
HM Treasury

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REFORM OF SUPPLY ESTIMATES AND APPROPRIATION PROCEDURE

The purpose of this PES paper is to advise departments of a number of reforms to the Supply and Appropriation procedure that has recently been agreed with the House of Commons. The changes primarily intend to:

- remove obstacles to the early presentation of departmental resources accounts;
- simplify the process of transferring provision in Estimates; and
- improve the presentation of information to Parliament.

Action

2. Departments are asked to:

- note the contents of this letter; ensure that staff involved in the Supply process are advised of the changes;
- note that these changes apply from the Winter Supplementary Estimates 2004-05; and
- note that the Accounting Officer (or someone suitably authorised on their behalf) will be required to authorise the Estimates Memorandum before it is submitted to Parliament.

Background

3. The Treasury has agreed a number of changes with the House of Commons to the Supply Estimates and Appropriation process. Further details are available in House of Commons Procedure Committee, First Report of Session 2003-04, HC 393[1] and the Government's response[2].

Summary of changes

4. The changes relate to the presentation, scrutiny and approval of the Estimates. The main changes are to:

- introduce a move to two Appropriation Acts each year. The primary purpose of this proposal is to enable departmental resource accounts to be presented to the House of Commons sooner after the end of the financial year than is currently possible;
- enable Supplementary Estimates to reflect a reduction in the net resource requirement for an RfR where this:
 - results from a Machinery of Government change (and is therefore offset by an increase in another department's Estimate); or
 - is offset by an increase in one or more other RfRs in that department's Estimate.
- standardising the format for the Introduction to Supplementary Estimates and to introduce the

requirement for departments to provide an 'Estimates Memorandum' to the relevant departmental Select Committee explaining the changes sought in the Supplementary Estimate and how these link to the department's published targets; and

- increase the minimum period of time between the presentation of winter and spring Supplementary Estimates and their parliamentary consideration from 8 to 14 days.

Detail

Moving to two Appropriation Acts a year

5. At present there is normally a single annual Appropriation Act in July. The Act appropriates Supply in respect of three financial years (the two prior years and the current year). A move to two Bills (one in March as well as in July) would allow the March Bill to appropriate Supply relating to the first two financial years currently covered in the July Bill. The July Bill would cover the current year.

6. The main impact of this change is that departmental resource accounts will be able to be finalised and presented to the House of Commons earlier. Previously, where a department has sought additional parliamentary authority through a winter or spring Supplementary Estimate this has not been given full legislative authority until the following Appropriation Bill has obtained Royal Assent. This prevented such accounts being presented until mid-July at the earliest. Replacing the current Consolidated Fund Act that follows the spring Supplementary Estimates with a March Appropriation Act removes this obstacle to earlier presentation of resource accounts, and will facilitate departments in giving Parliament access to financial information at a much earlier date.

7. As departments are already aware, the Government is committed to achieving 'faster-closing' of resource accounts and the aim is for all departments to have their accounts signed, certified and laid before the House of Commons before the summer recess by 2005-06 (i.e. for the 2005-06 resource accounts to be laid by July 2006). Some Select Committees have already expressed a keen interest in progress towards this aim. As part of this process, the Government has agreed to publish annual lists to show progress towards earlier preparation and presentation of departmental accounts.

8. In addition, two Appropriation Acts each year will simplify the presentation and structure of the legislation by making the distinction between financial years clearer. The change also ensures that the detailed authorisation of expenditure is provided before the end of the financial year to which it relates, with the natural exception of Excess Votes.

9. Action: Departments should note this change and its effect on the presentation, signature, certification, laying and publication of departmental resource accounts.

'Negative' Supplementary Estimates

10. Until now, it has only been possible to reduce the amount of resources or cash sought in an Estimate *before* they are voted by Parliament and authorised through an Appropriation Act. This has confined such changes to:

- Revised Estimates, presented alongside any summer Supplementary Estimates *after* the Main Estimates, but *before* the Appropriation Bill has passed; or
- Where a Main Estimate seeks provision below that already authorised in a Vote on Account, but not yet appropriated.

11. The difficulties with this approach are particularly evident when transferring authority for expenditure from one voted limit to another. The most obvious example relates to Machinery of Government changes, where one transferring department transfers authority for the relevant resources and cash to another department. Under the previous approach, the net resource and cash totals for both departments were unchanged as a result of the payment.

12. Similarly, transfers between a department's Requests for Resources (RfRs) have until now shown the increase in provision in one RfR without any offsetting reduction in other RfRs.

13. It has now been agreed with the House of Commons that Supplementary Estimates can seek a reduction in previously voted amounts where:

- the function to which the resources and cash relates has been transferred from one department to another as part of a Machinery of Government change; or
- resources are being reallocated between RfRs in the same department's Estimate.

