Committee for Finance and Personnel

Report on the Response to the Executive's Review of the Financial Process in Northern Ireland

Together with the Minutes of Proceedings of the Committee relating to the Report, Minutes of Evidence, Written Submissions and Memoranda

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REPORT EMBARGOED UNTIL COMMENCEMENT OF DEBATE IN PLENARY

Mandate 2011/2015

Second Report

Committee Remit, Powers and Membership

Powers

The Committee for Finance and Personnel is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the Northern Ireland Act 1998 and under Assembly Standing Order 48. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and Personnel and has a role in the initiation of legislation.

The Committee has the power to;

- consider and advise on Departmental budgets and annual plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of primary legislation;
- call for persons and papers;
- initiate inquiries and make reports; and
- consider and advise on matters brought to the Committee by the Minister of Finance and Personnel.

Membership

The Committee has eleven members, including a Chairperson and Deputy Chairperson, with a quorum of five members. The membership of the Committee during the current mandate has been as follows:

Mr Conor Murphy MP (Chairperson)

Mr Dominic Bradley (Deputy Chairperson)

Mrs Judith Cochrane

Mr Leslie Cree MBE

Mr Paul Girvan

Mr David Hilditch

Mr William Humphrey

Mr Ross Hussey

Mr Paul Maskey MP *

Mr Mitchel McLaughlin

Mr Adrian McQuillan

*Mr Maskey replaced Ms Caitríona Ruane with effect from 12 September 2011.

List of Abbreviations and Acronyms used in the Report

ALB	Arm's-length Body
AME	Annually Managed Expenditure
BRG	Budget Review Group
CAL	Culture, Arts and Leisure
CFP	Committee for Finance and Personnel
CLG	Chairpersons' Liaison Group
DEL	Departmental Expenditure Limit
DFP	Department of Finance and Personnel
ETI	Enterprise, Trade and Investment
HM	Her Majesty
HSSPS	Health, Social Services and Public Safety
IMF	International Monetary Fund
MoU	Memorandum of Understanding
NDPB	Non-departmental public body
NI	Northern Ireland
NIAO	Northern Ireland Audit Office
NICS	Northern Ireland Civil Service
OECD	Organisation for Economic Co-operation and Development
OFMDFM	Office of the First Minister and deputy First Minister
PAC	Public Accounts Committee
PfG	Programme for Government
PSA	Public Service Agreement
RfRs	Requests for Resources
UK	United Kingdom

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Executive Summary

The Northern Ireland Executive's current budget and financial process has been open to criticism in terms of being convoluted and repetitive, with a lack of transparency and read-across between the Budgets, Estimates and Accounts, which has caused frustration for Assembly Members and committees. The Committee has long called for a settled and effective budget process which affords sufficient time for meaningful engagement with Assembly Members, committees and the wider public. While recognising that the Executive's budget is developed within the context of a wider UK control and management framework, the Committee welcomed the Executive's decision to commission the Department of Finance and Personnel to undertake a review, with the aim of establishing a simplified budget process model which meets the requirements of the devolved administration.

The Department of Finance and Personnel's Review of the Financial Process in NI discussion paper was issued to all key stakeholders on 10 October 2011. The paper set out fifteen initial recommendations for discussion, related to key issues and concerns. The response set out in this Report fulfils the Committee's unique role in co-ordinating the Assembly's response to budget and financial issues. To inform the response, the Committee commissioned research on a range of issues, including the presentation of fiscal data, budget system laws and strategic budget stages; and, on the latter issue, legal advice was provided by Assembly Legal Services. The Committee also invited comments from the other applicable Assembly committees, the Chairpersons' Liaison Group and the Northern Ireland Audit Office.

The Review recommendations have been broadly welcomed by the Committee, and by other Assembly committees and stakeholders. It is recognised that addressing the misalignments between the Budget, Estimates and Accounts and bringing all non-voted expenditure in Budgets within coverage of the Estimates will go some way to enhance transparency and accountability to the Assembly. The concept of setting out an ideal Budget timetable, which affords time for the Assembly to input to an early strategic phase, was also considered important. The Committee must stress, however, that an early strategic phase is one of the most influential stages in the budget process and, as such, is an essential requirement rather than an aspiration. In the longer term, the effectiveness of this stage will also serve to increase the potential for streamlining the latter stages in the budget process.

The Committee has highlighted concerns and queries with some of the Review recommendations and would request further consultation and assurance in this regard, including: appropriate safeguards for changes to Assembly voting controls; the level of detail to be provided in respect of departmental expenditure lines; the presentation of information in the various financial publications; and consolidation of non-departmental public bodies and other arm's-length bodies within the accounting boundaries. In addition, the Committee believes that there should be firm, visible linkages between the Programme for Government and budget allocations, and is unable to endorse any recommendations to the contrary. Finally, in terms of providing for an effective early strategic phase in the budget process in particular, it is the Committee's intention to explore the merits of a "Budget Process Agreement" between the Executive and Assembly, which is underpinned in the Assembly's Standing Orders, compared to the option of statutory provision, possibly through a Committee Bill.

Key Conclusions and Recommendations

1. The Committee would wish to highlight at the outset that most of the Review recommendations have been broadly welcomed, both in the submissions received from the other Assembly committees and stakeholders and by the Committee itself. As such, the comments in this co-ordinated response tend to focus on the specific Review recommendations where particular concerns have been identified or proposals made. The Committee believes that further examination of these issues will help to elucidate the arguments in respect of the proposed reforms. In looking forward to the Department's response on these matters, the Committee would also welcome a clearer analysis of the overall cost implications of the proposed reforms. (Paragraph 7)

2. The Committee endorses the recommendation of its predecessor that "relevant financial documents, including Budgets, Estimates and Resource Accounts are simplified and harmonised to increase transparency." The Committee also concurs with the view of the Education and Regional Development committees that the implementation of Review Recommendation 1 would enhance transparency and accountability to the Assembly and that the changes will "further afford statutory committees potential for greater and more indepth scrutiny of the budgetary processes." (Paragraph 10)

3. The Committee calls on the Department of Finance and Personnel to extend consolidation beyond Executive non-departmental public bodies to include other types of arm's-length bodies, which form an important element of some departmental expenditure remits. (Paragraph 13)

4. Following up on the recommendation of its predecessor in 2008 that the benefits of Account NI should be rolled out to non-departmental public bodies and other arm's-length bodies as far as is practical, the Committee calls on the Department to set out the business case for the fuller integration of these bodies within the Account NI system as part of the proposed consolidation process. (Paragraph 16)

5. While strongly supportive of the aim of Review Recommendation 2, the Committee sees benefit in the consolidation of non-departmental public bodies within the accounting boundaries being informed by the outcome of the review of arm's-length bodies which the Executive's Budget Review Group is leading. This would help to avoid the inefficient use of time and resources by departments and non-departmental public bodies in preparing for consolidation now only for the body to be wound up at a later stage. Members would therefore urge the Minister to press for the review of arm's-length bodies to be concluded expeditiously. (Paragraph 19)

6. Accepting that additional misalignments are likely to be identified going forward, the Committee is supportive of Review Recommendation 3 and looks forward to considering details of such additional misalignments and the related assessments of the impact of any proposed further changes. (Paragraph 22)

7. In recognising that the proposals to bring all non-voted expenditure and income in Budgets within the coverage of Estimates will aid transparency and scrutiny and align with international best practice, the Committee welcomes Review Recommendation 4. (Paragraph 25)

8. Given the risks attaching to Review Recommendation 5, that the Assembly votes "Net"controls in the Estimates and Budget Act, the Committee's support for this proposal is subject to further detail and assurance from the Department of Finance and Personnel to satisfy members that the "appropriate safeguards" will indeed be established so that firm control is maintained over the use of income by departments. The Committee also considers that the proposed changes would increase the need for systematic in-year scrutiny of departmental income generation by the respective Assembly committees and that formal arrangements

would have to be put in place to facilitate this, including provision of the necessary information by departments. (Paragraph 32)

9. The Committee agrees that the level of detail currently provided in departmental expenditure plans often does not provide meaningful information on key areas of public spending, and welcomes any proposals that will simplify and harmonise information, increase transparency and ensure that expenditure is more readily scrutinised. While there was also general support for the thrust of Review Recommendation 6 from other Assembly committees, it was noted that further consultation will be required with the Assembly on the level of the breakdown proposed. (Paragraph 34)

10. The Committee firmly believes that there should be clear, visible linkages between Budget allocations and the Programme for Government, and is unable to endorse Review Recommendation 7. In noting the difficulties cited by the Department of Finance and Personnel in linking spending to priorities and outcomes, the Committee is mindful of previous evidence from the Department which runs contrary to the current proposal that "performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets", including the advice that the Account NI system had the capability to map expenditure to outputs and outcomes. The Committee, therefore, reiterates the call by its predecessor that work is undertaken to exploit the Account NI system to its full potential in this regard. (Paragraph 42)

11. The Committee has long called for better read-across between the published financial documents which accompany the different stages of the budget process and members welcome any moves towards this end. In noting that the NI Audit Office intends to discuss the presentation of the Estimates further with the Department of Finance and Personnel, the Committee recommends that these discussions also consider how the Resource Accounts may be further improved from the example provided in the discussion paper, particularly in terms of being user friendly and supporting Assembly scrutiny. Members look forward to being apprised of any subsequent proposals in this regard. (Paragraph 46)

12. The Committee endorses the view of its predecessor that budget allocations should be driven by priorities, not the other way around. In this regard, it supports the recommendation that the Budget should be developed in the context of a Programme for Government agreed by the Executive. Moreover, the Committee considers that it is not simply "desirable" but is in fact essential that a draft Programme for Government is developed prior to, or at least in tandem with, a draft Budget and wishes to see this reflected in any agreed Budget framework. (Paragraph 50)

13. The Committee welcomes the proposal in Review Recommendation 10 to include an early strategic phase and sufficient time for consultation with Assembly committees and other stakeholders within a Budget timetable. However, given that an early strategic phase is one of the most informative and influential stages in the Budget process, members are firmly of the view that it is a requirement, rather than an ideal which will just take place "if circumstances and time permits". In noting that the discussion paper itself states that "even if the Westminster Spending Review outcome and the NI Block allocation is not yet known, this early strategic phase could still take place in order to inform the later stages of the Budget", the Committee believes it essential that the caveat is removed from this Review recommendation. (Paragraph 55)

14. The Committee concurs with those committees that welcomed the principle of setting out an ideal Budget timetable, and notes that Assembly research indicates that elements included in the timetable proposed in Review Recommendation 11 are in line with international best practice. (Paragraph 57)

15. The Committee recommends that consideration is given to following the approach of the Scottish Government in undertaking public consultation at the formative pre-draft budget stage, which could either remove or reduce the time required for public consultation once the

draft Budget has been agreed by the Executive. This Department of Finance and Personnel-led public consultation could be scheduled to align with Assembly committees' engagement with departments, so that the outcome of the public consultation is available to inform the Committee's co-ordinated report and the Take Note debate at the pre-draft budget stage. (Paragraph 59)

16. The Committee would reiterate the findings from its predecessor that it is not appropriate for Assembly committees to lead the consultation on departmental expenditure plans as inferred in the discussion document, particularly as they do not have the authority to act on the outcome of such consultation. (Paragraph 61)

17. It is the Committee's intention to further explore the merits of the Budget Process Agreement, proposed in Review Recommendation 12, as compared to the potentially more robust option of statutory provision, which would have a particular focus on facilitating a pre-draft budget scrutiny stage and would possibly take the form of a Committee Bill. Considerations around both options will be set out in a discussion paper on which views will be sought from all relevant stakeholders. While the general principle behind Review Recommendation 12, in terms of formalising the budget process, was welcomed by a number of the other committees who responded to the discussion paper, the majority have indicated that they wish to await the outcome of the Committee's work in this regard before making any final decisions. (Paragraph 67)

18. In terms of Review Recommendations 13 and 14, the Committee agrees with the Department of Finance and Personnel position that the latter stages of the current budget process are convoluted and repetitive. The potential to streamline the process exists, but only in the context of a reformed budget process which provides unequivocally for a formal pre-draft budget phase, affording the Assembly and its committees an opportunity to influence budgetary matters at an early stage. The Committee will therefore wish to consider this matter further once a reformed process has been developed and trialled. (Paragraph 70)

19. The Committee supports Review Recommendation 15, that the Rates Order should be debated alongside the expenditure plans for the next financial year, as set out in the Budget Bill, and believes that an integrated approach to considering revenue and spending plans will further underpin Assembly scrutiny. (Paragraph 74)

Introduction

Background

1. In February 2011, the NI Executive agreed a Terms of Reference for a Review of the Financial Process in NI, to be taken forward by the Department of Finance and Personnel (DFP). Aimed at bringing forward a streamlined financial framework that is more efficient, transparent, open to scrutiny by and accountability to the Assembly, the strategic aims of the review are:

- "To align the Budget, the Estimates and the Accounts as far as practicable to improve transparency; and
- To synchronise the presentation of the Budget, the Estimates/departmental expenditure plans, the Budget Bills, the Rates legislation and the Accounts in order to create a single co-ordinated public revenue and expenditure process."[1]

2. The Committee received an initial presentation from DFP officials on 22 June 2011 which outlined the difficulties with the current financial process and related publications, and issues which would be considered within the Review. The presentation highlighted a range of matters for consideration by the Assembly, including: the controls that should be voted by the Assembly; the level of detail to be included in publications; presentation of the Main Estimates and related Budget Bill as the final stage of the Budget process; and the possibility of incorporating the Budget process in Assembly Standing Orders or in legislation.[2] A subsequent evidence session was held on 21 September 2011, when the Committee received an update on the progress of the Review. The Official Report of the evidence session is provided at Appendix 2. Members were advised that a discussion paper setting out initial recommendations would be brought forward for consideration by key stakeholders. The paper was subsequently issued on 10 October 2011.

The Committee's Approach

3. Early in this Assembly mandate, the Committee considered and endorsed recommendations made by its predecessor in its Report on the Executive's Draft Budget 2011-15[3] and the Third Report on the Inquiry into the Role of the Assembly in Scrutinising the Executive's Budget and Expenditure.[4] The recommendations sought to facilitate and strengthen the role of the Assembly in scrutinising the Executive's budgets and expenditure, and were developed in consultation with other committees in the last mandate. In particular, the recommendations aimed to:

- establish a regularised budget process, with a key pre-draft budget scrutiny stage;
- improve the provision of financial information to committees and allow sufficient time for scrutiny; and
- strengthen the support for committees and members in financial scrutiny.

The Committee has been mindful of these recommendations and the work of its predecessor in its consideration of the proposals put forward in the Review discussion paper.

4. As a first step to increasing awareness of the public expenditure system and support for Members and committees in financial scrutiny, the Committee hosted an "Overview of the Public Expenditure System" workshop on 18 October 2011, to which all Assembly Members and committee secretariat staff were invited. At the event, DFP officials provide an overview

1 Review of Financial Process in NI discussion paper, Annex A – Terms of Reference, Appendix 3.

2 A copy of the presentation is provided at Appendix 3.

3 http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_44_09_10R_vol1.html

4 http://archive.niassembly.gov.uk/finance/2007mandate/reports/report_61_10_11R.htm

of the public expenditure system, to assist both individual Members and committees in budget scrutiny. Given that the discussion paper had been issued directly to Members as key stakeholders, a short briefing on the Review of the Financial Process was also provided.

5. In line with convention from the previous mandate, the Committee has continued with the approach of co-ordinating the Assembly's response to budget and financial issues. To inform this Report, comments on the discussion paper were invited from applicable Assembly committees and the Chairpersons' Liaison Group (CLG). The responses from the other committees have been referenced below, with the full submissions included at Appendix 4. The Committee would wish to draw attention to the point made by CLG in respect of the complexity of the issues under consideration and the potential difficulties that committees may face in responding to such issues, and notes the suggestion that "perhaps DFP could have found alternative ways to interact with committees and take their views other than in writing."

6. To assist its deliberations on the proposals arising from the Review, the Committee commissioned research on a range of budget and financial matters, including the presentation of fiscal data, budget systems laws and strategic budget stages. The Committee agreed that the recommendations made in the Research and Information Service briefing paper, DFP's Review of Financial Process: considerations for improving the budget process,[5] should be taken forward in parallel with the Executive's Review. Assembly Research also undertook a critical analysis of the recommendations put forward in the DFP discussion paper. The Research and Information Service briefing papers are provided at Appendix 5.

5 Research and Information Service briefing paper, *DFP's Review of Financial Process: considerations for improving the budget process*, List of Recommendations, Page 214, Appendix 5.

Consideration of the Review Recommendations

7. **The Committee would wish to highlight at the outset that most of the Review recommendations have been broadly welcomed, both in the submissions received from the other Assembly committees and stakeholders and by the Committee itself. As such, the comments in this co-ordinated response tend to focus on the specific Review recommendations where particular concerns have been identified or proposals made. The Committee believes that further examination of these issues will help to elucidate the arguments in respect of the proposed reforms. In looking forward to the Department's response on these matters, the Committee would also welcome a clearer analysis of the overall cost implications of the proposed reforms.**

8. The following commentary considers the Review recommendations individually and sets out a Committee position in each case.

Review Recommendation 1: Assembly controls should change to reflect the alignment of Budget, Estimates and Accounting boundaries. The concept of Requests and Resources (RfRs) should be abolished and the Assembly should instead vote, as applicable, each department's:

Resource DEL

Capital DEL

Resource AME

Capital AME

Net Cash Requirement

9. The DFP discussion paper notes that there are a number of ways in which the Budget, Estimates and Accounts are misaligned, estimating that only about 60% of expenditure is aligned across these frameworks. It states that

> *"Budget high level controls are net Resource DEL and AME and net Capital DEL and AME while Estimate/legislative controls are currently by Requests for Resources (RfRs) for net resource plus the accruing resources (total of operating and non-operating) while capital is not voted, except within the cash requirement."*[6]

As a consequence, departments budget against one set of controls within the Budget, but account for spend against different controls set in the Estimates. To align the controls, DFP proposes that each department's budgetary controls are authorised by the Assembly, together with its overall cash requirement. This would "simplify the process for budgeting, voting and accounting for departmental spend within the same limits", and would also serve to increase transparency and accountability to the Assembly.

10. In regard to this issue, **the Committee endorses the recommendation of its predecessor that "relevant financial documents, including Budgets, Estimates and Resource Accounts are simplified and harmonised to increase transparency."[7] The Committee also concurs with the view of the Education and Regional Development committees that the implementation of Review Recommendation 1 would enhance transparency and accountability to the Assembly and that the changes will "further afford statutory committees potential for greater and more indepth scrutiny of the budgetary processes."[8]**

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6 DFP discussion paper, paragraph 14(b)' Appendix 3.

7 http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html

8 Committee for Regional Development, Appendix 4.

Review Recommendation 2: NDPBs are consolidated within the Estimates and Accounting boundaries in order to improve the alignment and transparency.

11. A further misalignment between the Budgets, Estimates and Accounts occurs in respect of non-departmental public bodies (NDPBs). While the full spend and income of the majority of NDPBs is included in the Budget, only the cash grant-in-aid for Executive NDPBs is in the Estimates or the Resource Accounts.[9] DFP considers that this is one of the primary reasons for misalignment between the Budget and Estimates, and therefore recommends that NDPBs are brought within the Estimates and Accounting boundaries. The discussion paper stresses that the distinctive characteristics of NDPBs will remain unchanged and they would "continue to be separate corporate identities with statutory responsibilities and independent in their executive decision-making in line with their responsibilities." The Committee sees this as an important assurance, given the need to ensure that consolidation does not inadvertently undermine the function of the NDPB model.

12. The NI Audit Office (NIAO) notes a potential benefit of such a change would be closer working between departments and their NDPBs, greater integration of financial reporting and increased accountability and financial monitoring. The Committee also notes that accountability to the Assembly for NDPB funding and expenditure would be improved and that a sponsor department could be called to account for overspending by an NDPB, which is not the case at present. The proposed change should also enhance the transparency of the flow of resources from departments to their NDPBs.

13. While there are potential benefits to the proposal, a number of issues have also been raised. While generally supportive of the recommendation, the Committee for Culture, Arts and Leisure (CAL) is concerned that it relates only to Executive NDPBs. It points out that 80% of the CAL Department's budget is managed by arm's-length bodies (ALBs), which do not all have NDPB status. The CAL Committee therefore requested clarification on whether consideration has been given to including all ALBs within the proposals rather than just those defined as Executive NDPBs. Similarly, while not opposed to the principle of the recommendation, the Regional Development Committee cites NI Water as "an example whereby the constituted organisation and the application of NDPB budgetary and accounting values are in conflict." In circumstances such as these, that Committee considers that "application of appropriate budgetary and governance processes must be addressed in the first instance rather than encouraging closer alignment of NDPB budget processes." Given the concerns raised by some of the other Assembly statutory committees, **the Committee calls on DFP to extend consolidation beyond Executive NDPB's to include other types of ALBs, which form an important element of some departmental expenditure remits.**

14. The DFP discussion paper itself also points out a number of practical issues regarding the consolidation of NDPBs into the accounting boundaries, primarily in respect of the closing and laying of accounts and the administrative burden for NDPBs and departments, particularly in the early years of any changes. It also notes that there could be implications for NIAO in ensuring that the accounts of consolidated NDPBs are audited in time for faster closing; NIAO states that it will consider these resource implications as part of its future corporate planning process. DFP considers that

> *"the problems are not insurmountable with careful planning and…the benefit of alignment between Budgets, Estimates and Accounts would outweigh any short term difficulties."*

15. Assembly research has noted that there may be additional administrative costs in respect of consolidation, when departments and NDPBs may already be facing budgetary pressures. In addition, NIAO has highlighted a number of other risks associated with the proposed changes. From its perspective, there would be concerns regarding the quality of financial management

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9 The Review discussion paper explains that *"Currently advisory NDPBs and tribunals are aligned in Budget, Estimates and Accounts"*, paragraph 24.

and reporting, which may have a knock-on effect on the audit process. It also notes that the Account NI system "does not currently offer a full consolidation solution; many NDPBs do not use this system and in some cases the financial systems in use currently require upgrade." In this respect, the Committee notes that, in response to the Executive's Draft Budget 2008-11, its predecessor called for consideration to be given to the potential for extending the scope of shared services (including Account NI) beyond the NI Civil Service (NICS) to the wider public sector, including NDPBs.[10] In its response, the Department assured the previous Committee, as far back as March 2008, that:

> *"Whilst Account NI's initial focus is on the migration and stabilisation of the NICS departments to the new Account NI service, both the Contractor and the Authority (DFP/NICS) would be keen to pursue opportunities to provide this service to other public sector bodies."*[11]

16. **Following up on the recommendation of its predecessor in 2008 that the benefits of Account NI should be rolled out to NDPBs and other ALBs as far as is practical, the Committee calls on the Department to set out the business case for the fuller integration of these bodies within the Account NI system as part of the proposed consolidation process.**

17. The DFP discussion paper makes reference to the Review of ALBs which is being led by the Executive's Budget Review Group (BRG), noting that this "will consider options for abolition, merger or integration within departmental structures." There is no indication, however, as to whether DFP considers that this process should be completed in advance of departments and NDPBs proceeding with consolidation as recommended. When the Committee sought an update on the Review of ALBs in September 2011 it subsequently received advice via the Committee for the Office of the First Minister and deputy First Minister (OFMDFM) stating that:

> *"The responses received from departments on the Review of Arm's Length Bodies are being analysed. Following this, the First Minister and deputy First Minister intend to bring a paper to a future meeting of the Budget Review Group (BRG) and the views of the Group will inform the recommendations which they, as joint chairs of BRG, ultimately bring to the Executive."*[12]

18. The Committee notes that, while the review and rationalisation of ALBs is incorporated in the priority to deliver high quality and efficient public services within the draft Programme for Government (PfG) 2011-15, no timescale for completion has been specified. As such, at its meeting on 11 January 2012, the Committee agreed to seek a further update from OFMDFM on progress in concluding this review.

19. In its submission, the Public Accounts Committee (PAC) cautioned that it will be costly to proceed with consolidations using the current structure, if reorganisations that require further realignment occur within a short time. NIAO also stated that"it is important that any restructuring or machinery of government changes take place before commencing consolidation." In agreeing with these concerns, **while strongly supportive of the aim of Review Recommendation 2, the Committee sees benefit in the consolidation of NDPBs within the accounting boundaries being informed by the outcome of the review of ALBs which the Executive's Budget Review Group is leading. This would help to avoid the inefficient use of time and resources by departments and NDPBs in preparing for consolidation now only for the body to be wound up at a later stage. Members would therefore urge the Minister to press for the review of ALBs to be concluded expeditiously.**

Review Recommendation 3: DFP should continue to work with departments to find solutions, where possible, to all other misalignments between Budgets, Estimates and Accounts.

10 http://archive.niassembly.gov.uk/finance/2007mandate/execreport.htm

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

12 See Appendix 4

20. The DFP discussion paper notes that a number of other misalignments will remain even after the consolidation of NDPBs as proposed by Review Recommendation 2, including, for example, notional charges and capital grants to the private sector. On this latter point, members note that Assembly research points out that the International Monetary Fund's (IMF) code of good practices on fiscal transparency states that:

> *"Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures."*[13]

21. In evidence to the Committee, DFP officials indicated that they would wish to eliminate all misalignments; if that is not achievable, they will be reduced as far as possible.

22. **Accepting that additional misalignments are likely to be identified going forward, the Committee is supportive of Review Recommendation 3 and looks forward to considering details of such additional misalignments and the related assessments of the impact of any proposed further changes.**

Review Recommendation 4: All non-voted expenditure and income within Budgets (e.g. Consolidated Fund Standing Services) is brought within the coverage of Estimates in the Part II Subhead Detail

23. At present, not all expenditure included in the Budgets or Accounts is voted in the Estimates. The DFP discussion paper states that the reason for this is that "separate standing legislative authority already exists for this expenditure and, therefore, further annual authorisation by the Assembly is not correct or necessary." It therefore proposes to include non-voted spend within the Estimates so that it aligns with the Budget.

24. During an evidence session with DFP officials, members were concerned to learn that, under existing arrangements, approximately 25% of all expenditure is not voted. Departmental officials advised that this is related in part to capital spend and also to NDPB expenditure as discussed at paragraphs 11 to 19 above. In this regard, members are aware from Assembly research that the IMF code of good practices on fiscal transparency states that "the budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extra-budgetary activities of the central government."[14]

25. **In recognising that the proposals to bring all non-voted expenditure and income in Budgets within the coverage of Estimates will aid transparency and scrutiny and align with international best practice, the Committee welcomes Review Recommendation 4.**

Review Recommendation 5: The Assembly votes 'Net' controls in the Estimates and Budget Act in line with budgetary controls, with details of income shown in the Estimates and appropriate safeguards in place so that firm control is maintained over the use of income by departments.

26. The DFP discussion paper notes that, under the current process,

> *"Budgets are approved by the Assembly net of any departmental income that is classified as being within Budgets. However, departments can only retain the income (and related cash) if the Assembly has approved, through the Estimates process and the related Budget Act, the use of the income on related services – the Assembly , therefore places limits on both net resources and on income (accruing resources) – thereby voting 'Gross' spend."*[15]

13 Research and Information Service Research Paper, *The Executive's Review of the Financial Process in Northern Ireland: a critical analysis of DFP's discussion paper*, Appendix 5.

14 Research and Information Service Research Paper, *The Executive's Review of the Financial Process in Northern Ireland: a critical analysis of DFP's discussion paper,* Appendix 5.

15 DFP discussion paper, paragraph 49, Appendix 3.

27. The discussion paper therefore proposes that Estimates and the Budget Act are instead voted on a “net” basis. In evidence to the Committee, DFP officials recognised that a consequence of this measure would be weakened accountability for the Assembly; however, DFP argues that measures could be put in place to mitigate against this, such as:

- the provision of gross data, including details regarding resource and capital income, in the Estimate for information purposes only; and
- listing the types of income that could be retained and used to finance services within a department in the Estimates and the related Budget Act. In this way, Departments would be unable to generate income from a source not approved by the Assembly. While a limit on income would no longer be set, formal Assembly and legislative control on the types of income would rest with the Assembly.

28. In the briefing paper, Presenting fiscal data: gross or net?, Assembly research found that international best practice is for data to be reported on a gross basis.[16] In response, DFP officials contended that best practice guidance such as that by the Organisation for Economic Co-operation and Development (OECD) and the IMF relates more to fiscal policy management for national governments. It does not apply in the context of a devolved administration where the vast majority of funding is allocated by HM Treasury, which also imposes the rules relating to public expenditure.[17]

29. At present, a department can only use income it generates up to the level approved by the Assembly. Income received in excess of this limit must be returned to the Consolidated Fund. Members note that the proposed changes would mean that a department would be able to keep any income it generates, provided it is within the ambit of the department and within the net voted limit. In NIAO’s opinion, the proposal

> *“runs contrary to the tighter controls proposed at Recommendation 1. Whilst there are potential benefits to the proposed change, there are also some risks which could arise from an increased focus on income generation and reduced control by the Assembly.”*

30. In follow up correspondence with the Committee, NIAO also advised that, if Review Recommendation 5 is accepted “it is imperative that DFP introduce administrative controls over income generation by departments … Furthermore, it is important that appropriate controls over virement of income are in place as a safeguard.”[18]

31. The Committee notes that one of the risks highlighted by Assembly research is that departments may increase charges rather than seeking to improve the efficiency of service delivery. Similarly, in recognising that departments may increase the focus on income generation, PAC stated that “it is important they continue to seek best value for money in any income generation activities they undertake.”

32. **Given the risks attaching to Review Recommendation 5, that the Assembly votes “Net”controls in the Estimates and Budget Act, the Committee’s support for this proposal is subject to further detail and assurance from DFP to satisfy members that the “appropriate safeguards” will indeed be established so that firm control is maintained over the use of income by departments. The Committee also considers that the proposed changes would increase the need for systematic in-year scrutiny of departmental income generation by the respective Assembly committees and that formal arrangements would have to be put in place to facilitate this, including provision of the necessary information by departments.**

16 Research and Information Service briefing note, *Presenting fiscal data: gross or net?*, Appendix 5.

17 Official Report, 21 September 2011, Appendix 2.

18 See NIAO letter of 6 January 2012, Appendix 4.

Review Recommendation 6: Spending Areas in Departmental Expenditure Plans should be restructured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department. Spending Areas should be used in all publications.

33. The DFP discussion document considers that "the reader should readily understand, at an acceptable level of detail, how much public funding is being spent on each main service in a department".[19] In many instances, however, this is not the case. The document specifically refers to the position in respect of the departments of Education and Health, Social Services and Public Safety (HSSPS), with some lines of expenditure of up to £3 billion. To improve transparency and accountability, a more meaningful level of information should be provided. The Department notes, however, that related issues must be taken into consideration in this regard; for example, movements between spending area/expenditure lines requires Executive approval at monitoring rounds, but departments must be able to have sufficient flexibility to manage budgets and emerging pressures. The Review discussion document therefore argues that it is important to strike a balance "between achieving an acceptable level of detail in the expenditure lines and preserving the ability of departments to manage their budgets without having to constantly revert to the Executive".[20]

34. **The Committee agrees that the level of detail currently provided in departmental expenditure plans often does not provide meaningful information on key areas of public spending, and welcomes any proposals that will simplify and harmonise information, increase transparency and ensure that expenditure is more readily scrutinised. While there was also general support for the thrust of Review Recommendation 6 from other Assembly committees, it was noted that further consultation will be required with the Assembly on the level of the breakdown proposed.** On this latter point, the Committee for Regional Development suggest that this should be taken forward by DFP via CLG and CFP.

Review Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

35. The DFP discussion paper notes that the PfG and its Public Service Agreement (PSA) targets are becoming more high-level and cross cutting and, as a result, it is difficult to map them meaningfully to particular spending areas. To disaggregate budgets to this level "may not be possible or practical or an efficient use of resources". It also contends that any department could link a bid to a PSA as they are so high level and that "in effect, to meet bids because they are linked to a PSA target could encourage inefficiencies in that spending area". The proposal from the Department is that, while PSA targets and outcomes should be monitored and departments held accountable, "performance should not have any direct link to funding inputs".

36. The Committee notes that this position appears to represent a shift in DFP thinking in this regard; the Review of the NI Executive Budget 2008-11 Process, completed by DFP in March 2010, included the following recommendations:

- "Recommendation 1: An exercise should be conducted at the start of the next Budget process to seek to determine the level of public expenditure underpinning actions to deliver each Public Service Agreement in the Programme for Government (PfG).
- Recommendation 7: Every departmental spending proposal should clearly state the impact on the respective PSA target, if successful."

19 DFP discussion document, paragraph 59, Appendix 3.

20 DFP discussion document, paragraph 62, Appendix 3.

The predecessor Committee welcomed both of these recommendations, but believed that the latter should be extended to also cover the reporting stage to "enable performance to be tracked at a departmental level in terms of inputs, outputs and outcomes."[21]

37. Members are also mindful that the Review discussion paper was published before the Executive had prepared its draft PfG 2011-15, which is currently out to public consultation. It is noted that the draft PfG does not contain accompanying PSAs similar to the previous PfG and that the majority of the "Key Commitments" set out in the draft PfG are attributable to a single Department, each with attached milestones/outputs to be achieved up until 2015. While the Executive's approach to delivery and reporting on PfG 2011-15 has yet to be announced, the Committee would welcome clarification on whether there is now an opportunity to adopt a system of reporting performance outcomes which would address some of the difficulties of mapping meaningfully to particular spending areas, as cited in the Review discussion paper.

38. The Committee notes that, in his statement to the Assembly on 17 January 2012 on the 2011-12 January Monitoring Round, the Finance Minister advised that his officials would be undertaking a comparison of departments' current financial positions and their original allocations in the Budget 2011-15. The Minister stated that this "will provide the Executive with an opportunity to review departmental allocations for 2013-14 and 2014-15 in light of the PfG priorities."[22] In the Committee's opinion, the Minister's statement suggests that a link can therefore be drawn between budget allocations and PfG priorities.

39. Almost all of the Assembly committees that responded to the discussion paper commented specifically on this recommendation. The majority expressed concern with the recommendation and were of the view that there should be strong links between spending and priorities, and that mechanisms should be in place to enable effective scrutiny in this regard. The Regional Development Committee had a slightly different view and, while it considered that budget allocations should not be totally disassociated from the PfG, was "content…that a closer alignment of budget allocations to individual departmental corporate plans is a more appropriate level and would endorse any progress towards this."

40. Committees also considered it important that the linkages should enable performance and outcomes to be measured against inputs, with the CAL and Enterprise, Trade and Investment (ETI) committees, in particular, advocating a move towards a more outcome-based approach. Assembly research has indicated that many countries currently use forms of outcome-based budgeting, and points to a project undertaken by the Scottish Government to develop a methodology to align resources to outcomes. It is the intention of the Committee to take further evidence in this regard. In the meantime, members would also point out that the lack of linkage between objectives and spending allocations hinders Assembly statutory committees in fulfilling their function of advising on departmental budgets. For instance, without linkage committees cannot identify the funding that is being channelled to objectives that are not being delivered. If they were in a position to do so, they could advise on whether spending in the particular areas should be cut out altogether, or increased, to enable non-achievement to be addressed.

41. It should also be noted that the predecessor Committee, in considering an outputs and outcomes approach, queried with DFP whether the existing financial systems in departments and Account NI were sufficiently aligned with PSA targets and indicators to provide information on inputs, outputs and outcomes. In its response, the Department confirmed that the Account NI system is capable of this, as it "allows departments to 'map' expenditure and report the record level of detail and which budget allocations are held on the Resource Budget Management … system".[23] It was considered that the mapping and provision of such

21 http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html

22 http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-11-12/1030-1100am–17-January-2012/

23 http://archive.niassembly.gov.uk/finance/2007mandate/reports/report_61_10_11R.htm, para 108.

information would support Assembly scrutiny; and presumably the integration of Executive NDPBs within the Account NI system, discussed under Review Recommendation 2, would also provide committees with a more complete picture.

42. **The Committee firmly believes that there should be clear, visible linkages between Budget allocations and the PfG, and is unable to endorse Review Recommendation 7. In noting the difficulties cited by DFP in linking spending to priorities and outcomes, the Committee is mindful of previous evidence from DFP which runs contrary to the current proposal that "performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets", including the advice that the Account NI system had the capability to map expenditure to outputs and outcomes. The Committee, therefore, reiterates the call by its predecessor that work is undertaken to exploit the Account NI system to its full potential in this regard.**

Review Recommendation 8: The Estimates and Resource Accounts should be revised as shown in Annexes D and E.

43. The discussion paper notes that, in addition to alignment of the Budget, Estimates and Accounts, improved presentation of information is required to increase transparency and read-across among the different related publications. It is proposed that the Estimates are redesigned to include expenditure that is currently not voted as part of the Estimates process.[24] [25]The format of Resource Accounts will also be revised to better align with the presentation of the Estimates.[26]

44. In its submission, NIAO considers that, in terms of improving transparency, it is as important to improve the presentation of information within the published documents as it is to reduce and correct misalignment between the various frameworks. The example of the revised Resource Accounts attached to the DFP discussion paper is still complex, not readily understood or meaningful to many readers. In NIAO's opinion "there is the opportunity to review the format of the resource accounts with a view to making them more meaningful to the reader."

45. As just one specific example of an area where the Resource Accounts format could be improved, the Committee would highlight section 2.1 of the illustrative Resource Accounts appended to the Review discussion paper. While this sets out details of Administration and Programme Outturn for the given year, it does not provide for a breakdown of the prior-year figures in this regard, which would assist committees in scrutinising departmental administrative expenditure in particular. Members note that this relates to an issue identified by the predecessor Committee when it raised concern around the decision to abolish the programme of administrative cost controls in the Executive's Budget 2011-15 and instead delegate responsibility in this area from DFP centrally to individual departments. The predecessor Committee saw risks in this in terms of reducing the level of transparency and safeguards available for protecting expenditure on frontline services and considered that statutory committees should have a focus on departmental administrative expenditure going forward. Provision of the necessary comparative information is therefore one example of an area where the format of Resource Accounts should be improved.

46. **The Committee has long called for better read-across between the published financial documents which accompany the different stages of the budget process and members welcome any moves towards this end. In noting that NIAO intends to discuss the presentation of the Estimates further with DFP, the Committee recommends that these**

24 An example of the redesigned Estimate is provided at Annex D to the DFP discussion paper, Appendix 3.

25 A brief synopsis of the proposed Main Estimate Structure is provided at Part 2.8 of the Research and Information Service Paper, *The Executive's Review of the Financial Process in Northern Ireland: a critical analysis of DFP's Discussion Paper*, Appendix 5.

26 An example of the redesigned Resource Accounts is provided at Annex E to the DFP discussion paper, Appendix 3.

discussions also consider how the Resource Accounts may be further improved from the example provided in the discussion paper, particularly in terms of being user friendly and supporting Assembly scrutiny. Members look forward to being apprised of any subsequent proposals in this regard.

Review Recommendation 9: That the Budget should be developed in the context of a Programme for Government agreed by the Executive.

47. The DFP discussion paper refers to concerns expressed by the previous Committee for Finance and Personnel and Assembly members about the development of budgets in the absence of a Programme for Government. It notes that

> *"the need for the formulation of a Programme for Government prior to or at least, in tandem, with the development of a Budget is an opinion that has been expressed repeatedly in many forums."*[27]

48. Members note from Assembly research that this proposal would better align the Budget process to international good practice. In addition, it is noted that this requirement is already included within legislation at Section 64(1) of the Northern Ireland Act 1998 and Paragraph 20 of Strand 1 of the Belfast/Good Friday Agreement. Assembly research pointed out, however, that that the recommendation is somewhat qualified, as DFP has stated that the development of a budget after, or in parallel with, a PfG is "desirable",[28] not a necessity.

49. In its response, the Regional Development Committee stated that it "would accept that a strict development of PfG and budgets in parallel might not be absolutely possible". It goes on to say, however, that the interrelationship between the two requires that they are developed in close proximity to one another. For its part the Audit Committee also saw the proposal in Review Recommendation 9 as a sensible approach; however, it pointed out that Executive budgets include expenditure that falls outside PfG, including expenditure for the purpose of holding the Executive and its departments to account. The Audit Committee considered that

> *"removing the NIAO from DFP and the Executive's remit underlines and strengthens the NIAO's independence in holding departments, executive agencies and other public bodies to account for their use of public money."*

50. The Education Committee indicated strong support for this recommendation, and further recommended that it be extended to "place a requirement on departments to publish an Implementation Plan which is linked to the PfG." A number of statutory committees had previously indicated support for a similar recommendation in the DFP Review of the NI Executive Budget 2008-11 Process, which stated that "the PfG should be developed to a timetable slightly in advance of the Budget." **The Committee endorses the view of its predecessor that budget allocations should be driven by priorities, not the other way around. In this regard, it supports the recommendation that the Budget should be developed in the context of a PfG agreed by the Executive. Moreover, the Committee considers that it is not simply "desirable" but is in fact essential that a draft PfG is developed prior to, or at least in tandem with, a draft Budget and wishes to see this reflected in any agreed Budget framework.**

Review Recommendation 10: That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

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27 DFP discussion paper, paragraph 86, Appendix 3.

28 DFP discussion paper, Executive Summary - Initial recommendations for discussion, Appendix 3.

51. The DFP discussion paper states that "where circumstances and time permit it should be possible, and desirable, to include an early strategic stage in the Budget timetable". It makes reference to external factors which have influenced the previous two budget processes: devolution in May 2007 which resulted in the development of the 2008-11 Budget in a short timespan; and the 2010 Westminster election which gave rise to a change of government and a later-than-usual Spending Review announcement in October 2010, thereby constricting the Budget process. Notwithstanding this, it goes on to say that

> *"Even if the Westminster Spending Review outcome and the NI Block allocation is not yet known, this early strategic phase could still take place in order to inform the later stages of the Budget".*

52. The discussion paper specifies that, at this stage, each committee should:

- "identify and challenge pressures facing departments";
- "rank priorities for expenditure in order against the PfG"; and
- "identify plans to meet any pressures within the current or a reduced funding envelope."

It is also proposed that the Committee for Finance and Personnel would fulfil its conventional function of leading on this phase and producing a report on behalf of the Assembly. This report could be used to inform a "Take Note" debate, which would enable the Assembly to debate spending priorities and potential revenue raising measures in advance of the development of the Executive's draft Budget.

53. The Committee is mindful of the concerns raised by statutory committees about the lack of engagement with their respective departments during previous budget and financial processes. In its response to the DFP Review of the NI Executive Budget 2008-11 Process, the previous Committee considered that "greater influence can be brought to bear on spending plans at the earlier stages in the process", and was therefore supportive of recommendations in that review relating to early engagement with both Assembly committees and key stakeholders.[29]

54. While there was general support for Review Recommendation 10 and, in particular, the inclusion of an early strategic phase to allow consultation with committees, the majority of those committees who responded to the discussion paper expressed grave concern that this is heavily qualified by the phrase "if circumstances and time permits." The CAL Committee pointed out that this caveat in fact contradicts the assertion that that a Budget timetable will be "strictly adhered to by all concerned".

55. **The Committee welcomes the proposal in Review Recommendation 10 to include an early strategic phase and sufficient time for consultation with Assembly committees and other stakeholders within a Budget timetable. However, given that an early strategic phase is one of the most informative and influential stages in the Budget process, members are firmly of the view that it is a requirement, rather than an ideal which will just take place "if circumstances and time permits". In noting that the discussion paper itself states that "even if the Westminster Spending Review outcome and the NI Block allocation is not yet known, this early strategic phase could still take place in order to inform the later stages of the Budget",[30] the Committee believes it essential that the caveat is removed from this Review recommendation.**

29 http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html

30 DFP discussion paper, Paragraph 92, Appendix 3.

Review Recommendation 11: An 'ideal Budget timetable would be (presuming the development of a Programme for Government prior to or slightly in advance of the Budget):

1 February	Detailed Budget Guidance and Timetable issued to key stakeholders
February – April	Engagement by Committees with Departments and other key stakeholders on spending priorities and availability of resources
May	Committee for Finance and Personnel (CFP) collate Committee reports and prepare a Report to the Assembly on proposals for living within the expected funding envelope
By 31 May	CFP's 'Take Note' debate in the Assembly on spending priorities and proposals for the funding of those priorities
1 June	Submissions of spending proposals etc. from departments to DFP
June to August	Consideration of spending proposals etc. by DFP from a central strategic perspective and advice provided to the Finance Minister on a range of scenarios for presentation to the Executive
By mid-September	Draft Budget agreed by Executive and launched for public consultation
September to December	Public consultation
By 31 December	Final Budget agreed by Executive and approved by the Assembly

56. The discussion paper proposes a timetable which would see the final Budget agreed by the Executive and approved by the Assembly by the end of December. The timetable incorporates an early strategic phase prior to the publication of a draft Budget, and also allows time for consultation on the draft Budget. Completion of the process by the end of December would allow departments sufficient time to plan and allocate their budgets in advance of the new financial year.

57. The previous CFP repeatedly called for a Budget timetable to be set out which included each of the key milestones in the process. Thus, **the Committee concurs with those committees that welcomed the principle of setting out an ideal Budget timetable, and notes that Assembly research indicates that elements included in the timetable proposed in Review Recommendation 11 are in line with international best practice.**

58. The DFP discussion paper suggests that the early strategic phase and the Take Note debate could be led by CFP on behalf of the Assembly. By convention, the Committee has taken this role in previous budget processes, as it ensures that the Assembly's response is not disjointed, and also that consideration is given to the strategic financial position and high level cross-cutting issues. It is the Committee's opinion that this practice will continue and it will publish co-ordinated reports on behalf of all Assembly statutory committees as part of future budget processes; further consideration will also be given to how this Committee function might be codified in formal procedures. The Committee also agrees with the Agriculture Committee's assertion that timely access to relevant information is necessary to enable statutory committees to fulfil their scrutiny role effectively. The issue of information provision is considered below under Review Recommendation 12.

59. The Review discussion paper highlighted "the fact that Northern Ireland is the only jurisdiction in the UK that carries out a formal public consultation on its Budget proposals" and cited this as imposing "further constraints in terms of having to factor in sufficient time for a public consultation".[31] Members note from Assembly research that the Scottish Government did in fact consult on its budget plans but that it took the approach of early (pre-draft) engagement with the public. In this regard, **the Committee recommends that consideration is given to**

31 DFP discussion paper, Paragraph 89, Appendix 3.

following the approach of the Scottish Government in undertaking public consultation at the formative pre-draft budget stage, which could either remove or reduce the time required for public consultation once the draft Budget has been agreed by the Executive. This DFP-led public consultation could be scheduled to align with Assembly committees' engagement with departments, so that the outcome of the public consultation is available to inform the Committee's co-ordinated report and the Take Note debate at the pre-draft budget stage.

60. Concerns were raised by a number of committees, including Agriculture, HSSPS, ETI, Justice and Social Development, with the apparent suggestion in the discussion paper that statutory committees will lead the pre-draft Budget consultation and that this "may preclude the need for later public consultation."[32] This echoed concerns raised in response to the specific recommendations in the DFP Review of the NI Executive Budget 2008-11 Process that:

> *"Assembly Committees should have the lead role in the consultation on the Executive's draft Budget proposals, with responses to the Executive co-ordinated by the Committee for Finance and Personnel."*[33]

61. Those committees which commented specifically on this aspect consider that it is the duty of a department to consult on its budget proposals, as with any other public policy area. Additionally, as pointed out by the HSSPS Committee, committees "have no authority in terms of allocating money." In this regard, **the Committee would reiterate the findings from its predecessor that it is not appropriate for Assembly committees to lead the consultation on departmental expenditure plans as inferred in the discussion paper, particularly as they do not have the authority to act on the outcome of such consultation.**

Review Recommendation 12: A Budget Process Agreement should be made between the Assembly and the Executive and the Assembly's Standing Orders should be amended to reflect this Agreement and specify Budget Procedures.

62. The discussion paper notes that an Assembly research paper prepared for the Committee called for the formalisation of the budget process in legislation or the Assembly's Standing Orders. In respect of legislation, the discussion paper states that the Budget framework is provided in the Northern Ireland Act 1998 (the 1998 Act). Section 64 of the 1998 Act requires the Finance Minister to lay a draft budget, which has been agreed by the Executive, before the Assembly. A definitive date for this is not included, but it must be before the beginning of each financial year. DFP cautions against formalising the budget process in primary legislation for a number of reasons:

- The 1998 Act is Westminster legislation, and the ability of the Assembly to amend it is very limited;
- Unforeseeable/external factors may prevent dates which are specified in legislation from being met. It will therefore be necessary to include provisions to amend such dates which would, in DFP's opinion, "rather defeat the purpose of the original provision";
- The Executive may be deemed to be in default if deadlines were not met.

63. The discussion paper therefore proposes a two-fold approach, whereby a Budget Process Agreement would define key stages and administrative arrangement for the budget process, which could be reflected in the Assembly's Standing Orders. It considers that such an approach:

> *"would ensure the timetable is clear to all parties and would require adherence by all concerned and the timely publication of all documentation. This approach would also spell out the ground rules for engagement between Committees and departments and their*

32 ibid

33 http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html , paragraphs 56-59

Ministers, including full and timely engagement by all concerned, thereby underpinning the provisions of the 1998 Act and the Ministerial Code."

It also notes that that the Assembly could amend Standing Orders to provide for "accepted unavoidable slippage."

64. The issue of an agreement – or Memorandum of Understanding (MoU) – between the Executive and the Assembly was considered in the predecessor Committee's Third Report on the Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure,[34] with specific regard to the provision of information. Consideration was given to recourse in the event of non-compliance with a MoU by departments and it was recommended that:

"the wording of Standing Order 42(2)is reviewed to determine if an amendment is required to clarify that CFP should have regard to wider considerations, including the views of the other appropriate committees and compliance by departments with the MoU, when deciding whether to grant accelerated passage to budget bills."

65. The concerns around lack of engagement by departments, which were raised by a majority of statutory committees in the last mandate, have been well documented by the predecessor Committee. It has already become evident, however, that some departments are still failing to meet the needs of their committees in terms of the provision of financial information. This was highlighted to the Committee in correspondence from CLG on 7 November 2011 in relation to departmental monitoring round submissions. CLG expressed major concerns regarding "the lack of sufficient detail provided in some departmental submissions to allow committees to effectively carry out their budget scrutiny obligations and the timing of receipt of submissions".[35] On 21 November 2011, in its submission on the Review, CLG again highlighted common concerns expressed by chairpersons, including "that any outcome of the review should:-

- recognise that a committee requires financial information in sufficient time to allow it to undertake proper budget and financial scrutiny; and
- that the information provided should have adequate detail to allow a committee to effectively carry out its budget scrutiny obligations."[36]

66. While the proposed Budget Process Agreement could be potentially wider in scope than the MoU previously considered, members would question whether Review Recommendation 12, as set out, is sufficiently robust. DFP argues against including dates in legislation as they may need to be amended to take account of any unforeseen or external circumstances, but in such cases Standing Orders could easily be amended (or suspended). Initial advice from the Assembly's Legal Services suggests that statutory provision, specifically to facilitate a pre-draft budget scrutiny stage, could be made which would be sufficiently flexible to allow for unforeseen or external factors as noted by DFP. In addition, Assembly research found that:

"…good practice guidance suggests…that the overall budget and financial process should be established in statute, but that some of the detail should be left in subordinate legislation, or to the Assembly's Standing orders.

