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2020-21 In-year Monitoring of Public Expenditure – First Round: *Supporting Assembly Committees in their Advisory & Scrutiny Roles*

Eileen Regan

The Department of Finance (DoF) has started its first round of in-year public expenditure monitoring for the current financial year; directed by its Guidelines, dated 5 May 2020, which subsequently were issued to all departments. This briefing paper seeks to both inform and facilitate Assembly statutory committees and the Assembly's Audit Committee (AAC), a standing committee, when:

- (i) Engaging on monitoring round returns to be made to the DoF by the departments and the relevant bodies; and later,
- (ii) Scrutinising information and data included in those returns (scrutiny role).

Throughout, potential scrutiny points are identified for consideration and use by individual committees.

This information is provided to MLAs in support of their Assembly duties, and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as professional legal advice, or as a substitute for it.

Introduction

The Department of Finance (DoF) has issued its “In-year Monitoring of Public Expenditure: 2020-21 Guidelines” (the Guidelines), dated 5 May 2020; marking its start of the in-year monitoring (IYM) process for the current financial year – 2020-21. The Guidelines set out the “rules” for 2020-21 IYM, forming part of Northern Ireland’s Public Finance Framework (NI’s PFF) – i.e. the statutory and non-statutory measures defining NI’s financial arrangements under current devolution.

The Public Spending Directorate (PSD) within the DoF is responsible for co-ordinating the IYM process and providing advice to the Minister of Finance on the proposals for each monitoring round. The Finance Minister then brings proposals to the Executive for approval.

This briefing paper aims to support Assembly committees, when they undertake their advisory and scrutiny roles and responsibilities relating to public expenditure. In particular, it is intended for individual statutory committees, including the CfF, and the Assembly’s Audit Committee (AAC), supporting them in their IYM advisory and scrutiny roles. This paper is to both inform and facilitate those committees, when:

- (i) Engaging on monitoring round returns to be made to the DoF by the departments and the relevant bodies; and later,
- (ii) Scrutinising information and data included in those returns (scrutiny role).

The paper is rooted in good practice principles relating to budgeting and public expenditure, as compiled by the Organisation of Economic Cooperation and Development (OECD);¹ an international organisation working to address public policy challenges. These principles are especially pertinent here in NI, given the challenging public expenditure context in which we find ourselves, due to a range of issues, including:

- Compressed timetable to start, following return to fully functioning devolved government in NI after a three-year political hiatus, which became further compressed as time went on;
- Covid-19 related health, economic and other competing demands;
- Key findings and recommendations relating to public expenditure, which were provided in the March 2020 report published by the Renewable Heat Incentive Inquiry; and,
- Other factors that are well-rehearsed in previous briefings, such as post-Brexit.²

For the above reasons, this paper draws on past and on-going efforts undertaken by former and current Committee for Finance (CfF) membership and staff, along with the Public Finance Scrutiny Unit (PFSU) within the Research and Information Service (RaISe), and DoF officials, to try and:

- Bring greater openness and transparency to IYM decision-making at the levels of the Executive, departments and relevant bodies; and,
- Increase public expenditure accountability across devolved governance in NI.

¹ <http://www.oecd.org/gov/budgeting-and-public-expenditures-in-oecd-countries-2018-9789264307957-en.htm>

² RaISe-PFSU. “Assembly Committees: Coordinated Budget Scrutiny”. NIAR 122-20. 28 April 2020, at: <http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2020/finance/1720.pdf>

There is no easy way to present IYM rules. Generally speaking, they are complicated, loaded with technical language and jargon, making it difficult to get a “handle” on the process, leaving the process inaccessible for those not routinely working in the area. The current IYM Guidelines issued by the DoF, however, have come some way in breaking down those barriers.

This paper is not to provide an exhaustive explanation of the IYM rules, as that is beyond the scope of this paper. The next briefing paper, in the context of reviewing monitoring returns, plans to address controls, monitoring return requirements (including bids and prioritisation), outturn and forecast outturn, provisional outturn and statutory equality obligations. The correct place to address those items is in the context of the returns made. Of course key factors determining whether it will be possible to compile such a paper will include receipt of the monitoring returns and the quality of their replies. In addition, the indicative timetable for committee and departmental IYM work in this area will need to be factored in, if the paper is to “add value” to committees’ deliberations

Instead, the purpose of this paper is to give a broad overview that orientates committees in anticipation of their receipt of monitoring returns. It does so using the following headings:

1. IYM process – Executive purpose
2. IYM process - Assembly role
3. DoF Indicative Timetable for 2020-21 IYM
4. Key aspects of DoF’s 2020-21 IYM Guidelines

The paper also includes potential scrutiny points throughout, seeking to secure additional information, where appropriate, which may help when compiling future papers. No conclusion is provided, given the nature of this briefing.

