmental Expenditure Limit by £231,000 for the year.

8. The NIO carries a provision in its Statement of Financial Position in respect of claims for compensation under the Terrorism Act 2000 and the Justice and Security (Northern Ireland) Act 2007 and for other provisions such as voluntary early severance schemes.

9. In preparing its Supply Estimate prior to the start of the 2018–19 financial year, the NIO believed that it would not be incurring any provisions in respect of its compensation claims or in respect of any other activities, so requested a budget of zero. During the year, the NIO became aware that one of its sponsored bodies, the Northern Ireland Human Rights Commission, was planning to release a provision for one of its legal cases. As a result, the NIO secured HM Treasury approval to amend its Resource Annually Managed Expenditure estimate to negative £30,000 as part of the Supplementary Estimates process.

10. In the final months of 2018–19 the Crown Solicitor's Office advised that, based on its assessment of ongoing cases, it was probable that the NIO had a liability to compensate a number of individuals as at 31 March 2019 in respect of unlawful stop and searches undertaken between September 2009 and May 2013, where it had in principle accepted its liability to make settlements before the end of the financial year. This resulted in the NIO having to recognise liabilities of £509,000 in its accounts for which it had no budgetary cover. In addition, the Comptroller & Auditor General's audit established that the NIO had incurred a constructive obligation in respect of restructuring costs of the Chief Electoral

Officer for Northern Ireland and should have established a provision of £306,000 for these costs.

11. As a result of these developments, the NIO incurred £755,000 of Annually Managed Resource expenditure, such that the Estimate was breached by £785,000. Since expenditure relating to the creation of a provision does not result in an outlay of cash, this excess is considered to be ‘non-cash’.²

12. In response to our request, the NIO’s Permanent Under-Secretary provided us with further detail about its expenditure breaches in a letter dated 29 April 2020. We acknowledge the context and difficulties described in that letter around, for example, the timing, certainty and level of provisions. However, such difficulties are not unique to the NIO and so we are also pleased to see her also accepting responsibility on behalf of the organisation. In respect of the external legal costs “I accept that the NIO should have accrued for external legal costs, not least as the work carried out by legal counsel had increased significantly in 2018/19 compared to previous years.” In respect of the stop and search compensation “An early decision to create a provision for an estimated value of liability should have been taken, but was not.” In respect of the restructuring costs “Considering the level of uncertainty, I accept that NIO should have been more prudent and requested the necessary AME cover via the Supplementary Estimates.”

13. We had also asked what steps the NIO has taken to minimise the risk of such issues arising in future. We welcome the personal reassurance from the Permanent Under-Secretary of her work “to ensure both that lessons have been learned since these breaches occurred, and that further steps have been since taken to minimise future risk.” Her letter sets out further information on, for example: improved procedures for accurate and verifiable figures for fees due at year-end; redesign of the NIO’s financial risk register, and arrangements for its ongoing and regular review; and new guidance and specific responsibilities for staff. The letter also states that a new Executive Committee has been formed with a standing item to look at financial matters, and which has commissioned an internal audit review in 2020–21 to check that the improvements and changes put in place have been embedded across the entire department. The letter closes with “I am confident that the necessary steps have been taken to address the issues and minimise the risk of a recurrence.”³

Department for Education

14. The Department for Education’s (the Department’s) Resource Annually Managed Expenditure Limit was breached by £311 million in 2018–19. This was a result of inaccurate forecasting assumptions made by the Department about inflation, which meant its effective interest income turned out to be lower than it expected. Because effective interest income from student loans is the major determinant of the Department’s Resource Annually Managed Expenditure Limit, the lower than anticipated income meant the spending limit was breached.

15. The Department’s effective interest income from student loans is determined by a technical calculation based on expectations about the future rate of inflation. As part of

2 *Northern Ireland Office Annual Report and Accounts 2018–19*, October 2019, HC 52

3 Letter dated 29 April 2020 from Northern Ireland Office to PAC Chair, in response to PAC Chair’s letter dated 16 April 2020

the accounting rules the Department follows, student loans are valued at the expected level of future repayments adjusted to a present value using a discount rate set by HM Treasury. This rate is 0.7% above the RPI (Retail Prices Index) rate of inflation at the end of the financial year. The Department's effective interest income from student loans is calculated using this discount rate.

16. The Department prepares its supply estimates before the RPI rate at financial year-end is known, so it uses RPI forecasts produced by the Office for Budget Responsibility (OBR). At the time that the Department was preparing its 2018–19 supplementary estimates, OBR had set out a range of RPI forecasts relating to different economic scenarios. The Department requested a spending limit which reflected its assumption that RPI would be between the centre and high end of the OBR's range. However, it turned out that the RPI rate at 31 March 2019 was instead lower than OBR's mid-range forecast.

17. The impact of this incorrect assumption was to reduce the Department's income from student loans effective interest. This is because the lower RPI rate meant a decrease in the discount rate, which in turn decreased income from student loans effective interest. The accounting implication of the lower than expected income is that the Department breached its authorised Resource Annually Managed Expenditure Limit by £311 million, which is calculated net of income.⁴

18. When the Department appeared before us on 16 March 2020, it acknowledged that, while the forecasting was complicated, it should have been possible to cover the full range of possible inflation scenarios and thus avoid the spending limit breach. The Department said it would get this right next time—"we should have got to every possible eventuality, and we will next time."⁵

4 *Department for Education Consolidated annual report and accounts, for the year ended 31 March 2019*, July 2019, HC 2388

5 Public Accounts Committee, *Oral evidence: University technical colleges*, HC 87, Monday 16 March 2020, Qq 7–9

Formal Minutes

Friday 22 May 2020

Virtual meeting

Members present:

Meg Hillier, in the Chair

Olivia Blake	Sarah Olney
Peter Grant	Gagan Mohindra
Mr Richard Holden	James Wild
Sir Bernard Jenkin	

Draft Report (*Excess votes 2018–19*), 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.

Summary agreed to.

Conclusions and recommendations agreed to.

Introduction agreed to.

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

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

[Adjourned till Thursday 28 May at 8:45am]

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2019–21

First Report	Support for children with special educational needs and disabilities	HC 85
Second Report	Defence Nuclear Infrastructure	HC 86
Third Report	High Speed 2: Spring 2020 Update	HC 84
Fourth Report	EU Exit: Get ready for Brexit Campaign	HC 131
Fifth Report	University Technical Colleges	HC 87