In relation to Standing orders, however, there is a note of caution. Whilst good practice suggests these should be used for formalising a legislature's internal rules for organisational arrangements for budget approval and review, the Assembly should: Avoid using such regulations [i.e. Standing Orders] as substitutes for general budget procedures and restrictions that should be in law, not internal parliamentary regulations.

34 http://archive.niassembly.gov.uk/finance/2007mandate/reports/report_61_10_11R.htm

35 See CLG letter of 7 November 2011, Appendix 4.

36 See CLG letter of 21 November 2011, Appendix 4.

So, whilst Standing Orders may be used to frame how the Assembly conducts budget scrutiny internally, they should not be relied upon to establish the principal stages or timing of a future process."[37]

67. **It is the Committee's intention to further explore the merits of the Budget Process Agreement, proposed in Review Recommendation 12, as compared to the potentially more robust option of statutory provision, which would have a particular focus on facilitating a pre-draft budget scrutiny stage and would possibly take the form of a Committee Bill. Considerations around both options will be set out in a discussion paper on which views will be sought from all relevant stakeholders. While the general principle behind Review Recommendation 12, in terms of formalising the budget process, was welcomed by a number of the other committees who responded to the discussion paper, the majority have indicated that they wish to await the outcome of the Committee's work in this regard before making any final decisions.**

Review Recommendation 13: In due course, consideration should be given to streamlining the end stage of the Budget process by introducing the Main Estimates and the final stage of the Budget process in December/January.

Review Recommendation 14: In due course, in light of involvement of the Assembly in the early strategic stage of the Budget and throughout its development, an amendment of Standing Orders to facilitate a truncated passage of Budget Bills through the Assembly should be considered.

68. The DFP discussion paper considers that "currently the Budget process followed by the Estimates and legislative stage is convoluted and repetitive." The final Budget is debated and approved by the Assembly in December or January. However, the Vote on Account must be taken in February to enable departments to ensure that public services continue during the early part of the new financial year, until the Main Estimates are presented in June. In addition, the first in-year monitoring round is presented around the same time as the Main Estimates, "amending the very plans that have not yet completed formal Assembly approval through the Estimates and Budget Bill." The discussion paper therefore proposes that the Main Estimates and the related Budget Bill are presented as the Final Stage of the Budget in January, which would negate the need for a Vote on Account. In this respect, it would be necessary to ensure that the Budget Bill would receive Royal Assent before the start of the new financial year. It is therefore proposed that, given the involvement of the Assembly and its committees at the earlier stages in the Budget process, consideration could be given to reducing the time taken for passage of Budget Bills by, for example, removing the Further Consideration Stage and the 10 day rule.

69. The discussion paper points out that the streamlining of the end stages of the Budget process in this way could present considerable difficulties for departments. The requirement to produce Main Estimates, January monitoring round and the Spring Supplementary Estimates at the same time, together with related legislation "could prove to be an intolerable burden and a risk that needs to be weighted up carefully." These changes should therefore not be considered until Budgets and Estimates have been aligned and the new Budget process has been successfully implemented.

70. There was general support from other committees for this recommendation, though it is noted that the Committee for Education welcomed proposals to streamline the process in this way provided that the opportunities to consider and debate budgets and financial issues were not reduced. **In terms of Review Recommendations 13 and 14, the Committee agrees with the DFP position that the latter stages of the current budget process are convoluted and repetitive. The potential to streamline the process exists, but only in the context of a**

37 Research and Information Service Briefing Paper, *DFP's Review of Financial Process: considerations for improving the budget process*, Appendix 5.

reformed budget process which provides unequivocally for a formal pre-draft budget phase, affording the Assembly and its committees an opportunity to influence budgetary matters at an early stage. The Committee will therefore wish to consider this matter further once a reformed process has been developed and trialled. In the meantime, and given the caveat included at Recommendation 10, as currently drafted, that a strategic stage will be included in a budget timetable "where circumstances and time permits", the Committee cautions against any amendment to Standing Orders to facilitate a truncated passage of a budget bill.

Review Recommendation 15: The Rates Order should be debated alongside the expenditure plans for the next financial year, as set out in the Budget Bill.

71. The discussion paper points out that, despite the fact that the Budget and the Estimates take rates income into consideration, the Rates Order is currently debated separately from the Budget Bill and in advance of the new financial year. It argues that "this public income strand of the rates should…be part of the entire financial process in order to minimise any risk that it may be treated as a separate emotive issue by the Assembly, divorced from expenditure plans." As primary legislation would need to be amended to combine the two into one piece of legislation, it is therefore proposed that the Rates Order and Budget Bill are co-ordinated to "positively link the two strands of public finances."

72. The Committee for Education advised that it understands that good practice would be to consider all revenue issues alongside the Budget. The Committee for Regional Development also agreed there should be closer alignment, "particularly as greater responsibilities, but not necessarily budgets, are being delegated to local authorities."

73. Assembly research noted that the current budget process focuses principally on expenditure, with less consideration afforded to the revenue side. In that respect, the proposal to link the Regional Rates Order more closely to the Budget is to be welcomed. In addition, Assembly research pointed out that deliberations in respect of the devolution of Air Passenger Duty and corporation tax powers means that greater attention will need to be paid to revenue forecasts.

74. **The Committee supports Review Recommendation 15, that the Rates Order should be debated alongside the expenditure plans for the next financial year, as set out in the Budget Bill, and believes that an integrated approach to considering revenue and spending plans will further underpin Assembly scrutiny.**

Northern Ireland Assembly

Appendix 1

Minutes of Proceedings

Wednesday, 25 May 2011
Room 30, Parliament Buildings

Present: Mr Conor Murphy MP MLA (Chairperson)
Mr Dominic Bradley MLA (Deputy Chairperson)
Mrs Judith Cochrane MLA
Mr Leslie Cree MBE MLA
Mr Paul Girvan MLA
Mr Ross Hussey MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Ms Caitríona Ruane MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr David Hilditch MLA
Mr William Humphrey MLA

10.09am The meeting opened in public session.

10. Overview of Public Expenditure System

Members received an overview briefing on the public expenditure system from Michael Brennan, Head of Central Expenditure Division, DFP; Agnes Lennon, Central Expenditure Division, DFP; and Joanne McBurney, Central Expenditure Division, DFP.

Agreed: the DFP officials will provide the Committee with the timetable for the Review of the Financial Process.

[EXTRACT]

Wednesday, 1 June 2011
Room 30, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mr Dominic Bradley MLA (Deputy Chairperson) Mrs Judith Cochrane MLA Mr Leslie Cree MBE MLA Mr Paul Girvan MLA Mr David Hilditch MLA Mr William Humphrey MLA Mr Mitchel McLaughlin MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer)
Apologies:	Mr Ross Hussey MLA Mr Adrian McQuillan MLA Ms Caitríona Ruane MLA

10.06am The meeting opened in public session.

3. Matters Arising

Overview of Public Expenditure System

Members noted the Terms of Reference for the DFP-led Review of Financial Process in NI.

Agreed: to request that DFP schedules an overview briefing on public expenditure for all MLAs and committee staff immediately after the summer recess.

4. Legacy Report of Predecessor Committee

The Committee considered a copy of the Legacy Report of its predecessor Committee.

Report on the Executive's Draft Budget 2011-15

Members noted the Executive Summary and Key Conclusions and Recommendations from the predecessor Committee's Report on the Executive's Draft Budget 2011-15.

Agreed: to seek a written response to the Report from DFP in advance of the evidence session on the Review of Financial Process, scheduled for 15 June 2011.

Budget Scrutiny Inquiry

The Committee considered the Executive Summary and the Key Conclusions and Recommendations from the predecessor Committee's Third Report on the Inquiry into the Role of the Assembly in Scrutinising the Executive's Budget and Expenditure.

Agreed: to request that DFP provides an analysis setting out how the applicable conclusions and recommendations from this report and from the previous Committee's Report on the Executive's Draft Budget 2011-15 have been or could be incorporated into the Terms of Reference for the Review of Financial Process.

[EXTRACT]

Wednesday, 15 June 2011
Room 30, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mr Dominic Bradley MLA (Deputy Chairperson) Mrs Judith Cochrane MLA Mr Leslie Cree MBE MLA Mr Paul Girvan MLA Mr William Humphrey MLA Mr Ross Hussey MLA Mr Mitchel McLaughlin MLA Ms Caitríona Ruane MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer)
Apologies:	Mr Adrian McQuillan MLA

10.05am The meeting opened in public session.

3. Matters Arising

DFP: Response to Committee's queries relating to the Review of Financial Process and the work of the Budget Review Group

The Committee noted a reply from DFP to the Committee's queries on the terms of reference for the Review of Financial Process and the work of the Budget Review Group.

Agreed: to inform its input to the DFP-led Review of Financial Process, the Committee will commission an Assembly research paper on budget processes in other jurisdictions and international best practices, which will be considered at the meeting on 22 June 2011.

[EXTRACT]

Wednesday, 22 June 2011
Room 21, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mr Dominic Bradley MLA (Deputy Chairperson) Mrs Judith Cochrane MLA Mr Leslie Cree MBE MLA Mr Paul Girvan MLA Mr David Hilditch MLA Mr William Humphrey MLA Mr Ross Hussey MLA Mr Mitchel McLaughlin MLA Mr Adrian McQuillan MLA Ms Caitríona Ruane MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer)

11.00am The meeting opened in public session.

4. Review of Financial Process – Assembly Research Briefing

Members received a briefing from Assembly Research on the Executive's Review of Financial Process.

Agreed: that Assembly Research will provide additional information as requested during the briefing.

Agreed: to forward the research paper to DFP, requesting that the recommendations are taken forward in parallel with the Executive's Review of Financial Process, and for the Department to progress this with the Executive.

Agreed: to copy the Research paper to the Chairpersons' Liaison Group (CLG) and the other relevant Assembly committees, explaining the Committee's decision and advising that a briefing for all MLAs on public expenditure will be held in the autumn.

11.30am Mr Girvan left the meeting.

[EXTRACT]

Wednesday, 14 September 2011
Room 30, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mr Dominic Bradley MLA (Deputy Chairperson) Mr David Hilditch MLA Mr William Humphrey MLA Mr Paul Girvan MLA Mr Paul Maskey MP MLA Mr Mitchel McLaughlin MLA Mr Adrian McQuillan MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Ms Roisin Fleetham (Assistant Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer)
Apologies:	Mr Leslie Cree MBE MLA Mr Ross Hussey MLA

10.04am The meeting opened in public session.

12. Committee Work Programme

The Committee noted a Research paper on Budget System Laws which members will receive a briefing on at next week's meeting.

Agreed: to copy the research paper to DFP.

[EXTRACT]

Wednesday, 21 September 2011
Room 30, Parliament Buildings

Present:	Mr Dominic Bradley MLA (Deputy Chairperson) Mrs Judith Cochrane MLA Mr Leslie Cree MBE MLA Mr David Hilditch MLA Mr Paul Girvan MLA Mr Paul Maskey MP MLA Mr Mitchel McLaughlin MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Ms Roisin Fleetham (Assistant Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer) Mr Colin Pidgeon (Research and Information Service)
Apologies:	Mr Ross Hussey MLA Mr William Humphrey MLA Mr Adrian McQuillan MLA Mr Conor Murphy MP MLA (Chairperson)

10.04am The meeting opened in public session.

4. Budget System Laws – Assembly Research Briefing

The Committee received a briefing from Assembly Research and Information Service on the Research paper, Budget System Laws: principles and good practice.

10.13am Mr Paul Girvan joined the meeting.

Agreed: that Assembly Research will be commissioned to undertake comparative research in this area at a later date if required.

5. Presenting Fiscal Data: Gross or Net? – Assembly Research Briefing

The Committee received a briefing from Assembly Research and Information Service on the Research paper, Presenting fiscal data: gross or net?

Agreed: that follow-up information requested by the Committee will be provided by Assembly Research.

6. Review of Financial Process - DFP Evidence Session

The Committee took evidence from the following DFP officials: Mike Brennan, Head of Central Expenditure Division and Agnes Lennon, Central Expenditure Division. The session was recorded by Hansard.

Agreed: that DFP officials will provide an overview briefing on the public expenditure system for all MLAs and committee staff on 18 October 2011. The event will include a briefing on the Executive's Review of the Financial Process.

13. Any Other Business

Budget Process

Agreed: to commission Assembly research on the process for setting budgets in other devolved administrations and the impact that spending reviews have on these processes in terms of the time available for parliamentary scrutiny.

Agreed: to request an early copy of the discussion document on the Review of the Financial Process for Committee consideration and comment in advance of the document being circulated to all MLAs.

[EXTRACT]

Wednesday, 5 October 2011
Room 30, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mr Leslie Cree MBE MLA Mr Paul Girvan MLA Mr David Hilditch MLA Mr William Humphrey MLA Mr Ross Hussey MLA Mr Paul Maskey MP MLA Mr Mitchel McLaughlin MLA Mr Adrian McQuillan MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Ms Roisin Fleetham (Assistant Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer) Miss Aine Gallagher (Bursary Student) Mr Colin Pidgeon (Assembly Research and Information Services)
Apologies:	Mr Dominic Bradley MLA (Deputy Chairperson) Mrs Judith Cochrane MLA

10.04am The meeting opened in public session.

4. Options for strategic budget stages – Assembly Research briefing

The Committee received a briefing from Assembly Research and Information Services.

Agreed: to forward the research paper to DFP, asking that the Committee's ongoing work on this issue is taken into account in relation to the Department's discussion paper on the Executive's Review of Financial Process.

Agreed: that the Committee Clerk and Researcher have informal discussions with Assembly Legal Services to establish the feasibility of the various options in advance of any formal legal advice being sought by the Committee.

Agreed: following discussion with Legal Services, to circulate the research paper to the other relevant Assembly committees to update them on this cross-cutting issue and to invite comments.

[EXTRACT]

Wednesday, 12 October 2011
Room 30, Parliament Buildings

Present: Mr Dominic Bradley MLA (Deputy Chairperson)
Mrs Judith Cochrane MLA
Mr Leslie Cree MBE MLA
Mr Paul Girvan MLA
Mr David Hilditch MLA
Mr William Humphrey MLA
Mr Ross Hussey MLA
Mr Paul Maskey MP MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Ms Roisin Fleetham (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Miss Aine Gallagher (Bursary Student)
Mr Colin Pidgeon (Assembly Research and Information Services)

Apologies: Mr Conor Murphy MP MLA (Chairperson)
Mr Mitchel McLaughlin MLA

10.08am The meeting opened in public session.

4. Draft DFP Paper on the Executive's Review of the Financial Process

Members considered a draft discussion paper on the Review of the Financial Process, which will be issued to all MLAs by DFP.

Agreed: the Committee will co-ordinate a response from the appropriate Assembly committees to the discussion paper and a commissioning letter in this regard will be considered at next week's meeting.

Agreed: Research and Information Services will prepare a briefing note, providing an analysis of the DFP discussion paper, which will inform the Committee's co-ordinated response to the Department.

Members were reminded that the Committee's event on the Overview of the Public Expenditure System will be held on Tuesday 18 October 2011 at 12.45pm in the Long Gallery, Parliament Buildings.

10.21am The Committee moved into open session

[EXTRACT]

Wednesday, 19 October 2011
Room 30, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mrs Judith Cochrane MLA Mr Leslie Cree MBE MLA Mr Paul Girvan MLA Mr David Hilditch MLA Mr William Humphrey MLA Mr Mitchel McLaughlin MLA Mr Aidan McQuillan MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Ms Roisin Fleetham (Assistant Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer) Miss Aine Gallagher (Bursary Student)
Apologies:	Mr Dominic Bradley MLA (Deputy Chairperson) Mr Ross Hussey MLA Mr Paul Maskey MP MLA

10.07am The meeting opened in public session.

3. Matters Arising

Executive's Review of the Financial Process – Discussion paper

Members noted a request for written responses to the DFP discussion paper on the Executive's Review of the Financial Process, for issue to other applicable Assembly committees.

5. Pre-draft Budget Scrutiny – Legal Advice

This item was deferred for consideration from Matters Arising.

Agreed: to formally request legal advice from Assembly Legal Services on the feasibility of legislating to provide for a statutory process which would enhance the Assembly's financial scrutiny, in particular at pre-draft Budget stage.

[EXTRACT]

Wednesday, 16 November 2011
Room 30, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mr Dominic Bradley MLA (Deputy Chairperson) Mrs Judith Cochrane MLA Mr Leslie Cree MBE MLA Mr David Hilditch MLA Mr William Humphrey MLA Mr Paul Maskey MP MLA Mr Mitchel McLaughlin MLA Mr Adrian McQuillan MLA
In Attendance:	Mr Hugh Farren (Assembly Clerk) Mrs Sinead Kelly (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer) Miss Aine Gallagher (Bursary Student) Mr Colin Pidgeon (Assembly Researcher)
Apologies:	Mr Ross Hussey MLA Mr Paul Girvan MLA

10.08am The meeting opened in public session.

6. **Executive's Review of the Financial Process Discussion Paper – Assembly Research briefing**

11.43am Mr David Hilditch joined the meeting

11.43am Mr William Humphrey left the meeting

The Committee received a briefing from Assembly Research and Information Service on the discussion paper 'The Executive's Review of the Financial Process'.

11.55am Mr William Humphrey joined the meeting

12.01pm Mrs Judith Cochrane left the meeting

12.14pm Mr Paul Maskey left the meeting

Correspondence from Chairpersons' Liaison Group (CLG)

Members noted that CLG had raised concerns regarding departments not providing sufficient information or time for committees to scrutinise monitoring round positions.

Agreed: that this issue be included in the Committee's response to the Executive's Review of the Financial Process, in the context of consideration of statutory provision to ensure engagement and information flow to committees.

Agreed: to hear additional evidence to inform the Committee's final response to the Executive's Review of the Financial Process from:

- the NI Audit Office on the implications of the proposed reform; and
- the Scottish Executive on its proposed move to outcome-based budgeting.

Agreed: that Assembly Research and Information Service will follow up on a number of issues discussed to further inform the Committee's final response to the Executive's Review.

[EXTRACT]

Wednesday, 23 November 2011
Room 30, Parliament Buildings

Present: Mr Conor Murphy MP MLA (Chairperson)
Mr Dominic Bradley MLA (Deputy Chairperson)
Mr Leslie Cree MBE MLA
Mr David Hilditch MLA
Mr William Humphrey MLA
Mr Ross Hussey MLA
Mr Paul Girvan MLA
Mr Paul Maskey MP MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Mrs Sinead Kelly (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Miss Aine Gallagher (Bursary Student)
Mr Colin Pidgeon (Assembly Researcher)

Apologies: Mrs Judith Cochrane MLA

10.04am The meeting opened in public session.

3. Matters Arising

Executive's Review of the Financial Process

Agreed: to copy any responses received from other Assembly committees to DFP in advance of the Committee's final response to the Executive's Review of the Financial Process being agreed.

[EXTRACT]

Tuesday, 29 November 2011
Room 30, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mrs Judith Cochrane MLA Mr Leslie Cree MBE MLA Mr David Hilditch MLA Mr William Humphrey MLA Mr Ross Hussey MLA Mr Paul Girvan MLA Mr Paul Maskey MP MLA Mr Mitchel McLaughlin MLA Mr Adrian McQuillan MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mrs Sinead Kelly (Assistant Assembly Clerk) Mr Jim Nulty (Clerical Supervisor) Mr Dominic O'Farrell (Clerical Officer) Miss Aine Gallagher (Bursary Student)
Apologies:	Mr Dominic Bradley MLA

10.09am The meeting opened in public session.

10.10am Mr Mitchel McLaughlin joined the meeting

3. Matters Arising

Request for advice from NI Audit Office on Review of Financial Process

Members noted the briefing paper from Assembly Research regarding the advice required from the NI Audit Office on the Review of Financial Process

Agreed: to forward the paper to the Audit Office for a response.

[EXTRACT]

Wednesday, 7 December 2011
Room 30, Parliament Buildings

Present:	Mr Conor Murphy MP MLA (Chairperson) Mr Dominic Bradley MLA Mrs Judith Cochrane MLA Mr Leslie Cree MBE MLA Mr William Humphrey MLA Mr Ross Hussey MLA Mr Paul Girvan MLA Mr Paul Maskey MP MLA Mr Mitchel McLaughlin MLA
In Attendance:	Mr Shane McAteer (Assembly Clerk) Mrs Kathy O'Hanlon (Assistant Assembly Clerk) Mrs Sinead Kelly (Assistant Assembly Clerk) Mr Dominic O'Farrell (Clerical Officer) Miss Aine Gallagher (Bursary Student)

10.04am The meeting opened in public session.

5. Briefing by Assembly Legal Services on the Budget Process

The Committee received a briefing from Jonathan McMillen of Assembly Legal Services on the Budget Process.

Agreed: that the legal advice would be used as a basis for informing the Committee's response to relevant recommendations in the DFP discussion document on the Executive's Review of the Financial Process.

Agreed: that Secretariat staff would prepare a draft policy discussion document on establishing a pre-draft budget scrutiny stage, to be used to consult other stakeholders, including relevant Assembly committees.

11.46am The meeting moved into open session

11.46am Mr Paul Maskey left the meeting

[EXTRACT]

Wednesday, 18 January 2012
Room 30, Parliament Buildings

Present: Mr Conor Murphy MP MLA (Chairperson)
Mr Dominic Bradley MLA (Deputy Chairperson)
Mrs Judith Cochrane MLA
Mr Leslie Cree MBE MLA
Mr David Hilditch MLA
Mr William Humphrey MLA
Mr Mitchel McLaughlin MLA
Mr Paul Girvan MLA
Mr Paul Maskey MP MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mrs Sinead Kelly (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Ms Aine Gallagher (Bursary Student)

Apologies: Mr Ross Hussey MLA

10.04am The meeting opened in public session

5. Executive's Review of the Financial Process – Final Consideration of the Committee's co-ordinated Response

Members considered a final draft of the report on the Committee's co-ordinated response to the Executive's Review of the Financial Process.

10.57am Mr Bradley returned to the meeting

Agreed: that paragraphs 1 – 6 stand part of the Report;

Agreed: that paragraph 7 stands part of the Report;

Agreed: that paragraphs 8 – 10 stand part of the Report;

11.00am Mr Maskey left the meeting

Agreed: that paragraphs 11 – 13, as amended, stand part of the Report;

11.06am Mr McQuillan returned to the meeting

Agreed: that paragraphs 14 – 16, as amended, stand part of the Report;

11.10am Mr Maskey returned to the meeting

Agreed: that paragraphs 17 – 19 stand part of the Report;

Agreed: that paragraphs 20 – 22 stand part of the Report;

Agreed: that paragraphs 23 – 25 stand part of the Report;

Agreed: that paragraphs 26 – 32 stand part of the Report;

Agreed: that paragraphs 33 – 34 stand part of the Report;

Agreed: that an additional paragraph is inserted after paragraph 37;

Agreed: that paragraphs 35 – 41 stand part of the Report;

Agreed: that paragraphs 42 – 45 stand part of the Report;

Agreed: that paragraphs 46 – 49 stand part of the Report;

Agreed: that paragraphs 50 – 54 stand part of the Report;

Agreed: that paragraphs 55 – 56 stand part of the Report;

Agreed: that paragraphs 57 – 58 stand part of the Report;

Agreed: that paragraphs 59 – 60 stand part of the Report;

Agreed: that paragraphs 61 – 66 stand part of the Report;

Agreed: that paragraphs 67 – 69 stand part of the Report;

Agreed: that paragraphs 70 – 73 stand part of the Report;

Agreed: that the Executive Summary stands part of the Report, subject to a consequential amendment;

Agreed: that the Appendices stand part of the Report;

Agreed: that the Report, as amended, be the Second Report of the Committee for Finance and Personnel to the Assembly for session 2011-12;

Agreed: that the Report on the Response to the Executive's Review of the Financial Process in NI, as amended, be printed.

Agreed: to table a motion for a plenary debate on the Report. The draft wording of the motion will be considered at the Committee's meeting on 25 January 2011.

Members were advised that typescript copies of the agreed Report will be laid in the Business Office within 24 hours for the attention of all MLAs. Printed copies of the report will be issued to all MLAs in advance of the plenary debate.

11.24am The Committee moved into public session

[EXTRACT]

Northern Ireland Assembly

Appendix 2

Minutes of Evidence

21 September 2011

Members present for all or part of the proceedings:

Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr David Hilditch
Mr Paul Maskey
Mr Mitchel McLaughlin

Witnesses:

Mr Michael Brennan *Department of Finance*
Ms Agnes Lennon *and Personnel*

1. **The Deputy Chairperson**: I welcome Mike Brennan, the head of the central expenditure division of the Department of Finance and Personnel (DFP), and Agnes Lennon, who is also an official in that division. I refer members to the briefing paper in their information packs and to the recommendations in the research paper 'Review of Financial Process: considerations for improving the budget process'.

2. The Committee requested that the five key recommendations in the research paper be taken forward by DFP in tandem with the Executive's review. Those recommendations were that a Budget calendar should be specified in advance to allow time for adequate consultation and that there should be a strategic phase in advance of the publication of the draft Budget to allow the Assembly to debate revenue issues and spending priorities. In addition, a formal stage should be included for reconsidering the Budget in the light of emerging pressures and for considering developments that may affect allocations in-year and across years. It was also recommended that there should be detailed documentation that is produced in good time and that the framework for a new Budget process should have a statutory footing.

3. Those recommendations were in keeping with the proposals from the previous Committee's inquiry into strengthening the Assembly's role in budgetary scrutiny. Last June, DFP advised the Committee that many of the conclusions and recommendations from the previous Committee's report could be addressed within the existing terms of reference for the Executive's review.

4. I invite Michael and Agnes to make their opening statements.

5. **Mr Michael Brennan (Department of Finance and Personnel)**: I will begin with a few comments that pick up on what emerged from the Research and Information Service briefing paper, which was discussed earlier. We may be able to provide some further insight to help members with what are quite important issues.

6. **The Deputy Chairperson**: Two issues emerged: the 25% of expenditure that is not approved by the Assembly, and the pros and cons of gross and net reporting.

7. **Mr Brennan**: OK, I will provide some insight into the complexities of those two issues. I will also make the point that we, as DFP officials, share the Committee's exasperation at the length of time that it has taken to progress the review. We have had the terms of reference for the review sitting with the Executive for many, many, many months, and we got the final green light to progress it only in February 2010.

8. Since then, we have had a lot of work progressing on a range of issues, and we advised the Committee in June of where we were. Since then, and over the summer holiday period, we had meetings with several Departments and the Northern Ireland Audit Office (NIAO) about progressing the review. We have also engaged with the Departmental Solicitor's Office (DSO) on a number of

issues to do with the legislative impacts of the review.

9. We noted the recommendations of the Finance Committee's June paper, and we have had subsequent discussions with the Committee Clerk and, indeed, the Research and Information Service team. With regard to the process, our plan now is to issue a consultation paper to key stakeholders on the initial proposals in the next few weeks. Those key stakeholders would obviously be the Committees, the Audit Office and the Departmental Solicitor's Office. We will do that just to take their views on the key issues as they emerge in the review, and we will invite them to make their responses to us by the end of November.

10. Obviously, this Committee is at the centre of that engagement, because it really is the conduit for the Assembly's view on the best way to progress. So, we especially welcome its views. We will then take those views to the Finance Minister and ask him to present a paper to the Executive on the way forward.

11. Agnes will go into more detail on the gross versus net issue and the 25% capital control issue. However, if we look at international best practice, we will see that reports on the way forward from, for example, the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) tend to say that best practice for national sovereign Governments is fiscal policy management. There are a number of reasons why that is not really appropriate in the Northern Ireland case. For example, this is a devolved Administration where 90-odd per cent of the Budget allocated comes from the Treasury through the Barnett formula. In addition, the public expenditure rules are imposed on the three devolved Administrations by the Treasury. So, there are significant constraints, and the IMF research, which is discussed in the briefing paper, would not actually apply.

12. A key paper to look at is the Treasury's statement of funding policy for the devolved Administrations. That sets the framework for identifying the discretion that, for example, Mitchel talked about in the previous session with regard to introducing new taxes and revenue-raising powers. That paper is the starting point in finding out what flexibility the Executive and Assembly may have for raising new revenue.

13. On the issue about whether the review should recommend a gross or a net approach, it is important to highlight that a key aim of this financial review is the need for greater transparency and the ability to align closely Budgets, Estimates and accounts. That is particularly the case for the Committee, given the comments that it has relayed to us. There are some significant advantages in moving to voting on a net basis, and Agnes will set some of those out.

14. At the minute, we vote gross, but it is important to make the point that the Assembly imposes limits on the income that Departments accrue. So, it is not as though Departments are suddenly left with complete and utter discretion as to what they do with the income, how much they raise and whether it is valid. For example, valid income is determined in the ambit that the Assembly approves in the Estimates for Departments.

15. **Ms Agnes Lennon (Department of Finance and Personnel)**: I appreciate the Committee's concerns, and I am glad to note that it has fears about the change of control that we will probably propose from gross to net. That probably means that the Assembly will have weakened control and accountability. On the other hand, there are many measures that we can put in place to counteract that. As Mike said, one of those measures would be to put into the ambit and the legislation that you vote in the Budget Act a list of the types of income that a Department could bring in. That Department would have to live within those types. If that were exceeded, it would be an Excess Vote situation, and that Department would be accountable to the Assembly.

16. There are some other means that we could introduce to mitigate and control

that. At the moment, the gross, the income and the net are shown in part 2 of the Estimates. We would continue to do that so that the Assembly would be fully informed of the income against each spending area. Even though it may not be voted as a limit, that information would be readily available to the Assembly.

17. The Northern Ireland budgetary framework is unique in that we run monitoring rounds, which does not happen in the rest of the United Kingdom. In a monitoring round, the existing monitoring rules mean that any additional unplanned income that Departments bring in must be declared as a reduced requirement. I think that that is quite right. Some people touched on maximising income. However, if you let a Department bring in additional income, the Executive, from a central perspective, may want to spend that additional income on something other than what that Department considered important. So, the budgeting framework in Northern Ireland already sets a fairly tight control on accruing resources or income. Again, that would mitigate the effects of moving from gross to net.

18. As well as that framework, there is a lot of other guidance out there. For example, 'Managing Public Money' sets out guidelines about fees and charges, which one member referred to. Also, given that Departments are statutory bodies, if a Department were to bring in any new type of income, legislation would have to be brought to the Assembly anyhow. Therefore, the Assembly would have total control over that new type of income, as is happening with the plastic bag tax. It is not that you would be giving up total control of all income; far from it. A lot of controls would still be in place that would mitigate the effects of moving from gross to net. As Mike said, the main reason would be that we budget on a net basis, and you are going to have a huge misalignment if you do not vote on a net basis. One of the complaints that we have heard from Assembly Members is that the Budget document and the Estimates do not tally, which they would if we vote on a net basis.

19. **Mr Girvan**: Thank you for that information. However, it differs somewhat from what we get from Whitehall. The Westminster Committee met to discuss this matter, and it advised going down the route of the gross approach. I appreciate where we are coming from here. I am seeing the positives of the situation, but what would be the effect if, for argument's sake, some receipts were received late in the financial year? At that point, we would already be through part of our stage. If some money came into a Department late in the year as a capital receipt for the disposal of an asset or whatever, would it be included? We would be going through the process of setting our Estimates or whatever we were dealing with on our spend for the next year. Could that be carried forward if it comes in late in that year? What way would that work?

20. **Ms Lennon**: Even at the moment with voting gross and setting a limit on the accruing resources, if a Department brought in any receipts above that amount, obviously we are not going to not allow Departments to bring in additional receipts. We would encourage it.

21. At the moment, that would go back to the centre — the Consolidated Fund. Voting gross or net would not make any great difference. If Departments brought income in quite late, such as in the last four or five weeks of the year after the monitoring rounds and after the spring Supplementary Estimates (SSEs) and the Budget Act had been passed, they could possibly spend it in the Department, but —

22. **Mr Girvan**: Do you believe that going over to the net approach would produce a more realistic assessment of the actual spend?

23. **Ms Lennon**: It would, but we would show the gross and the net income figures in the Estimate. The information would still be there, but we do not propose to diminish those in any way.

24. **Mr Brennan**: It would mean that, when the Budget document is produced by the Executive and validated by the Assembly, the meaning of the allocations for the Budget process and what is replicated in the Estimates could be seen in a much more transparent way.

25. **Mr Girvan**: Does the monitoring round process that we go through in Northern Ireland give us the safeguards that would allow us to move ahead?

26. **Ms Lennon**: We have much more control, yes.

27. **Mr Cree**: I think that Michael has hit on the main point. The essential issue must be that everything should be easily understood without the need to refer back to legislation to determine what is in this or that clause. Everything should be in one set of papers so that a middle accountancy student could understand it. That is the purpose of the exercise. We must make things as simple as we can. We must avoid jargon and have clear notes on where everything is. That is what we want.

28. **Ms Lennon**: That is our aim.

29. **Mr Brennan**: Agnes has already started work with her supply teams for the Departments on constructing what a new Estimate may look like under the new approach. That would make it much easier to follow the logic of the whole process.

30. **The Deputy Chairperson**: I am sure that we would all welcome that.

31. **Mr McLaughlin**: That is quite helpful. Although I am frustrated that the process has taken so long, I appreciate how complex it is. It would appear from Michael and Agnes's report that there is an end product. There may be some benefit in considering detailed briefings or even training workshops for MLAs who are interested in the subject matter, particularly on the new system as it comes through, because we would want it to be given it a fair wind.

32. There are questions that we could speculate about, but I am trying to resist that temptation, because you could think of a number of what-if scenarios. One thing that is certain to confront us is the need to generate new revenues. The implications, if any, should individual Ministers bring schemes forward, should be explained in some detail. I can see that, in some circumstances, that may involve a fairly complex consideration of issues, perhaps involving European competition law in some instances or Treasury rules in others. I am not sure of the limits; we will deal with a paper subsequently on the Budget exchange mechanism. The limits are quite tight, and I wonder what would happen to some of the schemes, particularly asset disposal schemes, given that they all have a certain elasticity. We cannot just predict that we can do this when we hope to, and we have already found that out with the asset disposal process. So, the exercise will not be without its complications.

33. To finish on the point I started with, it will be important that we facilitate Members' understanding of the new process. It will certainly enhance participation and a sense of ownership and responsibility for the decisions that are made.

34. **Mr Brennan**: As I understand it, the Committee has organised a session with all MLAs for 18 October.

35. **The Deputy Chairperson**: That is correct.

36. **Mr Brennan**: We are going to do a presentation in two parts. The first part will be a summary presentation on the public expenditure system, similar to the one that we gave to the Committee in early June, and the second part will be on the details of the financial review. We will have to go into considerable detail in the presentation on the public expenditure system. I referred to the Treasury's statement on funding policy, because that defines the discretion that the Executive have on revenue-raising powers. As you know, Ministers and the Budget review group are looking at that.

37. The Executive have significant discretion on where they can raise revenue,

whether that is through a plastic bag tax or car parking charges. The difficulty comes when you get into excepted matters and fiscal powers, such as air passenger duty and corporation tax. Then you are into, for example, issues over EU state aids and the Azores judgement. That is where the complexities come in.

38. The Executive and Assembly have a wide range of powers for revenue raising, as opposed to fiscal powers. It is important to distinguish between them, and we will do that in the presentation on 18 October. We will also try to draw out in our presentation for MLAs the importance of issues such as gross versus net when it comes to the financial review.

39. **Mr McLaughlin**: An issue occurred to me when Agnes was speaking, and the plastic bag tax is an example of it. I was thinking of cases where we pass legislation that gives effect to the Assembly's mind. I presume that, in subsequent Budgets, the bag tax could change and could go either up or down, but that that would not require legislation. So, there is the initial consideration about the Assembly's needing to legislate to do certain things, but there is then the situation with what happens subsequently in other Budget rounds. I assume that you would use the existing legislation, but you may vary the rates.

40. **Mr Brennan**: The principle is similar to what we do with the regional rate. That varies on a year-to-year basis, and the revenue stream varies accordingly. Similarly, with things such as MOT charges, the decision that the Department of the Environment (DOE) takes on that determines the revenue stream that the Executive accrue.

41. **Mr P Maskey**: I am new to the Committee, and I am trying to get my head round some of the issues, so this might sound like a silly question. I take it that legislation for the plastic bag tax is required because you are asking the private sector to collect the money. Is that correct? The private sector has to pass the charge on to individuals, because if you go into a shop and are given a bag, you have to pay for it, so you are asking the private sector to implement the measures. If a Department or an arm's-length body of a Department were introducing a similar charge, would legislation be needed in that case?

42. **Ms Lennon**: Northern Ireland Departments are statutory bodies, so they cannot carry out any service without the statutory authority to do so. They must have a legislative basis for delivering the service, no matter what it is.

43. **Mr Brennan**: DOE does not have the legislative ability to levy the bag tax, because the relevant legislation has not gone through the Assembly.

44. **Mr P Maskey**: So, legislation has to be made for every revenue-raising measure. Is that correct?

45. **Mr McLaughlin**: Unless it is already covered.

46. **Ms Lennon**: Exactly; unless the measure has a statutory basis already.

47. **Mr P Maskey**: Can one piece of legislation not do away with all that?

48. **Ms Lennon**: Your Departments are statutory bodies, and they must have statutory authority to deliver every service. A Minister cannot just decide to deliver a service.

49. **The Deputy Chairperson**: Have you finished on that topic?

50. **Ms Lennon**: Yes. Perhaps there is just one issue to touch on. The income that Departments can keep and the income that we are talking about voting has to have related spend; income can be brought in and kept by a Department only if there is related expenditure. Otherwise, it goes to the Consolidated Fund.

51. **Mr Girvan**: That last point helps to answer my question. Departments could increase charges for a function. In some cases, those charges could be used to cover up their inefficiencies

with their bottom lines. I am wondering what mechanism could be put in place to ensure that that does not happen and that Departments are not increasing their revenue-generating powers to offset some of their inefficiencies.

52. **Mr McLaughlin**: Do you think that could happen?

53. **Mr Girvan**: Definitely; I have run a business.

54. **Ms Lennon**: There are very strict rules on charging in 'Managing Public Money', as well as under the Treasury fees and charges guidance. At the most, that should be for full cost recovery. So there are already rules on that.

55. **Mr Girvan**: My point is that they can say that it is for full cost recovery through whatever means possible. I can think of one instance in particular, which I would not be happy to raise here — I might raise it in Paul's Committee later — where an over-inflated bureaucracy has been generated that costs a fortune to run and administer. Therefore, it has been deemed that, to cover that bureaucracy, are actual costs can be put forward and added on as a reasonable charge to the public. A mechanism is needed to ensure that the process is not being used to mask or cover inefficiency. By going down the net route, I wonder whether that would leave the opportunity to do that.

56. I appreciate that we are —

57. **Ms Lennon**: I do not imagine that it would make any difference in that particular scenario, but the safeguards that are in place are that, for example, DFP Supply would have an interest in such cases, and the Assembly Committees would have a role in challenging that.

58. **The Deputy Chairperson**: What about the 25% of expenditure that is not approved by the Assembly? I understand from the research paper that that is mostly capital spend.

59. **Ms Lennon**: A portion of it is capital spend, and another large portion is to do with non-departmental public bodies (NDPBs). The sum that the Assembly votes includes only the cash grant to the public body for that year, not the full resource consumption. The full spend and income of the arm's-length body is in the Budget, whereas in the Estimate, only the cash grant is voted. Bringing the NDPBs within the accounting boundary, which is a path that we would like to follow if it is acceptable to the Assembly and the Executive, would do away with quite a lot of that.

60. **The Deputy Chairperson**: Is that proposal in your consultation paper?

61. **Mr Brennan**: That is the major difference, particularly where our earlier point about the lack of transparency between the Budget position and the Estimates is concerned.

62. **Mr Cree**: You said "quite a lot". What about the others?

63. **Ms Lennon**: I do not have the figures on that in front of me, I am afraid.

64. **Mr Cree**: The aim is to do it all, is it not?

65. **Ms Lennon**: Yes, I hope to align everything. The aim of the project is to align and vote absolutely everything, but I am not sure as yet whether we can do that for all areas of expenditure. Hopefully, however, that will be the case.

66. **Mr McLaughlin**: Yes, you started that line of questioning, Deputy Chairperson. I am one behind you.

67. **The Deputy Chairperson**: I was going to move on to the consultation document.

68. **Mr McLaughlin**: In that case, have all the causes of that gap in the Budget process been identified? The NDPBs are the major part of it, but there are other sources of that difficulty. Have they been identified and specified as well?

69. **Ms Lennon**: Yes, they have. We are working on that, and that work will be ongoing over the next months. I will not say that, in the discussion paper that we will produce in October, we will have all the answers, but we will certainly work towards them over the next months.

Areas such as the National Insurance fund, the social fund and the notional charging that we do across Departments will be investigated. We hope to get solutions to all those misalignments.

70. **Mr McLaughlin**: It is probably important to remind ourselves that this important information was volunteered by these two officials at an earlier meeting. It has helped everyone to get their heads around just how difficult it is to take a comprehensive approach.

71. **The Deputy Chairperson**: At the beginning, when I introduced you, I outlined the recommendations from the research paper. Let me summarise them. The first was a Budget calendar, the second was a strategic phase and the third was the formal stage. The fourth was a detailed breakdown of expenditure plans, and the fifth was that the framework process should be set out in primary legislation. Does your consultation paper cover those five recommendations?

72. **Mr Brennan**: We will address them, but I can give some initial observations on the complications that we see in them. For example, on the first issue of a Budget calendar, Scotland and Wales have a specific date set — I think they must have Budgets by 1 January. The difficulty that we have here is that we have commitments to engage in a public consultation process, but those do not exist in Scotland or Wales. I wonder how we would have addressed 1 January, say, as a set date by which a Budget had to be produced for the year just past, when, for example, the outcome of the UK national spending review was not announced until 20 October. Normally, DFP's ideal scenario for the timescale for a Budget is that there is a draft Budget by early September. However, the outcome of the UK spending review, which determines 95% of the resources for the Executive, was not announced until 20 October. That is what worries me about setting specific dates.

73. From our perspective, we would love the Committee to recommend setting a concrete date deadline. It focuses minds, because it means that you have to have something tabled at the Executive and on through. We would welcome a specific date, but I can see the complexities and the complications that would emerge either from a Treasury allocation as part of a national spending review or, shall we say, delay in the Executive.

74. The second recommendation relates to a strategic phase. The main benefit of having a strategic consideration of the Budget is that it sets out the main priorities and aims, and where allocations are going to be prioritised. Effectively, that should be the Programme for Government. There is a difficulty with specifying a strategic phase; for instance, where would we have been in this Budget if we had to formally wait for a Programme for Government?

75. It was also recommended that there should be a formal reconsideration stage of the Budget in the budgetary year. I suggest that we already have that, because, as Agnes mentioned, we have monitoring rounds. That is when the Executive strategically reallocate resources as reduced requirements come in or as pressures emerge in other Departments, for instance. The Executive reprioritise their resources. There used to be four such rounds, but there are three in-year strategic reconsiderations on the Budget now: June, October and January.

76. I agree that documentation should be made available in good time, and I do not see how anyone could dispute the logic of that. In many ways, this Committee's work is strategically important, because it allows us to relay views to our Minister and helps shape papers of his that go to the Executive. Many times in the past, our Minister has criticised his colleagues who did not make information available to the other Statutory Committees. So, I think that there is strong logic in that recommendation.

77. **The Deputy Chairperson**: What about the final recommendation, which says

that the budgetary process should be set out in primary legislation? Judging from what you said, I think that that might present you with difficulties.

78. **Ms Lennon**: We, as officials, would like that, but we would also like to know the view of the Committee and the Assembly. When we issue the discussion paper, perhaps you would like to canvass other Committees' so that you can get a view across the Assembly. Is it the view of the Assembly and this Committee that you would like dates set in legislation? Or, is another option that Standing Orders should be amended to set specific dates? Or, is it the Assembly's view that you would have an agreement with the Executive? We, as officials, would love the calendar; we would love dates to be set in legislation. However, we have to be practical, but we would like to know the view and the will of the Assembly on that before we go to the Executive.

79. **The Deputy Chairperson**: The Committee has not come to a final conclusion, and we have not made recommendations to the Assembly as yet. We are still at the stage of gathering information and research on the matter.

80. **Mr Girvan**: Michael alluded to getting the information and final figures from Westminster. That is a key factor. We are tied until that information comes through. Is there a possibility of getting it any earlier in the day? If there is, we could sit down, work to that timetable and work back from it and set firm dates. I see that as a key factor in allowing us to set those dates.

81. **Mr Brennan**: It is, but, unfortunately, you will be at the whim of whatever timing the UK Government want to impose on spending reviews. The spending review outcome is usually announced in July, but, in July this year, we realised that it would be late, so, in an attempt to assist the Executive and, indeed, the Committee, we produced forecasts, which we gave to the Committee, on what we thought the review would deliver. In past years, even when the Treasury gave us the spending review outcome in July, the timing to get the Executive to agree a draft Budget in September was still very tight. October was completely illogical for our internal timescales, and the Treasury took no cognisance of our difficulties. I do not know how you could force the UK Government to commit to a formal agreement on delivery.

82. **Mr Girvan**: You mentioned the model that they work to in Scotland, but they have different powers. Is that correct?

83. **Mr Brennan**: They also do not have the same commitments to make on, for example, consultation processes.

84. **Mr Girvan**: The benign dictatorship comes in here.

85. **Mr McLaughlin**: Differing priorities in the Westminster Government mean that those difficulties could occur any year. If we were looking at the Budget process itself, I wonder what the merits would be of having a four-year Budget process with a Budget performance review in the intervening years. That could review the Budget and the Programme for Government. It is not that controversial for an incoming Government to end up implementing the outgoing Government's Programme for Government for the first year or maybe even the first 18 months. Therefore, a four-year Programme for Government cycle that reflects the four-year term here but that does not kick in until year 2 — it runs into year 1 of the subsequent term — would give you some degree of control over the impact of external factors, such as different priorities applying in Westminster.

86. At the moment, we just bob about like a cork in the water; if they do something, we have to firefight. Getting involved, understanding and being transparent and accountable are sound notional ideas, but complex issues become even more complex and confusing when external factors must be balanced. For example, I am not sure that we need three monitoring rounds, and I was never convinced that we needed four. To all intents and purposes, some of them are useful only because they force

Departments to get their books in order before they are looked at and because they encourage Departments to be up front with performance figures and spending profiles. However, that could be done equally well with two monitoring rounds, with the result that space could be freed up for an in-term Budget review process that could adapt and adjust to changing conditions. Therefore, while looking at the timeliness of the process, we should consider, in a fairly open-minded way, what would maximise the Assembly's ownership of the process.

87. I do not think that each new intake of MLAs and Ministers taking a ground-zero approach gives us the type of control, continuity and strategic perspective that we need. Maybe a minimum of a one-year overlap would make your reforms more applicable and manageable, as well as allowing for a strategic perspective, because you really need to look two or three terms ahead by taking a 10- or 12-year perspective.

88. **Mr Brennan**: Yes, particularly on the capital side where infrastructure development is concerned.

89. The other complication that you talked about is the four-year cycle here. However, this was the first year in which the UK delivered a four-year spending review— normally, it is three years — and the expectation is that they will stick to that going forward.

90. **Mr McLaughlin**: They could change it again.

91. **Mr Brennan**: Indeed. I agree with your point about monitoring rounds. Logic suggests that we need only two monitoring rounds, and, if that were to be the case, you would go for October and January, which would tie in with the final SSEs. The October round would be a mid-year review. In effect, you would have all the resources, and you would have to address all the issues from the end of the previous financial year and whatever reduced requirements and pressures that would have emerged in the first six months. Therefore, it could be quite a strategic assessment.

92. **The Deputy Chairperson**: OK, thanks. Is it the plan to launch the consultation paper on Tuesday 18 October?

93. **Ms Lennon**: Yes, we hope to issue it that week.

94. **The Deputy Chairperson**: So, will it be available to the MLAs during that briefing?

95. **Ms Lennon**: Yes, we will have it for the MLAs at that session. We hope to issue it to the Departments, the Audit Office and the other key stakeholders. It is more of a discussion paper that will contain some initial recommendations, which we would like responses to.

96. **The Deputy Chairperson**: Will you give us a flavour of the type of issues for discussion that will be highlighted in that paper?

97. **Ms Lennon**: It will deal with the process that we have been discussing here and with the recommendations from this Committee, so it will deal with the whole Budget process. We will deal in some detail with the whole misalignment, which is probably not of particular interest to the Assembly or the Committee but of more interest to the Departments and certainly to the Audit Office. It will also address the issue of bringing NDPBs into the accounting boundaries. As I said, the Audit Office and Departments are particularly interested in that.

98. We will deal with the vote issue, that is, the pros and cons of whether we move from a request for resources to voting the Budget limits of resources and capital, that is, departmental expenditure limits (DEL) and annual managed expenditure (AME). We will look at the net versus gross issue and make a recommendation on that. Publications will attach a sample Estimate and a sample new resource account.

99. **The Deputy Chairperson**: When you say that that is a "discussion document", does that mean that it will not follow the usual consultation format, which affords people the opportunity to respond to various sections and raise questions and so on?

100. **Ms Lennon**: On the use of the term "consultation", I do not want anyone to think that it is a public consultation. It is not, and we will not be following the 12-week format. It is really just a consultation with key stakeholders — Departments, the Audit Office, the Committee and across the Assembly.

101. **Mr Brennan**: It is important to make the point that the issues here are so incredibly complex that all of us, including key stakeholders, are struggling to get our minds round how to take some of these things forward. From our perspective, the critical stakeholder is this Committee and its relaying of the Assembly's views. We need your views before we can even go to our Minister to shape this. That is why there is a six or seven-week window to elicit views from your Committee, the Audit Office and departmental finance teams.

102. **The Deputy Chairperson**: Thank you very much. I remind members that the information briefing for MLAs on the financial process will be on Tuesday 18 October in the Long Gallery. Is a time set for that?

103. **The Committee Clerk**: There is the possibility of lunch at around 12.45 pm, with the briefing to start about 1.15 pm. That will be firmed up.

104. **The Deputy Chairperson**: Are members content with that?

Members indicated assent.

105. **The Deputy Chairperson**: OK. I thank the witnesses very much.

