House of Commons

Committee of Public Accounts

Excess Votes 2019–20

Forty-fourth 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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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

Committee reports are published on the Committee's website and in print by Order of the House.

Committee staff

The current staff of the Committee are Jessica Bridges-Palmer (Media Officer), Ameet Chudasama (Committee Operations Manager), Richard Cooke (Clerk), Ben Shave (Chair Liaison), Rose Leach (Committee Operations Officer), Damith Rajakaruna (Committee Operations Manager) and Wafia Zia (Second Clerk).

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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 2019–20 the Ministry of Housing, Communities & Local Government breached its Resource Departmental Expenditure Limit by £3.4 billion. It also breached its Net Cash Requirement by £2.9 billion. Both breaches were as a result of spending on grants to local authorities, from the Emergency Response Fund and Business Rates Relief, in response to the COVID-19 pandemic. This spending was authorised too late in the year to obtain Parliamentary approval.

In 2019–20 the Department for Business, Energy & Industrial Strategy breached its Resource Annually Managed Expenditure limit by £4.9 billion. The breach was as a result of a constructive obligation created by announcements in March 2020 that businesses would receive payments through the Small Business Grants Fund and the Retail, Hospitality and Leisure Business Grants Fund, as part of the response to the COVID-19 pandemic. These announcements could not have been anticipated at the time of the Supplementary Estimate and so no allowance had been made for them.

In 2019–20 HM Treasury breached its Capital Annually Managed Expenditure (Capital AME) total by £32 million. The breach was as a result of errors in reconciling information provided by two of its arm's length bodies, the Royal Household and UK Asset Resolution, leading respectively to a misclassification from Capital AME to Resource AME and a misstatement of Capital AME.

In 2019–20 HM Revenue & Customs breached its Net Cash Requirement by £726 million. The breach was as a result of the Department mistakenly excluding some expenditure categories when calculating its Net Cash Requirement and underestimating the maximum amount of cash it would need to draw down in the financial year.

In 2019–20 the Home Office breached its Net Cash Requirement by £118 million. The Home Office had a single bank account that contained both cash for its core activities and cash collected on behalf of the Exchequer. Its failure to monitor these separately meant it failed to detect that it had spent in excess of the amount of cash authorised for its core activities.

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.

Excess Votes in 2019–20

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.[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 2019–20. Parliament is being asked to approve additional budget for the excesses reported in the table.

1 Central Government Supply Estimates 2019–20: Main Supply Estimates for the year ending 31 March 2020, May 2019, HC 2154; and Central Government Supply Estimates 2019–20: Supplementary Estimates, February 2020, HC 71

Figure 1: Summary of 2019–20 Excesses

Department	Resource DEL		Resource AME		Capital AME		Net Cash Requirement	
	Excess £	**Amount to be voted** £	**Excess** £	**Amount to be voted** £	**Excess** £	**Amount to be voted** £	**Excess** £	**Amount to be voted** £
Ministry of Housing, Communities & Local Government (MHCLG Local Government)	**3,385,625,000**	**3,385,625,000**					**2,867,896,000**	2,867,896,000
Department for Business, Energy & Industrial Strategy			**4,894,982,000**	**4,894,982,000**				
HM Treasury					**32,332,000**	**32,332,000**		
HM Revenue & Customs							**725,989,000**	**725,989,000**
Home Office							**117,761,000**	**117,761,000**

Conclusions and Recommendations

1. **The Ministry of Housing, Communities & Local Government breached its Resource Departmental Expenditure Limit by £3.**4 billion, and its Net Cash Requirement by £2.9 billion. On 23 March 2020, a ministerial direction was issued to authorise the early release of grants to local authorities, including £1.6 billion from the Emergency Response Fund and a further £1.8 billion brought forward from 2020–21 Business Rates Relief grants. This provided total cashflow of £3.4 billion to allow local authorities to act on the government's announcements in relation to its response to the COVID-19 pandemic. It was too late in the year to obtain Parliamentary approval for the spending, and as a result there was no budget cover for these grants. For this reason, a ministerial direction was issued for these amounts. The result of the additional spending was that the Ministry of Housing, Communities & Local Government breached its control totals by £3.4 billion against Local Government Resource Departmental Expenditure Limit and £2.9 billion against its Net Cash Requirement.