1. IYM process – Executive purpose

The IYM process is a formal system to review spending plans and priorities for departments throughout the current financial year, usually with three monitoring rounds in a NI annual process. Each round captures departments’ most up-to-date positions, so that appropriate changes can be made in line with the “rules”. Simply speaking, the process aids good financial management by the Executive and departments, seeking to ensure resources are directed towards the highest priority areas; fully and appropriately used.³

At the start of each IYM process, i.e. before the first monitoring round, the DoF issues the guiding principles – the “rules” - for the IYM process, in the form of guidelines. The guidelines set relevant requirements and conditions, including those arising from relevant Treasury and DoF guidance, all of which the departments are to follow.

IYM of public expenditure concerns the agreed departmental allocations contained in the Executive Budget. Departments are to treat their allocations – as set in the Budget process - as “ceilings”, i.e. the maximum expenditure amount set. They generally are to manage their activities within those specified ceilings. There can be limited exception to this, but only if such change is made in accordance with the guidelines, which includes Executive approval.

In sum, IYM enables the Executive to work within the “rules” to:

- Adjust the resource allocations set out in its Budget given emerging expenditure pressures;

³ Public Spending Directorate, DoF. “In-year Monitoring of Public Expenditure: 2020-21 Guidelines”. 5 May 2020, at para 2.6.

- Reprioritise the use of resources that are no longer required for the original purpose allocation made;
- Ensure funding does not go back to Treasury at end of budget year due to late surrenders by departments; and,
- Help to improve public expenditure management across Executive, departments and relevant bodies through greater openness and transparency, which aims to increase government accountability.

It is important to remember that the IYM process does not concern the Estimates, which has a separate process. Similarly, it is not the Budget process, nor the related Supply Procedure. IYM is its own process.

2. IYM process - Assembly role

Throughout IYM, at specified “monitoring rounds”, the Assembly *via* its committees can engage with their departments or body on developing the in-year financial position. The monitoring rounds afford an occasion whereby committees can engage and scrutinise on departmental expenditure plans, discharging their advisory and scrutiny roles and responsibilities. In doing so, they may exercise influence over reprioritisation of resources.

In addition, there is a specific role for the CfF to examine the operation and effectiveness of the IYM process. For the current process, refer to Section 4 below, where the paper highlights specific aspects of IYM, which the Assembly usually engages with.

3. DoF Indicative Timetable for 2020-21 IYM

The DoF indicative timetable for IYM monitoring in 2020-21 is provided in Table 1 below.⁴ However, the Guidelines explain that departures from this may be necessary, stating:⁵

...it may be necessary, in light of emerging public expenditure issues throughout the year, to commission ad-hoc monitoring rounds or to adjust the timing of planned monitoring rounds. CED will notify departments as to any change in the proposed timing and scope of any future rounds.

Table 1: DoF Indicative Timetable for 2020-21 In-Year Monitoring Rounds

	June	October	January 1 st stage	January 2 nd stage
Departmental Returns	5 June	2 October	4 December	4 January
Executive Meeting	22 June	19 October	N/A	18 January
Assembly Statement	23 June	20 October	N/A	19 January

Source: DoF, May 2020.

⁴ Public Spending Directorate, DoF. “In-year Monitoring of Public Expenditure: 2020-21 Guidelines”. 5 May 2020. In time, the DoF may publish the Guidelines, at para 3.4.

⁵ Public Spending Directorate, DoF. “In-year Monitoring of Public Expenditure: 2020-21 Guidelines”. 5 May 2020. In time, the DoF may publish the Guidelines, at para 3.4.

The DoF further explains that:⁶

...Timings for Executive meetings or Assembly Statements have not yet been confirmed. As in previous years the January Monitoring round will be split into 2 stages, the first stage will be to allow technical changes which will not require Executive approval to be processed in advance of the tight turnaround in January. This will assist with the preparation of Spring Supplementary Estimates.

4. Key aspects of DoF's 2020-21 IYM Guidelines

At the time of writing this paper, the 2020-21 Guidelines are not yet published on the DoF website. Nonetheless, they were made available to the CfF by the DoF Departmental Liaison Officer (DALO) on 12 May 2020. Thereafter, the CfF Clerk circulated the Guidelines to RalSe-PFSU and some other Assembly committees.

