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Assembly

## Research and Information Service Briefing Paper

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NIAR 520-16

**Public Finance Scrutiny Unit**

# Executive Budget 2017-18: Committee Engagement

This Briefing Paper supplements RaISe Papers NIAR 413-16 (dated 21 October 2016) and NIAR 502-16 (dated 9 January 2017), to assist statutory committees, and individual MLAs in their scrutiny of the anticipated Executive Budget 2017-18.

## Introduction

This Briefing Paper supplements RaISe Papers NIAR 413-16 (dated 21 October 2016<sup>1</sup>) and NIAR 502-16 (dated 9 January 2017<sup>2</sup>), to assist statutory committees (committees), and MLAs as individuals in their scrutiny of the anticipated Executive Budget 2017-18. It considers Budget-related information provided to the committees.<sup>3</sup>

It follows the format of NIAR 413-16:

- Section 1 provides background;
- Section 2 discusses issues for consideration; and,
- Section 3 provides key concluding remarks.

## 1 Background

The following section provides information on the Executive's 2016 Budget process and the steps that the Public Finance Scrutiny Unit (PFSU) within the Research and Information Service (RaISe) has taken to assist committees and individual MLAs in their scrutiny roles.

### 1.1 Executive's 2016 Budget Process

As previously discussed within RaISe Paper NIAR 413-16, on 28 September 2016 the Department of Finance (DoF) provided oral evidence to the Committee for Finance (CfF) in respect of the Executive's 2016 Budget process. In its evidence, the DoF advised that:

- There would not be a formal Draft Budget stage for the Budget 2017-18;
- There would be insufficient time to conduct a Draft Budget stage, with full consultation after the Chancellor's Autumn Statement in November 2016;
- The DoF was keen to receive statutory committee views before the Draft Budget proposals are produced and presented to the Executive;
- The DoF presumed that each statutory committee would engage with its respective department, to consider the department's service delivery plans and related anticipated costs, including the impact of inflation, pay and price increases; and,

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<sup>1</sup>PFSU (2016) Forthcoming Executive Draft Budget 2017-18: Assembly Consideration available online at: <http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2016-2021/2016/finance/7416.pdf> accessed on 20 December 2016.

<sup>2</sup>PFSU (2017) Executive Budget 2017-18: funding envelope available online at: <http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2016-2021/2017/finance/0117.pdf> accessed on 7 January 2017

<sup>3</sup> This information has been provided in one of two ways either as a result of general enquiries by committees or in response to more specific queries raised by committees as a result of Briefing Paper NIAR 413-16.

- The DoF recognised that such engagement would be at the discretion of each departmental minister, but could include consideration of the relevant department's competing priorities and how it would cope if reductions were made to budgets.

With the above in mind, and in the context of limited available Executive/departmental information, RaISe Paper NIAR 413-16<sup>4</sup> (dated 21 October 2016) sought to support Assembly Members and committees in fulfilling their roles and responsibilities in relation to the Executive Draft Budget 2017-18<sup>5</sup> (the Draft Budget). The information within that paper was further supplemented by RaISe Paper 502-16<sup>6</sup> (dated 9 January 2017), which provided updated information on the Executive's 'funding envelope' from Westminster for 2017-18, following the Autumn Statement made by the United Kingdom (UK) Chancellor in November 2016.<sup>7</sup>

## 1.2 Scrutiny of Budget 2017-18

To support committees in their scrutiny role, RaISe Paper NIAR413-16 put forward a range of questions under a number of headings. These included:

- NI Funding Envelope;
- Routine Budget Planning Considerations;
- Transferred functions;
- Back Office functions;
- Resource Department Expenditure Limits (DEL) v Capital DEL;
- Flagship Projects;
- Financial Transactions Capital;
- Executive Budget funding sources beyond the Block Grant; and,
- Executive's Programme for Government.<sup>8</sup>

Seeking to prepare for their scrutiny of the anticipated departmental budget allocations, despite the lack of forthcoming departmental financial/budgetary information, the committees used the questions under each heading as the basis for their own scrutiny, customising them to suit the individual circumstances of their own departments.

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<sup>4</sup> PFSU (2016) Forthcoming Executive Draft Budget 2017-18: Assembly Consideration available online at: <http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2016-2021/2016/finance/7416.pdf> accessed on 20 December 2016.

<sup>5</sup> At the present time since no Budget has been produced the PFSU assumes that this will be the title of the Draft Budget.

<sup>6</sup> PFSU (2017) Executive Budget 2017-18: funding envelope available online at: <http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2016-2021/2017/finance/0117.pdf> accessed on 7 January 2017

<sup>7</sup> HM Treasury (2016) Autumn Statement 2016 available online at: <https://www.gov.uk/government/publications/autumn-statement-2016-documents/autumn-statement-2016> accessed on 4 January 2017

<sup>8</sup> PFSU (2016) Forthcoming Executive Draft Budget 2017-18: Assembly Consideration available online at: <http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2016-2021/2016/finance/7416.pdf> accessed on 20 December 2016.

However, almost half the departments did not respond; and without this information, committees' scrutiny is seriously challenged.

Nonetheless, five departments did provide specific responses to the stated questions. These were:

- Department for Communities (DfC);
- Department of Agriculture, Environment and Rural Affairs (DAERA);
- Department of Finance (DoF);
- Department of Health (DoH); and,
- Department for Infrastructure (DfI).