   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 5.***

2. **The Department for Business, Energy & Industrial Strategy breached its Resource Annually Managed Expenditure total by £4.9 billion.** The government announced in March 2020 that in order to counteract the adverse financial effects of the COVID-19 pandemic on businesses, qualifying businesses would receive grants. Payments were to be made through the Small Business Grants Fund and the Retail, Hospitality and Leisure Business Grants Fund. This created a constructive obligation on the department, which it recognised in its annual accounts as a provision. These announcements and requirement could not have been anticipated at the time of the Supplementary Estimate and so no allowance had been made for them. For this reason, a ministerial direction was issued for these amounts. The result of the additional provision was that the Department for Business, Energy & Industrial Strategy breached its Resource Annually Managed Expenditure total by £4.9 billion.

   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 5.***

3. **HM Revenue & Customs breached its Net Cash Requirement by £726 million.** For the period up to 31 March 2020 breached its Net Cash Requirement by £726 million as a result of errors made in calculating its required voted net cash requirement. As a result it sought insufficient cover within the supplementary estimate. When preparing its supplementary estimate the Department mistakenly excluded some expenditure categories from what was necessary to calculate its Net Cash Requirement. It therefore underestimated the maximum amount of cash it would need to draw down in the financial year. The Department has given us assurances that its processes and quality assurance checks prior to submission of the estimates have now been improved.

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 5.***

4. **The Home Office breached its Net Cash Requirement by £118 million.** The Home Office had a single bank account that contained both money for its core activities and money collected on behalf of the Exchequer. Its failure to monitor these separately meant it failed to detect that funds which should have been set aside for payments to the Exchequer were used to fund supply activities. As a result it, did not seek to increase its Net Cash Requirement at the Supplementary Estimate as it should have done, and failed to detect that it had spent in excess of the amount of cash authorised for its core activities. The Home Office has accepted responsibility for the error and given us assurances that comprehensive remedial action has been taken.

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 5.***

5. **HM Treasury breached its Capital Annually Managed Expenditure total by £32 million.** For the period up to 31 March 2020, HM Treasury received lower than budgeted income from UK Asset Resolution (UKAR), and did not obtain sufficient budget cover for the expected capital expenditure for works associated with the Reservicing Programme for Buckingham Palace, accounted for in the Sovereign Grant and managed by the Royal Household. Both of these were as a result of errors which mean that HM Treasury did not take into account the correct position in determining its estimates. It included an erroneous amount in the Capital Annually Managed Expenditure forecast for UKAR, and misclassified Capital Annually Managed Expenditure amounts in relation to the Reservicing Programme for Buckingham Palace as Resource Annually Managed Expenditure. The net result of the performance differences and underspends elsewhere was that HM Treasury breached its Capital Annually Managed Expenditure total by £32 million. HM Treasury has apologised to the Committee for the errors made and given assurances that it has strengthened processes and controls to make sure the errors do not happen again.

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 5.

Ministry of Housing, Communities & Local Government

6. The Ministry of Housing, Communities & Local Government breached its Resource Departmental Expenditure Limit by £3.4 billion, and its Net Cash Requirement by £2.9 billion. In March, the Chancellor announced that all businesses eligible for Small Business Rates Relief and Rural Rates Relief would receive a grant to help with the impact of COVID-19. A second fund was announced to support businesses in the retail, hospitality and leisure sector. The government planned to make grant payments in April but local authorities told the department that they could make payments more quickly if given the cash to do so. At the same time, local authorities themselves faced increased cash flow pressures due to the impact of the pandemic, with falling revenues and increased costs.

7. On 23 March 2020, a ministerial direction was made to authorise the early release of grants to local authorities, including £1.6 billion from the Emergency Response Fund and a further £1.8 billion brought forward from 2020–21 Business Rates Relief grants. This provided total cashflow of £3.4 billion to allow local authorities to act on the government's announcements in relation to its response to the COVID-19 pandemic.

8. It was too late in the year to obtain Parliamentary approval for the spending, and as a result there was no budget cover for these grants. For this reason, the ministerial direction was used for these amounts.

