

**HM Treasury**



**Parliament Street  
London SW1P 3AG  
Tel: 0171-270-4479  
Fax: 0171-270-4311**

**Jamie Mortimer  
Treasury Officer of Accounts**

**DAO(GEN) 10/96**

**18 June 1996**

Dear Accounting Officer

**PUBLIC ACCOUNTS COMMITTEE: CONCLUSIONS OF GENERAL APPLICATION**

I circulated in DAO(GEN)4/95, dated 16 June 1995, details of PAC conclusions from the 1993-94 Session which were applicable beyond the departments covered by the report in question but were not the subject of new central guidance,

2. Attached to this letter is a list of such conclusions of general application for the 1994-95 Session. The list is annotated with a reference to, and the text of, the relevant paragraphs of the Government reply. Departments should consider these conclusions and the reply, and take any action which they judge appropriate.

**APPLICATION TO NON-DEPARTMENTAL PUBLIC BODIES**

3. Where appropriate, departments should draw items to the attention of the senior full time officials of non-departmental public bodies which they sponsor.

**ENQUIRIES**

4. Any enquiries should be addressed to John Breckenridge, telephone (GTN) 270 5361.

*Yours sincerely  
Jamie Mortimer*

**JAMIE MORTIMER**

## LIST OF PAC REPORTS IN 1994-95 PARLIAMENTARY SESSION INCLUDING CONCLUSIONS OF GENERAL APPLICATION TO DEPARTMENTS

Report No and Title	PAC conclusion/paragraph	Government reply/Action taken
2 The Sports Council: Initiatives to Improve Financial Management and Control and Value for Money. (xii)	We note the Treasury's view that existing guidance is adequate and that most Financial Memoranda between departments and sponsored bodies contain the necessary safeguards. However, we observe that the Sports Council case shows that provisions in Financial Memoranda may be inadequate if they are not supported by specific clawback provisions for individual assets. We recommend that the Treasury should draw this to the attention of departments.	Treasury Minute dated 22 March 1995 (Cm 2786) paragraph 18:  The Treasury accepts the Committee's recommendation and will write to departments to draw their attention to the Committee's concerns about the adequacy of general clawback provisions in Financial Memoranda. Departments will be asked to consider in each case, when significant Exchequer funding is being provided to an NDPB to acquire or improve an asset, whether it would be appropriate for a specific clawback provision to be attached to that asset.
3 Merseyside Development Corporation: Grand Regatta Columbus and Fanfare for a New World Concert (xvii)	We are particularly concerned that the Corporation did nothing to dispel the widespread impression that they were more closely associated with the concert than was legally the case. We would expect	Treasury Minute dated 22 March 1995 (Cm 2786), paragraphs 43 and 44:  UDCs frequently enter into arrangements with private sector firms to enable private

# LIST OF PAC REPORTS IN 1994-95 PARLIAMENTARY SESSION INCLUDING CONCLUSIONS OF GENERAL APPLICATION TO DEPARTMENTS

Report No and Title	PAC conclusion/paragraph	Government reply/Action taken
	<p>that in future the responsibilities of all parties in such cases are clearly laid down at the outset; and we emphasise that publicly financed bodies have a responsibility to conduct themselves with regard to the wider public interest, and in a way that avoids any ambiguity which could lead to later misunderstandings.</p>	<p>finance to be employed in securing their regeneration objectives. The private sector partner enters into such an arrangement on the basis of normal business risk. The Department does not consider that it is the responsibility of the UDCs to protect those partners, or the firms with which they may contract, from this normal risk.</p>
		<p>In this case the Corporation's specific legal advice is that it does not have legal liability to the creditors of CPL. The Corporation has considered very carefully with its advisers whether it could be held to have represented the arrangements to contractors in a way that might give rise to a legal or moral liability; the Corporation is confident that at no time did it, or anyone acting with its consent, represent the Corporation to third parties as the promoter of the concert.</p>
7 Excess Votes [1993-94]	3. In our Eleventh report (1993-94) we emphasised that incurring an excess vote always	Jamie Mortimer's letter dated 15 May 1995 to the PAC Clerk (copy attached).

