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CONSIDERATIONS FOR REFORM OF THE BUDGET PROCESS IN NORTHERN IRELAND

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This paper reviews the Northern Ireland budget process in the light of international best practice in open budgeting, fiscal transparency and current practice in other jurisdictions. Particular attention is paid to the provision of budgetary and financial information to the Assembly and its statutory Committees.

SUMMARY OF KEY POINTS

- Judged against frameworks of international good practice it appears there is some considerable scope for improving the Northern Ireland budget process.
- In terms of transparency, the process is neither particularly opaque, but nor is it particularly transparent. While there is scope for improvement, there are also instances of good practice.
- A considerable quantity of financial information is produced both by the UK Government and by the Northern Ireland Executive. Not all of the information is as useful as it could be: this is either because data is not comparable or because it becomes available at a time when it isn't possible for the Assembly to use it to meaningfully influence decisions.
- In the most recent budgetary exercise – the Executive's Review of Spending Plans 2010-11 – there were also procedural problems. The consultation process was hampered both by a lack information and by a lack of engagement with the Assembly's Committees.
- At a more general level, there is a fairly clear case for the Assembly to be more involved in budgetary decisions than it is now to provide a check and balance to the Executive. Greater involvement will require a more structured budget process in the future.
- Formalisation of the budget process needs to include measures to improve the Assembly's access to financial information from the Executive, and support resources to allow Members to make best use of that information.
- The introduction of a formalised process provides an opportunity for a closer link between budgetary allocations and departmental performance.
- There is also a case for more scrutiny and assessment of the Executive's proposals and assumptions from an independent perspective.

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EXECUTIVE SUMMARY

The research presented in this paper looks at how well the Northern Ireland budget process aligns with international examples of best practice in terms of openness and the involvement of the legislature. The paper also explores some of the specific difficulties that the Northern Ireland Assembly and its Committees have encountered in recent budgetary exercises.

The issues are presented in the context of the constraints placed upon the Northern Ireland Executive in terms of how it receives its funding and the limited devolution of fiscal policy from the UK Government. While those constraints are very particular to Northern Ireland's circumstances, there are some international examples of budgetary practices that could offer improvements to the system. These are also briefly presented.

The key findings are that the Northern Ireland budget process is fairly transparent in terms of the availability of information. However, some of the information presented is on a different basis from others making it difficult - even for a well-informed reader – to make sense of it. To some extent this is a fundamental issue that must be addressed before any reform of the budgetary process will have much impact.

There are a number of specific issues that become apparent when the process is considered within the frameworks of international best practice. There are certainly some areas in which the transparency of the process can be improved.

The budget process focuses very much on spending the money that is there in a particular way, and there is little focus on the sustainability of revenue-raising decisions over the medium-to-long term. Also, there is little opportunity for budget proposals, or the forecasts and assumptions on which they are based, to be subject to independent scrutiny or assessment.

The timing of the production of the detailed Estimates part-way into the fiscal year results in the Assembly effectively approving spending plans after the event. The ability to be more involved upfront is curtailed by the nature of devolved funding and the rules for spending which are determined by the UK Treasury.

Even areas for which the Northern Ireland administration is fully responsible – such as the provision of information in a transparent and useable way – cannot be quickly fixed. Whilst some aspects, like the timing of the provision of briefing, can be addressed through legislation, standing orders or agreements other aspects such as the alignment of the accounting basis upon which information is presented would be a more complicated and lengthy process.

Other issues can be more easily tied down – and potentially resolved. For example, the specification of a minimum reasonable time for consultation on draft budgetary plans and the routine implementation of proper consultation procedures.

In addition to identifying areas in which practice can be improved, this research has also found that there are areas of good practice also. For example, the in-year monitoring process meets criteria for open reporting to the legislature well.

In conclusion, some recommendations are made for improving the process, as follows:

Recommendation 1: Assembly Committees' powers to request information should be clarified and perhaps strengthened.

Recommendation2: The information provided by the Executive and its departments should be improved.

Recommendation 3: Consultation with the Assembly should be conducted fully and properly

Recommendation 4: Consultation with the public should be conducted fully and properly.

Recommendation 5: The Executive should adhere to an annual budget process.

Recommendation 6: In-year monitoring rounds should be retained.

Recommendation 7: There should be a requirement for external/independent analysis of the draft Budget and spending plans.

Recommendation 8: The Executive should publish an assessment of the fiscal picture.

Recommendation 9: The Executive should consider establishing a contingency reserve.

Recommendation 10: The Assembly's own budget allocation should be more transparent.

Recommendation 11: Requests for resources should be disaggregated and justified.

Recommendation 12: Spending outside annual appropriations should be presented alongside the Budget.

Recommendation 13: In general the budget process should become more transparent.

Recommendation 14: The Assembly should have a more structured involvement in the budget process.

Recommendation 15: The Assembly should reorganise the system of budget scrutiny by committees to support greater involvement.

Recommendation 16: The Assembly should have enhanced capability to scrutinise budgetary information.

Recommendation 17: The financial information streams should be harmonised and aligned.

INTRODUCTION

The Institute for Fiscal Studies (IFS) published its 'Green Budget' in February 2010. In relation to public services it warned that "deep cuts" are coming:

> *The December 2009 Pre-Budget Report pencilled in a real freeze in total public spending over the four years from 2011-12 to 2014-15. But spending on debt interest, social security and other 'annually managed expenditure' is likely to grow in real terms. Keeping to these overall spending plans would therefore require deep cuts in 'departmental expenditure limits' (DELs) – Whitehall spending on public services and administration (although the government could also cut welfare bills).*[1]

Cuts (deep or otherwise) to Whitehall departments' DELs will trigger consequential cuts to the Northern Ireland Block Grant through the Barnett Formula mechanism for comparable spending.

The Labour Government (if re-elected) has promised to protect or ringfence spending on certain priority areas, such as health, schools and overseas aid. According to the IFS "the commitment to freeze NHS spending in real terms in 2011-12 and 2012-13 would still imply the tightest two-year squeeze for the health service in the last 60 years."[2]

The effect of protecting spending in large areas such as the NHS and education (which accounted for around 30% of total spending in 2008-9)[3] is that the cuts will be more severe in the other lesser priority areas.

According to a recent article in *Public Finance* "safeguarding the budgets of health and education could leave unprotected public services facing cuts of up to 50%."[4] The article goes on to argue that a more likely "middle range" level of cuts would be in the region of 15-20%, but then asks whether it is really likely to be politically possible to impose this level of reductions in areas such as children's services and provision for older people and vulnerable adults – especially given recent high-profile failures in child protection in England.

The alternative to targeted reductions in areas determined to be non-priority is to impose across-the-board reductions by 'salami slicing' all budget lines: "while this is a little simplistic, the idea of sharing the pain might actually be easier to manage than the alternative policy of concentrating massive cuts within some services."[5] On

[1] Institute for Fiscal Studies 'Green Budget: Summary' (2010) available online at: http://www.ifs.org.uk/budgets/gb2010/10summary.pdf (accessed 8 April 2010) (see page S6)
[2] [2] Institute for Fiscal Studies 'Green Budget: Summary' (2010) available online at: http://www.ifs.org.uk/budgets/gb2010/10summary.pdf (accessed 8 April 2010) (see page S6)
[3] See http://www.wheredoesmymoneygo.org/prototype
[4] Travers, T 'Tales of the Unprotected' *Public Finance* 18 February 2010 http://www.publicfinance.co.uk/features/2010/02/tales-of-the-unprotected (accessed 8 April 2010)
[5] Travers, T 'Tales of the Unprotected' *Public Finance* 18 February 2010 http://www.publicfinance.co.uk/features/2010/02/tales-of-the-unprotected (accessed 8 April 2010)

the other hand, 'salami slicing' has been criticised as being a crude or blunt tool which "is easy to implement, but it is extremely damaging, particularly in the long term."[6]

This debate is likely to continue until the next UK general election and beyond. No matter what the outcome of that election cuts are plainly inevitable to some degree. In a climate of fiscal tightening and reduced public spending there is clearly going to be considerable interest in how the Northern Ireland Executive manages its spending allocation over the next few years.

Against this backdrop, Members of the Northern Ireland Assembly and its Committees are likely to want to pay close attention to the impact of spending cuts and changes in priorities. This paper considers the budget process in Northern Ireland, particularly in relation to international standards of openness and transparency. Attention is also paid to the provision of budgetary and financial information to the Assembly and its Committees by Executive Ministers and whether there is a case for reform of the budget process to increase the involvement of the legislature.

Scrutiny of budgets by the legislature, however, is only one side of the coin: the Assembly's Statutory Committees have a remit to consider and advise on departmental budgets and annual plans. But they also have a significant role in holding Ministers and their departments to account for performance against the objectives set for them in the Executive's Programme for Government. This role implies scrutiny of departments' achievements in terms of outputs and outcomes. Over the coming period, departments' performance against their current and future Efficiency Delivery Plans, in particular, is likely to be subject to increasing attention.

Consideration, therefore, is also given in this paper to whether there is a need for a trade-off between the Assembly's respective roles in budgeting and in accountability.

[6] See Professor Colin Talbot's evidence to the Committee for Finance and Personnel on 18 November 2009, available online at: http://www.niassembly.gov.uk/record/committees2009/FinancePersonnel/091118EfficiencySavings.pdf (accessed 12 April 2010) (see page 29)

1. THE NORTHERN IRELAND BUDGET PROCESS

1.1 Summary of Main Steps

The Northern Ireland Assembly has a remit that includes holding the Executive to account over its budgeting and spending priorities and its reporting of financial information. In particular, the Assembly's Statutory Committees each have a remit to advise and assist Ministers on matters within their responsibility. They undertake a scrutiny, policy development and consultation role with respect to departments and play a key role in the consideration and development of legislation.

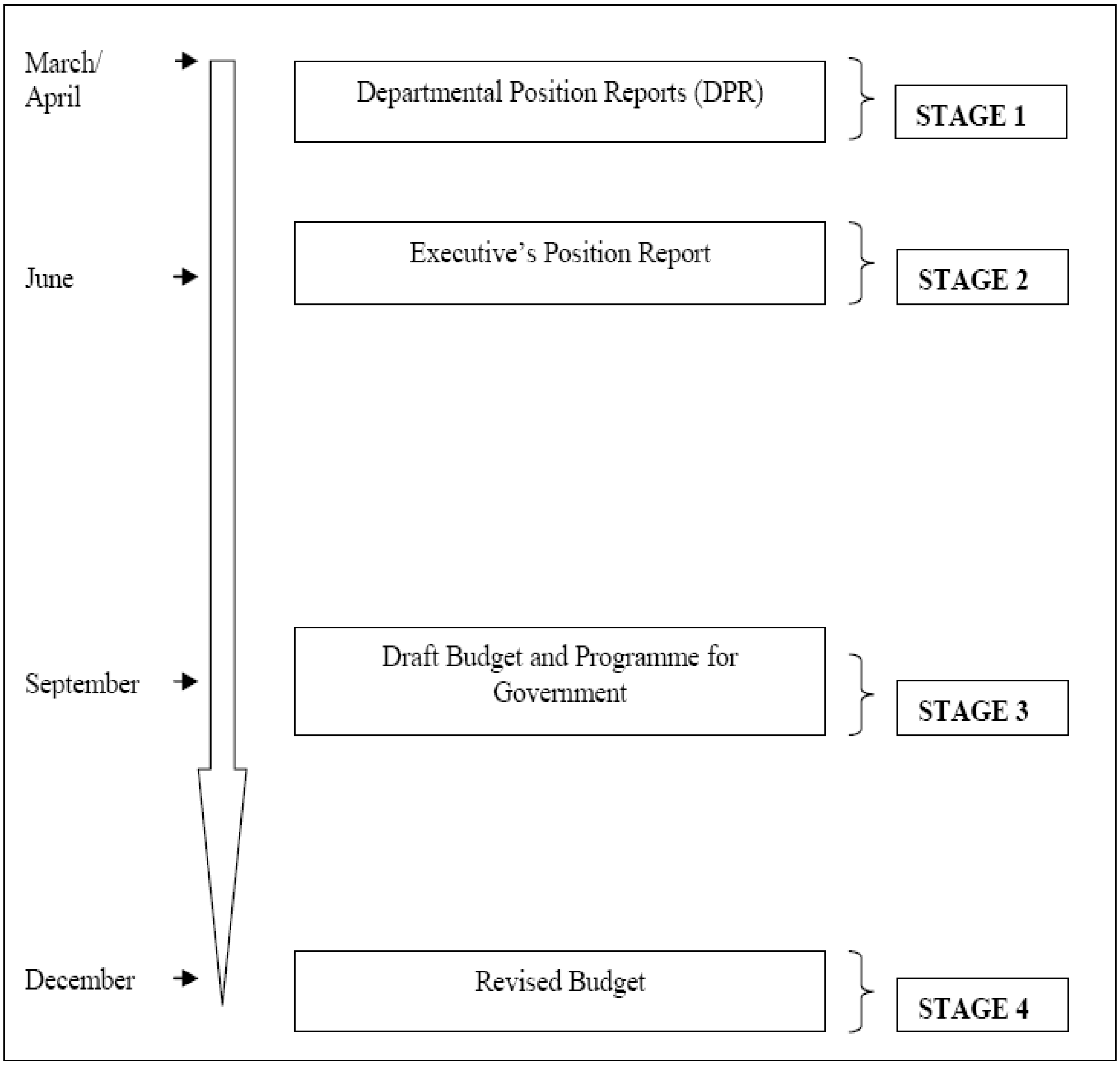
Ultimately it is the Assembly that must give the statutory authority for departments to spend money by considering and approving budget bills and Estimates. Members and Committees collectively consider departments' proposals for new programmes and the outcome of quarterly 'monitoring rounds' whereby money is reallocated in-year.

The Department for Finance and Personnel has recently been reviewing the budget process in Northern Ireland. The most recent budget covered three years (from 2008 to 2011). Previously there were annual budgets though - because of long periods of suspension of the devolved institutions in Northern Ireland - the process has not been able to bed down into a fully settled pattern.

The budget process that was used during the first mandate (between 1998 and 2002) of the devolved Northern Ireland Assembly consisted of four stages; it is summarised in the diagram below. In the current mandate (beginning with the restoration of devolution in 2007) the process altered and some of the stages have not occurred (see notes below).

The four-stage process gave the Assembly the opportunity to debate and influence the proposed allocations during the first two stages.

The Budget Process used in the first NI Assembly mandate



1.1.1 The role of NI Assembly Committees

The role and remit of Committees within the Northern Ireland Assembly are set out in the Belfast Agreement; the Northern Ireland Act 1998; and the Standing Orders of the Northern Ireland Assembly. Statutory Committees have a duty to scrutinise the departmental budgets as set out in paragraph 9 of Strand One to the Belfast Agreement:

> *(Committees) will have a scrutiny, policy development and consultation role with respect to the Department with which each is associated, and will have a role in initiation of legislation.*[7]

[7] Northern Ireland Office 'The Belfast Agreement' (1998) available online at http://www.nio.gov.uk/agreement.pdf (accessed 8 April 2010)

Amongst the powers granted to Committees are those to:

> *consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation.*

The Committees are involved at various stages:

• ***Departmental Position Reports*** (DPR) mark the first stage of the process, which occurs in March/April. Committees have an opportunity to receive an oral or written briefing from their department and consult upon the DPR. Following the period of consultation, committees provide feedback to their department, who then submit DPRs to the Department of Finance and Personnel (DFP) in April. **Note:** with the publication of a three-year budget for 2008-11 this stage did not occur in 2008 or 2009, although the Executive did conduct a 'strategic stocktake' in January of that year.

• The ***Executive's Position Report*** (EPR) is issued jointly by DFP and OFMDFM in June. The EPR summarises each department's position report and allows for consultation with committees, etc. in advance of the preparation of the Draft Budget and Programme for Government. This is the stage to reflect upon the relative priority attached to different policies and programmes, and the scope for reducing services or improving them through efficiency improvements. The committees are briefed by departmental officials once again, and consult as they see fit. The Assembly's Committee for Finance and Personnel coordinates committees' responses to the EPR and submits these to DFP in August. **Note:** with the publication of a three-year budget for 2008-11 this stage did not occur in 2008 or 2009, although the Executive did conduct a 'strategic stocktake' in January of that year.

• *The* ***Draft Budget and Draft Programme for Government*** (PfG) are produced in September. The PfG provides an overview of the strategic issues to be addressed by the Executive and determines resource allocation decisions. At this stage the Executive consults with committees and the general public on both documents. The Assembly's Committee for Finance and Personnel coordinates committee responses, initiates a 'take note' debate in the Assembly in mid-November and publishes a report at the end of November. **Note:** with the publication of a three-year budget for 2008-11 this stage did not occur in 2008 2009, although the Executive did conduct a 'strategic stocktake' in January of that year.

The scope for amendment and Committee input varies as the legislative cycle proceeds through the process of **revised budget** and the **Budget Bills Nos. 1 and 2** which incorporate the Spring Supplementary Estimates, Vote on Account, the Main Estimates and Supply Resolution.

The Secretariat will provide a more detailed briefing paper on the scope for the Assembly to introduce amendments or changes at the different stages, if Members would find it helpful.

Committees have additional scope for budget scrutiny at **in-year monitoring rounds** and in assessing progress in the achievement of PfG targets and Public Service Agreements (PSAs).

1.1.2 Requirement to provide information to Committees

There are no clear legal requirements for departments to provide particular information to Committees in relation to their budget-scrutiny role. If a department does not do so, it is therefore unclear how Committees could force them to disclose the information they require to discharge their functions; it may be possible for Committees to rely on section 44(1) of the Northern Ireland 1998 which provides that the Assembly or a Committee may:

> *require any person—*
>
> *(a) to attend its proceedings for the purpose of giving evidence; or*
>
> *(b) to produce documents in his custody or under his control*

The Ministerial Code is also relevant, because departments are required to act in accordance with their Ministers' direction.[8] Paragraph (ii) imposes a duty on Ministers to be accountable, through the Assembly, for the activities within their responsibilities, their stewardship of public funds and the extent to which key performance targets and objectives have been met. Also, paragraph (iii), which requires a Minister to comply with all reasonable requests for information from the Assembly.