9. The result of the additional spending was that the Ministry of Housing, Communities & Local Government breached its control totals by £3.4 billion against Local Government Resource Departmental Expenditure Limit and £2.9 billion against its Net Cash Requirement.[2]

Department for Business, Energy & Industrial Strategy

10. The Department for Business, Energy & Industrial Strategy breached its Resource Annually Managed Expenditure total by £4.9 billion. The government announced in March 2020 that in order to counteract the adverse financial effects the COVID-19 pandemic had on businesses, qualifying businesses could expect to receive grants, through the Small Business Grants Fund and the Retail, Hospitality and Leisure Business Grants Fund. Businesses eligible for either Small Business Rate Relief or Rural Rate Relief received a grant of £10,000. Businesses in the retail, hospitality and leisure sectors with a rateable value below £15,000, not eligible for Small Business Rates Relief, received a grant of £10,000 each, and those with a rateable value between £15,000 and £51,000 received a grant of £25,000 each.

11. The announcements and actions taken prior to 31 March 2020 to ensure that cash was paid out to businesses as soon as possible created a constructive obligation on the department, which it recognised as a provision of £10.8 billion.

2 *Ministry of Housing, Communities & Local Government Annual Report and Accounts 2019–20* (for the year ended 31 March 2020), November 2020, HC 929

12. These announcements and requirement could not have been anticipated at the time of the Supplementary Estimate and no allowance was made for them. The result of the additional provision was that the Department for Business, Energy & Industrial Strategy breached its Resource Annually Managed Expenditure total by £4.9 billion.[3]

HM Revenue & Customs

13. HM Revenue & Customs' (HMRC's) Net Cash Requirement was breached by £726 million in 2019–20. The Net Cash Requirement is a voted control, aligned to voted expenditure, and is the product of a mechanical calculation that starts with departmental net expenditure and adjusts for non-cash items and movements in working capital before arriving at the maximum amount of cash that can be released from the Consolidated Fund to a department in support of its expenditure. The breach arose because the Department reduced its Net Cash Requirement in its Supplementary Estimate, submitted to HM Treasury in February 2020, by £1.2 billion more than it should have done. The error occurred due to a miscalculation of working capital balances in relation to non-voted funds.

14. HMRC's funding is split between the voted supply and a non-voted supply. Non-voted funds are removed from the calculation of the overall net cash required by the department as these funds are not subject to Parliamentary approval in the Estimates process and are instead funded separately.[4]

15. When HMRC appeared before us on 16 November 2020, it acknowledged that it was a serious matter for the Department to breach its voted controls, and considered it to be an embarrassing error. It told us that it has revised its processes and agreed internal audit recommendations in relation to the breach, including to strengthen its financial models and increase quality assurance checks prior to submission of the estimates. It has also sought to ensure that it has a larger number of people familiar with estimates, with the aim of reducing the possibility of such misunderstandings. HMRC did comment, however, that the matter was a "technical error", and that it considered the error to have arisen in "quite an arcane area of Government practice ... quite unique to the way the Government is controlled".[5]

Home Office

16. The Home Office's Net Cash Requirement was breached by £118 million in 2019–20. The Net Cash Requirement is a voted control, aligned to voted expenditure, and is the product of a mechanical calculation that starts with departmental net expenditure and adjusts for non-cash items and movements in working capital before arriving at the maximum amount of cash that can be released from the Consolidated Fund to a department in support of its expenditure.

3 *Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2019–20*, September 2020, HC 709

4 *HM Revenue and Customs Annual Report and Accounts 2019 to 2020 (for the year ended 31 March 2020)*, November 2020, HC 891

5 Public Accounts Committee, *Oral evidence: HM Revenue & Customs 2019–20 Standard Report*, HC 690, 16 November 2020, Qq 15–17

17. The Home Office had a single bank account that contains both money relating to its core activities and money collected on behalf of the Exchequer, and did not separate and monitor these. As a result, the Home Office failed to detect that it had spent in excess of the amount of cash available to use for its core activities and did not seek to increase the Net Cash Requirement at the Supplementary Estimate as it should have done. Routine ledger account management did not take place during a key period of the financial year as the result of human error.[6]

