Northern Ireland Assembly

Research and Information Service Briefing Note

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Strategic Budget Review: further evidence

This Briefing Note is in response to the Committee for Finance and Personnel's request for further evidence in relation to the strategic budget review phase that was presented in Briefing Paper 103/11 *Options for strategic budget stages.*[1] Information is presented on how the UK's other devolved legislatures review the executions of the budgets that they approve. Additional international evidence is also provided.

[1] RaISe (2011) 'Options for strategic budget stages' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/10311.pdf (see Section 3)

1. Introduction

The proposed strategic budget review phase of the budget cycle in Northern Ireland developed as a concept from two distinct and separate angles. Firstly, the previous Committee recommended that:

…a regularised annual budgetary review process is established … with a pre-determined timetable, to enable the Executive and Assembly to make interim reappraisals of departmental allocations against progress in delivering PfG priorities and savings.[2]

This call was repeated in a later report:

In view of the limitations to the in-year monitoring process, the Committee reiterates its call for the establishment of a regularised annual budgetary review mechanism, set to a pre-determined timetable, which it considers will aid transparency and better enable the Executive to adapt its plans to deal with changing circumstances and unforeseen pressures.[3]

Secondly, these recommendations are supported by international good practice. A mid-year budgetary review is supported by experts at the International Monetary Fund (IMF):

A good budgetary practice is to require a formal midterm review of budget execution by the legislature, which may, if necessary, adopt a revised annual budget law to accommodate necessary changes. Such a law may authorize (1) higher expenditures, should revenues be higher than projected, or should there be large unexpected expenditures that cannot be financed by cuts in spending elsewhere, or (2) lower expenditures, especially when revenues are less than projected and the government does not wish to deviate from pre-announced deficit/surplus targets. The BSL should, however, allow a supplementary budget to be adopted any time it is required. One simple way of incorporating this requirement into the BSL is to state that the principles and procedures incorporated in the BSL apply to both the annual budget and to supplementary budgets.[4]

The IMF also provides guidance on what such a mid-term review should include:

Effective fiscal management depends on timely, reliable, within-year information on the government's fiscal position. The midyear budget report

[2] CFP (2010) 'Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure' available online at: http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html#3 (see Key Conclusions and Recommendations, paragraph 4)

[3] CFP (2011) 'Report on the Executive's Draft Budget 2011-15 (Volume 1)' available online at: http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_44_09_10R_vol1.html#3 (see Key Conclusions and Recommendations

[4] IMF (2010) 'Reforming Budget System laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 18 November 2011) (see page 15)

> *should contain a comprehensive analysis of budget implementation, including comparisons for all major revenue, expenditure, and financing items with midyear figures for the preceding year and midyear estimates for the budget. Any effect of any other government decisions or other circumstances that may have a material effect on the budget should be disclosed to the legislature. There should also be an updated forecast of the budget outcome for the current fiscal year, identifying the main factors causing a deviation between the budget and the expected budget outcome (e.g., changed economic assumptions, new policies, contingencies, and changes in the timing of revenue or expenditure).*
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> *It is a key requirement of fiscal transparency that this report be presented to the legislature within three months of midyear. This is consistent with establishing accountability for appropriate responses to changing economic or fiscal circumstances, and is critical for fiscal transparency. More frequent updates should also be published during the fiscal year.*[5]

The Organisation for Economic Cooperation and Development (OECD) also advocates this approach:

> *The mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year and, at least, the following two fiscal years. The report should be released within six weeks of the end of the mid-year period.*[6]

The purpose of this Briefing Note is to present evidence on the approaches taken to monitoring budget execution by other legislatures.

[5] IMF (2007) 'Manual on Fiscal Transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507m.pdf (accessed 18 November 2011) (see page 70)

[6] OECD (2002) 'OECD Best Practices for Budget Transparency' available online at: http://www.oecd.org/dataoecd/33/13/1905258.pdf (accessed 18 November 2011) (see page 10)

2. Review of budget execution in Scotland

Unlike the Northern Ireland Executive, the Scottish Government produces annual rather than multi-year budgets. The annual budget documentation for the coming budget year (in this case 2012-13) includes a spending review of the current year.[7]

The in-year process includes two or three budget reviews or revisions (autumn, spring and others if necessary); these revisions are along the same lines as the monitoring rounds in Northern Ireland but with some key procedural differences.