Northern Ireland Assembly

Appendix 3

Memoranda and Papers from DFP

Department of
Finance and
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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

Our Ref: CFP5,6&7 /11-15

8 June 2011

Dear Shane,

At the meeting on 1 June, Members raised two issues to be brought to the attention of the Department. The first was in relation to the Terms of Reference for the Review of the Financial Process and the second was relating to the work of the Budget Review Group.

It is important to note that the Terms of Reference for the Review of the Financial Process were endorsed by the Executive collectively in February 2011. They are, therefore, not DFP's to alter or amend unilaterally.

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

Over the coming months the Committee will be a key stakeholder, on behalf of the Assembly, in delivering the Review of the Financial Process. This will provide an important platform for the Committee to reflect their two previous reports. This Review is an opportunity for significant reform and, building on the lessons learned in the last mandate, to design a financial process and publications that meet the needs of the Assembly.

Yours sincerely,

Norman.

NORMAN IRWIN

DFP Presentation

Department of Finance and Personnel

REVIEW OF FINANCIAL PROCESS

22 JUNE 2011

OUTLINE OF PRESENTATION:

- **Background / Opportunity**
- **Problems with current process & publications**
- **Terms of Reference**
- **Issues for consideration as part of the Review**
- **Steps in the Process & Timeframe**
- **Issues for the Assembly**
- **The Prize**

2

BACKGROUND/ OPPORTUNITY:

- **Current Financial Process is based on the Westminster model and has existed for many decades**
- **Devolved Assembly is quite different from the Westminster parliamentary system**
- **In this context, the current process and publications may not best serve the NI Assembly – more appropriate model required?**
- **Opportunity for significant reform and to design a process & publications that meet the needs of the Assembly**

3

THE PROBLEMS:

- **Budgets, Estimates and Accounts serve different purposes and have developed over the years in different directions making it complex to understand, manage and scrutinise public spending**
- **Several Publications with figurework presented on different bases making it difficult to track spending from plan to outturn**

4

THE PROBLEMS:

- **Misalignment exercise conducted in April 2008 –**
  - **About 1/4 of Government spend is not voted – weakened accountability**
  - **Only about 60% of Government spend is aligned across all frameworks, requiring numerous reconciliations – burdensome and inefficient**

5

THE PROBLEMS:

- **Estimates are complex and difficult to understand**
- **Different boundaries for Budgets, Estimates and Accounts**
- **Different controls approved in Budgets and Estimates**
- **Departmental spending areas are not always informative and meaningful**

6

THE PROBLEMS:

- The CFP has expressed concern re the Draft and Final Budget process, in particular, early engagement with the Committees
- The process is convoluted and repetitive
- Rates income stream is not considered by the Assembly in conjunction with expenditure plans

7

REVIEW:

- Executive agreed on 10 February 2011 to a Review of the NI Financial Process
- Terms of Reference (including timeline) agreed
- Aim – to create a single coherent financial framework that is effective, efficient and transparent and enhances scrutiny by and accountability to the Assembly

8

ISSUES TO CONSIDER:

- The differing controls approved by the Assembly:

➢ **Budget:**
Resource DEL
Capital DEL
Resource AME
Capital AME
Net expenditure approved – not gross
Wider PE boundary, including NDPBs

➢ **Estimates:**
RfRs voted
Income (AR) limits voted - voted gross
Capital not voted
Departmental boundary & cash grant to NDPBs

9

ISSUES TO CONSIDER:

- Identify <u>all</u> misalignments & possible solutions
- Consider bringing NDPBs within the accounting boundary
- Redesign publications, eg Estimates, etc to aid transparency

10

ISSUES TO CONSIDER:

- Structure of departmental spending areas in light of Assembly requirements with a view to aiding transparency and accountability

11

ISSUES TO CONSIDER:

- Consider formalising the stages of the Budget, including engagement with Committees (eg in Standing Orders or Legislation?)
- Consider aligning Rates Order with expenditure plans
- Consider presenting Estimates & Budget Bill as the final stage of the Budget Process?

12

FIRST STEPS:

- Consult Assembly via Committee for Finance & Personnel
- Open consultation with departments
- Identify all misalignments and consider possible solutions
- Identify, at this early stage, any departmental concerns re consolidating NDPBs, etc
- Consult NIAO & Account NI

13

BY AUTUMN:

- Consult DSO re legal implications of consolidation of NDPBs and other legislative implications
- Re-design the Estimates and assess other publications
- Consult Rating Policy Division
- Circulate Consultation Paper with proposals to all stakeholders
- Consider responses to Consultation Paper

14

BY END OF 2011-12:

- Recommendations to Finance Minister and Executive for approval
- Action Plan to Executive for approval
- Report to the Assembly, including recommendations for debate and approval

15

IMPLEMENTATION:

- 2012-13 –Legislation taken through Assembly, if necessary. Depts progressing consolidation of NDPBs.
- Spring 2013 - dry run of Estimates
- Autumn 2013 - dry run of 2012-13 Resource Accounts (audited) on new basis
- 2014 - refinement of 2013-14 SSEs and Resource Accounts (aiming for faster closing)
- June 2014 - live running of Estimates
- June/July 2015 – 2014-15 Resource Accounts on aligned basis
- January 2015 – Main Estimates & Budget Bill as Final Budget?

16

ISSUES FOR THE ASSEMBLY:

- Accountability to the Assembly – What controls voted via legislation/Budget Bill? (DEL/AME budget controls & cash, net or gross?)
- Full alignment to aid transparency? (eg Bring NDPBs within the accounting boundary?)

17

ISSUES FOR THE ASSEMBLY:

- PE Structure of departments – level of detail Members wish to scrutinise in publications?
- Members should be able to identify planned expenditure on various public services
- Eg DE has £1.8bn expenditure in one budget line while DHSSPS has over £3bn expenditure in one line
- However, recognise that balance is required between:
  - ➢Transparency and accountability to Assembly, and
  - ➢Flexibility for departments to manage their resources

ISSUES FOR THE ASSEMBLY:

- Publications (eg Estimates) – what would meet the needs of the Assembly and enhance scrutiny?
- Level of detail required in Part II of the Estimate
- What supporting tables would the Assembly require in an Estimate?

19

ISSUES FOR THE ASSEMBLY:

- Timely provision of information to Assembly Committees by Ministers/departments
- Review of Assembly Standing Orders/ legislation with a view to aiding Assembly scrutiny and timetabling of the Budget process?
- Logistical need for accelerated passage of the Budget Bill

20

ISSUES FOR THE ASSEMBLY:

- Presentation of Main Estimates and related Budget Bill as final stage of the Budget process?
- Other issues?

21

THE PRIZE:

- Improved transparency from budget plans through Estimates to outturn in Resource Accounts
- Increased accountability – majority of expenditure voted annually and controlled by the Assembly
- Scrutiny and challenge by Assembly aided through transparent publications
- Departments controlling expenditure within same set of controls
- A process and publications that meet the needs of the Assembly

22

TO SUM UP:

- Looked at the Background to Review and Opportunities it presents
- Problems
- Terms of Reference
- Issues for consideration as part of the Review
- Steps in the Process & Timeframe
- Issues for the Assembly
- The Prize

23

Briefing Paper for the Committee for Finance and Personnel

21 September 2011

From: Norman Irwin

Date: 8 September 2011

Summary

Business Area: Public Spending Directorate, CFG
Issue: Review of the NI Financial Process
Action Required: To note

Introduction

The purpose of this briefing note is to update the Committee on progress of the Review of the Financial Process over the summer months.

Progress

- A list of establishing legislation of NDPBs has been compiled and forwarded to the Departmental Solicitors' Office (DSO) seeking advice on any barriers, contained within the legislation, to bringing them within the Estimates and accounting boundaries. In addition, advice has been sought on the wider legal implications of consolidating NDPBs. The NI Financial Framework is enshrined primarily in the Northern Ireland Act 1998 and the Government Resources and Accounts Act (NI) 2001 (GRAANI 2001). GRAANI 2001 may preclude the consolidation of NDPBs within the Estimates and accounting boundaries and amendments will probably be required – therefore, DSO advice requested in order to inform the Review.
- There is ongoing consideration of all misalignments between Budgets, Estimates and Accounts and possible solutions further explored.
- Further consideration was given to voting the Budget controls and the pros and cons of voting 'Net' examined, with a view to better alignment.
- A meeting with the NI Audit Office took place in August to discuss the Review and implications for the Audit Office of consolidating NDPBs within the accounting boundary.
- The Estimates have been reviewed and redesigned with a view to transparency with the Budget and Accounts.
- The recommendations in contained within the Assembly Research paper were considered as was the scoping of the practicalities and risks of presenting Estimates and the related Budget Bill as the final stage of the Budget process.
- The first meeting of Departmental Working Group is planned for 29 September 2011 to discuss the practicalities of alignment of Budgets, Estimates and Accounts and to commence work on developing solutions.
- The Department is currently drafting a Discussion Paper, with initial proposals on the key issues, for circulation in October to key stakeholders.

Review of the Financial Process in Northern Ireland (Commissioned by the NI Executive on 10 February 2011)

Discussion Paper for Key Stakeholders (Issued 10 October 2011)

Responses Due 30 November 2011

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Executive Summary

Introduction

The Executive's public revenue and expenditure process takes place in the context of the wider UK control and management framework. The current process has existed in Northern Ireland for a considerable time and is based on an outdated Westminster model.

The various components of the process serve different purposes and have developed over the years in individual directions resulting in significant misalignment between Budgets, Estimates and Accounts. Therefore, while based on the same basic dataset, the figurework in Budgets, Estimates and Accounts, although reconcilable, does not meet the Assembly's expectations in relation to transparency. Assembly members have expressed frustration with trying to understand sets of financial information that are calculated on a different basis and/or different boundaries, making it difficult to track spend from plans to outturn. This also limits the ability of Committees and members to challenge departments effectively.

The Executive considered it was time to take stock and review the entire financial process with the objective of agreeing a simplified and streamlined process tailormade to meet the requirements of the devolved administration. This is an opportunity, within the lifetime of this Assembly, for significant reform of frameworks, publications and procedures that have existed for decades in Northern Ireland, with a view to a transparent public expenditure process improving accountability to the Assembly.

Initial Recommendations for Discussion

Having considered the views of key stakeholders and the available evidence the initial recommendations, at this first stage, are set out below. It must be emphasised that these recommendations, while indicating a direction of travel, are largely an effort to focus minds on the key areas for improvement and to kindle debate on the issues and possible reforms.

Recommendation 1: Assembly controls should change to reflect the alignment of Budget, Estimates and Accounting boundaries. The concept of Requests for Resources (RfRs) should be abolished and the Assembly should instead vote, as applicable, each department's:

- **Resource DEL**
- **Capital DEL**
- **Resource AME**
- **Capital AME**
- **Net Cash Requirement.**

Currently for each department the Assembly authorises, via the Estimates and the Budget Bill, resource spend by Requests for Resources (RfRs) as well as the Net Cash Requirement. In Budgets the expenditure controls are resource and capital DEL and AME. In order to align Estimates and Accounts with Budgets and improve transparency and accountability to the Assembly, the proposed approach is to vote the Budget controls in future.

Recommendation 2: NDPBs are consolidated within the Estimates and Accounting boundaries in order to improve alignment and transparency.

Currently the full expenditure (including non cash spend such as depreciation) of Executive NDPBs is included in Budgets, but not in Estimates or Accounts – instead the cash grant to the NDPB is included in Estimates and Accounts. This results in one of the largest misalignments between the three frameworks. The proposed solution is to consolidate

Executive NDPBs within the Estimates and Accounting boundaries. The groundwork required for consolidation would be an administrative burden on departments and impact on faster closing and laying of Resource Accounts, but the benefit of alignment in terms of transparency would outweigh these difficulties.

Recommendation 3: DFP should continue to work with departments to find solutions, where possible, to all other misalignments between Budgets, Estimates and Accounts.

Other less significant areas of misalignment between Budgets, Estimates and Accounts would require DFP to continue to work towards their resolution in order to achieve the aim of full alignment.

Recommendation 4: All non-voted expenditure and income within Budgets (eg Consolidated Fund Standing Services) is brought within the coverage of Estimates in the Part II Subhead Detail.

Not all expenditure that appears in Budgets and Resource Accounts is voted annually in the Estimates, nor should it be, because separate standing legislative authority already exists. Particular types of expenditure such as statutory salaries and expenditure from specific Funds, such as the National Insurance Fund fall within this bracket. The proposed approach is to include such non-voted expenditure within the Part II Subhead Detail of the Estimate in order that the total figurework will align with the Budget and transparency is improved.

Recommendation 5: The Assembly votes 'Net' controls in the Estimate and Budget Act in line with budgetary controls, with details of income shown in the Estimates and appropriate safeguards in place so that firm control is maintained over the use of income by departments.

Currently Budgets are approved by the Assembly 'net' of departmental income while Estimate approval is 'gross' in that the net resources and the income are both approved. The proposal is for the Assembly to vote Estimates 'Net' in future, consistent with the Budget. However, details of the income would continue to be provided to the Assembly in Part II of the Estimate. In addition, in order to maintain Assembly control over the types of income departments could retain and use on related services, this information would be included in the Budget Act and in the ambit of the Estimate.

Recommendation 6: Spending Areas in Departmental Expenditure Plans should be re-structured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department. Spending Areas should be used in all publications.

A common frustration expressed by Assembly members and others is the lack of comprehensive information on spend on public services, as currently provided by the expenditure lines of some departments. In the interests of transparency and accountability a meaningful split of the services delivered should be shown in all publications. It is proposed, therefore, that departments' budgets should be re-structured into spending areas that are informative and meaningful to the public.

Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

It is often stated that there should be linkages between expenditure plans and outcomes, including to PSA targets. However, it has proved, in the past, impractical to map spending areas to PSA targets in any meaningful way. Budgets would need to be disaggregated to a level that would produce a web of confusing information. The driver of PSA targets should be performance and the efficient delivery of the target, not the amount of funding allocated to it. It is concluded performance should not be considered to have any direct link to funding inputs.

Recommendation 8: The Estimates and Resource Accounts should be revised as shown in Annexes D and E.

The misalignments that currently exist between Budgets, Estimates and Accounts, and addressed in the preceding recommendations, should resolve most of the frustration caused by publications of financial information produced from different datasets and boundaries. In addition, the Estimates have been redesigned and simplified somewhat to allow the Budget figurework to be traced through to the Estimate. The revised Estimates and Accounts are attached to the Discussion Paper for comment.

Recommendation 9: That the Budget should be developed in the context of a Programme for Government agreed by the Executive.

The Committee for Finance and Personnel and Assembly Members have expressed concern regarding the development of a Budget in the absence of a Programme for Government. It is concluded that the formulation of a Programme for Government prior to or, at least, in tandem with the development of a Budget is desirable.

Recommendation 10: That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

The Committee for Finance and Personnel strongly argue for an early strategic phase in the Budget process to enable the Assembly to engage with departments and external stakeholders at the outset and then thoroughly debate the issues and influence the development of the Budget, which, in turn, could pay dividends at the later stages of the process. Discussion and challenge by Committees with departments around their Budget pressures, their priorities of spend and their plans to live within budgets would be a key component of this early phase. The Committee for Finance and Personnel could lead at this early stage taking evidence from DFP on the expected funding envelope, coordinating the reports from the other Committees and presenting a strategic overview of the financial position to the Assembly for debate in late May.

Recommendation 11: An 'Ideal' Budget timetable would be (presuming the development of a Programme for Government prior to or slightly in advance of the Budget):

1 February	Detailed Budget Guidance and Timetable issued to key stakeholders
February-April	Engagement by Committees with Departments and other key stakeholders on spending priorities and availability of resources
May	Committee for Finance & Personnel (CFP) collate Committee reports and prepare a Report to the Assembly on proposals for living within the expected funding envelope.
By 31 May	CFP's 'Take Note' debate in the Assembly on spending priorities and proposals for the funding of those priorities
1 June	Submissions of spending proposals, etc from departments to DFP
June to August	Consideration of spending proposals, etc by DFP from a central strategic perspective and advice provided to the Finance Minister on a range of scenarios for presentation to the Executive
By mid-September	Draft Budget agreed by Executive and launched for public consultation
September to December	Public Consultation
By 31 December	Final Budget agreed by Executive and approved by the Assembly

The Committee for Finance and Personnel strongly argue for the advance publication of a Budget timetable to facilitate early engagement by Committees with departments and allow time for adequate consultation. In addition, departments require agreement of a Budget by December in order to allow sufficient time to plan ahead and allocate their budgets, both internally and to arms length bodies, well in advance of the new financial year. The proposed timetable above includes key dates in the Budget process and allows for an early strategic phase followed by a Draft Budget in the early autumn and a Final Budget agreed by 31 December.

Recommendation 12: A Budget Process Agreement should be made between the Assembly and the Executive and the Assembly's Standing Orders should be amended to reflect this Agreement and specify Budget Procedures.

The Committee for Finance and Personnel recommends the formalisation of the Budget process in legislation or the Assembly's Standing Orders. However, the Budget framework is already enshrined in the Northern Ireland Act 1998 at an appropriate level – it would not be advisable to include detail or key deadlines in primary legislation. Therefore, a twofold approach of a Budget Process Agreement between the Assembly and the Executive reinforced by the appropriate detail in the Assembly's Standing Orders is proposed.

Recommendation 13: In due course, consideration should be given to streamlining the end stage of the Budget process by introducing the Main Estimates as the final stage of the Budget process in December/January.

Currently the Final Budget should be agreed by the Executive and debated and approved by the Assembly around December/January. A Vote on Account is then taken to allow expenditure to continue into the new financial year with the Main Estimates presented, debated and approved in June around the same time that the first monitoring round is amending those Estimates. It would be desirable to streamline the process by introducing the Main Estimates and related Budget Bill as the final stage of the Budget process in December/January. However, any risks to the process and the funding of departmental spend have to be considered, therefore, such a refinement of the process could only be introduced after a revised Budget process was firmly established and proven to deliver. Nevertheless, such a streamlining of the end stage of the process should be considered as soon as practicable.

Recommendation 14: In due course, in light of involvement of the Assembly in the early strategic stage of the Budget and throughout its development, an amendment of Standing Orders to facilitate a truncated passage of Budget Bills through the Assembly should be considered.

The Budget Bills are the final legal stage of the Budget and monitoring rounds already debated at length in the Assembly. In recognition of this the Assembly's Standing orders currently make provision for accelerated passage of Budget Bills. An early strategic phase in the Budget process, as suggested earlier, with robust Assembly involvement throughout could enable the further acceleration of the Budget Bills. This would be especially pertinent if Recommendation 14 was taken forward and Royal Assent required in good time for the beginning of the financial year.

Recommendation 15: The Rates Order should be debated alongside the expenditure plans for the next financial year, as set out in the Budget Bill.

This public income strand of the rates should, arguably, be an integral part of the entire financial process in order to minimize any risk that it may be treated as a separate emotive issue by the Assembly, divorced from expenditure plans. Bearing in mind that the expenditure plans in the Budget and Estimates are predicated on the planned income from the rates, the scheduling of the Rates Order and the Budget Bill could be synchronised to positively link these two strands of public finances. However, it would not be proposed, at this stage, to combine the two into one piece of legislation.

Next Steps

Responses to the recommendations in this Discussion Paper are invited by 30 November 2011 to:

Financial.Review@dfpni.gov.uk

All stakeholders are encouraged to respond. Following consideration of all the responses a report will be prepared to the Executive with final recommendations on the way forward. Following Executive discussion and approval of the way forward the recommendations will be brought to the Assembly by the Finance Minister, on behalf of the Executive, for debate and approval.

The current timetable for the discussion in the Assembly is the spring of 2012 following which plans for implementation will begin while any legislative changes required will be drafted and progressed through the Assembly. The earliest date for implementation envisaged at the moment is 2014-15 with the presentation of consolidated revised Estimates to the Assembly in June 2014 and production of consolidated 2014-15 Resource Accounts in the summer of 2015.

Section 1 - Introduction

Background

1. The local devolved administration has been through one Budget period and is now in the first year of its second Budget - Budget 2011-15. Therefore, at this stage, after a settling in period of familiarisation with the public expenditure system, the Executive considered it appropriate to take stock and review the financial process in Northern Ireland with a view to achieving a transparent and streamlined process that better suits the needs of the Executive and the Northern Ireland Assembly.

2. To this end, the Executive agreed on 10 February 2011 the Terms of Reference for such a Review (attached at **Annex A**). A small Review team was set up within DFP and work commenced including early consultation with key stakeholders to identify some of the difficulties with the current process and to explore possibilities for improvement. Those consulted included departments, the Northern Ireland Audit Office, Account NI and the Committee for Finance and Personnel on behalf of the Northern Ireland Assembly.

3. This document is the result of that early evidence gathering, analysis and consultation. It endeavours to identify the problems with the current Financial Process, examine the issues and areas of concern and make initial recommendations for improvement in order to stimulate further debate and responses from key stakeholders. It must be emphasised that these initial proposals are a ‘work in progress’ to inform and encourage debate and any final recommendations for a new financial framework will be subject to Executive and Assembly approval. Therefore, following consideration of the responses to this discussion paper, a final report to the Executive will be prepared in the new year with recommendations on the way forward. Following Executive approval the recommendations will be brought to the Assembly for debate and approval.

4. **Responses are invited on each of the recommendations in this discussion paper or on any additional areas of concern that are relevant to this Review. Please send all comments by 30 November 2011 to:**

   Financial.Review@dfpni.gov.uk

Current Process

5. The current financial process in Northern Ireland has existed for many years and is based on the Westminster model. The diagram attached at **Annex B** depicts the current Northern Ireland Budget, Estimates and Accounts cycle - the shaded blue sections represent one complete cycle as described in the next three paragraphs.

6. Following the important engagement with Assembly Committees on departmental positions, the formal Assembly stages begin with the presentation of a draft Budget to the Assembly in the autumn followed by Assembly approval of the final Budget in December/January. Once the final Budget is approved, the process continues with a Vote on Account for the next financial year and an associated Budget Bill being taken through the Assembly. This provides the necessary statutory authority for departments to commit expenditure until the introduction of the Main Estimates and Budget Bill in the Assembly three months into the financial year. Monitoring rounds then take place in-year, culminating in Spring Supplementary Estimates and a final Budget Bill in February.

7. In addition, but in parallel, the public income strand in the form of Rates legislation is handled as a separate process by the Assembly.

8. Resource Accounts are prepared and laid in the Assembly after the close of the financial year to compare audited departmental outturn against the limits voted by the Assembly in the Estimates.

Areas of Financial Process Presenting Difficulties

9. The main areas of difficulty that have become particularly apparent are:-

- Budgets, Estimates and Accounts serve different purposes and have developed over the years in different directions leading to a lack of transparency and obvious alignment between them. This makes it complex for Assembly Members, and the public, to understand, manage and scrutinise public spending;
- It is estimated that only around 60% of spend is aligned across all frameworks, requiring various reconciliations;
- Figurework and information presented on different bases in the various publications makes it difficult for Assembly Members, and the public, to track spend from plans to outturn. Estimates appear to present particular difficulties for all concerned;
- Different controls are approved by the Assembly in Budgets (Current and Capital DEL and AME) and in Estimates (Requests for Resources (RfRs));
- Some spend is not voted (eg departmental capital is not voted) – weakening accountability to the Assembly;
- Departmental expenditure plans in the Budget and Estimate publications do not always present a meaningful and informative breakdown by spending area;
- Insufficient engagement (and late engagement) by Ministers and departments with their Assembly Committees on the draft and final Budgets;
- The Executive's Programme for Government (PfG) should be agreed in advance of the Budget process so that the Budget is developed in accordance with the priorities in the PfG;
- The Budget timetables do not provide for an early strategic phase (in the Spring of a Budget year) to facilitate Assembly debate of revenue and spending priorities and adequate early consultation with Committees and other key stakeholders;
- The financial process is convoluted and repetitive – consultation, scrutiny, debate and agreement of the Budget is followed by debates reopening the same Budget issues, during the legislative process; and
- The rates income stream is not considered by the Assembly in conjunction with the expenditure plans.

10. In light of the above, a study has been undertaken by the Review team to assess these areas of difficulty and examine the process and publications, with a view to informing any decisions on the way forward in Northern Ireland. The following Section briefly examines the main areas and concludes with initial recommendations for each.

Section 2 – Examination of the Issues and Initial Recommendations

11. Based on the difficulties identified with the current process, highlighted in the previous Section, the areas examined were divided into the following key topics:

I Misalignments:

- Aligning Estimate controls with Budget controls
- Consolidation of NDPBs within Accounting Boundary
- Other misalignments
- Non-voted expenditure

II Assembly Controls/Votes – 'Net' or 'Gross'

III Transparency of Departmental Expenditure Plans

IV Linkages between Expenditure Plans and Performance Outcomes

V Publications – Budget document, Estimates and Accounts

VI Early Budget Process

VII Framework for a Budget Process

VIII Budget Bill as Final Stage of the Budget Process

IX Rates Income Stream

I Misalignment: Lack of Transparency and Obvious Alignment Between Budgets, Estimates and Accounts

12. Public expenditure is currently managed through the following frameworks, each designed and developed for a specific purpose:

- Budgets – to plan public expenditure over a 3 to 4 year period and set budget limits,
- Estimates (and related Budget Act) – to annually seek Assembly authority for expenditure on services within certain limits,
- Resource Accounts – to report actual expenditure to the Assembly following the close of the financial year, including reporting against the limits approved by the Assembly for that year in the Estimates and Budget Act.

13. There is a significant misalignment between these frameworks with only about 60% of spend aligned across Budgets, Estimates and Accounts. This misalignment manifests itself further in the published documents resulting in a lack of transparency between the three frameworks and their publications.

14. **The principal areas of misalignment are fourfold:-**

a) The main focus of the Budget document is on the DEL while the Estimates resulting from that Budget include both the DEL and the AME, as do the Accounts;

b) Budget high level controls[1] are net Resource DEL and AME and net Capital DEL and AME while Estimate/legislative controls are currently by Requests for Resources (RfRs)

1 Departments are also controlled at a Spending Area and a Category level.

for net resource plus the accruing resources (total of operating and non-operating) while capital is not voted, except within the cash requirement;

c) The boundary differences – the Budget is the wider public sector boundary, encompassing full spend (including non cash spend eg depreciation) of Non-Departmental Public Bodies (NDPBs), while the Estimates and Accounts are the departmental expenditure/accounting boundaries including simply the cash grant-in-aid to the NDPBs rather than the full resource consumption, and

d) In addition there are some other less significant misalignments between Budgets, Estimates and Accounts. These include Consolidated Fund Standing Services (ie services paid directly from the NI Consolidated Fund under statute rather than voted annually by the Assembly in the Estimates), the National Insurance Fund, the Social Fund, notional charges, etc.

15. In effect, b), c) and d) above lead to a mismatch of Assembly controls approved at Budget and Estimates stages and a weakening of both sets of controls.

16. Most notably, a department incurs an Excess Vote when it exceeds the provision voted by the Assembly in the Estimates and Budget Act but not when it exceeds the Budget controls approved by the Assembly. Departments are called to account for an Excess Vote by the Assembly (via the Public Accounts Committee) but this does not occur when Budget controls of resource and capital DEL and AME are exceeded.

17. **Initial early conclusions are:**

- It would be desirable that the Estimate controls are aligned as far as possible to the Budget controls and the Assembly votes the departmental DEL and AME resource and capital budget controls as opposed to the current limits voted by RfRs.
- A further significant step in this process of alignment would be to bring the NDPBs within the Estimates/Accounting boundary of departments thus almost fully aligning departmental Budgets, Estimates and Accounts. Work should continue to find solutions to the other misalignments mentioned in paragraph 14 d) above.

Assessment of the Issues Involved in Alignment of Budget, Estimates and Accounts

Aligning Estimate controls with the Budget controls

18. Currently, for each department, the Assembly authorises:-

- Net resources in one or more RfRs – currently only four departments have more than one RfR;
- Operating (resource) and Non-Operating (capital) accruing resources (income) per RfR, and
- The Total Net Cash Requirement.

19. Alignment of Estimate controls and Budget controls of DEL and AME would mean that the basis of Assembly control would need to change – rather than the Assembly voting individual RfRs (which usually bear little relation to budgetary controls) the limits voted by the Assembly in Estimates and the related Budget Act would need to be brought into line with the budgetary controls.

20. From a practical perspective, currently departments budget against one set of controls while they account for spend in the Resource Accounts against a different set of controls – the Estimate limits. This, surely, is inefficient and nonsensical.

21. Therefore, in order to align Estimate controls with the Budget controls, a solution would be that the Assembly authorises each department's budgetary controls, plus its overall cash requirement. This would enable the Assembly to hold departments to account against the

budget controls and any breach would result in an Excess Vote and resolve the problem of unaccountability and lack of penalty for a breach of budget controls, as noted in paragraph 16 above.

22. This approach would offer significant benefits by bringing Estimates and Budget controls into line, mutually reinforcing each other. It would also radically simplify the process for budgeting, voting and accounting for departmental spend within the same limits, with benefits for departments as well as transparency and accountability improvements for the Assembly.

23. The illustrative Estimate and Resource Account attached at **Annexes D and E** reflect this proposal.

Recommendation 1: Assembly controls should change to reflect the alignment of Budget, Estimates and Accounting boundaries. The concept of RfRs should be abolished and the Assembly should instead vote, as applicable, each department's:

- Resource DEL
- Capital DEL
- Resource AME
- Capital AME
- Net Cash Requirement.

Consolidation of NDPBS within the Estimates and Accounting Boundary

24. In order to achieve alignment between Budgets, Estimates and Accounts it would be necessary to consolidate all central government bodies within the Estimates and Accounting boundaries. Currently advisory NDPBs and tribunals are aligned in Budget, Estimates and Accounts. However, the majority of NDPB expenditure is channelled through over 60 Executive NDPBs and the full resource consumption of these bodies is included in Budgets but is not within the scope of the Estimates or the Resource Accounts – instead the cash grant-in-aid is included in these. This results in one of the largest differences between budgets and voted expenditure and is the main reason for misalignment between the three frameworks.

Accountability and Governance issues

25. Early consultation with departments raised some governance and accountability issues in relation to consolidation of the NDPBs. However, consolidation should not mean any changes to the formal relationships between departments and their NDPBs. It should be stressed that the distinctive characteristics of NDPBs would remain unchanged. NDPBs would continue to be separate corporate identities with statutory responsibilities and independent in their executive decision-making in line with their responsibilities.

26. However, changing the way in which the Assembly votes funding for NDPBs is significant, and not just because it would be administratively neater, but because there is an important issue of accountability for public money. Assembly scrutiny of expenditure plans through to outturn can never be wholly effective if the controls exercised by the Assembly are different from the budget controls applied by the Executive.

27. Consolidation would improve the accountability to the Assembly for the use of NDPB funds. At present, if a NDPB overspends, there are no consequences for the sponsor department in terms of Assembly accountability. Whereas, following consolidation of NDPBs, an overspend by the NDPB could lead to an Excess Vote (and not just a budget breach, as at present) and the sponsor department would be called to account by the Assembly, via the Public Accounts Committee.

28. Although departments would need to ensure that NDPB expenditure is within the Assembly's voted limits, those controls are not new – they already exist as a consequence of the budgeting framework. However, the controls would now be used, not only to meet budgetary limits, but also to provide Assembly accountability. As now, departments would be expected to demonstrate that they had effective measures in place to forecast, monitor and control spending within the total authorised – through, for example, NDPB framework documents.

29. Conversely, while acknowledging that such Excess Votes could occur for reasons outside the department's direct control, the likelihood is that the increased risk of an Excess Vote, due to NDPB consolidation, should be small.

30. On the other hand, one positive practical consequence should flow from consolidation. As stated earlier, NDPB expenditure is already part of departmental budgets, and departments have responsibility within the existing financial management regime for ensuring that total spend (including budgets delegated to NDPBs) is within the agreed budget limits. If NDPBs remained outside the Estimates and Accounting boundary with the cash grant included in the vote, then the management of two separate controls would continue. Whereas, with consolidation, financial management in departments should be simplified somewhat.

31. Turning to the Accounts - NDPBs would, of course, continue to prepare their own accounts and present them to the Assembly. The responsibilities of the departmental Accounting Officer and the NDPB Accounting Officers could be clarified in a Statement of Accounting Officer responsibilities in the Annual Report and in the Estimate – see illustrative Estimate at **Annex D**.

32. After consolidation the requirement to make cash grants to NDPBs would still remain - the resource consumption would be removed and the grants added in to the resource to cash reconciliation in the Estimate (see illustrative Estimate). Also note that the expenditure of each NDPB would not be shown separately in the Part II of the Estimate but rather a supporting table in Part III showing the resource and capital spend and the cash grant-in-aid would be included to inform the Assembly.

Impact on Resource Accounts

33. **Annex E** shows the proposed treatment of NDPBs in departmental Resource Accounts, separating out core department and consolidated information.

34. It would be sensible for departments to have early engagement with the Northern Ireland Audit Office (NIAO) about their proposed approach to the consolidation of the NDPBs.

Impact on faster closing and other practical problems

35. The ability of consolidated NDPBs to meet faster closing timetables for departmental Resource Accounts was a concern commonly expressed by departments and by the NIAO. It is recognised that this will be extremely challenging, particularly for those departments with a large number of entities to consolidate. In the longer term, this could be offset by some reduction in the work involved in producing Whole of Government (WGA) Accounts, as consolidated departmental accounts will eventually form the first stage in the overall WGA consolidation process.

36. NIAO have confirmed that they audit almost all of the NDPBs, however, presently none of the departments have all their NDPBs audited prior to the summer recess (overall, around 40% of NDPBs are audited prior to recess). To audit all consolidating NDPBs in time for faster closing would pose a problem for NIAO in terms of their current resources. In addition, the extent of the work to be done by departments to prepare consolidated accounts for faster closing probably differs from department to department based on a number of factors, including how many bodies are involved, but in most cases there is likely to be a significant amount of work involved for departments and their consolidating bodies.

37. NIAO also expressed concern around the current lack of 'systems' to produce consolidated accounts for faster closing and the need for departmental accounts (including those of their consolidating entities) to be produced much earlier in April in order to facilitate consolidation. One proposal would be for departments to agree with NIAO the preparation and audit of Interim Consolidated Accounts (staged between 8 to 10 months) along with the preparation of accompanying notes to the accounts and other audited statements in advance of the year end, where possible. If produced to a high standard, this may reduce the amount of accounts preparation and audit work required prior to summer recess.

38. Another interim solution worth consideration by the Assembly would be the phased implementation of meeting the faster closing timetable over the first couple of years. Issues around consolidation (see below) may increase the risk of qualification in the Departmental Accounts and would suggest that meeting summer recess deadlines should not be a high priority during the early implementation stage.

39. In addition, there were a number of practical issues that arose during the early consultation with departments in relation to consolidation within the departmental accounts. From departments' perspectives, the accounting Policies of NDPBs would need consideration and rationalisation prior to consolidation. The requirement for financial systems or changes to existing financial systems to support budgeting, consolidated accounts and management reporting was important. In addition, departments raised the practicalities of handling elimination issues when consolidating NDPBs into the Resource Accounts and the pros and cons of uploading trial balances to AccountNI or using spreadsheet methods of consolidation.

40. While recognising that consolidation of NDPBs would be an initial administrative burden for departments, the problems are not insurmountable with careful planning and it is concluded that the benefit of alignment between Budgets, Estimates and Accounts would outweigh any short-term difficulties.

41. As each department will have different issues to deal with in the preparation of consolidated Accounts, there should not be any central prescription by DFP as to the best way of approaching consolidation. However, DFP would facilitate an Interdepartmental Working Group to support the cross-fertilisation of ideas and solutions to the various practical problems involved.

42. To facilitate implementation of such a major change, it would be recommended that departments engage early with their NDPBs to develop consolidation processes, including agreeing audit timetables and consolidation requirements. Good early communication with NDPBs and NIAO will be vital to the success of consolidation and working towards meeting faster closing.

43. It would also be necessary for departments to undertake 'dry run' consolidation of NDPBs into their Estimates and Resource Accounts in each of the years leading up to implementation of the new aligned framework. This would provide the comparative figures required for the preparation of the first year of consolidated Accounts. The NIAO would need to be involved in auditing the 'dry run' Accounts and providing feedback on the readiness of departments for implementation. This would provide reassurance to all concerned that this important reform can be successfully implemented.

44. One point to keep in mind, in the context of consolidation of NDPBs within the accounting boundary, is that the Executive's Budget Review Group is currently overseeing a review of arms length bodies, which will consider options for abolition, merger or integration within departmental structures.

Recommendation 2: NDPBs are consolidated within the Estimates and Accounting boundaries in order to improve alignment and transparency.

Other Misalignments

45. While consolidation of NDPBs within the accounting boundary would greatly improve alignment, there are still some other smaller areas of misalignment. These include notional charges, capital grants to the private sector, etc. DFP should continue to work with departments over the coming months to resolve these misalignments. If it proves impossible to completely align these areas across all three frameworks, the ultimate goal would be to align Budgets and Estimates as far as possible with any remaining misalignments with the Resource Accounts explained and reconciled in the Notes to the Accounts.

Recommendation 3: DFP should continue to work with departments to find solutions, where possible, to all other misalignments between Budgets, Estimates and Accounts.

Non-Voted Expenditure

46. The current position is that not all expenditure that appears in Budgets or Resource Accounts is voted annually in Estimates. This is because separate standing legislative authority already exists for this expenditure and, therefore, further annual authorisation by the Assembly is not correct or necessary. This can be either particular types of expenditure known as Consolidated Fund Standing Services (eg statutory salaries) or expenditure financed from specific Funds other than the Consolidated Fund (eg the National Insurance Fund).

47. The proposed approach is to widen the coverage of the Estimates (in the Part II Subhead Detail) to include such non-voted spending in order that the total figurework aligns with the Budget figurework and transparency is improved. Of course, this expenditure would not be voted with the spend in the Part II Subhead Detail split between Voted and Non-voted.

Recommendation 4: All non-voted expenditure and income within Budgets (eg Consolidated Fund Standing Services) is brought within the coverage of Estimates in the Part II Subhead Detail.

II Assembly Controls/Votes – 'Net' or 'Gross'

48. In addition to Recommendation 1 above regarding abolishing RfRs and the Assembly instead voting the Budget controls of Resource and Capital DEL and AME there is another issue that is worth consideration in order to achieve full alignment and the greater goal of improved transparency. That is, the issue of voting 'Net' expenditure.

49. Currently Budgets are approved by the Assembly net of any departmental income that is classified as being within Budgets. However, departments can only retain the income (and related cash) if the Assembly has approved, through the Estimates process and the related Budget Act, the use of the income on related services – the Assembly, therefore, places limits on both net resources and on income (accruing resources) – thereby, voting 'Gross' spend.

50. In the interests of full alignment and transparency the approach could be for the Assembly to vote Estimates and the Budget Act on a 'Net' basis, consistent with the Budgets approved. However, it is recognised that this raises the issue of weakened Assembly control and accountability. In order to counteract this and assure the Assembly regarding income, gross data, including details of resource and capital income, could be included in the Estimate for the information of the Assembly. The sample Estimate in **Annex D** in the Part II Subhead Detail table shows how this information would continue to be provided to the Assembly for both resource and capital but would no longer be a voted total.

51. In addition, appropriate safeguards could be put in place so that Assembly control is maintained over the types of income and the use of the income by departments. This would

entail expanding the ambits in Part I of the Estimate and in the Budget Act to include a description of the types of income a department could retain and use to finance related services – see Part I of sample Estimate at **Annex D**. This would mean that any categories of income not properly described in the ambit could not be retained by the department, so departments could not generate income from new sources which the Assembly had not approved. Although not setting a limit on income, this would continue to give formal Assembly and legislative control over the categories of income. The other side of this coin is that if a department retained and spent income of a type not covered in the ambit, this would result in an Excess Vote.

52. As part of the budgetary framework HM Treasury retains control over income that may be set against budgets – this is set out in Chapters 3 and 6 of the Consolidated Budgeting Guidance[2]. Within the NI budgetary framework departments are required to identify any additional income through the in-year monitoring process thereby enabling the Executive to control any additional accruing resources and prioritise their use from a central perspective.

53. In addition, the Assembly would continue to control the generation of any income from new sources in that departments would normally need primary legislative authority to charge for a service or raise income. The primary legislation is usually fairly general, with the fee structure and each fee set in secondary legislation also approved by the Assembly at each change. Chapter 6 of Managing Public Money Northern Ireland[3] also sets out clear guidelines for departments over how charges should be set when calculating fees and charges.

54. All these existing controls would be a safeguard against any risk that departments might raise income of a type, or at a level, which would be unacceptable to or without the authority of the Assembly. Considered alongside the key and meaningful benefit of alignment of Budget and Estimate controls and the transparency this would provide to the Assembly and all concerned it seems rational to move to voting ‘Net’ controls in the Estimate and Budget Acts.

55. On a purely practical note, if the Assembly voted ‘Net’ controls, departments would be relieved of the seemingly futile administrative burden of surrendering excess accruing resources (above the Assembly limit) to the Consolidated Fund.

56. Voting ‘Net’ would mean a much clearer presentation of outturn in Resource Accounts. If Estimates continued to be voted ‘Gross’ there would need to be several columns in the Statement of Assembly Supply in Resource Accounts (making it difficult for the reader to follow), compared with what would result from voting ‘Net’ – see sample Resource Account at **Annex E**.

57. It is worth noting that this proposed change would likely require amendment of the Government Resources and Accounts Act (NI) 2001.

Recommendation 5: The Assembly votes ‘Net’ controls in the Estimate and Budget Act in line with budgetary controls, with details of income shown in the Estimates and appropriate safeguards in place so that firm control is maintained over the use of income by departments.

2 Available at:
http://www.hm-treasury.gov.uk/psr_bc_consolidated_budgeting.htm

3 Available at:
http://www.afmdni.gov.uk/frab/browse.asp?branch=1&category=43&maxres=20&start=0&orderby=3

III Transparency of Departmental Expenditure Plans

Structure of Spending Areas

58. Currently expenditure plans in the Budget document are provided at Spending Area level of detail while the detail in the Part II Subhead Detail of the Estimates and in Note 2 to the Accounts is, in some cases, at a lower level of detail.

59. However, irrespective of the mismatch in the level of detail provided, a common frustration expressed by Assembly members and others is the lack of comprehensive information on spend on public services, as currently provided by the expenditure lines of some departments. The reader should readily understand, at an acceptable level of detail, how much public funding is being spent on each main service in a department. The spending areas shown by some departments in the Budget 2011-15 document do not provide a sufficient level of transparency. This deficiency in information is particularly apparent with some of the larger spending departments, such as Education and Health, where there are expenditure lines of almost two and three billion pounds. In another department there is an expenditure line entitled Central Policy Group! In the interests of transparency and accountability, a meaningful split of the services delivered should be shown in all spending plans.

60. The Committee for Finance and Personnel's Research Paper on the Executive's Review of the Financial Process at **Annex C** highlighted this problem in paragraph 2.4 and concluded as part of Recommendation 4 that:

> *'Future budgetary documentation should include a more detailed breakdown of expenditure plans, including linkages between expenditure and performance outcomes. … '*

61. In considering this issue of greater transparency in expenditure there are two issues that must be delicately balanced:-

    a) Executive control of spending areas/expenditure lines must be maintained, yet

    b) departments need a certain amount of flexibility in order to manage their budgets and the pressures arising from the delivery of services on a day to day basis.

62. The rules on managing public expenditure, as set out in the In-year Monitoring Guidance, must be borne in mind. Generally, movements between spending areas/expenditure lines require Executive approval at a monitoring round[4]. Therefore, a balance must be struck between achieving an acceptable level of detail in the expenditure lines and preserving the ability of departments to manage their budgets without having to constantly revert to the Executive.

63. However, with this in mind transparency of the publications could still be immensely improved through a re-structuring of departments' budgets into spending areas that are informative and meaningful to the public.

64. Departments are currently involved in agreeing new reporting structures for HM Treasury's new financial management system, OSCAR.[5] As part of Project OSCAR, HM Treasury are paying particular regard to the government's transparency agenda and as such are aiming to provide a more meaningful breakdown of departmental expenditure. Therefore, the structures agreed with departments for reporting to the Treasury through OSCAR may lay the groundwork for a local restructuring of departmental budgets to provide more meaningful spending area analysis. In fact, the OSCAR Level 2 structure recently agreed with departments may provide an acceptable level of transparency at which to report spending areas to the Assembly. The Level 2 structure for each department is attached at **Annex F** for information and to inform

4 There are two exceptions to this: a) de minimis funding may be moved across spending areas/expenditure lines and b) proactive management actions to reduce expenditure in one area in order to release resources for reallocation to another higher priority spending area do not require Executive approval.

5 HMT's new Financial Management IT system on which DFP regularly reports NI expenditure to Treasury.

discussion. However, it should be noted that these structures have not yet been finalised and are still subject to HM Treasury approval.

65. In addition, it is concluded that, following re-structuring of departmental expenditure plans on a more informative basis, these new spending areas should be used across all publications.

Recommendation 6: Spending Areas in Departmental Expenditure Plans should be re-structured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department. Spending Areas should be used in all publications.

IV Linkages Between Expenditure Plans and Performance Outcomes

66. Budget 2008-11 was developed and published alongside the Executive's Programme for Government 2008-11 and allocations were guided by it but spending areas were not specifically linked to particular Public Service Agreements (PSAs). Budget 2011 - 15 was developed and agreed without a new Programme for Government (PfG) but continued to be guided by the previous PfG.

67. Recommendation 4 of the Committee for Finance and Personnel's Research Paper on the Executive's Review of the Financial Process **(Annex C)** states that:

> *'Future budgetary documentation should include a more detailed breakdown of expenditure plans, including linkages between expenditure and performance outcomes. … '*

68. In Budget 2005-08 PSA targets were allocated against total expenditure per Objective in each department. So linking PSA targets to budgets is not new and the Review of Northern Ireland Executive Budget 2008-11 Process recommended an exercise at the start of the next Budget to determine the level of public expenditure underpinning each PSA. However, in undertaking this exercise the impracticality of linking some spending areas to PSA targets, in any meaningful way, became apparent.

69. Consider, for example, a target such as 'increase the number of young people leaving school with 5 GCSEs'. Which spending areas should underpin this target? Should any or all of the Pre-Primary budget underpin this target? How much of the Primary school budget should be linked to this target? Should all of the Secondary school budget contribute to the target? In fact, does the health and well-being of the young person and, therefore, some of the Health budget contribute to the achievement of this target, and so on?

70. As the PfG and its targets become more cross-cutting and high level it becomes even more difficult to map them to spending areas in any meaningful way. To do so would require each department to disaggregate its budget to a level that may not be possible or practical or an efficient use of resources. If it were possible, the end result would be a confusing web of information that would not be fit for purpose or meaningful.

71. It has often been stated that departments when submitting spending proposals and bids for additional funding should link those proposals to PSAs. The reality is that as PSAs are so high level it is easy for departments to link their bids to PSA targets. For example, any health bid could be linked to a target such as 'deliver high quality health and social services'. So, the constraint of only considering bids that are explicitly linked to PSA targets does not really limit departmental spending proposals or allow the Executive to judge how much the bid would contribute to the achievement of the target or the PfG. In effect, to meet bids because they are linked to a PSA target could encourage inefficiencies in that spending area.

72. Perhaps to link spending areas to PSA targets fuels the belief that allocating additional funding to an area will enable the achievement of targets when quite the contrary could be

the case and, in fact, could mask inefficiency. Surely the driver of PSA targets should be performance and the efficient delivery of the target, not the amount of funding allocated to it? If a service is a priority with an accompanying PSA target then, in the current constrained fiscal environment, the service should be delivered efficiently by the department as a priority within its budget.

73. That is not to argue that PSA targets and outcomes should not be monitored closely and departments should be held accountable for those targets and outcomes, but performance should not be considered to have any direct link to funding inputs. Performance outcomes and the delivery of the Programme for Government should be monitored on a stand alone basis.

Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

V Publications – Budget Document, Estimates and Accounts

74. A repeated theme of this paper and this Review is to improve transparency between the various frameworks of Budgets, Estimates and Accounts. This not only means alignment of the frameworks and controls as well as improved information on spending areas but it also carries through to the presentation in the published documents.

75. **Budget Document** - As stated earlier, the main focus of the Budget is on the DEL and, therefore, the tables of planned expenditure in the departmental chapters show the DEL current/resource and capital budgets, while, high level information on AME is included in the Annexes to the document. This information on the AME, along with the DEL information in the departmental chapters, should provide the reader with the data necessary to read across to the Estimates' DEL and AME figurework.

76. **Estimates** - turning to the Estimates, this publication has long provoked the most comment. Estimates, to the uninitiated, appear to be difficult to understand with the many supporting tables adding to the complexity of each Estimate rather than adding value. The main problem, however, seems to lie with the different figurework in Estimates due to the misalignments with Budgets. The proposals to align the two frameworks, put forward earlier in this paper, should go some distance towards improving the comprehension of the new Estimates.

77. However, in order to further improve this publication, and with transparency with the Budget in mind, the Introduction to the redesigned Estimate attached at **Annex D** has a table to lead the reader from the Budget approved to the current Budget position in the Estimate. This Budget position carries through to the total column in Part I of the Estimate and to the totals at the bottom of the Part II Subhead detail. The redesigned Estimate now includes spend that is not currently voted annually through the Estimates process because it is already covered by separate legislation – see paragraphs 46 and 47 above on non-voted expenditure. Therefore, the total Budget is shown in the Part II Subhead Detail of the Estimate, split between voted and non-voted. This allows transparency between the Budget and the Estimate.

78. It should be noted that the Non Budget column in the Part II Subhead Detail will only be included rarely for any remaining unaligned expenditure or for Prior Period Adjustments. In addition, the Part II Subhead Detail is presented in landscape format in order to present the DEL and AME against each spending area thus avoiding repetition of spending areas, as occurs currently in the Part II.

79. Part III of the Estimate now consists of only relevant supporting tables or information as per each department's requirements. All departments will require the 'Explanation of Accounting Officer responsibilities' but only the CFER or NDPB table and other notes, as applicable.

80. Supplementary Estimates would follow a similar format to the Main Estimates shown in the Annex.

81. **Resource Accounts** – **Annex E** presents a suggested revised format for consolidated Accounts after NDPBs are brought within the accounting boundary. This format is based on the proforma Department Yellow currently used by HM Treasury following the alignment process in GB. The format may still be subject to change to take account of changes in accounting requirements, and is provided here for illustrative purposes only. The main changes are:

- The Statement of Assembly Supply and related Notes have been reformatted to align with the presentation in the Estimates;
- The consolidated information in the Statements and Notes includes the Core department, Agencies, and NDPBs/other bodies, reflected in three columns – core, core + agencies, and Departmental Group (core + agencies + NDPBs/other bodies);
- Reference to the Administration Costs limit as voted has been removed, as this is no longer included in the Estimates;
- Reference to Requests for Resources has been removed, as this is no longer used in Estimates. There is more information supplied in relation to DEL and AME, in line with Estimates;
- Additional general improvements to Notes and terminology to aid understanding and clarity.