In both instances there is no overall reduction in the amount of resources or cash voted by Parliament, there is simply a reallocation of provision between previously voted limits.

14. Departments should not seek reductions in an RfR (i.e. by reallocating resources within an Estimate) unless they are confident that the resources will no longer be required. Such changes should not be sought as a matter of course and are not a substitute for robust financial management and forecasting in proposing Estimates, and for managing expenditure. Departments are reminded that Estimates should be taut and realistic (*Government Accounting* 11.3.31).

15. It follows that a reversal of a transfer, or a request for additional resources where a reduction has occurred, will only be contemplated in exceptional circumstances where, for example, a change in circumstances, which could not have been foreseen, occurs.

16. Changes related to reductions in previously voted provision **will need to be clearly distinguished** from any substantive increase in provision for which new authority is sought. **Any failure to provide the required information might mean that the change would not be given proper legal effect in the ensuing Appropriation Act.** This will make the changes transparent for readers of the Estimates and will help ensure that changes are completely offsetting.

17. The changes will need to be set out clearly as a footnote (against the relevant RfR, etc) in Part I of the Estimate ([Annex B](#) contains simple examples). In addition, departments will need to include appropriate detail in the Introduction to the Estimate (as required under the new template set out at [Annex C](#)) and in the new 'Estimates Memorandum' (see guidance at [Annex D](#)).

18. In respect of transfers of functions from one department to another as part of a machinery of government change, the information that needs to be provided (by each department involved) is

- the function or functions that are being transferred;
- the other department involved in the transfer (so that the entry for the transferring department would state the receiving department and *vice versa*);
- the proposed changes to the net resource requirement (for each Request for Resources affected by the transfer) that result from the transfer of functions (which would be a reduction in the case of the transferring department and a matching increase in the case of the receiving department);

- the proposed changes to the net cash requirement for the Estimate that result from the transfer of functions;
- any proposed modification of the limit(s) on operating appropriations-in-aid (for each Request for Resources affected by the transfer) that results from the transfer of functions; and
- any proposed modification of the limit on non-operating appropriations in aid in respect of the Estimate that results from the transfer of functions.

19. The transfers **must be completely offsetting** and both the transferring and the receiving department must ensure that the information each provides is checked and agreed with the other department to ensure that the information is consistent.

20. In respect of a reallocation of resources between two or more RfRs in the same department's Estimate, the information that needs to be provided is:

- the proposed reduction in the net resource requirement for one Request for Resources that relates to the reallocation of resources;
- any proposed modification of the limit on operating appropriations in aid in respect of that Request for Resources that relates to the reallocation of resources;
- the proposed increase in the net resource requirement for another Request for Resources or for other requests for Resources within the same Estimate that relates to the reallocation of resources;
- any proposed modification of the limit on operating appropriations in aid in respect of that Request for Resources or other Request for Resources that relates to the reallocation of resources.

21. The footnote relating to a reallocation of resources between RfRs within the same Estimate must specify clearly not only where the reduction is being made but also the place or places the offsetting increase in resources appears. [Annex B](#) provides more information on this issue.

22. In the event that changes to an Estimate result in completely offsetting reductions and increases in provision, **departments must ensure that the Estimate provides a token increase, or reduction**, in resources for the House of Commons to vote. This consideration also applies to the combined effect of changes in winter and spring supplementary Estimates for the same department.

23. In an instance where there were no other proposed changes to the net resource total for an Estimate to be proposed in a Supplementary Estimate other than those arising from a re-allocation of resources, the increase in the total net resource requirement for the receiving Request for Resources should be £1,000 more than the reduction in the total net resource requirement of the transferring Request for Resources. As mentioned, this is in order to ensure that there is a token increase to be voted by the House of Commons, thus providing a mechanism for formal parliamentary control. For the same reason, in the event that a reduction arising from a transfer of functions were precisely off-set by an 'ordinary' increase requested in the same Supplementary Estimate, one of the amounts should be adjusted to ensure that there is a token Supplementary amount to be voted.

24. In any case where a department is presenting both winter and spring Supplementary Estimates, the ensuing Appropriation Bill will set out the net resource total arising from the two sets of Supplementary Estimates combined. Where the net resource total for the Estimate in one of those sets of Supplementary Estimates is negative, it is also important to ensure that the negative amount is not precisely off-set by a positive amount in the other set of Supplementary Estimates (to avoid

the appropriation of an amount of zero). This can be achieved by an adjustment to the net resource total in the spring Supplementary Estimates of the kind described in the previous paragraph. For example, if a department had only one RfR and reduced resources by £100k in its winter Supplementary Estimate as a result of a Machinery of Government change, but sought an increase in resources of £100k in its spring Supplementary Estimate for additional spending on existing services, it would need to amend the spring increase to £101k, or £99k, in order to provide a token change of £1,000 for the Appropriation Act.

