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Options for strategic budget stages

This paper builds upon previous research which identified good practice requirements for two formal stages to be built into the Northern Ireland budget process. The first part of the paper looks at options for a strategic budget stage prior to the draft budget. The approaches taken in Scotland and Wales are considered. The second part of the paper presents options for strategic review of the budget during execution.

Please Note: the options presented in this paper are intended as a catalyst for discussion. No legal advice on *how* or indeed *if* they could be achieved has been sought at this stage.

Key points

- A number of barriers to a strategic pre-draft budget phase have been identified that could prevent the development of a budget process that fulfils the Assembly's wish for greater involvement in, and input to, the budget process;
- A number of options are presented in this paper which could be developed to shape a more robust process and address some of the barriers. Not all the options are mutually exclusive and a combination of the options presented may be necessary;
- The most problematic barrier may be the cycle of UK spending reviews. The position of the devolved administrations in respect of elections or budgeting does not appear to feature significantly in UK Government decisions on the timing of spending reviews;
- The Committee may wish to consider recommending to the Minister of Finance and Personnel that he raises this issue with his counterparts in the other devolved administrations on the basis of evidence from Scotland;
- The issue of agreement in the Northern Ireland Executive (in respect of both the Programme for Government and budget proposals) also presents particular, possibly unique, challenges. The options presented attempt to focus on improving the budget process to enable the Assembly to make a more proactive and influential contribution in the early part of the process ahead of the intensive (and presumably difficult) negotiations in the Executive;
- Many of the options presented would rely on legislation or standing orders to give them effect. Caution is needed that standing orders are not overloaded with provisions that should be in legislation;
- Strategic pre- and post-budget scrutiny would be facilitated by closer linkage between budget and objectives in the PfG (as previously recommended by the Committee). As the PfG is an OFMDFM responsibility, actions across the Executive and the Assembly may be required; and,
- The Committee may wish to consider what action it might wish to take in the event that the Executive does not progress its recommendations for a regularised budget process that takes into account the Assembly's needs and international best practice. A possibility is for the Committee to initiate its own legislation.

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1. Introduction

Briefing paper 62/11¹ presented five recommendations for improving the budget process in Northern Ireland based upon the work of the Committee for Finance and Personnel (the Committee) during the 2007-11 mandate and upon international best practice guidance. On 22 June 2011, the Committee forwarded the recommendations to the Department of Finance and Personnel (DFP) and requested that the recommendations are taken forward in parallel with the Review of Financial Process.

The Committee may wish to note that in response to questions it raised on the Terms of Reference for the Review DFP has previously stated:

...looking at the conclusions and recommendations from the previous Committee's reports, it is clear that many of these could be addressed within the existing Terms of Reference.²

This paper presents further research in relation to the recommendations made by the previous Committee and to recommendations two and three of the June Briefing paper:

Recommendation 2: the future budget process should include a strategic phase, perhaps in the spring preceding the production of a draft budget, to allow the Assembly to debate both revenue measures and spending priorities.

Recommendation 3: the future budget process should include a formal stage for reconsideration of the budget in light of emerging spending pressures or policy reorientation, with the aim of informing in-year reallocations and considering developments that might affect allocations across years.

Section 2 of the paper presents some options for consideration for how a pre-draft budget strategic phase could be built into the Northern Ireland process in the light of some of the potential difficulties and the approaches that have been taken in the other UK devolved administrations.

Section 3 looks at possible mechanisms for a strategic phase during the execution of the budget.

The case for change

The previous Committee undertook a considerable amount of work building a case for change in the budget process. This has been underpinned by research into international best practice. This evidence supported calls for greater transparency and engagement in the process.

¹ RaISe (2011) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: <http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf>

² Letter from DFP (CFP5,6&7 /11-15) 8 June 2011

Ultimately, the purpose of reforming the budget process is to enhance the Assembly's role in budgeting. Research Briefing paper 62/11³ touched on the value of scrutiny.

From the Executive's perspective a robust and transparent process could help support a number of its intended aims. For example, clear and structured debate on the revenue side of the process may help build confidence in the business community that all the issues are being fully and properly considered. Assuming corporation tax powers are devolved to Northern Ireland this is a potentially important factor.

Also, the Terms of Reference for the Review state that:

Presentation of basically the same information to the Assembly for approval and lengthy debate during the Budget process and again in the Main Estimates (some months later) leads to confusion and may be perceived as inefficient and a poor use of Assembly time.

Much of the focus of the options presented in this paper is on improving the process in a way that enhances scrutiny and accountability in the early stages of the process to increase Assembly ownership of the budget. Of itself, this should lead to less protracted debate during the legislative stages which give effect to the proposals in the budget. In addition, by facilitating a structured input by statutory committees into the process, the levels of dissatisfaction expressed by Members in plenary could be reduced. Finally, by allowing a full exploration of specific departmental issues in committee some potential difficulties or objections could be addressed *before* the budget reaches plenary – which is, after all, the main reason why legislatures delegate work to committees in the first place.