In addition, the Department of Justice (DoJ) provided a non-specific response, stating it:

*...wrote to the Committee on 10 October 2016, providing an update of our progress in planning for the next budget period. This briefing included:*

- *Opening baselines used in 2017-18 budget scenario planning;*
- *Key budget issues identified through scenario planning;*
- *Details of Statutory functions and PfG commitments; and,*
- *An overview of potential options to generate savings.<sup>9</sup>*

It went on to state:

*Unfortunately, the Department is not in a position to provide the other information requested until the Department of Finance confirm the 2017-18 budget settlement. However, we will of course arrange an oral briefing with the Committee, at the earliest opportunity, once the budget outcome is known.<sup>10</sup>*

## 2 Issues for Consideration

Using the headings, in sub-section 1.2, the following sub-sections discuss the information provided by those departments that did reply.

Note: the sub-sections include the more general information provided by the DoJ to the Committee for Justice (CfJ), when it answers a particular question. In addition, the questions asked are highlighted in pink boxes for ease of reference.

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<sup>9</sup> DoJ (2016) Justice Committee Correspondence – Draft Budget 2017-18 Reference SUB-1721-2016 dated 2 December 2016

<sup>10</sup> DoJ (2016) Justice Committee Correspondence – Draft Budget 2017-18 Reference SUB-1721-2016 dated 2 December 2016

Scrutiny points are highlighted in blue boxes throughout each sub-section. They seek to aid the CfF's consideration of issues arising from the both the departments' replies and where applicable lack of replies.

## 2.1 Funding Envelope

The 'funding envelope' received from Westminster for the Executive Budget 2017-18 – i.e. Northern Ireland's DEL (Departmental Expenditure Limits) - was disclosed in the Minister of Finance's written statement on 5 December 2016, as stated in **Table 1** below:

**Table 1: NI DEL for 2017-18<sup>11</sup>**

£'million	2017-18		2017-18
<b>RDEL Block Grant</b>	<b>10,454</b>	<b>CDEL Block Grant</b>	<b>1,192</b>
Of which non ring-fenced	9,896	Of which general CDEL	1,091
Of which ring fenced	558	Of which Financial Transactions Capital	101
Additional Funding for PSNI	34	Shared Education and Housing	7
Return of 2015-6 Welfare Deduction	21	Capital Borrowing – RRI	200
Shared Future Funding	12	Capital Borrowing - SHA	101
Tackling Paramilitary Activity	5		
Welfare Fraud and Error	25		

The headline figures of £10,454 million (m) Resource DEL and £1,192m Capital DEL constitute funding that the Executive has discretion to allocate amongst departments.

Given the DoF's awareness that Northern Ireland would receive its funding envelope following the Autumn Statement, its officials suggested on 28 September 2016 that committees should engage with departments prior to the Statement, relying on Northern Ireland's 2017-18 funding envelope following the 2015 Spending Review.<sup>12</sup>

In light the DoF suggestion, the PFSU proposed that:

Committees ask departments to provide information and data regarding the scenario planning they are undertaking for the 2017-18 financial year.

Only four departments responded to this question (i.e. the DoF, the DfC, DAERA and the DfI) (the DoH were not asked this question). Of those responses, only one – the DfI – stated that DoF officials had written to departments on 17 August 2016 to advise:

<sup>11</sup> Minister of Finance (2016) Written Ministerial Statement available online at: [http://www.niassembly.gov.uk/globalassets/documents/official-reports/written-ministerial-statements/2016-2017/dof\\_wms\\_051216.pdf](http://www.niassembly.gov.uk/globalassets/documents/official-reports/written-ministerial-statements/2016-2017/dof_wms_051216.pdf) accessed on 4 January 2017.

<sup>12</sup> <http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=19179&evidID=10767>

*...that the 2017-18 Resource Budget will be the opening 2016-17 position less reclassifications and any ring-fenced/time bound allocations. The following scenarios were set for departments:*

- *Live within its Budget 2017-18 baseline position in each of the three years;*
- *3% (£11m) and 6% (£22m) reductions from the baseline for 2017-18;*
- *3%, 6% and 10% (£37m) reductions from the 2017-18 baseline for 2018-19; and,*
- *6%, 10% and 15% (£56m) reductions from the 2017-18 baseline for 2019-20.<sup>13</sup>*

The DfC and the DoJ provided more generic responses stating that they were undertaking work in the area and that they would be in a better position to share information with the committee after the Chancellor's Autumn Statement. No financial information was provided in either response.

The DAERA provided a short response stating:

*Members of the Committee were advised on 15 November 2016 of the new process to manage the budgetary exercises. This includes engagement with DoF officials before the Executive allocates funding. Members will then be advised of the outcome of these considerations.<sup>14</sup>*

Similar to the DfC and the DoJ no financial information was provided.

The DoF stated that:

*...Committee engagement is a matter for individual departments and their Ministers. However, DoF has always encouraged departments to provide timely information to their Committees.<sup>15</sup>*

This response ignored the fact that the DoF is an Executive department in its own right, and it would be necessary for it to submit expenditure proposals to the Central Expenditure Division in a similar manner as the other eight departments. Furthermore, it failed to inform the CfF that officials had written to departments providing the scenarios in August.

<sup>13</sup> DfI (2016) Infrastructure Committee Correspondence Reference DALO 6/2/16 dated 22 November 2016.

<sup>14</sup> DAERA (2016) Follow-up to Area Meeting Thursday 10 November 2016 Agriculture Committee Correspondence dated 22 December 2016.

<sup>15</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

**Scrutiny Point:**

1. The CfF may wish to request that the DoF provide it with details of any scenario planning information it issued to departments

In light of the above responses, and as agreed with the CfF's officials, the PFSU wrote back to the DfC and the DoF to request further information on the scenario planning that they had conducted.