18. The Home Office wrote to us on 20 July 2020 and stated that the failures do not materially impact taxpayers or the overall fiscal position, but that it takes any financial control failure very seriously. It has commissioned an independent review into the weaknesses which caused the breach and committed to implementing its recommendations. When the Home Office appeared before the Committee on 10 September 2020, it acknowledged that it was an "extremely significant error", arising from a combination of human and system error, for which it accepted responsibility. It also said that the National Audit Office had previously advised that it should separate out the funding, but it had taken a judgement that doing so would be an additional risky layer of complexity. It acknowledged that with the benefit of hindsight it should have made the change before. The Home Office gave us its clear commitment to fixing matters, not just the separate bank accounts but also how it deals with the underlying complexities in its day-to-day processes. It set out a range of improvements it had implemented, including more frequent cash reconciliations and implementing the recommendations for a review it had commissioned from Ernst & Young.[7]

HM Treasury

19. HM Treasury breached its Capital Annually Managed Expenditure total by £32 million. For the period up to 31 March 2020, HM Treasury received lower than expected income from UK Asset Resolution (UKAR), and incurred higher than expected spending on capital expenditure for works associated with the Reservicing Programme for Buckingham Palace, accounted for in the Sovereign Grant and managed by the Royal Household.

20. Both of these were as a result of errors which meant that it did not take into account the correct position in determining its estimates. It included an erroneous amount in the Capital Annually Managed Expenditure forecast for UKAR, and misclassified Capital Annually Managed Expenditure amounts in relation to the Reservicing Programme for Buckingham Palace as Resource Annually Managed Expenditure.

21. The net result of the performance differences was that HM Treasury breached its Capital Annually Managed Expenditure total by £32 million. Underperformance in the mortgage loan book held by UKAR, in part due to the housing market slowdown in March 2020 caused by the COVID-19 pandemic, also led to capital income being lower than forecast and contributed to the scale of the breach.[8]

6 *Home Office Annual Report and Accounts 2019–20 (for the year ended 31 March 2020)*, July 2020, HC 334
7 Letter dated 20 July 2020 from Home Office to PAC Chair; Public Accounts Committee, *Oral evidence: Home Office Recall*, HC 678, 10 September 2020, Qq 95–98
8 *HM Treasury Annual Report and Accounts 2019–20*, September 2020, HC 746

22. HM Treasury wrote to us on 29 September 2020, apologising for exceeding its control total and stating that it was strengthening its controls and oversight of AME, including by providing more detailed guidance to its arm's length bodies and undertaking additional scrutiny itself. When the Treasury appeared before the Committee on 8 February 2021, it reiterated that apology and said that the breach should not have happened and was 'a matter of great regret'. In respect of the Sovereign Grant misclassification it assured us that controls had been implemented to ensure the error did not happen again. It explained the UKAR error arose due to differences in accounting standards. In response it had commissioned an internal review and a separate internal audit review, which it said had identified where it could strengthen its accounts consolidation process, carry out additional checks and improve guidance, and so ensure that similar errors would not happen again.

23. We also asked the Treasury for its view on the greater number of bodies breaching control totals in 2019–20 compared to previous years. The Treasury said that its spending teams were working hard to learn lessons and ensure appropriate controls and process changes were put in place. In particular it mentioned the lessons to be learned in respect of classification and timing errors. We contrasted HMRC's characterisation of a 'technical error' in an 'arcane' area of practice with the Home Office's emphasis on the significance of its error. The Treasury said that it was important to consider the circumstances of each breach, for which each individual Accounting Officer is responsible. It acknowledged that the system is complicated, but said it was the job of those involved to fully understand it. However, it reiterated the importance of learning lessons when errors happened.[9]

9 Letter dated 29 September 2020 from HM Treasury to PAC Chair; Public Accounts Committee; Public Accounts Committee, *Oral evidence: Managing the expiry of PFI contracts*, HC 1114, 8 February 2020, Qq 1–7

Formal minutes

Thursday 11 February 2021

Virtual meeting

Members present:

Meg Hillier, in the Chair

Mr Gareth Bacon
Shaun Bailey
Olivia Blake
Sir Geoffrey Clifton-Brown
Peter Grant
Mr Richard Holden
Sarah Olney
Nick Smith

Draft Report (*Excess Votes 2019–20*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 23 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Forty-fourth of the Committee to the House.

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

[Adjourned till Monday 22 February at 1:45pm

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.

Session 2019–21

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1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
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22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685

Number	Title	Reference
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for the vaccine (part 1)	HC 930