82. Throughout the redesigned publications the language/terminology used has been simplified, where possible, and aligned across all three. For example, language such as ‘accruing resources’, ‘non-operating accruing resources’ etc was very off-putting for the reader - ‘Income’ is now the terminology used throughout the documents. Currently the Budget document refers to ‘current’ expenditure while the Estimates and Accounts refer to ‘resource’. The term ‘resource’ rather than ‘current’ should now be used throughout the proposed documents. Although these are simple changes it is hoped that they will contribute to greater understanding of public expenditure plans and outturn.

Recommendation 8: The Estimates and Resource Accounts should be revised as shown in Annexes D and E.

VI Early Budget Process

83. The Committee for Finance and Personnel and individual Assembly Members have expressed concern on many occasions regarding the early stages of the Budget process, including the development of a Budget in the absence of a Programme for Government, the lack of timely and full engagement with some Committees and sufficient time for public consultation.

84. The Committee for Finance and Personnel at its meeting on 21 June 2011 considered a Research Paper on the Executive’s Review of the Financial Process – attached at **Annex C**. The Committee requested that the 5 recommendations contained in the paper are taken forward. The recommendations relating to the early budget process are:-

Recommendation 1: a budget calendar for future processes should be specified in advance. The calendar should allow for adequate consultation, and it should be adhered to.

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

Recommendation 4: … Documentation should be produced in good time to facilitate informed debates at all stages of the timetable developed under recommendation 1.

85. In the previous Committee's Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure[6], recommendation 2 stated:

> *'While the Committee and DFP are agreed on the benefit of early and more structured engagement between executive departments and Assembly committees, members believe that this will only happen in the context of a formal agreement between the Assembly and Executive on a regularised budget process, which includes clearly defined pre-draft Budget stages that provide for early Assembly input, irrespective of whether an annual or multi-year budget cycle is followed. The Committee is also of the view that the provision of formal opportunities for the Assembly to influence budgetary matters early in the process would help facilitate the potential streamlining of the latter stages in the budget and estimates process, including the associated plenary debates. The Committee recommends that the successor CFP works to address this matter early in the next mandate, in liaison with DFP and possibly as part of a co-ordinated Assembly input to the Executive's forthcoming Review of the Financial Process, the outcome of which is to be reported to the Assembly early in 2012.'*

86. In addition, the need for the formulation of a Programme for Government prior to or at least, in tandem, with the development of a Budget is an opinion that has been expressed repeatedly in many forums.

Timetable

87. Currently, at the commencement of each Budget process a timetable is developed by DFP and included in the Guidance issued. This timetable plans a Draft Budget by September/October followed by a public consultation period feeding into a Final Budget in December/January. The finalisation of a Budget by December/January is important in order to provide sufficient time for departments to plan ahead and allocate their budgets, both internally and to arms length bodies, well in advance of the commencement of the new financial year. Despite other external factors (as outlined in paragraph 91 below) that impacted on the last two Budgets, the DFP timetable still planned to adhere to this general timescale. However, during the development of Budget 2011-15 the Executive did not adhere to the timetable and the Final Budget was not published and approved by the Assembly until early March 2011.

88. The first Committee recommendation quoted above states that the timetable should be adhered to. While this may be highly desirable, compelling all stakeholders to adhere to the timetable is something that is outside the control of DFP. This issue is further addressed in the section below on the 'Framework for a Budget Process'.

89. One other issue worthy of note in terms of the timetable, is the fact that Northern Ireland is the only jurisdiction in the UK that carries out a formal public consultation on its Budget proposals. This imposes further constraints in terms of having to factor in sufficient time for a public consultation. On the basis that the proposed Budget allocations will reflect the priorities set out in the Executive's Programme for Government as approved by the elected public representatives in the Assembly it may be worth reconsideration of the need to hold a formal public consultation. In particular, if consultation with key stakeholders took place by Committees, at an early strategic phase of the Budget timetable, this, in turn, may preclude the need for later public consultation. As the Assembly has been elected to represent the public perhaps there should be a greater focus on Assembly Committees as the conduit for public consultation and gauging public opinion. The current public consultation process tends to become dominated by public sector organisations and highly organised vested interest groups.

6 The full report (NIA 61/10/11R) is available from: http://archive.niassembly.gov.uk/finance/2007mandate/reports/report_61_10_11R.htm

Early Strategic Phase

90. The Committee for Finance and Personnel point out in their Research Paper that an early strategic stage in the Budget process would enable the Assembly to thoroughly debate the issues and influence the development of the Budget which, in turn, could pay dividends at the later stages of the process.

91. However, external factors impacted on the early stages of Budget 2008-11 and Budget 2011-15. In 2007 devolution did not take place until May of that year and a Budget had to be developed in a much shorter span than would be the ideal. Again, in 2010 the Westminster elections and change of UK government with its later than usual Spending Review announcement on 20 October 2010 severely constricted a 'normal' Budget process.

92. Where circumstances and time permit it should be possible, and desirable, to include an early strategic stage in the Budget timetable. This would allow adequate time for early discussion and challenge by Committees with departments around their budget pressures and their priorities of spend, taking evidence from officials, the Minister and external stakeholders. Even if the Westminster Spending Review outcome and the NI Block allocation is not yet known, this early strategic phase could still take place in order to inform the later stages of the Budget.

93. The terms of reference for each Committee at this stage should be to identify and challenge the pressures facing departments going forward, to rank in order the priorities for expenditure against the PfG and to identify the plans to meet any pressures within the current or a reduced funding envelope.

94. The Committee for Finance and Personnel could lead on this early strategic phase on behalf of the Assembly. It could coordinate the reports from the other Committees, take evidence from DFP officials and the Minister on the expected funding envelope and take a strategic overview of the financial position, presenting a report to the Assembly for a 'Take Note' debate by say, 31 May. The emphasis, in the current fiscal environment, in the Report to the Assembly should be on living within the expected funding envelope – in other words, any proposed increases in spend should be accompanied by proposed reductions elsewhere.

95. The 'Take Note' debate would enable the Assembly to debate and conclude upon the highest spending priorities, at an early stage, and to identify the lower priority areas and/or efficiency savings that may be needed to fund the higher priorities. In addition, it would be an opportunity to robustly debate the pros and cons of any proposed revenue raising measures in advance of the formulation of a Budget by the Executive.

96. Opportunity for the Assembly to influence budgetary matters from an early stage in the process could enable the streamlining of the latter stages in the Estimates and legislative process, including the associated plenary debates.

Recommendation 9: That the Budget should be developed in the context of a Programme for Government agreed by the Executive.

Recommendation 10: That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

Recommendation 11: An 'Ideal' Budget timetable would be (presuming the development of a Programme for Government prior to or slightly in advance of the Budget):

1 February	Detailed Budget Guidance and Timetable issued to key stakeholders

February-April	Engagement by Committees with Departments and other key stakeholders on spending priorities and availability of resources
May	Committee for Finance & Personnel (CFP) collate Committee reports and prepare a Report to the Assembly on proposals for living within the expected funding envelope.
By 31 May	CFP's 'Take Note' debate in the Assembly on spending priorities and proposals for the funding of those priorities
1 June	Submissions of spending proposals, etc from departments to DFP
June to August	Consideration of spending proposals, etc by DFP from a central strategic perspective and advice provided to the Finance Minister on a range of scenarios for presentation to the Executive
By mid-September	Draft Budget agreed by Executive and launched for public consultation
September to December	Public Consultation
By 31 December	Final Budget agreed by Executive and approved by the Assembly

VII Framework for a Budget Process

97. Recommendation 5 of the previous Committee's Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure[7] stated:

> *'The Committee recommends that, early in new mandate, the successor CFP also oversees the development of an MoU between the Assembly and the Executive on the provision of financial information by departments for the purpose of facilitating scrutiny by Assembly committees. Members consider that the MoU document could also be agreed as part of the deliberations on the Executive's Review of the Financial Process.'*

98. The Committee for Finance and Personnel's Research Paper on the Executive's Review of the Financial Process (attached at **Annex C**) included the following recommendation:

Recommendation 5: the framework for a new budget process should be set out in primary legislation, with additional detail included in regulations or the Assembly's Standing Orders, as appropriate.

99. The recommendations from the Committee quoted above appear to arise from the frustration expressed on many occasions by Members with the last two Budget processes and the delays experienced in agreeing a Budget. The recommendations represent the desire for the formalisation of the Budget process through primary legislation or in Standing Orders of the Assembly or a Memorandum of Understanding between the Assembly and the Executive or a combination of such. The formalisation of a Budget process in such a manner would provide certainty regarding the key stages of Draft and Final Budget to all concerned – something that would enable departments, DFP and the Assembly Committees to plan ahead with confidence in terms of the Budget process.

100. Currently the Budget framework is provided in primary legislation in the Northern Ireland Act 1998 (the 1998 Act) with provisions regarding the Northern Ireland Consolidated Fund and the Supply process enshrined in both the 1998 Act and Government Resources and Accounts Act (NI) 2001.

101. Section 64 of the 1998 Act makes provision for a draft budget which has been agreed by the Executive to be laid before the Assembly by the Finance Minister before the beginning of each

7 The full report (NIA 61/10/11R) is available from: http://archive.niassembly.gov.uk/finance/2007mandate/reports/report_61_10_11R.htm

financial year. The Section does not stipulate a timeframe other than 'before the beginning of each financial year'.

102. There are several issues to consider here in this regard. Firstly, the ability of the Assembly to amend the 1998 Act, which is Westminster legislation, is very limited. Secondly, if, for example, the 1998 Act could be amended to include definitive dates for presentation of a Draft and Final Budget would it be prudent to include such deadlines in primary legislation? What would happen if, for unforeseeable and/or external reasons, the deadlines could not be met? Provision would need to be made for such an eventuality which, in turn, would rather defeat the purpose of the original provision. Or, would the Executive be deemed to be in default if the deadlines in the legislation were not met?

103. While agreeing with the Committee that a Budget framework should be enshrined in primary legislation, it is considered that this already exists at an appropriate level, as outlined above in paragraph 101.

104. Turning to alternative means of formalising the key stages of a Budget process, consideration could be given to a twofold approach:-

(a) A Budget Process Agreement between the Executive and the Assembly via the Committee for Finance and Personnel defining the administrative arrangements and key stages for the budget process, along with,

(b) the Assembly amending its Standing Orders to reflect this Agreement and stipulate Budget Procedures, including the key dates for the early strategic stage and the presentation of a Draft and Final Budget to the Assembly by the Executive and defining the roles of the Committees, in particular, the Finance Committee in the process.

105. Such an Agreement and provision in Standing Orders would ensure the timetable is clear to all parties and would require adherence by all concerned and the timely publication of all documentation. This approach would also spell out the groundrules for engagement between Committees and departments and their Ministers, including full and timely engagement by all concerned, thereby underpinning the provisions of the 1998 Act and the Ministerial Code.

106. At the same time, such a proposal would allow the Assembly to amend Standing Orders to accommodate any accepted unavoidable slippage in the Process, such as occurred last year with the delayed Westminster Spending Review and Block allocation announcement.

Recommendation 12: A Budget Process Agreement should be made between the Assembly and the Executive and the Assembly's Standing Orders should be amended to reflect this Agreement and specify Budget Procedures.

Formal Stage for Reconsideration of the Budget

107. The Committee for Finance and Personnel's Research Paper on the Executive's Review of the Financial Process (attached at **Annex C**) also included the following recommendation:

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

108. In the past, Budgets have been set for a 3 or 4 year period and reviewed by the Executive, if found necessary, in light of changing circumstances. For example, the final year of Budget 2008-11 was reviewed and restated. As mentioned earlier in this paper, departments welcome the certainty that accompanies 3 or 4 year budgets which allow them to plan ahead. In addition, any spending pressures that emerge in-year are dealt with through the In-year

Monitoring process. Such pressures would rarely be of the magnitude as to require a re-opening of the agreed Budget and an entirely new Budget process – for example, the recent student loan adjustments.

109. However, if such an occasion arose, and it is possible, the Executive would recognise the need for a review of the Budget and proceed accordingly. A Budget process generates an inordinate amount of work and use of resources across departments, in DFP and elsewhere. To provide for unnecessary reviews of the Budget would be an inefficient use of resources in a time of financial constraint. On balance, it would not be prudent to build in to the Budget process provision for a regular review of the Budget on an annual or biennial basis.

VIII Main Estimates and Budget Bill as Final Stage of the Budget Process

110. Currently the Budget process followed by the Estimates and legislative stage is convoluted and repetitive. Final Budget is normally presented, debated and approved by the Assembly in December/January, a Vote on Account is taken in February to allow services to continue into the new financial year and then the Main Estimates are presented in June. At the same time, in June, the first in-year monitoring round is presented to the Assembly amending the very plans that have not yet completed formal Assembly approval through the Estimates and Budget Bill.

111. The Main Estimates presented in June are the same departmental expenditure plans approved in the Budget in December/January. Why then couldn't the Main Estimates and the related Budget Bill be presented as the Final Stage of the Budget in January and a Vote on Account would not be required?

112. The purpose of the Estimates and Budget Bills is to give the legal authority to the Budget and Monitoring rounds already scrutinized, agreed by the Executive and debated at length in the Assembly. In recognition of this the Assembly's Standing Orders currently make provision for accelerated passage of Budget Bills and, as mentioned earlier, an early strategic phase in the Budget process could further enable the streamlining of the latter stages in the Estimates and legislative process, including reducing the time taken for the passage of the Budget Bill.

113. While it is important in a democracy to debate the issues, especially such important issues as public expenditure plans, the repetitiveness of the debates is probably not the best use of the Assembly's and Executive's time. However, the Assembly itself is the best judge of this and their views on this matter would be appreciated.

114. It would be the 'ideal' to introduce the Estimates and related Budget Bill as the final stage of the Budget process in December. However, any risks to the process and the funding of departmental spend have to be recognised – risks such as delay in the conclusion of the Budget process causing the Budget Bill to fail to receive Royal Assent before the beginning of the new financial year. Although, if it was recognised, as suggested above, that due to Assembly involvement throughout the development of the Budget, the time taken for the passage of Budget Bills could be further reduced, then this would mitigate against such a risk.

115. Section 13 of the 1998 Act[8] makes provision for the stages of Bills in Standing Orders but perhaps the Assembly could consider further amendment of Standing Order 42 in relation to Budget Bills to allow the removal of the Further Consideration Stage and the 10 day rule. This

8 S.13 (1) Standing Orders shall include provision-
(a) for general debate on a Bill with an opportunity for members to vote on its general principles;
(b) for the consideration of, and an opportunity for members to vote on, the details of a Bill; and
(c) for a final stage at which a Bill can be passed or rejected but not amended.
(2) Standing Orders may, in relation to different types of Bill, modify provisions made in pursuance of subsection (1) (a) or (b)

would greatly assist with ensuring passage of the Bill and Royal Assent prior to the beginning of a new financial year.

116. To ensure management of risk it would certainly be necessary for the Budget Process Agreement proposed above and the amendment of Standing Orders to be in place. Only then could introducing the Main Estimates and related Budget Bill as the Final Stage of the Budget in December/January be considered.

117. However, it should also be recognised that such a proposal would put departments and DFP under considerable strain at this time. The finalisation of a Budget culminating in the updating of all expenditure lines and the production of Main Estimates at the same time as the January monitoring round and the production of Spring Supplementary Estimates alongside the preparation of the related legislation could prove to be an intolerable burden and a risk that needs to be weighed up carefully. Certainly, such an ambitious streamlining of the end-part of the Budget process should not be undertaken until alignment of Budgets and Estimates has been achieved and a revised Budget process has bedded in and proved 'fit for purpose'.

Recommendation 13: In due course, consideration should be given to streamlining the end stage of the Budget process by introducing the Main Estimates as the final stage of the Budget process in December/January.

Recommendation 14: In due course, in light of involvement of the Assembly in the early strategic stage of the Budget and throughout its development, an amendment of Standing Orders to facilitate a truncated passage of Budget Bills through the Assembly should be considered.

IX Rates Income Stream

118. Following agreement of the regional rate by the Executive in conjunction with the Budget, around December each year, the Regional Rates Order is normally made and laid in the Assembly in late January with a debate usually in February/early March culminating in the affirmation of the Order by the Assembly. Article 7 (4) of the Rates (NI) Order 1977 states that 'the Department shall take into consideration estimates of the amounts required to be raised by means of district rates for that year'. This results in the timing of the annual Rates Order in the Assembly in February/early March and prior to the beginning of the new financial year.

119. This public income strand of the rates should, arguably, be part of the entire financial process in order to minimize any risk that it may be treated as a separate emotive issue by the Assembly, divorced from expenditure plans. However, it would not be proposed to combine the two into one piece of legislation, at this stage, as this would require amendment of the primary rates legislation.

120. Bearing in mind that the expenditure plans in the Budget and Estimates are predicated on the planned income from the rates, at the very least, the scheduling of both the Rates Order and the Budget Bill could be synchronised to positively link the two strands of public finances. For example, the Rates Order could be debated on the same day as a Stage of the Budget Bill and linked to the expenditure plans under debate for the next financial year. Or, in any year that the scheduling proved impracticable, the Finance Minister should cross-reference the two strands of public finance in the opening speeches of each debate in order to focus attention on the indisputable link between the two issues.

Recommendation 15: The Rates Order should be debated alongside the expenditure plans for the next financial year, as set out in the Budget Bill.

Section 3 – Conclusion

Aim and Objectives of the Review

121. The overall aim of the Review, as agreed by the Executive, was to examine and make recommendations on the options to create a single coherent financial framework that is effective, efficient and transparent and enhances scrutiny by and accountability to the Assembly, taking into account the needs of the Assembly.

122. The primary focus during the early consultation with the Committee for Finance and Personnel, departments, Account NI and the Northern Ireland Audit Office was to identify the difficulties with the current process and explore areas for improvement, keeping in mind at all times the aim of the Review.

123. The strategic objectives of the Review set by the Executive were :-

- To align the Budget, the Estimates and the Accounts as far as practicable to improve transparency, and
- To synchronize the presentation of the Budget, the Estimates/departmental expenditure plans, the Budget Bills, the Rates legislation and the Accounts in order to create a single co-ordinated public revenue and expenditure process.

Therefore, the initial work focused on these two broad areas – to deliver greater transparency and accountability to the Assembly and bring about an improved public expenditure process that meets the needs of the devolved administration.

124. Firstly, consideration was given to how to improve alignment of the Budget, Estimates and Accounts, thus aiming to achieve the same set of 'numbers' in each of the publications and assist the reader to follow expenditure from plans in Budget through Estimates to outturn in Accounts. To achieve this goal will involve some bold decisions around the limits that the Assembly votes, as well as a radical restructuring of spending areas in expenditure plans in order to provide meaningful information to the reader. The recommendation that will impact most on departments is the consolidation of NDPBs within the Estimates and Accounting boundary. It is recognised that this will be an initial administrative burden for departments with repercussions for the Audit Office, but it is considered well worth the effort in order to achieve alignment.

125. The second area examined was the Budget process itself rangeing from the very early stages right through to the presentation of the Estimates and related Budget Bill. The reports of the current and previous Committees for Finance and Personnel were key to this study. Although the early evidence suggests that it is not yet appropriate to streamline the end stage of the Budget process by introducing the Estimates as the final stage of the Budget in December/ January, it is recommended that this ambitious objective is considered further in the future.

126. The outcome of the early consultation with the key stakeholders and an examination of the issues by the Review team have led to the initial recommendations for improvement contained in the preceding section. It is important to point out, however, that the purpose of these recommendations, at this stage, is to stimulate debate and provoke responses that will further inform the Executive's Review.

Next Steps

127. Responses to the recommendations in this Discussion Paper are invited by 30 November 2011 to:

Financial.Review@dfpni.gov.uk

128. All stakeholders are encouraged to respond. Following consideration of all the responses a report will be prepared to the Executive with final recommendations on the way forward. Following Executive discussion and approval of the way forward the recommendations will be brought to the Assembly by the Finance Minister, on behalf of the Executive, for debate and approval. The current timetable for the discussion in the Assembly is the spring of 2012 following which plans for implementation will begin while any legislative changes required will be drafted and taken through the Assembly. The earliest date for implementation envisaged at the moment is 2014-15, within the lifetime of this Assembly, with the presentation of consolidated Estimates to the Assembly in June 2014.

Annex A
Review of Financial Process in Northern Ireland
Terms of Reference

Background

1. The Northern Ireland Executive's public revenue and expenditure process takes place in the context of the wider UK control and management framework and includes:-

- the Budget public expenditure planning process (called 'The Budget' with its links to the Programme for Government and ISNI) prior to the start of the new financial cycle,
- the In-year monitoring rounds revising the Budget plans,
- the Rates legislative process,
- the legislative process (known as the Estimates and Budget Bill) for the appropriation of all departmental resources at the beginning and before the end of each financial year, and
- the publication of Departmental Resource Accounts following the close of the financial year.

2. The current process has existed in Northern Ireland for a considerable time and is based on the Westminster model. However, HM Treasury has now instigated significant reform of its budgetary/accountability process – most notably the move to Clear Line of Sight (CLOS) presentation. In this context, the current financial process may not best serve the Northern Ireland devolved administration and it is time to consider whether a more appropriate model should be introduced.

3. The various components of the process serve different purposes and have developed over the years in individual directions resulting in significant misalignment between Budgets, Estimates and Accounts.

4. Thus, while based on the same basic dataset, the figurework in Budgets, Estimates and Accounts , although reconcilable, does not meet the Assembly's expectations in relation to transparency.

5. In addition to this, revenue in the form of the Rates legislation is handled in a separate process.

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

Aim of the Review

7. Against this background, the overall aim of the review is to examine and make recommendations on the options to create a single coherent financial framework that is effective, efficient and transparent and enhances scrutiny by and accountability to the Assembly, taking into account the needs of the Assembly.

Strategic Objectives of the Review

8. The strategic objectives of the review are:-

- To align the Budget, the Estimates and the Accounts as far as practicable to improve transparency, and

- To synchronize the presentation of the Budget, the Estimates/departmental expenditure plans, the Budget Bills, the Rates legislation and the Accounts in order to create a single co-ordinated public revenue and expenditure process.

Methodology and Timeline

9. The review will:-

Key Actions	**Ongoing to:**
consider the controls voted by the Assembly with a view to better alignment between Budgets and Estimates	31 March 2011
identify and examine all misalignments between Budgets, Estimates and Accounts and consider options for maximum alignment	30 April 2011
review and redesign the current Estimates with a view to transparency with the Budget and Accounts	31 May 2011
consult with Rating Policy Division on alignment of the Rates Order with expenditure plans	30 June 2011
scope the practicalities and risks of presenting Estimates and the related Budget Bill as the final stage of the Budget process - identify proposals to manage the risk	30 June 2011
seek legal advice from the Attorney General and the DSO in relation to legislative implications and consult with First Legislative Counsel	31 July 2011
seek evidence from Departments and key stakeholders on alignment (in particular on inclusion of NDPBs within departmental accounting boundary), on Assembly controls and on revised Estimates	30 September 2011
consult with the Executive Services Directorate	31 October 2011
consult with the Northern Ireland Audit Office	31 November 2011
consult with the Committee for Finance and Personnel and the Public Accounts Committee on the Estimates, Assembly controls and alignment	beginning December 2011

Key Actions	**Ongoing to:**
Recommendations	
report to the Finance Minister with recommendations	31 December 2011
recommendations to the Executive for agreement	mid January 2012
Action Plan to the Executive for agreement	28 February 2012
report to the Assembly	31 March 2012
Implementation	
issue guidance and project timetable to departments	30 April 2012
draft legislation and introduce in Assembly	30 June 2012
adjustments to DFP database (and Account NI) to accommodate changes	Autumn 2012
Legislative process complete	March 2013
dry run 2012-13 Estimates with NDPBs within departmental accounting boundary	March 2013

Key Actions	Ongoing to:
dry run 2012-13 Resource Accounts prepared (and audited) with NDPBs within departmental accounting boundary	December 2013/January 2014
refinement of 2013-14 Estimates and Accounts (aiming for faster closing)	March 2014 & September 2014
Implementation – 2014-15 Estimates (inc NDPBs) 2015-16 Estimates as Final Budget 2014-15 Resource Accounts (inc NDPBs)	 June 2014 December 2014 June/July 2015

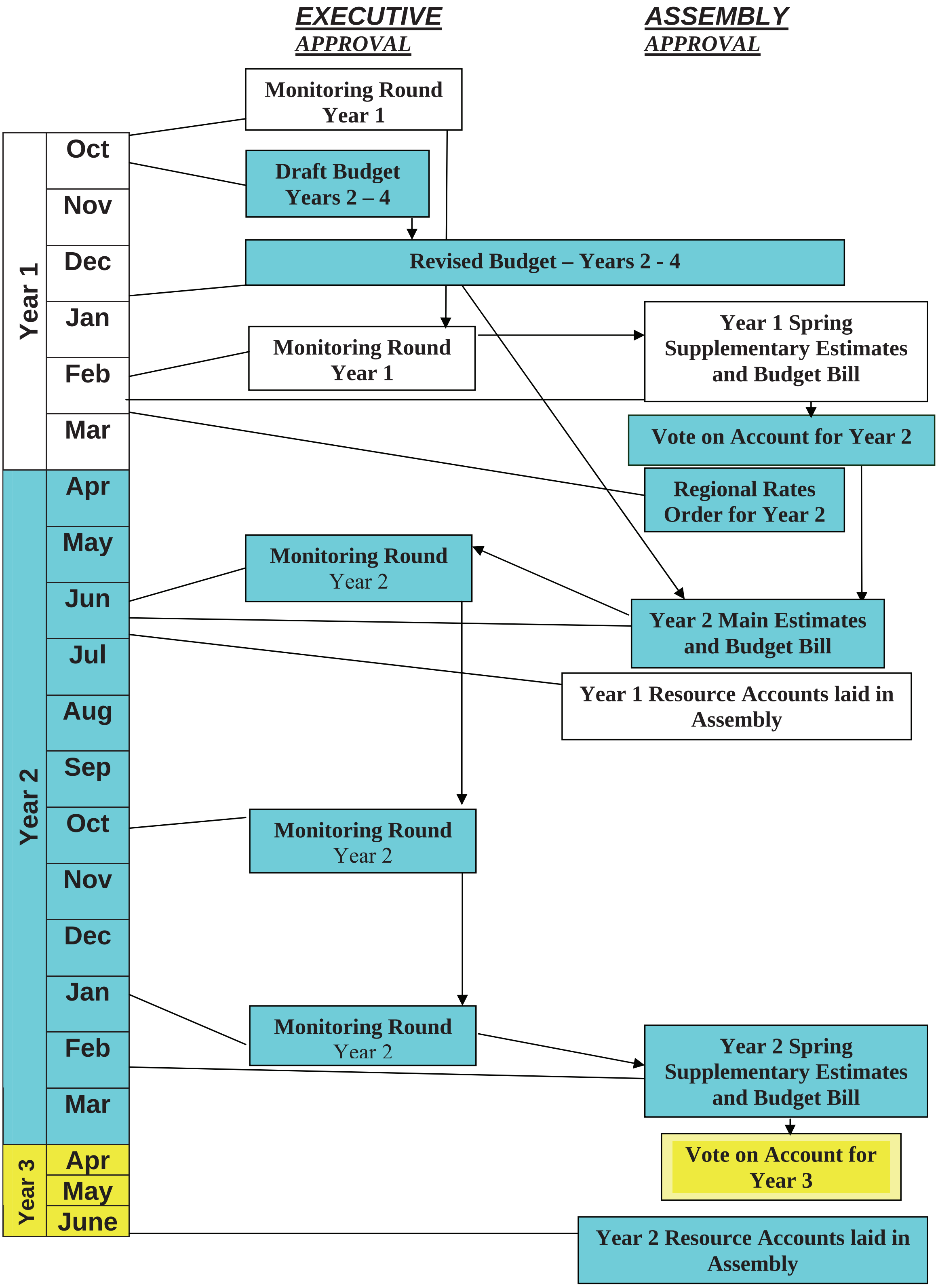
Review Team

10. The review team will consist of a small number of officials in the Public Spending Directorate and Accountability and Financial Management Division, reporting to the Budget Director and the Treasury Officer of Accounts, as appropriate.

Annex B to Discussion Paper - Financial Cycle

ANNEX B

CURRENT FINANCIAL PROCESS IN NORTHERN IRELAND



Annex C

Northern Ireland Assembly

Research and Information Service
Briefing Paper

Paper 000/00 | 22 June 2011 | NIAR 321-11

Colin Pidgeon

DFP's Review of Financial Process: considerations for improving the budget process

See Appendix 5 to this Report.

Providing research and information services to the Northern Ireland Assembly

Annex D to Discussion Paper - Illustrative Main Estimate

Department Purple

Introduction

1. This Estimate covers the planned budgetary expenditure of Department Purple (including its associated Bodies: the Council for Improved Public Partnership; the Research Trust; the Statistics Foundation). All expenditure is identified as being either within the Departmental Expenditure Limit (DEL) or departmental Annually Managed Expenditure (AME); and, where necessary, as non-budget. Not all departmental budgetary expenditure needs to be voted by the Assembly, as it has separate legislative authority. In such cases the Estimate shows the voted/non-voted split within the budget.

2. The expenditure is broken down between resource and capital. Part I of the Estimate sets out the control totals and descriptions of spending, most of which are replicated in the Supply legislation, the Budget Act. Part II provides a more detailed breakdown of those control limits and explains how the cash requirement is derived. Part III contains various tables and notes that provide supplementary and background information.

3. The single net cash requirement is not split by DEL/AME or any other budgetary limits.

4. The table below reconciles from Budget 201V-1Z to the current Budget position in this Estimate:-

	201X-1Y Allocation in Budget 201V-1Z	**Technical adjustments* and AME updates**	**£000's Current Budget Position**
		DEL	
Resource	2133148	25007	2158155
Capital	427850	1457	429307
		AME	
Resource	386020	15667	401687
Capital	-	-	-

4. Symbols are explained in the introduction at the front of the volume.

* Technical adustments include transfers between NI departments and with GB departments and changes to budgeting/accounting treatment.

Department Purple

	£		
Part I	**201X-1Y**		
	Total	**Non-voted**	**Voted**
Departmental Expenditure Limit			
Of which:			
Resource	2,158,155,000	92,000	2,158,063,000
Capital	429,307,000	-	429,307,000
Annually Managed Expenditure			
Of which:			
Resource	401,687,000	-	401,687,000
Capital	-	-	-
Non-Budget Voted Expenditure[1]	**557,000**	**-**	**557,000**
Net cash requirement			**2,359,313,000**

1. This would only be used where the department had non-budget spending that required authority through the Supply process.

Amounts required in the year ending 31 March 2013 for expenditure by Department Purple on:

Departmental Expenditure Limit:

Expenditure arising from: provision of strategic development services; Wider Markets Initiatives; net spending by NDPBs (The Council for Improved Public Partnership, The Research Trust and The Statistics Foundation); research into partnership working and other innovative delivery mechanisms; improving public communication; provision of strategic statistics; the N/S Statistics & Communication Board; and associated non-cash costs in DEL.

Income arising from: sales of publications, statistical information and consultancy services; training courses related to developing wider markets; and equipment sales.[1]

Annually Managed Expenditure:

Expenditure arising from: Take-up and maintenance of departmental provisions and other non-cash costs in AME.[2]

Income arising from:

Non-budget expenditure:

Expenditure arising from: Interest on returnable deposits[3]

Income arising from:

1 Ambits include description of expected income as well as expenditure. This gives legislative control (the ambit is reproduced in the Budget Act) over types of income that may be retained.

2 Ambits include description of expected income as well as expenditure. This gives legislative control (the ambit is reproduced in the Budget Act) over types of income that may be retained.

3 Ambits include description of expected income as well as expenditure. This gives legislative control (the ambit is reproduced in the Budget Act) over types of income that may be retained.

Department Purple will account for this Estimate.

	Net total	Allocated in Vote on Account	£ Balance to complete
Departmental Expenditure Limit			
Resource:	2,158,063,000	971,128,000	1,186,935,000
Capital:	429,307,000	193,188,000	236,119,000
Annually Managed Expenditure			
Resource:	401,687,000	180,759,000	220,928,000
Capital:	-	-	-
Non-Budget	**557,000**	**251,000**	**306,000**
Net cash requirement	**2,359,313,000**	**1,061,691,000**	**1,297,622,000**

Part II: Subhead detail

		DEL						AME						Non Budget	Total Estimate 201X-1Y	£'000 201W-1X Total Net Provision
		Resource			Capital			Resource			Capital					
		Gross[1]	Income	Net	Gross	Income	Net	Gross	Income	Net	Gross	Income	Net	Net		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Voted expenditure		2,215,542	-57,479	2,158,063	439,307	-10,000	429,307	401,687	-	401,687	-	-	-	557	2,989,614	2,611,822
A	[2]Strategic Development Services	161,842	-	161,842	-	-	-	1,000	-	1,000	-	-	-	-	162,842	259,834
B	Developing wider markets	301,100	-2,479	298,621	3,000	-	3,000	47,750	-	47,750	-	-	-	-	349,371	348,539
C	Research into innovative delivery mechanisms	246,766	-	246,766	-	-	-	42,225	-	42,225	-	-	-	-	288,991	273,300
D	Improving Communication	2,114	-	2,114	-	-	-	-	-	-	-	-	-	-	2,114	2,057
E	Strategic Statistics	1,500,015	-55,000	1,445,015	436,000	-10,000	426,000	310,712	-	310,712	-	-	-	-	2,181,727	1,723,956
F	N/S Body - Statistics & Communication Board	3,705	-	3,705	307	-	307	-	-	-	-	-	-	-	4,012	4,136
G	Unaligned expenditure													557	557	525
H	Prior Period Adjustment													-	-	-
Non-voted expenditure		92	-	92	-	-	-	-	-	-	-	-	-	-	92	89

		DEL						AME						Non Budget	Total Estimate 201X-1Y	£'000 201W-1X Total Net Provision
		Resource			Capital			Resource			Capital					
		Gross[1]	Income	Net	Gross	Income	Net	Gross	Income	Net	Gross	Income	Net	Net		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
I	Independent Strategic Development Adviser - Salary (NICF Standing Service)	92	-	92	-	-	-	-	-	-	-	-	-	-	92	89
Total Voted & Non Voted		2,215,634	-57,479	2,158,155	439,307	-10,000	429,307	401,687	-	401,687	-	-	-	557	2,989,706	2,611,911

1. Data no longer split by 'other current' and 'grants'

2. Expenditure by Unit of Service

Part II: Resource to Cash Reconciliation

	£'000		
	201X-1Y	**201W-1X**	**201V-1W**
	Plans	**Provision**	**Outturn**
Net Resource Requirement:			
DEL	**2,158,063**	1,953,189	1,853,451
AME	**401,687**	350,111	295,506
Net Capital Requirement			
DEL	**429,307**	308,522	298,555
AME	**-**	-	-
Non Budget Requirement	**557**	525	506
Total Requirement	**2,989,614**	**2,612,347**	**2,448,018**
Accruals to cash adjustments			
Adjustments to remove non-cash items:			
Depreciation	-47,867	-43,839	-32,308
New provisions and adjustments to previous provisions	-51,278	-43,145	-41,016
Prior Period Adjustments	-	-	-
Other non-cash items	-412	-328	-314
Adjustment for NDPBs[1]:			
Remove voted resource and capital	-1,799,879	-1,389,620	-1,164,555
Add cash grant-in-aid	1,393,816	1,040,988	999,675
Adjustments to reflect movements in working balances:			
Increase (+)/Decrease (-) in stock	-	-	6,545
Increase (+)/Decrease (-) in debtors	-	-	-26,200
Increase (-)/Decrease (+) in creditors	-125,447	29,383	35,264
Use of provisions	766	673	578
Total accruals to cash adjustments	**-630,301**	**-405,888**	**-222,331**
Net Cash Requirement	**2,359,313**	**2,206,459**	**2,225,687**

1. This removes the resource/capital related to NDPBs and replaces this with a cash grant-in-aid payment.

Part III: Extra receipts payable to the Consolidated Fund

In addition to income netted off against budgetary spending, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	£'000					
	201X-1Y		201W-1X		201V-1W	
	Plans		Provision		Outturn	
	Income	Receipts	Income	Receipts	Income	Receipts
Income in budgets surrendered to the Consolidated Fund (resource)	-	-	-	-	-	-
Income in budgets surrendered to the Consolidated Fund (capital)	-	-	-	-	-	-
Non-budget amounts collectable on behalf of the Consolidated Fund (in the OCS)	-18,975	-18,975	-24,436	-24,436	-35,145	-36,142
Total	**-18,975**	**-18,975**	**-24,436**	**-24,436**	**-35,145**	**-36,142**

Analysis of Consolidated Fund extra receipts

	£'000					
	201X-1Y		201W-1X		201V-1W	
	Plans		Provision		Outturn	
Description	Income	Receipts	Income	Receipts	Income	Receipts
Fines	-18975	-18,975	-24,436	-24,436	-35,145	-36,142
Total	**-18,975**	**-18,975**	**-24,436**	**-24,436**	**-35,145**	**-36,142**

Part III: Explanation of Accounting Officer responsibilities

The Accounting Officer prepares resource accounts for each financial year.

The following individuals are responsible for the expenditure within this Estimate:

Accounting Officer   A N Other

In accordance with Chapter 3 of Managing Public Money Northern Ireland, the following individuals are NDPB Accounting Officer appointments:

NDPB Accounting Officers

Name   The Council for Improved Public Partnership

Name   The Research Trust

Name   The Statistics Foundation

A N Other has personal responsibility for the presentation of the resource accounts and their transmission to the Comptroller & Auditor General, and is also responsible for the use of public money and stewardship of assets.

In discharging these responsibilities, particular regard is given to:

- observing any accounting and disclosure requirements (including any Accounts Direction) and applying suitable accounting policies on a consistent basis;
- making judgements and estimates on a reasonable basis;
- stating whether applicable accounting standards, as set out in the Financial Reporting Manual (FReM), or an organisation’s version of it, have been followed, and explain any material departures in the accounts; and
- preparing the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for regularity and propriety of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding assets, are also set out in Chapter 3 of Managing Public Money Northern Ireland.

[In accordance with Managing Public Money Northern Ireland requirements, the relationship between the Principal Accounting Officer and Additional Accounting Officer(s), and with their Ministers, together with their respective responsibilities, is set out in writing. Similarly, the relationship between the [Principal/Additional] Accounting Officer and the NDPB Accounting Officer(s) is set out in writing.]

Part III: Non-Departmental Public Bodies

201X-1Y				
Section in Part II: Subhead Detail table	**Part III: Non-Departmental Public Bodies**	**£'000**		
		Resources	**Capital**	**Grant-in-aid**
Section B	The Council for Improved Public Partnership	130,450	500	104,645
Section C	The Research Trust	199,557	-	163,359
Section E	The Statistics Foundation	1,122,122	347,250	1,125,812
Total		**1,452,129**	**347,750**	**1,393,816**

Part III: Accounting Policy changes

1. From this financial year the following changes to accounting policy have been implemented:

   i) the capitalisation threshold has been increased to £5,000 for single items and to £10,000 for bulk purchases. The effect of this is to move up to £200,000 of expenditure from capital DEL into resource DEL in 201X-1Y.

   ii) FRS standard [xxx] results in up to £200,000 of creditors being moved into provisions. This cost has been absorbed within the resource DEL budget.

Prior Period Adjustments

Voted

2. There are no Prior Period Adjustments that need to be voted within the Estimate.

Non-voted

3. The implementation of IFRS standard [xxx], relating to the calculation of the [xxxxxxx] affects [xxxxxx]. The impact for the current year is to increase resources in Annually Managed Expenditure (AME) provisions by £xx,000. This appears in section E of the AME heading in the Part II: Subhead Detail table. The Prior Period Adjustment in respect of the previous 2 years is:

	£'000	
Reason	**201W-1X**	**201V-1W**
Move to IFRS standard [xxx] impacting on [xxxxx]	24	21
Total	**24**	**21**

Part III: [Other Notes to be provided as required]

- Expenditure resting on the sole authority of the Appropriation Act
- Gifts
- Staff Benefits
- Contingent Liabilities
- International Subscriptions

Annex E
Illustrative Resource Accounts

201X-1Y Department Yellow: Illustrative Resource Accounts

1. The illustrative resource accounts for "Department Yellow" (a fictitious departmental grouping) comprise:
   - a Statement of Assembly Supply;
   - b Consolidated Statement of Comprehensive Net Expenditure;
   - c Consolidated Statement of Financial Position;
   - d Consolidated Statement of Cash Flows;
   - e Consolidated Statement of Changes in Taxpayers' Equity;
   - f Notes to the accounts.
2. The resource accounts are for illustration only and should only be followed as the circumstances of an individual department dictate. The accounts do not show every line item which may be necessary in the circumstances of an individual department.

Statement of Assembly Supply

Summary of Resource and Capital Outturn 201X-1Y

£000	Note	Estimate			Outturn			201X-1Y	201W-1X
								Voted outturn compared with Estimate: saving/ (excess)	Outturn
		Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
Departmental Expenditure Limit									
- Resource									
- Capital									
Annually Managed Expenditure									
- Resource	3								
- Capital									
Total Budget									
Non-Budget									
- Resource	3								
Total									
Total Resource									
Total Capital									
Total									

Net Cash Requirement 201X-1Y

		201X-1Y		201X-1Y	201W-1X
£000	Note	Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
	4				

Figures in the areas outlined in bold are voted totals or other totals subject to Assembly control

Where the department has an Excess Vote for one of the reasons given in Managing Public Money Northern Ireland the department should insert this note here:

The Department has incurred an Excess of £000 because [insert reason] , The Department will seek Assembly approval by way of an Excess Vote in the next Budget Act.

All departments must insert this note here:

Consolidated Statement of Comprehensive Net Expenditure for the Year ended 31 March 201Y

		201X-1Y			201W-1X		
£000	**Note**	**Core Dept**	**Core Dept. & Agencies**	**Departmental Group**	**Core Dept**	**Core Dept. & Agencies**	**Departmental Group**
Administration costs							
Staff costs	6						
Other costs	7						
Income	9						
Programme expenditure							
Staff costs	6						
Other costs	8						
Income	9						
Grant in Aid to NDPBs							
Net Operating Costs for the year ended 31 March 201Y							
Total expenditure							
Total income							
Net Operating Costs for the year ended 31 March 201Y							
Other Comprehensive Net Expenditure							
Net (gain)/loss on:							
- revaluation of property, plant & equipment							
- revaluation of intangibles							
- revaluation of available for sale financial assets							
Total comprehensive expenditure for the year ended 31 March 201Y							

Consolidated Statement of Financial Position as at 31 March 201Y

£000	Note	201Y Core Department	201Y Core Department & Agencies	201Y Departmental Group	201X Core Department	201X Core Department & Agencies	201X Departmental Group	201W Departmental Group
Non-current assets:								
Property, plant & equipment	10							
Intangible assets	11							
Financial assets	12,13							
Total non-current assets								
Current Assets:								
Assets classified as held for sale								
Inventories	15							
Trade & other receivables	16							
Other current assets								
Financial assets	12,13							
Cash & cash equivalents	17							
Total current assets								
Total assets								
Current liabilities								
Trade and other payables	19							
Provisions	20							
Other liabilities								
Total current liabilities								
Non-current assets plus/less								
net current assets/ liabilities								
Non-current liabilities								
Provisions	20							
Other payables	19							
Financial liabilities	12							

£000	Note	201Y Core Department	201Y Core Department & Agencies	201Y Departmental Group	201X Core Department	201X Core Department & Agencies	201X Departmental Group	201W Departmental Group
Total non-current liabilities								
Total Assets less liabilities								
Taxpayers' equity and other reserves:								
General fund								
Insert details here of reserves shown in taxpayers' equity statement								
Charitable funds								
Total Equity								
Signed:								
Accounting Officer								
Date:								

Consolidated Statement of Cash Flows for the year ended 31 March 201Y

	Note		201X-1Y £000	201W-1X £000
Cash flows from operating activities				
Net operating cost				
Adjustments for non-cash transactions	7,8			
(Increase)/Decrease in trade and other receivables		From Statement of Financial Position: balance at 31 March 201Y less balance at 31 March 201X		
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		Movements include: departmental balances with the Consolidated Fund; and receivables linked to financing – NLF loans (principal and interest), capital receivables, finance leases and PFI and other service concession arrangements.		
(Increase)/Decrease in Inventories		From Statement of Financial Position: balance at 31 March 201Y less balance at 31 March 201X		
Increase/(Decrease) in trade and other payables		From Statement of Financial Position: balance at 31 March 201Y less balance at 31 March 201X		
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		Movements include: departmental balances with the Consolidated Fund; and payables linked to financing – NLF loans (principal and interest), capital debtors, finance leases and PFI and other service concession arrangements.		
Use of provisions	20			
Net cash outflow from operating activities	4			
Cash flows from investing activities				
Purchase of property, plant and equipment	10	Expenditure taken from note 10 adjusted for capital (inc PFI and other service concession arrangements) payables.		

	Note		201X-1Y	201W-1X
			£000	£000
Purchase of intangible assets	11	Expenditure taken from note 11 adjusted for capital (inc PFI and other service concession arrangements) payables.		
Proceeds of disposal of property, plant and equipment		Cash proceeds – that is, receivables are excluded.		
Proceeds of disposal of intangibles		Cash proceeds – that is, receivables are excluded.		
Loans to other bodies		Loans advanced per note 13, adjusted for payables.		
(Repayments) from other bodies		Loans repaid per note 13, adjusted for receivables.		
Net cash outflow from investing activities	**4**			
Cash flows from financing activities				
From the Consolidated Fund (Supply) – current year		This is the amount received from the Consolidated Fund in respect of the current year.		
From the Consolidated Fund (Supply) – prior year		This is the amount received from the Consolidated Fund that relates to the prior year.		
From the Consolidated Fund (non-Supply)		This is the financing associated with Consolidated Fund Standing Services and should equal the figure shown as Standing Services in the General Fund note.		
From the National Insurance Fund				
Payments to the National Insurance Fund				
Loans received from the National Loans Fund		This includes loans received from the NLF for onward transmission to other entities.		
Repayments of loans from the National Loans Fund		This includes loans repaid by entities for onward transmission to the NLF and interest received from entities for transmission to the NLF.		
Capital element of payments in respect of finance leases and on-balance sheet (SoFP) PFI contracts		Capital expenditure in respect of finance leases and on-balance sheet (SoFP) PFI contracts and other service concession arrangements adjusted for relevant receivables and payables		
Net financing				

	Note		201X-1Y	201W-1X
			£000	£000
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund				
Payments of amounts due to the Consolidated Fund		Cash paid over to the Consolidated Fund under any category.		
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund				
Cash and cash equivalents at the beginning of the period	17	Opening cash and cash equivalents as per note ref		
Cash and cash equivalents at the end of the period	17	Closing cash and cash equivalents as per note ref		

Consolidated Statement of Changes in Taxpayers' Equity for the year ended 31 March 201Y

	Note	General Fund	Revaluation Reserve	Taxpayers' equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		£000	£000	£000	£000	£000	£000
Balance at 31 March 201W							
Changes in accounting policy							
Restated balance at 1 April 201W							
Net Assembly Funding – drawn down							
Net Assembly Funding – deemed							
Consolidated Fund Standing Services							
National Insurance Fund							
Supply payable/ (receivable) adjustment							
Excess Vote – Prior Year							
CFERs payable to the Consolidated Fund		Does not include any amounts included in a trust statement					
Comprehensive Net Expenditure for the Year							
Non-Cash Adjustments:							
Non-cash charges – auditor's remuneration	7,8						
Movements in Reserves							
Transfers between reserves							
Note: the lines provided above represent those items most likely to be required by an 'average' department. You should refer to IAS 1 (implementation guidance) for other entries that might be required.		Insert additional line entries as necessary to capture all transactions passing through reserves					

	Note	General Fund	Revaluation Reserve	Taxpayers' equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		£000	£000	£000	£000	£000	£000
Balance at 31 March 201X							
Net Assembly Funding – drawn down							
Net Assembly Funding – deemed							
Consolidated Fund Standing Services							
National Insurance Fund							
Supply payable/ (receivable) adjustment							
Excess Vote – Prior Year							
CFERs payable to the Consolidated Fund		Does not include any amounts included in a trust statement					
Comprehensive Net Expenditure for the Year							
Non-Cash Adjustments:							
Non-cash charges – auditor's remuneration	7,8						
Movements in Reserves							
Transfers between reserves							
Note: the lines provided above represent those items most likely to be required by an 'average' department. You should refer to IAS 1 (implementation guidance) for other entries that might be required.		Insert additional line entries as necessary to capture all transactions passing through reserves					
Balance at 31 March 201Y							

Drafting note: The same information should be provided for the core department and its agencies and for the departmental group.

Where not shown on the face of the Statement of Changes in Taxpayers Equity departments should separately disclose the opening and closing element of the revaluation reserve that relates to intangibles detailing changes during the year.

Note X.1 Statement of Operating Costs by Operating Segment

Narrative to disclose;

- Describe factors used to identify the reportable segments.
- Describe the types of activities for which each reportable segment attracts funding
- How reportable segments are reported to the CODM (any differences between info and primary financial statements)
- Basis of accounting for any transactions between reportable segments
- Changes from prior year segment identification methods
- Reliance on major customers

		201X-1Y				201W-1X			
	Note	**Reportable Segment 1**	**Reportable Segment 2**	**Reportable Segment 3**	**Total**	**Reportable Segment 1**	**Reportable Segment 2**	**Reportable Segment 3**	**Total**
Gross Expenditure									
Income									
Net Expenditure									
Total assets*									
Net assets*									
Other information*									

Description of segments

- Segment 1
- Segment 2
- Segment 3

* In accordance with IFRS 8, if total assets, net assets or additional information is reported separately to the Chief Operating Decision Maker, disclosure should be made.

Note X.2 Reconciliation between Operating Segments and SoCNE / SoFP

	Note	201X-1Y				201W-1X			
		Reportable Segment 1	**Reportable Segment 2**	**Reportable Segment 3**	**Total**	**Reportable Segment 1**	**Reportable Segment 2**	**Reportable Segment 3**	**Total**
Total net expenditure per statement of operating cost by operating segment									
Reconciling items:									
Income #1									
Expenditure #2									
Total net expenditure per Operating Cost statement									

Note X.3 Reconciliation between Operating Segments and Note 2

	Note	201X-1Y				201W-1X			
		Reportable Segment 1	Reportable Segment 2	Reportable Segment 3	Total	Reportable Segment 1	Reportable Segment 2	Reportable Segment 3	Total
Total net expenditure per statement of operating cost by operating segment									
Reconciling items:									
Income #1									
Expenditure #2									
Net outturn per statement of Assembly supply									

Department Yellow – Annual Report and Accounts 201X-1Y

Notes to the Departmental Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 201X-1Y Government Financial Reporting Manual (FReM) issued by [insert name of issuing authority]. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the [insert name of Department] for the purpose of giving a true and fair view has been selected. The particular policies adopted by the [insert name of Department] [for the reportable activity] are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Department to prepare two additional primary statements. The Statement of Assembly Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified, to account for the revaluation of investment property, property, plant and equipment, intangible assets, inventories and certain financial assets and liabilities.