IYM is a technical and complex exercise that can be confusing. It therefore is helpful to have the DoF Guidelines, which are written in a reasonably clear and accessible manner.

This section aims to extract from the Guidelines key aspects, including requirements and conditions, which the committee should be familiar and engaged with, when departments/bodies come before them. There are a number of sources that committees should become increasingly familiar with, including those arising from:

- Treasury's "Consolidated Budgeting Guidance", which applies to in-year control at the UK level in 2020-21, and was issued to departments on 31 March 2020;⁷ and,
- DoF's "Managing Public Money NI" (MPMNI), which sets out the principles for dealing with resources used by public sector organisations in NI.⁸

The following sub-sections aim to help in that regard:

- 4.1 Mechanics of IYM process
- 4.2 Executive approved Budget allocations
- 4.3 Flexibilities inside and outside IYM
- 4.4 Key Provisions within 2020-21 IYM Guidelines

4.1 Mechanics of IYM process

The Guidelines are implemented by ministers and officials *via* the flowchart, template forms included at Annex C of the Guidelines and the RBM Database (central database); and supported by relevant support services. Each is explained below.

4.1.1 Flowchart of IYM

- The 2020-21 Guidelines include a flowchart, which provides a helpful overview of the IYM process and questions to be asked. This helps to navigate the complex series of considerations during the monitoring round. It also helpfully cross-relates with the

⁶ Public Spending Directorate, DoF. "In-year Monitoring of Public Expenditure: 2020-21 Guidelines". 5 May 2020. In time, the DoF may publish the Guidelines, at para 3.4.

⁷https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876155/CBG_for_publication.pdf

⁸<https://www.finance-ni.gov.uk/articles/managing-public-money-ni-mpmni>

Guideline text, and accompanying Annex C, including bid prioritisation definitions, and template forms that are to be completed when making returns.

4.1.2 Template forms for monitoring round returns

- Seven template forms are provided at Annex C, which seek to provide a holistic, up-to-date view of public expenditure, using a consistent format. The templates address:
 1. Bids, with accompanying “Prioritisation of Bids” document
 2. Reduced requirements
 3. Proposed allocations/Proposed reductions
 4. Reclassifications
 5. Technical transfers
 6. Movement between Resource and Admin
 7. Retained *de Minimus* capital receipts; Increased capital expenditure from retained receipts
- Each form and any related document are designed to secure a response that, if completed as requested in the Guidelines and as stated on the form; should provide a more holistic and robust evidence base, upon which some analysis could be undertaken, to support committees’ advisory and scrutiny roles. The forms explicitly discourage restatement of codes and categories in description boxes; instead codes and categories should be restricted to the box that asks for those.
- The relevant forms (such as Bids, Reduced requirements, proposed allocations/Proposed reductions, Reclassifications and movement) are designed so that they could allow for managing and tracking information, including by expenditure type, linkage to receipts, switches from one Unit of Business to another, or whether a switch concerns a Unit of Service, crossing boundary. Or, for purposes of better understanding the incidence of exceeding *de Minimus* threshold, and when that is for exceptional circumstances; and equality implications of certain decisions; and linkages with departmental targets and or the draft Programme for Government.
- The DoF states at Section 1 of the Guidelines that it **expects full compliance when completing forms for monitoring round returns**, including, e.g., providing accurate codes, full description (up to 40 characters generally) and sound rationales, with robust supporting information. On each form, notes are included to support this approach, providing an “aide memoire” to facilitate those who are completing it.

4.1.3 RBM database

- Departments are to ensure that all transactions are entered on the central RBM Database, by the closing date for a given exercise.⁹ The IYM Guidelines further state that sound rationales need to be included for movements in and out of Units of Business, relying of DoF Supply Teams for guidance. Detailed RBM guidance is issued by the DoF’s CED (Central Expenditure Division) prior to each monitoring round.

4.1.4 DoF support system for IYM

- To support IYM compliance, the DoF provides support and encourages early engagement with the following parts of the DoF:
 - Public Spending Directorate (PSD);

⁹ Public Spending Directorate, DoF. “In-year Monitoring of Public Expenditure: 2020-21 Guidelines”. 5 May 2020. In time, the DoF may publish the Guidelines, at paras 3.3 and 6.2-6.10).