## 2.2 Routine Budget Planning Considerations

There were nine interrelated questions under this particular section of RaISe Paper NIAR 413-16. The questions concerned the flexibility individual departments have when allocating funding across functional areas.

### 2.2.1 Contractual Commitments

The first two questions within this sub-section are linked, they seek to identify the level of existing contractual and legal commitments within departments, prior to the start of the financial year. The rationale underpinning these questions was: once those commitments are identified it should be a fairly straightforward process to identify the expenditure that each departmental Minister has discretion to spend. With this in mind, the first question sought to identify:

What contractual commitments departments had in both Resource and Capital DEL categories?

In response to the above, the DoJ provided details of its Resource DEL baseline position for the 2017-18 financial year across each of its arms-length bodies, and provided a percentage – 68% of its budget allocated to staff costs.

Two departments – the DfI and the DfC - provided a breakdown of their contractual commitments across both Resource and Capital DEL. In respect of this question, the DoH, stated:

*The majority of Resource DEL expenditure is either contractually committed or demand led. For example, over £2.4 billion (over 50%) is tied up in salary costs, some £550m is necessary for independent sector social care.<sup>16</sup>*

This response does not differentiate between contractual commitments and delivery of services by the DoH.

The DAERA stated that:

<sup>16</sup> DoH (2016) Health Committee Correspondence Reference COR/1664/2016, COR/1686/2016 dated 14 December 2016

*...has commitments in relation to its 2,900 Full Time Equivalent workforce of approximately £116m. On Capital, the Department has commitments of around £28m.<sup>17</sup>*

Finally, the DoF provided a comprehensive answer in respect of this question, but did not provide any figures relating to the funding required to meet these commitments.

It therefore was unclear from the information provided by the DoH and the DoF as to what their current contractual commitments are and the level of discretion available to the respective Ministers when making funding decisions. This lack of information curtails the respective committee's ability to influence those Ministerial decisions.

## 2.2.2 Commitments for Statutory Functions

As noted within sub-section 2.2.1, the following question seeks to identify the level of expenditure required for departments to deliver their statutory functions.

What Resource and Capital DEL is already legally committed for delivery of statutory functions?

In response to this question, the DfI quantified the level of Resource expenditure it had committed for the 2017-18 year. The DoF also quantified the level of resources it needed to deliver its statutory functions – £140m – which would equate to just under three quarters of its 2015-16 resource expenditure. The DfC provided no expenditure figures. Instead it described how it delivered statutory functions directly, with no information on the amount of funding required to deliver them. The DAERA linked this question to the previous question and submitted one response, that provided no information in relation to its statutory functions.

Finally, the DoH provided information on the type of statutory functions it is required to undertake, rather than quantifying that expenditure. It stated:

*...[the] DoH has a statutory responsibility to promote an integrated system of health and social care designed to secure improvement in the physical and mental health... of the people in the north of Ireland.<sup>18</sup>*

## 2.2.4 Inflation

The next two questions related to pay and price inflation and the assumptions underpinning departments' estimated funding requirements for the 2017-18 financial year.

What assumptions has the department made about pay inflation?

<sup>17</sup> DAERA (2016) Follow-up to Area Meeting Thursday 10 November 2016 Agriculture Committee Correspondence dated 22 December 2016.

<sup>18</sup> DoH (2016) Health Committee Correspondence Reference COR/1664/2016, COR/1686/2016 dated 14 December 2016

What assumptions has the department made about price inflation for supplies of goods and services?

These questions were answered quite clearly by the majority of the departments, which replied. Four out of the five provided details of the percentage used by them to take account of inflation when calculating their additional funding requirements.

The DfC, however, stated that it:

*...assumed that the agreed pay settlement would apply.*<sup>19</sup>

And:

*...inflationary increases have been accounted for as part of an overall pay and price calculation.*<sup>20</sup>

This vague reply challenges the ability of committees to assess the level of funding required to continue delivering services year on year.

### 2.2.5 Cessation or Curtailment of Services

The next two questions were intended to help committees establish for themselves what services could reduce or cease. They were designed to ensure committees could feed into the decision-making process in respect of service reductions, rather than be confronted with a *fait accompli* by the relevant Minister.

What services/activities could cease if budget reductions are required?

What services/activities could it reduce/curtail if budget reductions are required

Neither of these two questions were answered clearly by any of the departments, which provided replies.

The DoJ did not provide details of any services that could cease or reduce. However, it did provide information on where it intended to make savings during the year, although, the extent of the savings was not provided. The majority of the departments which provided replies (four out of five) stated in one way or another that it could not:

*pre-empt the outcome of the Budget process. I am continuing to engage with Executive colleagues to secure the additional investment necessary to support and transform the delivery of services.*<sup>21</sup>

Whereas the DoF stated that:

*Due to the nature of the department's activities it is not possible to cease any of our main services/activities if budget reductions are required. Instead*

<sup>19</sup> DfC (2016) Communities Committee Correspondence Reference GM-1317-2016 dated 29 November 2016

<sup>20</sup> DfC (2016) Communities Committee Correspondence Reference GM-1317-2016 dated 29 November 2016

<sup>21</sup> DoH (2016) Health Committee Correspondence Reference COR/1664/2016, COR/1686/2016 dated 14 December 2016

*the department would need to firstly consider the savings that will come from its ongoing plans to reconfigure services provided to make them more efficient. As these are likely to be insufficient in the short term, budget reductions will likely lead to reduced service levels and/or the introduction of charging to cover the shortfall.<sup>22</sup>*

Again no information was provided in respect of the extent of the reduction in services or the money this would save. This lack of information poses challenges for committees seeking to contribute to the budget setting process, as they are not made aware of what services could reduce or cease if funding is reduced.