2.1. Process of budget revisions

Legislative basis

In Northern Ireland, the Executive switches expenditure between departmental portfolios and spending lines through the monitoring rounds (above *de minimis* thresholds). These are given legislative effect through the Spring Supplementary Estimates (usually presented in February to the Assembly) which adjust the expenditure previously approved in the main Estimates (in the preceding May/June) in line with reallocations.

In Scotland, the spending revisions are given statutory effect through subordinate legislation – for this year, the Draft Budget Act (Scotland) Act 2011 Amendment Order 2011[8] - which only comes into operation once affirmed by the Parliament.

Role of the Scottish Parliament

In Northern Ireland, the monitoring round outcomes are presented in a statement to the Assembly by the Minister of Finance and Personnel. There is a debate, but no formal approval by the Assembly of the reallocations. Statutory committees may (or indeed may not) receive briefings from their respective departments on their monitoring round positions.[9]

In Scotland, the role of the Parliament is much more structured. As noted above, budget revisions are given effect through Statutory Instruments which require affirmative resolution from the Parliament.

The Finance Committee has a formal role enshrined in the Parliament's Standing orders:

> *Rule 6.6 Finance Committee*

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[7] Scottish Government (2011) 'Scottish Spending Review 2011 and Draft Budget 2012-13' available online at: http://www.scotland.gov.uk/Publications/2011/10/04153155/0 (accessed 21 November 2011)

[8] Available online at: http://www.legislation.gov.uk/sdsi/2011/9780111014875/contents (accessed 21 November 2011)

[9] Members may wish to refer to recent correspondence from the Assembly's Chairpersons Liaison Group to CFP (dated 7 November) which highlights dissatisfaction with the timing and content of departmental briefing on monitoring rounds.

1. The remit of the Finance Committee is to consider and report on—

(a) any report or other document laid before the Parliament by members of the Scottish Executive containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;

(b) any report made by a committee setting out proposals concerning public expenditure;

(c) Budget Bills; and

(d) any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund.

2. The Committee may also consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.

3. In these Rules, "public expenditure" means expenditure of the Scottish Administration, other expenditure payable out of the Scottish Consolidated Fund and any other expenditure met out of taxes, charges and other public revenue.[10]

The Finance Committee takes evidence on the proposed measure and reports accordingly; the report on the draft legislation is published to inform the Parliament's consideration.[11]

Provision of accompanying information

The draft Statutory Instrument is accompanied by supporting material published by the Scottish Government.[12] This material provides information on funding changes (such as Barnett consequentials received since the original budget was passed); technical changes, and; transfers (such as to and from UK departments which largely reflect transfers of responsibility or work done by UK departments on the Scottish Government's behalf, or vice versa.) In this respect the information resembles the kind of information the Minister of Finance and Personnel presents to the Assembly alongside the monitoring round statements.

[10] Rule 6.6. available online at: http://scottish.parliament.uk/parliamentarybusiness/26518.aspx (accessed 21 November 2011)
[11] Finance Committee (2011) '2nd Report, 2011 (Session 4): The Budget (Scotland) Act 2011 Amendment Order 2011' available online at: http://scottish.parliament.uk/parliamentarybusiness/26518.aspx (accessed 21 November2011)
[12] Scottish Government (2011) 'Scotland's Budget Documents: The 2011-12 Autumn Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2012' available online at: http://www.scotland.gov.uk/Publications/2011/10/18132904/1 (accessed 21 November 2011)

2.2. Relevance to the Northern Ireland budget process

The process for giving effect to the Scottish Government's in-year budgetary changes is not *quite* what has been envisaged for the strategic review stage of the Northern Ireland Executive's budget. Nevertheless there are some points which the Committee may find particularly relevant:

- <u>Timetable</u>: the budget revisions form part of the overall budget calendar, and sufficient time is allowed for the Scottish Finance Committee to take evidence and report to the Parliament; and,
- <u>Approval</u>: unlike the Northern Ireland process whereby the Assembly is *informed* of the outcome of in-year changes, the Scottish Parliament must actively approve them.

On the other hand, the Scottish process remains concerned with *in-year* changes. It comes at the same time as the proposals for the following year's budget. In a budget cycle that is strictly annual, this appears to make a lot of sense and also to comply with the good practice requirements set out by the international bodies.