- Central Expenditure Division (within PSD);
 - Supply Teams relating to departmental specific issues; and,
 - Accountability and Financial Management Division in relation to MPMNI queries.
- This support system, combined with the Guidelines, flowchart, templates and RBM database, should help to guide and potentially reduce errors, making for more efficient and effective public expenditure management. Over time, it hopefully will enable more proactive public expenditure management, especially given the current and future contexts NI faces, including circumstances arising from post-Brexit and Covid-19.

4.1.5 Overall observations

- In terms of IYM, the DoF seems to be trying to do this using guidance, template forms and related support services. It clearly specified the form response requirements in the Guidelines, on the forms and through support services, i.e. full and complete responses that include meaningful descriptions, identifier information, fuller explanations, including those relating to interlinkages, consequences and equality. It also asks that acronyms are kept to a minimum, and “don’t assume end users have detailed understanding of business area...” If not, then, e.g., the forms are to be rejected by face rejection by the DoF, which oversees the IYM process.
- The forms ask departments relevant questions, which if answered to the required standard could provide a richer and more robust and consistent evidence base given the following requested, e.g.: (i) identifying information (RBM Database codes – see below); meaningful descriptions (such as, *“avoid general statements such as reduced requirements which do not convey sufficient meaning”*; fuller explanations; inter-linkages, to enable more proactive, holistic and considered decision-making, as well as good record-keeping. “RBM Database” enables monitoring of changes to correct Unit of Business in the first instance, from on to another, and done in one entry, not as a series. It further requires a sound rationale for movements in and out; also DoF Supply Team is available to assist. There is RBM Guidance regarding key input on database prior to each monitoring round, which also should help, in terms of accuracy and consistency.

Potential scrutiny points for sub-section 4.1:

- 1. Please provide completed template forms, including supporting documentation, to respective Assembly committee.**
- 2. Did the departments engage early and often with the relevant part of DoF, to ensure timely and robust monitoring round returns?**
- 3. Were completed template forms rejected by the DoF due to non-compliance with the Guidelines when completing template forms? If so, how many? And, on how many occasions was the same form rejected?**
- 4. For all monitoring round returns made, how well did it go for all involved in compiling the return? Strengths in approach; weaknesses in approach; informal lessons learned?**
- 5. At the end of this monitoring round, will the DoF undertake an overall review to evaluate compliance with the Guidelines, to establish good practice that can be shared, and lessons to be learned, but not repeated in future rounds?**

6. At the end of this monitoring round, will departments/bodies undertake an internal review to evaluate its compliance with the Guidelines, to establish good practice that can be shared, and lessons to be learned, but not repeated in future rounds?

7. Would the DoF provide the CfF with a copy of the current RBM database guidance, so that the Committee can learn more about the recording of transactions during monitoring rounds?

8. What training is provided to officials on RBM database guidance? Which officials require this training? Should training be extended?

4.2 Engagement with Department Assembly Committees

- In the IYM Guidelines and related templates, the DoF has included references to Assembly committees, reminding all that their monitoring round returns to the DoF will be relied on and potentially shared with committees (and others). For example, the Guidelines state that committees play an important role in scrutinising departmental spending plans; and all “...must engage fully in the IYM process...”, as well as “...keep committees information on an on-going basis...”¹⁰
- **Such statements are welcome, as they promote openness and transparency, and increase government accountability.**

4.2.1 Overall observations

In sum, the IYM process enables Assembly committees to:

- Engage early with departments/bodies;
- Stay informed on an on-going basis;
- Influence the Executive and the department’s positions;
- Scrutinise spending plans, including how the Executive/department operated the IYM process;
- Track sums allocated in-year, to look for patterns and trends, e.g. surrenders, exceptional circumstances explanations for exceeding *de Minimis* threshold, etc; and,
- Understand Executive priorities, and in turn departmental priorities.

4.3 Executive approved Budget allocations

- On 31 March 2020, the Finance Minister announced Budget 2020-21 allocations in the Assembly; as previously approved by the Executive.
- The IYM process does not re-open the agreed Budget position. All those allocations are to be treated as “ceilings”.
- Guidelines state departments/bodies should seek to manage activities and contain spending within the noted ceilings, unless and until Executive agrees an increase, if any.

¹⁰ Public Spending Directorate, DoF. “In-year Monitoring of Public Expenditure: 2020-21 Guidelines”. 5 May 2020. In time, the DoF may publish the Guidelines, at paras 5.89-5.91.