This is particularly important because once the Executive has already committed considerable time and effort to producing a draft budget there is little scope for changing it. This was confirmed in evidence to the Committee by a DFP official who stated:

*Movements between draft and final Budgets tend to be minimal. The reasons for that are as follows. If one maps out the work process, the vast amount of substantive engagement and dialogue predates publication of the draft Budget, so **the hard work has been done by then**. What happens between draft and final Budget [...] is that lots of people call for lots more money to be spent in every area. That makes it incredibly difficult for the Executive to respond, so there is little change between draft and final Budgets.⁴ [emphasis added]*

³ RaISe (2011) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: <http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf> (see page 4)

⁴ Official Report: <http://archive.niassembly.gov.uk/record/committees2009/FinancePersonnel/100512ReviewofBudgetProcess2008-2011.htm>

The contribution of the Assembly, therefore, needs to be in those earlier parts. By maximising this input at the right time, much of the debate can be refocused from plenary to committees. This should, all things being equal, serve to enhance the effectiveness of the devolved institutions. In turn, this could help foster confidence in the wider community that both the Assembly and the Executive are engaged in a robust, transparent and meaningful dialogue over the crucial and central issue of budgeting.

2. Strategic phase: pre-draft budget

The over-riding aim for including a strategic phase in the budget process is to allow for greater involvement of the Northern Ireland Assembly and its statutory committees in advance of the Executive's draft budget being formally presented. In its *Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure*, the previous Committee called for such a stage and noted:

...the Committee believes that the Assembly's potential in contributing constructively to the development of Executive budgets and to overseeing the subsequent delivery of the Executive's strategic spending priorities can be fully realised only if the Assembly takes decisive steps to establish stronger procedures and processes for exercising its role in this regard.⁵

It was also noted in Briefing paper 62/11 that such a stage is used in many countries around the world, and this approach is underpinned by international good practice.⁶

At present, budgeting in Northern Ireland focus predominantly on the expenditure side: how is the cake going to be cut? There are potential developments however that will mean the Executive and the Assembly will have to focus more on the revenue side. In particular, the devolution of corporation tax powers and Air Passenger Duty to Northern Ireland will require attention to be paid to forecast revenue from these sources, and the impacts of decisions taken.

The strategic phase could provide a space for examining existing, new and potential revenue raising measures arising from the work of the Executive's Budget Review Group.

Moreover, previous research papers⁷ have highlighted the good practice requirement for the Executive to prepare and present information to the legislature relating to all government revenue and expenditure alongside the draft budget, so that the necessary trade-offs between policy options can be assessed.⁸ As noted, this issue will become more significant to Northern Ireland if corporate tax powers are devolved. The Executive will need to forecast revenue (as it does already with the regional rate, for example) to enable decisions to be made on the appropriate rate of taxation, particularly as the Northern Ireland block grant from the UK Exchequer has to be reduced to take account of revenue received.⁹

⁵http://archive.niassembly.gov.uk/finance/2007mandate/reports/report_61_10_11R.htm#3

⁶RaISe (2011) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: <http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf> (see pages 6-8)

⁷RaISe (2011) 'Budget System Laws: principles and good practice' available online at: <http://www.niassembly.gov.uk/researchandlibrary/2011/10111.pdf>

⁸OECD (2002) 'OECD Best Practices for Budget Transparency' available online at: <http://www.oecd.org/dataoecd/33/13/1905258.pdf> (accessed 26 September 2011) (see page 8)

⁹See RaISe paper 57/11 'Devolution of Corporation Tax' for a full discussion: <http://www.niassembly.gov.uk/researchandlibrary/2011/5711.pdf>

It is important, then, that future budget processes enable the Assembly to consider and debate the revenue side, so that it is clear what trade-offs between revenue and expenditure are being planned. The Assembly will also need such information in order to pass legislation on the tax rate. Given that it is likely that corporate tax powers *will* be devolved, the future budget and financial process should be developed with this in mind.

2.1. Barriers to pre-draft budget scrutiny

In evidence to the Committee on 21 September, DFP officials noted two particular barriers to a strategic pre-draft budget stage: the timing of UK Government spending reviews and the timing of the Executive's Programme for Government. Other issues to be considered are Executive agreement and also the organisational arrangements for scrutiny within the Northern Ireland Assembly.

UK spending reviews

The majority of the Executive's resources come from the UK Exchequer via the block grant. Since 1998 the level of these resources has been fixed through the UK Government's spending reviews.

To begin with spending reviews were held every two years and fixed expenditure limits for three years. The cycle changed, however, and following the Spending Review 2004 another was not held until October 2007. It was again three years until the Spending Review 2010, which set expenditure limits for four years (2011-15) rather than three.