1.1.3 In-year Monitoring Rounds

Monitoring rounds are the process through which departments declare and give up any surplus allocations from their budget lines. These can then be reallocated to other departments in line with Executive priorities and emerging funding pressures.

These changes are then given legislative effect through the Spring Supplementary Estimates which are presented alongside the Budget Bill No.1 – i.e. after the *de facto* reallocations and adjustments have occurred.

In his statement to the Assembly on 12 January 2010 on the Executive's Revised Spending Plans for 2010-11, the Minister of Finance opened the possibility of changing the current system:

> *We have to live with in-year monitoring for the next year. [But] every approach is problematic because the whole point of in-year monitoring and asking Departments to surrender money was to deal with unforeseen circumstances and inescapable bids that arose because of unpredictable events. We could do that through a contingency fund, in-year monitoring or simply by coming to the Executive as events arise and telling every Department that it must divvy up. All those options have their own difficulties.*
>
> *As I said yesterday, I am open to the idea of a discussion in the Committee or the Assembly about how we deal with pressures that arise that we cannot possibly anticipate. I am happy to consider the options, but we will find difficulties with each of them. If Members decide that in-year monitoring is not the best option and there*

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[8] Available online at: http://www.northernireland.gov.uk/index/ministerial-code.htm (accessed 04 May 2010)

> *is a forcible case to support that assertion, the Department will be prepared to consider that.*[9]

The in-year monitoring process is considered further below (see table 1 and section 4) in terms of the opportunity for the opportunity for the Assembly to discuss decisions and the transparency of the mechanism. One notable point is that there is commonly no assessment presented by the Executive of how the changes in allocations through the process are likely to impact on Programme for Government priorities.

1.2 The UK Budget Cycle, Funding Policy and Constraints on the Northern Ireland Process.

1.2.1 How Northern Ireland receives its block grant

The UK Treasury sets out policy for funding the devolved administrations in *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy.* In the introduction to this document it notes that:

> *responsibility for United Kingdom fiscal policy, macroeconomic policy and public expenditure allocation across the United Kingdom remains with the Treasury. As a result, the devolved administrations' budgets continue to be determined within the framework of public expenditure control and budgeting guidance in the United Kingdom.*[10]

The result of this is the Northern Ireland Executive receives its funding from the UK Treasury in the same way as a UK Government department – expenditure is allocated following spending reviews for a three-year period. The Executive does not have policy control of the overall level of allocated spending, though it does have complete discretion over how the total is divided amongst the Northern Ireland departments.

The consequence is that the timing of the Northern Ireland Budget is inextricably linked to that of the UK Budget. Any proposals for reform, therefore, have to be made with this in mind.

1.2.2 Notification of spending allocations by the UK Treasury

It is also important to note that it is frequently the case that officials in DFP get very little notice of changes to the block grant through the Barnett mechanism. This makes long-term planning more difficult.

For example, DFP only received notification of the contents of the Chancellor's 2010 Budget half an hour before he delivered it to the Westminster Parliament. This most recent budget delivered an additional £12.1m to Northern Ireland as a result of a comparable spending increase in England. But, because DFP did not know about it in advance, the allocation could not be built into the Revised Spending Plans 2010-11

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[9] Official Report 12 January 2010 http://www.niassembly.gov.uk/record/reports2009/100112.pdf (see page 65)

[10] HM Treasury (2007) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy' available online at: http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf (accessed 19 April 2010) (see page 3)

when it was announced on 20 April 2010. Instead the funds have to be held centrally by the Executive until the next legislative means to allocate it arises.[11]

1.2.3 Self-financed expenditure

Another point worth highlighting is that the Northern Ireland Executive's decisions on self-financed expenditure impact on the its allocation:

> *if levels of self-financed expenditure generated by a devolved administration grow significantly more rapidly than comparable expenditure in England over a period and in such a way as to threaten targets set for public expenditure as part of the management of the United Kingdom economy, it will be open to the United Kingdom Government to take the excess into account in considering the level of grant to the devolved administrations.*[12]

In other words, if the Executive were to increase dramatically the revenue generated through the regional rate, the UK Treasury could reduce the NI Block Grant accordingly. On the other hand, if the Executive chooses to reduce charges (as in the case of the phasing out of prescription charges), it must meet the costs from within its own allocation.

1.2.4 Requirement not to exceed allocation

The devolved administrations are all expected to live within the firm three-year plans specified in their Department Expenditure Limits (DEL) and therefore the Executive must "absorb unforeseen pressures" or contain them "by re-allocating priorities, seeking offsetting savings and using unspent entitlements from the preceding year".[13] Any breach of the DEL:

> *would be viewed by the United Kingdom Government as serious mismanagement on the part of the devolved administration and the presumption would be that the following year's DEL and grant to the devolved administration would be reduced by an amount equivalent to the breach.*[14]

1.2.5 Exceptional adjustments

One final observation relevant to this section is that the UK Government reserves the right to make exceptional adjustments to the devolved administrations' budgets, if it "decides to make a uniform across the board general adjustment to public spending

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[11] Source: correspondence with DFP official.

[12] HM Treasury (2007) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy' available online at: http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf (accessed 19 April 2010) (see page 7)

[13] HM Treasury (2007) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy' available online at: http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf (accessed 19 April 2010) (see page 25)

[14] HM Treasury (2007) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy' available online at: http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf (accessed 19 April 2010) (see page 27)

programmes across departments."[15] In other words, the UK Government can cut the allocations to all spending departments, including the devolved administrations, if it wishes to, when it wishes to.

1.3 The Case for Change

Before proceeding further it is worth setting out in more detail where the drivers for change are in relation to the budget process. There is a trend internationally towards more performance-oriented budgeting. This is important for the enhancement of accountability and for tying executive to the diverse sets of interests that is affected by budget decisions in a heterogonous society.[16]

It has been previously identified that it would be desirable to alter the way that departments in Northern Ireland plan and budget for their activities. For example, in June 2007 consultants PKF published a review of the forecasting and monitoring of financial information in the Northern Ireland Civil Service on behalf of the Department of Finance and Personnel (DFP). The report highlighted examples of good financial management practice in departments but also made a number of recommendations for improvement.

Recommendation 4 of the report was that in the medium term:

> *the planning and budgeting process should move away from the existing incremental approach. This would first involve the development of a more transparent link between inputs and outputs, and would require, and indeed facilitate, greater challenge by Board members based on historic performance, thus enabling the setting of budgets that are better linked to performance targets. Performance would be subsequently monitored on a monthly basis through an effective monitoring and forecasting regime. This would ensure that Departmental budgets are more realistic and more closely managed, which in turn would facilitate, as a minimum, a significant reduction in the extent of the existing over commitment process which currently leads to budgets that are inherently overinflated and creates a climate within which there is increased pressure to seek to claw-back funding in-year.*[17]

For a survey of methodological approaches and some case studies relating to the benefits identified in the PKF report from linking budgeting with business objectives, see Assembly Research paper 06/10.[18]

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[15] HM Treasury (2007) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy' available online at: http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf (accessed 19 April 2010) (see page 25)

[16] Posner, P and Cheung-Keun Park (2007) 'Role of the Legislature in the Budget Process: recent trends and innovations' OECD Journal on Budgeting Vol. 7 No.3 available online at: http://www.oecd.org/dataoecd/42/27/43411793.pdf (accessed 26 April 2010) (see page 23)

[17] PKF Review of Forecasting and Monitoring (2007) available online at http://www.dfpni.gov.uk/07_0614_dfp_update_v.2.2__final_-2.pdf (see page 10) (accessed 26 April 2010)

[18] Assembly Research (2009) 'Methods of Budgeting' available online at http://www.niassembly.gov.uk/researchandlibrary/2010/0610.pdf (accessed 26 April 2010)

In addition – as noted in section 1.1 - the Minister of Finance has stated that he is open to suggestions for alternatives to the current process of in-year monitoring. Also, the DFP review of the budget process is soon to be completed; this may give rise to some proposals for change.

Beyond these points, the following issues have been highlighted as being problematic in relation to both the process for the 2008-11 Budget - more particularly - and the recent Review of Spending Plans for 2010-11: engagement between departments and their respective Assembly Committees; consultation on budgetary measures; the provision of information by departments, and; external or independent scrutiny of budgetary proposals.

1.3.1 Engagement with Assembly Committees

The Assembly's Committee for Finance and Personnel has a remit to report to the Assembly on strategic and cross-cutting budgetary and public finance issues over and above its role in scrutinising the specific position related to the Department of Finance and Personnel.

The Committee reported on the Executive's draft Budget 2008-11 and highlighted a number of issues in relation to the budget process which are relevant to this paper. Associated recommendations were:

- *the Committee echoes the call, made by a number of the Assembly statutory committees, for a closer alignment between the revised Budget and the revised PfG than exists in the draft documents; in particular a more visible linkage is required between PfG priorities and goals, PSA objectives and the allocations, departmental objectives and spending areas in the Budget. The Committee also considers that there would be benefit, in terms of transparency and scrutiny, from fuller and more standardised information on departments' bids and their outcomes being published as part of the draft Budget process.*

- *Looking ahead, the Committee considers that the future budget process and timetable needs to be settled early in 2008 to enable the Assembly statutory committees to schedule the necessary scrutiny into their work programmes and thereby provide departments with notice in terms of the future information and briefing requirements of committees.*[19]

More recently, the Committee reported on the Executive's *Review of 2010-11 Spending Plans for Northern Ireland Departments.* The following recommendations relate specifically to the issues considered in this paper:

- *The Committee considers that the Review consultation document should have included supporting information to explain the rationale behind the*

[19] Committee for Finance and Personnel 'Report on the Executive's Draft Budget 2008-2011' Third Report, Session 2007/2008 available online at: http://www.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm#key (accessed 16 April 2010) (see paras 152 and 153)

targeted percentage savings for each department, as this would have added transparency to the process and enabled the scrutiny committees and the wider Assembly to make informed judgements on the basis and parameters of the Review proposals.

- *The Committee notes that seven of the eleven Assembly statutory committees have expressed varying levels of dissatisfaction with shortcomings in the information provided by departments on their revised spending proposals for 2010-11, which range from a complete absence of briefing to insufficient detail and lateness of information. The Committee is strongly critical of those departments which failed to engage properly with their departmental committees on their proposed spending plans.*

- *The Committee wishes to remind Ministers and senior departmental officials of the legal provisions for consultation with the Assembly on public expenditure proposals, as contained in the Belfast Agreement/Good Friday Agreement, the Northern Ireland Act 1998, and in Assembly Standing Orders.*

- *The Committee believes that there is a need to establish firm protocols for the provision of timely and appropriate budgetary information to the statutory committees, and against which departmental performance can be measured going forward. The Committee intends to take this forward with the key stakeholders, including the other statutory committees, the Chairpersons' Liaison Group, and with DFP on behalf of the Executive. The outcome of this exercise will also be informed by international good practice in executive-legislature relations.*

- *The Committee believes that some of the difficulties encountered in the current mini-budget process, including in terms of insufficient engagement both by departments with their Assembly committees and by the Executive with the public, could have been minimised or avoided had DFP attached greater urgency to the completion of the Review of the Executive's Budget Process 2008-11 and the establishment of a future Budget process.*

- *The Committee calls for the urgent establishment of a formal process for Assembly scrutiny of future Executive Budgets and expenditure, which will both enable the statutory committees to plan the necessary scrutiny and will focus departments' attention on meeting the future briefing requirements of their committees. The Committee further recommends that the detail of the future Budget process is determined in conjunction with the Assembly statutory committees and subsequently launched with an awareness programme for all Assembly Members.*[20]

In the Executive's *Revised 2010-11 Spending Plans for NI Departments*, the Minister of Finance recognised some of these criticisms and stated in his Foreword:

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[20]Committee for Finance and Personnel 'Report on the Review of 2010-11 Spending Plans for Northern Ireland Departments' Second Report Session 2009/2010 http://www.niassembly.gov.uk/finance/2007mandate/reports/Report_41_09_10R.html#3 (accessed 16 April 2010) (see paragraphs 2 to 7 of *Key Issues and Rrecommendations*)

> *there was concern at the level of engagement by individual departments with their respective Assembly committees. Although time constraints were a significant factor, this is something that the Executive will need to consider as part of the local 2010 Budget process which is due to formally commence shortly.*[21]

1.3.2 Consultation

A related concern over the process for the Review of the Spending Plans for 2010-11 was expressed over the level of public consultation. The Executive's consultation document stated that the main form of consultation would be through the Assembly's Committees. Leaving aside the issues identified above in relation to the engagement between departments and their respective Committees, this raises a wider point about the involvement of the public in budgetary decisions in Northern Ireland.

The Methodist Church in Ireland's Council on Social Responsibility[22] wrote to the Committee for Finance and Personnel and expressed general dissatisfaction with the Executive's approach to consultation in the following terms:

> …*the consultation was at best flawed and at worst opaque. The process falls far short of good practice for consultations. It is not clear how a response could be made or what the deadline is for such responses […] DFP has asked each department to publish more detailed information on its website. However, sometimes this information is not easy to locate on the websites (e.g. DHSSPS website), or when it can be located, does not contain information about what the focus of the consultation actually is or how a response can be effected (e.g. DCAL website).*

The submission went on to cite a judgement by Weatherup J, handed down on 11 September 2007: "it is common ground that, whether or not consultation of interested parties and the public is a legal requirement, if it is embarked upon **it must be carried out properly,**" (emphasis added)

In his judgement, Weatherup J cited another judgement[23] in which the four requirements of consultation were stated:

> *To be proper, consultation must be undertaken at a time when proposals are still at a formative stage; it must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response; adequate time must be given for this purpose; and the product of consultation must be conscientiously taken into account when the ultimate decision is taken.*

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[21] NI Executive 'Revised 2010-11 Spending Plans for NI Departments' (2010) http://www.pfgbudgetni.gov.uk/revised_2010-11_spending_plans_final_document-2.pdf (accessed 16 April 2010)

[22] Methodist Chusrch in Ireland, Council on Social Responsibility correspondence with the Committee for Finance and Personnel 'Review of 2010-11 Spending Plans' dated 15 March 2010.

[23] Ex p Coughlan [2000] 3 All ER 850, [2001] QB 213, para 108

The Methodist Church in Ireland's Council on Social Responsibility wrote that "viewed against these requirements the current consultation falls far short […] Northern Ireland deserves better of the Executive with respect to consultation."

DFP officials were asked about the effectiveness of the consultation process on the Review of Spending Plans on 21 April 2010 in an evidence session with the Committee for Finance and Personnel. In response, an official commented:

> *In the responses to the draft proposals, concerns were expressed by the health and social care sector about perceived cuts. However, there were no suggestions as to, for example, if we were to take resources and allocate them to area B, which other areas should have their budgets reduced to meet the pressure. That was not explored. The other issue was pro rata cuts across Departments, as opposed to the targeted approach which the Executive decided to pursue and implement. There was no great deal of analysis or response on that.*[24]

It may well be that consultees did not feel able to subject the proposals to detailed analysis simply because the information provided was in many cases insufficient for them to do so. Indeed, despite the descriptions of the documents that are available on departmental website as 'consultations' it was not clear exactly what the public was being consulted on - as noted above. It is difficult to frame a response when the question is not clearly defined.

1.3.3 Provision of information

The issue of the provision of information has been raised above both in terms of engagement with the Assembly and consultation.

The documents published by departments explaining the impact of the Executive's Review of Spending Plans 2010-11 vary in the detail they provide, and in one case have not been published. The information provided by some departments makes it difficult to understand exactly what they intend to do in relation to spending reductions.

For example, the DOE document states:

> *DOE will take forward a range of measures to delver the additional savings of £3.9 million current expenditure and £0.2 million capital investment next year. These include the cessation of low priority activities, a reduction in consultancy spend and a reduction in the costs associated with the delivery of corporate services and other departmental running costs.*[25]

That is all the information that was published on the additional savings the Department is going to have to make. As an elected representative or member of the public trying to understand what the DOE intends it is not very helpful. Which activities are low priority?

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[24] Official Report Committee for Finance and Personnel 21 April 2010, available online at: http://www.niassembly.gov.uk/record/committees2009/FinancePersonnel/100421Reviewof2010-11SpendingPlans.pdf (accessed 27 April 2010) (see page 5)

[25] DOE (2010) 'Public Spending Plans 2010-11' available online at: http://applications.doeni.gov.uk/publications/document.asp?docid=16312 (accessed 27 April 2010) (see page 2)

What will the impact of stopping them be? Will reduced consultancy spend endanger any of the Department's targets under the Programme for Government or its ability to fulfil its regulatory functions? The following section of the document goes on to detail planned improvements in public services over the same period but does not link these to the budget allocations.

The document provided by DCAL contains more information.[26] For example it shows the proposed split of reductions across the different elements of its policy remit. The effect of the variable quality of the information is that it is difficult, if not impossible, to compare across and between departments; a picture of the impact on central government as a whole is also, therefore difficult to construct.

A separate but also problematic issue is that the accounting basis used for different elements of financial information provided by the Executive is different. The tables of figures in the Budget, those presented in relation to in-year monitoring and the departments' accounts are presented on a resource basis. Those presented in the Main and Supplementary Estimates are on a cash basis. The essential difference is that cash accounting records cash payments and receipts as they occur within a period, whereas accruals accounting records expenditure when it is incurred and income when it is earned.[27] This makes it all-but-impossible for anyone other than an expert in public sector accounting to reconcile the streams of information.

[26] DCAL (2010) '2010-11 budget consultation' available online at: http://www.dcalni.gov.uk/dcal_2010-11_budget_consultation.doc (accessed 27 April 2010)
[27] For a useful discussion of the change from cash to resource accounting and its impact on democratic accountability see Economic and Research Council (2005) 'Money Matters: Devolution and Resource Accounting and Budgeting' available online at: http://www.devolution.ac.uk/pdfdata/Briefing%2023%20-%20Lapsley.pdf (accessed 27 April 2010)

1.3.4 External/independent scrutiny of proposals

There is no mechanism through which the Executive seeks – or is required to seek – independent analysis of its fiscal position or of the assertions it makes in budgetary proposals.