1.2 Basis of consolidation

These accounts comprise a consolidation of the core department, departmental agencies and those other Arm's Length Bodies which fall within the departmental boundary as defined in the FReM and make up the "Departmental Group". Transactions between entities included in the consolidation are eliminated. [Drafting note: this note is required only where the Department prepares consolidated accounts.]

A list of all those entities within the departmental boundary is given at note X .

A description of the accounting policies for all material items should then follow. Headings might include:

- Property, plant and equipment, with other headings for donated, heritage and infrastructure assets as appropriate
- Depreciation
- intangible assets
- investments
- inventories
- research and development expenditure
- operating income
- foreign exchange
- leases
- Service Concessions (PPP/PFI)

- Financial Instruments
- grants payable
- provisions (including the discount rate used where the time value of money is significant and the estimated risk-adjusted cash flows are discounted)
- estimation techniques used and changes in accounting estimates (see in particular IAS 8.32 to 40 and IAS.1)
- value added tax
- third party assets

Departments must include the following notes in the appropriate place in the sequence.

1.aa Administration and programme expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in [insert reference to guidance] by [insert name of authority]. Drafting note: departments might expand the note to reflect the definition as it is reflected in their own circumstances.

1.ab Pensions

Past and present employees are covered by the provisions of the [name of the scheme]. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the [name of the scheme] of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the [name of the scheme]. In respect of the defined contribution schemes, the department recognises the contributions payable for the year.

1.ac Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the department discloses for Asembly reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to the Assembly in accordance with the requirements of Managing Public Money Northern Ireland.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to thre Assembly separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Assembly.

1.ad Impending application of newly issued accounting standards not yet effective

The department provides disclosure that it has not yet applied a new accounting standard, and known or reasonably estimable information relevant to assessing the possible impact that initial application of the new standard will have on the department's financial statements.

2. Net outturn

2.1 Analysis of net resource outturn by section

	201X - 201Y									201W - 201X Outturn
	Outturn							Estimate		
	Administration			Programme						
	Gross	Income	Net	Gross	Income	Net	Total	Net Total	Net total compared to Estimate	Total
Spending in Departmental Expenditure Limit										
Voted:										
A										
B										
C										
Non-voted										
D										
E										
F										
Annually Managed Expenditure										
Voted										
G										
H										
I										
Non-voted										
J										
K										
L										
Non-budget										
Total										

2.2 Analysis of net capital outturn by section

	201X-201Y					201W-201X outturn
	Outturn			Estimate		
	Gross	Income	Net	Net	Net total compared with Estimate	Net
Spending in Departmental Expenditure Limit						
Voted:						
A						
B						
C						
Non-voted						
D						
E						
F						
Annually Managed Expenditure						
Voted						
G						
H						
I						
Non-voted						
J						
K						
L						
Total						

3. Reconciliation of outturn to net operating cost and against Administration Budget

3.1 Reconciliation of net resource outturn to net operating cost

		Note	201X-1Y £000 Outturn	201W-1X £000 Outturn
Total resource outturn in Statement of Assembly Supply	Budget	2		
	Non-Budget			
Add:	Capital grants			
	Other (provide details eg PFI adjustments)			
Less:	Income payable to the Consolidated Fund			
	Other (provide details eg PFI adjustments)			
Net Operating Costs in Consolidated Statement of Comprehensive Net Expenditure				

An explanation should be provided of any adjustments made.

3.2 Outturn against final Administration Budget and Administration net operating cost

	201X-1Y £000	201W-1X £000
Administration Budget		
Outturn - Gross Administration Costs	The administration costs included here relate to departments, agencies and designated bodies.	
Outturn - Gross Income relating to administration costs		
Outturn - Net administration costs		
Reconciliation to operating costs:		
Less: provisions utilised (transfer from Programme)		
Less: Other		
Administration Net Operating Costs		

4. Reconciliation of Consolidated Statement of Cash Flows to Net Cash Requirement

				201X-1Y	201W-1X
				£000	£000
	Note			Outturn	Outturn
Net cash outflow from operating activities		from the Consolidated Statement of Cash Flows			
Net cash outflow from investing activities (inc.PFI/finance lease capital)					
Less: Total net cash outflow on NDPB operating and investing activities (including cash outflows not funded by grant-in-aid)					
Add: grant in aid paid to NDPBs					
Total net cash outflow funded by cash drawn down from the Consolidated Fund					
Less: Net cash outflow relating to Non-voted financing:					
Consolidated Fund standing services					
Net flows relating to the National Insurance Fund					
Net flows relating to the Consolidated Fund					
Net flows relating to the National Loans Fund					
Other (where appropriate e.g. CFERS)					
Net voted cash requirement from the Consolidated Fund		from the Statement of Assembly Supply (Outturn)			
Cash drawn down from the Consolidated Fund		Actual in year draw down plus (minus) supply payable (receivable) at the start of the year			
Total Supply repayable to the Consolidated Fund	19				

5. Income payable to the Consolidated Fund

5.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the department, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Outturn 201X-1Y		Outturn 201W-1X	
	£000		£000	
	Income	Receipts	Income	Receipts
Operating income outside the ambit of the Estimate				
Excess cash surrenderable to the Consolidated Fund				
Total income payable to the Consolidated Fund				

5.2 Consolidated Fund Income

Consolidated Fund income shown in note 5.1 above does not include any amounts collected by Department Yellow where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statements published separately from but alongside these financial statements.

The above statement should be included where separate trust statements are published for the department. Otherwise, disclosure should be made in the note in the format below.

Consolidated Fund income shown in note 5.1 above does not include any amounts collected by Department Yellow where it was acting as agent for the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	201X-1Y	201W-1X
Taxes and licence fees		
Fines and penalties		
Other Income		
Less:		
Costs of collection – where deductible		
Uncollectible debts		
Amount payable to the Consolidated Fund		
Balance held at the start of the year		
Payments into the Consolidated Fund		
Balance held on trust at the end of the year		

A description of the main income streams should be included together with any other explanations that may be necessary to provide a full understanding of the reported transactions.

6. Staff numbers and related costs

Staff costs comprise:

	201X-1Y					201W-1X
	£000					£000
	Total	Permanently employed staff	Others	Ministers	Special advisers	Total
Wages and salaries						
Social security costs						
Other pension costs						
Sub Total						
Less recoveries in respect of outward secondments						
Total net costs*						
Of which:						
Core department						
Agencies						
NDPBs						

*Of the total, £000 has been charged to capital

NB: The following text is written in the context of membership of the Principal Civil Service Pension Scheme. Departments and agencies should write the note in the context of the scheme of which they are members. The wording is illustrative only and, for application to the PCSPS, reference should be made to guidance issued by the Cabinet Office in its Employer Pension Note series for the recommended wording for the year in question.

The Principal Civil Service Pension Scheme (Northern Ireland) is an unfunded multi-employer defined benefit scheme which produces its own resource account, but (insert employer's name) is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 200[year] and details of this valuation are available in the PCSPS (NI) Resource Accounts.

For 201X-1Y, employers' contributions of £ 0,000,000 were payable to the PCSPS (NI) (201W-1X £0,000,000) at one of four rates in the range 0.0 to 0.0 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 200[year]-0[year] and will remain unchanged until 200[year]-0[year]. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £00,000 (201W-1X £00,000) were paid to [a][one or more of a panel of however many] appointed stakeholder pension provider[s]. Employer contributions are age-related and range from 0.0 to 0.0 per cent (201W-1X: 0.0 to 0.0 per cent) of pensionable pay. Employers also match employee contributions up to x per cent of pensionable pay. In addition, employer contributions of £0,000 (0.0 per cent; 200W-0X: £0,000, 0.0 per cent) of pensionable pay, were payable to the PCSPS (NI) to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting period date were £x. Contributions prepaid at that date were £y.'

[Number] persons (201W-1X: 0 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £0,000 (201W-1X: £ 0,000).

6.1 Reporting of Civil Service and other compensation schemes - exit packages

Comparative data to be shown (in brackets) for previous year

		Core Dept			Core Dept. & Agencies			Departmental Group		
1	**Exit package cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
2	<£10,000									
3	£10,000 - £25,000									
4	£25,000 - £50,000									
5	£50,000 - £100,000									
6	£100,000-£150,000									
7	£150,000-£200,000									
8	Total number of exit packages									
9	Total resource cost /£									

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (Northern Ireland), a statutory scheme made under the Superannuation (Northern Ireland) Order 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

[Note: entities should provide additional text if any payments are not covered by the CSCS (NI), for instance, ex-gratia payments agreed with DFP or scheme details where using another scheme. Other schemes are most likely to apply in NDPBs not listed in Schedule I to the Superannuation (Northern Ireland) Order 1972 and may apply different statutory compensation terms]

7. Other Administration Costs

		201X-1Y			**201W-1X**		
		£000			**£000**		
	Note	**Core Department**	**Core Department & Agencies**	**Departmental Group**	**Core Department**	**Core Department & Agencies**	**Departmental Group**
The following expenditure items (if incurred) must be listed individually within this note, although not necessarily in this order. Best practice suggests that the items are presented in descending order of magnitude.							
Rentals under operating leases							
Interest charges							
PFI and other service concession arrangements service charges							
Research and Development expenditure							
Non-cash items:							
Depreciation							
Amortisation							
Profit on disposal of property, plant and equipment		Where netted off expenditure within the Statement of Comprehensive Net Expenditure					
Loss on disposal of property, plant and equipment							
Auditors' remuneration and expenses							
In addition, other expenditure should be analysed and any significant items listed individually as part of this table. You should NOT insert a shoulder heading of 'other' and then provide a separate note analysing 'other'. That is not helpful to the reader of the accounts.							
Total							

During the year the department purchased the following non-audit services from its auditor, [name Auditor][list services received with details of cost]

This note relates to the expenditure of the fully consolidated departmental group.

8. Programme Costs

		201X-1Y			201W-1X		
		£000			£000		
		Core Department	**Core Department & Agencies**	**Departmental Group**	**Core Department**	**Core Department & Agencies**	**Departmental Group**
The following expenditure items(if incurred) must be listed individually within this note, although not necessarily in this order. Best practice suggests that the items are presented in descending order of magnitude.							
Grants							
Goods and services							
Rentals under operating leases							
Interest Charges							
PFI and other service concession arrangements service charges							
Research and Development expenditure							
Non-cash items:							
Depreciation							
Amortisation							
Profit on disposal of property, plant and equipment		Where netted off expenditure within the Statement of Comprehensive Net Expenditure					
Loss on disposal of property, plant and equipment							
Auditors' remuneration and expenses							
Provision provided for in year	20						
Borrowing costs (Unwinding of discount) on provisions	20						
In addition, other expenditure should be analysed and any significant items listed individually as part of this table. You should NOT insert a shoulder heading of 'other' and then provide a separate note analysing 'other'. That is not helpful to the reader of the accounts.							
Total							

9. Income

Drafting note: this note analyses the income recorded in the Statement of Comprehensive Net Expenditure

		201X-1Y £000			201W-1X £000		
		Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Income source 1	Income should be analysed by type (sales of services; sales of goods; interest; royalties; and dividends) as required by IAS 18 with any significant items listed individually (examples might be sales of publications, passport fees). Non-cash income should be disclosed separately where material.						
Income source 2, etc	Care should be taken in describing the income so that a reader of the accounts can understand what it is that the department (or agency) does to earn the income. Descriptions on their own of 'fees and charges from external customers' and 'fees and charges from internal customers' are not helpful.						

Where income for specific services exceeds £1m or the income and full cost of the service are material in the context of the financial statements departments should provide the additional fees and charges disclosures as detailed in the FReM.

10. Property, plant and equipment

Consolidated	**201X-1Y**							
	Land	**Buildings**	**Dwellings**	**Information Technology**	**Plant & Machinery**	**Furniture & Fittings**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or valuation								
At 1 April 201X								
Additions								
Donations								
Disposals								
Impairments								
Reclassifications								
Revaluations								
At 31 March 201Y								

Consolidated	**201X-1Y**							
	Land	**Buildings**	**Dwellings**	**Information Technology**	**Plant & Machinery**	**Furniture & Fittings**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Depreciation								
At 1 April 201X								
Charged in year								
Disposals								
Impairments								
Reclassifications								
Revaluations								
At 31 March 201Y								
Carrying amount at 31 March 201X								
Carrying amount at 31 March 201Y								

Consolidated	**201X-1Y**							
	Land	**Buildings**	**Dwellings**	**Information Technology**	**Plant & Machinery**	**Furniture & Fittings**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Asset financing:								
Owned								
Finance Leased								
On-balance sheet (SoFP) PFI and other service concession arrangements								
Contracts								
Carrying amount at 31 March 201Y								

Consolidated	201X-1Y							
	Land	**Buildings**	**Dwellings**	**Information Technology**	**Plant & Machinery**	**Furniture & Fittings**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Of the total:								
Department								
Agencies								
NDPBs								
Carrying amount at 31 March 201Y								

Notes:

Insert here a note giving the value and category of any donated assets during the year. Where the assets were donated by a related party, the name should be given.

Insert here a note giving the names and qualifications of the valuers of any assets, what assets they valued, and the date on which they were valued during the year. The note should also state that property, plant and equipment are valued using indices.

Consolidated	201W-1X							
	Land	Buildings	Dwellings	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 201W								
Additions								
Donations								
Disposals								
Impairments								
Reclassifications								
Revaluations								
At 31 March 201X								

Consolidated	201W-1X							
	Land	Buildings	Dwellings	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Depreciation								
At 1 April 201W								
Charged in year								

Consolidated	**201W-1X**							
	Land	**Buildings**	**Dwellings**	**Information Technology**	**Plant & Machinery**	**Furniture & Fittings**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Disposals								
Impairments								
Reclassifications								
Revaluations								
At 31 March 201X								
Carrying amount at 31 March 201W								
Carrying amount at 31 March 201X								

Consolidated	**201W-1X**							
	Land	**Buildings**	**Dwellings**	**Information Technology**	**Plant & Machinery**	**Furniture & Fittings**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Asset financing:								
Owned								
Finance Leased								

Consolidated	**201W-1X**							
	Land	**Buildings**	**Dwellings**	**Information Technology**	**Plant & Machinery**	**Furniture & Fittings**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
On-balance (SoFP) sheet PFI								
Contracts								
Carrying amount at 31 March 201X								

Consolidated	**201W-1X**							
	Land	**Buildings**	**Dwellings**	**Information Technology**	**Plant & Machinery**	**Furniture & Fittings**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Of the total:								
Department								
Agencies								
NDPBs								
Carrying amount at 31 March 201X								

11. Intangible assets

Consolidated	201X-1Y								
	Information Technology	Software Licences	Websites	Development Expenditure	Licences, Trademarks & Artistic Originals	Patents	Goodwill	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation									
At 1 April 201X									
Additions									
Donations									
Disposals									
Impairments									
Reclassifications									
Revaluations									
At 31 March 201Y									

Consolidated	**201X-1Y**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Amortisation									
At 1 April 201X									
Charged in year									
Disposals									
Impairments									
Reclassifications									
Revaluations									
At 31 March 201Y									
Carrying amount at 31 March 201X									
Carrying amount at 31 March 201Y									

Consolidated	**201X-1Y**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Asset financing:									
Owned									
Finance Leased									
Contracts									
Carrying amount at 31 March 201Y									

Consolidated	**201X-1Y**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Of the total:									
Department									
Agencies									
NDPBs									
Carrying amount at 31 March 201Y									

Notes:

Insert here a note giving the value and category of any donated assets during the year. Where the assets were donated by a related party, the name should be given.

Consolidated	**201W-1X**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or valuation									
At 1 April 201W									
Additions									
Donations									
Disposals									
Impairments									
Reclassifications									
Revaluations									
At 31 March 201X									

Consolidated	**201W-1X**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Amortisation									
At 1 April 201W									
Charged in year									

Consolidated	**201W-1X**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Disposals									
Impairments									
Reclassifications									
Revaluations									
At 31 March 201X									
Carrying amount at 31 March 201W									
Carrying amount at 31 March 201X									

Consolidated	**201W-1X**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Asset financing:									
Owned									
Finance Leased									
Contracts									

Consolidated	**201W-1X**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Carrying amount at 31 March 201X									

Consolidated	**201W-1X**								
	Information Technology	**Software Licences**	**Websites**	**Development Expenditure**	**Licences, Trademarks & Artistic Originals**	**Patents**	**Goodwill**	**Payments on Account & Assets under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Of the total:									
Department									
Agencies									
NDPBs									
Carrying amount at 31 March 201X									

12. Financial Instruments

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk.

ONLY where the Department is exposed to risk should the appropriate IFRS 7 disclosures be made. Disclosures should be given only where they are necessary because the Department holds financial instruments that are complex or play a significant medium to long-term role in the financial risk profile of the department. The headings in IFRS 7 should be used to the extent that they are relevant. Where the Department does not face significant medium to long-term financial risks, then it is sufficient to make a statement to that effect – similar to that above. (Given that all departments have financial instruments within the scope of IAS 32, silence is not an option.)

13. Investments in other public sector bodies

	Body A	Body B		
	On-lent NLF Loan	PDC	Loan	Total
	£000	£000	£000	£000
Balance at 1 April 201W				
Additions				
Disposals				
Loan Repayments				
Loans repayable within 12 months transferred to receivables				
Balance at 31 March 201X				
Additions				
Disposals				
Loan Repayments				
Loans repayable within 12 months transferred to receivables				
Balance at 31 March 201Y				

Drafting note: where applicable, the accounts should show here an analysis of investments between those held by the core department, those held by agencies and those held by NDPBs.

The department's share of the net assets and results of the above bodies is summarised below.

	Body A	Body B
	£000	£000
Net assets at 31 March 201X		
Turnover		
Surplus/profit for the year (before financing)		
Net assets at 31 March 201Y		
Turnover		
Surplus/profit for the year (before financing)		

Where a department holds investments in non-public sector bodies or other financial instrument the significance of such instruments should be explained following the requirements of IFRS 7 and carrying values disclosed following the requirements of the FReM and IAS 32 and IAS 39 and within the IFRS 7 headings to the extent they are relevant

14. Impairments

Departments should insert here, if relevant, a note that reports the total impairment charge for the year, showing any movement between the revaluation reserve and the general reserve.

15. Inventories

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Inventories	Inventories should be listed by appropriate classification (e.g., publications, medical supplies).					

16. Trade receivables and other current assets

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Amounts falling due within one year:						
Trade receivables						
Deposits and advances						
Other receivables	Other receivables should be analysed and any significant items disclosed separately					
Prepayments and accrued income						
Current part of PFI and other service concession arrangements prepayment						
Current part of NLF loan						
Amounts due from the Consolidated Fund in respect of supply	See Consolidated Fund example 2 and 4					

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Amounts falling due after more than one year:						
Trade receivables						
Deposits and advances						
Other receivables						

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Prepayments and accrued income						

16.1. Intra-Government Balances

<table>
<tr><th rowspan="3"></th><th colspan="2">Amounts falling due within one year</th><th colspan="2">Amounts falling due after more than one year</th></tr>
<tr><th colspan="2">£000</th><th colspan="2">£000</th></tr>
<tr><th>201X-1Y</th><th>201W-1X</th><th>201X-1Y</th><th>201W-1X</th></tr>
<tr><td>Balances with other central government bodies</td><td colspan="4" rowspan="6">This table should analyse the debtors shown in the Consolidated statement of financial position between the categories shown. If an analysis of core and consolidated is required because of materiality, departments should remember to disclose any balances between the core department and the consolidated entities, since these balances are eliminated on consolidation.</td></tr>
<tr><td>Balances with local authorities (district councils)</td></tr>
<tr><td>Balances with NHS bodies</td></tr>
<tr><td>Balances with public corporations and trading funds</td></tr>
<tr><td>Subtotal: intra-government balances</td></tr>
<tr><td>Balances with bodies external to government</td></tr>
<tr><td>Total receivable at 31 March</td><td></td><td></td><td></td><td></td></tr>
</table>

17. Cash and cash equivalents

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Balance at 1 April						
Net change in cash and cash equivalent balances						
Balance at 31 March						
The following balances at 31 March were held at:						
Commercial banks and cash in hand						
Short term investments						
Balance at 31 March						

18. Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	201X-1Y	201W-1X
	£000	£000
Net cash requirement - core department and agencies		
From the Consolidated Fund (Supply) -current year		
From the Consolidated Fund (Supply) – prior year		
Amounts due to the Consolidated Fund received and not paid over		
Increase/(decrease) in cash held by core department and agencies		

19. Trade payables and other current liabilities

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Amounts falling due within one year						
VAT						
Other taxation and social security						
Trade payables						
Other payables	Other payables should be analysed and any significant items disclosed separately					
Accruals and deferred income						
Current part of finance leases						
Current part of imputed finance lease element of on balance sheet (SoFP) PFI contracts and other service concession arrangements						
Current part of NLF loans						
Amounts issued from the Consolidated Fund for supply but not spent at year end	See Consolidated Fund example 1					
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	See Consolidated Fund examples 5, 6, 7, 8, 9 and 10					
received						
receivable						

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Amounts falling due after more than one year:						
Other payables, accruals and deferred income						
Finance leases						
Imputed finance lease element of on-balance sheet (SoFP) PFI contracts and other service concession arrangements						
NLF loans						

19.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000		£000	
	201X-1Y	201W-1X	201X-1Y	201W-1X
Balances with other central government bodies	This table should analyse the payables shown in the Consolidated statement of financial position between the categories shown. Where departments show an analysis of core and consolidated, departments should remember to disclose any balances between the core department and the consolidated entities, since these balances are eliminated on consolidation.			
Balances with local authorities (disctrict councils)				
Balances with NHS bodies				
Balances with public corporations and trading funds				
Intra-government balances				

20. Provisions for liabilities and charges

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Balance at 1 April						
Provided in the year						
Provisions not required written back						
Provisions utilised in the year						
Borrowing costs (unwinding of discounts)						
Balance at 31 March						

Analysis of expected timing of discounted flows

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Not later than one year						
Later than one year and not later than five years						
Later than five years						
Balance at 31 March						

	Provision A	Provision B	Provision C	Provision D	Other	Total
Not later than one year						
Later than one year and not later than five years						
Later than five years						
Balance at 31 March						

Brief details of each provision and an indication of the contents of the 'Other' column should be provided here

21. Capital and other commitments

21.1 Capital commitments

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Contracted capital commitments at 31 March not otherwise included in these financial statements						
Property, plant and equipment						
Intangible assets						

21.2 Commitments under leases

21.2.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

Obligations under operating leases for the following periods comprise:

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Land						
Not later than one year						
Later than one year and not later than five years						
Later than five years						
Buildings						
Not later than one year						
Later than one year and not later than five years						

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Later than five years						
Other:						
Not later than one year						
Later than one year and not later than five years						
Later than five years						

21.2.2 Finance leases

Total future minimum lease payments under finance leases are given in the table below for each of the following periods.

Obligations under finance leases for the following periods comprise:

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Buildings						
Not later than one year						
Later than one year and not later than five years						
Later than five years						
Less interest element						
Present Value of obligations						
Other						
Not later than one year						
Later than one year and not later than five years						
Later than five years						
Less interest element						
Present Value of obligations						
Present Value of obligations under finance leases for the following periods comprise:						

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Buildings						
Not later than one year						
Later than one year and not later than five years						
Later than five years						
Total Present Value of obligations						
Other						
Not later than one year						
Later than one year and not later than five years						
Later than five years						
Total Present Value of obligations						

21.3 Commitments under PFI and other service concession arrangements

21.3.1 Off-balance sheet (SoFP)

For each relevant PFI or other service concession contract, this note should:

- state what the contract is for and note that the property is not an asset of the Department [or name of agency or NDPB, where appropriate];
- give the estimated capital value; and
- give details of any prepayments, reversionary interests, etc and how they are accounted for.
- disclose the total payments to which they are committed for each of the following periods

	201X-1Y			**201W-1X**		
	£000			**£000**		
	Core Department	**Core Department & Agencies**	**Departmental Group**	**Core Department**	**Core Department & Agencies**	**Departmental Group**
Obligations on off-balance sheet (SoFP) PFI and other service concession arrangements for the following periods comprise:						
Not later than one year						
Later than one year and not later than five years						
Later than five years						

21.3.2 On-balance sheet (SoFP)

For each relevant PFI or other service concession contract, this note should:

- state what the contract is for and note that, under IFRIC 12, the asset is treated as an asset of the Department [or name of agency where appropriate];
- note that the substance of the contract is that the Department [or agency or NDPB, where appropriate] has a finance lease and that payments comprise two elements – imputed finance lease charges and service charges – and provide details of the imputed finance lease charges in the table below.

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Total obligations under on-balance sheet (SoFP) PFI or other service concession arrangements for the following periods comprises:						
Not later than one year						
Later than one year and not later than five years						
Later than five years						
Less interest element						
Present value of obligations						

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Present Value of obligations under on balance sheet (SoFP) PFI or other service concession arrangements for the following periods comprise:						
Not later than one year						
Later than one year and not later than five years						
Later than five years						

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Total Present Value of obligations						

21.3.3 Charge to the Statement of Comprehensive Net Expenditure and future commitments

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of off-balance sheet (SoFP) PFI or other service concession transactions and the service element of on-balance sheet PFI or other service concession transactions was £s,000 (201W–1X: £s,000); and the payments to which the department [its agencies and NDPBs where appropriate] is [are] committed is as follows.

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Not later than one year						
Later than one year and not later than five years						
Later than five years						

21.4 Other financial cocmmitments

The department [and its agencies and NDPBs where appropriate] has [have] entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements), for [state what service is being provided to the Department [and agencies and NDPBs, where appropriate]]. The payments to which the department [and its agencies and NDPBs where appropriate] is [are] committed are as follows.

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	**Core Department & Agencies**	**Departmental Group**	**Core Department**	**Core Department & Agencies**	**Departmental Group**
Not later than one year						
Later than one year and not later than five years						
Later than five years						

22. Financial Guarantees, Indemnities and Letter of Comfort

The Department has entered into the following quantifiable guarantees, indemnities or provided letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39.

	1 April 201X	**Increase in year**	**Liabilities crystallised in year**	**Obligation expired in year**	**31 March 201Y**	**Amount reported to Parliament by departmental Minute**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Guarantees						
(listed)						
Indemnities						
(listed)						
Letter of comfort						
(listed)						

Departments should give an explanation of movements where necessary.

Guarantees ,indemnities and letters of comfort should normally be issued by departments rather than agencies or NDPBs. Where,exceptionally, an agency or NDPB has given a guarantee, indemnity or letter of comfort and it is significant in relation to the department, details should be noted here.

23. Contingent liabilities disclosed under IAS 37

The Department has the following contingent liabilities (list with explanatory narrative)

The Department has also entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

- Statutory guarantees [listed]
- Statutory indemnities [listed]
- Letters of comfort [listed]

Departments should give an explanation as to why the liabilities are unquantifiable and, should any of them relate to an agency or NDPB, that fact should be noted.

24. Losses and special payments

24.1 Losses Statement (Drafting note: if any)

	201X-1Y			**201W-1X**		
	£000			**£000**		
	Core	**Core**		**Core**	**Core**	
Total [Insert total number of cases and total amount]						
Details of cases over £250,000	Details of the individual cases should include the name of the entity where the loss (note 24.1) or special payment (note 24.2) arose.					
Cash losses	Where the headings are not appropriate they do not need to be disclosed.					
[List cases]				Comparatives need be given for category totals. The list of cases need only be provided for the current year.		
Claims abandoned						
[List cases]						
Administrative write-offs						
[List cases)						
Fruitless payments						
[List cases]						
Store Losses						
[List cases]						

24.2 Special Payments (Drafting note: if any)

	201X-1Y			**201W-1X**		
	£000			**£000**		
	Core	**Core**		**Core**	**Core**	
Total [Insert total number of cases and total amount]						
Details of cases over £250,000				Comparatives need be given for category totals. The list of cases need only be provided for the current year.		
[List cases]						

24.3 Other payments (Drafting note: if any)

The Department should insert relevant text.

25. Related-party transactions

The Department should disclose here it is the parent of its agencies (named if appropriate or a cross reference made to note 35) and sponsor of its non-departmental public bodies, trading funds and other public corporations. These bodies are regarded as related parties with which the Department has had various material transactions during the year:

In addition, the Department has had [a small number of][various material] transactions with other government departments and other central government bodies.

No minister, board member, key manager or other related parties has undertaken any material transactions with the Department during the year. [Drafting note: if there have been material transactions, they should be disclosed.]

26. Third-party assets

Where the Department(or agency) has third party assets as defined in the Government Financial Reporting Manual (other than those held on behalf of the Consolidated Fund), a brief statement should be made here about the capacity in which the Department (or agency) acts that gives rise to these assets. The note should then go on to say: These are not departmental assets and are not included in the accounts. The assets held at the reporting period date to which it was practical to ascribe monetary values comprised monetary assets, such as bank balances and monies on deposit, and listed securities. They are set out in the table immediately below.

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Monetary assets such as bank balances and monies on deposit						
Listed securities						

Other significant assets held at the reporting period date to which it was not practical to ascribe monetary values comprised:

Any necessary details should be given of any investments in unlisted non monetary financial assets and of physical assets, the numbers of which should be disclosed in the following categories:

	201X-1Y			201W-1X		
	£000			£000		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Residential property						
Farms and other agricultural holdings						
Other property assets						
Motor vehicles, boats and caravans						
Chattels deemed of significant value:						
Works of art						
Antiques and collections						
Silverware and jewellery						

	201X-1Y			**201W-1X**		
	£000			**£000**		
	Core Department	**Core Department & Agencies**	**Departmental Group**	**Core Department**	**Core Department & Agencies**	**Departmental Group**
Other significant categories						
Miscellaneous						

[Drafting note: the note should also refer to where any additional information might be found about the activities giving rise to the third party assets.]

27. Entities within the departmental boundary

The entities within the boundary during 201X-1Y were as follows:

List of entities analysed between:

- Supply financed agencies
- Non-departmental public bodies (executive and non-executive being listed under subheadings)
- Others

[Drafting note: the note should also refer to where the annual reports and accounts (where appropriate) of the above bodies might be found - this could be a statement that the annual reports and accounts are published separately, or a HC number or other reference.

28. Analysis of net operating cost by spending body

	201X-1Y	201X-1Y	201W-1X
	£000	£000	£000
	Estimate	Outturn	Outturn
Spending body:			
Core department			
Agency			
Non-departmental public bodies			
Other central government			
Local authorities (district councils)			
Other bodies			
Total			

Annex F

Northern Ireland Executive	
Department	**OSCAR Level 2 structure proposed**
Agriculture	Agriculture
	Forestry
	Fishing & Hunting
	Veterinary Services
	Rivers
Culture, Arts and Leisure	Arts
	Museums
	Libraries
	Sport and Events
	Languages
	Inland Waterways & Fisheries
	Public Records
Education	Pre Primary
	Primary
	Secondary
	Other Education
	Youth Services
Employment and Learning	Employment and Skills
	Higher Education
	Student Support
	Labour Market Services
Enterprise Trade and Investment	Economic Development
	Tourism
	Business Regulation/Support
Finance & Personnel	Financial and Fiscal Services
	General Personnel Services
	Accommodation Services
	Statistical services
	General Services

Northern Ireland Executive	
Department	**OSCAR Level 2 structure proposed**
Health and Personal Social Services	General Medical Services
	General Pharmaceutical Services
	Dental Services
	Ophthalmic Services
	Hospital Services
	Paramedical Services
	Public Health Services
	Social Care - Disability
	Social Care - Old Age
	Social Care - Family and Children
	Health Support Services
	Fire & Rescue Services
Environment	Road Safety
	Driver and Vehicle Licensing
	Environment
	Planning and Local Government
Justice	Policing and Community Safety
	Prisons
	Access to Justice
	Forensic Science
Regional Development	Roads
	Road Transport
	Rail Transport
	Water and Air Transport
	Water & Sewerage
Social Development	Social Security Services
	Social Security Benefits
	Child Maintenance
	Housing
	Urban Regeneration and Community Development
Office of the First and deputy First Minister	Support for the Executive
	Human Rights, Equality and Community Relations

Northern Ireland Assembly

Appendix 4

Written Submissions and Correspondence

Agriculture and Rural Development

Committee for Agriculture and Rural Development

To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Stephen Graham
Clerk to the Committee

Date: 15 November 2011

Executive's Review of the Financial Process in Northern Ireland

1. Your memo of 19 October refers.

2. The Committee for Agriculture and Rural Development (ARD Committee) considered papers relating to the Executive's Review of the Financial Process at its meeting on 8 November and 15 November. At the meeting of the 15 November this response was agreed.

3. As you will be aware the previous ARD Committee provided submissions for the Committee for Finance and Personnel reports, such as, 'The Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure', 'The Third Report on the Inquiry into the Role of the northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure', 'Report on the Review of 2010-11 Spending Plans for Northern Ireland Departments' and 'Report on Executive's Draft Budget 2011-2015'.

4. The Committee notes the 15 recommendations and is broadly supportive but wishes to comment on Recommendations 7, 10, 11 and 12 and paragraph 89.

Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

ARD Committee response

The ARD Committee is concerned that, if implemented, this recommendation would diminish the overall scrutiny role which the Assembly and its Committees are properly expected to undertake. Whilst it should be possible for Statutory Committees to monitor spending against Departmental Business Plans, the Programme for Government is, in essence, a high level summary of what is contained in those Business Plans. It follows that the Executive's spending priorities should match, and reflect, the content of the Programme for Government and any variance must be subject to scrutiny (this principle seems to be accepted in the body of the Executive's paper, at paragraph 89).

Recommendation 10: That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

ARD Committee response

Whilst the ARD Committee welcomes the thrust of this recommendation – that is "to allow sufficient time for consultation by Committees" – the Committee is extremely concerned with the heavy qualification "if circumstances and time permits" (see also comments on Recommendation 11, below) and would suggest that any such qualification should be removed. The Committee rejects the notion (in paragraph 89) that Statutory Committees might assume a role in consulting the public.

Recommendation 11: An 'Ideal' Budget timetable would be (presuming the development of a Programme for Government prior to or slightly in advance of the Budget):

1 February	Detailed Budget Guidance and Timetable issued to key stakeholders
February-April	Engagement by Committees with Departments and other key stakeholders on spending priorities and availability of resources
May	Committee for Finance & Personnel (CFP) collate Committee reports and prepare a Report to the Assembly on proposals for living within the expected funding envelope.
By 31 May	CFP's 'Take Note' debate in the Assembly on spending priorities and proposals for the funding of those priorities
1 June	Submissions of spending proposals, etc from departments to DFP
June to August	Consideration of spending proposals, etc by DFP from a central strategic perspective and advice provided to the Finance Minister on a range of scenarios for presentation to the Executive
By mid-September	Draft Budget agreed by Executive and launched for public consultation
September to December	Public Consultation
By 31 December	Final Budget agreed by Executive and approved by the Assembly

ARD Committee response

The Committee welcomes any improvement to the process that would ensure that Statutory Committees are provided with appropriate opportunities to undertake their statutory responsibilities in respect of the scrutiny of budgets. The Committee would support the principle of an 'ideal timetable' provided there is appropriate, and timely, access to relevant information so that Committees can fulfill their statutory obligations in an informed, meaningful and constructive way.

Recommendation 12: A Budget Process Agreement should be made between the Assembly and the Executive and the Assembly's Standing Orders should be amended to reflect this Agreement and specify Budget Procedures.

ARD Committee response

The ARD Committee understands that the Finance and Personnel Committee is already looking at the concept of a Budget Process Agreement and would prefer to await the outcome of those deliberations before making any specific comment on this recommendation.

Stephen Graham

Clerk to the Committee

Audit Committee

Northern Ireland Assembly

COMMITTEE FOR
[illegible]
F & P

AUDIT COMMITTEE

Room 254
Parliament Buildings
Ballymiscaw
Stormont
Belfast
BT4 3XX

Tel: 028 9052 0333

Mr Conor Murphy MP MLA
Chairperson, Committee for Finance and Personnel
Room 419
Parliament Buildings
Ballymiscaw
Stormont
Belfast
BT4 3XX

28 November 2011

Dear Conor,

I am writing to provide you with the views of the Assembly's Audit Committee in relation to the Executive's Review of the Financial Process in Northern Ireland. The Audit Committee believes that the process for preparing the Budget should be amended to take account of the role of those responsible for agreeing expenditure falling outside the Executive's remit. Further detail is set out below and I would be grateful if you would ensure that the Audit Committee's views are reflected in the co-ordinated Assembly response.

Further to Section 66 of the Northern Ireland Act 1998, it is for the Assembly's Audit Committee, in place of the Department of Finance and Personnel (DFP), to agree the annual estimate of the use of resources by the Northern Ireland Audit Office (NIAO) and to lay that estimate before the Assembly.

Each year the C&AG prepares an estimate of the use of resources by the NIAO for the next financial year. The Audit Committee then considers this estimate and, subject to any modifications agreed between it and the Comptroller &Auditor General (C&AG), lays the estimate before the Assembly. In carrying out this function the Committee has regard to the advice of the Assembly's Public Accounts Committee (PAC) and DFP.

It is of fundamental importance that the Audit Committee should agree the NIAO's estimate, rather than DFP or the Executive. The core purpose of the work of the C&AG and the NIAO is to ensure that the Assembly is provided with an effective and truly independent audit assurance in relation to the use of public funds. Removing the NIAO from DFP and the Executive's remit underlines and strengthens the NIAO's independence in holding departments, executive agencies and other public bodies to account for their use of public money.

The Audit Committee has considered DFP's Discussion Paper on the Review of the Financial Process in Northern Ireland. The Committee supports the principle of greater alignment between the Budget, Estimates and Accounting boundaries and frameworks. Greater alignment will improve transparency and will therefore assist the Assembly in scrutinising the financial planning and performance of those using public money.

The discussion paper states that:

> *"The Executive's Programme for Government (PfG) should be agreed in advance of the Budget process so that the Budget is developed in accordance with the priorities in the PfG".*

This proposal is sensible. However it should also be noted that previous Budgets have included expenditure falling outside the remit of the Executive, its departments and the Programme for Government. In fact previous Budgets have included expenditure for the specific purpose of holding the Executive and its departments to account (e.g. they have included the expenditure of the NIAO). If future Budgets are to continue to include such expenditure it is important that the Executive is not seen to be proposing or agreeing how much this expenditure should be. This was not the case when the draft 2011 – 2015 Budget included figures for the NIAO which had not been agreed by the Assembly's Audit Committee (although the matter was resolved in the final 2011 – 2015 Budget).

To avoid this happening in future, the process for preparing the draft Budget should therefore include a stage where DFP seek input from those who have responsibility for agreeing the expenditure for those public bodies which fall outside the Executive's remit. The Budget should then make clear that the Executive is not responsible for either proposing or agreeing how much this expenditure should be.

I hope this contribution is useful. Please let me know if you would like any further clarification.

Yours sincerely

Danny Kinahan

Danny Kinahan MLA
Chairperson
Audit Committee

Chairpersons' Liaison Group

Northern Ireland Assembly

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From: **Stella McArdle,**

To: **Mr Peter Hall, Clerk to Committee for OFMDFM**
Mr Shane McAteer, Clerk to Committee for Finance and Personnel

Date: **7th November 2011**

Subject: **Departmental Monitoring Rounds Submissions**

At its meeting on 18 October 2011, the Chairpersons' Liaison Group discussed concerns in relation to budgetary monitoring round submissions from departments.

Issues of concern included the lack of sufficient detail provided to the committees in submissions to allow committees to carry out their budget scrutiny obligation and the timing of receipt of the submissions.

The Liaison Group agreed that their concerns should be raised with the Committee for OFMDFM and the Committee for Finance and Personnel.

I should therefore be grateful if you would bring the attached correspondence to the attention of the Committee.

Northern Ireland
Assembly

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Jimmy Spratt MLA
Chairperson, Chairpersons' Liaison Group

Mr Conor Murphy MP MLA
Chairperson
Committee for Finance and Personnel
Room 428
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Belfast
BT4 3XX

7 November 2011

Dear Conor,

DEPARTMENTAL MONITORING ROUND SUBMISSIONS

On behalf of the Chairpersons' Liaison Group (CLG) I write in relation to an issue that was raised at its meeting on 18 October 2011. The issue related to the receipt of monitoring round submissions by committees from their respective departments.

CLG are very aware of the role of the Committee for Finance and Personnel in budgetary matters and thus felt that that committee should be informed of the discussion that took place on 18th October.

During discussions a number of concerns were raised. These included the lack of sufficient detail provided in some departmental submissions to allow committees to effectively carry out their budget scrutiny obligations and the timing of receipt of submissions.

In relation to the level of detail provided by departments, it was discussed that in some cases, submissions only contain high-level figures that are not broken down to any meaningful level of detail. The result is that some committees are not in a position to adequately scrutinise the departmental position and this can prove very frustrating.

The issue of the timing of receipt of submissions from departments was also considered. Chairpersons expressed major concerns that committees are not being provided with submissions in sufficient time for effective scrutiny

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before the Department of Finance and Personnel's deadline and a final position is taken by the Executive. The deadline is known early in the financial year and departments should, when preparing their submissions, give consideration to the need to provide committees with adequate time to scrutinise them.

As requested by CLG I am also writing to the Chairperson of the OFMDFM Committee on this issue.

Yours sincerely

James R. Spratt

Jimmy Spratt MLA
Chairperson, Chairpersons' Liaison Group

Jimmy Spratt MLA
Chairperson, Chairpersons' Liaison Group

Conor Murphy
Chairperson
Committee for Finance and Personnel
Parliament Buildings
Ballymiscaw
Stormont

21st November 2011

Dear Conor,

Executive Review of the Financial Process

Thank you for the recent correspondence from your Committee on this issue which was considered by the Chairpersons' Liaison Group (CLG) at its meeting on 15th November 2011.

CLG have agreed to write regarding some common concerns expressed by chairpersons. These include that any outcome of the review should:-

- recognise that a committee requires financial information in sufficient time to allow it to undertake proper budget and financial scrutiny; and
- that the information provided should have adequate detail to allow a committee to effectively carry out its budget scrutiny obligations.

An additional issue raised was around the complexity of the issues in the review and the difficulties for committees in providing a written response to such complex issues. CLG noted that perhaps DFP could have found alternative ways to interact with committees and take their views other than in writing? On behalf of CLG, I hope you find this reply helpful in your overall response to DFP on the Review.

Yours sincerely

Jimmy Spratt
Chairperson, Chairperson' Liaison Group

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Culture, Arts and Leisure

Executive's Review into Financial Process

CAL Committee Response

17 November 2011

Thank you for the opportunity to respond to the Department of Finance and Personnel's discussion paper on the Executive's Review into the Financial Process.

The Committee for Culture, Arts and Leisure considered the paper at its meeting on 10 November 2011, and has agreed the following points for inclusion in the Northern Ireland Assembly's submission to DFP's discussion paper:

- The Committee supports the review of the financial process. The current process is complicated and does not allow for sufficient analysis of the Draft Budget by Committees. This is a flaw which severely impacts on the role of the Committee to conduct meaningful and effective scrutiny.
- The Committee is broadly supportive of the proposals to streamline and simplify the financial process and better align budget documents.
- While the Committee is supportive of plans to consolidate Executive NDPB's within the Estimates and Accounting boundaries, it is concerned that this recommendation is restricted to Executive NDPB's. Given that 80 per cent of the Department of Culture, Arts and Leisure's budget is managed by its Arm's Length Bodies, not all of which have NDPB status, the Committee seeks clarification on the definition of Executive NDPBs within these proposals, and whether consideration has been given to broadening the proposals to include all Departmental Arm's Length Bodies, not solely those that fall within the definition of NDPB's.
- The Committee is, in principle, supportive of including an early strategic phase and allowing sufficient time for consultation by Committees and the public. However, Recommendation 10 is contradictory in that it states that this process should be *strictly adhered to by all concerned*, yet permits a 'get out' clause that this can only be undertaken *if circumstances and time permits*. It is the view of the Committee that this recommendation should be strengthened to ensure that there is an early strategic phase and sufficient time for consultation by Committees and with the public, in order to ensure transparency and accountability. Department's should not be exempt from following these important scrutiny procedures.
- The Committee is, in principle, supportive of the budget timetable outlined in Recommendation 11. An agreed timetable allows all interested stakeholders an opportunity to engage in the consultation process from an early stage. However, the Committee believes that the timetable should be more than an 'ideal' but rather a formalised process, ensuring an early strategic phase is undertaken. The implementation of Recommendation 11 should not be conditional by time and circumstance (Recommendation 10).
- The Committee believes that there should be strong linkages between expenditure plans and outcomes including PSA targets. It would therefore argue that Recommendation 7 should be reviewed with a view of moving closer towards an outcome based budget, not further away, as this proposal would appear to suggest.
- The Committee notes that the budget framework is enshrined in the Northern Ireland Act 1998; and that the proposal by the Department is to formalise the budget process via a Budget Process Agreement between the Assembly and the Executive, with the appropriate detail outlined in Standing Orders (Recommendation 12). The Committee considers that

a legislative route would be more binding, given that Standing Orders can be suspended. This has been evidenced in the past, for example during the passage of the Budget No. 3 Bill, when the relevant Standing Orders were suspended to allow the passage of the Bill in less than 10 days. In this regard, the Committee looks forward to receiving further detail on the outcome of the Committee for Finance and Personnel’s exploration of the feasibility of legislative provision to enhance the Assembly’s financial scrutiny function

- That the review process should provide guidance, or that a Memorandum of Understanding should be agreed between the Assembly and the Executive, in terms of setting out the level of detail that Committee’s and the Assembly requires to effectively scrutinise budget proposals.
- That the timescale for any financial review should be sufficient to allow for effective and meaningful Committee and public consultation and that sufficient time is provided to the pre-budget process.
- That a review should be undertaken within an appropriate timescale, to ensure that the changes are delivered and are effective.

Education

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To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Roisin Fleetham
Clerk to the Committee for Education

Date: 18 November 2011

Subject: **Review of Financial Process – Committee comments**

General

1. At its meeting on 16 November 2011 the Committee for Education (the Committee) welcomed the opportunity to provide its comments to the Committee for Finance and Personnel (CFP) in respect of the Review of Financial Process in Northern Ireland.

2. During previous draft Budget processes, the predecessor Committee was critical of the Department of Education in relation to the lack of detail and clarity contained in spending proposals and the lack of time afforded to the Committee to scrutinise proposed allocations and formulate its views.

3. The Committee, therefore, broadly welcomes the proposed changes to the Budget process that would enhance its role in scrutinising budgets, and in particular the proposed changes which will increase transparency and clarity.

4. Key to this is ensuring that an appropriate timeline and structure is in place and that there is appropriate access to relevant and timely information to provide the detailed analysis required to consider departmental budgets in the context of the Northern Ireland Budget and the Programme for Government (PfG).

5. The Committee recognises the Executive is facing financial constraints and challenges. For this reason, all departments must make best use of the allocated resources. The Committee urges the Executive to adopt an innovative and forward thinking approach to the Programme for Government, and not just drive forward savings

6. The following paragraphs set out the Committee's views on the report's recommendations for change to the financial processes.

Commentary on Recommendations

7. **Recommendation 1** – The Committee welcomes the desire to align the Estimates and Accounts with Budgets and improve transparency and accountability to the Assembly.

8. **Recommendations 2** – The Committee recognises that the groundwork required for consolidation would be an administrative burden on departments and impact on faster closing and laying of Resource Accounts, but believes the benefit of alignment in terms of transparency would outweigh these difficulties.

9. **Recommendations 3, 6, 8, 9, and 10** – The Committee is supportive of these recommendations and believes that alignment of Estimates and departmental plans is fundamental to the process. Addressing the misalignments in Estimates and Resource Accounts is welcomed.

10. The Committee calls for the inclusion of an early strategic phase as the norm, not just "when circumstances and time permits". The Committee believes the process should be planned to ensure sufficient time for engagement with committees, the public and stakeholders. The Committee strongly agrees that the Budget must be developed in the context of a Programme for Government and, to take this a step further, place a requirement on departments to publish an Implementation Plan which is linked to the PfG.

11. Taking into account the large proportion of the budget allocated to the Education Department, the Committee would welcome further consultation on the level of breakdown proposed.

12. **Recommendation 7** – The Committee agrees with the monitoring proposed in this recommendation, however Members were of the view that all efforts should be made to align the Programme for Government and budget allocations more closely to a desired outcome. If Members are to form a meaningful view of any proposed Budget allocations, particularly in the current challenging financial environment, then the ability to link inputs, outputs and outcomes is fundamental. It is unrealistic to expect comment on allocations in a vacuum and moreover, it is difficult to establish the value for money or otherwise of any proposed allocation, in the absence of this type of linkage.

13. **Recommendation 11** – The Committee welcomed the proposed timetable and acknowledges it is a good start. However, it has concerns in relation to how the timings will work in reality. Members were of the view that slippage would be likely in the process timetable, particularly if there is any delay in, for example, in securing Executive agreement or publication of detailed spending proposals by departments. Once the draft Budget has been agreed, history has shown that only marginal changes tend to be made in developing the final Budget. The Committee suggests that it would be more beneficial to build time into the earlier part of the process to allow for genuine and meaningful engagement to take place with the Committee, public and stakeholders.

14. **Recommendation 12** – The Committee welcomed the proposal to establish a more formal arrangement between the Assembly and the Executive in relation to the budget process, and supported the recommendations of the Committee for Finance and Personnel in this regard. At this time, Members are looking forward to considering the outcome of the Finance and Personnel Committee's exploration of possible legislative provisions in respect of a pre-draft Budget scrutiny stage.

15. **Recommendations 13 & 14** – the Committee was supportive of the proposal to streamline the end of the Budget process, but only if such streamlining does not reduce the opportunities available to Committees and Members to debate budget and financial issues on the floor of the Assembly and in committees, and as part of a wider package of change which includes an effective pre-draft Budget stage and the Assembly committees being content with the arrangements for engagement by departments.

16. **Recommendation 15** – The Committee would take its lead from CFP but understands it is good practice to consider all revenue issues alongside the draft Budget rather than as separate exercises.

17. Thank you for the opportunity to comment on the recommended changes to the financial process.

Roisin Fleetham

Committee Clerk

Enterprise, Trade and Investment

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To: Shane McAteer
Clerk to the Committee for Finance & Personnel

From: Jim McManus
Clerk to the Committee for Enterprise, Trade & Investment

Date: 18 November 2011

Subject: **Executive's Review of the Financial Process**

At its meeting on 17th November 2011, the Committee for Enterprise, Trade & Investment considered the discussion paper on the Review of the Financial Process in Northern Ireland.

