



Northern Ireland
Assembly

Research and Information Service Briefing Note

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Public Finance Scrutiny Unit

October Monitoring Round 2016-17

This Briefing Note presents an initial analysis of key points arising from the Minister of Finance's October Monitoring Round statement 2016-17, including potential issues for consideration by Assembly Members and statutory committees.

Introduction

This Briefing Note aims to facilitate the Assembly's scrutiny of the Executive's October Monitoring Round 2016-17, announced by the Minister of Finance in his Statement on 25 October 2016.

The Note is presented as follows:

- **Terminology** – For ease of reference, Section 1 defines terminology used throughout the Note.
- **Adjustments to Departmental Resources** - Section 2 provides an overview of the adjustments made to departmental resources through Executive reallocations during this Monitoring Round, drawing on the tables attached to yesterday's Ministerial Statement and his 14 June 2016 Monitoring Round Statement. It simply updates departmental totals for October, to reflect the current position. This section also importantly identifies potential issues meriting Assembly consideration.
- **Further Key Potential Issues for Consideration** - Section 3 sets out additional issues that the Assembly could consider *via* individual Members and statutory committees. All identified issues are intended to support the Assembly in fulfilling its roles and responsibilities, and thereby bring greater transparency to the In-year Monitoring process.

1. Key Public Expenditure Terms

The public expenditure terms outlined below in **Box 1** are central to understanding departmental budgeting in Northern Ireland:

Box 1: Key Public Expenditure Terms

There are two types of public expenditure:

1. **Capital expenditure**, which is allocated to purchase, build or enhance an asset. For example, an extension to a school, or new road gritters; and,
2. **Resource/Current expenditure**, which is allocated to pay for day-to-day expenses and running costs. For example, teachers' salaries, or road salt. A sub-category of resource/current expenditure is ringfenced. Ringfenced Resource DEL primarily pays for so-called 'non-cash' costs such as the depreciation of assets.

Both capital and resource expenditure are further sub-divided into:

1. **Departmental Expenditure Limits (DELs)** - spending which can be controlled by departments, and for which firm multi-year departmental budgets are set. For example, for trimming hedgerows or providing training schemes for apprentices; and,
2. **Annually Managed Expenditure (AME)** - expenditure that is volatile, demand-led, and is not controllable on a short-term basis. For example, welfare payments.

2. Adjustments to Departmental Resources

This section presents the Executive's in-year adjustments to departmental totals as follows:

2.1 Non-ringfenced Resource DELs

2.2 Capital DELs

The focus of the In-year Monitoring process is departmental DELs because these are the limits which are set in advance, through the Executive's budgeting processes. In addition, the focus is the **non-ringfenced part of Resource DEL**, which the Executive is empowered to spend on service delivery and programmes, i.e. **not** Ringfenced Resource DEL. This Note therefore does **not** focus on the ringfenced element of departmental DELs.

Because AME expenditure is demand-led and volatile, it does not form part of the reallocations.

Table 1: Departmental abbreviations

Department for Agriculture, Environment and Rural Affairs	DAERA
Department for Communities	DfC
Department for the Economy	DfE
Department of Education	DE
Department of Finance	DoF
Department of Health	DoH
Department for Infrastructure	DfI
Department of Justice	DoJ
The Executive Office	TEO

2.1. Non-ringfenced Resource DELs

The Department of Finance (DoF) routinely determines departmental Resource DEL budgets by a series of additions to and subtractions from a baseline, i.e. an incremental approach. This is explained in the *Executive Budget 2016-17*, where it stated:

This baseline reflects the agreed Budget position for the previous year, with time limited allocations, such as EU match funding and 2015-16 Change Fund, removed. As Budget 2015-16 was on a twelve department basis it was necessary to adjust this to reflect the nine department structure. This involved attributing budget allocations to individual functions, including apportionment of central administration budgets where appropriate. It is this restructured baseline that is shown in the tables in this document.¹

Table 2 below shows departmental control totals (i.e. their expenditure ceiling) for the non-ringfenced Resource DEL category, relying on the baseline levels published in *Executive Budget 2016-17*, and subsequent adjustments by:

- Budget 2016-17 allocations;
- June Monitoring Round 2016-17; and,
- The October 2016-17 Monitoring Round.

The baseline position is shown in Table 2 to provide a consistent presentation of budget figures from the starting point to date.