The 2008-11 Budget states that "the substantial increases in Regional Rates bills in recent years, means that additional income cannot reasonably be expected from this source."[28] But in a submission to the Committee for Finance and Personnel the Economic Research Institute of Northern Ireland (ERINI) questioned this kind of assumption:

> *Covering a budget deficit either by raising new resources or by cutting existing allocations both involve a degree of redistribution. The issue is which approach offers the most equitable solution. In principle the Regional Rate based on capital values has a progressive element though this is complicated by a domestic cap at the upper end and various reliefs at the lower end of the income distributions. Water charges based on the same methodology would also in practice be progressive. On the other hand, expenditure cuts could be regressive depending on which service carries the greatest loss, and the degree to which additional and genuine efficiency savings can absorb the reduction.*
>
> *Making an informed judgement on these matters requires a detailed study of the final incidence of both additional taxation and budget cuts. This has not been done.*[29]

The absence of such detailed independent work is problematic, because it means that the Assembly and the wider public have no access to analysis on the basis of which to challenge the position set out by the Executive. This is an issue which is also specifically addressed by the International Monetary Fund (see table 2 below).

Some of these problems may be possible to address without major reform. Other issues – particularly some of those identified in relation to the accounting basis used for the Estimates and that used for the Budget documentation - may take much longer, and much more institutional effort, to resolve.

[28] DFP (2008) 'Budget 2008-11' available online at:
http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf (accessed 26 April 2010) (see page 41)
[29] http://www.erini.ac.uk/Publications/PDF/ERINIMon49.pdf

2. HOW THE NORTHERN IRELAND PROCESS ALIGNS WITH INTERNATIONAL BEST PRACTICE

In this part of the paper wider issues about the involvement of the legislature in budgeting and fiscal transparency are considered. Some of these wider considerations raise questions not just for specifics of the budget process but also about the nature of devolved funding, the relationship between the Northern Ireland Assembly and the Executive, and also the internal arrangements of the Assembly itself.

2.1 How involved should the legislature be in the budget process?

The parliamentary stages of budgeting (i.e. the passage of the budget through the legislature, implementation of the budget act and the appropriation of funds) can be viewed as a bargaining process between the executive and the legislature.[30] The character of this bargaining is determined by a number of factors, particularly in relation to the legislature's capacity to influence budget decisions.

Three categories of budgetary influence have been identified:[31]

Budget making legislatures have the capacity to amend or reject the budget proposal of the executive, and the capacity to formulate and substitute a budget of their own.

Budget influencing legislatures have the capacity to amend or reject the budget proposal of the executive, but lack the capacity to formulate and substitute a budget of their own.

Legislatures with little or no budgetary effect lack the capacity to amend or reject the budget proposal of the executive, and to formulate and substitute a budget of their own. They confine themselves to assenting to the budget as it is placed before them.

The Northern Ireland Assembly probably falls somewhere between the second and third category. Whilst theoretically the Assembly might choose to reject the budget bills laid before it, the consequence would be that Northern Ireland Departments would have no legal basis to pay their staff or deliver services and government might effectively be halted. In this respect, a 'no' vote on a budget bill could essentially be categorised as a vote of no-confidence in the Executive – although the nature of the Assembly itself, with five parties in the Executive, means that this is probably fairly unlikely to ever happen, especially as financial provisions require a cross-community vote.

The Assembly does also have the power under section 64(2) of the Northern Ireland Act 1998 to modify the draft budget. The House of Common *Notes on Clauses* to the Bill explained that modification would "in practice relate to the allocation of money between

[30] von Hagen, J and Harden, I J (1995) 'Budget processes and commitment to fiscal discipline' European Economic Review no.39 pages 771-779 (see page 775)

[31] Wehner, J (2004) 'Back from the Sidelines?: redefining the contribution of legislatures to the budget cycle' World Bank Institute available online at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004/06/23/000009486_20040623161800/Rendered/PDF/286150Sidelines0WBI0WP.pdf (accessed 09 April 2010) (see page 5)

departments. The overall total of the money available to the Assembly will have been pre-determined by the Treasury and cannot be increased without their agreement."[32] This power pushes the Assembly more towards the second category. However, it should be noted that the ability to exercise the power relies on sufficient information and institutional resources and support for budget scrutiny.

It should be noted that section 59 of the Northern Ireland Act 1998 and section 7 of the Government Resources and Accounting Act (Northern Ireland) 2001 provide that, in the absence of a Budget Act, an authorised officer of DFP can authorise the use of up to 75% of the previous year's allocation. It could be argued that in effect this renders the Assembly vote somewhat pointless, although perhaps this provision is to be best viewed simply as a failsafe for use in absolute emergencies when agreement in the Assembly is simply impossible to achieve.

Starting from this basis, the following section surveys the evidence in relation to the involvement of the legislature in budgeting and considers whether there is a case for increased involvement of the Northern Ireland Assembly.

2.1.1 Theoretical arguments for a strong budgeting role for the legislature

According to Wehner "the call for greater legislative participation in budgeting is often met with scepticism. While there are indeed risks involved […] the case for effective legislative involvement in the budget process is often not fully appreciated."[33] He goes on to present arguments for greater legislative participation:

<u>Constitutional requirements and the 'power of the purse'</u>

There is a fundamental obligation on the legislature to ensure that the revenue and spending measures it authorises are fiscally sound, match the needs of the population with available resources and are properly and efficiently implemented. When a legislature does not meet this obligation, a budget process is – no matter how much time is devoted to it – ultimately ineffective.

<u>Checks and balances as ingredients of 'good governance'</u>

Generalised arguments against legislature involvement in budgeting presume that executives want to govern well in the best interests of the public. But, the absence of meaningful legislative checks on executive power can open the door to waste, corruption and poor budget outcomes.

Checks and balances are necessary to ensure good governance in budgeting in the medium to long term. This requires the executive to be answerable to the legislature and for the latter to be able to take action in the event of poor executive performance.

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[32] Northern Ireland Office (1998) *Northern Ireland Bill: Notes on Clauses*

[33] Wehner, J 'Back from the Sidelines?: redefining the contribution of legislatures to the budget cycle' World Bank Institute (2004) available online at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004/06/23/000009486_20040623161800/Rendered/PDF/286150Sidelines0WBI0WP.pdf (accessed 09 April 2010) (see page 2)

Openness and transparency

Open discussion on the contents of the budget in the legislature enhances transparency and enables effective scrutiny. Worldwide, legislatures are increasingly open about the proceedings of their committees and debates which signals a decline in the secrecy of policy and budget making.

Participation and consensus building

In many countries the business community traditionally has a strong voice during budgetary policy formation. The legislature can help to ensure a balance of views and inputs into budget decisions and provide a platform for establishing consensus with regard to budgetary trade-offs.

Demands for funds typically outweigh resources, so trade-offs become necessary. The effective involvement of a broad spectrum of participants can help to ensure that the budgetary constraints are widely appreciated and commitment to the budget is enhanced.[34]

2.1.2 Theoretical arguments for a weak budgeting role for the legislature

One source of support for scepticism over the role of the legislature in budgeting is the nature of the legislature itself.

> *Legislatures are non-centralised and collegial bodies that are both representative and policy-making institutions. As political bodies, their capacity for collective action is often stymied by a different party, ideology or constituency. Expected to be highly responsive to individual constituencies, legislatures are perennially challenged to produce simultaneously high levels of constituency responsiveness while taking responsible actions on behalf of the entire country.*[35]

This inherent tension raises questions about how a stronger budgeting role for the legislature will manifest itself in relation to often conflicting budgetary goals:

[34] Wehner, J (2004) 'Back from the Sidelines?: redefining the contribution of legislatures to the budget cycle' World Bank Institute available online at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004/06/23/000009486_20040623161800/Rendered/PDF/286150Sidelines0WBI0WP.pdf (accessed 09 April 2010) (see pages 3-4)

[35] Posner, P and Cheung-Keun Park (2007) 'Role of the Legislature in the Budget Process: recent trends and innovations' OECD Journal on Budgeting Vol. 7 No.3 available online at: http://www.oecd.org/dataoecd/42/27/43411793.pdf (accessed 9 April 2010) (see page 20)

Fiscal discipline

Some research has suggested that fiscal outcomes are better in countries with weak legislative controls. Budgetary activism in the legislature can lead to budgets in which there is pressure to spend more and to tax less, thereby generating chronic deficits.[36]

In addition, economists have identified what is known as 'the flypaper effect': elected bodies are more enthusiastic to spend taxes raised by other tiers of government and allocated to them as grants than they are to raise tax revenues themselves.[37]

Allocation

Greater legislative involvement may lead to budget resources being devoted to particularistic, distributive purposes at the expense of broader national priorities. In other words, legislatures have a tendency to reward supporters and particular constituencies with budgetary allocations.

Efficiency

Strong legislatures can and do add conditions and constraints to budget allocations and incentives; these constraints can be perceived as hampering the work of managers through micro-management if they do not provide sufficient flexibility for the management of programmes in the most efficient manner.

Accountability

Stronger legislatures may promote greater accountability for budget decisions by checking and balancing executive power. However, the question still remains: for which constituencies is the legislature most likely to act, and for what purposes?[38] In other words, will it respond to the lobby or sectoral interest that shouts most loudly?

2.1.3 Is there a case for greater involvement for the Northern Ireland Assembly in the budget process?

Making a case for greater involvement in the budget process involves a balancing act between the competing arguments above. This balancing act has been described in the following terms:

> *A budget process with greater legislative control will enhance democratic accountability but with potentially the risk of eroding fiscal discipline or government efficiency. The mix of objectives advanced by legislative control will be dependent*

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[36] Schick, A (2002) 'Can National Legislatures Regain an Effective Voice in Budget Policy' OECD Journal on Budgeting Vol 1 No.3 available online at: http://www.oecd.org/dataoecd/62/57/43514045.pdf (accessed 9 April 2010)

[37] see http://en.wikipedia.org/wiki/Fiscal_Illusion (accessed 9 April 2010)

[38] Posner, P and Cheung-Keun Park (2007) 'Role of the Legislature in the Budget Process: recent trends and innovations' OECD Journal on Budgeting Vol. 7 No.3 available online at: http://www.oecd.org/dataoecd/42/27/43411793.pdf (accessed 9 April 2010) (see pages 20-21)

> *on such factors as the nature of the party system, the potential for collaboration and cooperation across the branches of government, the quality and capacity of legislators and their staff, and the incentive structures they face in balancing the potential tensions between constituency responsiveness and making effective national policy.*[39]

In order to make some sense of this, it is helpful to look at how legislatures in other jurisdictions have expanded their budgeting roles and consider the implications for relations between the legislature and the executive. Some international examples are considered in section Part 3.

It must also be remembered that the Northern Ireland budget process is inextricably linked to the UK process (see section 1.2 above), and change must be within that framework.

Before proceeding to look at international examples, it is worthwhile assessing the Northern Ireland Assembly's role in budgeting against a framework recently published by the IMF. The following section seeks to identify potential problems in respect of best practice.

2.1.4 Assessment of the Northern Ireland Assembly's role in budgeting

A useful framework for considering the Assembly's role in budgeting is provided in the IMF's recently published guidance on the *Role of the Legislature in Budget Processes.*[40] The guidance addresses the following issues:

- When, in the budget cycle, should parliaments be involved?
- What do parliaments typically approve, as distinct from what they review?
- What internal structures and support should parliaments have for scrutinizing governments' draft budgets and budget outcomes?
- What accountability and legal requirements should parliaments impose on the executive?
- How should legislatures' involvement in budget processes be formalized in laws and regulations?

Under each of these headings international good practices have been identified. Table 1 below assesses the Northern Ireland Assembly's involvement in budgeting in the light of the best practice put forward in this guidance. Attention is drawn to those areas where it appears there may be scope for change in current practice.

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[39] Posner, P and Cheung-Keun Park (2007) 'Role of the Legislature in the Budget Process: recent trends and innovations' OECD Journal on Budgeting Vol. 7 No.3 available online at: http://www.oecd.org/dataoecd/42/27/43411793.pdf (accessed 9 April 2010) (see page 21)

[40] International Monetary Fund Technical Notes and Manuals (2010) 'Role of the Legislature in Budget Processes' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1004.pdf (accessed 19 April 2010)

Table 1: Assessment of alignment of NI budget process with IMF guidance on the role of the legislature.

IMF guide reference	Suggested Good Practice	Comment
Part I. A. Page 3	*The legislature should be provided with an opportunity for a pre-budget review of the government's main budget orientations and proposals for the upcoming fiscal years, especially the next year's annual budget strategy and main aggregates.*	The presentation of a draft budget by the Executive to the Assembly provides an opportunity for this sort of pre-budget review before it is formally presented. However, the decision by the Executive to present a three-year budget for 2008-11 could be seen as undermining the opportunity to debate the next year's annual budget strategy. In some countries, such a debate is the opportunity for the legislature to set binding fiscal targets and/or spending ceilings to which the executive must then adhere.
Part I. B. Page 5	*The government should submit its draft annual budget to parliament 2–4 months in advance of the beginning of the new fiscal year.*	The Executive's review of spending plans for 2010-11 was presented to the Assembly on 12 January 2010 and therefore met this requirement – however, see comments below.
Part I. B. Page 5	*Parliament should be allowed 2–4 months to scrutinize, debate, and propose alternative budgetary policies (within limits of cost), prior to adopting and promulgating the annual budget before the new fiscal year begins.*	When the Minister presented the Executive's Review of Spending Plans for 2010-11 to the Assembly he requested that the Committee for Finance and Personnel report (on behalf of all the statutory committees) by the end of February 2010 – a period of seven weeks for scrutiny. The Assembly does not have the power to propose alternative budgetary policies through its committees. The Main Estimates for the 2010-11 fiscal year will not be presented until June – and it is these through the associated Budget Bill that confer the legal authority for departments to commit resources. Additionally, as these Estimates are presented on a cash basis, it is difficult to read across from them to the Budget documentation. This undermines the ability of the Assembly to scrutinise expenditure plans.
Part I. C. Page	*When parliament does not adopt the*	This recommendation relates to a situation which is

5	*budget for year N+1 by the end of year N, the executive should begin implementing the previous year's budget spending at the rate of 1/12th per month (for some spending, seasonal patterns need to be taken into account). This requires clear rules on what is meant by "on the basis of existing policies" and also on the duration (number of months) for which the previous-year budget is re-enacted automatically.*	institutionalised in the NI budget process whereby the main fiscal estimates are not approved in advance of new the fiscal year. The Assembly therefore must pass a 'vote on account' to prevent departments from running out of resources and provide authority to spend for the first part of the year. The Vote on Account usually allows 45% of the preceding year's total to be carried forward until the Main Estimates are presented to the Assembly in June (see also the following row in this table). The meaning of 'existing services' was given in the introduction to the Vote on Account tabled in the Assembly.
Part I. C. Page 5	*The basis of reversion budgets should be clearly laid out in law.*	Section 59 of the Northern Ireland Act 1998 (c.47) and section 7 of the Government Resources and Accounting Act (Northern Ireland) 2001 provide that - in the absence of a Vote on Account – an official of DFP may authorise an amount not exceeding 75% of the previous fiscal year's appropriation to be released. If there is still no legislative approval from the Assembly by the end of July of the fiscal year in question an official may authorise an amount not exceeding 95% of the previous fiscal year's appropriation.
Part I. D. Page 6	*Specify in law the main reasons for allowing adoption of supplementary budgets*	The financial provisions of the Northern Ireland Act 1998 (Part VI of that Act) do not appear to contain provision for the adoption of supplementary budgets. However, it must be considered that in some respects the Executive's Review of Spending Plans for 2010-11 was essentially a budget supplementary to the Budget 2008-11. (See section 1.3 for comments related to this process.)
Part I. D. Page 6	*Avoid adopting an excessive number of supplementary budgets, by anticipating major policy changes in advance of the annual budget. Regular budget reviews (e.g., mid-year) or periodic comprehensive spending reviews by parliament are helpful.*	See above.