The Committee broadly welcomes the review and believe that many of the recommendations will assist in streamlining and improving the efficiency of the financial process. However, some concern was expressed in relation to a number of recommendations and the Committee agreed that I should bring these to your attention for consideration by the Committee for Finance and Personnel.

Recommendation 7 proposes that performance should not be considered to have any direct link to funding inputs. As allocation of resources is an integral aspect of any planning process, the link between expenditure and outcomes and performance is unavoidable. In its scrutiny of departmental business plans, the Committee has encouraged a more outcome-based approach to objective setting and to efficiency of delivery of outcomes against planned expenditure. It is felt that this link should extend to PSA targets. The consultation document states that the driver for PSA targets should be performance and the efficient delivery of the target. A key aspect of efficiency is delivery against expenditure and, therefore, budgets.

The phrase at **Recommendation 10** *"if circumstances and time permits"* suggests that this aspect of the timetable is not absolutely necessary. It is suggested that this phrase should be removed in order to ensure that committees are afforded sufficient time for scrutiny by committees. The role of committees is a scrutiny and advisory role rather than a consultation role and it is felt that the phrasing of the recommendation should reflect this. This is further reflected in the Committee's consideration of the proposal (paragraph 89, page 40) that consultation with key stakeholders should take place by committees. It is the role of departments to consult on policy and, as stated, the role of committees to advise and scrutinise that policy. Therefore this proposal, and the related aspect in the budget timetable at **Recommendation 11** should not be included.

Recommendation 12 proposes a budget agreement between the Assembly and the Executive. As the Committee for Finance & Personnel is currently working on proposals for a Budget Process Agreement, the committee will reserve comment on this recommendation until the outcomes of your committee's work are known.

Health, Social Services and Public Safety

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From: Kathryn Bell, Clerk for HSSPS

To: Shane McAteer

Date: 17 November 2011

Subject: **Executive's Review of the Financial Process**

The Committee for Health, Social Services & Public Safety considered papers relating to the Executive's Review of the Financial Process at its meetings on Wednesday 26th October 2011 and Wednesday 9th November 2011.

The Committee welcomes the 15 recommendations but wishes to comment on Recommendations 7, 10 and 12.

Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

Committee for Health, Social Services & Public Safety response

The Committee is of the view that the Programme for Government and the Public Service Agreements should be linked to budget. The Committee believes that monies should follow priorities as set out in the PfG, and that DFP might wish to consider refining the types of Public Service Agreement targets contained in the Programme for Government so they can be better linked to spend.

Recommendation 10: That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

Committee for Health, Social Services & Public Safety response

The Committee welcomes early consultation with Committees but agreed that this recommendation should be a requirement, rather than if circumstances and time permits.

Therefore, it suggested that this recommendation should be amended to read - "The Budget timetable must include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned."

Recommendation 12: A Budget Process Agreement should be made between the Assembly and the Executive and the Assembly's Standing Orders should be amended to reflect this Agreement and specify Budget Procedures.

Committee for Health, Social Services & Public Safety response

The Committee welcomes this recommendation but states that there is perhaps scope for setting out such an agreement in some form of legislation.

DFP is also suggesting that the public consultation on the draft budget might be carried out by committees. The Committee agreed that it is not the responsibility of statutory committees to carry out consultations on behalf of Departments, as they have no authority in terms of allocating money.

Kathryn Bell

Clerk

Committee for Justice

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Mr C Murphy
Chairperson
Committee for Finance and Personnel
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18 November 2011

Dear Mr Murphy

The Executive's Review of the Financial Process

The Clerk to the Committee for Finance and Personnel wrote to all Statutory Committees on 19 October 2011 seeking views on the DFP discussion paper on the Executive's Review of the Financial Process. The Committee for Justice considered the papers at its meeting on 17 November 2011 and agreed the following response:

General

The Department of Justice provides written details of its budget including information on its spending priorities, savings delivery plans and monitoring round returns to the Committee at regular intervals. The information is augmented with oral briefings by departmental officials and the Committee also routinely seeks more details on particular issues/concerns both from the department and from key agencies/NDPBs.

The Committee notes the 15 recommendations contained in the DFP discussion paper and is broadly supportive of the proposed approach and in particular those recommendations that will:

- Ensure that information on the budgets and the budget process is provided in a timely, transparent and easily understood manner.
- Establish a clear budget timetable that provides for formal early engagement by Departments with the Statutory Committees on budgetary pressures and priorities for expenditure.
- Provides improved Assembly accountability
- Provides detailed and structured budget/expenditure information that indicates the level of spending on each main service in a department and that can be tracked and enable meaningful comparisons to be made.
- Aligns the budgets, estimates and accounts, streamlines the process and addresses the current duplication and confusion that arises around the Budget debate and Main Estimates process.

The Committee wishes to make the following specific comments in relation to recommendations 7, 10, 12 and paragraph 89.

Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

The Committee supports the position that the Programme for Government should be developed slightly in advance of the development of the budget so that funding proposals are guided by the key priorities that have been identified. If this principle is accepted then there needs to be some mechanism in place that enables an analysis/assessment of budget allocations/spend and the linkage to the delivery of Programme for Government priorities and performance outcomes to be made.

Recommendation 10: That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

The Committee believes that there should be formal, early engagement between the Department of Justice and the Committee on budgetary pressures and priorities for expenditure. The Committee therefore welcomes the proposal that the Budget timetable should include an early strategic phase but is concerned with the qualification "if circumstances and time permits". The Committee recommends that this qualification is removed from the recommendation.

Recommendation 12: A Budget Process Agreement should be made between the Assembly and the Executive and the Assembly's Standing Orders should be amended to reflect this Agreement and specify Budget Procedures.

The Committee for Finance and Personnel has indicated that it is actively exploring the feasibility of legislative provision to enhance the Assembly's financial scrutiny function. The Committee would prefer to await the outcome of those deliberations before offering its views/comments on this recommendation.

Paragraph 89 - … In particular, if consultation with key stakeholders took place by Committees, at an early strategic phase of the Budget timetable, this, in turn, may preclude the need for later public consultation. As the Assembly has been elected to represent the public perhaps there should be a greater focus on Assembly Committees as the conduit for public consultation and gauging public opinion.

The Justice Committee does not believe that it would be appropriate for the Assembly Statutory Committees to undertake or co-ordinate a public consultation on the draft Budget. It is the Committee's role to scrutinise the department's budget proposals and, as in other policy areas, expects the Department to brief it on the outcome of any consultation exercise. As the draft Budget is developed by the Executive responsibility for consultation on it should remain with the Executive and Departments.

Yours sincerely

Paul Givan, MLA

Chairman, Committee for Justice

Office of the First Minister on deputy First Minister

Committee for the Office of the
First Minister and deputy First Minister

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Tom Elliott MLA, Chairman

Committee for the Office of the First Minister and deputy First Minister

Conor Murphy
Chairperson
Committee for Finance and Personnel
Room 419
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17 November 2011

Dear Conor,

At its meeting of 16 November 2011, the Committee for the Office of the First Minister and deputy First Minister agreed to forward this response to you for inclusion in your co-ordinated report in response to the discussion paper.

- **Recommendation 7**: The Committee is keen to see a more obvious relationship between spending proposals and specific outcomes and Members' believe that Recommendation 7 does not go that far.
- **Recommendation 10**: Members would favour more opportunities to allow the Committee to engage and scrutinise with regard to the budget process and so welcomes Recommendation 10 which calls for the budget timetable to include an early strategic phase to allow sufficient time for consultation by Committees. However, the Committee would highlight some concern over the caveat would be within the context of: "if circumstances and time permits". Members believe there should be a clear commitment to a time for consultation with committee.

Members would also seek early engagement and expect this to be extended to relevant stakeholders.

- **Recommendation 12**: The Committee is supportive of the Finance Committee's recommendations that the Budget Process should be formalised in legislation.

Yours sincerely

Tom Elliott

Public Accounts Committee

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24 November 2011

Mr Conor Murphy MP MLA
Chairperson,
Committee for Finance and Personnel

Dear Conor,

CFP Consultation on Review of Financial Processes

The Public Accounts Committee considered DFP's initial recommendations and the research report commissioned by your Committee at its meeting last week.

While the Committee agrees that its own financial scrutiny role will not be affected by the remit of the review, it welcomes this review of financial processes as an opportunity to improve and regularise the timetabling, information provision and effectiveness of financial scrutiny by the Assembly as a legislature.

The Committee further considered a presentation by the Comptroller and Auditor General on the impacts he envisages for NIAO. The Committee agreed to associate itself with and represent to you these points for your consideration.

Yours sincerely,

Paul Maskey
Chairperson

Public Accounts Committee

Recommendation 2 - NDPBs are consolidated within the Estimates and Accounting boundaries in order to improve alignment and transparency. We agree that NDPBs should be consolidated into the Estimates and Accounting Boundaries to improve alignment. However, it is important to note that this will not in itself offer a total solution and that some misalignment will remain. Furthermore, it will present an administrative burden on the public sector and, in some cases, this may be significant for some departments and for many NDPBs, especially in the early years.

The discussion paper notes the current on-going review of the Executive Budget Review Group of potential rationalisation of arms length bodies. Commencing consolidations using the current structures will be particularly costly if major reorganisations requiring significant realignments occur within a short period of introduction.

Recommendation 5 - The Assembly votes 'Net' controls in the Estimate and Budget Act in line with budgetary controls, with details of income shown in the Estimates and appropriate safeguards in place so that firm control is maintained over the use of income by departments. Under the current system, income generated by the department can only be used up to the level approved by the Assembly; any excess income beyond this level is returned to the Consolidated Fund. Under the proposed system, any income generated can be retained, as long as it is within the ambit of the department and is within the net voted limit.

This recommendation presents Departments to become more focused on income generation. However, it is important that they continue to seek best value for money in any income generation activities they undertake.

Recommendation 6: Spending Areas in Departmental Expenditure Plans should be re-structured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department. Spending Areas should be used in all publications. We agree that spending areas should be restructured to be more meaningful and informative to the reader. What is important is the level of detail presented and how it is presented in order to be truly meaningful. However we would question whether the example in the consultation paper at Annex F presentation is sufficiently meaningful and informative to allow for understanding and to facilitate informed and effective debate at the budget stage.

Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs. We recognise the difficulties associated with tracking through performance outcomes and the delivery of the Programme for Government to allocations in budgets. Nevertheless, we have difficulty in agreeing that "[PSAs] should not be directly attributable to allocations in budgets". Instead we would propose that, where possible, the Programme for Government, should be linked to budgeted expenditure, against which performance is subsequently reported.

Regional Development

Northern Ireland Assembly

COMMITTEE FOR REGIONAL DEVELOPMENT

Review of the Financial Processes in Northern Ireland

To: Conor Murphy MP MLA
Chair to the Committee for Finance and Personnel

Date: 18 November 2011

From: Jimmy Spratt MLA
Chair to the Committee for Regional Development

Review of the Financial Processes in Northern Ireland

The Committee for Regional Development would make the following responses to the discussion paper on the Review of the Financial Processes in Northern Ireland:

Recommendation 1

The Committee would endorse the recommendation as it makes a significant attempt to improve the transparency and accountability of the budgetary processes. This will further afford statutory committees potential for greater and more indepth scrutiny of the budgetary processes.

Recommendation 2

The Committee is not opposed to the principle of the recommendation but would offer Northern Ireland Water as an example whereby the constituted organisation and the application of NDPB budgetary and accounting values are in conflict. Where such anomalies are evident, application of appropriate budgetary and governance processes must be addressed in the first instance rather than encouraging closer alignment of NDPB budget processes.

Recommendation 6

The Committee fully endorses this recommendation as it will enhance statutory scrutiny of departmental budgets. The Department of Finance and Personnel should consult with the Northern Ireland Assembly, through the Chairpersons Liaison Group and the Committee for Finance and Personnel, to agree a clear and consistent format for the revised expenditure plans.

Recommendation 7

The Committee believes that there should not be a total disassociation between the Programme for Government and budget allocations as value for money is a key performance measure control whenever assessing the efficient delivery of PfG targets. The Committee is content, however, that a closer alignment of budget allocations to individual departmental corporate plans is a more appropriate level and would endorse any progress towards this.

Recommendation 9

The Committee would accept that a strict development of PfG and budgets in parallel might not be absolutely possible. However, the Committee recognises that the interrelationship between the two is such as would necessitate they are developed in close proximity to each other.

Recommendation 10

The Committee would fully endorse the recommendation as it would allow for earlier, and, therefore, fuller, engagement and scrutiny of the budget processes.

Recommendation 11

The Committee would fully endorse the recommendation as it would allow for earlier, and, therefore, fuller, engagement and scrutiny of the budget processes.

Recommendation 13

The Committee agrees with this recommendation and would suggest that the Committee for Finance and Personnel may wish to pilot the streamlining of the end stage of the end stage of the budgetary process.

Recommendation 15

The Committee agrees that there is a need for closer alignment of the Rates Order and the Budget Bill, particularly as greater responsibilities, but not necessarily budgets, are being delegated to local authorities.

The Committee for Regional Development would wish to thank colleagues on the Committee for Finance and Personnel for the opportunity to input into this comprehensive discussion paper and hopes that the comments recorded above assist in the review of the financial processes in Northern Ireland

Mr Jimmy Spratt MLA
Chairperson, Committee for Regional Development

Social Development

Committee for Social Development

To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Dr Kevin Pelan
Clerk to the Committee

Date: December 15 December 2011

Executive's Review of the Financial Process in Northern Ireland

1. Your memo of 19 October refers.

2. The Committee for Social Development considered papers relating to the Executive's Review of the Financial Process at its meeting on 15 December.

3. The Committee notes the 15 recommendations and is broadly supportive of the recommendations, detailed in the Department's Review paper, that are designed to make the budgetary process more transparent and easier to understand.

4. The Committee has made the following comments in relation to specific recommendations.

Recommendation 6: Spending Areas in Departmental Expenditure Plans should be re-structured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department. Spending Areas should be used in all publications.

The Committee believes that it should go without saying that Expenditure Plans should be meaningful and informative to the reader. This is an important recommendation that must result in Plans that show clearly and in an easy-to-understand format, what services are to be delivered and how much it will cost to deliver those services.

Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

While the Committee would agree that the driver of PSA targets should be efficient delivery, it believes that suggesting that performance should not have any direct link to funding inputs deserves more detailed discussion. Removing the link between targets and the budgets associated with achieving those targets, would appear to undermine the transparency of the actual process. The Committee is concerned therefore that this recommendation has the potential to undermine the scrutiny role of Committees.

Recommendation 9: That the Budget should be developed in the context of a Programme for Government agreed by the Executive.

The Committee shares the concerns of the Finance and Personnel Committee regarding the development of a budget in the absence of a Programme for Government. The Committee therefore agrees with the Department's recommendation that the Programme for Government should be developed in advance of, or at least in tandem with the development of a budget.

Recommendation 10: That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

The Committee believes that early collaborative and constructive consideration of the budget by Committees and other stakeholders is a positive recommendation. The Committee does however note that this recommendation is qualified with the phrase, ‘if circumstances and time permits’. The Committee holds the strong view that with effective forward planning ‘circumstances and time’ should not pose a problem; indeed this new phase might well save time at later stages of the budget scrutiny process.

Relating to this recommendation is the suggestion in paragraph 89 of the Review paper that there should be ‘a greater focus on Assembly Committees as the conduit for public consultation and gauging public opinion’. The Committee has serious concerns that this would blur the distinction between the statutory role of Committees and that of the Executive.

Recommendation 11: An ‘Ideal’ Budget timetable would be (presuming the development of a Programme for Government prior to or slightly in advance of the Budget):

1 February	Detailed Budget Guidance and Timetable issued to key stakeholders
February-April	Engagement by Committees with Departments and other key stakeholders on spending priorities and availability of resources
May	Committee for Finance & Personnel (CFP) collate Committee reports and prepare a Report to the Assembly on proposals for living within the expected funding envelope.
By 31 May	CFP’s ‘Take Note’ debate in the Assembly on spending priorities and proposals for the funding of those priorities
1 June	Submissions of spending proposals, etc from departments to DFP
June to August	Consideration of spending proposals, etc by DFP from a central strategic perspective and advice provided to the Finance Minister on a range of scenarios for presentation to the Executive
By mid-September	Draft Budget agreed by Executive and launched for public consultation
September to December	Public Consultation
By 31 December	Final Budget agreed by Executive and approved by the Assembly

The development of an ‘ideal’ budget timetable such as that detailed above is welcomed by the Committee. The Committee agrees that a balance must be struck between the time required by Committees to adequately scrutinize the budget and for Departments to plan and allocate funds internally and to external bodies.

Recommendation 12: A Budget Process Agreement should be made between the Assembly and the Executive and the Assembly’s Standing Orders should be amended to reflect this Agreement and specify Budget Procedures.

The Committee sees merit in the Finance and Personnel Committee’s position that the Budget process should be formalised in legislation or the Assembly’s Standing Orders as opposed to a ‘Budget Process Agreement’ as recommended.

The Committee’s position would bring certainty and a clearer understanding of the roles and responsibilities of all parties in respect of the budgetary process. Therefore, a new budgetary process underpinned by obligation defined in legislation or Standing Orders would be a more robust approach, which the Committee for Social Development believes would provide confidence to stakeholders in this process.

Dr Kevin Pelan

Clerk to the Committee

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29 September 2011

Dear Peter

Review of Arms Length Bodies

The responses received from departments on the Review of Arms Length Bodies are being analysed. Following this, the First Minister and deputy First Minister intend to bring a paper to a future meeting of the Budget Review Group (BRG) and the views of the Group will inform the recommendations which they, as joint chairs of BRG, ultimately bring to the Executive.

Yours sincerely

Signed Gail McKibbin

Gail McKibbin
Departmental Assembly Liaison Officer

NIAO

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6 January 2012

Dear Shane,

On 12 December 2011, you forwarded the paper 'Request for advice from NIAO on Review of Financial Process (NIAR 844-11)'. This document seeks further clarification on DFP's Discussion Paper entitled 'Review of the Financial Process in Northern Ireland ('the DFP Discussion Paper)'. As you may be aware, NIAO has submitted a response to the DFP Discussion Paper on 30 November 2011; I have attached a copy for the Committee's attention. In addressing your document, I will cross refer my responses to this submission, where appropriate, as it addresses many of the questions you have raised.

Question 1: Can the NIAO provide an assessment of the outline costs and risks associated with [recommendation 2 of the DFP Discussion Paper]?

Please see attached our response to the DFP consultation paper in relation to Recommendation 2 which notes many of the potential risks and administrative costs associated with this recommendation. However, it should be noted that we are unable to provide an estimated cost of the full implementation of this recommendation to the NI Executive.

Question 2: Can the NIAO provide an assessment of risks and potential benefits from an increased departmental focus on generating income from fees and charges?

Please see attached our response to the DFP Discussion Paper in relation to Recommendation 5. In addition we note that this recommendation presents opportunity for Departments to become more focused on income generation as long as the sources of income are within the ambit of the Department.

It should be noted that this recommendation mirrors that of HM Treasury in the similar exercise they are undertaking. Potential benefits of this particular recommendation put forward by HM Treasury[1] include lining up parliamentary controls with Treasury controls over departmental spending; maintaining incentives on Departments to seek best value for money

1 HM Treasury Cm7567 'Alignment (Clear Line of Sight) Project', March 2009.

by maximising income where it is appropriate to do so; and clearer presentation in resource accounts, as well as avoiding the risk that unanticipated income late in the year might be lost[23].

We see it as fundamentally important that Departments continue to seek optimum value for money in any income generation activities they undertake. The paper states that appropriate safeguards [would] be in place, and this is of fundamental importance to retain appropriate control over both expenditure and income so that inappropriate income generation is not pursued in order to mask overspending, for example. If this recommendation is accepted, it is imperative that DFP introduce administrative controls over income generation by departments including continued controls over revenue generation through fees and charges. Furthermore, it is important that appropriate controls over virement of income are in place as a safeguard.

Question 3: Are there any aspects of the proposed revisions that the NIAO feels should be brought to the attention of the Committee? For example, is there a risk that core departments' financial reporting could become 'immaterial' in relation to the consolidated whole?

Please see attached our response to the DFP consultation paper in relation to Recommendation 8. In relation to the specific question above, there is the potential in the case of some departments for the number and size of their NDPBs when added together to be much greater than that of the core department in relation to financial reporting.

Question 4: In the light of Question 2 and the potentially increased departmental focus on income generation, does the NIAO have a view on the transparency of the reporting of income under Note 9 in the proposed revised resource accounts structure? Could Note 9 mitigate any risks identified in relation to a greater focus on income?

It should be noted that the proposed Note 9 referred to above is identical to the income note (currently Note 10) presented in the proforma departmental resource accounts guidance at present. Therefore, we would again draw the Committee's attention to our attached response to the DFP consultation paper in relation to Recommendation 8.

I trust that this response addresses each of the issues you have raised. However, if you have any concerns, please do not hesitate in contacting me.

Dorinnia Carville
Director

2 HM Treasury website: 'Clear Line of Sight – the Alignment Project', FAQs.

3 At present when a department receives income above that which has been authorised it is surrendered to the NI Consolidated Fund as a Consolidated Fund Extra Receipt (CFER). This income is then available for reallocation within the NI block.

NIAO response -Financial process review

Recommendation 1: Assembly controls should change to reflect the alignment of Budget, Estimates and Accounting boundaries. The concept of Requests for Resources (RfRs) should be abolished and the Assembly should instead vote, as applicable, each department's:

Resource DEL

Capital DEL

Resource AME

Capital AME

Net Cash Requirement.

Agreed; splitting the Request for Resources into Resource and Capital DEL and AME voted limits will increase Assembly control over spending and it is important that the Net Cash Requirement remains as a separate voted limit. Introducing additional voted limits will increase the risk of excess vote for departments.

This is consistent with the approach adopted by HM Treasury; however it should be noted that the approach taken by HM Treasury with respect to provisions can result in requests for negative AME at the Estimates stage. This creates an unusual and potentially confusing position which is contrary to the aim of clarity and greater understanding.

Recommendation 2: NDPBs are consolidated within the Estimates and Accounting boundaries in order to improve alignment and transparency.

We agree that NDPBs should be consolidated into the Estimates and Accounting Boundaries to improve alignment. However in our view consolidation does not in itself produce greater transparency (see further comments at Recommendation 8).

It is important that any restructuring or machinery of government changes take place before commencing consolidation. It is also important that Departments and NDPBs do not have too many change projects underway at the same time. Therefore we would recommend a co-ordinated approach between any actions resulting from this discussion paper and any other re-organisations or reviews underway currently.

One of the potential benefits of this recommendation will be to strengthen and improve relationships between departments and their NDPBs to ensure that they work together to achieve the challenging timetables proposed; requiring greater integration of financial reporting, not just at year end but throughout the year and increasing accountability and financial monitoring by departments. It is important to note, as the paper does, that the distinctive accountability and governance characteristics of NDPBs and the role of Accounting Officers would remain unchanged as a result of alignment.

Administratively, some departments will find these proposals more challenging than others for a variety of reasons including the number or size of NDPBs requiring consolidation. This will require appropriate project planning and effective management of risk, including risk to departments of misstatement of accounts containing financial information prepared to an earlier timetable than achieved to-date, particularly where financial systems, skills or resources may be deficient. The Account NI accounting system used by departments does not currently offer a full consolidation solution; many NDPBs do not use this system and in some cases the financial systems in use currently require upgrade.

As the paper notes, there may be an impact on faster closing and on the laying of resource accounts especially in the early years. This will be challenging for Northern Ireland departments who already meet a much earlier summer recess timetable than Westminster departments or other devolved administrations. We will require detailed discussions with DFP around various administrative matters such as the timetable for production of consolidated accounts for audit and the use of interim audit.

A dry run and the experience gained from it can be of great benefit and we believe that there would be benefit in having NIAO review completed dry runs performed by departments. A project plan should be initiated by DFP and agreed by all the departments, establishing clear milestones such as agreeing the accounting boundary for consolidation, addressing issues regarding non co-terminous year ends and non uniform accounting policies, and a detailed project timetable addressing the methods of consolidation. Like DFP, NIAO will not prescribe a method of consolidation nor a consolidation process that must be followed, but will rather work with individual departments within the parameters of their detailed project plan.

A key risk arising from this recommendation, from NIAO perspective, is to the quality of financial management and reporting and the subsequent effect on the audit process and the audit opinion. The quality of accounts received is an important factor and the points noted above will have significant bearing in this regard. We will consider the effect of this recommendation on our resources as part of our future corporate planning process.

Recommendation 3: DFP should continue to work with departments to find solutions, where possible, to all other misalignments between Budgets, Estimates and Accounts.

We agree with the recommendation that DFP should continue to work with departments to find solutions to other misalignments between Budgets, Estimates and Accounts.

It is important to note that under the current proposals some significant boundary misalignments will remain. At present, it is proposed that the estimates and accounting boundary is based on a central government classification, as defined by the Office for National Statistics (ONS). This will not include public corporations such as NI Water, NI Transport Holding Company and the NI Housing Executive which will remain outside the departmental boundary for consolidation and therefore their spending will continue to be accounted for as a grant.

Similarly the boundary for Whole of Government accounts may be different to that for estimates and accounts and therefore there will remain differences between a number of the key financial documents within the NI public sector annually. We would question whether the ONS classifications should be the sole method of determining the accounting boundary.

Recommendation 4: All non-voted expenditure and income within Budgets (eg Consolidated Fund Standing Services) is brought within the coverage of Estimates in the Part II Subhead Detail.

Agreed

Recommendation 5: The Assembly votes 'Net' controls in the Estimate and Budget Act in line with budgetary controls, with details of income shown in the Estimates and appropriate safeguards in place so that firm control is maintained over the use of income by departments.

This recommendation seeks to remove the current long established system of Assembly control over gross income and expenditure limits and therefore runs contrary to the tighter controls proposed at Recommendation 1. Whilst there are potential benefits to the proposed change, there are also some significant risks which could arise from an increased focus on income generation and reduced control by the Assembly.

Recommendation 6: Spending Areas in Departmental Expenditure Plans should be re-structured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department. Spending Areas should be used in all publications.

We agree that spending areas should be restructured to be more meaningful and informative to the reader. What is important is the level of detail presented and how it is presented in order to be truly meaningful. Annex F of the paper suggests a restructuring of spending areas; however we would question whether the Annex F presentation is sufficiently meaningful and informative to allow for understanding and to facilitate informed and effective debate at the budget stage.

Recommendation 7: Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

We disagree with this recommendation as stated and especially with the statement that performance should not be considered to have any direct link to funding inputs. It is our view that you cannot divorce PSA targets from spending and that to effectively measure the efficient delivery of the target you must look at the expenditure. Whilst we recognise the difficulties of disaggregating the information in the manner suggested, we feel it is important that a level of reporting is developed which would allow MLAs to be presented with the Programme for Government, clearly linked to budgeted expenditure, against which performance is subsequently reported in areas of the programme where this is possible.

Recommendation 8: The Estimates and Resource Accounts should be revised as shown in Annexes D and E.

The Resource Accounts presented follow the format to be used by HM Treasury and are consistent with the format used currently. Whilst the principle of alignment proposed by this paper aims to increase transparency, the format of resource accounts remains quite complex and difficult for many readers to understand and find meaningful. We believe that improvements in the clarity of the information presented is equally as important as correcting misalignments if the aims of this review are to reduce complexity and improve understanding of the information presented in order for the Assembly to make effective use of the information. It is our view that there is the opportunity to review the format of the resource accounts with a view to making them more meaningful to the reader.

We note that the Estimates presented differ slightly to those used by HM Treasury and we will discuss further with DFP the rationale for the difference in respect of the administration limit.

Recommendation 9: That the Budget should be developed in the context of a Programme for Government agreed by the Executive.

We agree that a budget should be developed in the context of a Programme for Government. However, if the budget is developed in this context, then we feel it is essential that performance is reported against budget and therefore against the Programme for Government including PSA targets where possible.

Recommendation 10: That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

An early strategic phase in the budget process is of fundamental importance in improving accountability. To ensure the effectiveness of such an early phase, it is critical that the level of detail presented in spending areas (see earlier comments at recommendation 6 above) is sufficient to allow for meaningful scrutiny and debate by the Assembly.

Recommendation 11: An ‘Ideal’ Budget timetable would be (presuming the development of a Programme for Government prior to or slightly in advance of the Budget) [with details tabled].

It is clear that a budget timetable should be developed that meets the requirements of the Assembly and all statutory and standing committees and allows adequate time for meaningful scrutiny and debate. Once this has been agreed, it is important that all departments adhere to the timetable and to any administrative deadlines imposed by DFP as a result.

Northern Ireland Assembly

Appendix 5

Research Papers

Northern Ireland Assembly

Research and Information Service
Briefing Paper

Paper 000/00 22 June 2011 NIAR 321-11

Colin Pidgeon

DFP's Review of Financial Process: considerations for improving the budget process

This paper seeks to draw together a number of recommendations made by the Committee for Finance and Personnel during the previous mandate of the Assembly with good practice guidance with a view to informing the present Committee's input to the Department of Finance and Personnel's Review of Financial Process.

List of recommendations

Recommendation 1: a budget calendar for future processes should be specified in advance. The calendar should allow for adequate consultation, and it should be adhered to.

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

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

Recommendation 4: future budgetary documentation should include a more detailed breakdown of expenditure plans, including linkages between expenditure and performance outcomes. Documentation should be produced in good time to facilitate informed debates at all stages of the timetable developed under recommendation 1.

Recommendation 5: the framework for a new budget process should be set out in primary legislation, with additional detail included in regulations or the Assembly's Standing Orders as appropriate.

1. Background

The Department of Finance and Personnel (DFP) is undertaking a Review of Financial Process on behalf of the Executive. The Terms of Reference for the Review are attached at Appendix 1.

At paragraph 7. of the Terms of Reference, DFP states that:

> *…the overall aim of the review is to examine and make recommendations on the options to create a single coherent financial framework that is effective, efficient and transparent and enhances scrutiny by and accountability to the Assembly, taking into account the needs of the Assembly.*

The purpose of this Briefing Paper is to aid the Committee for Finance and Personnel's ("the Committee") discussion of what the needs of the Assembly are. Some recommendations about the shape of future the financial process are made, drawing on best practice guidance and the reports of the previous Committee. It builds upon detailed research that was presented to the previous Committee.[1]

2. Elements of a future financial process

The previous Committee, in its Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure[2] made the following recommendation:

> *While the Committee and DFP are agreed on the benefit of early and more structured engagement between executive departments and Assembly committees, members believe that this will only happen in the context of a formal agreement between the Assembly and Executive on a regularised budget process, which includes clearly defined pre-draft Budget stages that provide for early Assembly input, irrespective of whether an annual or multi-year budget cycle is followed. The Committee is also of the view that the provision of formal opportunities for the Assembly to influence budgetary matters early in the process would*

1 In particular, Assembly Research Paper 45/10 'Considerations for reform of the budget process in Northern Ireland' available online at: http://www.niassembly.gov.uk/researchandlibrary/2010/4510.pdf

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

help facilitate the potential streamlining of the latter stages in the budget and estimates process, including the associated plenary debates. The Committee recommends that the successor CFP works to address this matter early in the next mandate, in liaison with DFP and possibly as part of a co-ordinated Assembly input to the Executive's forthcoming Review of the Financial Process, the outcome of which is to be reported to the Assembly early in 2012.

There are two distinct elements to this recommendation. The first is that formal agreement is needed on a regularised, or structured, budget process. The second element is in relation to an early formal stage within that process to give the Assembly the opportunity to influence ministers' thinking and to enhance effective scrutiny.

The value of scrutiny

Public scrutiny is an essential part of ensuring that government remains effective and accountable. Scrutiny has been defined as:

…the activity by one elected or appointed organisation or office examining and monitoring all or part of the activity of a public sector body with the aim of improving the quality of public services. A public sector body is one that carries out public functions or spends public money. Scrutiny ensures that executives are held accountable for their decisions, that their decision-making process is clear and accessible to the public and that there are opportunities for the public and their representatives to influence and improve public policy.[3]

The Centre for Public Scrutiny[4] identifies four principles to help people understand the most important aspects of scrutiny. Good scrutiny:

- provides 'critical friend' challenge to executive policy-makers and decision-makers;
- enables the voice and concerns of the public and its communities;
- is carried out by 'independent minded governors' who lead and own the scrutiny process; and,
- drives improvement in public services.

So, from a theoretical perspective, it is in the interests - not only of the Assembly but also of the general public and of the Executive - to have financial processes that enable scrutiny.

In addition, scrutiny is an essential element of good practice as identified by the International Monetary Fund (IMF) Manual on fiscal transparency which states:

The legislative and judicial branches [of the state] should play an active role in ensuring the availability and integrity of fiscal information. This would include having an active committee of the legislature to oversee the conduct of fiscal policy and to facilitate civil society input into budget deliberations (e.g., through receiving public submissions).[5]

Indeed, at a time when it seems highly probable that increased fiscal powers will devolved to Northern Ireland - over corporate taxation, in particular, but also perhaps other minor instruments such as Air Passenger Duty - IMF good practice suggests scrutiny and transparency are even more important in these circumstances:

3 Centre for Public Scrutiny 'Introduction to scrutiny' available online at: http://www.cfps.org.uk/introduction-to-scrutiny (accessed 16 June 2011)

4 The Centre for Public Scrutiny was created to help those who look at the effectiveness of public services. It is an independent not-for-profit company set up originally by the Improvement and Development Agency for Local Government, and incorporated as an independent organisation in 2003 by the Local Government Association, Chartered Institute of Public Finance and Accountancy and the Democratic Health Network of the Local Government Information Unit (see http://www.cfps.org.uk/about-us) (accessed 16 June 2011)

5 IMF (2007) 'Manual on Fiscal Transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/101907m.pdf (accessed 16 June 2011) (see paragraph 41)

Fiscal transparency of subnational levels of government and in relationships between levels of government is especially important where countries are devolving fiscal responsibilities.[6]

It may be argued, therefore, that the development of and adherence to improved financial processes would support the Executive's case for the devolution of increased fiscal powers.

2.1. A regularised budget process: timetable

One of the significant criticisms levelled at the Executive by Assembly committees in respect of the Budget 2010 process (which set allocations for departments for 2011-15) was that insufficient time was allocated for consultation – both with statutory committees and the wider public.[7]

Part of the cause of this problem was the timing of the UK Government's Spending Review 2010 which was only announced in October. Nevertheless, the previous Committee was of the view that:

Given that departments had ample opportunity to prepare spending and savings plans, and to examine additional revenue-raising options, since June 2010, the Committee considers that the Executive should have been in a position to agree and publish the draft Budget 2011-15 sooner, following the UK Spending Review announcement on 20 October 2010.[8]

Provision of, and adherence to, an agreed budget timetable may have helped considerably in overcoming these difficulties. The IMF Code of good practices on fiscal transparency states that:

A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.[9]

In this context, the Committee may also wish to note the comments made by the previous Committee in its Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure. It observed that both it and DFP were in agreement in regard to a more structured engagement between statutory committees and departments. It did, however, argue that:

While the Committee and DFP are agreed on the benefit of early and more structured engagement between executive departments and Assembly committees, members believe that this will only happen in the context of a formal agreement between the Assembly and Executive on a regularised budget process, which includes clearly defined pre-draft Budget stages that provide for early Assembly input […]. The Committee is also of the view that the provision of formal opportunities for the Assembly to influence budgetary matters early in the process would help facilitate the potential streamlining of the latter stages in the budget and estimates process, including the associated plenary debates.[10]

So, whilst the previous Committee was agreed that elements of simplifying the latter stages of the budget process (particularly in relation to plenary stages) would be beneficial, it was also clear that this would be assisted by formal opportunities for scrutiny in the earlier stages of a regularised process.

6 IMF (2007) 'Manual on Fiscal Transparency' http://www.imf.org/external/np/pp/2007/eng/101907m.pdf (accessed 16 June 2011) (see paragraph 44)

7 See section 1 of Assembly Research Briefing Note 04/11 'Draft Budget 2011-15' for more detail on good consultation practice: http://www.niassembly.gov.uk/researchandlibrary/2011/0411.pdf (pages 3-5)

8 CFP (2011) 'Report on the Executive's Draft Budget 2011-15: Volume 1' available online at: http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_44_09_10R_vol1.html#3 (see Key Conclusion and Recommendation 4.)

9 IMF (2007) 'Code of good practices on fiscal transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 13 June 2011) (see 2.1.1)

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

> **Recommendation 1**: a budget calendar for future processes should be specified in advance. The calendar should allow for adequate consultation, and it should be adhered to.

2.2. A regularised budget process: pre-draft budget scrutiny

The following extract from the previous Committee's Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure highlights the importance it placed both on engagement between departments and their respective committees and the impact the lack of engagement had on those committees' ability to contribute constructively to expenditure plans:

> *In its Report on the Review of 2010-11 Spending Plans for NI Departments, published in March 2010, the Committee noted that a number of other Assembly statutory committees had expressed dissatisfaction with regard to the provision of information on the plans for their respective departments. The Committee was strongly critical with regard to the lack of meaningful engagement between departments and their respective Assembly committees. The Committee was disappointed to note that the same issues have again arisen in the recent draft Budget 2011-15 process, when seven out of the other eleven committees, in addition to the Chairpersons' Liaison Group, expressed some degree of dissatisfaction with regard to the level of engagement on spending and savings plans for their respective departments. Given the repeated failure by a majority of executive departments to meet the needs of their Assembly scrutiny committees in terms of the provision of appropriate and timely information on budgetary proposals, the Committee believes that the Assembly's potential in contributing constructively to the development of Executive budgets and to overseeing the subsequent delivery of the Executive's strategic spending priorities can be fully realised only if the Assembly takes decisive steps to establish stronger procedures and processes for exercising its role in this regard.*[11]

A contributing factor to this difficulty was the compressed timetable referred to above in section 2.1. The inclusion of a formal stage prior to the development of the draft budget could mitigate the exclusion of the Assembly from the budgetary process. By the time the Executive has agreed its draft budget, the ability of the Assembly to exert any influence is severely constrained.

A recent Technical Note and Manual published by the IMF notes that:

> *For promoting good governance and fiscal transparency, the legislature's active engagement in the budget process is essential. When fiscal policies and medium-term budgetary objectives are debated in parliament, budget strategies and policies are "owned" more widely.*[12] *[emphasis added]*

For these reasons, good practice indicates that:

> *The legislature should be provided with an opportunity for a pre-budget review of the government's main budget orientations and proposals for the upcoming fiscal years, especially the next year's annual budget strategy and main aggregates.*[13]

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

12 IMF (2010) 'Role of the legislature in the budget process' available online at: http://blog-pfm.imf.org/files/fad-technical-manual-9.pdf (see page 1)

13 IMF (2010) 'Role of the legislature in the budget process' available online at: http://blog-pfm.imf.org/files/fad-technical-manual-9.pdf (see page 3)

The main fiscal aggregates in Northern Ireland are largely set by the UK Government through spending reviews. But there are revenue-raising options open to the Executive (the regional rate, water charging, and – potentially in future – corporation tax, for example) and these could be debated prior to draft budget stage to help increase the Assembly's 'ownership'.

Secondly, discussion of 'budget strategy' or the spending priorities for the upcoming budget – in terms of which programmatic areas (be it health, education or roads) the draft budget should focus on – could help streamline debates at the draft budget stage. It could help shift the focus from the broad decisions about departmental allocations to the more specific issues of how resources should be allocated within programme areas.

Such an opportunity is provided in the Scottish budget process through a 'strategic budget scrutiny' phase – though the Committee may wish to note that the formal 'Stage 1' which previously considered spending strategy did have its problems.[14]

In Wales, a different model again was used whereby the Finance Minister invited subject committees to express their views on priorities for the Welsh Assembly Government's expenditure in the coming financial years. This stage of the process took place in June and July to inform development of the draft budget for the autumn. Following the changes to the governance of Wales (the separation of the Executive from the legislature – previously Ministers also sat on subject committees), this process has changed once more, and may be subject to further change.[15]

Nevertheless, pre-budget debates do form part of the fiscal picture in a number of other countries – such as France, Sweden and Brazil, for example.

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

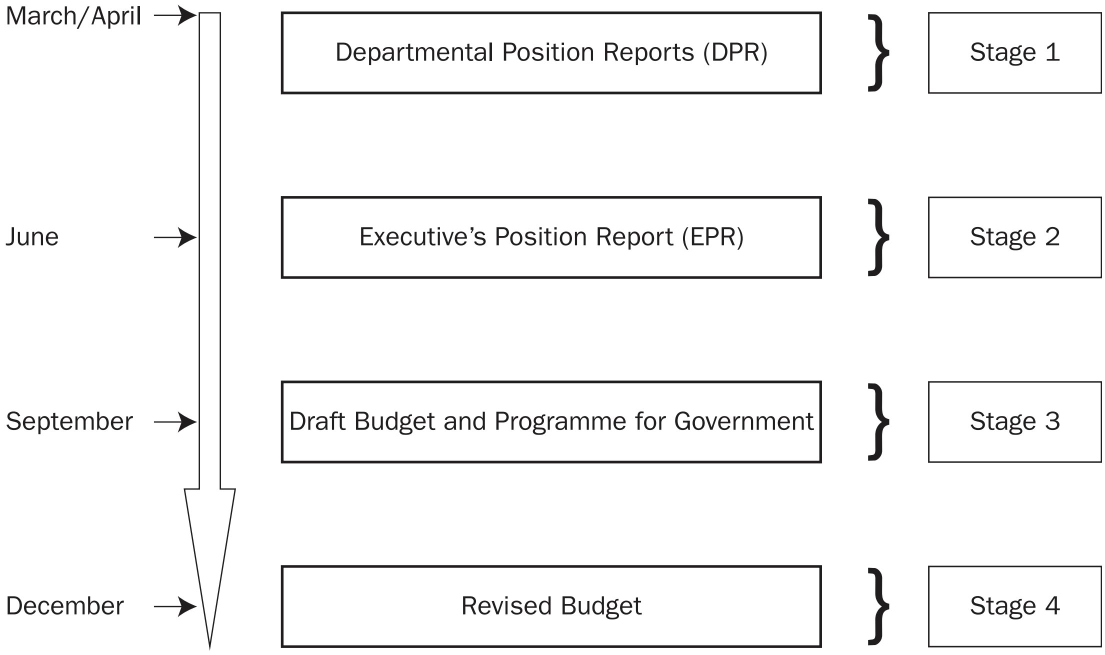
2.3. A regularised budget process: strategic review

In the earlier years of devolution, the budget process was formally structured and there were two formal stages (Departmental Position Reports and Executive's Position Report) that preceded the introduction of a draft budget to the Assembly (see figure 1 below). In the Budget 2010 process which set departmental allocations for 2011-15, these stages did not occur.

14 http://www.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm

15 Source: communication with National Assembly for Wales researcher.

Figure 1: The budget process used in the Northern Ireland Assembly's first mandate



The case for a regularised process

The Executive's previous budget set expenditure plans for 2008-11. During the execution of these plans two notable events occurred. Firstly, the Executive undertook a 'strategic stocktake', the outcome of which was reported to the Assembly by the then Minister of Finance and Personnel, Nigel Dodds, in January 2009. He stated that:

> *…the Executive agreed in March 2008 that there would be little to be gained from commissioning a comprehensive local Budget process for 2008-09. However, it was recognised that Northern Ireland Departments would have emerging financial issues of which early sight would be useful when considering the strategic approach to the 2009-2010 in-year process. therefore, the executive agreed to conduct a strategic stocktake of the Budget position for forward years in order to allow Departments to review progress against their three-year plans to date.*[16]

The outcome of the strategic stocktake resulted in a number of reallocations between departments to help meet anticipated expenditure pressures for the second and third years of the three-year budget.

The second event was the Executive's 'review of spending plans' which began in summer 2009 "in light of changing circumstances and the emerging pressures facing the Executive for the 2010-11 financial year."[17] This resulted in revised spending plans being agreed by the Assembly in spring 2010 which altered once more the allocations for 2010-11.

The fact that the three-year budget for 2008-11 had to be re-opened on two subsequent occasions for reconsideration is offered as evidence that, after the Executive gains agreement to a multi-year budget, a formal stage should be included in a future process in which strategic budgetary issues may be re-considered by the Assembly during execution of the plan. This stage would be over and above what can be addressed through the process of in-year monitoring.

16 Official Report, 20 January 2009, available online at: http://www.niassembly.gov.uk/record/reports2008/090120.pdf (see page 300)

17 http://www.northernireland.gov.uk/index/work-of-the-executive/programme-for-government-and-budget-v1.htm

This suggestion is underpinned by the IMF Code of good practices on fiscal transparency which states that:

> *A timely mid-year report on budget developments should be presented to the legislature.*[18]

Following this good practice on transparency in budgeting would allow for the regularisation of the situation that developed under the 2008-11 budget in a seemingly ad-hoc manner. Including a formal stage in the budget cycle would facilitate the Assembly's statutory committees' planning of forward work programmes. Time could be scheduled in advance for scrutinising such a mid-year report.

Assuming the Executive continues to produce multi-year budgets, a formal mid-year phase could be used annually to inform the prioritisation of monitoring round allocations. At present there seems to be little to link the re-allocations made in-year with particular policy priorities. If such a link does exist, this stage might be used to allow the Executive to articulate the linkage.

In addition, this in-year strategic review stage may be helpful for informing decisions for distributing carried over allocations under the new Budget Exchange scheme that has replaced End-Year Flexibility. More detail on the scheme will be required before it's possible to assess how that mechanism could be incorporated.

The IMF Code of good practices on fiscal transparency states that:

> *Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.*[19]

The recommendation is made below that budget documentation should show a clearer link between spending plans and intended outcomes – an extension of this approach, taking into account the good practice recommendation would be that documentation for monitoring rounds would follow the same pattern. Linking in-year monitoring to policy priorities would help in this regard.

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

2.4. A regularised budget process: information

For the two budgetary phases suggested above to be effective, there is a need for the Executive to provide financial information to underpin the Assembly's consideration and scrutiny. This shown in the section quoted in section 2.3 from a report of the previous Committee.

The need for transparent published information is acknowledged in the TOR for DFP's Review of Financial Process. The intentions outlined in meetings with officials have focused on improving the alignment between various Executive publications (budgets, estimates and accounts and so on) and improvements in the level of detail provided – particularly in relation to expenditure headings.

18 IMF (2007) 'Code of good practices on fiscal transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 13 June 2011) (see 2.2.2)

19 IMF (2007) 'Code of good practices on fiscal transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 13 June 2011) (see 2.2.3)

A move to more detailed information would be a step towards better practice. The IMF Code of good practices on fiscal transparency states that:

> *A description of major expenditure and revenue measures, **and their contribution to policy objectives**, should be provided.*[20] *[emphasis added]*

Such an approach was in fact recommended by DFP in its Review of Northern Ireland Executive Budget 2008-11 Process:

> ***(1) An exercise should be conducted at the start of the next Budget process to seek to determine the level of public expenditure underpinning actions to deliver each Public Service Agreement in the Programme for Government (PfG)**. One of the constraints identified in scrutinising the draft Budget proposals and PfG was the absence of a link between the two documents. This information would provide a baseline position against which spending proposals could be compared. Ideally this should go further in terms of the funding allocated for the objectives within each PSA.*

In terms of detail, a comparison between the budgetary information provided to the Northern Ireland Assembly and the National Assembly for Wales is instructive.

For example, in the Executive's Final Budget 2011-15 the expenditure allocated to the Department of Health, Social Services and Public Safety for 'personal social services' was included in a single budget line. By 2014-15, the total allocation under this line is £923.6m – not far below £1 billion – without any further detail provided in the budget document.[21]

The spending plans for health and social services in Wales for the next three years, however, were provided to a greater level of detail. The 'social services' line is broken down to:

- Children's Social Services;
- Adult & Older People;
- Social Services Strategy;
- Care Council for Wales; and
- Older People Commissioner.[22]

Whilst this breakdown does not link specifically to objectives, at the very least it is much clearer where certain blocks of overall expenditure are allocated. This example shows how the transparency of the budget documentation could be improved through a simple measure.

If such an approach is what is recommended for Northern Ireland, it is possible to see there is likely to be an improvement. But there is still a gap between those more detailed expenditure headings and the description of their 'contribution to policy objectives' suggested by good practice.

A link between expenditure plans and Programme for Government Public Service Agreements or related objectives as suggested by the DFP Review of Northern Ireland Executive Budget 2008-11 Process would take this much further and may be more helpful to Assembly Committees. It would also be facilitated by the implementation of recommendation 2 above as the draft budget would have to demonstrate how it implements those priorities debated at that 'budget strategy' phase. Therefore, the linkage would be incorporated from the start.

20 IMF (2007) 'Code of good practices on fiscal transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 13 June 2011) (see 2.1.3)

21 NI Executive (2011) 'Final Budget 2011-15' available online at: http://www.northernireland.gov.uk/revised_budget_-_website_version.pdf (see page 79)

22 http://wales.gov.uk/docs/finance/report/110201megen.pdf (see page 2)

Recommendation 4: future budgetary documentation should include a more detailed breakdown of expenditure plans, including linkages between expenditure and performance outcomes. Documentation should be produced in good time to facilitate informed debates at all stages of the timetable developed under recommendation 1.

3. Implementation of a future financial process

A number of the previous Committee's reports highlighted – and indeed criticised – departments and the Executive for a failure to engage meaningfully with the Assembly's statutory committees. In particular, a number of committees were critical of the information they were provided in relation to their respective departments' spending priorities and plans.

One means of overcoming some of these difficulties would be to give the future budget process a statutory footing. Such an approach is supported by good practice guidance. The Technical Note and Manual published by the IMF cited above notes that:

> *The various budget rules, procedures, limitations and requirements of both the legislature and the executive are spelt out in constitutions, laws, regulations and informal practices. Constitutional rules or budget system laws are useful when they lay out principles for good budget practice. However, there is danger in overloading budget systems laws, by including detailed provisions that take away budget flexibility that is needed by the executive in preparing and executing annual budgets.*[23]

For these reasons, good practice states that legislatures should:

- *Include budget principles and procedures in budget system laws, especially when needed to implement constitutional requirements.*
- *Avoid overloading laws, including the constitution, with detailed budget rules, delegating details* to the executive's regulations.[24]

This good practice guidance suggests therefore that the overall budget and financial process should be established in statute, but that some of the detail should be left subordinate legislation, or to the Assembly's Standing Orders.

In relation to Standing Orders, however, there is a note of caution. Whilst good practice suggest these should be used for formalising a legislature's internal rules for organisational arrangements for budget approval and review, the Assembly should:

> *Avoid using such regulations [i.e. Standing Orders] as substitutes for general budget procedures and restrictions that should be in law, not internal parliamentary regulations.*[25]

So, whilst Standing Orders may be used to frame how the Assembly conducts budget scrutiny internally, they should not be relied upon to establish the principal stages or timing of a future process.