- Budget 2020-21 “settlement letters” also highlighted allocations made via the Budget, which are ring-fenced for specific purposes; and that funding cannot be used for any other purpose.

4.4 Flexibilities inside and outside 2020-21 IYM

There are two areas of flexibility to note relating to the Department of Health (DoH) in particular and all departments.

4.4.1 DoH – Executive approved additional flexibilities for IYM

- This DoH additional flexibility applies only to Resource DEL (Departmental Expenditure Limits), with the exception of ring-fenced allocation (i.e. cannot be used for any other purpose); and in the first instance, must comply with IYM Guidelines.¹¹
- Re above, specific terms and conditions, including no RDEL bids to be tabled by the DoH, unless in line with agreed opening budget assumption; or if major and unforeseen circumstances. This condition, however, does not preclude an allocation to DoH by the Executive.
- In effect, the DoH is still involved in the monitoring round. It, however, must ensure all transactions entered onto the RBM Database in a timely and accurate fashion (see sub-section 4.1.3). It also must ensure it declares all Capital DEL (CDEL) Resource requirements; and may submit CDEL bids as necessary.

▪ Potential scrutiny points for sub-section 4.3.1:

- 1. In its on-going scenario planning, does the DoH believe that it is more likely than not that it will face major and unforeseen circumstances after this monitoring round, e.g. Covid-19 related or other, which consequently will force it to make a RDEL bid in future, relying on this flexibility?**

4.4.2 Executive approved Departmental flexibility outside 2020-21 IYM

- The Executive agreed “...flexibility above that normally permitted in-year would be allowed at the first monitoring round of the year...and kept under review...”.
- Such flexibility can be used “...to reallocate funds to meet any emerging pressures and to reflect the most up to date position in terms of normal programmes being taken forward”.
- Departments still are required to report these changes.
- How these changes are to be captured and reported will be in the “...commissioning letter...” provided by the DoF Central Expenditure Division (CED) for that purpose – that particular exercise.
- “Normal” IYM transactions are to be used by departments, where possible.¹²

¹¹ Public Spending Directorate, DoF. “In-year Monitoring of Public Expenditure: 2020-21 Guidelines”. 5 May 2020. In time, the DoF may publish the Guidelines, at paras 5.76-5.77.

¹² Public Spending Directorate, DoF. “In-year Monitoring of Public Expenditure: 2020-21 Guidelines”. 5 May 2020. In time, the DoF may publish the Guidelines, at para 1.3.

- **Potential scrutiny points for sub-section 4.4.2:**
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- 1. By what date does the DoF CED anticipate its issuance of commissioning letters concerning the capture and reporting of departments' use of this flexibility outside the 2020-21 IYM process?
- 2. Would the departments set out how they have used this flexibility since it was granted to date?

4.5 Covid-19 special process

- Limited initial Covid-19 funding from the UK government was incorporated into Budget 2020-21.
- Additional Covid-19 funding from Westminster is to be finalised at the next financial exercise undertaken by the DoF, through IYM processes.
- The DoF Public Spending Directorate (PSD) is to process Covid-19 funding on the Public Expenditure database "at first opportunity".
- Individual departments to set up necessary ring-fenced Covid-19 Units of Business, and record lines for new additional Covid-19 funding.
- Covid-19 funding has ceiling limits, and is ring-fenced. Departments are to comply with both requirements.
- Where not used for ring-fenced purpose, then department is to notify PSD, explaining "notified as an easement", along with "reduced requirement" for next monitoring round.¹³

Potential scrutiny points for sub-section 4.5:

1. What progress has been made in the DoF PSD (Public Spending Directorate) to process Covid-19 funding on the Public Expenditure database?
2. For departments which had to set up necessary ring-fenced Covid-19 Units of Business, and record lines for new additional Covid-19 funding, have they done this? If so, please detail when and how? If not, please detail when and how this will progress?
3. Are departments nearing their Covid-19 ring-fenced funding ceiling limits quicker than anticipated, or slower, potentially not in a position to use all of it for the specified purpose?
- 3a. If so to either, please explain future plans to address the matter in line with specified requirements for that funding?
- 3b. Where it is anticipated that it will not be used for ring-fenced purpose, is the department planning on notifying DoF's PSD, explaining the funding is "notified as an easement", along with "reduced requirement" for next monitoring round?

¹³ Public Spending Directorate, DoF. "In-year Monitoring of Public Expenditure: 2020-21 Guidelines". 5 May 2020. In time, the DoF may publish the Guidelines, at para 2.11.