Part II. A. Page 7	*When fiscal sustainability is under threat and/or after fiscal consolidation has begun, adoption of fiscal rules by the legislature can be helpful to support achieving agreed objectives for sustainable medium-term fiscal and debt positions*	Fiscal sustainability is mainly the preserve of the UK Government. Nevertheless, an assessment of the sustainability of certain Executive policies – such as the freezing of the regional rate and deferral of water charges – may have aided the Assembly's scrutiny of the Budget 2008-11, and of the Review of Spending Plans 2010-11.
Part II. A. Page 7	*Incorporate quantitative fiscal rules into law only if the targets are realistic, political commitment is adequate and there are functioning compliance mechanisms for achieving them.*	See above.
Part II. A. Page 7	*The legislature should review and endorse the government's annual debt management action plan (or better, its asset-liability management plan), consistent with agreed medium-term objectives for gross and net debt.*	See above.
Part II. B. Page 8	*Provide to the legislature, in the context of the draft annual budget, a clear set of macro-fiscal assumptions, preferably with inputs, or after review by, an independent body ("fiscal council").*	There is no clear mechanism for the Executive's budget or any assumptions that underlie it to be reviewed by an independent body. (see section 1.3.4) Under the constraints of the block funding mechanism, it is not easy for the Executive to produce fiscal forecasts, nor the assumptions that underpin them. (see section 1.2)
Part II. B. Page 8	*Governments should present to parliament a [medium-term budget framework] (MBTF), covering at least the upcoming three fiscal years. Parliament should either endorse the government's MTBF to guide its consideration of the proposed annual budget, or adopt its own MTBF that*	Fiscal sustainability is mainly the preserve of the UK Government. Nevertheless, an assessment of the sustainability of certain Executive policies – such as the freezing of the regional rate and deferral of water charges – may have aided the Assembly's scrutiny of the Budget 2008-11, and of the Review of Spending Plans 2010-11. A formal endorsement of these policies is not required outside of approving the Budget; there is no mechanism for the Assembly to adopt or propose its own MTBF.

	transparently lays out the aggregates that the legislature agrees to attain in the years beyond the annual budget.	
Part II. C. Page 11	*Regarding* ***the structure of the annual budget appropriations,*** *parliament may wish to adopt a law that provides a "permanent" format of the annual budget, especially if the focus is on transparently presenting the objectives and expected results (performance) of the government's proposed budget policies.*	The format in which the estimates are presented is determined by DFP but follows the format used by the Treasury. There doesn't appear to be a formal mechanism for the Assembly to request a particular format for the presentation of information should it wish to. It is hard to envisage a situation whereby it would be necessary for the Assembly to resort to legislation to require budgetary documents to be provided in one particular format or another. However, if there is a move towards more performance-oriented budgeting in Northern Ireland, it would be important that the Assembly was presented with information that links more clearly between the inputs (i.e. budgetary allocations) and the outcomes (i.e. achievement of performance objectives). (See sections 1.3 and 3.5)
Part II. C. Page 11	*For* ***virement,*** *if parliament is focusing on the results of budget policies, rather than on narrower constituency concerns, it may approve a broad-banding of annual appropriations and impose on the government only a few virement restrictions, for example, no underspending of investment in order to increase salaries. If, on the other hand, parliament chooses to maintain a detailed appropriations structure, good practice would be to delegate to the government the authority to swap spending between line items, especially at the most detailed level (the MoF would regulate this by a decree).*	The rules for swapping appropriations between budget lines (i.e. virement) are determined by the Treasury not by the UK Parliament or the Northern Ireland Assembly. For example, the power to switch capital DEL to resource DEL requires the agreement of the Treasury as do "significant" switches between near-cash and non-cash resource budgets. The Executive allows departments to move resources across spending areas to manage pressures where this is reflective of proactive management decisions (see also section 1.1.3). Switching between departmental allocations is managed through in-year monitoring rounds and given retrospective legislative approval by the Assembly through the Supplementary Estimates at around the same time as the Vote on Account. The Assembly is given an opportunity to debate the outcome of the in-year monitoring rounds (although this appears to be through convention rather than a legal or procedural requirement). These

		could be seen as very much a good practice in terms of transparency and openness.
Part II. C. Page 11	*Concerning an annual budget* ***contingency reserve,*** *parliament may wish to (permanently) approve a reserve amounting to 1–3% of total expenditure, which the executive would spend on genuine unforeseen emergencies. For accountability, parliament should be informed by the government, at regular intervals, of the amount and object of the spending.*	There is no contingency reserve in Northern Ireland although the Minister did suggest in his statement to the Assembly on 12 January 2010 that such a fund might be an option for the Executive to deal with unforeseen events – such as a flu pandemic. He did however note that a contingency provision would not be without problems – amongst these, presumably, would be the criteria for releasing funds.
Part II. C. Page 11	*Regarding the* ***types of appropriations,*** *in a budget system law, parliament can specify that, in annual appropriations acts, the government is provided with authority to spend: (1) at the commitment, accrual, or cash stages of spending; and (2) the few types of annual appropriations (e.g., debt servicing) that can be exceeded without ex ante parliamentary authority.*	Authorisation for the use of resources is provided by the Assembly through the Budget Bill. This is a requirement of section 6 of the Government Resources and Accounts Act (Northern Ireland) 2001 (c.6).
Part II. C. Page 11	***Spending outside appropriation acts.*** *Parliament needs to be informed of annual spending that is excluded from annual appropriations laws. The annually-updated MTBF, which would include spending based on the authority of other laws, is a useful instrument for*	Expenditure outside annual appropriation includes payments of pensions to MPs from the old Northern Ireland Parliament; maintenance of the Thiepval War Memorial; judges salaries; and the costs of the Boundaries Commission, among other things. These expenditures are included in the *Public Income and Expenditure Account* which is produced annually and laid before the Assembly.

	this purpose.	In the year to 31 March 2009 these were £942,000 out of a total expenditure of over £12 billion[41] and therefore are unlikely to be considered significant. The IMF good practice note refer to federal systems also (such as the USA and Australia) where expenditure outside appropriations makes up a large proportion of total spending. There is no MBTF produced by the Executive.
Part II. C. Page 11	***Duration of annual appropriations.*** *While the principle of annuality should be upheld, exceptions can be justified. Parliament should provide the authority for exceptions, notably for carrying-over annual appropriations. Restrictions on carryover are appropriate, especially for current expenditures.*	The rules for carrying over of allocations are determined by the UK Treasury rather than the Assembly and set out in the *Statement of Funding Policy*.
Part II. D. Page 12	*While national choices will dictate the extent to which democratically-elected members of the legislature are restrained from making open-ended spending decisions that impact adversely on fiscal sustainability, the limitation of not changing the executive's proposed fiscal balance gives the legislature capacity to increase total expenditure provided it raises revenues to offset spending.*	The Assembly does not have much discretion over the total level of spending as the majority of funding comes from the block grant from the UK Treasury. Budget Bills and other financial legislation usually progress by accelerated passage and therefore the time for input from the Assembly is constrained. The absence of a Committee Stage, for example, prevents committees from taking evidence from stakeholders as to the proposed allocations. The Assembly does have an express power to amend spending proposals (s.64(2) of the Northern Ireland Act 1998) in the draft budget in terms of reallocating between budget lines but not the overall total spending. In is questionable if the institutional resources (in terms of a Parliamentary Budget Officer or other such resource) for it to be able to suggest increases in spending offset by accompanying tax increases in a suitably informed and robustly costed manner. Note also section 1.2.3.

[41] DFP (2009) 'Public Income and Expenditure Account' see page 8 and Note to the Account 5. on page 13.

Part II. E. Page 13	*Parliament should avoid approving laws that authorize off-budget spending unless there are highly transparent arrangements for recording, monitoring, reporting, and auditing all financial transaction associated with them. Similarly, if parliament must introduce tax expenditures (a second best practice) this should not be outside the normal budget cycle, that is, tax expenditures should be considered alongside regular budget spending.*	Spending that is not authorised through the Main Estimates is partially addressed through the in-year monitoring process (but only if sufficient resources to meet identified pressures are surrendered). The Executive is not responsible for large areas of UK tax expenditures such as tax credits or personal allowances – these are determined nationally. However, the Executive does have competence in relation to domestic rates reliefs for example. It is not clear that there is any current legal or procedural reason why the Assembly is *not* able to introduce these measures in the middle of the budget cycle. Proposals for changes to such allowances are usually considered in Committee and also in plenary -because all financial statutory rules are subject to affirmative-resolution procedure.
Part II. E. Page 13	*Parliament should require the government to provide full and regular reports on all extra-budgetary spending, contingent liabilities, and quasi-fiscal activities.*	It is not clear that the Executive regularly reports on extra-budgetary elements of spend such as off-balance sheet PFI-style projects.
Part II. E. Page 13	*A comprehensive Fiscal Risk Statement and estimates of tax expenditure should be presented to parliament, preferably as part of annual budget documentation.*	Rate relief grants (a form of tax expenditure) were published in the Supplementary Estimates documents (for 2009-10) but it is not clear where other such expenditures such as Lone Pensioner Allowance are presented if there is no change to proposed allocations. The Executive does not provide a statement of fiscal risks: it would probably be useful for the Assembly to be informed of the risks – such as falling rates revenue, for example – over the budget period; there is an opportunity for this to be addressed when the in-year monitoring rounds are debated.
Part II. F. Page 14	*Parliamentary oversight of governments' internal control/audit systems is best communicated via reports of the external auditor. The legislature should limit its direct oversight of internal control and audit*	Oversight is exercised through the Northern Ireland Audit Office and the Assembly's Public Accounts Committee.

	internal in government spending agencies.	
Part II. F. Page 14	*The executive should seek parliamentary input when contemplating major revisions of the government accounting system, for example, moves to accrual-based accounting.*	Decisions on the government accounting system are taken by the UK Treasury, even when they are implemented locally (eg the move to 'whole of government accounts' was introduced by the Assembly through the Government Resources and Accounts Act (Northern Ireland) 2001 (c.6)). There are, however, elements of devolved discretion; the legislative and regulatory framework requires that the Assembly be involved in financial legislation.
Part III. A. Page 15	*Establish a budget committee (or two committees in the case of bicameral legislatures) charged with setting (or endorsing) aggregate spending targets and sectoral allocations. Such a committee can be responsible for scrutinizing the government's proposed ex ante budget, as well as ex post budget execution.*	The Assembly does not have a dedicated budget committee separate from the Committee for Finance and Personnel which seeks to fulfil a dual function in respect of scrutinising DFP's allocations and bids for its own resources and for co-ordinating and reporting on the responses of the other statutory committees in respect of the budget as a whole. All statutory committees have the power to scrutinise budgets ex ante, but the ability to do so effectively is reliant upon regularised process and the provision of adequate information. Ex post execution is scrutinised to some extent by statutory committees and also by the Public Accounts Committee.
Part III. A. Page 15	*The work of sectoral parliamentary committees should be subject to spending ceilings proposed by the budget committee.*	See above.
Part III. A. Page 15	*Provide the budget committee with strong powers and adequate analytical support to enforce budget spending discipline on sectoral committees.*	See above.
Part III. B. Page 16	*The establishment of a parliamentary budget office can be a useful adjunct for analyzing budget policy alternatives,*	The resources available to the Assembly, its Committee and its Members for analysing and costing budget policy alternatives are limited to that available within the Assembly Research Service;

	thereby enhancing parliament's capacity to evaluate the government's proposed budgets and to propose responsible alternatives.	Committees may also engage special advisers; experience is that advisors have generally been appointed for one-off projects rather than in a 'standing' or on-going capacity. So as well as information asymmetry there is a capability asymmetry between the legislature and the Executive (see sections 3.3.3, 3.7 and 3.8).
Part III. C. Page 16	*While parliaments' budget should be prepared independently from that of the executive, parliaments should nonetheless be subject to the same general procedures for executing and reporting on spending of their own budgets.*	The budget for the Assembly Commission is prepared by the Assembly's Finance section and submitted to DFP in the same way as government departments (through Main and Supplementary Estimates). Whilst preparation is therefore clearly independent, it is less clear that the approval process is independent of the Executive – it would appear that the Minister of Finance and Personnel would have responsibility for this process. It may be questioned, however, to what extent departmental officials feel able to challenge the bid submitted by the Assembly Commission in the way that they would challenge a departmental bid. The procedures for financial control and audit are set out in the Northern Ireland Act 1998 and the Government Resources and Accounts Act 2001 and appear to apply equally to the Assembly Commission as to any other body receiving funding from the Northern Ireland Consolidated Fund.
Part III. C. Page 16	*In particular, parliaments should not abuse their powers by increasing parliament's operating and investment expenses so that they become out of line with other national constitutional entities (e.g., expenses of the judiciary, the external auditor).*	There does not appear to be in place at present a system of benchmarking the bid submitted by the Assembly Commission to DFP against those submitted by other entities – whether that be the judiciary, or other parliamentary bodies in other jurisdictions. Finally, there does not appear to be any requirement for the Commission to lay its proposed budget before the Assembly for debate or approval – although proposed allocations are contained within the Executive's budget documentation.
Part IV. A. Page 17	*Parliament should ensure that it is provided with adequate and timely*	The timetable for the provision of budgetary information in the current system is mixed. If in future - as has been done in the

	budget reports for understanding the ex ante budget (especially how the annual budget is contributing to the attainment of medium-term fiscal targets) and for holding the government to account after execution of the annual budget. In this context, it is important that parliament receives final reports or accounts that compare, in identical format, the budget outcome with the ex ante budget as adopted by parliament.	past – the Executive produces a draft budget in the autumn, this will allow some time for the Assembly to consider and debate it. However, the timing of the Executive's budget is contingent upon the timing of a future spending review by the incoming UK Government. There have also been numerous concerns raised by both committees and by other stakeholders in submissions to committees about the consultation undertaken on the recent Review of Spending Plans for 2010-11 and the insufficient information provided by departments. The timing of annual reports may also be an issue of concern given that they are not available at the time when Main Estimates, for example, are produced, so the ability of the Assembly to judge the Estimates (and therefore requests for resources that departments make) in the context of departmental performance. Once again the different accounting basis used raises a further complication.
Part IV. A. Page 17	*Long-term fiscal projections, including the impact of demographic changes, should also be prepared.*	It is not clear from published documentation that the impact of demographic change (and therefore of the inter-generational equity of spending decisions) is assessed in terms of the long-term fiscal future of Northern Ireland. Long-term fiscal projections are not undertaken, nor assessed by independent bodies, although it must be remembered that most macro-economic fiscal policy is the preserve of the UK Government, not the Executive.
Part IV. A. Page 17	*Budget execution and accountability reports by government (agencies) should be provided to parliament. Depending on the type of budget system (e.g., performance-oriented), such obligations can be incorporated into law, possibly a [Fiscal Responsibility Law].*	Government departments and NDPBs lay their annual reports and accounts before the Assembly before 15 November of the year following that to which they relate. If there is to be a move towards more performance-oriented budgeting (see sections 1.3 and 3.5) the timing of this information could be problematic.

Part IV. B. Page 19	*Require ministers and senior civil services to appear before specialist parliamentary committees and/or the budget committee and answer questions pertaining to ex ante budget and ex post budget execution and accounts.*	It is established practice that both Executive Ministers and senior officials provide briefings to Assembly Committees, although there have been problems identified with the timely provision of information and the responsiveness of some departments in terms of postponement of evidence for hearings. 1.5.iii of the Ministerial Code requires that Ministers ensure that all reasonable requests for information from the Assembly, users of services and individual citizens are complied with.
Part IV. B. Page 19	*Parliament's internal regulations should specify the rules applicable for hearings and questioning.*	The Assembly's Standing Orders do not provide rules for hearings and questioning.
Part V. A. Page 20	*Include budget principles and procedures in budget system laws, especially when needed to implement constitutional requirements.*	The law relating to the NI Budget Process is contained with the Northern Ireland Act 1998 and the Government Resources and Accounts Act (Northern Ireland) 2001 (c.6).
Part V. A. Page 20	*Avoid overloading laws, including the constitution, with detailed budget rules, delegating details to the executive's regulations.*	If anything, it may be possible to argue that laws relating to the Northern Ireland budget process are *underloaded* as opposed to overloaded. The IMF guidance asserts that budget system rules are useful when they lay out principles but are not overloaded with details.
Part V. B. Page 20	*Formalize the legislature's internal rules for organizational arrangements for budget approval and review.*	DFP announced it would be reviewing the budget process in 2008. The progress of this review is due to be reported to CFP on 12 May 2010. In many ways it does not make sense for the Assembly to formalise its internal procedures in advance of agreement on the future process. Agreement on these issues, if accepted and taken forward, would form part of the formalisation process.
Part V. B. Page 20	*Avoid using such regulations as substitutes for general budget procedures and restrictions that should be in law, not internal parliamentary regulations.*	See above.

2.2 Fiscal transparency

2.2.1 What is 'Fiscal Policy'?

Fiscal policy is the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economy. It is the sister strategy to monetary policy with which a central bank influences a nation's money supply. These two policies are used in various combinations in an effort to direct a country's economic goals.[42]

A helpful definition of fiscal policy is:

> *When the government decides on the goods and services it purchases, the transfer payments it distributes, or the taxes it collects, it is engaging in fiscal policy. The primary economic impact of any change in the government budget is felt by particular groups—a tax cut for families with children, for example, raises their disposable income. Discussions of fiscal policy, however, generally focus on the effect of changes in the government budget on the overall economy.*[43]

It can readily be seen from this definition that the Northern Ireland Executive does not have at its disposal the full range of fiscal tools: it can decide on what it buys and what it spends, but to a large degree it does not control taxation.

2.2.2 What is 'fiscal transparency'?

The Organisation for Economic Co-operation and Development (OECD) defines fiscal transparency as:

> *Openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections.*
>
> *It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities so that the electorate and financial markets can accurately assess the government's financial position and the true costs and benefits of government activities, including their present and future economic and social implications.*[44]

In essence, the concept is that governments should be open about their financial affairs. This means that the public should have full access to information about budgets, policies, performance and governance arrangements.