This gives rise to some difficulties:

- The timing of spending reviews is out of the Executive's control;
- Expenditure limits are determined through the Barnett formula according to changes in spending in England over which the Assembly has no control;
- Through spending reviews the Treasury can alter public expenditure mechanisms (such as the ending of End-Year Flexibility in the Spending Review 2010); and,
- The spending review cycle - assuming the next is held in autumn 2014 – coincides with the final months of the current Assembly mandate.

The Northern Ireland Executive's Programme for Government

DFP officials identified the absence of a Programme for Government (PfG) as problematic for the first strategic phase of budget scrutiny. In particular, the question is how would the 2011-15 budget have been agreed in spring 2011 if it had been necessary to await the publication of the PfG?

This point reinforces the difficulty raised above in relation to the spending review cycle coinciding with elections. In effect, a budget had to be set for – at the very minimum –

2011-12 prior to dissolution of the Assembly for elections otherwise departments would have run out of money before the new Assembly came in.¹⁰ In practice, the outgoing Executive and Assembly have set spending priorities for the four-year period *without having an agreed set of political priorities or policies*. It is difficult to see that such a situation would have arisen had the spending review cycle not coincided with the elections.

Nevertheless, while it was possible for the outgoing Executive to delay the publication of a new PfG until the new Executive could determine its priorities, the same was not true of the budget. On the face of it, this leaves the Executive open to the challenge that its policy priorities will have to be determined by the spending plans already agreed rather than funding being allocated to support agreed priorities. A reformed, linked process could reduce this risk.

In its *Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure* the previous Committee stated that "*there should be clear, visible linkage between the PfG, PSA targets and budget allocations*".¹¹ In response to this recommendation, DFP stated it:

*...shares the Committee's objective of a transparent and robust framework against which budget allocations, efficient outputs and clear outcomes may be measured.*¹²

At the same time, however, DFP noted that the PfG process is the responsibility of OFMDFM. As DFP is currently reviewing financial process on behalf of the Executive as a whole, now may be the appropriate time for a case to be made (based on the previous Committee's recommendations) that these linkages need to be developed as a priority to facilitate future budget processes.

On the other hand, it may be possible to argue currently that, given there is not a transparent linkage between PfG objectives and budget allocations, the absence of a PfG does *not* necessarily present a significant barrier to pre-draft budget scrutiny by the Assembly and its statutory committees. Indeed, until the two processes and publications *are* linked it might even be *more* significant that budget priorities are discussed strategically.

¹⁰ Although there is statutory provision for allocations to be made by a nominated official in DFP in the absence of an agreed budget plan, DFP officials have previously stated that this would cause real difficulties with allocating capital spend. There are also difficulties relating to departments' ability to retain accruing resources to offset against their expenditure to be considered. Technically it is not the budget that confers authority to spend but the Budget Bill, estimates and supply resolutions.

¹¹ http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html#3

¹² DFP 'Response to 2nd Inquiry Report':

http://archive.niassembly.gov.uk/finance/2007mandate/reports/dfp_response_2nd_budget_report.htm

Executive agreement

Another potential difficulty related to timescales is if the Executive is unable to reach a common position on the draft budget. The Minister of Finance and Personnel can only bring a draft budget to the Assembly if the Executive has agreed it. This difficulty could impact on any reformed process, irrespective of how well it aligns with international good practice.

This difficulty is a consequence of power-sharing; the institutional landscape of Northern Ireland requires consensus, whereas a majority government (such as is usually in place in Westminster) can simply force its proposals through.

Whilst reforming the budget process itself cannot resolve this situation, it could potentially help lessen the impacts. For example, if more of the engagement with the Assembly occurred *prior* to the production of the draft budget the risks attached to problems in securing agreement in the Executive could be lessened; knock-on delays to the scrutiny work of statutory committees would be avoided because their input would be front-loaded in the process.

Period of consultation

In evidence to the Committee, DFP officials have cited the requirement for the Executive to consult on the draft budget as a potential barrier to developing a budget calendar with concrete dates set for particular purposes.¹³ It may be argued that, as the draft budget is owned by the Executive, it is really for the Executive to manage its own timetable to allow for a full and proper consultation process. The focus of this paper is on the elements of the process over which the Assembly has some control or may mitigate in some way.

Organisational arrangements within the Northern Ireland Assembly

At present all the Assembly's statutory committees have the same remit, derived from the Good Friday/Belfast Agreement. They have a duty to scrutinise departmental budgets as set out in paragraph 9 of Strand One to the Good Friday/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. They will have the power to:

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

¹³Official Report, 21 Sept 2011 available online at:

http://www.niassembly.gov.uk/record/committees2011/FinancePersonnel/110921_ReviewFinancialProcess.pdf (accessed 27 September 2011) (see page 14)

- *approve relevant secondary legislation and take the Committee stage of relevant primary legislation;*
- *call for persons and papers;*
- *initiate enquiries and make reports; and*
- *consider and advise on matters brought to the Committee by its Minister.*¹⁴

While it is clear that all committees have a role in considering and advising on departmental budgets, it is much less clear *how* - in the absence of pre-draft budget scrutiny or execution phases - they could ever fully exercise this function effectively because the scope for their input is extremely limited. Having said that, statutory committees have attempted this kind of scrutiny, but have generally been frustrated in recent processes by the absence of timely and detailed information provided to them.