25. Where a token increase in resources is sought the associated cash requirement should be removed through the accruals to cash adjustments table in the Estimate.

26. Action: Departments should note the more transparent recording of certain transfers of Supply provision, along with the constraints and reporting requirements, and ensure that future Estimates follow these procedures.

27. [Annex A](#) provides a simple example of the impact of this new recording in relation to a Machinery of Government change on Parts I and II of a Supplementary Estimate. This provides an example (which assumes no other changes taking place) firstly of how the process has worked under previous arrangements, and secondly of how the Estimates will reflect the new arrangements.

Accounting consequences

28. The accounting consequences of the new recording for machinery of government changes are set out in annex E. The need for a lot of the mechanistic entries to align the accounts with the Estimates - first set out in DAO (GEN) 17/02 and incorporated into annex 11.4 of Government Accounting - are no longer required. But departments will need to be aware of the possible cash consequences (see annex E).

Introduction to Supplementary Estimates and the new 'Estimates Memorandum'

29. The Treasury has agreed with Parliament the use of a standard template for the Introduction to an Estimate. This should assist clarity without placing any unnecessary additional burdens on departments. Small changes within each section might, of course, be grouped together. This new requirement will minimise variations in the format and content of the Introduction to each Estimate as presently it varies from department to department (and often between different Estimates for the same department).

30. A standard template for the Introduction to an Estimate is attached at [Annex C](#). Departments will, of course, only need to use those sections that are relevant to each Estimate. Within this overall format, the amount of detail provided is for the department to determine taking into account that the purpose of the Introduction is to provide the reader with useful information about the amount of any increase, or reduction, in relation to each section of each Request for Resource, and for what purpose the change is sought.

31. The template for Introductions will, to a degree, work alongside the new requirement for an Estimates Memoranda. Whereas the Introduction to the Estimate will list the changes sought, the purpose of the memorandum is to provide an overview and analysis of the changes for the relevant departmental select committee (showing the significance of the changes, explaining the reasons for the changes, how they are to be funded in budgets, etc).

32. A detailed note of what should be included in the Estimates Memoranda is attached at [Annex D](#). Beyond the core requirements departments may wish to include, or individual select committees may require, further detail – perhaps relating to issues particular to that department. The detail of the format and content of each Estimates Memorandum is a matter for agreement between each

department and its own select committee.

33. The memorandum will need to be provided to the select committee no later than the date of publication of the related Estimate, and preferably as soon as the Estimate has been signed off by the department (soon after which the select committee would normally receive a proof copy of the Estimate).

34. Action: Departments should note this new requirement and ensure that Estimates Memoranda are provided to their select committees alongside any future Revised or Supplementary Estimates. As [Annex D](#) states, the content of any Estimates memorandum presented alongside a Main Estimate is for each department and Select Committee to consider and agree.

Presentation of Supplementary Estimates to the House of Commons

35. The House of Commons has amended HoC Standing Order No. 55 to extend the time that must elapse between the presentation of winter and spring Supplementary Estimates to the House and the ensuing consideration of those Estimates from 8 to 14 days. The purpose of this change is to ensure that the House (and particularly its departmental select committees) has more time to consider the Estimates.

36. The Treasury already works to a timetable of aiming to present Estimates at least 14 days beforehand (this target is set out in *Government Accounting*) so there should be little practical difference.

37. Action: Departments should note this change and be aware that the flexibility to accommodate late changes to Supplementary Estimates is therefore reduced.

Reflecting agreed changes in Government Accounting

38. These changes will be incorporated into a revision of *Government Accounting* in due course.

39. Departments are asked to make all relevant staff aware of these changes.

Contacts

40. You should address general questions to your Treasury Spending Team contact. Questions on Supply **Estimates and Appropriation**: Gary Hansman (email gary.hansman@hm-treasury.x.gsi.gov.uk, telephone (020) 7270 5533) or David Dipple (david.dipple@hm-treasury.x.gsi.gov.uk, telephone 020 7270 5534). Questions on **Resource Accounts** should go to your usual Central Accountancy Team contact.

Previous PES papers

41. Electronic versions of PES papers issued since November 1999 may be found on the [Treasury's GSI website](#).

General Expenditure Policy

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[1] (<http://www.publications.parliament.uk/pa/cm200304/cmselect/cmproced/393/39302.htm>)

[2] <http://www.publications.parliament.uk/pa/cm200304/cmselect/cmproced/576/57602.htm>