Fiscal transparency as an aim has developed over centuries from when societies became more active in the utilisation of public money and concerned about the financial accountability of monarchs. Two distinct trends have been identified: a desire to make public officials accountable for their actions, and; the concerns of financial markets and

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[42] Reem Heakal 'What is Fiscal Policy?' http://www.investopedia.com/articles/04/051904.asp?viewed=1 (accessed 8 April 2010)

[43] Weil D N 'Fiscal Policy' The Concise Encyclopedia of Economics, 2nd Edition (2008) available online at: http://www.econlib.org/library/Enc/FiscalPolicy.html (accessed 8 April 2010)

[44] OECD Glossary of Statistical Terms (2007) available online at: http://stats.oecd.org/glossary/detail.asp?ID=7294 (accessed 16 March 2010)

the desire of investors to put their money into the instruments through which governments borrow.[45]

2.2.3 Why pursue it?

The objectives of achieving fiscal transparency can be classified in three groups:

> *<u>1. Stewardship of resources</u>*
> *Governments should provide data on the state of finances, for the past, present and future so that the community can make its own assessment about the viability of the policy stance, including the preventative actions taken or contemplated to reduce or avoid financial market failures. This requires that the information be comprehensive, including all activities, as well as contingent liabilities, on a consistent basis. The data must comply with specified standards.*
>
> *<u>2. Adequacy of the fiscal machinery</u>*
> *Information is needed on the various aspects of tax administration, expenditure management, lending and borrowing operations, sales and purchase operations, and management of the financial portfolio. Efforts in this regard are aimed, in part, to restore the credibility of the public management systems and to assure the community of the continuing effective functioning of the fiscal machinery. As an integral part of this effort, attention paid to ensuring the due process, prevention of opportunities for corruption, and the smooth working of the accountability channels associated with legislative or other forms of social action is revealed to the public.*
>
> *<u>3. Decision-making approaches</u>*
> *There should be a window of opportunity for the community to be informed about the decision-making approaches behind the fiscal policies sought to be pursued. The window should enable an understanding, even as decisions are made (and not after they have been made) on the main components of fiscal policy – pursuit of macroeconomic stability, effective performance in the delivery of services, and pursuit of economy and efficiency.* [46]

Another way of looking at fiscal transparency, however, is from a broader perspective: "fiscal transparency is to be valued for intrinsic reasons, connected to legitimacy". In other words, it is an aim to be pursued simply because it is, of itself, a 'good thing'. It may also have value "on the instrumental grounds that it is capable of stimulating improved government performance."[47]

At what may be a more tangible level, there have also been attempts to link the concept of fiscal transparency with economic outcomes. A lack of transparency, for example, was found to have been a "partial contributor to financial crises in Asia and Mexico."[48]

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[45] Premchand, A. (2008) 'Fiscal Transparency' <u>Encyclopedia of Public Administration and Public Policy,</u> 2nd Edition 788-795

[46] Premchand, A. (2008) 'Fiscal Transparency' <u>Encyclopedia of Public Administration and Public Policy,</u> 2nd Edition 788-795 (see page 789)

[47] Heald, D 'Fiscal Transparency and UK Practice' (2003) available online at: http://www.davidheald.com/publications/ftheald.pdf (see page 755) (accessed 18 March 2010)

[48] Hameed, F IMF Working Paper WP/05/225 'Fiscal Transparency and Economic Outcomes' (2005) available online at: http://imf.org/external/pubs/ft/wp/2005/wp05225.pdf (see page 4) (accessed 18 March 2010)

It has also been found that in terms of fiscal discipline (such as the likelihood of running into large deficits, for instance) the better-performing countries generally are those that follow more transparent fiscal practices.[49]

It has been found that certain practices - such as overly optimistic macroeconomic and fiscal assumptions; off-budget activities; and shifting expenditures to future years in multi-year budgets, for instance – can reduce transparency.[50]

Further, it has also been suggested that transparency can affect economic outcomes through **financial markets**. The argument is that financial markets will demand a lower premium from governments that are open about their fiscal position and risks. In other words, markets will be more confident about a fiscally transparent government's ability to service its debts.[51]

There is some empirical evidence for this. For example, it has been demonstrated that 'sovereign spreads' decline after governments adopt transparency-related reforms – such as the publication of IMF country surveillance reports. A sovereign spread is defined as representing:

> *The difference between bond yields issued on international markets by the country in question versus those offered by governments with AAA ratings.*[52]

Also, emerging market equity funds hold fewer assets in less transparent countries, while borrowing costs are lower for those countries that adopt transparency-related reforms.[53] High levels of non-transparency can also be harmful to the flow of Foreign Direct Investment (FDI).[54]

Essentially, the argument is that "more fiscally transparent countries have higher creditability in the markets."[55]

In addition, studies have also shown that a country's **debt** is negatively related to fiscal transparency in OECD countries.[56] To put this another way, higher levels of transparency are associated with lower levels of debt – although it should perhaps be

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[49] Kopits, G and Craig, J (1998) 'Transparency in Government Operations' IMF Occasional Paper, no 158
[50] Alesina, A and Peroti, R (1996) 'Budget Deficits and Budget Institutions' IMF Working Paper 96/52
[51] Kopits, G and Craig, J (1998) 'Transparency in Government Operations' IMF Occasional Paper, no 158
[52] Definition from http://www.vernimmen.com/html/glossary/definition_sovereign_spread.html (accessed 18 March 2010)
[53] Glennerster, R and Shin, Y (2003) 'Is Transparency Good for You and Can the IMF Help?' IMF Working Paper 03/132 available online at: http://www.imf.org/external/pubs/ft/wp/2003/wp03132.pdf (accessed 18 March 2010)
[54] Drabek, Z and Payne, W (2001) 'The Impact of Transparency on Foreign Direct Investment' Staff Working Paper ERAD-99-02 available online at: http://www.wto.org/english/res_e/reser_e/erad-99-02.doc (accessed 18 March 2010)
[55] Hameed, F IMF Working Paper WP/05/225 'Fiscal Transparency and Economic Outcomes' (2005) available online at: http://imf.org/external/pubs/ft/wp/2005/wp05225.pdf (see page 7) (accessed 18 March 2010)
[56] Hameed, F IMF Working Paper WP/05/225 'Fiscal Transparency and Economic Outcomes' (2005) available online at: http://imf.org/external/pubs/ft/wp/2005/wp05225.pdf (see page 7) (accessed 18 March 2010)

noted that a study conducted now may not find the same thing: the UK deficit is now very high (over £160bn in April 2010) and yet (as described below in section 2.2.5) the country scores well on fiscal transparency.

Two opposing views of the merits and impact of transparency on the **effectiveness** of public programmes have been identified. A pessimistic position is that effectiveness may be moderately high when there is no transparency. Initially, increasing transparency will bring gains in effectiveness. But beyond a certain point, further increases in transparency actually reduce effectiveness. This optimal point will be determined by a relationship between the advantages of transparency increasing accountability, traded off against the disadvantages of transparency – namely the amount of institutional effort (and therefore staff time, transaction costs and the politicisation of possibly routine technical matters) that has to be put into the process of preparing, publishing, explaining and perhaps defending reports on budgetary and financial information.

A more optimistic view considers effectiveness to be lower at zero transparency, and holds that the gains from increasing transparency last for much longer and the optimal point is at a higher level of transparency than in the pessimistic view.[57]

There does not seem to be a conclusive view on what the optimal level of transparency will be for a given country; there are a number of other variables that have been shown to have an impact on fiscal performance – such as the electoral system and the degree of political fragmentation, the degree of centralisation of budgetary institutions, and budgetary procedures.[58]

What this debate does highlight, however, is that there is a need to strike a balance between too little and too much transparency. With this in mind, the following section looks at how the UK performs in terms of fiscal transparency.

2.2.4 The International Monetary Fund Code of Good Practices on Fiscal Transparency

he International Monetary Fund (IMF) publishes a *Code of Good Practices on Fiscal Transparency*. The most recent (2007) version is attached as Appendix 1. The Code was developed in response to the financial crises of the 1990s. It calls for transparency of the public sector as a whole: **both central and sub-national governments should be transparent**. The principles are designed to apply both to developing and developed countries.[59]

The four general principles of the Code are:

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[57] Heald, D 'Fiscal Transparency and UK Practice' (2003) available online at: http://www.davidheald.com/publications/ftheald.pdf (see page 726) (accessed 18 March 2010)

[58] Stein, E et al 'Institutional Arrangements and Fiscal Performance: the Latin American Experience' (1998) available online at: http://www.iadb.org/res/publications/pubfiles/pubWP-367.pdf (accessed 19 March 2010)

[59] See the International Budget Partnership's Open Budget Initiative webpage on the IMF Code at: http://www.openbudgetindex.org/cms/index.cfm?fa=view&id=2484&hd=1 (accessed 16 March 2010)

• ***Clarity of roles and responsibilities****. There should be a clear distinction between government and commercial activities, and there should be a clear legal and institutional framework governing fiscal administration and relations with the private sector. Policy and management roles within the public sector should be clear and publicly disclosed.*

• ***Open budget processes****. Budget information should be presented in a way that facilitates policy analysis and promotes accountability. Budget documentation should specify fiscal policy objectives, the macroeconomic assumptions used in formulating the budget, and identifiable major fiscal risks. Procedures for collecting revenue and for monitoring approved expenditures should be clearly specified.*

• ***Public availability of information****. The public should be provided with complete information on the past, current, and projected fiscal activity of government and on major fiscal risks. This should be readily accessible. Countries should commit to the timely publication of fiscal information.*

• ***Assurances of integrity****. Fiscal data and practices should meet accepted quality standards and should be subjected to independent scrutiny.*[60]

Alongside the Code, the IMF publishes a *Manual on Fiscal Transparency* which contains detailed guidance on good practices in fiscal transparency along with illustrative examples.[61] This is provided to assist with the practical implementation of the Code.

Fiscal transparency is measured by member countries undertaking an assessment called the *Report on the Observance of Standards or Codes (ROSC).*[62] This documents a country's current practices and establishes country-specific priorities for improving fiscal transparency.

As of March 2010, 92 countries (including the United Kingdom which undertook the exercise in 1999) from all regions and levels of economic development had posted their fiscal transparency ROSCs on the IMF's *Standards and Codes* web page.[63]

The ROSCs set out how governments meet the requirements of the Code against the four general principles. This is supplemented by an IMF staff commentary and suggestions for how transparency could be enhanced. In the UK's case the IMF staff commented that "the United Kingdom has achieved a very high level of fiscal transparency. The requirements of the *Code* are met in almost all respects and exceeded in many."[64]

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[60] IMF Factsheet: How Does the IMF Encourage Greater Fiscal Transparency? (2010) available online at: http://www.imf.org/external/np/exr/facts/fiscal.htm (accessed 16 March 2010)
[61] IMF Manual on Fiscal Transparency (2007) available online at: http://www.imf.org/external/np/fad/trans/manual/index.htm (accessed 16 March 2010)
[62] See http://www.imf.org/external/np/rosc/rosc.asp (accessed 16 March 2010)
[63] See http://www.imf.org/external/np/rosc/rosc.asp (accessed 16 March 2010)
[64] IMF EXPERIMENTAL REPORT ON TRANSPARENCY PRACTICES: United Kingdom (1999) available online at: http://www.imf.org/external/np/rosc/gbr/index.htm#III (accessed 16 March 2010)

2.2.5 The Open Budget Initiative – how does the UK compare internationally?

Another international accountability programme – the Open Budget Initiative – is a global research and advocacy programme to promote public access to budget information and the adoption of accountable budget systems. The Initiative gives rankings to countries based on Open Budget Questionnaires that determine, among other things, the public availability of budgeting information, the executive's budget proposal and the budget process itself.[65]

The questionnaire evaluates publicly available information issued by the central government but does not address the availability of information at the sub-national level. The majority of the questions ask about what occurs in practice, rather than about the requirements that may exist in law and are based on similar criteria to those developed in the IMF Code.

The Open Budget Index assigns each country a score based on the average of the responses to 91 questions related to public availability of information on the Open Budget Questionnaire. This process is subjected to a process of independent peer review (and cross-checked against other indices of governance and transparency such as World Bank's World Governance
Indicator on Voice & Accountability, the Global Integrity Index produced by Global Integrity, and the Democracy Index produced by Freedom House) and the subject governments are given an opportunity to comment on the final rankings.

The 2008 rankings found that the United Kingdom came top with a score of 88. It was one of only six countries scoring 80 or more – the others being South Africa, France, New Zealand, the United States and Norway.[66]

2.2.6 How meaningful are these measures?

According to some commentators, such as the Institute for Fiscal Studies and the *Financial Times*, there is more to fiscal transparency than these kind of international measures assess: "it should always be borne in mind that formal good practice (for example excellent technical budgetary documents) may be undermined by informal bad practice (for example, manipulative media management)."[67]

Indeed, one of the problems that has been identified with public expenditure data in the UK is not their availability but rather the complexity of those data and specific omissions. For example, the UK Treasury publishes annual *Public Expenditure: Statistical Analyses (PESA).*[68] But the usefulness of these "is reduced because of frequent changes in public expenditure definitions" which means that it is difficult to compare expenditures

[65] See Open Budget Initiative Methodology, available online at: http://www.openbudgetindex.org/index.cfm?fa=methodology (accessed 16 March 2010)
[66] Open Budget Index 2008 Rankings available online at: http://openbudgetindex.org/files/Rankings2008-Revised.pdf (accessed 16 March 2010)
[67] Heald, D 'Fiscal Transparency and UK Practice' (2003) available online at: http://www.davidheald.com/publications/ftheald.pdf (see page 732) (accessed 18 March 2010)
[68] Available online from the Treasury website at: http://www.hm-treasury.gov.uk/pespub_index.htm

over time.[69] Therefore, even the most informed commentators have difficulties interpreting public expenditure data.[70]

This problem highlights a need for the Assembly to have access to resources to support its budget scrutiny role.

So, while at the national level the UK scores well on transparency, there are also practices that undermine and confuse the position. Examples are: concerns about the off-balance sheet build-up of liabilities under PFI contracts; multiple announcements of the same increases in public expenditure (double or triple counting); and, the potential for evasion of the control of public expenditure through mechanisms such as the establishment of arms-length companies.[71]

2.2.7 What does this mean for the transparency of the budget process in Northern Ireland?

The short answer to this, perhaps, is not a lot. Whilst the UK has performed well against these transparency standards, that is at the **national level** as discussed above. Also, as seen, the usefulness of these rankings is somewhat open to question.

In any case, the UK is highly centralised in respect of fiscal policy and control. Aside from the unused Scottish Variable Rate (SVR or 'Tartan Tax') the devolved administrations have little scope for raising their own revenue. Accompanying the lack of tax-varying powers is an absence of borrowing powers.

If the Northern Ireland Executive had greater (i.e. over and above what it can do through the regional rate) revenue-raising powers, it would also be likely to need the ability to borrow (in addition to what it can already borrow under the RRI[72]). This would probably be necessary to smooth out fluctuations in tax revenues over the economic cycle.

If the Executive were to make a case for tax-varying powers (for instance to enable a lower rate of corporation tax in Northern Ireland), it would therefore probably also need to make a case for borrowing powers. In this instance, the impact of fiscal transparency on financial markets would perhaps become significant – although this would depend on what powers to borrow the Executive were granted. In other words, would it need to source finance from international markets, or would it be able (or perhaps be required) to rely on borrowing from the UK Treasury?

For the purposes of this paper, there are too many unknown variables for that discussion to be taken much further.

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[69] Heald, D 'Fiscal Transparency and UK Practice' (2003) available online at: http://www.davidheald.com/publications/ftheald.pdf (see page 735) (accessed 18 March 2010)

[70] Wren-Lewis, S 'Avoiding Fiscal Fudge' (1996) *New Economy*, 3, 128-32

[71] Heald, D 'Fiscal Transparency and UK Practice' (2003) available online at: http://www.davidheald.com/publications/ftheald.pdf (see page 735) (accessed 18 March 2010)

[72] The Reinvestment and Reform Initiative allows the Executive to borrow for the purposes of capital investment, much in the same way as a local authority in Great Britain may borrow – subject to a 'prudential regime' and in accordance with a Code established by the Chartered Institute for Public Finance and Accountancy (CIPFA). This is subject to a reserve power of the UK Treasury which may impose a borrowing ceiling through subordinate legislation.

There are, however, some points of concern with the current system that can usefully be raised in the context of reforming the Northern Ireland budget process.

2.2.8 The transparency of the block funding mechanism

First and foremost – even given debate over international measures of fiscal transparency – the level of transparency is greatly reduced when moving from the UK to the devolved level. The UK Treasury itself, somewhat paradoxically, notes the need for transparency:

> *funding arrangements [for the devolved administrations] are the subject of detailed scrutiny by the elected Members and those whom they represent. It is important, therefore, that the way in which the budget of each of the devolved administrations is determined should be clear, unambiguous and capable of examination and analysis by the devolved Parliament and Assemblies and the United Kingdom Parliament.*[73]

But, the system of funding the devolved administrations through block grants altered at the margins through the Barnett Formula has been widely criticised for its obscurity. For example, in a recent report the House of Commons Justice Committee:

> *recommended that the Government should publish detailed factual information on how the formula works, including the criteria for whether certain funding decisions in relation to spending in England trigger consequential changes to the block grants of the devolved administrations.*[74]

Similar conclusions were reached by the House of Lords Select Committee on the Barnett Formula, which recommended that:

> *the Treasury should publish its statistics on the workings of the Barnett Formula - and its successor. This publication should include "all material data on devolved finance, showing the allocations of grant to the devolved administrations, changes from previous years and explanations for any changes made."*[75]

Further, the Independent Commission on Funding and Finance for Wales (the Holtham Commission) recommended:

> *that the UK Government should annually publish data to allow direct comparisons between Welsh Assembly Government expenditure on areas covered by the Barnett Formula and similar expenditure in England. Such a document should also*

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[73] HM Treasury (2007) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy' available online at: http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf (accessed 19 April 2010) (see page 3)

[74] Northern Ireland Assembly Research Service Briefing Note 75/09 'The Northern Ireland Block Grant and Calls to Reform the Barnett Formula' (2009) available online at: http://www.niassembly.gov.uk/researchandlibrary/2009/7509.pdf (see page 2) (accessed 19 March 2010)

[75] Northern Ireland Assembly Research Service Briefing Note 75/09 'The Northern Ireland Block Grant and Calls to Reform the Barnett Formula' (2009) available online at: http://www.niassembly.gov.uk/researchandlibrary/2009/7509.pdf (see page 3) (accessed 19 March 2010)

detail changes to the devolved budget arising from policy, transfer and classification changes – currently this information is difficult to find.[76]

The mechanism for funding the devolved administrations is currently outside their control. Any changes will have to be undertaken through a series of negotiations with the UK Government and the other devolved administrations.

It is important to note that there is a momentum behind calls for the block-funding system to be reformed. For the purposes of this paper, it is perhaps sufficient to note these arguments for increased transparency to inform debate over whatever new system (or modification of the current system) emerges. This would not only increase understanding of the constraints upon the Northern Ireland Executive's spending allocation for a given period, but it would also potentially increase the ability of Assembly and its Committees to hold the Executive to account.

More detailed discussion of the role of the legislature in the budget process is above in section 2.1.

2.2.9 Principles of the IMF Code of Good Practices of relevance to Northern Ireland

As noted above, the UK is highly centralised in respect of fiscal policy and budgeting. From that perspective, the entirety of the IMF *Code of Good Practices on Fiscal Transparency* is not strictly relevant to Northern Ireland or the other devolved administrations: parts of the Code address laws and regulations relating to the collection of tax revenues, for example.

Having said that, there are elements of the Code which – if it is accepted that fiscal transparency *is* indeed a reasonable objective to pursue – are worthy of some consideration. Table 2 below draws together some areas of potential concern to Northern Ireland Assembly Members.