Table 2: Departmental non-ringfenced Resource DELs, as amended by the June and October 2016 Monitoring Rounds

Department £ millions	Budget baseline ²	Budget 2016- 17 Allocation ¹	June Monitoring ³	October Monitoring ⁴	% change Baseline to October Monitoring
DAERA	209.8	197.9	199.5	199.5	-4.9%
DfC	820.6	871.2	837.1	829.1	+1.0%
DfE	814.3	790.0	821.9	824.4	+1.2%
DE	1947.3	1947.5	1954.7	1955.7	+0.4%
DoF	141.5	140.1	148.3	145.0	+2.4%
DoH	4751.4	4880.1	4955.1	4959.9	+4.4%
DfI	372.0	372.8	378.8	378.7	+1.8%
DoJ	1023.9	1050.5	1051.7	1051.7	+2.7%
TEO	62.2	59.1	80.3	80.3	+29.1%

Table 2 shows that the Executive has increased the non-ringfenced Resource DEL control totals for **all** departments from the baseline position to date, with the exception

¹NI Executive (2016) [Budget 2016-17](#), accessed 25 October 2016, see page 22.

²NI Executive (2016) [Budget 2016-17](#), accessed 25 October 2016, see tables in Chapter 5: Departmental Outcomes.

³DoF (2016) [June Monitoring Statement](#), accessed 25 October 2016, see tables 9-17.

⁴DoF (2016) October Monitoring Statement, see tables 1, 3, and 4.

of the DAERA. In other words, in cash terms, only one department has experienced any cuts. The absence of significant across-the-board reductions to Northern Ireland departments' Resource DEL is noteworthy, especially given the austerity programme that the United Kingdom Government pursued until recently, i.e. when there was a changed policy and economic environment following the European Union referendum.

The other notable observation is the significant increase to the TEO allocation. The Minister of Finance's June Monitoring Round 2016-16 Statement explained that TEO was allocated as follows:

- £13.8 million Resource for "various Social Investment Fund and Delivering Social Change projects."⁵ £7.4 million Resource to "cover a wide range of Shared Future measures."⁶

Potential Issues for Consideration:

The Committee for Finance and the Committee for the Executive Office may wish to ask the DoF to provide a detailed breakdown of the following:

- 1. The outcomes which the Executive expects to be delivered following these significant increases at the June Monitoring Round in TEO non-ringfenced Resource DEL; and,**
- 2. The timetable for the programmes to be funded by these allocations.**

2.2 Capital DELs

The Executive allocated £22.7 million of Capital DEL through this October Monitoring Round. Table 3 below shows how these amend departments' control totals in this expenditure category.

When considering those adjustments, it is important to note that no baseline position was presented in *Executive Budget 2016-17*.

It also is noteworthy that budgets for capital expenditure tend not to be incremental, rather there is frequently a 'zero-base', with allocations built up based upon contractual commitments,⁷ i.e. without reference to a previous year.

Table 3 therefore shows departmental budget allocations as the initial comparator, **not** a baseline.

⁵DoF (2016) [June Monitoring Statement](#), accessed 25 October 2016, see page 6

⁶DoF (2016) [June Monitoring Statement](#), accessed 25 October 2016, see page 7

⁷See Official Report [5 November 2014](#)

Table 3: Departmental Capital DELs, as amended by the June and October 2016 Monitoring Rounds

Department £ millions	Budget 2016-17 Allocation	June Monitoring ⁸	October Monitoring ⁹
DAERA	48.8	48.6	44.3
DfC	159.7	161.2	153.0
DfE	90.9	87.9	87.5
DE	193.7	193.6	204.7
DoF	33.6	34.7	34.7
DoH	232.6	243.5	244.1
DfI	384.1	386.9	385.8
DoJ	58.0	59.9	59.5
TEO	11.0	16.7	16.7

It should be noted that the stated reductions to Capital DELs in this October Monitoring Round are not due to cuts imposed by the Executive, **rather they are due to ‘reduced requirements’**.¹⁰

In addition to the Capital DEL allocations, the Minister of Finance announced a ‘First Step Stimulus’ package – totalling £30 million – to “*deliver a short term economic stimulus*.”¹¹ Within this package, the DfI was allocated £15 million for ‘Roads Structural Maintenance’ and £10 million for new buses for Translink. There is also a new ‘Community Regeneration Fund’, to “*improve infrastructure in our most deprived and marginalised communities*.”¹⁰

The First Step Stimulus is to be paid for using *Fresh Start Agreement* borrowing that is no longer needed to fund public sector voluntary exits, and now is to be allocated for capital investment.¹⁰

Potential Issues for Consideration:

The Committee for Finance may wish to ask the DoF:

3. Please quantify the economic stimulus it expects as a return on its investment. In other words, e.g. what are the local economic multipliers¹² associated with road maintenance?