### 2.2.6 Resource Prioritisation

The next question within this section of RaISe Paper NIAR 413-16 is related to department's prioritisation of resources, including the criteria to be applied, if any.

Has a decision been made on how remaining resources will be prioritised by the department? If so, what criteria will the departmental Minister apply?

None of the departments which replied, provided specific details on resource prioritisation. Instead they provided generic responses around the fact that they were either undertaking scenario planning and no information could be shared at the present time or alternatively that they were unable to share any further information until the budget settlement was known.

This lack of information poses challenges for committees seeking to contribute to an informed debate on the assignment of resources within departments.

### 2.2.7 European Union Funding

The final two questions are concerned with European Union (EU) Funding.

Has the DoF/the Executive undertaken an assessment to determine the level of DEL co-financing needed by individual departments for programmes already underway, as well as those that are to start, to ensure European monies are not lost to NI?

To what extent has the assessment included consideration of potential impacts that would arise from changes made by the Executive to co-financing levels for EU programmes

The DoF and the DAERA were the only departments to provide a response to either of these questions. The DoF stated that it:

<sup>22</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

*...has assessed the match funding requirements of PEACE and INTERREG programmes and has factored the requirements into the Budget process for Executive consideration.<sup>23</sup>*

It did not, however, provide any detail in respect of the value of the match funding requirements, or set these in the context of previous years to enable the CfF to establish whether departments are maximising their use of EU funding.

The DAERA stated:

*The Chancellor has confirmed that the government will guarantee EU funding for [ . ] fund projects, including agri-environment schemes, signed after the Autumn Statement and which continue after we have left the EU.<sup>24</sup>*

It went on to state that

*...[the] DAERA will allocate money to its projects in line with these conditions and the wider rules on public spending. These conditions will also be applied in such a way that the current pipeline of committed projects are not disrupted, including agri-environment schemes due to begin in February.<sup>25</sup>*

It, like the DoF, did not provide any detail in respect of the value of its match funding requirements.

## 2.3 Transferred Functions.

There were three interlinked questions within this section: they sought to assist committees in identifying the extent to which budget monies had moved with the functions that had transferred at the time of the Executive re-organisation in May 2016.

### 2.3.1 Identification of Transferred Functions

The first question within this section sought to identify the transferred functions and budgets, which had been received by each department. It requested:

A breakdown of the transferred functions for their respective departments as a result of the Executive's re-structuring exercise, including details of the budget that was attached to each function.

The DoH stated that it had not received any transferred functions under the re-organisation. The DoF, the DAERA and the DfI provided comprehensive answers to

<sup>23</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>24</sup> DAERA (2016) Follow-up to Area Meeting Thursday 10 November 2016 Agriculture Committee Correspondence dated 22 December 2016.

<sup>25</sup> DAERA (2016) Follow-up to Area Meeting Thursday 10 November 2016 Agriculture Committee Correspondence dated 22 December 2016.

the first of these questions, detailing a list of functions and the corresponding budget which was attached to them.

Due to the nature of the DfC, i.e. it was formed by amalgamating functions from a number of other departments, these type questions are particularly important as the DfC's whole budget is predicated on a transfer of functions. However, the response provided by the DfC did not include a breakdown of the functions, nor the level of budget attached to these functions. Instead it stated:

*There are now 5 main business areas Strategic Policy and Resources, Community regeneration and Housing, Community Cohesion, Working Age and Social Inclusion.<sup>26</sup>*

The lack of detail provided by the DfC in respect of this question has a detrimental effect on committees' ability to scrutinise the budget.

### 2.3.2 Identification of Transferred Assets

The second question is linked to the first and requests departments to identify the assets that transferred under the re-structuring exercise. It asked:

Details of the assets that transferred under the re-structuring exercise, their current condition, maintenance schedule and useful life.

As noted previously, the DoH did not receive any assets as a result of the transfer of functions. The DoF noted that the assets that it received were fairly minimal – a total value of £2,000.<sup>27</sup>

The DAERA provided an extremely comprehensive response to this question, providing a breakdown of the number of assets under each asset category and the net book value. It did not provide information on the condition of the assets, but stated that it:

*...carries out a detailed exercise each year in which business areas are asked to confirm that the remaining useful economic life of each asset is reflective of [its] remaining life and ensures the ... [ ] life of all assets is accurately captured on the Department's asset register.<sup>28</sup>*

However, the assets transferred to the final two departments were more significant, both of the departments noted a significant value of assets that had transferred as a result of the exercise – £33.3 million (m) in the case of the DfI<sup>29</sup> and £39.6m in respect of DfC.<sup>30</sup> Neither of the two departments provided any information in respect of the condition, maintenance schedule or useful life. The PFSU subsequently forwarded

<sup>26</sup> DfC (2016) Communities Committee Correspondence Reference GM-1317-2016 dated 29 November 2016

<sup>27</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>28</sup> DAERA (2016) Follow-up to Area Meeting Thursday 10 November 2016 Agriculture Committee Correspondence dated 22 December 2016.

<sup>29</sup> DfI (2016) Infrastructure Committee Correspondence Reference DALO 6/2/16 dated 22 November 2016.

<sup>30</sup> DfC (2016) Communities Committee Correspondence Reference GM-1317-2016 dated 29 November 2016

further questions to these two departments, to assess the status of these assets or whether the departments were content that the assets were of a reasonable standard and state of repair. At the present time no further response has been received.