[76] Northern Ireland Assembly Research Service Briefing Note 75/09 'The Northern Ireland Block Grant and Calls to Reform the Barnett Formula' (2009) available online at: http://www.niassembly.gov.uk/researchandlibrary/2009/7509.pdf (see page 5) (accessed 19 March 2010)

Table 2: Assessment of alignment of NI budget process with IMF Code on Fiscal transparency

IMF Code Reference	Requirement	Comment
1.1.3	*The responsibilities of different levels of government, and the relationships between them, should be clearly specified.*	While it is clear from devolution statutes which political body (i.e. UK Parliament or NI Assembly) is responsible for what policy areas – i.e. those which are devolved and those which are not – it is not always entirely clear that the funding relationships are specified. The workings of the UK Treasury 'comparability factor' in determining Barnett consequentials are not always plainly transparent. It follows, therefore, that the relationship between a funding allocation to a UK Government department and any consequential change to the NI Block Grant is also not totally transparent.
2.1.1	*A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.*	The criticisms levelled by seven of the eleven statutory committees in relation to the recent review of spending plans suggest that the requirement for adequate time for consideration by the legislature was not met (see section 1.3.1 of this paper). Complaints from certain stakeholders about the consultation process over the review of spending plans are also relevant (see section 1.3.2 of this paper).
2.1.3	*A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.*	Literature on methods of budgeting and practice in some countries points to a need to link spending with intended outcomes. Some attempt to reconcile budgeting decisions with policy objectives was made in the departmental publications on the Executive's Revised Spending Plans 2010-11: some considered progress against Public Service Agreements. An explicit link between overall allocations and individual programmes is absent; it would be easier to

		understand the departments' intentions if the allocations were broken down and linked to the relevant policy objectives. The quality and detail of the information provided by departments varied from fairly detailed (DARD) to absent (DHSSPS) and in the majority of cases were inadequate for an informed view on the proposals to be formed. (see section 1.3.3)
2.1.4	*The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.*	There is no explicit assessment of fiscal sustainability in the 2008-11 Budget, nor the Review of Spending plans, although some issues – such as a gradual reduction in the public subsidy Northern Ireland Water and the trend of public-spending increases - are considered. It should also be remembered that, as the Executive does not have control over a full range of fiscal powers, a statement on fiscal sustainability of the UK Treasury's fiscal policies may not be meaningful.
2.2.2	*A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.*	The requirement to present a midyear report on budget developments may be rendered less significant to Northern Ireland, because of the absence of total fiscal control. Having said that, it may be that the current system of monitoring rounds fulfils this requirement to some extent in any case as these address spending pressures, reallocations and accounting changes.
2.2.3	*Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.*	The monitoring rounds present *de facto* changes in expenditure as a result of internal reallocations within departments. The outcomes of monitoring rounds are the subject of Ministerial Statements and questions in plenary of the Assembly; Statutory Committees may receive briefing from officials in their corresponding departments.
3.1.1	*The budget documentation, including the final accounts, and other published fiscal reports should cover all*	It is uncertain in the instance of the recent review of Spending Plans whether the Executive could claim to have met this criterion. A central document was published but it was left to

	budgetary and extrabudgetary activities of the central government.	individual departments to publish their own supplementary material. These were not published at the same time and not at all in relation to DHSSPS.
3.1.2	*Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.*	The Northern Ireland Estimates 2009-10 present annual spending provisions for each department alongside the provision for 2008-09 and the outturn for 2007-08. This is also provided against each budget line. However it has been noted that because of frequent changes to public expenditure definitions, it is difficult to reliably compare time series data (see section 2.2.6). A further difficulty is that the outturn from the preceding year is not available at the time the Estimates are published. No forecasts are presented in the Estimates documentation.
3.1.3	*Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.*	In the Northern Ireland context, assessment of fiscal risk might be constrained to only anticipated changes in the level of the block grant. As the DEL total is assigned by the Treasury through spending reviews at the UK level it is arguable that statements on the fiscal significance of central government expenditures are not necessarily required of the NI Executive. However, an assessment of the relative significance of public expenditure in Northern Ireland in terms of revenue might be helpful (see 3.1.6 below).
3.1.6	*The budget documentation should report the fiscal position of sub-national governments and the finances of public corporations.*	This requirement is not directly applicable to Northern Ireland. However it is worth noting that the UK Treasury does publish data on identifiable expenditure and the devolved administrations spending as an index in the PESA. However, this does not report on revenue generated in each region or country.
3.2.2	*Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with*	Budget documentation is presented on a resource basis but the absence of significant revenue information beyond what is collected from the regional rate may be a barrier to

	expenditure classified by economic, functional, and administrative category.	transparency. Some attempt to put the budget into a UK context by reporting the outcomes of previous Spending Reviews is made. It should be noted though that some other financial documentation (such as that in support of the Vote on Account) is presented in terms of net resources and net cash requirements.
3.2.4	*Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.*	The Executive published a Programme for Government Delivery Report which does not link PSA targets to individual government departments. Whilst this approach may be designed to promote the concept of joined-up government, information on the lead department for each PSA target would be useful in enabling read across from the Delivery Report to the PFG and the Budget. In any case it is debatable whether all the PFG targets are meaningful in terms of results achieved against objectives. It would probably be helpful in terms of transparency if departments produced disaggregated requests for resources which showed clearly where the intended resources are intended to go.
3.3.1	*The timely publication of fiscal information should be a legal obligation of the government.*	Section 64 of the NI Act 1998 requires the Executive to publish its budget before the beginning of a financial year (i.e. not after the event); the Estimates, however, are not generally produced until June of the financial year to which they relate.
3.3.2	*Advance release calendars for fiscal information should be announced and adhered to.*	The next UK Treasury Comprehensive Spending Review was due in the summer of 2009 but on 14 July 2009 the UK Chancellor stated that this would not go ahead.[77] Consequently there is a gap in the fiscal information available both at the UK and at the devolved level. Presumably a Spending Review (Comprehensive or otherwise) will be held

[77] Official Report, House of Commons, 14 July 2009 available online at: http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090714/debtext/90714-0002.htm (accessed 27 April 2010) (see column 145)

		after the UK general election. The postponement of reviews for what may be seen as political purposes seems to run counter to the spirit of open budgeting and fiscal transparency.
4.3.4	*Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.*	There is, as a general rule, no independent verification or external scrutiny of the Executive's budget proposals or financial information. The 2008-11 Budget document, for example, asserts that further increases in revenue could not reasonably come from increases to the regional rate. Independent analysis of this assertion would also have aided transparency. (see section 1.3.4).

3. INTERNATIONAL BUDGET PRACTICES AND REFORM PROGRAMMES

3.1 UK Treasury Alignment (Clear Line of Sight) Reforms

It has been highlighted a number of times in this paper that there are different streams of information with regard to public finance (i.e. the budget, Estimates and departmental accounts) in the UK and that these are prepared using different accounting bases. The current system is a relic of the Bill of Rights 1689[78] and, consequentially, modern concepts of openness and transparency are ill-fitted to it.

The UK Government has embarked upon a reform process called the Alignment (Clear Line of Site) Project. This is intended to:

> *simplify the Government's financial reporting to Parliament, ensuring that it reports in a more consistent, transparent and straightforward fashion at all three stages in the process – on plans, Estimates and expenditure outcomes.*[79]

The advantages of the system which the project will introduce have been described as "significant" and are defined as:

- *A simpler system, with a single set of numbers, which is more transparent, more comprehensible and easier to use, and which improves public debate and understanding through enhanced scrutiny of government spending.*
- *Better government through improved democratic involvement for, and accountability to, Parliament and the public.*
- *A significantly enhanced ability by government to maintain firm control over public spending, while not altering the way the fiscal rules are defined.*
- *Building into the system the right incentives to deliver better value for money.*
- *A more coherent presentation of financial reporting documents that meets the needs of government and Parliament, is consistent with best practice in the private sector and does not create complexity elsewhere.*
- *A rationalisation of the number of occasions each year on which Government presents financial reporting documents to Parliament, resulting in greater coherence and comprehensibility in the Government's reporting to Parliament.*
- *A financial regime which is burden-reducing for departments and promotes greater administrative efficiency, thereby enabling departments to focus on making substantive improvements to the value for money of their spending.*[80]

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[78] See http://www.statutelaw.gov.uk/content.aspx?activeTextDocId=1518621

[79] HM Treasury Command Paper 7567 (2009) 'The Alignment (Clear Line of Sight) Project' available online at: http://www.official-documents.gov.uk/document/cm75/7567/7567.pdf (accessed 27 April 2010) (see page 3)

[80] HM Treasury Command Paper 7567 (2009) 'The Alignment (Clear Line of Sight) Project' available online at: http://www.official-documents.gov.uk/document/cm75/7567/7567.pdf (accessed 27 April 2010) (see page 4)

In essence, the project aims to simplify the management and reporting of public expenditure and improve the way that Whitehall works.

The reforms will address a number of the concerns raised throughout this paper in relation to the Northern Ireland process: the difficulty of reconciling data across different publications and legislative measures; increasing parliamentary control of expenditures that are currently outside the estimates; confusing accounting concepts such as “non-cash” and “near-cash” will be removed, and; the Estimates will be expanded to cover not only central government bodies but also non-departmental public bodies (NDPBs).

3.2 The alignment of financial information in the Republic of Ireland

The principles of Government accounting are mainly derived from the Constitution, and from the institutional and financial relationships between parliament and the executive which have been developed over the years. In many respects the system in Ireland is now rather like the one the UK hopes to have through the Clear Line of Sight project. Historically, the Republic of Ireland used the same system as the UK.

The system now used, while it still has many similarities, is more sophisticated in terms of aligning requests for resources with performance.
When the Select Committee on Finance and the Public Service considers Estimates for the Finance and Taoiseach Vote groups it also considers the Annual Output Statements (AOS) at the same time.[81] The annual Estimates for other Departments and Offices, with their associated Annual Output Statements, are considered by other Dáil Select Committees as appropriate.

A template for the format of the AOS is provided as Appendix 2. It can be seen that there is a clear attempt to link budgetary allocations with the objectives for each department or group of departments’ programmes. An important feature of these is that they have to include all the bodies under the aegis of the department.

3.3 The role of committees in the Australian budget process

The Standing Orders of the Australian Parliament specifically refer the annual and additional estimates of the Executive to the legislative and general purpose standing committees for examination and report.[82] The formal hearings on the estimates are the opportunity for the Senate and the public to be informed of a government’s expenditure and planned expenditure. As such the meetings are required to be in public session.

In the period from 12 February to 31 December 2008 each committee of the Senate held number of estimates hearings - from a minimum of eight hearings to a total of 24 hearings by the Rural and Regional Affairs and Transport Committee. Over the course of those hearings the committees called an average of 550 witnesses on the estimates, compared to an average of 112 witnesses for their work on legislation.[83]

[81] Department of Finance (2008) ‘Public Finance Procedures’ available online at: http://www.finance.gov.ie/documents/publications/guidelines/pfpdec2008.pdf (accessed 28 April 2010) (see paragraph A3.2.7)
[82] Australian Senate (2009) ‘Standing Orders and Other Orders of the Senate’ available online at: http://www.aph.gov.au/senate/pubs/standing_orders/standingorders.pdf (accessed 20 April 2010) (see Standing Order 26)
[83] McDonald C (2008) ‘Profile of Committees of the Australian Parliament Undertaking Budget Review’ available online at http://www.oecd.org/dataoecd/52/27/42466703.pdf (accessed 20 April 2010) (see Table 1 on page 5)

The scrutiny of the estimates is seen as "an important part of the Senate's calendar and a key element of the Senate's role as a check on government."[84]

3.3.1 Documentation provided to the legislature

Australian government departments table explanations of the estimates called *Portfolio Budget Statements* (PBS) which are provided to assist with scrutiny of the details.[85] The PBS covers not only the relevant government department but also associated agencies.

The PBS directly links the budgeted resources to a specified outcome and within that breaks down the specific programmes to which resources are allocated. The figures for allocations for the year in question (year 0) are presented alongside the **revised** budget for year -1 as well as plans for years +1, +2 and +3.

Beneath each budgeted programme, there are sections on programme deliverables and programme key performance indicators.

3.3.2 Conduct of hearings

Estimates hearings are held three times each year:

> *for four to five days in May to consider the Budget and the main appropriation bills with a supplementary round of two to three days of hearings in October; and for two to three days in February to consider the additional appropriations. The committees are free to set additional times for estimates hearings if they so choose. Any such additional hearings would have to occur before the time set by the Senate for the committees to report. The Senate does not meet on days when main estimates hearings are taking place.*
>
> *The hearings are conducted in Parliament House with the responsible minister or their Senate ministerial representative and officials in attendance. Although it is desirable that a minister be present at the hearings, it is not required by the Standing Orders. In practice, ministers always appear. All government departments and agencies, including bodies established by statute and companies in which the government has a share-holding, may be called to give evidence. Non-government bodies in receipt of public funds have also appeared.*
>
> *The committee proceeds by calling on items of proposed expenditure usually by reference to the programs and subprograms for which funding is described in the PBS. Senators then seek explanations from ministers and officers. The evidence is heard in public and the committees are not empowered to receive confidential information or material in the absence of a specific resolution of the Senate.*
>
> *The only substantive rule of the Senate relating to the scope of questions is that questions must be relevant to the matters referred to the committees, namely*

[84] McDonald C (2008) 'Profile of Committees of the Australian Parliament Undertaking Budget Review' available online at http://www.oecd.org/dataoecd/52/27/42466703.pdf (accessed 20 April 2010) (see page 6)

[85] See, for example, the Australian Treasury's PBS, available online at: http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1539 (accessed 20 April 2010)

the estimates of expenditure. Any questions going to the operations or financial positions of departments or agencies are relevant questions. A Senator's right to seek such explanations is supported by resolutions of the Senate which recognises that as the estimates represent departments' and agencies' claims on the Commonwealth for funds, any questions going to the operations or financial positions of the departments and agencies which shape those claims are relevant. Annual reports are statements to Parliament of the manner in which departments use the resources made available to them, and therefore references to annual reports are relevant.

Most questions are answered at the hearings, but witnesses may also choose to take questions on notice and provide written responses after the hearing. Members and participating members of committees may also place questions on notice. Such questions are lodged with the secretary of the committee and are distributed to members of the committee and to relevant departments.[86]

3.3.3 Resources for committees

The issue of the resources required by a legislature to support its budget-scrutiny role is considered in more detail in Assembly Research Paper 99/09 (forthcoming). For the purposes of this discussion, it is sufficient to note that each legislative and general purpose standing committee has a dedicated member of staff who concentrates solely on the estimates and other financial processes and information.

3.4 Independent fiscal analysis in Belgium

Many of the weaknesses in the Northern Ireland budget process that have been highlighted in relation to international best practice issued by the IMF relate to the absence of fiscal data and projections published by the Executive. Further, it has also been highlighted that many countries incorporate independent analysis into their budgetary process.

There is a considerable body of evidence that supports fiscal rules as a control to prevent fiscal deficits. However, more recent evidence suggests that the inflexibility of rules can mean that delegating some aspects of fiscal policy to an external agency may be beneficial.[87] It must be remembered in this context that as the Northern Ireland Executive does not have full fiscal policy responsibility, any measure must be tailored to fit local circumstances.

The design of fiscal policy is problematic and this can be reflected in increasing deficits, procyclicality and the pursuit of unsustainable policies. This can be caused by “inappropriate use of discretion in fiscal policymaking.”

Whilst discretion in policymaking can be valuable with regard to responding to changed circumstances or fulfilling an electoral mandate it “can be misused, especially in the presence of political and distributive conflicts, and if governments have short-term horizons.”[88] It is argued, therefore, that the challenge is how to reduce the undesirable features of discretion whilst maintaining flexibility.

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[86] McDonald C (2008) ‘Profile of Committees of the Australian Parliament Undertaking Budget Review’ available online at http://www.oecd.org/dataoecd/52/27/42466703.pdf (accessed 20 April 2010) (see pages 6-7)

[87] Debrun X et al (2008) ‘Independent Fiscal Agencies’ in Journal of Economic Surveys Vol 23, pt 1 pp 44-81

[88] Debrun X et al (2008) ‘Independent Fiscal Agencies’ in Journal of Economic Surveys Vol 23, pt 1 pp 44-81 (see page 73)

A number of countries have tried institutional reform as a means of achieving this; they have established institutions which can help in the formulation and implementation of sound fiscal policies. Theory has identified various factors which suggest that in practice the delegation of fiscal policy could be beneficial. Policy can be delegated to two types of agency:

- independent fiscal agencies, or;
- fiscal councils.

In theory an independent fiscal agency (IFA) could set an annual target for budget balance or veto proposals which do not agree with a particular fiscal rule. But there are no working international examples of an IFA.

There are, however, examples of fiscal councils (FCs). An FC could help improve fiscal policy through independent analysis and forecasts and the promotion of public debate and scrutiny. Evidence from across Europe suggests that FCs which provide assessment generally may be more effective in promoting fiscal discipline than those that simply provide pure analysis.[89] There is also evidence to suggest that the institutional design of budget processes can have an impact on fiscal outcomes.[90]

A significant reasons for this may be that "official growth forecasts are biased towards optimism and that forecasting bias […] has hampered fiscal consolidation."[91] This is why good governance frameworks recommend independent scrutiny of fiscal policy assumptions.

Belgium is one of only three EU Member States to rely solely on national independent agencies for macroeconomic forecasting that determine public revenue and spending projections – along with Austria and the Netherlands. There are two fiscal councils: the High Council of Finance and the National Accounts Institute. The latter has to approve fiscal forecasts before they are considered 'official'.