**LIST OF PAC REPORTS IN 1994-95 PARLIAMENTARY SESSION INCLUDING CONCLUSIONS OF GENERAL APPLICATION TO DEPARTMENTS**

**Report No and Title**

**PAC conclusion/paragraph**

**Government reply/Action taken**

represents a failure of control and should never be regarded as a routine or acceptable matter. Departments have a responsibility to ensure that their forecasting and monitoring procedures are sufficient to enable them to take preventative action and ensure that excess votes are avoided.

4. We note that there has been a downward trend in the number of excess votes in recent years: from eight in 1990-91 to three in 1993-94. While we welcome this decrease, departments will have to make strenuous efforts to ensure that the improvement in this important area of Parliamentary control continues. Experience in 1993-94 suggests that forecasting, monitoring or reporting procedures will require particular attention.

10. We expect the Treasury to draw these concerns to the attention of the departments concerned and, where appropriate, to departments more generally.

## LIST OF PAC REPORTS IN 1994-95 PARLIAMENTARY SESSION INCLUDING CONCLUSIONS OF GENERAL APPLICATION TO DEPARTMENTS

Report No and Title	PAC conclusion/paragraph	Government reply/Action taken
the Mount Vernon Site, Hampstead	of lessons for central government organisations generally, and we have pointed to the importance we attach to the issue and policing of guidance on these matters. In the final analysis, we consider that the achievement of value for money depends on those responsible for the disposal of public assets pushing as hard for a good deal as they would if selling their own property.	3166), paragraphs 66 and 67:  DTI accepts that this case offers a number of lessons for central government organisations generally but is satisfied that, under the circumstances prevailing at the time, the Council did its utmost to achieve the best return to the public purse.  The Treasury agrees with the Committee's conclusion that the achievement of value for money depends on those responsible for the disposal of public assets pushing hard for a good deal.
45 Sale of County Hall (Riverside Building) to Shirayama Shokusan Company Limited (iv)	We are concerned that the Residuary Body did not achieve the agreed sale price of £60 million because it found itself in a falling property market where it had no choice but to accept a deferred payment of £10 million with the timing linked to future profits. At the time the sale was completed this deferred payment was worth only £2.9	Treasury Minute dated 21 February 1996 (Cm 3167), paragraph 4:  The Department and the Treasury agree with the intention behind the Committee's recommendation. They consider that any contractual arrangements involving deferred receipts require rigorous analysis, in

## LIST OF PAC REPORTS IN 1994-95 PARLIAMENTARY SESSION INCLUDING CONCLUSIONS OF GENERAL APPLICATION TO DEPARTMENTS

Report No and Title	PAC conclusion/paragraph	Government reply/Action taken
	<p>million if paid in 2012, or £7.9 million in 1997 if the proposed hotel and related business activities made a profit of £20 million in 1996. Such arrangements do create an incentive for the purchaser to delay payment of the deferred sum. We therefore recommend that, in future arrangements involving deferred payments or repayments linked to future profits, there should be consideration of provision for interest at a level which counters any incentive to delay payment.</p>	<p>accordance with Treasury Guidance on investment appraisal, in order to assess fully the value of the contract, having regard, inter alia, to the inherent costs of the deferral. They also consider that where a contract provides for staged payments to be made over a period, there should be full consideration of the available mechanisms (including the payment of interest) to secure payment as early as possible, having regard to the implications of any such mechanisms for the overall value of the contract. This was the approach followed by the LRB when it concluded that the sale contract, including the deferral of £10 million, represented the best consideration available.</p>

(KACI-  
HM Treasury



Parliament Street  
London SW1P 3AG  
Telephone 0171-270 4479  
Fax 0171-270 5804

K J Brown Esq  
Clerk of the Committee of Public Accounts  
Committee Office  
House of Commons  
London SW1A 0AA

15 May 1995

Dear Mr Brown,

**7TH PAC REPORT 1994-95: EXCESS VOTES**

I am writing to provide details of the action which the Treasury is taking in response to this report.