23 IMF (2010) 'Role of the legislature in the budget process' available online at: http://blog-pfm.imf.org/files/fad-technical-manual-9.pdf (see page 19)

24 IMF (2010) 'Role of the legislature in the budget process' available online at: http://blog-pfm.imf.org/files/fad-technical-manual-9.pdf (see page 20)

25 IMF (2010) 'Role of the legislature in the budget process' available online at: http://blog-pfm.imf.org/files/fad-technical-manual-9.pdf (see page 20)

Recommendation 5: the framework for a new budget process should be set out in primary legislation, with additional detail included in regulations or the Assembly's Standing Orders as appropriate.

Appendix 1: DFP Review of Financial Process TOR

Review of Financial Process in Northern Ireland
Terms of Reference

Background

1. The Northern Ireland Executive's public revenue and expenditure process takes place in the context of the wider UK control and management framework and includes:-

- the Budget public expenditure planning process (called 'The Budget' with its links to the Programme for Government and ISNI) prior to the start of the new financial cycle,
- the In-year monitoring rounds revising the Budget plans,
- the Rates legislative process,
- the legislative process (known as the Estimates and Budget Bill) for the appropriation of all departmental resources at the beginning and before the end of each financial year, and
- the publication of Departmental Resource Accounts following the close of the financial year.

2. The current process has existed in Northern Ireland for a considerable time and is based on the Westminster model. However, HM Treasury has now instigated significant reform of its budgetary/accountability process – most notably the move to Clear Line of Sight (CLOS) presentation. In this context, the current financial process may not best serve the Northern Ireland devolved administration and it is time to consider whether a more appropriate model should be introduced.

3. The various components of the process serve different purposes and have developed over the years in individual directions resulting in significant misalignment between Budgets, Estimates and Accounts.

4. Thus, while based on the same basic dataset, the figurework in Budgets, Estimates and Accounts , although reconcilable, does not meet the Assembly's expectations in relation to transparency.

5. In addition to this, revenue in the form of the Rates legislation is handled in a separate process.

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

Aim of the Review

7. Against this background, the overall aim of the review is to examine and make recommendations on the options to create a single coherent financial framework that is effective, efficient and transparent and enhances scrutiny by and accountability to the Assembly, taking into account the needs of the Assembly.

Strategic Objectives of the Review

8. The strategic objectives of the review are:-

- To align the Budget, the Estimates and the Accounts as far as practicable to improve transparency, and
- To synchronize the presentation of the Budget, the Estimates/departmental expenditure plans, the Budget Bills, the Rates legislation and the Accounts in order to create a single co-ordinated public revenue and expenditure process.

Methodology and Timeline

9. The review will:-

Key Actions	Ongoing to:
consider the controls voted by the Assembly with a view to better alignment between Budgets and Estimates	31 March 2011
identify and examine all misalignments between Budgets, Estimates and Accounts and consider options for maximum alignment	30 April 2011
review and redesign the current Estimates with a view to transparency with the Budget and Accounts	31 May 2011
consult with Rating Policy Division on alignment of the Rates Order with expenditure plans	30 June 2011
scope the practicalities and risks of presenting Estimates and the related Budget Bill as the final stage of the Budget process - identify proposals to manage the risk	30 June 2011
seek legal advice from the Attorney General and the DSO in relation to legislative implications and consult with First Legislative Counsel	31 July 2011
seek evidence from Departments and key stakeholders on alignment (in particular on inclusion of NDPBs within departmental accounting boundary), on Assembly controls and on revised Estimates	30 September 2011
consult with the Executive Services Directorate	31 October 2011
consult with the Northern Ireland Audit Office	31 November 2011
consult with the Committee for Finance and Personnel and the Public Accounts Committee on the Estimates, Assembly controls and alignment	beginning December 2011
Recommendations	
report to the Finance Minister with recommendations	31 December 2011
recommendations to the Executive for agreement	mid January 2012
Action Plan to the Executive for agreement	28 February 2012
report to the Assembly	31 March 2012
Implementation	
issue guidance and project timetable to departments	30 April 2012
draft legislation and introduce in Assembly	30 June 2012
adjustments to DFP database (and Account NI) to accommodate changes	Autumn 2012
Legislative process complete	March 2013

Key Actions	Ongoing to:
dry run 2012-13 Estimates with NDPBs within departmental accounting boundary	March 2013
dry run 2012-13 Resource Accounts prepared (and audited) with NDPBs within departmental accounting boundary	December 2013/January 2014
refinement of 2013-14 Estimates and Accounts (aiming for faster closing)	March 2014 & September 2014
Implementation – 2014-15 Estimates (inc NDPBs) 2015-16 Estimates as Final Budget 2014-15 Resource Accounts (inc NDPBs)	 June 2014 December 2014 June/July 2015

Review Team

10. The review team will consist of a small number of officials in the Public Spending Directorate and Accountability and Financial Management Division, reporting to the Budget Director and the Treasury Officer of Accounts, as appropriate.

Northern Ireland Assembly

Research and Information Service
Briefing Paper

Paper 000/00 | 21 Sept 2011 | NIAR 343-11

Colin Pidgeon

Budget System Laws: Principles and Good Practice

This Briefing Paper follows on from Paper 62/1[1] which set out some recommendations for enhancing the Northern Ireland budget process. One of those recommendations – based upon international good practice – was that the future process should be enshrined in statute. One approach would be to produce a revised Budget System Law. The purpose of this Briefing Paper is to examine the good practice principles that should underpin such laws; to present an analysis of how current budgeting practice aligns with those principles; and, to assess whether certain aspects of budgeting are already covered by Northern Ireland statutory provisions.

1 RaISe (2010) 'DFP's Review of Financial Process: considerations for improving the budget process' available online http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf RaISe (2010) 'DFP's Review of Financial Process: considerations for improving the budget process' available online http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf

Executive summary

The first part of the research presented in this paper considers elements of budgeting law and practice in Northern Ireland against eleven *Sound Principles for a Budget System Law* identified by experts at the International Monetary Fund. It finds that in many instances the current system marries fairly well with those principles. In other instances, however, there are budgeting practices that do not seem to rest easily with the principles.

One of the principles is of more importance to national sovereign governments than it is to a devolved institution. The *stability* principle relates primarily to fiscal balance and public debt and is therefore not currently within the responsibility of the Northern Ireland Assembly. However, there are aspects of budgeting law and practice in this area that are likely to become of greater significance if, as anticipated, corporate taxation powers are devolved.

Many of those aspects of budgeting law and practice that do accord with the principles are fundamental:

- in principle, no public expenditure may be incurred without the approval of the Assembly;
- the requirement for the Executive to produce an agreed budget plan is enshrined in statute;
- budget authority is conveyed by the Assembly annually;
- resources and revenues are pooled in common before allocation; and,
- the independence, responsibilities and powers of the external audit institution (the Northern Ireland Audit Office) are clearly established in law;

Of those aspects of budgeting law and practice that do not accord with the principles, there are some that are likely to be seen as of considerable significance:

- despite the over-riding principle that Assembly approval is required for all expenditure, the Department of Finance and Personnel has estimated that around 25% of spending is incurred *without* express Assembly approval;
- the way the budget and estimates documentation is presented means that it is difficult – and in some aspects impossible – for MLAs to see how the funding they approve is actually to be committed to programmes and service delivery;
- the Executive's reporting of implementation and performance does not transparently link authorised spending to performance or results;
- some revenue measures are voted separately from the main budget approval process; and,
- the Assembly's authority to spend is granted part-way through the fiscal year.

There are further aspects of the financial processes that, again, do not accord with the principles but are perhaps not as fundamental, but may still be of some significance:

- expenditures are approved on a net rather than a gross basis;
- end-of-year carryovers are allowed only through a non-statutory arrangement;
- there is a mismatch between accounting, approvals and budgetary boundaries; and,
- there is no statutory contingency fund.

These points are drawn together in Box 1 as suggested areas for change to bring Northern Ireland budgeting law and practice further into line with the principles.

The second part of the paper presents a more detailed analysis of Northern Ireland practice against a framework of *six key areas of budgeting to be specified in law*. As above, the picture is mixed with some aspects of best practice being clearly met and other aspects not being met. In this section, various statutory provisions are identified that are likely to require amendment. In some cases, there is an absence of legal provision. This suggests areas that the Department of Finance and Personnel should consider placing on a statutory footing as part of its *Review of Financial Process*.

A number of observations may be made based upon the analysis:

1. The statutory requirement for the Minister of Finance to lay the a draft budget should be brought forward to earlier in the year to allow for the Assembly's agreement prior to the start of the fiscal year;

2. Further consideration of presenting fiscal data on a gross or net basis is required (RaISe briefing note forthcoming);

3. Placing the Budget Exchange scheme on a statutory footing would improve alignment with the principles;

4. The documentation that accompanies the budget should include (and this could be required by statute):

   - Assessment of assumptions in relation to revenue projections;
   - Off-budget expenditures should be clearly reported; and,
   - Linkage between allocations and performance objectives should be included.

5. A statutory requirement for mid-term review of the budget should be introduced; and,

6. The Assembly should be asked to approve reallocations resulting from monitoring rounds at the time rather than retrospectively..

Contents

1. What is a 'budget system law'?

The term 'budget system law' (BSL) is used to cover a variety of legal instruments that have been adopted around the world to codify the rules for formulating, executing, and reporting on a state's annual budget. In addition, it covers requirements for governments to make statements about medium-term fiscal policy objectives.

Various terms are used in different states, such as:

- Public Finance Acts;
- Organic Budget Laws;
- Financial Management/Administration Acts;
- Fiscal Responsibility Laws;
- Public Debts Acts; and,
- External Audit Acts.

In the Northern Ireland context, there are a variety of sources of budgetary law – not least the Northern Ireland Act 1998, the Government Resources and Accounting Act (Northern Ireland) 2001 and the Assembly's own Standing Orders. It is quite common for the rules, procedures, limitations and requirements for both the executive's and the legislature's parts in budgeting to be drawn from a range of sources – such as constitutions, primary and secondary laws, agreements, informal practices and conventions.[2] In this regard, Northern Ireland's inherited system[3] does not appear particularly unusual.

The legal basis for budgeting can therefore range from there being no formal budget system law except the constitution to the other extreme where there may be many laws (such as in the United States, for example) relating to the budget system. Most countries' systems lie between these two points.

2. What are the purposes of budget systems laws?

A Technical Guidance Note published by experts at the International Monetary Fund (IMF) identifies a number of reasons why countries may adopt a new BSL or modify an existing one. These include:

- To address specific budget-related problems;
- To introduce new budget principles – such as transparency, accountability, fiscal stability/sustainability and budget performance, for example; or,
- To strengthen or clarify the authority of the legislature or the executive.

In Northern Ireland, a number of drivers may be identified that cross these motivations. For example, the process of budgeting has been criticised on a number of occasions. In particular, the Committee for Finance and Personnel produced a number of reports in the 2007-11 mandate[4] which drew attention to a number of budgeting problems such as: a lack of engagement between Executive Departments and their respective statutory committees; a lack of sufficient financial information; the lack of a regularised budget process; and, the lack of transparent linkages between spending plans and intended policy objectives and outcomes, for example.

2 IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011)

3 The public expenditure control system in Northern Ireland is modelled on that used by the UK Parliament which has developed over many years – and not always in a coherent manner.

4 Committee reports 61/10/11R, 44/10/11R, 66/09/10R and 41/09/10R all make some reference to aspects of the budget process. These are available online at: http://archive.niassembly.gov.uk/finance/2007mandate/finreports_07.htm (accessed 30 June 2011)

It can be seen that these issues are related both to transparency and accountability, and also to the relationships between the Executive and the Assembly.

3. Guiding principles for the main content of a BSL

It was noted in Paper 62/11 that good practice suggests that that the overall budget and financial process should be established in statute.[5]

Once a need to reform the legislation relating to budgeting has been established, it is important to identify those elements of the budget process that are already covered in law. To help with this process, eleven guiding principles have been established (these are attached as Appendix 1) by experts in the IMF's Fiscal Affairs department.

On reading those principles, it is immediately apparent that some elements are already established in Northern Ireland legislation. For example, the Accountability principle requires that an independent external audit body reports to the legislature on annual government accounts. The Comptroller and Auditor General and the Northern Ireland Audit Office (NIAO) fulfil this function. The NIAO's functions and responsibilities are set out in a number of pieces of legislation including the Audit (Northern Ireland) Order 1987, the Northern Ireland Act 1998, the Government Resources and Accounts Act (Northern Ireland) 2001 and the Audit and Accountability (Northern Ireland) Order 2003.

There are, however, some gaps. For example, the Authoritativeness principle states that "no expenditure can be made without the approval of the legislature." But, there are a number of elements of public expenditure in Northern Ireland that are not voted by the Assembly: the most significant of these is probably capital spending.[6] The Department of Finance and Personnel (DFP) estimates that as much as 25% of government spending is not formally voted.[7]

Table 1 overleaf presents an analysis of how the present financial system compares with all of the principles identified in the guidance. This analysis suggests a number of areas where change (through DFP's Review of Financial Process) may be beneficial in terms of transparency and accountability. These are presented following Table 1.

5 RaISe (2010) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf (see page 13)

6 Planned capital expenditure is approved in the Assembly's consideration of the Budget; capital is included in the Estimates but not in the Budget Bill, which is the mechanism through which the Assembly formally approves expenditure.

7 Source: DFP presentation to Committee for Finance and Personnel on 22 June 2011

Table 1: Analysis of Northern Ireland Financial Processes against Sound Principles for a Budget System Law8

Principle		**Comments on Practice**
Title	**Description**	**(numbers in brackets relate to suggested areas for change on page 10)**
Authoritativeness	Decision-making authority is specified clearly in the BSL. The executive prepares a draft annual budget law and supporting documents such as a fiscal policy strategy paper and a medium-term macro-fiscal framework; the legislature approves the annual budget, possibly after amendments; no expenditure can be made without approval of the legislature; the executive implements the annual budget and provides reports on implementation. It also has the authority to close and open public bank accounts. The authority to modify the approved budget law is specified in the BSL.	• The NI Executive prepares annual budget law; recent practice has been for multi-year budget plans. The Assembly passes budget acts each year to give legal authority to spend (known as 'appropriation'); • DFP estimates that around 25% of expenditure is not voted; **(1)** • The NI Executive reports on implementation in-year through monitoring rounds. These are not voted at the time – the Minister makes a statement notifying the Assembly of changes. No mechanism for reporting on implementation across years of multi-year plans; **(2)** • The authority to modify budget law is spread between Northern Ireland legislation, some Westminster legislation (particularly the Northern Ireland Act 1998) and Standing Orders.
Annual Basis	Budget authority is for a 12-month period. Exceptions are specified in the BSL, including multiyear appropriations and end-year carryovers. The annual budget law is enacted prior to the year to which it refers. All transactions are estimated for their one year effect.	• Budget authority is given for a 12-month period; • Rules for end-year carryovers are the responsibility of UK Treasury (EYF/ Budget Exchange) and these are not statutory; **(3)** • The annual budget law is usually passed during the first quarter of the year to which it relates. **(4)**
Comprehensiveness	The "universe" (e.g., central government) is specified clearly. All revenues and expenditures are included in the budget on a gross basis. Expenditures are not offset by revenues: the BSL specifies any exceptions. Extra-budgetary funds are minimal, being established by law. Contingency funds are included in the budget law. Tax expenditures and quasi-fiscal activities are reported.	• The "universe" is not clearly aligned – DFP has stated there is a mismatch between accounting, approvals and budgetary boundaries; **(5)** • The main capital allocations in the Final Budget are shown net of receipts. A reconciliation is presented in an Annex; • The Estimates are voted net of 'accruing resources' (i.e. receipts or income that is allowed to be offset against expenditure) rather than gross; **(6)** • Extra-budgetary funds (i.e. consolidated fund standing services) are covered by separate statutory provisions; • There is no contingency fund. The previous CFP previously recommended that DFP sets out its position on a contingency fund[8] **(7)**

8 http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html#3 (see paragraph 87)

Principle		Comments on Practice
Title	**Description**	**(numbers in brackets relate to suggested areas for change on page 10)**
Unity	The budget presents, and the legislature approves, all receipts and payments in the same annual budget law. For expenditures, there is no "dual" budget system that splits current and development (or capital) transactions (this is best implemented if there is also unity of budget administration—one central budget authority). For revenues, there is an option between (i) approving all new revenue measures in the annual budget law or (ii) approving revenue measures only in laws other than the annual appropriations laws (the principle of exclusivity, which may be included in the BSL).	• Capital expenditure is currently not separately voted; **(1)** • Some revenue measures are voted separately (i.e. the rates legislation) and others are in the process of development by the Executive's Budget Review Group. It is not known how any additional revenue measures will be incorporated at this stage – it seems likely therefore that additional 'finance' legislation or other vehicle may be needed.
Common Pooling (or fungibility) of revenues	All resources are channelled into one common fund.	• There is one main fund – the Consolidated Fund – but also the National Insurance Fund which provides funds for various welfare payments. **(8)**
Specificity	Revenues and expenditures are approved with some detail in the budget estimates. Authorized spending is intended for particular purposes (inputs or programs/outputs).	• The Estimates are presented under Requests for Resources (RfRs) – departments present only one or two RfRs which are then sub-divided; • There is no indication of the specific programmes for which funds are voted nor of the outputs/outcomes they are intended to support. **(9)**
Balance	Budget payments are balanced by receipts (accounting balance, cash basis). Budget expenses are balanced by budget revenues and financing (accrual basis). "Balance" is well defined and may be subject to legal limitations.	• Departmental income has to balance the amount approved by the Assembly – any receipts additional to the accruing resources limit are treated as Consolidated Fund Extra Receipts (CFERs) and must be returned to the centre; • Departments can only spend the resources approved. If they exceed their limits, an 'excess vote' is required.
Accountability	The executive must account to the legislature for how it has met its responsibilities at least twice a year. An independent external audit body reports at least annually to the legislature on budget execution and annual government accounts. Within the executive, the accountability of budget managers is clearly defined.	• The NI Executive has reported on progress in its Programme for Government Delivery Report – this has not been at least twice per year; **(9)** • The Comptroller and Auditor General reports annually to the Assembly on budget execution and accounts.
Transparency	The roles of public bodies are clear. Timely and regular financial and nonfinancial information on the budget is publicly available. The terms used in the BSL are clearly defined.	• DFP has stated that some non-departmental public bodies (NDPBs) are not required to publish their accounts by a specified date; **(10)** • Non-financial information – such as the delivery of outputs/outcomes for which funding is provided is not readily available. **(9)**

Principle		**Comments on Practice**
Title	**Description**	**(numbers in brackets relate to suggested areas for change on page 10)**
Stability	Short-term policy stability: anchoring commitments to achieve targets for revenues, total expenditures, fiscal balance or public debt, specified in the context of a regularly updated medium-term budget framework. Medium-term fiscal sustainability is also another important aspect of stability.	• The NI Executive does not produce a medium-term budget framework (MTBF) **Note**: the nature of devolved funding reduces the need for, or value of, an MTBF; • An assessment of medium-term fiscal sustainability is not published by the NI Executive in any obvious way (in terms of revenue-raising decisions such as the level of the regional rate, deferral of water charges etc.). **(11)**
Performance	The expected and recent past results (outputs and/or outcomes) of budget programs are reported in the budget document.	• There is no clear linkage between budgeted expenditure lines and intended outcomes or report on impact of previous expenditure. **(9)**

Box 1: possible areas for change suggested by the good practice principles

(1) Formal Assembly approval should be expanded to cover **all** expenditure and the separate resource and capital control totals;

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

(3) The Executive should consider requesting that the Budget Exchange system is made statutory. This would provide an opportunity for challenge to changes in rules that was not present in the previous End-Year Flexibility scheme – EYF was ended by unilateral UK Government announcement in the 2010 Spending Review;

(4) The revised financial process should contain a legal requirement for budget approval prior to the start of the fiscal year to which the plans relate (y-1) rather than part-way through the fiscal year;

(5) The *Comprehensiveness* principle suggests widening the accounting boundaries to clarify the 'universe'. However, there are likely to be practical considerations such as the dates for closing accounts, resourcing accounts and audit functions, investment in accounting systems and variations in financial year end;

(6) *Comprehensiveness* also suggests gross rather than net approvals. The pros and cons of gross versus net need to be carefully considered. There are balancing factors such as incentives for departments to maximise revenues (if they are to be allowed to retain additional receipts) against the ability of departments to mask inefficiencies in delivery by increasing fees and charges, for example;

(7) Finally, *Comprehensiveness* suggests consideration of the need for a 'contingency fund'.

(8) The *Common pooling* principle suggests that the National Insurance (NI) Fund should be merged with the Consolidated Fund. It is not clear what the benefits of this would be as the NI Fund provides funding for non-discretionary demand-led social security spend rather than discretionary programme spend;

(9) The *Transparency and Specifity* principles suggest that whilst the Executive reports regularly on Programme for Government delivery and in-year budget reallocations there should be linkage between those reports. Monitoring rounds do not link funding pressures to PfG commitments. Reallocations are made without transparent linkage to PfG objectives and priorities. The *Performance* principle suggests that greater focus is needed on results in relation to expenditure lines so it is possible to see where expenditure is not matched by better outcomes (enabling the Assembly to make decisions about increasing resources to or cutting ineffective programmes;

(10) Departmental accounts are closed by end-June with NDPB accounts coming by autumn. If, as has been suggested, the accounting boundaries are widened and departmental consolidated accounts produced, NDPBs' accounts will have to be closed first. It is uncertain if such an approach would lead to greater transparency as some departments' own financial performance may be lost to scrutiny as the 'core' may become immaterial in relation to the 'periphery.'

(11) Whilst the revenue assessments suggested by the *Stability* principle are perhaps not currently significant (due to block grant funding) it is quite possible that - with the potential devolution of corporation tax (and possibly other revenues such as Air Passenger Duty) – it will become more important for the executive to assess and report

on the stability of projected revenue. The principle also implies that the Executive should report on the stability of rates revenue.

4. Six key areas of budgeting to be specified in law

The guidance published by experts at the IMF builds upon the guiding principles by identifying six key areas of budgeting that "in general need to be specified in law rather than in subsidiary regulations."[9] These are:

- Submission of annual budgets to the legislature;
- Documents to accompany the annual budget;
- Budget adoption by the legislature;
- Budget execution;
- Government accounting and audit; and,
- External audit.

The guidance provides detail on a number of elements related to each of these six areas. Tables 2 to 7 below present an analysis of current practice in Northern Ireland against each area.

The guidance is primarily addressed at national governments' laws and procedures, which vary significantly across the world. It states:

> *Given the diversity of practices regarding the role that the law plays in providing a framework for the budget system, a "model law" is not proposed. Rather, each country's specific institutional, legal, and cultural features need to be considered prior to drafting amendments to an existing BSL or preparing a new BSL to cover specific aspects of budget processes.*[10]

This means in some instances that parts of the guidance may not be wholly appropriate and/or practicable for the context of a devolved institution within a wider nation state. Where this appears to be the case it is noted in the tables.

A traffic light colouring system has been applied to indicate where it has been assessed that the current Northern Ireland practice does (green) or does not (red) conform with the guidance. Amber is used to identify where it is assessed that there is partial or questionable compliance. This may indicate areas on which further evidence is required.

Where it is assessed that the guidance is not applicable in the Northern Ireland context, no colour is used.

It is intended that the analysis should serve as a useful platform for discussion rather than providing definitive conclusions on the issues.

9 IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 10)

10 IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 2)

Table 2: Submission of annual budget or appropriation law(s) to the legislature

Area of budgeting	Description	Comments on current practice
Fiscal Rules	A fiscal rule is a numerical limit on budget aggregates (revenues, expenditures, debt, and budget balance) that constrains the budget-setting powers of both the executive and the legislature. Fiscal rules, which are usually in place for several years, serve at least four goals: fiscal sustainability, economic stabilization, containment or reduction of government size, and support of intergenerational equity. In recent years, fiscal rules are being adopted especially to achieve debt sustainability. Annual budgets therefore need to be prepared subject to any fiscal rules.	• Macro-fiscal policy is not devolved to Northern Ireland: debt, budget balance and most revenues are managed by the UK Government; • Devolution of corporation tax – if it comes with associated borrowing powers – may require establishment of fiscal rules.
Budget submission – timing	If not included in the constitution, the BSL should specify the date by which the executive must submit the draft annual budget to the legislature. This is typically two to four months prior to the beginning of the new fiscal year. In countries with bicameral legislatures, more time should be allowed for discussing the draft budget, especially if both chambers have the authority to amend the draft budget law.	• s.64 of the Northern Ireland Act 1998 requires the Minister of Finance and Personnel to lay a draft budget before the Assembly before the beginning of each financial year(but not two to four months before); • the Assembly may agree the budget with or without amendment; • paragraph 20 of Strand One of the Good Friday/Belfast Agreement provides that the draft budget is subject to agreement after scrutiny by the Assembly's committees.
Are appropriations legally binding upper limits?	The BSL should specify whether individual appropriations are legally binding upper limits for expenditure. Some government spending is mandated by other laws or by legally binding contracts (e.g., transfers to households such as pensions and unemployment benefits, debt servicing, court-ordered payments) irrespective of the amount provided in the budget projections. In such cases, the spending included in annual appropriation(s) act(s) is usually not an upper limit. For much expenditure, however, the annual appropriations are legally binding upper limits.	• Appropriations (currently via approval of the Estimates) are for an upper limit for expenditure; • If the upper limit is breached, an excess vote must be passed by the Assembly; • Capital spending is included in the Estimates but not the resource totals approved in the Budget Bill is not therefore directly subject to Assembly control and an upper limit. Rather the limit is imposed administratively through budget control totals managed by DFP.

Area of budgeting	Description	Comments on current practice
Classification and type of appropriations	The BSL should specify the broad classification of expenditures to be used in annual appropriation act(s). Compliance-oriented budget systems include perhaps thousands of budget line items, each of which is approved by the legislature. The BSL in some countries has re-specified appropriations—usually as broad-based "programs" or "outputs." In such systems, the executive's regulations specify the degree to which expenditures need to be disaggregated for the purposes of expenditure control. Detailed classification systems for use in budget execution and statistical reporting, such as [Government Finance Statistics]-compatible functional and economic classifications, can be specified by a government decree.	• Appropriations are voted under broad Requests for Resources (RfRs); • Appropriations are not linked to outputs or specific programmes.
Gross versus net appropriations	Consistent with the principle of comprehensiveness, expenditures should not be offset against revenues. Also, some countries' BSL allow for the earmarking of revenues for specific purposes (e.g., excise taxes on petroleum products, to be spent on road maintenance). Other countries, in an effort to encourage government ministries/agencies to mimic private sector entities, have adopted legal provisions that allow budget entities to raise and retain revenues. In such cases, the legislature should approve the projected agency revenues and provide guidelines for setting fees or charges that generate such revenues. Any spending that takes place when projected agency revenues are exceeded should require the approval of the legislature. Such provisions in the BSL are essential to prevent illegal ministry/agency spending from their "own" revenues.	• The Estimates are voted net of 'accruing resources' (i.e. receipts or income that is allowed to be offset against expenditure) rather than gross; • Budgets are set on a net basis (i.e. net of income which in effect provides additional spending authority). Departments must, however, have the Assembly's authority to treat income as an accruing resource and to use it for related spending under an Estimate.
Accounting basis of annual appropriations	Traditionally, all expenditures were cash-based and limited to only 12 months duration. Besides specifying that individual expenditures approved by the legislature are cash-based upper limits, the BSL may require that multiannual expenditure commitments (especially for investment spending) be approved in the context of the legislature's adoption of the annual budget. Alternatively, the BSL may be a vehicle for introducing an accrual-based government accounting system (i.e., one based on economic transfers rather than cash payments), details of which are provided in regulation.	• The Estimates are presented on a resource basis – approval is required for both resource consumption and cash spend; • Accounts are prepared on an accrual-based system under s.9 of Government Resources and Accounts Act (NI) 2001.

Area of budgeting	Description	Comments on current practice
Carryover of budget authority	Carryover of budget authority. To allow end-year spending flexibility, the BSL of countries with good expenditure control mechanisms may specify that investment spending authority can be carried over into the next fiscal year. Carryover of certain current expenditures may also be allowed in such countries. The BSL should be specific on the types of expenditures and limits on carryover.	• The amounts in the Estimates and authorised by the Budget Act cannot be carried forward into future years (Managing Public Money 5.2.3) • Under End-Year Flexibility (EYF), the Executive could carry forward underspends into future years, with draw down requiring Treasury approval; • EYF now replaced with Budget Exchange which allows carry forward subject to a 'cap'. The scheme is non-statutory.
Appropriations for contingencies	The BSL could specify that the annual appropriation law contain a line item for contingencies in order to meet unforeseen and urgent spending needs (e.g., for emergencies or unexpected large increases in obligations). The BSL should limit the unallocated spending to a small percentage of total expenditure (usually not in excess of 3 per cent) and place the spending under the authority of the Ministry of Finance. Regulations would specify the detailed procedures, eligibility, and restrictions on the spending of unallocated appropriations. The BSL should require contingency spending to be regularly reported to the legislature.	• The Assembly does not approve appropriations for contingencies in advance; • Recent examples of expenditure items that could have been met through a contingency fund are pandemic flu and equal pay settlements; • In the absence of a specific fund for contingencies DFP may authorise (in exceptional circumstances) money to be advanced to departments from the Consolidated Fund. This is limited under the Financial Provisions (NI) Order 1998 to 2% of total authorised expenditure for the preceding year.

Table 3: Documents to accompany the annual draft budget law

Area of budgeting	Description	Comments on current practice
Medium-term macroeconomic and fiscal projections, the underlying assumptions and other information	The BSL should specify the various documents that the executive should submit to the legislature when it submits its draft annual budget (see Appendix 2). It is good practice to require the legislature to review and endorse an annually-updated multiyear budget framework, which should cover all institutional units comprising "general government," as defined in *[Government Finance Statistics]*.[11] The BSL could also include a requirement for the legislature to formally approve the government's strategy for public debt.	There is no legal requirement for the Finance Minister to lay any documents to accompany the Estimates or the draft Budget; An analysis or assessment of the underlying assumptions relating to revenue projections may be especially important in the context of devolved corporation tax; Comparative information for previous allocations is not included in the draft Budget, nor is information on projected versus actual revenue from regional rates presented; **Note**: strategy for public debt is not a devolved responsibility.

11 'Government Finance Statistics' refers to the IMF's Government Finance Statistics Manual 2001 which is a statistical reporting framework aimed at helping national authorities to strengthen their capacity to formulate fiscal policy and monitor fiscal developments. See http://www.imf.org/external/pubs/ft/gfs/manual/aboutgfs.htm for more information.

Area of budgeting	Description	Comments on current practice
Information on extra-budgetary funds	Such funds should be limited in number and purpose. If there are strong grounds for creating special funds for particular purposes (e.g., for social security), a special law may be adopted. Some countries restrict the creation and financial management of extra-budgetary funds. For example, Finland's 1999 constitution includes a very strong provision: no extra-budgetary funds can be created without a supermajority in parliament and then only if this is required to carry out an essential duty of the state. In countries with extra-budgetary funds that are not included in annual appropriations, the BSL should specify that the fiscal aggregates include the projected revenues and expenditures of all off-budget activities and that separate reports on specific funds be included in documents accompanying the annual budget.	• The National Insurance Fund (which finances social security benefits) is extra-budgetary; • Off-budget expenditure includes judges salaries; pensions for MPs from the old Northern Ireland Parliament; maintenance of the Thiepval War Memorial, and; costs of Boundary Commissions; • The budget document does not report on such items, nor of spending under Annually Managed Expenditure.
Information on objectives for performance	Information on objectives for performance. Countries that have adopted a performance - or results - oriented budget system usually require in their BSL that forward-looking annual performance reports be prepared by each major program and/or for each ministry.	• Linkage between budget allocations and Programme for Government (PfG) objectives and intended outcomes is absent; • Budget 2011-15 was approved in the absence of a PfG for the same period.

Table 4: Adoption of the budget by the legislature, including amendments and procedures

Area of budgeting	Description	Comments on current practice
Approving fiscal rules	Fiscal rules have been included in fiscal responsibility laws (FRLs) in a number of countries. Inclusion of fiscal rules into law makes them more difficult to reverse. To be effective, a FRL should cover all relevant budget and quasi-fiscal operations of the public sector and comprehensively include procedural and transparency requirements. Brazil's FRL provides an example of the successful embedding of fiscal rules in law, in part because the FRL includes strong sanctions for noncompliance. However, there are also examples of unsuccessful embedding of fiscal rules in law. Although in some countries it may be important for the legislature to formally approve fiscal rules by adopting FRL-type legislation, it is more important to ensure that fiscal rules are accompanied by political commitment and mechanisms for accountability, monitoring, and enforcement. Without the legislature's commitment to fiscal discipline, fiscal rules could end up undermining policy credibility.	• Macro-fiscal policy is not devolved to Northern Ireland: debt, budget balance and most revenues are managed by the UK Government; • Devolution of corporation tax – if it comes with associated borrowing powers – may require establishment of fiscal rules.

Area of budgeting	Description	Comments on current practice
A two-part budget approval process	Some countries require the government to present its [Medium Term Budget Framework] and annual budget aggregates to the legislature for a pre-budget debate, e.g., around midyear of the year before the new budget year. Other countries require the annual budget aggregates—revenues, financing, total expenditure; and debt repayments—to be approved, prior to the second parliamentary round of approving the detailed expenditure estimates. Such two-part budget approval processes have the merit of focusing the legislature first on the overall fiscal strategy and main aggregates, prior to approving detailed expenditures. A BSL can incorporate such a procedure, especially in countries where "top-down" budgeting is considered to be important for achieving fiscal consolidation.	• Budget approval is in two stages; • Stage 1 is debate/scrutiny of draft budget and approval; • Stage 2 is approval of Estimates which gives departments authority to spend (appropriation); • DFP Review of Financial Process envisages change to this process ('Estimates as Final Budget') – note recommendation 2 of NIAR 62/11 re strategic phase preceding introduction of draft budget.
Limitations on the legislature's powers to change the executive's draft budget	One of the legislature's potentially most important powers is its ability to alter the size and composition of the budget proposed by the executive. There are three main options for the BSL: unlimited amendment powers, limited powers, or negligible powers (e.g., "any change proposed by the legislature must be approved by the executive"). For medium-term fiscal stability, it is desirable to limit the legislature's powers. Several countries allow the legislature to approve additional expenditures provided additional revenues are raised so that the fiscal balance is left unaltered. Others prevent the legislature from increasing total expenditure, but allow changes in the composition of expenditure categories. A few countries do not allow any changes at all by the legislature, except if they affect the government's [Medium Term Budget Framework] in only a minor way […]	• s.63 of NI Act 1998 provides that the Assembly may only pass a financial vote if it is brought by the Minister of Finance and Personnel; • but s.64 provides that the Assembly may agree the budget with or without modification; • In theory, NIA could reject a budget bill. In effect this would be a vote of no confidence in the Executive. • Modifications are allowed but HOC Notes on Clauses for NI Bill 1998 states that modification would 'in practice relate to the allocation of money between departments. The overall total available to the NIA will have been pre-determined by HMT and cannot be increased without their agreement'; • Proposed 'budget strategy phase' could allow for debate about composition of budget between departmental allocations.
Limits on the legislature's powers to revise revenue projections upwards in order to accommodate more expenditure	Such a legal requirement is particularly important in countries where there is strong separation of powers between the legislature and the executive (e.g., presidential systems in Latin America). It is also appropriate, when required, to include in the BSL controls over the creation and maintenance of earmarks and of tax expenditures. In general, earmarking of revenues to specific expenditures should be avoided, as it contravenes the common pooling principle. Sunset rules for tax expenditures could be introduced in law (e.g., they should expire after 5 or 10 years), and limits on total tax expenditures (e.g., as a percentage of total annual expenditures) could be established.	• Revenue projections are not formally debated; • In theory could NIA reject one or more of the Executive's proposals - for example not to introduce water charges and impose them through amendment. Such an outcome seems unlikely in practice; • Generally, specific revenues are not earmarked and there is a common pool; • Rates legislation is passed separately – if it is rejected, could leave the Executive with reduced resources

Area of budgeting	Description	Comments on current practice
Budgetary procedures within the legislature	In many countries, these are mainly specified in the internal regulations of the legislature. However, some countries' constitutions or laws specify special rules for the adoption of the annual budget law (e.g., draft budget law discussions have a higher priority than those for non-budget laws). The respective budgetary responsibilities of each chamber are usually specified in a law. Regulations of the legislature should specify the responsibilities and authority of budget committees and sectoral committees serving the legislature.	• There is no statutory requirement except NI Act 1998 re adoption of budget laws; • To introduce proposed budget strategy phase this may need amendment; • Standing orders do not specify co-ordinating role for CFP in responding to budget – this is convention.
Date by which the budget should be adopted by the legislature	To allow immediate implementation of the annual budget, the BSL should require adoption of the annual budget no later than the final day of the year immediately preceding the new fiscal year.	• s.64 of NI Act 1998 only requires that a draft budget is laid prior to new fiscal year, not that it is agreed; • appropriation occurs part-way through fiscal year (usually in June).
Reversionary budget	The BSL should also specify the rule to apply in the event that the budget is not adopted by the due date. Typically, the BSL specifies that the budget in the new fiscal year should be executed monthly at a rate of 1/12th of the budget appropriations of the previous fiscal year (i.e., excluding any proposed new budget policies, activities, or projects). In order to force the legislature to adopt the draft budget law, some countries' laws limit the duration of the 1/12 rule (e.g., to four months after the beginning of the new fiscal year).	• s.7 of Government Resources and Accounts Act (NI) 2001 provides that an authorised officer of DFP can authorise up to 75% of previous year's allocation in absence of Budget Act (Vote on Account) by 3 days into the new financial year; • if no appropriation passed by July, up to 95% may be so authorised
Rules on the adoption of the budget by the legislature	If the legislature has powers to reject the budget, the BSL may need to specify rules to ensure its adoption and prevent impasses between the legislature and executive. In parliamentary systems of government, parliament's only "weapon" is to reject the entire budget by adopting a vote of no confidence in the government (i.e., forcing the government out of power). In such cases, it is important to have a reversionary budget rule in law. In presidential systems, the legislature may reject the president's proposed budget. Alternatively, the president may veto the legislature's budget as adopted. Again, it is important to have a formal agreement—or better, an article in law—on a reversionary budget, to ensure that the government continues to function while political consensus on the new annual budget is being reached.	• The Assembly may reject or amend the budget; • There is no law or rules in standing orders governing how amendment may be achieved or how adoption may be enforced

Area of budgeting	Description	Comments on current practice
Supplementary budgets	A good budgetary practice is to require a formal midterm review of budget execution by the legislature, which may, if necessary, adopt a revised annual budget law to accommodate necessary changes. Such a law may authorize: (1) higher expenditures, should revenues be higher than projected, or should there be large unexpected expenditures that cannot be financed by cuts in spending elsewhere, or (2) lower expenditures, especially when revenues are less than projected and the government does not wish to deviate from pre-announced deficit/surplus targets. The BSL should, however, allow a supplementary budget to be adopted any time it is required. One simple way of incorporating this requirement into the BSL is to state that the principles and procedures incorporated in the BSL apply to both the annual budget and to supplementary budgets.	• There is no provision requiring mid-term review of budget execution; • In effect ‘strategic stocktake’ and ‘review of spending plans’ were mid-term reviews, but these occurred only because introduced by the Executive; • May be more important if corporation tax is devolved;
Independent budget offices	Such offices, serving the needs of the legislature, have been established in several countries, including Canada, United States, and Mexico. The BSL, or a “budget office” law, can specify the roles, responsibilities, and staffing of the legislature’s budget office. To ensure the independence of its advice, the office should be nonpartisan, with no political appointees.	Not applicable – there is no proposal for an independent budget office

Table 5: Budget execution and control

Note the following caveat from the guidance which applies to this section:

Many of the procedures for executing the annual budget, including allotment (to lower-level budget entities), apportionment (dividing expenditures of the annual budget into quarterly ceilings), mechanisms of expenditure control, internal control, and internal audit, are best specified in government/ministerial regulations. However, the BSL may be used in the following areas:[12]

Area of budgeting	Description	Comments on current practice
Flexibility to the executive for implementing the budget	The BSL may specify that the expenditure for a particular line item may be exceeded provided there is an offsetting downward revision of another line item within the same category of expenditure (virement). The BSL should specify the minister of finance's virement powers (e.g., the percentage by which particular expenditures can be exceeded without submitting a supplementary budget to the legislature).	• Virement is achieved through monitoring rounds; • Below de minimis thresholds departments may switch between lines; • Over thresholds need DFP/Executive approval; • There is only a retrospective Assembly role for approving these rules or expenditure changes – the Minister simply makes a statement on the outcome of monitoring without a vote at the time.
Authority for the minister of finance to cut appropriations	The BSL should specify whether the minister has zero, limited, or unlimited authority to cut budget appropriations and the conditions under which this is permitted (e.g., when there are revenue shortfalls). Although country practice varies, from the point of view of macro-fiscal stability and the prevention of payment arrears, law should provide the minister of finance with the power to cut expenditures (i.e., up to a certain percentage), before being obliged to return to the legislature for additional spending authority in the form of a supplementary budget.	• 2.3.v of The Northern Ireland Executive Ministerial Code provides that the budget must be agreed by the Executive so the Minister of Finance and Personnel does not have authority to cut appropriations.
The minister of finance's authority over government banking and cash management	For effective financial control, the BSL should provide the minister of finance with extensive powers over the management (especially opening and closing) of government bank accounts. The BSL should provide the minister with strong powers to minimize idle balances in government accounts and invest appropriately any short-term surpluses, the aim being to minimize borrowing costs and risks to government.	• s.25 of Government Resources and Accounts Act (NI) 2001 provides DFP with powers over the management of bank accounts.

12 IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 15)

Area of budgeting	Description	Comments on current practice
Consolidation of all revenues and establishment of a treasury single account (TSA)	The BSL should incorporate the common-pooling principle: all revenues should be paid into the same common fund. Exceptions to this principle should be specified in the law. The BSL should specify that a TSA be held at the central bank. The TSA may have subaccounts.	• s.1 of Government Resources and Accounts Act (NI) 2001 requires that all receipts are payable into the NI Consolidated Fund and that the account is to be held at a bank determined by DFP.
Public procurement procedures	Many countries have adopted a public procurement law that specifies procurement principles and practices including, inter alia, the degree to which procurement is decentralized to spending ministries and any special administrative entities established to oversee the entire system of public procurement. Details on procurement are specified in regulation(s).	• Public procurement is governed by procurement regulations and public procurement policy which specifies the level of decentralisation of practices.

Table 6: Government accounts and reporting to the legislature

Area of budgeting	Description	Comments on current practice
Accounting systems and procedures	A separate accounting law is not usually needed. Accounting is largely a technical issue, for which details should be provided in standards and/or regulations issued by the MoF or an independent accounting standards board. However, the BSL should specify the basis of accounting to be used by budget entities and the accounting standard setting body. Some countries (e.g., France's Organic Budget Law) limit the former to simple statements that "government accounting standards are only different from enterprise accounting standards to the extent that government budget and accounting processes are unique." Law may require that accounting regulations be reviewed by qualified public and private sector experts.	• s.9 and 14 of Government Resources and Accounts Act (NI) 2001 provides that NI departments must prepare accounts on a resource basis in accordance with directions issued by DFP; • s.20 of Government Resources and Accounts Act (NI) provides that DFP must take account of recommendations of an advisory board established by HM Treasury when issuing directions regarding the preparation of accounts.
Ex post budget execution reports and financial accounts	The BSL should specify the report and accounts that the executive must prepare for the legislature. Reporting is particularly important to satisfy the principles of transparency and accountability. For countries that have adopted a results-oriented budget system, annual performance reports should also be required. The main reports to be specified in the BSL are shown in Appendix 3. Some countries have incorporated these requirements in [Fiscal Responsibility Laws], although it is probably best if these obligations are included in the main BSL.	• · There is no legal obligation on the Minister of Finance and Personnel to produce certain documents in relation to the budget; • · Statements made by the Minister of Finance and Personnel may satisfy part of this reporting requirement, but these are made by convention rather than legal obligation and the Assembly is not asked to vote to approve monitoring round reallocations at the time.

Area of budgeting	Description	Comments on current practice
Other budget information and periodic reports	Provision of such information considered "best practice" could be made a legal requirement (see Appendix 4). Judicious choices need to be made before imposing legal requirements for reports to the legislature, which should not be overloaded with information. A distinction should be made between what the legislature needs and the information needed for internal management purposes, with the latter being governed by regulation, not law.	• There is no legal obligation on the Minister of Finance and Personnel to produce certain documents in relation to the budget; • There is a requirement in the Ministerial Code (1.5iii) for ministers to comply with reasonable requests for information;

Area of budgeting	Description	Comments on current practice
The main powers of the supreme audit institution (SAI) should be established in the constitution	The Lima Declaration of INTOSAI3 establishes international standards, including requiring the constitution to establish the independence of the SAI and to prepare audit reports for the legislature.	• The independence of the Comptroller and Auditor General is established in s.65(3) of the Northern Ireland Act 1998; • s.60 of the Northern Ireland Act 1998 sets out the authority of the C&AG to carry out financial and value-for-money audits of NI departments and other public bodies.
A separate external audit law should elaborate on the powers, roles and responsibilities of the SAI.	The appointment of the auditor general or the collegial body and staff of the SAI (which should be independent of the civil service), and the type of audit—compliance and/or performance (value-for-money) to be performed.	• The staffing of the NIAO is provided for in the Audit (Northern Ireland) Order 1987; • The powers of the C&AG to access information etc are contained in the Audit and Accountability (Northern Ireland) Order 2003

Table 7: External audit[13]

13 Information on the declaration and The International Organization of Supreme Audit Institutions (INTOSAI) can be found at: http://www.intosai.org/en/portal/documents/intosai/general/limaundmexikodeclaration/lima_declaration/index.php?article_pos=1 (accessed 28 July 2011)

4.1. Commentary on Tables 2 to 7

Based on those areas highlighted above as red, the following observations may be made:

- The statutory requirement for the Minister of Finance to lay the a draft budget should be brought forward to earlier in the year to allow for the Assembly's agreement prior to the start of the fiscal year;
- Further consideration of presenting fiscal data on a gross or net basis is required (RaISe briefing note forthcoming);
- Placing the Budget Exchange scheme on a statutory footing would improve alignment with the principles;
- The documentation that accompanies the budget should include (and this could be required by statute):
- Assessment of assumptions in relation to revenue projections;
- Off-budget expenditures should be clearly reported; and,
- Linkage between allocations and performance objectives should be included.
- A statutory requirement for mid-term review of the budget should be introduced; and,
- The Assembly should be asked to approve reallocations resulting from monitoring rounds.

Appendix 1: Sound Principles for a Budget System Law (BSL)[14]

Overarching Principle

1. **Authoritativeness**: Decision-making authority is specified clearly in the BSL. The executive prepares a draft annual budget law and supporting documents such as a fiscal policy strategy paper and a medium-term macro-fiscal framework; the legislature approves the annual budget, possibly after amendments; no expenditure can be made without approval of the legislature; the executive implements the annual budget and provides reports on implementation. It also has the authority to close and open public bank accounts. The authority to modify the approved budget law is specified in the BSL.

Classical Principles

2. **Annual basis**: Budget authority is for a 12-month period. Exceptions are specified in the BSL, including multiyear appropriations and end-year carryovers. The annual budget law is enacted prior to the year to which it refers. All transactions are estimated for their one year effect.

3. **Comprehensiveness**: The "universe" (e.g., central government) is specified clearly. All revenues and expenditures are included in the budget on a gross basis. Expenditures are not offset by revenues: the BSL specifies any exceptions. Extra-budgetary funds are minimal, being established by law. Contingency funds are included in the budget law. Tax expe nditures and quasi-fiscal activities are reported.

4. **Unity**: The budget presents, and the legislature approves, all receipts and payments in the same annual budget law. For expenditures, there is no "dual" budget system that splits current and development (or capital) transactions (this is best implemented if there is also unity of budget administration—one central budget authority). For revenues, there is an option between (i) approving all new revenue measures in the annual budget law or (ii) approving revenue measures only in laws other than the annual appropriations laws (the principle of exclusivity, which may be included in the BSL).

14 IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see pages 8 and 9)

5. **Common pooling (or fungibility) of revenues**: All resources are channelled into one common fund.

6. **Specificity**: Revenues and expenditures are approved with some detail in the budget estimates. Authorized spending is intended for particular purposes (inputs or programs/outputs).

7. **Balance**: Budget payments are balanced by receipts (accounting balance, cash basis). Budget expenses are balanced by budget revenues and financing (accrual basis). "Balance" is well defined and may be subject to legal limitations.

Modern Principles

8. **Accountability**: The executive must account to the legislature for how it has met its responsibilities at least twice a year. An independent external audit body reports at least annually to the legislature on budget execution and annual government accounts. Within the executive, the accountability of budget managers is clearly defined.

9. **Transparency**: The roles of public bodies are clear. Timely and regular financial and nonfinancial information on the budget is publicly available. The terms used in the BSL are clearly defined.

10. **Stability**: Short-term policy stability: anchoring commitments to achieve targets for revenues, total expenditures, fiscal balance or public debt, specified in the context of a regularly updated medium-term budget framework. Medium-term fiscal sustainability is also another important aspect of stability.

11. **Performance**: The expected and recent past results (outputs and/or outcomes) of budget programs are reported in the budget document.

Appendix 2: Documents to Accompany the Draft Annual Budget Law or Appropriations Act

- A medium-term fiscal strategy and objectives, the medium-term budget framework (MTBF) showing expected revenue, expenditure, budget balance, and public debt during at least the two years beyond the next fiscal year;
- Identification and discussion of the economic assumptions and fiscal risks underlying the projections;
- A statement on fiscal risks. This may include (i) sensitivity of the fiscal and debt projections to changes in assumptions; (b) alternative macrofiscal scenarios; (iii) assessment of debt sustainability and debt-related risks; (iv) risks associated with quasi-fiscal activities, government guarantees and other contingent liabilities, State-owned enterprises, financial sector, subnational governments, extrabudgetary funds, and government assets (for more details, see Cebotari and others, 2009, and Everaert and others, 2009;
- Clear identification of new policies being introduced in the annual budget, with an estimate of their quantitative impact on the budget;
- Comparative information on actual revenue and expenditure during the previous two years and an updated forecast for the current year, with a commentary on each revenue and expenditure program. Reconciliation with forecasts contained in earlier budget reports for the same period, accompanied by explanations of all significant deviations; and
- Tax expenditures, contingent liabilities and quasi-fiscal activities should be discussed, especially when quantitatively important.

Source: IMF (2010) ‘Reforming Budget Systems Laws’ available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 13)

Appendix 3: Ex-post budget reporting

Quarterly (or monthly) reports

- Monthly and year-to-date budget execution reports, to be released within four weeks after the end of each period. A brief commentary on revenues, expenditures, and balance should accompany the data.