Current practice is that, by convention, statutory committees have reported to the Assembly on budget proposals through a report co-ordinated by the Committee for Finance and Personnel. The previous Committee considered and addressed a number of issues related to this in its *Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure* and recommended that:

*...the Procedures Committee undertake an urgent review of Assembly standing orders, early in the next mandate, for the purpose of strengthening the procedural basis for the Assembly's scrutiny of the Executive's budgets and expenditure.*¹⁵

It should be noted, however, that standing orders are internal rules for how the Assembly conducts its business and any review by the Procedures Committee would need to be conducted in the wider context of agreement on how the reformed budget and financial processes should operate.

2.2. Defining the purpose of pre-draft budget scrutiny

The budget process in Scotland was reviewed by the Scottish Parliament's Finance Committee during 2008/09. In its report, the Finance Committee stated that:

During evidence, it was clear that witnesses felt that the Parliament needed to define what it means by a "budget strategy" phase. While it was clear that witnesses did not believe that the Parliament should attempt to take on the role of government, there was a view that this phase should seek to identify a government's priorities (if not already clear); determine whether the budget is delivering on these priorities and whether a government's

¹⁴Northern Ireland Office (1998) 'The Belfast Agreement' available online at <http://www.nio.gov.uk/agreement.pdf> (accessed 26 Sept 2011)

¹⁵http://archive.niassembly.gov.uk/finance/2007mandate/reports/report_61_10_11R.htm#3

*policies match its priorities, and make suggestions for alternative strategies.*¹⁶

The Finance Committee also found that the Scottish Parliament's Stage One (the budget strategy phase) did not fit well with how scrutiny committees in the Parliament operated. The Committee found that, whilst there were difficulties, "*there was also a consensus that the underlying principle of Stage One (of taking a strategic overview of budgetary decisions) should be retained but in a different form.*"¹⁷

The findings of the Scottish Finance Committee link with some of the issues associated with the absence of the Programme for Government noted above. If the pre-draft budget scrutiny phase is to be effective, it is necessary for the precise purpose of the phase to be clearly established and articulated.

It is proposed that for the future budget process a definition of scrutiny might focus the pre-draft budget strategic phase on testing and challenging emerging budgetary positions. The aim of this would be twofold:

- Enabling the 'critical friend' aspect of scrutiny: If departments were required under the options presented below to provide bid documentation to statutory committees, the Assembly could add value by investigating the prioritisation attached to bids and testing the assumptions underpinning them. An advantage of this approach might be to diminish the potential for an adversarial position to develop. Statutory committees would be empowered to fulfil their advisory role by identifying strengths and weaknesses in departmental positions and commenting on the relative merits of one bid over another.

On the other hand, this approach might lead statutory committees to simply adopt the stance of their relevant minister or department. This risks a stand-off developing whereby all committees demand greater resources. It is possible that this risk could be mitigated by the Committee for Finance and Personnel being required to provide guidance to the other committees on how to report and perhaps developing a pro-forma approach to co-ordinated reports.

- Ensuring the integrity of financial information: it would assist with the transparency of the process if part of the statutory committees' role was to ensure that budgetary documentation is clear and supported by robust evidence. Information could be tested by committees inviting challenge from key stakeholders or expert witnesses. A disadvantage to this is that – like many other issues discussed – it would rely on timely receipt of information from departments and access by statutory committees to sufficient expert support. On the other hand, this approach would support good practice on fiscal transparency and could promote better understanding of departmental proposals both within the Assembly and wider society.

¹⁶ Finance Committee (2009) 5th Report, 'Report on the Review of the Budget Process' available online at: <http://www.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#9> (accessed 26 Sept 2011) (see para 28)

¹⁷ Finance Committee (2009) 5th Report, 'Report on the Review of the Budget Process' available online at: <http://www.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#9> (accessed 26 Sept 2011) (see para 23)

An alternative focus of scrutiny could be on the development by statutory committees of alternative priorities and spending proposals. But this may lead to an adversarial approach being adopted that would not necessarily enhance the credibility of the process.

Secondly, the Assembly is not resourced with sufficient expertise in-house to develop alternative policy costings, for example. Although the previous Committee recommended that the Secretariat undertake a cost-benefit analysis of scrutiny support options, it may be difficult to envisage resources being available in the short term due to the current expenditure climate.

2.3. Approaches in Scotland and Wales

Scotland

It was noted above that the Scottish Parliament's Finance Committee found that the budget process had some flaws. In particular it found that Stage One (the budget strategy phase) had not been particularly successful.