2. As you know, paragraph 10 of the report calls upon Treasury to draw the Committee's concerns to the attention of the departments concerned and, where appropriate, to departments more generally. Letters are accordingly being issued to the three departments which incurred an Excess Vote in 1993-94. On the general issue, Ian Thomson wrote to the Principal finance Officers of all departments on 27 April 1994 (copy attached) reminding them of the similar concerns expressed by the Committee in its equivalent report of 1993-94 (11th report, HC 215), and drawing attention to the guidance on Excess votes in Government Accounting. As an additional safeguard, we intend to include a reference to the 7th report in the annual letter which I send to departmental Accounting Officers at the end of each Parliamentary session, listing the conclusions of general application in the reports of that session which are not the subject of existing or proposed central department guidance.

3. I am copying this letter and enclosure to the Comptroller and Auditor General.

Yours sincerely  
Jamie Mortimer

**JAMIE MORTIMER  
TREASURY OFFICER OF ACCOUNTS**

HM Treasury



AB:

 Parliament Street  
 London SW1P 3AG  
 Telephone 071-270 4304  
 TOA Fax 071-270 4311

Ian Thomson  
 Assistant Secretary

Mr A R Cruickshank  
 Principal Finance Officer  
 Ministry of Agriculture,  
 Fisheries and Food  
 Room 415  
 19-29 Woburn Place  
 London  
 WC1H 0LU

27 April 1994

*Dear Alistair*

**PUBLIC ACCOUNTS COMMITTEE 11TH REPORT 1993-94: EXCESS VOTES**

In its 11th report 1993-94 on Excess Votes during financial year 1992-93, the PAC looked to the Treasury to remind departments of the Committee's concern regarding Excess Votes.

2. I attach a copy of the body of the report. In paragraphs 4 and 5 the Committee emphasises that incurring an Excess Vote always represents a failure of control and should never be regarded as a routine or acceptable matter. Departments and other bodies should plan and monitor in-year expenditure closely to ensure that Estimates provision approved by the House of Commons is not exceeded. The Committee endorses the need for taut and realistic estimating and regards it as unsatisfactory if Excess Votes arise from inadequate forecasting, monitoring or reporting procedures.

3. Supplementary Estimates may be submitted for Parliamentary approval where appropriate. Departments are reminded of the need to submit drafts of any necessary Revised or Supplementary Estimates to the Treasury in accordance with the Treasury Circulars issued by the Estimate Clerk.

4. The guidance on Excess Votes is Section 11.8 of Government Accounting. In particular, paragraph 11.8.4 emphasises the serious view taken by Parliament when departments incur such excesses, since these strike at the root of Parliamentary control of finance. Excesses on cash limited Votes are particularly serious, and are the subject of a report to the Chief Secretary.

5. Departments should ensure where appropriate that this letter is brought to the attention of their sponsor bodies.

6. Copies go to the Principal Finance Officers of all departments and, for information to Steven Quinn (DFP, Northern Ireland).

*Your sincerely*

*Ian Thomson*

IAN THOMSON

3

# ELEVENTH REPORT

The Committee of Public Accounts has agreed to the following Report:

## EXCESS VOTES

### EXCESSES

1. During the year ended 31 March 1993, expenditure in excess of the grants voted by Parliament was incurred as follows:

Class and Vote	Excess of Expenditure and/or deficiency of Appropriations in Aid (£)	Excess as a % of Net Vote	Amounts to be applied to meet excess (£)	Amounts to be voted as supply grants (£)
<b>CLASS III</b>				
Vote 3				
Ministry of Agriculture Fisheries and Food: Agricultural Support and Animal Health	512,291.78	0.5	38,855.92	473,435.86
<b>CLASS VIII</b>				
Vote 6				
Department of National Heritage: Royal Palaces, Historic Royal Palaces Agency, royal parks, historic buildings, ancient monuments and the national heritage	1,397,968.40	0.7	-	1,397,968.40
<b>CLASS IX</b>				
Vote 3				
Home Office Administration Immigration and Police Support Services, England and Wales	2,667,000.00	0.2	2,666,000.00	1,000.00
<b>CLASS XIV</b>				
Vote 1				
Central Government Administered Social Security Benefits and Other Payments	353,952,075.30	1.3	-	353,952,075.30

2. We note that the excess on Class VIII Vote 6 involved overspending of the cash limit.

3. We see no objection to the sums set out above being provided by Excess Votes. However, because of the importance of sound Parliamentary control in this area we have drawn attention to certain matters in the following paragraphs.