Evidence shows that the fiscal councils "have contributed to the indisputable improvement of Belgian public finances."[92] Whilst the specific institutional characteristics are country specific, three lessons have been identified for designing fiscal councils elsewhere:

> *The institutions dealing with positive economics should enjoy a fully independent status, but owing to the specific knowledge required to fulfil their tasks, they should remain public.*

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[89] Debrun X et al (2008) 'Independent Fiscal Agencies' in Journal of Economic Surveys Vol 23, pt 1 pp 44-81 (see page 74)

[90] Gleich, H (2003) 'Budget institutions and performance in central and eastern European economies' Euorpean Central Bank Working paper no. 215 available online at: http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp215.pdf (accessed 28 April 2010) (see page 34)

[91] Bogaert, H et al (2006) Federal Planning Bureau working paper 4-06 'Fiscal councils, independent forecasts and the budgetary process: lessons from the Belgian case' available online at: http://www.plan.be/admin/uploaded/200610100926550.WP0604en.pdf (accessed 28 April 2010) (see page 2)

[92] Bogaert, H et al (2006) Federal Planning Bureau working paper 4-06 'Fiscal councils, independent forecasts and the budgetary process: lessons from the Belgian case' available online at: http://www.plan.be/admin/uploaded/200610100926550.WP0604en.pdf (accessed 28 April 2010) (see page 2)

Since normative economics are linked to preferences, it is much more difficult for public opinion to accept a complete transfer of this kind of responsibility to an independent institution. This justifies the necessity for complete institutional separation between positive and normative issues.

One way to make the budgetary process successful is to share responsibility between several strong independent institutions and experts to minimize political pressure on each of the individuals or institutions.[93]

When looking at the three countries that relied on independent fiscal agencies for forecasting, it is striking that are not generally governed by majority governments. Indeed, it has been argued that "minority and coalition governments have the greatest incentives to negotiate a budget agreement prior to the formal release of the budget itself."[94] For this reason, the lessons from Belgium may be of greater comparability with Northern Ireland and its power-sharing executive than some other states.

3.5 Performance budgeting in the Netherlands

The Dutch budgetary system was described by the IMF as part of the ROSC process in 2006 as 'best practice' in terms of transparency. The main elements identified were:

1) the good structure and openness of the budget process;

2) the integrity and (political) independence of the Court of Audit, the Netherlands Bureau for Economic Policy Analysis (CPB) and Statistics Netherlands (CBS); and

3) a trend-based fiscal framework which establishes political agreement over expenditure ceilings and macroeconomic constraints.[95]

The Netherlands has a system of ten political parties in the legislature. The government negotiates in advance with the parties in the coalition to develop guidelines for the four-year period of the cabinet. This guidance contains an overall cap on spending, deficit and debt-reduction targets and other macro-policy statements.

The programme-based budget is detailed over a multi-year period. Every line item and sub-item has a multi-year estimate produced by the spending department. This has contributed to a culture of fiscal discipline:

Even the opposition parties respect the fiscal rules; for example, a proposition of a party to increase expenditure in one policy area is always accompanied by a proposal to decrease expenditures in another policy area.[96]

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[93] Bogaert, H et al (2006) Federal Planning Bureau working paper 4-06 'Fiscal councils, independent forecasts and the budgetary process: lessons from the Belgian case' available online at: http://www.plan.be/admin/uploaded/200610100926550.WP0604en.pdf (accessed 28 April 2010) (see page 13)

[94] Posner, P and Cheung-Keun Park (2007) 'Role of the Legislature in the Budget Process: recent trends and innovations' OECD Journal on Budgeting Vol. 7 No.3 available online at: http://www.oecd.org/dataoecd/42/27/43411793.pdf (accessed 26 April 2010) (see page 13)

[95] Debets, R (2007) 'Performance budgeting in the Netherlands' OECD Journal on Budgeting Vol. 7 No.4 available online at http://www.oecd.org/dataoecd/42/34/43411548.pdf (accessed 28 April 2010) (see page 16)

It must be noted, however, on the counter-side it is also observed that:

> *Regarding efficiency, however, the results are less evident. There is still a lack of clarity about the contribution of government programmes to policy objectives. In many cases, performance indicators "hit the target but miss the point" and evaluation research does not review the effects of policy. The twofold aim of budget reform – transparency and efficiency – cannot be achieved by one instrument, the budget. The budget should be used for discussion of the main political issues, but other instruments such as policy reviews are advised for facilitating efficiency improvements.*[97]

This evidence links back to the observation made in the introduction that there is a trade-off between pre-budget transparency, and post-budget accountability. The lesson from the Netherlands seems to be that budgetary reform will not necessarily drive increased efficiency. However, it can drive increased transparency. It has been previously discussed that increased transparency in budgeting can bring benefits, not least that it allows for greater accountability, and that, of itself, can drive efficiency.

3.5.1 In-year monitoring

Another interesting feature of the Dutch system is the mechanism for approving budget changes in-year:

> *The National Budget Information System, or IBOS, is used for accounting purposes: a system for the approval of budget changes. De facto it is a discussion system. IBOS has existed for 20 years, and it forms a "spring hinge" between the financial control division of the line ministry and the budget inspectorate (IRF) of the Ministry of Finance. IBOS gives the Minister of Finance a day-to-day macro view of the development of the budget (check and agree with budget changes).*
>
> *How does it work? Suppose the Ministry of Agriculture has to employ extra personnel (because of chicken flu, for example) for which the costs are estimated at EUR 400 000. An employee of the control division of the Ministry of Agriculture logs into IBOS. He/she accounts EUR 400 000 of expenditures, regarding the relevant policy programme or line item. This proposal is presented to the Inspectorate of the Budget (Ministry of Finance). The employee of the inspectorate makes up his/her mind and authorises the budget change, of course considering the political prudence. The budget rules apply (for example, setbacks have to be compensated by cutbacks). A special code for the budget change – for autonomous reasons (rise in number of students) or for policy reasons (extra road programme) – is programmed into the computerised system.*[98]

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[96] Debets, R (2007) 'Performance budgeting in the Netherlands' OECD Journal on Budgeting Vol. 7 No.4 available online at http://www.oecd.org/dataoecd/42/34/43411548.pdf (accessed 28 April 2010) (see page 18)
[97] Debets, R (2007) 'Performance budgeting in the Netherlands' OECD Journal on Budgeting Vol. 7 No.4 available online at http://www.oecd.org/dataoecd/42/34/43411548.pdf (accessed 28 April 2010) (see page 2)
[98] Debets, R (2007) 'Performance budgeting in the Netherlands' OECD Journal on Budgeting Vol. 7 No.4 available online at http://www.oecd.org/dataoecd/42/34/43411548.pdf (accessed 28 April 2010) (see page 19)

In this way, a computerised system is used to give the budgetary flexibility to switch expenditure between lines, whilst at the same time maintaining control of the overall spend.

3.6 Performance budgeting, transparency and the provision of financial and performance information in OECD countries

In 2007 the OECD surveyed the use of programme budgeting and the use of budget-linked performance targets and information in member countries.[99] It was found that practices varied across the OECD countries but there was common ground in the reforms.

Four areas were identified as being important to underpin program-oriented budgeting which raise some useful considerations for the Northern Ireland process:

- reclassification of the budget and multi-annual estimates

The UK was found to be one of a number of countries which "offer good examples of reclassified budgets based on mainly programmatic criteria."[100] Northern Ireland follows this kind of model. For example DFP's DEL provision in the Supplementary Estimates is broken into 11 areas (including Finance and Personnel Policy; NICS Shared Services, and; NICS Accommodations Services)

- a multi-annual fiscal framework

As previously highlighted, the resources available to the Northern Ireland Executive are largely allocated by the UK Government as part of its Spending Review Cycle. Spending Reviews are presented with multi-annual indications which are then formalised annually through the budget process. A difficulty arises for Northern Ireland when the UK Government does not hold a Spending Review in accordance which its pre-determined timetable, undermining the Executive's ability to plan into the medium term.

- the use of performance information in budgeting

The OECD highlighted the example of the UK in its survey in relation to budget-linked performance targets because of the use of Public Service Agreements (which the Northern Ireland Executive also uses to underpin the programme for Government) and associated outcome measures. But it was also found that:

> *while focusing on outcomes rather than outputs may reduce the number of different (ultimate) targets and make the budget documentation more focused and transparent, the relationship between expenditures and outcomes becomes less clear. Governments may have an effect on outcomes but do not control them. Underachievement on outcome targets can always be blamed on unexpected social and economic developments.*[101]

[99] Hraan, D-J (2007) 'Programme Budgeting in OECD Countries' OECD Journal on Budgeting Vol. 7 No.4 available online at: http://www.oecd.org/dataoecd/42/17/43411385.pdf (accessed 29 April 2010)
[100] Hraan, D-J (2007) 'Programme Budgeting in OECD Countries' OECD Journal on Budgeting Vol. 7 No.4 available online at: http://www.oecd.org/dataoecd/42/17/43411385.pdf (accessed 29 April 2010) (see page 5)
[101] Hraan, D-J (2007) 'Programme Budgeting in OECD Countries' OECD Journal on Budgeting Vol. 7 No.4 available online at: http://www.oecd.org/dataoecd/42/17/43411385.pdf (accessed 29 April 2010) (see page 22)

- the budget documentation

Much of the focus of this paper has been on increasing the information available to the Northern Ireland Assembly and public. The OECD, however, does sound a word of caution against over-loading the budget documentation with too much performance-related information:

> *there is no need to explain the background of policy reforms that do not lead to changes in the fiscal framework or reallocations between programmes (policy decisions because of underachievement on outcomes), since such explanations may be detrimental to the transparency of the budget.*[102]

This evidence highlights a need to balance between too much and too little performance-related information in the budget documentation. Also consideration must be given to whether an understandable desire politically to focus on outcomes against the clarity produced by focusing on outputs.

3.7 The provision of financial information to the Scottish Parliament

The Scottish Parliament Information Centre has established a Financial Scrutiny Unit. The governance arrangements and staffing of the Unit are considered in Assembly Research Paper 99/09 (forthcoming). It is of interest to note that the reformed budget process in Scotland is undergoing further change and so it is difficult to draw conclusions from its operation. For the purposes of this paper, it is helpful to highlight the way in which the Scottish Parliament has tried to address the imbalance of information between the legislature and the executive.

An Agreement between the Scottish Government and the Financial Scrutiny Unit (attached as Appendix 3) addresses how requests for information should be framed, to whom they should be addressed, and requires that responses should be handled factually and in good time. It also cautions that government officials should not be drawn into discussion of the merits of a particular policy.

This approach raises the question – in the context of the difficulties in relation to engagement with Assembly Committees and the provision of information – whether a similar approach might be a sufficiently robust model for Northern Ireland.

3.8 The provision of financial information to the Parliamentary Budget Officer in Canada

The Parliamentary Budget Officer (PBO) was established in 2006 by amendment to the Parliament of Canada Act (Chapter P-1). More detail on the role is provided in Assembly Research Paper 99/09 (forthcoming). For the purposes of this paper, it is worth noting that the PBO has specific powers to gain access to the information needed to provide advice and analysis to parliamentarians in statute.

Section 79.3.1 of the Parliament of Canada Act states:

> ***79.3*** *(1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Parliamentary Budget Officer is entitled, by request made to the deputy head of a department within the meaning of any of paragraphs*

[102] Hraan, D-J (2007) 'Programme Budgeting in OECD Countries' OECD Journal on Budgeting Vol. 7 No.4 available online at: http://www.oecd.org/dataoecd/42/17/43411385.pdf (accessed 29 April 2010) (see page 37)

(a), (a.1) and (d) of the definition "department" in section 2 of the Financial Administration Act, or to any other person designated by that deputy head for the purpose of this section, to free and timely access to any financial or economic data in the possession of the department that are required for the performance of his or her mandate.[103]

This is alternative means of addressing the information asymmetry between the legislature and the executive.

3.9 Committee powers in the New Zealand Parliament

The powers of committees to require information are clearly spelt out in standing orders:

> ***192 Exercise of power to send for persons, papers and Records***
>
> *(1) A committee with the power to send for persons, papers and records may order that a summons be issued to any person—*
>
> *(a) to attend before that committee to be examined and give evidence:*
> *(b) to produce papers and records in that person's possession, custody or control to that committee.*
>
> *(2) Every summons issued under this Standing Order—*
>
> *(a) must state the time and place at which it is to be complied with by the person to whom it is addressed, and*
> *(b) is signed by the Speaker and served upon the person concerned under the Speaker's direction.*[104]

It is possible that the provision of an express power to issue a summons which calls for papers and records may be a model for strengthening Assembly Committees' powers to get briefing from Ministers and departments on financial and other issues, when – in recent months at least – this has proved problematic. The fact that a time and date may be specified may be of particular intereset.

A committee in New Zealand must apply to the Speaker for a summons to be issued. The Speaker must be satisfied that:

> *(a) the evidence, papers or records sought by the committee are necessary to its proceedings, and*
> *(b) the committee has taken all reasonable steps to obtain the evidence, papers or records.*[105]

This provision appears to be designed to prevent spurious summons being issued, or committees issuing summons before they have gone through less formal channels.

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[103] See *Parliament of Canada Act* available online at: http://laws.justice.gc.ca/PDF/Statute/P/P-1.pdf (accessed 29 April 2010)

[104] New Zealand Parliament (2008) *Standing Orders of the House of Representatives* available online at: http://www.parliament.nz/NR/rdonlyres/81D0893A-FFF2-47A3-9311-6358590BEB3D/100828/standingorders2008_5.pdf (accessed 05 May 2010) (see page 65)

[105] New Zealand Parliament (2008) *Standing Orders of the House of Representatives* available online at: http://www.parliament.nz/NR/rdonlyres/81D0893A-FFF2-47A3-9311-6358590BEB3D/100828/standingorders2008_5.pdf (accessed 05 May 2010) (see page 65)

3.10 The Finance Committee in the Swedish budget process

In spring each year the government prepares a Fiscal Policy Bill, which contains guidelines for the coming year's budget policy. This is scrutinized by the Finance Committee and reported on to Parliament; the first parliamentary decision is in the autumn.

A Budget Bill is prepared by the executive the following September which proposes aggregate expenditure ceilings. There are 27 expenditure areas in total. The Finance Committee is responsible for the aggregate spending total as well as the 'frames' for each of the 27 areas; this hierarchical structure was a key part of budgetary reform in the 1990s and early 2000s.

Sectoral committees are responsible for between one and four expenditure areas. They can make allocational proposals within the approved ceilings for each area; they can propose shifting funding between items within an area, but may not breach the total set for the area:

> *In effect a hard budget constraint has been imposed on sectoral committees. Members on the sectoral committees initially resisted this change, but against the backdrop of fiscal crisis, the reformers assembled enough support for the new process to be accepted.*[106]

This model may be of some interest for considering how a central budget or finance committee could be fitted within the processes of the Northern Ireland Assembly. Revision of the committee structure alone, however, was not considered to be entirely the cause of Sweden's recovery from a position of fiscal crisis in the 1990s.

A major factor is also the voting procedure:

> *The report of the Finance Committee contains a proposal as well as reservations from the opposition parties that cover total spending, the allocation of expenditure across different areas as well as revenue changes. These are treated as packages, unlike in the previous system where shifting majorities could form on individual items [of expenditure]. Under the new system, opposition proposals are eliminated until one main alternative remains. Opposition parties are ideologically fragmented and typically do not unite against the government, but only support their own proposal.*[107]

The voting procedure itself is set out in the Riksdag Act:

> ***Settlement by acclamation***
> ***Art. 5.*** *When a matter is settled by acclamation, the Speaker puts to the question every motion put forward in the course of the deliberations. The question shall be worded in such a way that it can be answered with a 'Yes' or 'No'. The Speaker declares what he understands to be the result, and confirms the decision by striking his gavel, unless a member calls for a vote.*
>
> ***Settlement by means of a vote***

[106] Wehner J (2007) 'Budget reform and legislative control in Sweden' Journal or European Public Policy Vol.14 no.2 313-332 (see page 320)
[107] Wehner J (2007) 'Budget reform and legislative control in Sweden' Journal or European Public Policy Vol.14 no.2 313-332 (see page 321)

> ***Art. 6.*** *When a matter is settled by means of a vote, the principal proposal is that motion which in the Speaker's view the Riksdag adopted by acclamation. When there has been no acclamation, the principal proposal is the motion determined by the Speaker. A second motion is put up against this principal proposal to act as a counter-proposal. If there are more than two motions which can be put up against each other, the Riksdag shall first apply Article 5 to determine which shall constitute the counter-proposal.*
>
> *Voting is by open ballot. Under the rule laid down in Chapter 4, Article 5 of the Instrument of Government, the proposal which obtains the support of more than half the members voting constitutes the decision of the Riksdag, unless otherwise provided in the Instrument of Government or in this Act. The Speaker announces the result of the vote and confirms the decision by striking his gavel.*[108]

It is interesting to note the way the voting procedure deals with a parliament fragmented on ideological lines. It may be that the application of an adapted procedure along these general lines could provide a means to counter-balance both the Executive and a centralised budget or finance committee in the Northern Ireland Assembly. It would mean a quite radical departure from current practice for handling amendments, and would probably require primary legislation.

[108] See an English-language translation of the Riksdag Act online at: http://www.riksdagen.se/templates/R_PageExtended____6422.aspx (accessed 05 May 2010)

4. CONCLUDING REMARKS AND RECOMMENDATIONS

A considerable number of issues have been raised in this paper. Some of them – which go to the heart of the inter-institutional relationship between the Northern Ireland Assembly and the Executive - may require high-level political agreement at an almost philosophical level. Others are more specific procedure-related issues with the operation of the current process as it stands.

RECOMMENDATIONS

<u>Recommendation 1: Assembly Committees' powers to request information should be clarified and perhaps strengthened.</u>

A variety of models have been identified by this research.

- A clear agreement on the provision of financial information between Executive and the Assembly along the lines of the Scottish Government's Agreement with the Scottish Parliament Information Service.
- Requirements could be specified in primary legislation, similar to the approach taken for the Parliamentary Budget Officer in Canada.
- Standing orders could be changed and provide clearer arrangements, similar to the New Zealand approach.

<u>Recommendation2: The information provided by the Executive and its departments should be improved.</u>

- Statutory committees should be asked to specify the nature of the information they require to discharge their budget-scrutiny role. This should be in terms of a minimum level of detail which should allow the Committees to identify specific areas on which they require further detail.
- Figures should be presented, where possible, in a format to allow read-across between different streams of financial information.
- Clarity should be increased so that the linkage between a Public Service Agreement and a budgetary allocation can be tracked across all relevant publications including the Budget, the Executive's Delivery Report in reference to the Programme for Government and in-year monitoring rounds.

<u>Recommendation 3: Consultation with the Assembly should be conducted fully and properly</u>

If the Executive asks committees for their views, the consultations should be proper:

- Statutory committees should be asked to suggest a minimum period for the presentation on financial information to them in advance of the legislative measure being brought before the Assembly. Good practice suggests that this should be in the region to two to four months.
- Time should be allowed for committees to decide if further briefing is required and if there is a need to call for evidence.
- Clear guidelines should be provided as to whether committee's recommendations should be zero-sum i.e. if they recommend an increased allocation to one programme, they should identify another programme which should be reduced.

Recommendation 4: Consultation with the public should be conducted fully and properly

If the Executive embarks on a public consultation exercise it should do so properly:

- A clearly specified end date for responses.
- To whom the responses can be sent and how
- Direction to consultees on what the parameters of the consultation are and guidelines for whether recommended changes to allocations should be zero-sum.

Recommendation 5: The Executive should adhere to an annual budget process

Good practice points to a regularised and annual process in which a pre-determined timetable is adhered to. However, this does not mean that the budget should only cover one year. In fact, good practice indicates that it should also give indicative figures for the medium term (commonly this is a three-year horizon).

Recommendation 6: In-year monitoring rounds should be retained but the supporting information should be enhanced

From a transparency perspective and for allowing debate in the legislature the current process of in-year monitoring should be maintained. However, it would be helpful in terms of scrutiny if the supporting documentation or detail of the Minister's statement gave an assessment of the likely impact of changes to allocations on the delivery of Programme for Government priorities.

Recommendation 7: There should be a requirement for external/independent analysis of the draft Budget and spending plans

Good transparency and accountability practice suggests that budget proposals should have some independent input:

- An independent fiscal agency could be consulted on proposals, or
- Responsibility for fiscal projections and assumptions could be passed to a fiscal council as in the Netherland, Austria and Belgium.

Recommendation 8: The Executive should publish an assessment of the fiscal picture

Good transparency and accountability practice suggests that the Executive should produce – as far as it is possible to do so in the context of how Northern Ireland is funded – an assessment of the fiscal sustainability of its policies including:

- A statement of fiscal risks.
- Some form of medium-term fiscal plan.
- A regular assessment of demographic change and its potential impact

Recommendation 9: The Executive should consider establishing a contingency reserve

Whilst the mechanism of in-year monitoring has been shown to be good practice in terms of transparency, it may not be sufficiently effective in meeting unforeseen pressures. If a contingency reserve is established good practice suggests that:

- It should be 1-3% of total budgeted expenditure.
- The Assembly should cede authority to allocate it to the Executive but require that it is informed promptly and regularly of ant allocations.

- Given the power-sharing coalition in the Executive, it may be necessary to spell out conditions for application in legislation or a code of practice approved by the Assembly.

Recommendation 10: The Assembly's own budget allocation should be more transparent

Good practice suggests that the Assembly rather than the Executive should be responsible for setting the Assembly's budget.

- The Assembly's request for resources should be debated as a separate issue not only as part of the Executive's budget proposals.
- The Assembly should be required (perhaps through statute) to ensure that it s requests for resources are benchmarked against and broadly in line with other constitutional entities.

Recommendation 11: Requests for resources should be disaggregated and justified

Good practice suggests that results achieved relative to objectives should be presented. To support this, departmental requests for resources should be broken down into programmatic areas. A model is provided by the by the Portfolio Budget Statements used in Australia.

Recommendation 12: Spending outside annual appropriations should be presented alongside the Budget

Good practice suggests that extra-budgetary spending should be brought into the documentation or the Executive should be required to make a more explicit statement of such spending than it does currently.

Recommendation 13: In general the budget process should become more transparent

An increase in fiscal transparency should make the Executive more accountable for the money it spends and enhance understanding of how this is funded. Steps towards this could include:

- The Executive could request that the transparency of the Barnett and block funding mechanism as it stands is enhanced.
- If the mechanism for funding the devolved administrations is to be reformed, the case should be made that any future system should employ transparency as a core principle in its design.

Recommendation 14: The Assembly should have a more structured involvement in the budget process

Good practice suggests more emphasis on medium-term planning in budgeting. Increased Assembly involvement should act as more of a balance to the Executive, ensuring more intergenerational equity[109] and resulting in decisions taken more on a more sustainable basis. The Assembly needs to decide whether the focus of this involvement should be on the setting of budgets, the evaluation of performance

[109] "Intergenerational equity is the issue of sustainable development referring, within the environmental context, to fairness in the intertemporal distribution of the endowment with natural assets or of the rights to their exploitation." Definition from OECD (2001) Glossary of Statistical Terms available online at: http://stats.oecd.org/glossary/detail.asp?ID=1387 (accessed 05 May 2010). In the finance context it refers to the shifting of expenditures for the present generation's benefit to be met at future generations' expense.

against budgets or a mixture of both. Restrictions on committee and Assembly time will mean this trade-off must necessarily be struck.

Recommendation 15: The Assembly should reorganise the system of budget scrutiny by committees to support greater involvement

International practice suggests that a budget committee be established with overall responsibility for considering aggregate spending and to which all financial instruments are referred. It could set parameters for the contribution of statutory committees and undertake a strategic phase of scrutiny (as in the Swedish parliament – see section 3.10). Or it could be *solely* responsible for budgetary considerations. In either case, primary legislation would almost certainly be required.

Recommendation 16: The Assembly should have enhanced capability to scrutinise budgetary information

Good practice suggests that where there is an increased role for the legislature in budgeting, it needs to be supported by additional capability and resources to enable it to do so effectively.

Recommendation 17: The financial information streams should be harmonised and aligned

To make easier the linkage between Budget documents and the Estimates, they should be presented on the same accounting basis. This is an essential step to increase transparency and enable more of a relationship between allocations and performance. The example from the Republic of Ireland and the UK Treasury project provide a possible models.

APPENDIX 1 IMF CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY

INTERNATIONAL MONETARY FUND

CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY (2007)

I. CLARITY OF ROLES AND RESPONSIBILITIES

1.1 The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

1.1.1 The structure and functions of government should be clear.
1.1.2 The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.
1.1.3 The responsibilities of different levels of government, and the relationships between them, should be clearly specified.
1.1.4 Relationships between the government and public corporations should be based on clear arrangements.
1.1.5 Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.

1.2 There should be a clear and open legal, regulatory, and administrative framework for fiscal management.

1.2.1 The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.
1.2.2 Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.
1.2.3 There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.
1.2.4 Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.
1.2.5 Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.

II. OPEN BUDGET PROCESSES

2.1 Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.

2.1.1 A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.
2.1.2 The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained.
2.1.3 A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.
2.1.4 The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.
2.1.5 There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy framework.

2.2 There should be clear procedures for budget execution, monitoring, and reporting.

2.2.1 The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.
2.2.2 A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.
2.2.3 Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.
2.2.4 Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.

III. Public Availability of Information

3.1 The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.

3.1.1 The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.
3.1.2 Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.
3.1.3 Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.
3.1.4 Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.

3.1.5 The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.
3.1.6 The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.
3.1.7 The government should publish a periodic report on long-term public finances.

3.2 Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.

3.2.1 A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.
3.2.2 Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.
3.2.3 The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.
3.2.4 Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.

3.3. A commitment should be made to the timely publication of fiscal information.

3.3.1 The timely publication of fiscal information should be a legal obligation of the government.
3.3.2 Advance release calendars for fiscal information should be announced and adhered to.

IV. Assurances of Integrity

4.1 Fiscal data should meet accepted data quality standards.

4.1.1 Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.
4.1.2 The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.
4.1.3 Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.

4.2 Fiscal activities should be subject to effective internal oversight and safeguards.

4.2.1 Ethical standards of behavior for public servants should be clear and well publicized.
4.2.2 Public sector employment procedures and conditions should be documented and accessible to interested parties.

4.2.3 Procurement regulations, meeting international standards, should be accessible and observed in practice.
4.2.4 Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.
4.2.5 Government activities and finances should be internally audited, and audit procedures should be open to review.
4.2.6 The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.

4.3 Fiscal information should be externally scrutinized.

4.3.1 Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.
4.3.2 The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.
4.3.4 Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.
4.3.4 A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.

APPENDIX 2 TEMPLATE FOR AOS IN REPUBLIC OF IRELAND

Template for Annual Output Statement 2008

1. Summary Statement of High level Goals for the Ministerial Vote Group, with associated Aggregate Impact Indicator for each High Level Goal consistent with the Statement(s) of Strategy, and cross-referenced to the Programmes set out at 3 & 4 below under each High Level Goal.
The purpose of this Summary Statement is to highlight the need for consistency between (i) the High Level Goals set down in the Statements of Strategy and (ii) the Programmes that form the basis of this Annual Output Statement.

2. Total Budget for Ministerial Vote Group – by source of funding by year: - Short introduction. [Votes covered, sources of non-voted funding, Appropriations-in-Aid, etc.]

	2007 € million	**Outturn 2007 € million**	**2008 € million**	**% Change on Outturn**
Net Voted Expenditure*				
Appropriations in Aid*				
Gross Voted Expenditure*				
Non-Voted (State source)				
Total Gross Expenditure				

* As in Revised Estimates Volume

3. Breakdown of Total Gross Expenditure at 2 above by Programme

Short introduction, [The Gross Expenditure outlined at 2 above is broken down across the Programme areas listed below. In identifying Programme areas, Departments should have regard to the need for consistency with their Statement(s) of Strategy and the High Level Goals therein]

Gross Programme Expenditure	**2007 € million**	**Outturn 2007 € million**	**Year 2008 € million**	**% Change on Outturn**
Programme A				
Programme B				
Programme C				
Programme D				
Programme E				
Programme F (Etc.)				
Total Gross Programme Expenditure				
Exchequer pay and pensions included in above gross total*				
Number of associated Public Service employees and pensioners*				

* As in Revised Estimates Volume

4. Individual Programme details for each programme
State High Level Goal as per Statement(s) of Strategy
List key strategies to achieve high level goal as per Statement(s) of Strategy

Inputs				
Programme A etc. (As at 3)	**2007 €m**	**Outturn 2007 €m**	**2008 €m**	**%Change on Outturn**
Programme Expenditure - Current - Capital				
Programme Administration - Pay - Non-Pay				
Support Expenditure				
Total Gross Programme Expenditure				
Number of Staff employed on Programme (whole time equivalents) as at 31 December 2007			Number of Staff	

Outputs*		
2007	**2007**	**2008**
Output Target	**Output Achieved**	**Output Target**
(As per 2007 AOS)		

*Small number (1 or 2) high level outputs for each Programme.

It is not necessary to engage in excessive effort or use of resources to determine the precise contribution of support staff (technical, legal, computer etc.) to individual programmes. This can be determined by estimating the contribution of the relevant staff on an appropriate basis such as apportionment of time or in proportion to the number of the Department's overall staff accounted for directly on the programme. Alternatively, a separate programme can be created for support services.

APPENDIX 3

AGREEMENT BETWEEN THE SCOTTISH GOVERNMENT AND THE SCOTTISH PARLIAMENT FINANCIAL SCRUTINY UNIT

The Financial Scrutiny Unit (FSU) was established on 26 October 2009. It is a new research and analytical team which sits within SPICe and was set up with the purpose of aiding the scrutiny of the public finances in Scotland by parliamentary committees and individual Members.

The FSU has approached us with a view to agreeing arrangements under which they could obtain information from the Scottish Government to help them answer individual queries which they themselves do not have the required information to do so. The agreement attached, which is based largely on the existing agreement between the Scottish Government and SPICe, was been drafted by the new Unit and agreed by the Cabinet Secretary for Finance and Sustainable Growth.

Protocol

FSU Requests relating to information already in the public domain e.g. published budgets at Level 3 and above will, we expect, be directed to Finance Co-ordination in the first instance. Requests about more detailed information will be sent to relevant Finance Team Leaders, copied to Finance Co-ordination. Responses to such requests should also be copied to the Finance Co-ordination mailbox so that we can maintain an overview of the traffic to and from FSU.

Finance Teams should record the amount of time they spend working on any FSU requests and report to their Deputy Director on a monthly basis. A monthly review of the volume of requests and any issues arising will take place at the Finance Director's monthly management meeting.

We also intend to review activity and performance with the FSU on a quarterly basis.

Thank you for help with this. We recognise this is another task but the arrangements have been designed to spread the burden and will be kept under review.

AGREEMENT BETWEEN THE SCOTTISH GOVERNMENT AND THE SCOTTISH PARLIAMENT FINANCIAL SCRUTINY UNIT

INTRODUCTION

This document builds on the current guidance which regulates contacts and information sharing between the Scottish Government and the Scottish Parliament's Information Centre "Guidance on Contacts with the Scottish Parliament Information Centre (SPICe)" It sets out an understanding between the Scottish Government and the Scottish Parliament's Financial Scrutiny Unit (FSU) and focuses particularly on the handling of requests for information from the FSU.

ROLE OF FSU

The FSU was established on 26 October 2009. It is a new research and analytical team which sits within SPICe. The purpose of the FSU is to aid the scrutiny of the public finances in Scotland by parliamentary committees and individual Members. It was created by the Scottish Parliamentary Corporate Body (SPCB) with cross-party parliamentary support from the Finance Committee and the Conveners' Group. Writing to the Finance Committee (1 October 2009), the Cabinet Secretary for Finance and Sustainable Growth said that the Scottish Government would be happy to discuss "arrangements and procedures to enable the proposed Financial Scrutiny Unit to have appropriate access to information held by the Scottish Government."

The work of the Unit may include producing:

- Analysis of costings of Government policy and legislation
- Estimates of costings and impacts of alternative spending proposals
- Detailed analysis of the Scottish Government's budget documents
- Work in conjunction with Scottish Parliament committees' budget advisers to provide further analysis of budget portfolios
- Monitoring and tracking different aspects of Government expenditure
- Resources, such as budget spreadsheets, to allow further analysis to be carried out directly
- Short briefings on specific topics of particular interest to committees and the wider parliament.

The FSU provides a quick and straightforward means of providing MSPs with much information related to public finance. The more relevant information that SPICe holds or has access to, the better the service that it will be able to provide to MSPs who may, in turn, be less likely to approach the Scottish Government directly for information – either by lodging a Parliamentary Question or by other means.

The FSU will only be able to provide Parliamentarians with these services if it has reasonable and timely access to financial and budget data held by the Scottish

Government and related bodies. The co-operation of the Scottish Government, therefore, is essential to enabling effective scrutiny of government expenditure.

As noted in the earlier protocol, the Scottish Government is a key source of information for SPICe staff as a whole. For its part, SPICe can play an important role in channelling Government information to MSPs quickly. The main message that this agreement seeks to convey is that it is important for all concerned that staff of the Scottish Government and the FSU should work together effectively, and that they should be aware of the different contexts in which they operate and also the legislation under which they operate.

FREEDOM OF INFORMATION (SCOTLAND) ACT 2002

While the Freedom of Information (Scotland) Act 2002 (FOISA) establishes a legal right of access by anyone to all recorded information, subject to certain conditions and exemptions, requests for information received from SPICe / FSU, whether received by telephone or in writing, will be not normally be treated as FOI requests. However, they should be handled as quickly and informally as possible, whilst working within the spirit of FOISA. This is because of the nature of the working relationship between SPICe and Scottish Government officials, and because SPICe and FSU staff may be acting as intermediaries and making the requests on behalf of others. If, on rare occasions, SPICe or FSU staff wish to have an information request treated within the full FOISA regime then this will be specifically noted in the written request. SPICe / FSU will also state the reasons for wishing to use this route.

FSU REQUESTS FOR INFORMATION

The following paragraphs set out the requirements on FSU staff and Scottish Government officials when information requests are made.

SPICe / FSU staff seeking financial or budget information will:

- consider other possible sources and the demands on Scottish Government officials' time before deciding to approach them for assistance;

- approach officials at Branch Head (generally C1) or above. SPICe / FSU staff have access to the Scottish Government Business Directory. They will use this to try to identify the relevant Branch Head. Where the relevant person is not readily available, or where grade or position is not clear from the Business Directory, they will contact the Deputy Director or other person in the branch or directorate instead;

- all requests and replies to be copied to Scottish Government Finance Co-ordination mailbox;
- respect the constraints placed upon civil servants by virtue of their relationship with Ministers and also, if applicable, by the FOISA

- respect the anonymity of officials providing the information. They will not pass the names of officials to MSPs or their staff nor will they give their client's name to officials. If the request is submitted in writing and specifically requested to be considered under the FOISA, they will need to provide a name and address for correspondence; but it will be their own even if they are requesting the information on behalf of an MSP.

Scottish Government officials who are approached should:

- ensure that any queries are handled by the Branch Head (or above) best placed to deal with them. If the relevant official is in any doubt about the propriety of offering particular information, he/she should consult his/her Senior Lead Officer (SLO) for FOI for advice;

- respond positively and timeously wherever possible, in keeping with the spirit of FOISA. If dealing with the request under the FOISA the response should be given promptly but in any case being mindful of the 20 working day timescale following receipt of the request. They should be conscious that SPICe / FSU staff are frequently operating to tight deadlines;

- set out, as clearly as possible, the factual information required. Officials must not be drawn into debate on the merits of policy options and must give due consideration to the terms of FOISA if responding in accordance with either of these pieces of legislation; and

- respect the confidentiality under which SPICe / FSU operates. Where they are pursuing queries on behalf of an MSP, SPICe / FSU staff will not be at liberty to reveal the name of the MSP, nor of anyone else, initiating the query. Civil servants should not press them to do so or refuse to assist them for this reason.

REVIEW OF AGREEMENT

This agreement should be kept under regular review by both the Scottish Government and the Financial Scrutiny Unit.