In response to this finding, and other difficulties such as the timing of UK spending reviews, it recommended:

...that a strategic budget scrutiny phase should be undertaken at least once in each session of the Parliament. The Committee recommends that the timing and objectives of this phase should remain flexible so that it can decide them in the light of circumstances.¹⁸

It also argued that:

...it is essential that a strategic budget phase allows scrutiny to be aligned with the policy priorities which the Scottish Government is pursuing through its budget. Documentation should, therefore, allow for the alignment of budgetary information with appropriate policy statements and performance monitoring material¹⁹

The process in Scotland therefore seeks to minimise the problems associated with the cycle of spending reviews by allowing flexibility in the timing of the strategic phase. It also recognises that while the Scottish budget remains tied to the spending review cycle, there may not be added value in holding a strategic phase in each and every calendar year.

The Finance Committee also recommended that the old Stage One was replaced with a system of 'continuous financial scrutiny' whereby all subject committees "should

¹⁸Finance Committee (2009) 5th Report, 'Report on the Review of the Budget Process' available online at: <http://www.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#9> (accessed 26 Sept 2011) (see para 46)

¹⁹Finance Committee (2009) 5th Report, 'Report on the Review of the Budget Process' available online at: <http://www.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#9> (accessed 26 Sept 2011) (see para 49)

*continue to develop the way in which they mainstream financial considerations into any inquiries they undertake.*²⁰

The Scottish Finance Committee received a considerable amount of evidence that related to the problem caused by the spending review cycle, indicating that this is not an issue unique to Northern Ireland.²¹ Indeed, there may be an argument that the spending review mechanism has not been designed with the needs of the devolved administrations in mind.

Wales

The first part of the budget process in the National Assembly for Wales is, like the 2010 budget process in the Northern Ireland Assembly, the presentation of a draft budget. This process is governed by Standing Orders (see Box 1) below. The Welsh Assembly Government develops annual budgets, with indicative figures for the future years of the relevant spending review period.

Unlike the flexibility envisaged in the Scottish Parliament's system, the system in Wales uses standing orders to require certain budgetary events to occur in accordance with timetables that are organised around the National Assembly for Wales' period of summer recess. These give a minimum period of five weeks for committee scrutiny and prohibit any further motions (such as the Finance Minister trying to force agreement on the draft budget a week after it was first presented, to give a hypothetical example) from being tabled.

This approach does not make any specific mention of a strategic phase, but instead concentrates on ensuring that there is at least a minimum scrutiny period once the draft has been presented to the Assembly.

²⁰Finance Committee (2009) 5th Report, 'Report on the Review of the Budget Process' available online at:

<http://www.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#9> (accessed 26 Sept 2011) (see para 62)

²¹ The evidence received by the Finance Committee is available at:

<http://www.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm> In particular, the discussion paper by Professor David Bell looks at this issue in some detail. The issues also featured in a round table discussion which can be found at: <http://www.scottish.parliament.uk/s3/committees/finance/or-08/fi08-1602.htm#Col594>

Box 1: The timing of the budget process in Wales²²

- At least two weeks prior to the summer recess each year, the Minister responsible for government business must notify the Business Committee of the date by which the draft budget will be laid, and the date by which the annual budget motion will be tabled. (SO 20.2-20.3)
- The Business Committee will then publish a timetable for the consideration of the draft budget. This must include at least five weeks for the 'responsible committee' to report on the draft budget. (SO 20.4-20.6)
- A Welsh Minister must lay the draft budget before the National Assembly (in accordance with the date specified). This must contain details of resources and cash the government proposes to use in the following financial year and indicative figures for the subsequent two financial years, where possible. (SO 20.7)
- As soon as possible following the laying of the draft budget, a Welsh Minister should make a statement in Plenary, introducing the draft budget. (SO 20.8)
- No motion can be moved in Plenary in respect of the draft budget until the deadline for the responsible committee to report on the draft budget has passed. (SO 20.9)
- Committees other than the responsible committee may also consider the draft budget and report to the responsible committee. (SO 20.10)
- The responsible committee's report can recommend changes to the government's proposals, provided that such changes do not alter the overall amount of resources or cash proposed in the draft budget. (SO 20.11)
- The National Assembly must consider a motion tabled by a Welsh Minister to take note of the government's draft budget. Amendments to such a motion may be tabled provided that they do not alter the overall amount of resources or cash proposed in the draft budget. (SO 20.12)

2.4. Options for a pre-draft budget scrutiny phase

This section of the paper presents some options for a strategic pre-draft budget phase in the light of the barriers discussed above and drawing on elements of the processes followed in Scotland and Wales. Some discussion of the merits of various options is also presented.

Aspects of the options overlap and it is possible to envisage how they could be developed together to ensure a robust pre-draft budget scrutiny phase. They are not necessarily mutually exclusive.