### 2.3.3 Restructuring of Budgets

The final question in this section related to whether the re-organised departments had re-structured their budgets to accommodate their revised duties and responsibilities. It asked:

How, if at all, has the department restructured its budget to enable it to align with departmental priorities, including an explanation of the policy intention.

Since the DoH was not part of the re-structuring exercise, this question was not answered. Due to the minimal nature of the re-structuring within the DoF, the budget was not affected. The DfC and the DAERA did provide a detailed breakdown of the format of their new budgets. The DfI, however, stated, that it had:

*... restructured its budget to reflect the revised objectives, including restructuring of Units of Service and Units of Business to better align with the Department's priorities.<sup>31</sup>*

This lack of detail regarding how the budget was re-structured is unhelpful, as it poses difficulties in tracking the budget allocated to functions and programmes, which stymies committees' ability to engage with the budget going forward.

## 2.4 'Back Office' Functions

In 2016-17 the Finance Minister's June Monitoring statement did not provide a breakdown of administration cost data.<sup>32</sup> This type of information had previously enabled committees to have an understanding of the relative balance of expenditure between frontline and back office functions, which in turn enhanced their ability to scrutinise the prioritisation of expenditure by their respective departments.

The question within this sub-section therefore sought to identify the level of administration expenditure in each department. It asked:

Departments to provide details of their administration expenditure, i.e. the relative balance between frontline and back-office expenditure?

Although this was a fairly straightforward request for departments to provide information that up until June 2016 had been provided in the monitoring statement, the responses from departments were mixed.

<sup>31</sup>DfI (2016) Infrastructure Committee Correspondence Reference DALO 6/2/16 dated 22 November 2016

<sup>32</sup> DoF (2016) June Monitoring Statement available online at: <https://www.finance-ni.gov.uk/publications/year-monitoring-publications-2015-16> accessed 12 January 2017

The DfI and the DAERA were the only departments that provided a clear response, providing a breakdown between administration and resource expenditure.

The DoH and the DoF did not provide details of the breakdown in expenditure. The DoH stated that:

*...a breakdown of expenditure between front-line versus back office services is not readily identifiable from current reporting systems.<sup>33</sup>*

Meanwhile the DoF stated that it had only two front line services – the Land and Property Services and the Northern Ireland Statistics and Research Agency.<sup>34</sup>

The DfC provided the following table:

**Table 2: DfC Frontline and Back-Office Expenditure<sup>35</sup>**

Expenditure	£'000
Salaries and GAE	234,991
Programme	591,577
Total	826,568

It is not clear from the information provided in **Table 2** why all salaries have been included within the administrative expenditure. This would imply that no staff within the department were involved in the provision of front line services.

The information provided by the five departments in response to this question was inadequate. It sharply contrasts with the Executive practice up until June 2016, which routinely made this information available in monitoring statements and departmental resource accounts.

## 2.5 Resource DEL v Capital DEL

The questions concerning Resource DEL and Capital DEL were asked of the DoF only. Therefore, the other four departments did not provide responses to either of the questions below:

The CfF may wish to ask the DoF whether it plans to produce a further one-year Budget for the 2018-19 year or a two-year Budget in line with the 2015 SR.

Can the DoF assure the CfF and other committees that the Draft Budget will be produced prior to the consultation period in the future.

In its response to the first question, the DoF stated:

<sup>33</sup>DoH (2016) Health Committee Correspondence Reference COR/1664/2016, COR/1686/2016 dated 14 December 2016

<sup>34</sup>DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>35</sup>DfC (2016) Communities Committee Correspondence Reference GM-1317-2016 dated 29 November 2016

*Whilst that decision is ultimately one for the Executive to take, it is anticipated that a two-year Resource DEL Budget would be produced.*<sup>36</sup>

It then followed up this response with the following comment:

*It would be the intention of DoF to plan future processes with a draft Budget and consultation period. In that regard, DoF routinely plan the Budget process to include a draft Budget and a period of consultation before the Budget is finalised. In recent years, due to a number of different factors this has not been possible.*<sup>37</sup>

It did not, however, provide any reassurance that it would try to ensure that this lack of consultation would be addressed when producing future Budgets.

## 2.6 Flagship Projects

This section discussed the fact that the Budget 2016-17 announced capital funding allocations to a number of flagship projects up until 2020-21. It asked how:

The Executive Budget 2016-17 allocations to Flagship Projects impact on the ability of Ministers and their departments to prioritise their departments' capital budgets for 2017-18 and beyond?

The DoF stated that this was a question that should be answered by those departments that had flagship projects within their remit.<sup>38</sup>

The DAERA stated that it did not have any flagship projects and:

*Capital allocations for 2017-18 to 2020-21 will be made in accordance with Minister's priorities whenever the Executive has agreed the overall funding for the Department across those years.*<sup>39</sup>

The other three departments did have at least one flagship within their remit, however, the responses provided did not relate to the question asked. The DfC stated:

*...capital requirements in the Department are currently being assessed. capital will be allocated from a zero base for the next 4 years.*<sup>40</sup>

The DfI commented:

*While allocations were made to the flagship projects in Budget 2016-17, the four projects within DfI have progressed since then and the most up to date*

<sup>36</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>37</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>38</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>39</sup> DAERA (2016) Follow-up to Area Meeting Thursday 10 November 2016 Agriculture Committee Correspondence dated 22 December 2016.

<sup>40</sup> DfC (2016) Communities Committee Correspondence Reference GM-1317-2016 dated 29 November 2016

*expenditure profiles will be considered as part of DfI's engagement with DoF as part of the overall Budget process.*

Finally, the DoH provided an extremely detailed response on the complexity of the Mother and Children's Hospital – flagship project.