4. We emphasize that incurring an excess vote always represents a failure of control and should never be regarded by departments or the Treasury as a routine or acceptable matter. The Supply Estimates approved by the House of Commons are the basis of the statutory authority for the appropriation of funds and are a key feature of Parliamentary control. The amounts voted are limits, not targets. Departments and other bodies have a duty to plan and monitor expenditure closely throughout the year to ensure that approved grants are not exceeded, as an essential feature of their own financial management and control. We expect the Treasury regularly to remind departments of the importance of these matters, including the need for submission of Supplementary Estimates for Parliamentary approval if original grants are expected to be exceeded.

5. We endorse the need for taut and realistic estimating and recognise that this can in some circumstances increase the potential risk of overspend. But it is the responsibility of departments successfully to manage these competing demands; and careful monitoring of outturn and the use of Supplementary Estimates and the agreed provisions for flexibility in the timing of some year-end payments mean that excess votes should always be avoided, except in wholly unusual circumstances. We regard it as unsatisfactory if excess votes arise from inadequate forecasting, monitoring or reporting procedures.

6. We have considered the Comptroller and Auditor General's separate reports on the excess votes in 1992-93 and make the following observations:

*Class III, Vote 3: MAFF: Agricultural Support and Animal Health*

This is the second year in succession in which there has been an excess on this Vote due to inaccurate forecasting. We note that though the Ministry have been making improvements to their forecasting, the further measures now promised will not become fully operational until 1995-96. We are concerned, therefore, about the effectiveness of control in the interim, and we expect the Ministry to maintain a very close oversight of outturn so as to avoid excess votes in the years concerned.

*Class VIII, Vote 6: Department of National Heritage: Royal Palaces, Royal Parks, etc.*

We note that the Historic Royal Palaces Agency first forecast a very large increase in their original estimates of visitor numbers and then a sharp reduction to a figure closer to their original estimate. We are concerned that the arrangement under which the Agency loses any income beyond that included in the Estimate may discourage the forecasting of income with due care. We also regard it as unsatisfactory that—given typical patterns of expenditure on works projects—the Department failed to foresee the end-of-year rush to clear invoices by the Property Services Agency which resulted in 60 per cent of the year's invoices being paid in the last two months of the financial year. We note, however, that improvements have been introduced on forecasting and monitoring of income and on contractual arrangements for works services.

*Class IX, Vote 3: Home Office Administration etc.*

This excess arose because the Home Office did not specify the proper ambit of the vote. Whilst we recognise the risk of simple oversight in technical matters such as this, we note that the Home Office failed to correct their original mistake by obtaining appropriate authority for the expenditure in the subsequent Supplementary Estimate which increased the provision for payments to the Department of National Heritage.

*Class XIV, Vote 1: Central Government Administered Social Security Benefits and Other Payments*

We recognise the difficulties associated with accurately estimating expenditure on demand-led benefits. We are nevertheless concerned at the serious errors in forecasting the 1992-93 outturn. Overspending on certain benefits contributed to an overall gross excess of £550 million whilst underspending on other benefits amounted to £212 million, resulting in a net overspend of £338 million. There were continuing adjustments to the Department's statistical methods for apportioning expenditure, and we note too the shortfall in receipts arising from a computer programming fault. We have stressed in previous reports the importance of strengthening the Department's procedures to provide more accurate forecasts which are free from avoidable error. We expect the Department to make further efforts to improve their forecasting and monitoring procedures in this area of massive public expenditure where effective control is at a premium; and we shall be watching future outturn with particular care.

7. We expect the Treasury to draw these concerns to the attention of the departments and other bodies concerned and, where appropriate, to departments more generally.