The Northern Ireland Executive, however, has developed multi-annual budgets on the last two occasions – though it should be noted that *annual* budget bills and estimates are still required for formal authority to spend. This fact was one of the prime underlying reasons behind the previous Committee's calls for a strategic review stage.

3. Review of budget execution in Wales

The Welsh Government, like its Scottish counterpart, prepares an *annual* budget with indicative figures for the following years. As is noted above in the Scottish context, this may render the need for a strategic budget review stage less acute. The budgetary cycle in Wales has been changing somewhat over recent years and the process may yet change further.[13] There are, however, some points that might be of interest to the Committee.

3.1. Process of budget revisions

Supplementary budget motions

The Welsh Government does not report regularly to the National Assembly for Wales in the manner of the Northern Ireland Executive's in-year monitoring rounds. Neither is there a strategic review stage.

Section 125 of the Government of Wales Act 2006[14] provides that there must be at least one budget motion (the annual budget motion) moved in relation to each financial year. But the Welsh Government may also bring supplementary budget motions for the purposes of transferring resources between expenditure lines; varying those resources available in a particular ambit[15]; varying the level of income that may be retained by a department; or, introducing a new ambit and allocating resources to it.

This is similar to the procedure in Scotland, whereby in-year changes in resources must be authorised by the National Assembly for Wales. In Northern Ireland, equivalent authorisation is only given retrospectively.

Role of the National Assembly for Wales

When a supplementary budget motion has been tabled, it cannot be moved in plenary until the content has been scrutinised under Standing Order 20.33:

> *A supplementary budget motion tabled under Standing Order 20.30 may not be moved until either:*
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> *(i) the responsible committee has reported on the motion; or*
>
> *(ii) if the responsible committee has not reported on the motion, three weeks have elapsed after it has been tabled.*[16]

[13] Source: personal communication with senior finance research officer, National Assembly for Wales.
[14] Available online at: http://www.legislation.gov.uk/ukpga/2006/32/contents
[15] Ambit is the term used in the Estimates for the description of the purpose of expenditures
[16] Standing Orders available online at: http://www.assemblywales.org/july_2011_branded_clean_sos-e.pdf (accessed 21 November 2011)

Under Standing Order 20.34, the responsible committee may recommend variations to the figures presented in the motion, as long as there is no net change to the aggregate amounts. Interestingly, however, it is only a government minister who may introduce an amendment to the motion, not a committee.[17]

Provision of information

Alongside the supplementary budget motion, the Welsh Government provides an explanatory memorandum which explains the purpose of any changes.[18] In addition, the Minister of Finance may give evidence to the Finance Committee.

The Welsh Government and National Assembly for Wales are currently in the process of developing a protocol. This protocol will cover, among other things, the provision of information to the legislature – in terms of detail and timing.

3.2. Relevance to the Northern Ireland budget process

As with the process in Scotland, the arrangements for giving effect to in-year changes are not exactly what is envisaged by a strategic review phase. It is important to note that again, they take place within the context of an *annual* budget process.

- Approval: The National Assembly for Wales does not have any control over the timing of supplementary budget motions, nor is there any apparent requirement for these to be presented as part of any form of strategic review. Nevertheless, there is a guaranteed scrutiny window for the legislature that is not available to statutory committees in the Northern Ireland Assembly.

[17] Standing order 20.37. http://www.assemblywales.org/july_2011_branded_clean_sos-e.pdf (accessed 21 November 2011)
[18] See for example: http://wales.gov.uk/docs/finance/report/110621noteenv1.pdf (accessed 21 November 2011)

4. International evidence

Given that the processes in both Scotland and Wales are only partially instructive in relation to a strategic review phase, this section provides some evidence from further afield.