None of the responses sought to provide an explanation of how the prioritisation of the 2017-18 capital budget would be affected by the flagship allocations in 2016-17. They did not, therefore, progress committees' knowledge of their respective capital budget setting process.

## 2.7 Financial Transactions Capital

As per sub-section 2.5, the questions within this sub-section were asked only of the DoF. Therefore, the other four departments did not provide responses to any of the below questions:

That the DoF provide details regarding the current timeframe for introducing the Investment Fund.

What planning has been undertaken to ensure that no Financial Transactions Capital (FTC) funding will be surrendered to Treasury in the 2016-17 financial year?

How confident is the DoF that no FTC funding will be surrendered?

In response to the first question, the DoF stated that it hoped to have the Investment Fund in place by Spring 2017. However, due to the European Investment Bank (EIB), no longer wishing to 'take up' an active role in the Investment Fund, the DoF officials were having to reassess delivery models.<sup>41</sup> Since this response does not provide any information in addition to that provided by the DoF officials on 26 October 2016<sup>42</sup>, it does not progress the CfF's ability to scrutinise the use of FTC or the Investment Fund.

In relation to the second question, the DoF stated:

*DoF has actively encouraged departments to consider further possible projects in the 2016-17 financial year. In addition, the Finance Minister has secured additional flexibility with HM Treasury in relation to the carry forward of unspent FTC funding.<sup>43</sup>*

This does not provide any additional information on what steps the DoF has taken to encourage the use of FTC or what additional flexibility the DoF has secured in respect of the use of this type of funding.

<sup>41</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>42</sup> Official Report 26 October 2016 Page 3 available online at: <http://data.niassembly.gov.uk/HansardXml/committee-19520.pdf> accessed on 13 January 2017.

<sup>43</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

In response to the final question, the DoF commented that it would:

*... continue to monitor the situation and encourage departments to utilise the funding available, however as with any budget, there remains a degree of risk.<sup>44</sup>*

Generic responses in this manner do not assist the CfF when preparing to scrutinise the anticipated Budget 2017-18. In particular, for example, they do not help the CfF to assess whether, and if so, to what extent, there is a risk that the Executive would have to surrender a proportion of its FTC funding to Treasury.

## 2.8 Executive Budget Funding Sources Beyond the Block Grant

This sub-section of RaISe Paper NIAR 413-16 was broken down into two separate funding sources, i.e.:

- Borrowing; and,
- Rates.

There were a range of questions under each area – eight in respect of borrowing and a further seven in relation to rates. The questions were, however, all directed toward the DoF and the remaining four departments did not therefore provide responses.

### 2.8.1 Borrowing

RaISe Paper NIAR 413-16 sought information in respect of both the Reinvestment and Reform Initiative (RRI) borrowing and non-RRI borrowing. The DoF provided answers in respect of the questions related to RRI borrowing. However, it did not provide a response in respect of those questions pertaining to non-RRI borrowing.

The questions relating to RRI borrowing were:

How did the Executive evaluate the impact of previous RRI borrowing on the NI economy? If any evaluation took place, how will the Executive use those findings to ensure that such borrowing is appropriately targeted in the Draft Budget?

How will the interest charges on RRI borrowing be accommodated throughout the 2017-18 financial year? And, what consideration was given to interest rate changes to those charges, if any?

How much of the loan principal is repaid in the 2017-18 financial year?

In its response to the first question, the DoF stated that:

<sup>44</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

*There was no specific evaluation of RRI borrowing on the NI economy, however the Investment Strategy Northern Ireland (ISNI) makes reference to the overall impact of Capital Investment.<sup>45</sup>*

It would seem strange that the DoF did not undertake an evaluation of the effect of increasing the level of borrowing would have on the NI economy. A further question was forwarded to the DoF by the PFSU to request information on how the DoF assures itself that its current and future levels of borrowing are affordable. At the time of writing, no response has been received.

#### **Scrutiny Point:**

2. The Committee may, therefore, wish to ask the DoF how it could assure itself that its current and future levels of RRI borrowing are affordable in the absence of an evaluation of the effect of increasing the level of borrowing.

In response to the second question, the DoF stated that it assessed:

*... what RRI interest charges will cost in each financial year and this is factored into the Budget. Changes to RRI interest rate charges are considered as part of the in-year monitoring process.<sup>46</sup>*

In response to the final question, the DoF estimated that

*...£117 million of loan principal will be repaid in 2017-18.<sup>47</sup>*

The vague response provided to the second question curtails the Cff's ability to assess what commitments the DoF has in respect of the repayment of RRI borrowing.

In relation to non-RRI, the following questions were asked:

Has the DoF set aside resources for interest payments in respect of non-RRI borrowing from the 2017-18 Budget.

What monies are set aside for interest payments in relation to other (non-RRI) borrowing for 2016-17 and 2017-18?

What is the total interest forecast (RRI and non-RRI) to be paid in 2016-17 and 2017-18?

What is the projected cost of interest payments for the next five years?

As noted above, the DoF did not provide any responses in respect of these questions. The PFSU subsequently repeated the questions to the DoF. However, at the time of writing, no response has been provided. The Cff may therefore wish to request that the DoF provide a response to these questions:

<sup>45</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>46</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>47</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

**Scrutiny Points:**

3. The CfF may wish to ask the DoF whether it has set aside resources for interest payments in respect of non-RRI borrowing from the Budget 2017-18?
4. Following on from the above response, what monies are set aside for interest payments in relation to other (non RRI) borrowing for 2016-17 and 2017-18?
5. What is the total interest forecast (RRI and non RRI) to be paid in 2016-17 and 2017-18?
6. What is the projected cost of interest payments for the next five years?