⁸DoF (2016) [June Monitoring Statement](#), accessed 25 October 2016, see tables 9-17.

⁹DoF (2016) October Monitoring Statement, see table 4.

¹⁰ Refer to section 2.2. of *RalSe Paper NIAR 377-16* for definitions.

¹¹DoF (2016) October Monitoring Statement, see page 7

¹²Every time there is an injection of new demand into the circular flow there is likely to be a multiplier effect. This is because an injection of extra income leads to more spending, which creates more income, and so on. The multiplier effect refers to the increase in final income arising from any new injection of spending. [Economics Online](#), accessed 25 October 2016

- 4. Is there a contract in place for the supply of new buses. If there is not, how can the Executive guarantee that the economic benefit will remain in Northern Ireland?**
- 5. What will be the definition of ‘most deprived and marginalised communities’ for the Community Regeneration Fund (CRF)?**
- 6. What will be the criteria used for selecting projects to be funded by the CRF?**
- 7. What will be the impact of the reduced scope of the public sector voluntary exit schemes (VES) on wage bills, and consequently departmental Resource DELs? In other words, how will projected pay bill savings be impacted by the reduced VES?**

In relation to issue 3 stated above, the DoF could note that there is nothing new about the Executive allocating Capital DEL to roads maintenance. Indeed, at the October Monitoring Rounds from 2011-12 to 2015-16 ‘Roads Structural Maintenance’ was allocated approximately £60 million in total.¹³ On this basis, it seems reasonable to assume that the Executive has an established mechanism for estimating the economic benefit of such expenditure, so it seems reasonable for committees to see it.

3. Further key potential issues for consideration

The Finance Minister stated that the new process for In-year Monitoring will enable the “*focus of scrutiny [to be] on outcomes*”.¹⁴

- 8. The Committee for Finance may wish to ask the DoF about the impact of committees on the financial allocation process and budgets when they are informed of allocations *ex post*, i.e. after the event. How does the DoF think this contributes to effective and accountable governance?**

The Finance Minister also stated that:

*The EIB could no longer take an active role in the delivery of the Fund.*¹⁵

The Committee for Finance may wish to enquire:

- 9. What will the new role of the EIB involve in respect of the Northern Ireland Investment Fund, i.e. are there any terms of reference for future engagement?**

- 10. What is the amended timeframe for the launch of the Investment Fund?**

¹³Figures drawn from multiple [monitoring round statements](#), accessed 26 October 2016

¹⁴ DoF (2016) 2016-17 October Monitoring Round and First Step Stimulus Package Page 2

¹⁵ DoF (2016) 2016-17 October Monitoring Round and First Step Stimulus Package Page 2 CHECK THIS

The Finance Minister stated that there is presently £77.5 million of unallocated ring-fenced Financial Transactions Capital (FTC), which he is addressing with the Treasury. He stated that he had requested:

A special dispensation on the use of FTC that will facilitate the creation of the planned Investment Fund. My [i.e. the Finance Minister's] request was positively received.¹⁶

The Committee for Finance may wish to enquire:

11. When the Finance Minister is likely to receive confirmation from the Treasury that the Executive will receive a special dispensation for the use of FTC and the Investment Fund?

12. What contingency plans are in place to spend the £77.5 million of FTC if the special dispensation is not received.

In relation to the United Kingdom Government's £5 million funding to Address Paramilitary Activity, in line with the *Fresh Start Agreement*, the Finance Minister stated that it has:

Not been released until the Executive agrees a more detailed action plan. The Department for Justice will be progressing this to ensure access to this funding is secured.¹⁷

The Committee for Finance may wish to enquire:

13. What is the timescale for completing the detailed action plan to Address Paramilitary Activity?

14. Does the funding to Address Paramilitary Activity have a 'shelf life', i.e. if it is not received and spent by the end of the current financial year, will it no longer be available?

Members should also note that RaISe paper NIAR 377-16 (dated 26 October 2016) highlighted the absence of administrative cost data in the Minister of Finance's June Monitoring Round 2016-17 Statement, and suggested that committees should request such data in future. The October Monitoring Round 2016-17 does however include such data. It will therefore be possible for the Assembly to track this category of costs in future.

¹⁶ DoF (2016) 2016-17 October Monitoring Round and First Step Stimulus Package Page 5:

¹⁷ DoF (2016) 2016-17 October Monitoring Round and First Step Stimulus Package Page 6 available online at: