

Report of the Comptroller and Auditor General to the House of Commons

EXCESS VOTE

Introduction

1. In 2010-11, the Department for Transport (the Department) spent more cash than its authorised Net Cash Requirement limit set by Parliament. This represents an “excess” for which further parliamentary authority is required. I have qualified my opinion on the Department’s 2010-11 Accounts in this regard.
2. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament’s further consideration.

My responsibilities with regard to the breach of regularity

3. Under section 6(1) of the Government Resources and Accounts Act 2000, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Department’s Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In doing so, I have had regard, in particular, to Parliamentary authority and the Supply limits Parliament has set on the Department’s expenditure.

Background to the cash excess

4. The Parliamentary Supply limits for the Department for Transport are set out in the Main Supply Estimate for 2010-11. The Department’s limit for Request for Resources 1 included expenditure of £12,881.3 million and Appropriations in Aid of £1,202.6 million. The Department’s Net Cash Requirement, its limit on cash spending, was set at £13,514.1 million. The breaches reported below are against these limits.
5. The Statement of Parliamentary Supply on page 82 of the Department’s 2010-11 Accounts shows that the Net Cash Requirement outturn was £13,849.3 million which is £335.2 million in excess of the amount authorised.
6. Departments are able to use Appropriations in Aid to cover any shortfalls in their budget as long as they do not exceed their authorised limit. Any income that Departments receive in excess of their Appropriation in Aid limit must be surrendered to the Consolidated Fund. In this case, as shown in the Analysis of Income Payable to the Consolidated Fund Note (Note 6 on page 107 of the Department’s Accounts) the Department received £527.7 million of cash Appropriations in Aid in excess of its authorised limit. The Department suffered an excess on its Net Cash Requirement as it spent £335.2 million of the £527.7 million of excess Appropriations in Aid that should have been surrendered to the Consolidated Fund.
7. Application of £335.2 million of the available excess Appropriations in Aid to the Department’s expenditure, on the authority of Parliament, will cover the excess.

Reasons for the cash excess

8. The main reason for the excess was that the Department monitored its overall budget for the operation of rail services on a net rather than gross basis.
9. The Department’s financial transactions with Train Operating Companies result in the recognition of both income and expenditure in its Accounts. As set out in Note 1.23 on page 100 of the Accounts, the Department’s accounting policies require transactions relating to net income generating Train Operating Companies and net expenditure Train Operating Companies to be recognised separately. The classification of each Train Operating Company depends on a variety of factors, including whether it pays premia or receives subsidies under the terms of its franchise agreement. The sum of the transactions with each Train Operating Company that generate net benefits for the Department is recognised as income; and the sum of the transactions with each Train Operating Company that result in net costs for the Department is recognised as expenditure.

10. As shown in the table below, the Department's 2010-11 Main Supply Estimate included a forecast budgetary shortfall of £435 million with respect to its overall programme of support for passenger rail services, reflecting the anticipated impact of the recession on revenues in the rail industry. The Department agreed this position with HM Treasury on the understanding that there would be additional budget available to the Department through Supplementary Estimates to meet this shortfall. This budget included income to be Appropriated in Aid from net income generating Train Operating Companies of £638 million and £567 million of resources for net expenditure Train Operating Companies, resulting in an overall Estimate position of an excess of Appropriations in Aid over expenditure of £71 million.
11. During 2010-11, however, the Department monitored its net rail budget of £71 million (£506 million when adjusted for the budgetary shortfall) rather than the separate income and expenditure figures within its Estimate. On this basis, by December 2010, the Department forecast net income on its rail franchises of £391 million for 2010-11, an increase of £320 million from the Estimate position and £115 million less than its budgetary shortfall. This was due to better than expected financial performance in the rail industry following the recession and the outcome of commercial negotiations between the Department and the Train Operating Companies. The Department expected the rail income position to improve further in the remainder of the year to 31 March 2011 and to achieve underspends elsewhere in its budget. Therefore, in December 2010, it concluded that it was able to fund the £435 million shortfall in the rail budget within its Main Supply Estimate. However, as the Department monitored its net budgetary position, it did not have the necessary information to assess accurately whether it needed to submit a Spring Supplementary Estimate to ensure that it had sufficient Appropriations in Aid to fund its expenditure.
12. The outturn for the year to 31 March 2011, for net income generating and net expenditure Train Operating Companies was £1,049 million and £467 million¹ respectively, resulting in a net outturn position of £582 million, a £511 million improvement on its Estimate position and sufficient to cover its budgetary shortfall. However, as the Department had not revised its Appropriations in Aid budget via a Spring Supplementary Estimate, the additional income of £411 million was in excess of its authorised Appropriations in Aid limit and should have been surrendered to the Consolidated Fund.
13. As a result, the Department did not have the authority to apply this £411 million of expected income to cover its expenditure. Therefore, after adjusting for savings in its expenditure elsewhere, the Department breached its 2010-11 Net Cash Requirement limit by £335.2 million.

Table 1: Movement in the Department's transactions with the Train Operating Companies during 2010-11

		Original budget (£m)	The Department's December 2010 forecast position (monitored on a net basis) (£m)	The Department's 2010-11 expected outturn (£m)	2010-11 actual outturn (£m)
Actual Position	Income	638		1049	1049
	Appropriations in Aid limit	638	638	1049	638
	Excess Appropriations in Aid	0		0	(411)
	Income to be retained by the Department	638		1049	638
	Expenditure	(567)		(467)	(467)
	Net position	71	391	582	171
Departmental Monitoring	Budgetary position	435	115	(76)	335
	Total	506	506	506	506

¹ Note 13 to the Department's Accounts includes £768 million of expenditure relating to support for passenger rail services. The figures here exclude £301 million related to Passenger Transport Executives, which are not subject to the same level of financial uncertainty as the Train Operating Companies.

Actions taken or proposed to be taken by the Department to help prevent a recurrence

14. The need to monitor income from Train Operating Companies separately, for budgetary control purposes, has been abolished from 2011-12 due to HM Treasury's revised approach to the preparation of Supply Estimates.
15. Nevertheless, the Department has recognised that it needs to improve its financial management of the overall rail budget and understand better the gross financial position in respect of each Train Operating Company. In addition, the Department intends to issue clearer guidance to its Directors General with regard to its parliamentary control totals, and will revise its approach to monitoring the need to request Supplementary Supply Estimates in future years.

Summary and conclusions

16. The Department for Transport breached its Net Cash Requirement limit authorised by Parliament by spending excess Appropriations in Aid it had received rather than surrendering them to the Consolidated Fund.
17. The Department's approach to monitoring its overall rail operating budget on a net basis did not enable it to monitor its Appropriations in Aid effectively. This meant that it did not identify that the £411 million of cash it received from overall improvements in the budgetary performance of its rail franchises during 2010-11 was not authorised by Parliament for the Department's use.
18. The Department will seek an increase in its Appropriation in Aid limits to fund the £335.2 million of excess cash expenditure by way of an Excess Vote.

Amyas C E Morse

Comptroller and Auditor General

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National Audit Office

157-197 Buckingham Palace Road

London

SW1W 9SP