The final question within the borrowing sub-section of the paper concerned:

The provision of information on current or planned discussions with Treasury about borrowing.

This question was raised in response to comments by the Minister of Finance, where he had stated that he would like to explore the potential for innovation in the area of borrowing.<sup>48</sup> The DoF's response, however, clearly stated:

*There are no discussions currently planned with HM Treasury on borrowing.*<sup>49</sup>

**2.8.2 Rates**

RaISe Paper 413-16 sought information in respect of two areas within rates:

- Linkage of Rates to Inflation; and,
- Non-domestic rating.

Linkage of Rates to Inflation

The questions within this sub-section of the paper were as follows:

Is the Executive still committed to the position of keeping rate bills low by capping the poundage rates in line with inflation?

Is it prudent to ignore the revenue-raising potential of the Regional Rate, given the limited number of revenue-raising measures available to the Executive under current devolution arrangements?

In response the DoF stated that "*this is a matter for the Executive.*"<sup>50</sup>

<sup>48</sup> Mr Máirtín Ó Muilleoir MLA (Minister of Finance) Overview, Priorities and Business Plan 2016

<sup>49</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>50</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

### Non-domestic Rating

The questions in this sub-section were as follows:

How does the Executive plan to raise more money *via* Non-domestic Rates, without adversely impacting on business by increasing rate bills?

What is the underlying rationale for the DoF's proposals?

Will the proposals target specific sectors of the economy, e.g. tourism or retail; and if so, what will be the selection criteria for each sector?

What are the cost implications of these proposals in terms of revenue foregone to the Executive?

What are the implementation costs, if any, for Land and Property Services and the DoF Rating Policy Division e.g. in terms of IT changes etc.?

The DoF provide a comprehensive response to the first of these questions and stated that this response covered the remaining four questions. It stated:

*The Minister intends to make a statement to the Assembly later this month, outlining his proposals to modernise and enhance the rating system. This will include measures to widen the tax and raise some more revenue, as well as reforms to ensure greater fairness in the distribution of the local taxation "load". ...[.]... the Minister will be putting forward plans to adopt a more sector specific approach. There are also proposals to run special rate relief pilots in two disadvantaged areas and if successful roll these out wider. The Minister will be more specific when he announces his plans later this month. The cost implications of all the proposals will be made available to the Committee, when the package is finalised and announced, including estimated implementation costs.<sup>51</sup>*

## 2.9 Programme for Government

This sub-section of RaISe Paper NIAR 413-16 sought information in respect of the new Programme for Government (PfG) and its linkages to funding from Budget 2017-18. There were a total of seven questions within this section, the first two of these were directed to the DoF.

How has the DoF sought to take account of the PfG in its 2017-18 funding allocations?

What guidance has the DoF issued to departments on linkages between departmental budgets and the PfG? Please provide a copy to the CfF.

In its response to the first question, the DoF stated:

<sup>51</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

*Departments have been working with DoF and those discussions have included departmental PfG considerations. It will be for individual departments to consider what impact their PfG targets will have on their budgets.*<sup>52</sup>

This vague reply challenges the ability of the CfF to assess what steps the DoF has taken to ensure clear linkages between funding allocated and the PfG programmes and outcomes.

In its response to the second question, the DoF stated that:

*No specific guidance has issued on the linkages between departmental budgets and the Programme for Government.*<sup>53</sup>

While this is a clear response to the question, it does raise further questions in respect of why the DoF has not issued guidance on how it would recommend departments should construct the important linkages between budgets, programmes and PfG outcomes.

## 2.9.2 Silo Budgeting

The next three questions in this sub-section were concerned with the need to break down budgetary silos and assisting departments to work collaboratively. The first of these was:

What steps have the Executive and individual departments taken to address the historical issue of departments operating in budgetary and policy silos?

In its reply to this question, the DfC stated that this was a matter for the DoF and the DoH stated that it:

*...committed to working in partnership across all sectors and across government with the direction of travel which is aligned to the draft PfG.*<sup>54</sup>

The DAERA's response was similar to that provided by the DoH, stating that it:

*Continues to work with other departments, public sector bodies, councils, voluntary bodies and universities to help deliver key environmental outcomes specifically those underpinning PfG commitments.*<sup>55</sup>

The DoF stated that:

<sup>52</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>53</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>54</sup> DoH (2016) Health Committee Correspondence Reference COR/1664/2016, COR/1686/2016 dated 14 December 2016

<sup>55</sup> DAERA (2016) Follow-up to Area Meeting Thursday 10 November 2016 Agriculture Committee Correspondence dated 22 December 2016.

*... this is primarily a matter for the Executive, where departments identify an opportunity to work collaboratively, DoF will support such interaction through the Budget process.<sup>56</sup>*

The DfI did provide a response to both this and the following question, explaining how it is anticipated that the PfG will operate. However, the only apparent light shed by the reply was that:

*...the [Northern Ireland Civil Service] Board has been tasked by the Executive with ensuring there is close collaboration to progress the PfG.<sup>57</sup>*

The final two responses appear to contradict one another, which raises the following issue:

#### **Scrutiny Points:**

7. The CfF may wish to ask the DoF to detail how the Executive has tasked the Northern Ireland Civil Service Board to engage in collaborative working to progress the PfG?

The next question relating to 'silo budgeting' asked:

How will the Executive and individual departments encourage, enable and support such collaborative working both now and in future?

The replies to this question were disappointing, the DoF and the DfC provided the same response to this question as to the previous one, i.e. the DoF stated that this was a matter for the Executive, and the DfC that this was a matter for the DoF.