²² Source: National Assembly for Wales (2011) 'Research Service Quick Guide: the draft budget' available online at: <http://www.assemblywales.org/gg11-0018.pdf> (accessed 23 September 2011)

Timing

Previous research papers have considered international best practice in budgeting and presented a case for elements of the budget process being placed on statutory footing. In addition, DFP officials have stated in evidence to the Committee that, as officials, they would welcome a statutory timetable for the budget process.²³

If legislation, or indeed standing orders, are to be used as a means for establishing a formalised budget process that enables proper input from and scrutiny by the Assembly, it seems likely that a particular event would need to be identified on which the subsequent timescales could hang. In other words, if you are trying to build in a minimum period for scrutiny, for instance, there needs to be an identifiable point in time when this period would start.

Option 1: announcement of UK spending review

Before embarking on the Spending Review 2010 exercise, the Treasury made an official announcement of the framework for the process. This was published by way of Command Paper 7872 in June 2010.²⁴ DFP officials have confirmed that similar documents preceded the Comprehensive Spending Review in 2007.

Option 1 therefore is that the starting point for a strategic pre-draft budget phase be tied to the publication of the Treasury's framework. For example, it might be possible for a statutory duty to require the Minister of Finance and Personnel or the Executive to confirm a date for presentation of the draft budget within a certain period of the publication.

This duty would need to distinguish between the initial draft budget presented for consultation from that specified under s.64 of the Northern Ireland Act 1998 which the Minister of Finance must lay before the beginning of each financial year (in effect the Executive's amended budget following the consultation).

A disadvantage of this approach is that it does not detach the Northern Ireland budget process from the cycle of spending reviews – although, realistically, this may not be achievable in the context of devolution. Secondly, it is not certain that the UK Government will always follow the same approach in advance of spending reviews. Thirdly, imposing a duty on the Minister of Finance and Personnel may be unfair because it is not within his gift to force Executive agreement.

On the other hand, it would give a clear impetus to beginning the strategic scrutiny process at a particular time and would provide the Assembly and statutory committees

²³Official Report, 21 Sept 2011 available online at:

http://www.niassembly.gov.uk/record/committees2011/FinancePersonnel/110921_ReviewFinancialProcess.pdf (accessed 27 September 2011) (see page 14)

²⁴ HM Treasury (2010) 'The Spending Review framework' available online at: http://www.hm-treasury.gov.uk/d/spending_review_framework_080610.pdf (accessed 27 Sept 2011)

with a timetable around which they could design their forward work programmes and business agenda.

Option 2: commissioning by DFP of pre-budget bids from departments

A second option would be to tie the process to the date from which DFP issues guidance to Northern Ireland departments. In advance of the Comprehensive Spending Review 2007, for example, DFP issued guidance on 23 March 2007 to all departments covering the outputs required from the process and indicating the timetable to be followed. Similarly, in advance of Spending Review 2010, DFP issued guidance in June of that year. Again this specified the inputs to the process required from departments and the timescales for key stages in the process.

An advantage of this option is that it would tie the process to actions under the control of the devolved administration in Northern Ireland rather than the Treasury (although, in all likelihood the two are almost certain to be linked). A possible disadvantage might be that, should the Executive wish to delay the proposed initial stage of scrutiny in the Assembly, the guidance from DFP could also be delayed. This risk could be mitigated by a duty being placed on DFP to publish its guidance within a certain period of the announcement of a spending review, thereby guaranteeing the commencement of the strategic budget phase.

An additional duty could be placed on departments to consult their respective statutory committees in advance of submitting pre-budget information to DFP. Such a duty could also perhaps specify the nature of information that departments must provide to statutory committees which would also help to counter the difficulties in recent processes over access to information. It would allow statutory committees to comment and advise on the prioritisation of bids and so on.

A precedent for this approach may perhaps be found in Standing Order 42(2) which requires the Chairperson of the Committee to confirm that there has been adequate consultation in respect of granting accelerated passage to a Bill.

A disadvantage in this option might be that it could lead to a disjointed committee-by-committee approach without a centrally co-ordinated Assembly-wide phase.

Alternatively, the Committee for Finance and Personnel could be required to produce a co-ordinated report at the pre-draft budget stage. This would have the advantage of the Committee reporting at a time when the draft budget is not already negotiated and could facilitate the streamlining of the latter part of the process.

For example, given the difficulty in changing the draft budget noted above, perhaps this would be a more productive stage for the Committee to report? Perhaps, then, a committee stage *after* the introduction of the draft budget would not be required. Instead, a plenary debate could be scheduled including a report from the Minister of Finance on behalf of the Executive on the outcome of the public consultation.

Legal advice would be required as to whether this process would satisfy the requirement of paragraph 20 of Strand One of the Good Friday/Belfast Agreement. This requires a scrutiny phase by statutory committees of the Executive's proposals.

Option 3: specification of a date in the year when a spending review is expected

Although the cycle of spending reviews is dependent upon the UK government, it may be possible to construct a starting point around a specific date in the calendar in the year in which a spending review is expected, perhaps by adapting the approach provided for in the standing orders of the National Assembly for Wales.