4.1. Members of the Organisation for Economic Cooperation and Development (OECD)

According to experts at the IMF

> *In about one third of OECD countries, it is a legal requirement for the legislature to be provided with a comparison of actual spending with budgeted spending.*[19]

One example is New Zealand where half-year economic and fiscal updates, and a statement on long-term fiscal position, have to be produced by the executive. This is published between 1 November and 31 December (and can therefore help inform scrutiny of the following year's Budget Policy Statement). The publication is referred under Standing Orders to the Finance and Expenditure Select Committee to consider.[20]

It was noted in the Introduction that the IMF's *Manual on Fiscal Transparency* states that:

> *The midyear budget report should contain a comprehensive analysis of budget implementation, including comparisons for all major revenue, expenditure, and financing items with midyear figures for the preceding year and midyear estimates for the budget. Any effect of any other government decisions or other circumstances that may have a material effect on the budget should be disclosed to the legislature.*[21]

In a similar vein, the OECD notes that:

> *In most countries, the executive is required to report information on in-year budget execution to the legislature during the fiscal year according to the budget system laws or requests from the legislature.*[22]

An example is provided by Mexico. The executive must inform Congress at regular intervals during the fiscal year about certain activities: transfers to states and public

[19] IMF (2010) 'Role of the Legislature in Budget Processes' available online at: http://blog-pfm.imf.org/files/fad-technical-manual-9.pdf (accessed 22 November 2011) (see page

[20] New Zealand Parliament (2008) 'Standing Orders of the House of Representatives' available online at: http://www.parliament.nz/en-NZ/PB/Rules/StOrders/1/b/6/00HOHPBReferenceStOrders2-Standing-Orders-of-the-House-of-Representatives.htm (accessed 22 November 2011) (Rule 326 page 102)

[21] IMF (2007) 'Manual on Fiscal Transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507m.pdf (accessed 18 November 2011) (see page 70)

[22] OECD (2007) 'Role of the Legislature in the Budget Process: Recent Trends and Innovations' available online at: http://www.oecd.org/dataoecd/42/27/43411793.pdf (accessed 22 November 2011) (see page 17)

debt evolution every month; performance evaluation every two months; the evolution of public finances including information on revenue, expenditure and debt every quarter; and other information required by Congress.[23]

In the UK, since adoption of the Finance Act of 1998, the Treasury has to prepare and present a pre-budget report. Section 156 of this legislation provides that:

> *(1)It shall be the duty of the Treasury, for each financial year, to prepare and lay before Parliament the following documents, that is to say—.*
>
> *(a)a Financial Statement and Budget Report;.*
>
> *(b)an Economic and Fiscal Strategy Report; and.*
>
> *(c)a Debt Management Report..*
>
> *(2)The preparation and laying before Parliament of the Financial Statement and Budget Report for any financial year shall be preceded, in such cases and by such period as may be set out in the code for fiscal stability, by the preparation by the Treasury of a document to be known as the Pre-Budget Report..*
>
> *(3)The Treasury shall lay before Parliament any Pre-Budget Report prepared by them under subsection (2) above.*[24]

Essentially the pre-budget report should contain government achievements, an update of the state of the economy and public finances, and a debt management report.

In Korea, the executive regularly reports updated information on budget execution to the budget committee.

4.2. Provision of information to the Committee for Finance and Personnel

DFP currently provides regular updates to the Committee on forecast outturn (i.e. expected expenditure against plan). As the new financial process is shaped, it may be necessary for the Committee[25] to review the usefulness of this information. One element it does *not* contain, for example, is any information on revenue.

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[23] OECD (2007) 'Role of the Legislature in the Budget Process: Recent Trends and Innovations' available online at: http://www.oecd.org/dataoecd/42/27/43411793.pdf (accessed 22 November 2011) (see page 17)

[24] http://www.legislation.gov.uk/ukpga/1998/36/section/156

[25] See CFP Meeting Pack for 23 November 2011,

5. Concluding remarks

The recommendation by the previous Committee cited in the Introduction referred to an annual review process enabling reappraisals of allocations and spend in regard to Programme for Government (PfG) targets. Neither the process in Scotland or in Wales very obviously supports this form of review.

There are other considerations also:

- In DFP's discussion paper on the *Review of Financial Process* the concept of linking budget allocations to PfG objectives has been rejected; and,
- A balance should be struck between providing certainty of funding beyond the short term and any inclination to cut the funding of programmes that are not delivering in that same short term.

A second issue is that the processes in both Scotland and Wales appear in essence to share the same focus on expenditure as the Northern Ireland process. In future, with various tax powers potentially to be transferred to the respective devolved administrations, a more revenue-focused process is likely to become increasingly important in the budgetary cycle.