The DfI provided the same response to the previous question, explaining how in general terms it is anticipated that the PfG will operate in the future. Finally, the DoH and the DAERA provided detailed explanations of a number of the projects it is currently undertaking on a joint working basis.

These replies are not helpful in assisting the CfF in its understanding of how the new the PfG will link to Budget 2017-18.

The final question in the silo budgeting section concerned:

How will the Executive and individual departments monitor, review and evaluate such collaborative working?

The replies to this question were limited. The DoF and the DfC provided the same response to the two previous questions, i.e. that it was an Executive issue – the DoF - and that it was a DoF issue respectively.

<sup>56</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>57</sup> DfI (2016) Infrastructure Committee Correspondence Reference DALO 6/2/16 dated 22 November 2016

The DAERA combined this response with the previous two; however, the generic response did not provide any explanation of how the department would monitor, review and evaluate collaborative working.

The DfI once again provided a detailed response as to how it intends to monitor the PfG outcomes. However, its reply did not shed any additional light on the subject area.

The responses to this section did not assist the CfF in its scrutiny of collaborative working going forward.

### 2.9.3 Evidence Based Funding Decisions

The question within this section of RaISe Paper 413-16 asked:

Since the 2017-18 financial year will be the first full year of the PfG, committees may wish to request details of how this system is to operate in practice within individual departments.

In its reply, the DoF stated:

*This is a very different approach to PfG and the nature of the outcomes means that no one department will own an outcome or deliver progress without working across boundaries, not only with other departments but with other partners in business, voluntary and community sectors.<sup>58</sup>*

This response is particularly interesting in light of the dearth of information from the DoF about collaborative working (in sub-section 2.9.2). The DoF went on to comment:

*The Executive Office is currently considering the best governance arrangements to ensure delivery across departments.<sup>59</sup>*

The DAERA stated that it would comply with the PfG guidance issued by The Executive Office (TEO), while the DoH noted that TEO "...have not yet developed guidance on report cards."<sup>60</sup> Since the new PfG is due to begin in just over two months, the CfF may wish to request a timeframe for the introduction of detailed guidance on its operation.

### 2.9.4 Report Cards

The final question within RaISe Paper 413-16 related to the use of report cards by the PfG.

Has expenditure on individual programmes been identified within departments for the purposes of linking them to the Outcomes *via* the 'report cards'?

<sup>58</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>59</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>60</sup> DoH (2016) Health Committee Correspondence Reference COR/1664/2016, COR/1686/2016 dated 14 December 2016

In its reply, the DoF stated:

*It is anticipated that the direction established in the PfG will inform decisions on the budget.*<sup>61</sup>

The DfC stated that work on this area was progressing. In its generic response, the DoJ provided information on how it had mapped individual programmes to each of the outcomes to which it had responsibility.<sup>62</sup>

The DAERA stated that it:

*...does not have any plans to link expenditure to outcomes using the 'report card' model at this stage but will follow any guidance issued by TEO on this issue.*<sup>63</sup>

Finally, the DfI stated that:

*Report cards have been identified as one potential mechanism by which progress against each outcome may be monitored and reported against, however, a decision has not been made on this as yet.*<sup>64</sup>

This appears to contradict the Head of the Civil Service, who had stated previously that the Executive intended to publish report cards for each of the outcomes.<sup>65</sup> This is not helpful for the CfF in its scrutiny of the budget, as it appears each of the departments which have responded to the questions appear to be operating in isolation, without recourse to central guidance.

### 3 Conclusion

RaISe Paper NIAR 413-16 suggested a total of 42 questions, which sought to facilitate committees in obtaining financial/Budge-related information from their respective departments and enable their scrutiny of the Budget 2017-18. Three departments did not provide a response of any kind:

- The Executive Office (TEO);
- The Department for the Economy (DfE); and,
- The Department of Education (DE).

The DoJ's previous correspondence to the CfJ on the Budget process was used *in lieu* of a specific response to the questions presented in RaISe Paper NIAR 413-16.

A number of the individual replies received were helpful in providing clarity around the budgetary issues facing departments. However, as noted throughout this Paper, the

<sup>61</sup> DoF (2016) Finance Committee Correspondence Reference CFP/052/16-21 dated 28 November 2016

<sup>62</sup> DoJ (2016) Budget 2016 Justice Committee Correspondence Reference SUB-1438-2016 dated 1 October 2016.

<sup>63</sup> DAERA (2016) Follow-up to Area Meeting Thursday 10 November 2016 Agriculture Committee Correspondence dated 22 December 2016

<sup>64</sup> DfI (2016) Infrastructure Committee Correspondence Reference DALO 6/2/16 dated 22 November 2016

<sup>65</sup> Outcomes and Impacts: Outcome Based Accountability Conference, Belfast, 11 October 2016

quality of the replies was variable, and a number of them did not progress committees' ability to scrutinise departments' decision-making or financial planning.

In some instances, the replies were incomplete or contradicted one another. For example, as noted within sub-section 2.1, the DfI response that a DoF official previously wrote to Finance Directors, providing scenario planning assumptions. However, the DoF, which carries overall responsibility for the Budget process, **did not share this information either in its written reply to the CfF or separately during its briefing sessions to the CfF.**<sup>66</sup>

Overall the lack of financial/Budget-related information within the departments replies stymies committees' ability to engage with their respective departments in a meaningful manner, and therefore diminishes their ability to influence how the Executive allocates its Budget and how spending decisions are made by departments.

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<sup>66</sup> Based on review of Minutes of Evidence from 14 September 2016, 26 October 2016, and 30 November 2016