Although what turned out to be Spending Review 2010 might have been expected during 2009 (and didn't materialise), there is in a sense a definite point after which the UK Government cannot delay. For example, the Departmental Expenditure Limits in Comprehensive Spending Review 2007 were set for three years.

A new spending review therefore *had* to occur prior to the end of the fiscal 2010-11 year. If not, no UK Government department or any of the devolved administrations would have had any basis on which to budget for the following years.

From this premise, it might be possible to tie the start of the strategic pre-draft budget phase to, for example, 1 June in the year in which a spending review is expected, or to 1 June in the last fiscal year for which the Executive has been allocated a Departmental Expenditure Limit. The latter could be a default position.

Programme for Government

It is conceivable that if some form of duty were placed on the Executive under Option 1 above, that the same event could also be used as a trigger to require the presentation of a PfG within a specified period. Although the PfG process is outside the remit of DFP, it is logical that the budget and PfG processes are joined up and properly linked. Again, best practice has been identified previously as recommending that requirements for performance- or results-related information accompany the draft budget.

It is also a requirement of paragraph 20 of Strand One to the Good Friday/Belfast Agreement that:

The Executive Committee will seek to agree each year, and review as necessary, a programme incorporating an agreed budget linked to policies and programmes, subject to approval by the Assembly, after scrutiny in Assembly Committees, on a cross-community basis.²⁵

This approach would have the advantage of ensuring that both parts of the equation – i.e. spending plans and political priorities – are presented to the Assembly at the same time, as appears to have been envisaged in the Agreement. A disadvantage arises

²⁵ Northern Ireland Office (1998) 'The Belfast Agreement' available online at <http://www.nio.gov.uk/agreement.pdf> (accessed 26 Sept 2011)

from the potential for the spending review cycle to continue to coincide with elections to the Northern Ireland Assembly.

Executive agreement

It is far from clear that any duty – whether in statute or standing orders – which requires the Executive to agree proposals to specified timescales could be enforced.

Nevertheless, it may be that the additional impetus of having an agreed process in place along the lines of those outlined above might help encourage the Executive to ensure that the Assembly is properly and fully engaged. This may also be more likely given the potential benefits of a reformed process from the Executive's perspective.

Organisational arrangements within the Northern Ireland Assembly

There are two key aspects to the Assembly's arrangements which may need to be strengthened for the proposals listed above for discussion to be effective:

- Providing sufficient time for scrutiny; and,
- The provision of sufficient information.

Providing time for scrutiny: In order to alleviate the difficulties expressed by statutory committees in previous budget processes, an adapted form of the standing orders of the National Assembly for Wales could be used to provide a minimum period between the starting point of the strategic phase (depending on which, if any, of the approaches outlined in Options 1 to 3 above is preferred) and the production of the draft budget. The necessity for this would depend upon the particular duties placed on departments of the Executive under the options for timing of the strategic phase presented above.

A disadvantage of this approach might be that the Committee for Finance and Personnel does not at present have an established role in reporting to the Executive. The Committee's role might need to be re-cast in any review of standing orders by the Procedures Committee. In order to assist the Committee in producing a coordinated report, the other statutory committees could be required to report at a certain time and in a standardised format.

On the other hand, this approach would have the advantage of creating a guaranteed minimum scrutiny window for statutory committees. It could also provide a more formal central co-ordinating role for the Committee for Finance and Personnel at the strategic pre-draft budget stage. This would allow it to focus on DFP's own departmental proposals first and then on strategic and cross-cutting issues subsequently.

The provision of information: this proposal would build upon some of the options by specifying a minimum level of information that must be provided by departments to committees at the pre-draft budget phase if it is not possible or desirable to include this in statute. This would empower committees by ensuring they have timely access to

relevant budgetary information without having to have recourse to their powers to call for persons and papers.

The previous Committee recommended in its *Report on the 2008-11 Budget* 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.

A standardised approach could be implemented through standing orders, legislation or perhaps by amending the Ministerial Code.

A disadvantage of relying on the Ministerial Code would be that there is a lack of clear sanctions that committees could use to enforce compliance by ministers. On the other hand, specification through statute may be insufficiently flexible to cope with changing demands as statutory committees become more experienced and the reformed processes bed down. A final consideration is that by specifying particular information as a minimum, committees might consider that they are limiting their ability to request whatever information they feel they need to perform their functions.

3. Strategic phase: review

The strategic budget review phase proposed in Briefing paper 62/11²⁶ is intended to satisfy a number of issues:

- International good practice states that a mid-year report on budget developments should be presented to the legislature;
- It should help avoid ad-hoc re-opening of the settled multi-year budget by the Executive in the manner of the ‘strategic stocktake’ and ‘review of spending plans 2010-11’ by formalising strategic reconsideration in the light of developments; and,
- It would meet the previous Committee’s repeated recommendation that an annual review mechanism be built into the process.

3.1. Options for a strategic budget review phase

It was argued in the previous research that such a stage would be over-and-above what can be achieved through the established process of in-year monitoring rounds. Monitoring rounds only address in-year pressures faced by departments by reallocating surplus resources returned to the centre because of reduced requirements *in the same year*.

Research for the previous Committee also highlighted a need for changes to the in-year monitoring process:

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.²⁷

A strategic budget review phase could be tied into the monitoring round cycle. In evidence to the Committee on 21 September 2011, a DFP official noted that the October monitoring round could be “*quite a strategic assessment*.”²⁸ Building on the previous argument made above, however, it is suggested that the Committee considers whether October monitoring would really be a strategic assessment if it is retained in its current form? Some options for enhancing the current process to make it more strategic are presented below.

²⁶RaiSe (2011) ‘DFP’s Review of Financial Process: considerations for improving the budget process’ available online at: <http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf> (see pages 8 to 11)

²⁷RaiSe (2010) ‘Considerations for Reform of the Budget Process in Northern Ireland’ available online at: <http://www.niassembly.gov.uk/researchandlibrary/2010/4510.pdf> (accessed 28 Sept 2011) (see page 61)

²⁸Official Report, 21 Sept 2011 available online at: http://www.niassembly.gov.uk/record/committees2011/FinancePersonnel/110921_ReviewFinancialProcess.pdf (accessed 27 September 2011) (see pages 17 to 18)

In addition, Briefing Paper 101/11 suggested that consideration be given to requiring the Executive to:

...report formally on budget execution – i.e. spending against budget plan, and progress against targets – during implementation. The Assembly could expect to vote approval of in-year monitoring round reallocations at the time, not just receive a statement and then vote retrospectively in the Spring Supplementary Estimates.²⁹

Option 4: combine October monitoring with a strategic review of PfG priorities to inform reallocations

This option is proposed as a means of increasing the Assembly's ownership of and involvement in the in-year monitoring process. At present, the Assembly receives a statement from the Minister of Finance and Personnel informing it of the Executive's reallocations. October monitoring could be combined with a strategic assessment of budget execution whereby the Executive would report on spending against plans.

If, as is suggested above and has been recommended previously, this report were linked to PfG objectives, October monitoring could be used for the Assembly to input into debate about the impact of reallocations in year. There might be a need for standing orders or legislation to ensure that information is provided in time for proper scrutiny and consideration. A disadvantage of this approach is that it would retain the focus on in-year reallocations, rather than developing a more strategic view.

Option 5: combine January monitoring with a strategic review of PfG priorities to inform reallocations

Alternatively, the strategic phase could be linked to January monitoring. This would remove any ability for the Assembly to comment on in-year allocations. But it would be known by this time how much underspend was likely to be carried forward to the following year under the Budget Exchange scheme. So, there would be a more strategic element to this option as it would enable the Assembly to input into considerations for reallocations in the following year.

Option 6: include an assessment of revenue raised against projections in October or January monitoring

It has been argued above that – particularly with the potential devolution of corporation tax powers – the Assembly should be better informed about the revenue side of budgeting. Under this option, the Minister of Finance would be required to report on behalf of the Executive whether revenue received were in line with projections made at the time the budget was passed.

²⁹RaISe (2011) 'Budget System Laws: principles and good practice' available online at: <http://www.niassembly.gov.uk/researchandlibrary/2011/10111.pdf> (accessed 28 Sept 2011) (see page 11)

An advantage of this approach would be it could enable the Assembly to take a strategic look across the years of the multi-annual budget in the light of potential revenue pressures which might lead to financial problems further down the line. As with Option 4 or 5 above, it might require the backing of statute or standing orders to ensure that adequate information is provided in time for MLAs to consider the position before the Minister makes his statement.

This option could potentially be combined with either Option 4 or 5.

4. Concluding remarks

Previous research for the Committee has built a case for reform of the budget process in Northern Ireland around the framework of international best practice. In evidence to the Committee, officials have highlighted some barriers to implementation of this, and the previous, Committee's recommendations.

This paper has presented some possible ways of dealing with those, and other, barriers to enhanced Assembly involvement. Further discussion and consideration of the options will be required to develop workable solutions that satisfy the Assembly's requirements. It is intended that this paper could serve as an input to DFP's discussion paper on the future financial process.

Another consideration that is worth raising at this stage is what might the Committee do if its recommendations are not addressed in a way that it is satisfied with? If the Executive does not progress a way forward that will assist statutory committees and the Assembly from fulfilling their scrutiny and advisory functions in a way that meets the Committee's needs, it might want to consider initiating legislation itself.

Finally, the Committee may wish to note that the evidence from Scotland underlines the fact that the timing of the spending review cycle is not a problem unique to Northern Ireland. This might support the suggestion previously made in Committee discussion that it could recommend to the Minister of Finance and Personnel that he raises the issue with his counterparts in the other devolved administrations. The Minister's success in negotiating a change to the Budget Exchange scheme indicates that it might also be possible to obtain some kind of commitment on the timing of future spending reviews.