Midyear report

- A comprehensive update on budget implementation, released within six weeks of the end of the midyear period. This should discuss the impact of changes in economic assumptions underlying the budget, any recent budget-related political decisions, and any other circumstances that may have a material effect on the budget. The report should include updated budget projections for the current fiscal year and the following two fiscal years.

Year-end accounts and annual report

- Annual accounts should show compliance with the budgeted levels of revenues and expenditures authorized by the legislature. The format of the accounts should be identical to that of the budget presentation. Any in-year adjustments to the original budget should be shown. Comparative information on revenues and expenditures of the preceding year should also be provided.
- The annual accounts should be audited by the external audit body and submitted to parliament within no more than 6–12 months after the fiscal year ends (more advanced countries can shorten the delay.)
- The year-end budget report should contain a comprehensive discussion of the overall budget outcome compared with ex ante targets for aggregates for revenues and broad expenditure categories. Spending ministries' reports on budget outcomes should be included.
- For countries with performance-oriented budget systems, the law should require that annual reports include non-financial performance information, including a comparison of performance targets and actual results achieved. The reports for year (-1) should be available in time for the legislature's consideration of the budget for year (+1).

Source: IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 16)

Appendix 4: OECD Best Practices for Budget Transparency

Appendix 4: OECD Best Practices for Budget Transparency

OECD Best Practices for Budget Transparency

Note from the Editors

The relationship between good governance and better economic and social outcomes is increasingly acknowledged. Transparency – openness about policy intentions, formulation and implementation – is a key element of good governance. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner.

OECD Member countries are at the forefront of budget transparency practices. At its 1999 annual meeting, the OECD Working Party of Senior Budget Officials asked the Secretariat to draw together a set of Best Practices in this area based on Member countries' experiences.

The Best Practices are in three parts. Part 1 lists the principal budget reports that governments should produce and their general content. Part 2 describes specific disclosures to be contained in the reports. This includes both financial and non-financial performance information. Part 3 highlights practices for ensuring the quality and integrity of the reports.

The Best Practices are designed as a reference tool for Member and non-member countries to use in order to increase the degree of budget transparency in their respective countries. The Best Practices are organised around specific reports for presentational reasons only. It is recognised that different countries will have different reporting regimes and may have different areas of emphasis for transparency. The Best Practices are based on different Member countries' experiences in each area. It should be stressed that the Best Practices are not meant to constitute a formal "standard" for budget transparency.

1. Budget reports

1.1. *The budget*

- The budget is the government's* key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.
- The government's draft budget should be submitted to Parliament far enough in advance to allow Parliament to review it properly. In no case should this be less than three months prior to the start of the fiscal year. The budget should be approved by Parliament prior to the start of the fiscal year.
- The budget, or related documents, should include a detailed commentary on each revenue and expenditure programme.
- Non-financial performance data, including performance targets, should be presented for expenditure programmes where practicable.
- The budget should include a medium-term perspective illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained.
- Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each programme. Similar comparative information should be shown for any non-financial performance data.
- If revenue and expenditures are authorised in permanent legislation, the amounts of such revenue and expenditures should nonetheless be shown in the budget for information purposes along with other revenue and expenditure.
- Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.

* The Best Practices define "government" in line with the System of National Accounts (SNA). This definition encompasses the non-commercial activities of government. Specifically, the activities of state-owned enterprises are excluded from this definition. Although the SNA definition focuses on general government, i.e. consolidating all levels of government, these Best Practices should be seen to apply to the national government.

- Expenditures should be classified by administrative unit (*e.g.* ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (below).
- The budget should include a discussion of tax expenditures in accordance with Best Practice 2.2 (below).
- The budget should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).

1.2. *Pre-budget report*

- A pre-budget report serves to encourage debate on the budget aggregates and how they interact with the economy. As such, it also serves to create appropriate expectations for the budget itself. It should be released no later than one month prior to the introduction of the budget proposal.
- The report should state explicitly the government's long-term economic and fiscal policy objectives and the government's economic and fiscal policy intentions for the forthcoming budget and, at least, the following two fiscal years. It should highlight the total level of revenue, expenditure, deficit or surplus, and debt.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (see below).

1.3. *Monthly reports*

- Monthly reports show progress in implementing the budget. They should be released within four weeks of the end of each month.
- They should contain the amount of revenue and expenditure in each month and year-to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditure for the same period. Any in-year adjustments to the original forecast should be shown separately.
- A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be made.
- Expenditures should be classified by major administrative units (*e.g.*, ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.

- The reports, or related documents, should also contain information on the government's borrowing activity (see Best Practice 2.3 below).

1.4. *Mid-year report*

- The mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year and, at least, the following two fiscal years. The report should be released within six weeks of the end of the mid-year period.
- The economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed (see Best Practice 2.1 below).
- The mid-year should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).
- The impact of any other government decisions, or other circumstances, that may have a material effect on the budget should be disclosed.

1.5. *Year-end report*

- The year-end report is the government's key accountability document. It should be audited by the Supreme Audit Institution, in accordance with Best Practice 3.3 (below) and be released within six months of the end of the fiscal year.
- The year-end report shows compliance with the level of revenue and expenditures authorised by Parliament in the budget. Any in-year adjustments to the original budget should be shown separately. The presentation format of the year-end report should mirror the presentation format of the budget.
- The year-end report, or related documents, should include non-financial performance information, including a comparison of performance targets and actual results achieved where practicable.
- Comparative information on the level of revenue and expenditure during the preceding year should also be provided. Similar comparative information should be shown for any non-financial performance data.
- Expenditure should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately.

- Expenditure should be classified by administrative unit (*e.g.* ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The year-end report should contain a comprehensive discussion of the government's financial assets and financial liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).

1.6. *Pre-election report*

- A pre-election report serves to illuminate the general state of government finances immediately before an election. This fosters a more informed electorate and serves to stimulate public debate.
- The feasibility of producing this report may depend on constitutional provisions and electoral practices. Optimally, it should be released no later than two weeks prior to elections.
- The report should contain the same information as the mid-year report.
- Special care needs to be taken to assure the integrity of such reports, in accordance with Best Practice 3.2 (below).

1.7. *Long-term report*

- The long-term report assesses the long-term sustainability of current government policies. It should be released at least every five years, or when major changes are made in substantive revenue or expenditure programmes.
- The report should assess the budgetary implications of demographic change, such as population ageing and other potential developments over the long-term (10-40 years).
- All key assumptions underlying the projections contained in the report should be made explicit and a range of plausible scenarios presented.

2. Specific disclosures

2.1. *Economic assumptions*

- Deviations from the forecast of the key economic assumptions underlying the budget are the government's key fiscal risk.
- All key economic assumptions should be disclosed explicitly. This includes the forecast for GDP growth, the composition of GDP growth, the rate of employment and unemployment, the current account, inflation and interest rates (monetary policy).

- A sensitivity analysis should be made of what impact changes in the key economic assumptions would have on the budget.

2.2. *Tax expenditures*

- Tax expenditures are the estimated costs to the tax revenue of preferential treatment for specific activities.
- The estimated cost of key tax expenditures should be disclosed as supplementary information in the budget. To the extent practicable, a discussion of tax expenditures for specific functional areas should be incorporated into the discussion of general expenditures for those areas in order to inform budgetary choices.

2.3. *Financial liabilities and financial assets*

- All financial liabilities and financial assets should be disclosed in the budget, the mid-year report, and the year-end report. Monthly borrowing activity should be disclosed in the monthly reports, or related documents.
- Borrowings should be classified by the currency denomination of the debt, the maturity profile of the debt, whether the debt carries a fixed or variable rate of interest, and whether it is callable.
- Financial assets should be classified by major type, including cash, marketable securities, investments in enterprises and loans advanced to other entities. Investments in enterprises should be listed individually. Loans advanced to other entities should be listed by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. Financial assets should be valued at market value.
- Debt management instruments, such as forward contracts and swaps, should be disclosed.
- In the budget, a sensitivity analysis should be made showing what impact changes in interest rates and foreign exchange rates would have on financing costs.

2.4. *Non-financial assets*

- Non-financial assets, including real property and equipment, should be disclosed.
- Non-financial assets will be recognised under full accrual-based accounting and budgeting. This will require the valuation of such assets and the selec-

tion of appropriate depreciation schedules. The valuation and depreciation methods should be fully disclosed.

- Where full accrual basis is not adopted, a register of assets should be maintained and summary information from this register provided in the budget, the mid-year report and the year-end report.

2.5. *Employee pension obligations*

- Employee pension obligations should be disclosed in the budget, the mid-year report and the year-end report. Employee pension obligations are the difference between accrued benefits arising from past service and the contributions that the government has made towards those benefits.
- Key actuarial assumptions underlying the calculation of employee pension obligations should be disclosed. Any assets belonging to employee pension plans should be valued at market value.

2.6. *Contingent liabilities*

- Contingent liabilities are liabilities whose budgetary impact is dependent on future events which may or may not occur. Common examples include government loan guarantees, government insurance programmes, and legal claims against the government.
- All significant contingent liabilities should be disclosed in the budget, the mid-year report and the annual financial statements.
- Where feasible, the total amount of contingent liabilities should be disclosed and classified by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. In cases where contingent liabilities cannot be quantified, they should be listed and described.

3. Integrity, control and accountability

3.1. *Accounting policies*

- A summary of relevant accounting policies should accompany all reports. These should describe the basis of accounting applied (*e.g.* cash, accrual) in preparing the reports and disclose any deviations from generally accepted accounting practices.
- The same accounting policies should be used for all fiscal reports.
- If a change in accounting policies is required, then the nature of the change and the reasons for the change should be fully disclosed. Information for

previous reporting periods should be adjusted, as practicable, to allow comparisons to be made between reporting periods.

3.2. *Systems and responsibility*

- A dynamic system of internal financial controls, including internal audit, should be in place to assure the integrity of information provided in the reports.
- Each report should contain a statement of responsibility by the finance minister and the senior official responsible for producing the report. The minister certifies that all government decisions with a fiscal impact have been included in the report. The senior official certifies that the Finance Ministry has used its best professional judgement in producing the report.

3.3. *Audit*

- The year-end report should be audited by the Supreme Audit Institution in accordance with generally accepted auditing practices.
- Audit reports prepared by the Supreme Audit Institution should be scrutinised by Parliament.

3.4. *Public and parliamentary scrutiny*

- Parliament should have the opportunity and the resources to effectively examine any fiscal report that it deems necessary.
- All fiscal reports referred to in these Best Practices should be made publicly available. This includes the availability of all reports free of charge on the Internet.
- The Finance Ministry should actively promote an understanding of the budget process by individual citizens and non-governmental organisations.

Northern Ireland Assembly

Research and Information Service
Briefing Paper

Paper 000/00 21 September 2011 NIAR 362-11

Colin Pidgeon

Presenting Fiscal Data: Gross or Net?

This Briefing Note explores the arguments for presenting fiscal and budgetary data in gross terms or net of income.

1. Introduction

This Briefing Note outlines the arguments for presenting fiscal data on a gross basis, or net of income. It is intended to support the Committee for Finance and Personnel in its scrutiny and policy advice role in relation to the Department of Finance and Personnel's *Review of Financial Process*.

A previous RaISe Briefing Paper *(Budget System Laws: principles and good practice – publication forthcoming)* presented an assessment of Northern Ireland's budgeting law and practice against a good practice framework developed by experts at the International Monetary Fund (IMF). One of the issues raised in that paper is that the IMF recommends that fiscal data should be reported on a gross basis. The practice in Northern Ireland is not always consistent with that.

In the *Executive's Budget 2011-15* each department's allocation for capital expenditure is shown in the settlement tables net of capital receipts.[1] It should be noted that anticipated capital receipts are presented in a reconciliation table at the end of the document – but this may not, perhaps, be the most straightforward way of showing the estimated return from capital asset disposals.[2]

It is arguably much more important, however, that when the Assembly votes formal approval for departmental expenditure through the Estimates process the figures are again presented net of income (known in the Estimates as 'accruing resources'). These are the totals against which departments are held to account.

Departmental Accounting Officers are personally responsible for accounting to the Assembly for the amounts voted to meet their departments' annual Supply Estimate and:

> *…having been satisfied that they have been properly prepared to reflect the business of the organisation, must personally approve any Request(s) for Resources.*[3]

If, following audit, it is established that a department has exceed the net total voted in the Estimate, the Assembly is asked to pass an Excess Vote – this grants retrospective approval for the additional expenditure.

The purpose for which the data is used

Fiscal data serves various purposes – for the planning, reporting and control of public expenditure. Given that one of the underlying purposes of DFP's *Review of Financial Process* is to make published fiscal data more comprehensible to support transparency it appears sensible that, irrespective of the purpose for which the data is to be used, it should consistently be presented either on a gross or a net basis, rather than a mixture of the two, or possibly as *both* gross and net.

The current system

At present the Assembly votes a cash gross expenditure limit for each government department in the Budget Bill. In so doing it approves expenditure up to that limit. At the same time it approves a maximum level of income (accruing resources) that may be applied by each department against its expenditure. Any income that is generated over and above the

1 NI Executive (2011) 'Budget 2011-15' available online at: http://www.northernireland.gov.uk/revised_budget_-_website_version.pdf (accessed 2 August 2011) (see Table 3.2 on page 32 and departmental tables in Chapter 4)

2 NI Executive (2011) 'Budget 2011-15' available online at: http://www.northernireland.gov.uk/revised_budget_-_website_version.pdf (accessed 2 August 2011) (see Table B6 on page 133)

3 DFP (2008) 'Managing Public Money Northern Ireland" available online at: http://www.afmdni.gov.uk/pubs/MPMNI/mpm_chapters.pdf (accessed 2 August 2011) (see page 17)

accruing resources limit is treated as a Consolidated Fund Extra Receipt (CFER) and this must be handed back to the centre.

It is worth noting that this system does not prevent departments from generating extra income. It does, however, prevent them retaining that revenue to fund additional expenditure.

2. International best practice on reporting fiscal data

The recommendation by the IMF that data should be reported on a gross basis appears in a number of best practice documents. The same approach is also advocated by the OECD.

OECD Best Practices for Budget Transparency

Section 1.1. of the Organisation for Economic Cooperation and Development (OECD) Best Practices for Budget Transparency states:

> *Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.*[4]

IMF Code of Good Practices on Fiscal Transparency

Section 3.2.2. of the IMF Code of Good Practices on Fiscal Transparency states:

> *Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.*[5]

The same point is made again in good practice guidance developed by experts in the IMF fiscal affairs department. The third of eleven Sound Principles for a Budget System Law states:

> *All revenues and expenditures are included in the budget on a gross basis. Expenditures are not offset by revenues: the [Budget System Law] specifies any exceptions.*[6]

It is clear then that both the OECD and the IMF place some significance on the use of gross figures. The following sections of this Note explore arguments for and against the two approaches.

3. Arguments for presenting fiscal data on a gross basis

The IMF Manual on Fiscal Transparency explains that the purpose of reporting planned expenditure in gross terms is to enable the full cost of the activities of government agencies to be clearly visible:

> *It is not uncommon for government agencies to be allowed to use revenue from fees and charges directly for expenditure (e.g., hospital fees and charges that are used by the health administration without first being transferred to the general fund of government). User charges are increasingly being used in OECD countries as part of the control and incentive*

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4 OECD (2002) 'Best Practices for Budget Transparency' available online at: http://www.oecd.org/dataoecd/33/13/1905258.pdf (accessed 2 August 2011) (see page 8)

5 IMF (2007) 'Code of Good Practices on Fiscal Transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 2 August 2011) (see page 3)

6 IMF (2010) 'Reforming Budget System Laws' available online at http://blog-pfm.imf.org/files/fad-technical-manual-8.pdf (accessed 2 August 2011) (see page 8)

mechanisms for managers of agencies. Such arrangements should be recorded in gross terms, and reported both in the budget documentation (in aggregate form) and in detail in the annual reports of the agencies concerned, so that the full extent of government activity can be properly established.[7]

The issue was explored in a debate in the House of Commons concerning the Treasury's Alignment (Clear Line of Sight) Project on 5 July 2010.[8] Penny Mordaunt MP argued that voting net approvals and allowing departments to keep additional income might not encourage them to be more frugal and achieve better value for money:

I would argue that, paradoxically, the contrary might transpire, as departments used the licence of net estimates to indulge in non-core activities aimed at increasing revenue for the Department. That would, in effect, be spending by stealth. Additional income raised would have to be spent in order to maintain the net figure, and presumably if the net figure were maintained Parliament would be content. Surely we would do better to have a system that set out gross expenditure and that enabled Parliament to choose how any additional income should be spent, held in reserve, or used to reduce the burden of that expenditure on the taxpayer.

The Member went on to argue that using a net basis could lead to increased fees for services such as passports and concluded by saying:

The absence of scrutiny on gross income and expenditure is the equivalent of saying to the public, "Don't bother to fill out your tax return-just tell us what your net income is and we'll take it at face value." Tax inspectors should see what items an individual is claiming against their income, and Parliament should be able to do the same.

4. Arguments for presenting data on a net basis

Under the Treasury's Alignment (Clear Line of Sight) Project the system of Parliamentary approval moved to net voting. The Treasury explained the benefits of this in the following terms:

Moving to net voting will offer a number of significant benefits. The change will align parliamentary controls with Treasury controls over departmental spending, will avoid the risk that unanticipated income late in the year might be lost and will maintain incentives on departments to seek best value for money by maximising income where it is appropriate to do so. These new provisions will apply only to departments. NDPBs are already able to retain any income they generate, and no new controls are planned.[9]

The Treasury argued that for all expenditure to be aligned (thereby increased the transparency of government data) it had to be on a net basis. The House of Commons' Treasury Committee appears to have accepted this position. In its report Administration and expenditure of the Chancellor's departments, 2007–08 the Committee stated:

Under current arrangements, Departmental Supply Estimates include both gross expenditure amounts and amounts net of the income generated by departments. This means that when Parliament votes to authorise the Estimate, it is voting to authorise both the gross and net figures directly, authorising limits on both operating and non-operating appropriations-in-aid. The alignment project intends to focus parliamentary controls on the net expenditure figure

7 IMF (2007) 'Manual on Fiscal Transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507m.pdf (accessed 2 August 2011) (see pages 63-64)

8 An extract from the Official report is available online at: http://62.164.176.164/d/hansard_extract_of_alignment_debate_in_commons_on_july_5_2010.pdf (accessed 2 August 2011)

9 HMT(2010) 'Q & A brief for Departments and associated bodies' available online at: http://www.hm-treasury.gov.uk/d/qa_brief_for_depts_hmt_public_august_2010.pdf (accessed 2 August 2011) (see page 5)

in order to "line up with budgetary controls", thus surrendering some elements of formal control.

We acknowledge that the requirements of the alignment project mean that it is not possible for parliament to maintain control over gross totals. We are concerned that without adequate levels of information regarding income, parliament's authority may be diminished. We recommend that the new estimates provide appropriate levels of information relating to income. We do not wish to impose an unreasonable administrative burden on the departments and hope that a pragmatic solution can be adopted.[10]

The UK Government's response to this recommendation provided a level of assurance:

Proposals on the move to net Estimates include a range of safeguards, which will ensure that Parliament has more, and better, information than at present about income. Full information about expected income levels will still be provided in the Estimate. In addition, there will be restrictions on the categories of income that departments may retain, to ensure that proper control and accountability is provided.[11]

In the Commons debate on 5 July 2010, the Financial Secretary to the Treasury, Mark Hoban confirmed how the Government intended to provide the kind of information that the Committee was seeking:

The Supply estimates will continue to report a Department's expected levels of income, and they will include a note breaking them down in detail. Only income of a type included in the description of income in the estimates will be able to be retained by Departments. My hon. Friend the Member for Portsmouth North gave an example from her knowledge. Departments will continue to be subject to rules on fees and charges. That will determine the costs that can be charged for and ensure that full costs are recovered but that Departments do not generate profits. There will still be control over the types of income raised, which will be in line with legislation. There will be a note in the estimates analysis of income, which will ensure that these issues are transparent and that we can be held to account for them.[12]

As noted above, at present if a department increases its income above the level approved by the Assembly, the additional sums are returned to the centre as CFERs. The reforms now introduced for UK departments mean that this requirement is removed – departments must ensure their net expenditure does not exceed the total voted by Parliament.

The Treasury argued that this approach gives departments the incentive to maximise income and therefore to deliver better value for money. In addition, the Treasury has argued that this increases rather than diminishes transparency:

The Estimate will continue to show, for information purposes, expected levels of income (resource and capital) in the same level of detail as at present. In voting DEL on a net basis, Parliament would therefore be fully aware of the level of income anticipated. Resource accounts would disclose actual income received, which could then be compared to the levels anticipated in the Estimates, and Select Committees would be able to investigate the basis of any prices that they suspected of having been raised excessively, and challenge departments on any significant change.[13]

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10 Session 2008-09, First Report available online at: http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/35/35.pdf (accessed 2 August 2011) (see page 15)

11 Session 2008-09, second special report available online at: http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/419/419.pdf (accessed 2 August 2011) (see pages 5-6)

12 An extract from the Official report is available online at: http://62.164.176.164/d/hansard_extract_of_alignment_debate_in_commons_on_july_5_2010.pdf (accessed 2 August 2011)

13 HMT 'High Level Policy Memorandum' available online at: http://www.hm-treasury.gov.uk/d/clear_line_of_sight_memorandum.pdf (accessed 2 August 2011) (see page 13)

5. Concluding remarks

The primary reason for presenting data on a gross basis that underlies the IMF and OECD best practice guidance seems to be that net reporting can mask the true cost of government activity. This is an understandable concern. That said, the level of disclosure envisaged under the Treasury's reforms would appear to counter that charge. The Committee may wish to pursue this issue with the Department in relation to its own plans.

A secondary issue is the incentive for departments to maximise their income and deliver better value for money that comes from net reporting and approval. There is, however, a possible argument that rather than improving value for money, allowing departments to retain additional income could provide a perverse incentive to increase charging to mask inefficiencies: rather than seeking to make delivery more cost effective, departments may be inclined simply to attempt to maximise revenue.

The counterargument is that, through aligning the Estimates with budgets and accounts, an unanticipated increase in actual income from fees or charges over what was originally forecast should be clearly seen, and therefore open to scrutiny and challenge.

Northern Ireland Assembly

Research and Information Service
Briefing Paper

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Colin Pidgeon

Options for Strategic Budget Stages

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

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

Key points

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

Contents

1. Introduction

Briefing paper 62/11[1] presented five recommendations for improving the budget process in Northern Ireland based upon the work of the Committee for Finance and Personnel (the Committee) during the 2007-11 mandate and upon international best practice guidance. On 22 June 2011, the Committee forwarded the recommendations to the Department of Finance and Personnel (DFP) and requested that the recommendations are taken forward in parallel with the Review of Financial Process.

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

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

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

> *Recommendation 2: the future budget process should include a strategic phase, perhaps in the spring preceding the production of a draft budget, to allow the Assembly to debate both revenue measures and spending priorities.*
>
> *Recommendation 3: the future budget process should include a formal stage for reconsideration of the budget in light of emerging spending pressures or policy reorientation, with the aim of informing in-year reallocations and considering developments that might affect allocations across years.*

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

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

The case for change

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

Ultimately, the purpose of reforming the budget process is to enhance the Assembly's role in budgeting. Research Briefing paper 62/11[3] touched on the value of scrutiny.

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

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

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

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

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

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

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

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

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

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

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

2. Strategic phase: pre-draft budget

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

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

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

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

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

Moreover, previous research papers have highlighted the good practice requirement for the Executive to prepare and present information to the legislature relating to all government revenue and expenditure alongside the draft budget, so that the necessary trade-offs between policy options can be assessed.[7] As noted, this issue will become more significant to Northern Ireland if corporate tax powers are devolved. The Executive will need to forecast revenue (as it does already with the regional rate, for example) to enable decisions to be made on the appropriate rate of taxation, particularly as the Northern Ireland block grant from the UK Exchequer has to be reduced to take account of revenue received.[8]

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

2.1. Barriers to pre-draft budget scrutiny

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

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

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

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

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

UK spending reviews

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

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

This gives rise to some difficulties:

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

The Northern Ireland Executive's Programme for Government

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

This point reinforces the difficulty raised above in relation to the spending review cycle coinciding with elections. In effect, a budget had to be set for – at the very minimum – 2011-12 prior to dissolution of the Assembly for elections otherwise departments would have run out of money before the new Assembly came in.[9] In practice, the outgoing Executive and Assembly have set spending priorities for the four-year period *without having an agreed set of political priorities or policies*. It is difficult to see that such a situation would have arisen had the spending review cycle not coincided with the elections.

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

In its *Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure* the previous Committee stated that *"there should be clear, visible linkage between the PfG, PSA targets and budget allocations"*.[10] In response to this recommendation, DFP stated it:

> *…shares the Committee's objective of a transparent and robust framework against which budget allocations, efficient outputs and clear outcomes may be measured.*[11]

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

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

11 DFP 'Response to 2nd Inquiry Report': http://archive.niassembly.gov.uk/finance/2007mandate/reports/dfp_response_2nd_budget_report.htm

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

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

Executive agreement

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

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

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

Period of consultation

In evidence to the Committee, DFP officials have cited the requirement for the Executive to consult on the draft budget as a potential barrier to developing a budget calendar with concrete dates set for particular purposes.[12] It may be argued that, as the draft budget is owned by the Executive, it is really for the Executive to manage its own timetable to allow for a full and proper consultation process. The focus of this paper is on the elements of the process over which the Assembly has some control or may mitigate in some way.

Organisational arrangements within the Northern Ireland Assembly

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

> *(Committees) will have a scrutiny, policy development and consultation role with respect to the Department with which each is associated, and will have a role in initiation of legislation. They will have the power to:*
>
> - *consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation;*
> - *approve relevant secondary legislation and take the Committee stage of relevant primary legislation;*
> - *call for persons and papers;*
> - *initiate enquiries and make reports; and*

12 Official Report, 21 Sept 2011 available online at: http://www.niassembly.gov.uk/record/committees2011/FinancePersonnel/110921_ReviewFinancialProcess.pdf (accessed 27 September 2011) (see page 14)

- *consider and advise on matters brought to the Committee by its Minister.*[13]

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

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

…the Procedures Committee undertake an urgent review of Assembly standing orders, early in the next mandate, for the purpose of strengthening the procedural basis for the Assembly's scrutiny of the Executive's budgets and expenditure.[14]

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

2.2. Defining the purpose of pre-draft budget scrutiny

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

> *During evidence, it was clear that witnesses felt that the Parliament needed to define what it means by a "budget strategy" phase. While it was clear that witnesses did not believe that the Parliament should attempt to take on the role of government, there was a view that this phase should seek to identify a government's priorities (if not already clear); determine whether the budget is delivering on these priorities and whether a government's policies match its priorities, and make suggestions for alternative strategies.*[15]

The Finance Committee also found that the Scottish Parliament's Stage One (the budget strategy phase) did not fit well with how scrutiny committees in the Parliament operated. The Committee found that, whilst there were difficulties, *"there was also a consensus that the underlying principle of Stage One (of taking a strategic overview of budgetary decisions) should be retained but in a different form."*[16]

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

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

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

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

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

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

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

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

- **Ensuring the integrity of financial information**: it would assist with the transparency of the process if part of the statutory committees' role was to ensure that budgetary documentation is clear and supported by robust evidence. Information could be tested by committees inviting challenge from key stakeholders or expert witnesses.

  A disadvantage to this is that – like many other issues discussed – it would rely on timely receipt of information from departments and access by statutory committees to sufficient expert support. On the other hand, this approach would support good practice on fiscal transparency and could promote better understanding of departmental proposals both within the Assembly and wider society.

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

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

2.3. Approaches in Scotland and Wales

Scotland

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

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

> *…that a strategic budget scrutiny phase should be undertaken at least once in each session of the Parliament. The Committee recommends that the timing and objectives of this phase should remain flexible so that it can decide them in the light of circumstances.*[17]

It also argued that:

> *…it is essential that a strategic budget phase allows scrutiny to be aligned with the policy priorities which the Scottish Government is pursuing through its budget. Documentation*

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

should, therefore, allow for the alignment of budgetary information with appropriate policy statements and performance monitoring material[18]

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

The Finance Committee also recommended that the old Stage One was replaced with a system of 'continuous financial scrutiny' whereby all subject committees *"should continue to develop the way in which they mainstream financial considerations into any inquiries they undertake."*[19]

The Scottish Finance Committee received a considerable amount of evidence that related to the problem caused by the spending review cycle, indicating that this is not an issue unique to Northern Ireland.[20] Indeed, there may be an argument that the spending review mechanism has not been designed with the needs of the devolved administrations in mind.

Wales

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

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

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

Box 1: The timing of the budget process in Wales[21]

- At least two weeks prior to the summer recess each year, the Minister responsible for government business must notify the Business Committee of the date by which the draft budget will be laid, and the date by which the annual budget motion will be tabled. (SO 20.2-20.3)
- The Business Committee will then publish a timetable for the consideration of the draft budget. This must include at least five weeks for the 'responsible committee' to report on the draft budget. (SO 20.4-20.6)
- A Welsh Minister must lay the draft budget before the National Assembly (in accordance with the date specified). This must contain details of resources and cash the government

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

19 inance Committee (2009) 5th Report, 'Report on the Review of the Budget Process' available online at: http://www.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#9 (accessed 26 Sept 2011) (see para 62)

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

21 Source: National Assembly for Wales (2011) 'Research Service Quick Guide: the draft budget' available online at: http://www.assemblywales.org/qg11-0018.pdf (accessed 23 September 2011)

proposes to use in the following financial year and indicative figures for the subsequent two financial years, where possible. (SO 20.7)

- As soon as possible following the laying of the draft budget, a Welsh Minister should make a statement in Plenary, introducing the draft budget. (SO 20.8)
- No motion can be moved in Plenary in respect of the draft budget until the deadline for the responsible committee to report on the draft budget has passed. (SO 20.9)
- Committees other than the responsible committee may also consider the draft budget and report to the responsible committee. (SO 20.10)
- The responsible committee's report can recommend changes to the government's proposals, provided that such changes do not alter the overall amount of resources or cash proposed in the draft budget. (SO 20.11)
- The National Assembly must consider a motion tabled by a Welsh Minister to take note of the government's draft budget. Amendments to such a motion may be tabled provided that they do not alter the overall amount of resources or cash proposed in the draft budget. (SO 20.12)

2.4. Options for a pre-draft budget scrutiny phase

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

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

Timing

Previous research papers have considered international best practice in budgeting and presented a case for elements of the budget process being placed on statutory footing. In addition, DFP officials have stated in evidence to the Committee that, as officials, they would welcome a statutory timetable for the budget process.[22]

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

Option 1: announcement of UK spending review

Before embarking on the Spending Review 2010 exercise, the Treasury made an official announcement of the framework for the process. This was published by way of Command Paper 7872 in June 2010.[23] DFP officials have confirmed that similar documents preceded the Comprehensive Spending Review in 2007.

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

22 Official Report, 21 Sept 2011 available online at: http://www.niassembly.gov.uk/record/committees2011/FinancePersonnel/110921_ReviewFinancialProcess.pdf (accessed 27 September 2011) (see page 14)

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

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

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

On the other hand, it would give a clear impetus to beginning the strategic scrutiny process at a particular time and would provide the Assembly and statutory committees with a timetable around which they could design their forward work programmes and business agenda.

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

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

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

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

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

A disadvantage in this option might be that it could lead to a disjointed committee-by-committee approach without a centrally co-ordinated Assembly-wide phase. Alternatively, the Committee for Finance and Personnel could be required to produce a co-ordinated report at the pre-draft budget stage. This would have the advantage of the Committee reporting at a time when the draft budget is not already negotiated and could facilitate the streamlining of the latter part of the process.

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

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

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

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

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

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

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

Programme for Government

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

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

> *The Executive Committee will seek to agree each year, and review as necessary, a programme incorporating an agreed budget linked to policies and programmes, subject to approval by the Assembly, after scrutiny in Assembly Committees, on a cross-community basis.*[24]

This approach would have the advantage of ensuring that both parts of the equation – i.e. spending plans and political priorities – are presented to the Assembly at the same time, as appears to have been envisaged in the Agreement. A disadvantage arises from the potential for the spending review cycle to continue to coincide with elections to the Northern Ireland Assembly.

Executive agreement

It is far from clear that any duty – whether in statute or standing orders – which requires the Executive to agree proposals to specified timescales could be enforced. Nevertheless, it may be that the additional impetus of having an agreed process in place along the lines of those outlined above might help encourage the Executive to ensure that the Assembly is properly and fully engaged. This may also be more likely given the potential benefits of a reformed process from the Executive's perspective.

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

Organisational arrangements within the Northern Ireland Assembly

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

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

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

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

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

The provision of information: this proposal would build upon some of the options by specifying a minimum level of information that must be provided by departments to committees at the pre-draft budget phase if it is not possible or desirable to include this in statute. This would empower committees by ensuring they have timely access to relevant budgetary information without having to have recourse to their powers to call for persons and papers.

The previous Committee recommended in its Report on the 2008-11 Budget that:

> *…there would be benefit, in terms of transparency and scrutiny, from fuller and more standardised information on departments' bids and their outcomes being published as part of the draft budget process.*

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

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

3. Strategic phase: review

The strategic budget review phase proposed in Briefing paper 62/11[25] is intended to satisfy a number of issues:

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

3.1. Options for a strategic budget review phase

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

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

> *Recommendation 6: In-year monitoring rounds should be retained but the supporting information should be enhanced. From a transparency perspective and for allowing debate in the legislature the current process of in-year monitoring should be maintained. However, it would be helpful in terms of scrutiny if the supporting documentation or detail of the Minister's statement gave an assessment of the likely impact of changes to allocations on the delivery of Programme for Government priorities.*[26]

A strategic budget review phase could be tied into the monitoring round cycle. In evidence to the Committee on 21 September 2011, a DFP official noted that the October monitoring round could be "quite a strategic assessment."[27] Building on the previous argument made above, however, it is suggested that the Committee considers whether October monitoring would really be a strategic assessment if it is retained in its current form? Some options for enhancing the current process to make it more strategic are presented below.

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

> *…report formally on budget execution – i.e. spending against budget plan, and progress against targets – during implementation. The Assembly could expect to vote approval of in-year monitoring round reallocations at the time, not just receive a statement and then vote retrospectively in the Spring Supplementary Estimates.*[28]

25 RaISe (2011) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf (see pages 8 to 11)

26 RaISe (2010) 'Considerations for Reform of the Budget Process in Northern Ireland' available online at: http://www.niassembly.gov.uk/researchandlibrary/2010/4510.pdf (accessed 28 Sept 2011) (see page 61)

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

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

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

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

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

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

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

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

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

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

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

4. Concluding remarks

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

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

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

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

Northern Ireland Assembly

Research and Information Service
Research Paper

16 November 2011 NIAR 694-11

Colin Pidgeon

The Executive's Review of the Financial Process in Northern Ireland: a critical analysis of DFP's Discussion Paper

This Research Paper presents a critical review and evaluation of DFP's Discussion Paper in relation to its ongoing Review of Financial Process on behalf of the Northern Ireland Executive. Particular attention is paid to the initial recommendations in the light of international best practice, recommendations made by the Committee for Finance and Personnel and previous research.

Key Points

- DFP has made a number of initial recommendations that should result in considerable transparency and accountability benefits in the financial process for the Assembly;
- Many of the recommendations, if adopted, would improve the compliance of the Northern Ireland process with international good practice;
- It has proposed a timetable and early engagement phase which, with some possible amendment and enhancement, should help increase the Assembly's ownership of budgeting;
- DFP has rejected the concept of a strategic review phase of the budget during implementation; and,
- It has also rejected the ambition of linking budget allocations to performance objectives.

Executive Summary

The research presented in this paper demonstrates that there is much to be welcomed in the initial recommendations made by DFP's discussion paper on the Review of Financial Process in Northern Ireland.

A number of the recommendations will go some considerable distance in improving the compliance of the Northern Ireland process with international good practice on budgeting and transparency. In particular, the proposed reforms should make the process more comprehensible (Recommendations 1 and 2), increase the boundary of departmental accounts (Recommendation 2), and show more clearly the expenditure that is included in the Budget but not voted (Recommendation 4).

In addition, some of the recommendations will go some way to meeting and addressing the criticisms that have been levelled at current practice by the Northern Ireland Assembly's statutory committees. In particular there are proposals to increase the level of published detail (Recommendation 6), produce the Budget in the context of an agreed Programme for Government (Recommendation 9) and enhance the input of the Assembly to the preparation of spending proposals (Recommendation 10).

The research also highlights, however, that there are some areas where further information and evidence may be useful to the Committee for Finance and Personnel in coming to a view on the initial recommendations. Whilst seeking more evidence may put pressure on the timetable for the Review, it may be considered more important that the reforms are done right first time.

The current public expenditure control system and associated financial process have evolved over many years. Reforms will be time consuming and resource intensive. Given that a new process could be in place for a generation or more, it is contended that it is crucial that significant aspects are not rushed and – although appearing to be logical – might actually harm Assembly control or accountability in ways that cannot be foreseen without a more complete evidence base.

Specific areas for more evidence highlighted are outcome-focused budgeting and reform of departmental resource accounts.

In addition, the Committee has commissioned legal advice on the possibility of placing elements of the budget process on a statutory footing. When received, this should assist with completing the picture and enable the Committee to agree on the most appropriate way forward.

The paper also highlights some areas where DFP has recommended approaches that do not align with previous requests and recommendations – most notably in relation to a strategic budget review stage, and the linking of budget allocations to objectives. In relation to the former, this appears to be due to a misunderstanding of the conception of what the review stage intends. In the latter case, the DFP position is that firstly, linkage is very difficult to achieve, and secondly, the idea underpinning linkage (that input will relate to output and outcome) is flawed. Some initial evidence from Scotland is presented, showing that in that jurisdiction progress on this objective is being made.

Further evidence from Scotland is also presented to illustrate that consultation on the draft budget may not be the necessarily complicating factor that DFP has previously asserted it is for the budget timetable. It is argued that by taking an alternative approach, consultation could be used as the enhancement to process that it should be rather than as a perceived barrier to an effective process.

Contents

1. Introduction

On 10 October 2011, the Department of Finance and Personnel (DFP) issued a discussion paper on the Review of Financial Process. The paper included a number of initial recommendations for discussion. The purpose of this research paper is to support that discussion by considering the initial recommendations – and some of the arguments that underpin them – in the light of international best practice, the previous work of the Committee for Finance and Personnel, and some experience from other jurisdictions.

The first part of this research paper looks in turn at each of DFP's initial recommendations and presents a critical commentary. For ease of reference this commentary is provided in the order the recommendations are presented in the discussion paper.

The second part of this research paper highlights some gaps in the initial recommendations based upon the concerns that the Assembly's statutory committees have previously expressed.

2. DFP's initial recommendations

The discussion paper contains 15 initial recommendations for improving the financial process in Northern Ireland. These cover a wide range of issues and are presented as "an effort to focus minds on the key areas for improvement and to kindle debate".[1] This section of the research paper aims to support that debate.

2.1. Recommendation 1: Assembly controls

> Assembly controls should change to reflect the alignment of Budget, Estimates and Accounting boundaries. The concept of Requests for Resources (RfRs) should be abolished and the Assembly should instead vote, as applicable, each department's:
>
> Resource DEL
>
> Capital DEL
>
> Resource AME
>
> Capital AME
>
> Net Cash Requirement.

This recommendation goes to the heart of the Review of Financial Process and is aimed at enhancing both transparency and accountability to the Assembly. It is proposed, therefore, that in future the Assembly should formally approve spending based upon the controls used in the Budget, rather than the current system of Requests for Resources (RfRs) and Net Cash Requirement.

This recommendation takes account of the complaint from MLAs that the current process of Votes on Account, Budget and Estimates is not transparent, repetitive and somewhat confusing.

The proposal has considerable merit in that when the Assembly is asked to give formal approval to for departments to spend (which it does currently through the Vote on Account and Estimates procedure) it will in future do so with figures that are presented and controlled in the same way as in the Northern Ireland Executive's expenditure plans – which the Assembly agrees in the Budget.

Administrative cost controls[2]

One possible question for discussion is whether there should also be an addition to the recommended control totals called 'administrative cost limit.' Prior to Budget 2011-15 the Executive had in place an administration cost control regime "to ensure that there was an incentive on individual departments to eliminate needless bureaucracy and waste."[3] The administrative cost controls were abolished on the basis that, whilst successful thus far, "a point has now been reached when further attempts to centrally control administration costs risks being counterproductive."[4]

1 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 4)

2 More detail on the admin cost control regime can be found in RaISe Briefing Note 192/10 'Resource DEL: administrative cost controls' available online at: http://www.niassembly.gov.uk/researchandlibrary/2010/19210.pdf

3 NI Executive (2011) 'Budget 2011-15' available online at: http://www.northernireland.gov.uk/revised_budget_-_website_version.pdf (accessed 8 November 2011) (see page 30)

4 NI Executive (2011) 'Budget 2011-15' available online at: http://www.northernireland.gov.uk/revised_budget_-_website_version.pdf (accessed 8 November 2011) (see page 30)

In its *Report on the Executive's Draft Budget 2011-15* the previous Committee for Finance and Personnel included the following comments on the administrative cost control regime:

> *52. It has been highlighted that the draft Budget 2011-15 sets out the Executive's plans to abolish the programme of administrative cost controls. During evidence, DFP officials outlined the reasoning behind this decision by stating that:*
>
> *"We feel that it has gone as far as it can. We have borne down on administrative costs, and the feedback that our Minister is getting from other Ministers is that it is taking up more ministerial and officials' time than any benefit gained merited."*
>
> *53. Concern has been expressed within the Committee that if administrative cost controls are abolished, there will be no central mechanism to ensure frontline services are protected. Other concerns have highlighted that a false economy could emerge if administration continued to be hollowed out of public services. To illustrate this point, a DFP official pointed to the work of the Public Accounts Committee (PAC), which has highlighted cases where insufficient administrative safeguards have resulted in a lower level of accountability on millions of pounds of public money.*
>
> *54. As alluded to already, the Committee is concerned that neither the draft Budget nor individual departmental spending and savings plans provide sufficient detail regarding the assessment used to prioritise programme spending. Moreover, the Committee believes that the proposed abolition of the programme of administrative cost controls and the delegation of responsibility in this area from DFP centrally to individual departments would reduce the level of transparency and safeguards available for protecting expenditure on frontline services. As such, the Committee suggests that, if the proposed new approach is taken, each Assembly statutory committee should place a focus on departmental administration expenditure during the budget period.*[5]

Discussion point 1: Members of the Committee may wish to consider if they are satisfied with the monitoring of administrative costs by departments and DFP, or whether there is a case to be made for a more transparent and explicit regime for controlling administrative costs.

2.2. Recommendation 2: Non-Departmental Public Bodies (NDPBs)

NDPBs are consolidated within the Estimates and Accounting boundaries in order to improve alignment and transparency.

As with Recommendation 1, this recommendation is concerned primarily with aligning the figures included in the Budget with those in the Estimates and resource accounts. At present, the Estimates include the cash grant to NDPBs, but not their full expenditure – for example, non-cash spending such as the depreciation of capital assets is not included. DFP has proposed consolidating Executive NDPBs within both the Estimates and Accounting boundaries of departments.

This recommendation has considerable merit in terms of transparency. Consolidation would make it easier to understand the flow of resources from departments to the NDPBs that they sponsor. It would also be in keeping with the good practice 'comprehensiveness principle' that the 'universe' (i.e. central government) is specified clearly in the Budget System Law.[6]

It would also mean that if an NDPB were to overspend, the sponsoring department could be held to account through the Assembly's Public Accounts Committee.

5 CFP (2011) 'Report on the Executive's Draft Budget 2011-15: volume 1' available online at: http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_44_09_10R_vol1.html#7 (accessed 8 November 2011)

6 See RaISe paper 101/10 'Budget System Laws: principles and good practice' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/10111.pdf (accessed 8 November 2011) (see page 11)

This latter point could be seen as an important benefit of consolidation. The fact that an NDPB's spending could trigger an Excess Vote (which happens when a department overspends its approved limit) should force ministers and their Accounting Officers to ensure that NDPBs keep rigorous control of their spending.

DFP also argues that "with consolidation, financial management in departments should be simplified somewhat."[7] This point does, however, give rise to questions about the downsides.

Cost of consolidation

In the discussion paper, DFP states that:

> *The groundwork required for consolidation would be an administrative burden on departments and impact on faster closing and laying of Resource Accounts, but the benefit of alignment in terms of transparency would outweigh these difficulties.*[8]

It is rather difficult for the Committee to assess whether or not the stated benefits outweigh the difficulties without an assessment of the costs to departments and NDPBs - and indeed to the Northern Ireland Audit Office (NIAO) - of the additional administrative burden. Whilst it is acknowledged that the discussion paper reflects the early findings of the Review of Financial Process, the Committee may find it helpful if some indicative costings could be provided.

Discussion point 2: what is the anticipated cost of consolidation, and is this likely to lead to departments requiring additional resources through monitoring rounds at a time when the Executive is already facing budgetary pressures?

Closing departmental accounts

It is noted in the discussion paper that at present none of the departments have all their NDPBs audited prior to the Assembly's summer recess (by when departmental resource accounts must be laid). The consequence of consolidation may therefore be that it takes longer for departmental accounts to be produced, which might have a negative impact on transparency and accountability.

The Committee may, however, wish to note that the International Monetary Fund's (IMF) *Code of good practices on fiscal transparency* requires only that:

> *Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published* ***within a year****.[emphasis added]*[9]

In addition, the discussion paper notes some concerns expressed by the NIAO about departmental accounting systems, and their ability to facilitate consolidation. If systems have to be upgraded or harmonised, there is likely to have to be a capital investment by departments.

Another potential issue is that some bodies (particularly in the education sector) have a different financial reporting year from central government departments – they produce accounts to a year ending 31 July, rather than 31 March.

Discussion point 3: is the Committee prepared to accept later closing of departmental accounts?

Discussion point 4: what level of investment may be required by departments in financial systems during a time of particular pressure on capital budgets?

7 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 22)

8 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see pages 4-5)

9 IMF (2007) 'Code of good practices on fiscal transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 8 November 2011) (see paragraph 2.2.4)

2.3. Recommendation 3: other misalignments

DFP should continue to work with departments to find solutions, where possible, to all other misalignments between Budgets, Estimates and Accounts.

The discussion paper notes that even after consolidation there would still be some “smaller areas of misalignment.”[10] These include notional charges and capital grants to the private sector. The aim of the Review is to try to eliminate – or reduce as far as possible – such misalignments.

Without more detail on these technical misalignments, it is difficult for the Committee to assess the potential impacts of changing the way they are handled. Members may wish to note, however, that the IMF *Code of good practices on fiscal transparency* states that:

> *Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.*[11]

It appears to be in keeping with this transparency requirement therefore that capital grants to the private sector be treated in a clear and aligned way within the Northern Ireland financial process.

Discussion point 4: the Committee may wish to seek further information on the nature of these other misalignments in order to satisfy itself that there is merit in this recommendation.

2.4. Recommendation 4: non-voted expenditure

All non-voted expenditure and income within Budgets (e.g. Consolidated Fund Standing Services) is brought within the coverage of Estimates in the Part II Subhead Detail.

DFP has identified that “not all expenditure that appears in Budgets or Resource Accounts is voted annually in Estimates.”[12] This recommendation is aimed at improving transparency by including non-voted expenditure in the Estimates document.

This would support better alignment with good practice principles. The IMF *Code of good practices on fiscal transparency* states that:

> *The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extra-budgetary activities of the central government.*[13]

It would also enhance compatibility with good practice identified by the IMF in relation to documentation that should be provided with the annual Budget:

> *In countries with extra-budgetary funds that are not included in annual appropriations, the [Budget System Law] should specify that the fiscal aggregates include the projected revenues and expenditures of all off-budget activities and that separate reports on specific funds be included in documents accompanying the annual budget.*[14]

It appears that DFP’s suggested approach means that these non-voted (or extra-budgetary) expenditures would indeed be covered in the revised Estimates and therefore from a good practice perspective the proposal is to be welcomed. In the proposed Main Estimate structure

10 DFP (2011) ‘Review of the financial process in Northern Ireland: discussion paper for key stakeholders’ (see page 26)

11 IMF (2007) ‘Code of good practices on fiscal transparency’ available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 8 November 2011) (see paragraph 1.1.5)

12 DFP (2011) ‘Review of the financial process in Northern Ireland: discussion paper for key stakeholders’ (see page 26)

13 IMF (2007) ‘Code of good practices on fiscal transparency’ available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 8 November 2011) (see paragraph 3.1.1)

14 IMF (2010) ‘Reforming Budget Systems Laws’ available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 8 November 2011) (see page 12)

that accompanied the discussion paper, a line is included for 'non-voted expenditure' where such expenditure would be recorded.

This is similar to the approach taken by the Treasury in its alignment project, about which the House of Commons Liaison Committee made the following comment:

> *The proposals for distinguishing in each Estimate between those elements which require fresh legislative authority by being voted, and those which do not, would add some extra complexity to the Estimate. But we consider this to be the correct approach, because it achieves alignment without disrupting existing arrangements for the approval of those areas of funding governed by separate legislation, and Estimates will present a complete picture of a Department's expenditure.*[15]

One of the aims of the Review of Financial Process is to ensure that financial publications meet the needs of the Assembly. Members may wish to satisfy themselves, therefore, that the proposed structure of the Main Estimates is not over-complicated by the inclusion of non-voted expenditure for information purposes.

Discussion point 5: is the proposed Main Estimates structure sufficiently clear, or would the transparency objectives be better served by disclosing non-voted expenditure in another way?

2.5. Recommendation 5: net expenditure controls

The Assembly votes 'Net' controls in the Estimate and Budget Act in line with budgetary controls, with details of income shown in the Estimates and appropriate safeguards in place so that firm control is maintained over the use of income by departments.

In the discussion paper DFP has noted that:

> *Currently Budgets are approved by the Assembly net of any departmental income that is classified as being within Budgets. However, departments can only retain the income (and related cash) if the Assembly has approved, through the Estimates process and the related Budget Act, the use of the income on related services – the Assembly, therefore, places limits on both net resources and on income (accruing resources) – thereby, voting 'Gross' spend.*[16]

This recommendation would change the current practice and move voting from a gross to a net basis.

International best practice is clear that fiscal data should be reported on a gross basis. Section 1.1. of the Organisation for Economic Cooperation and Development (OECD) *Best Practices for Budget Transparency* states:

> *Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.*[17]

Section 3.2.2. of the IMF *Code of Good Practices on Fiscal Transparency* states:

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15 Liaison Committee (2009) Second Report, 'Financial Scrutiny: Parliamentary Control over Government Budgets' available online at: http://www.publications.parliament.uk/pa/cm200809/cmselect/cmliaisn/804/80402.htm (accessed 8 November 2011) (see paragraph 35)

16 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 27)

17 OECD (2002) 'Best Practices for Budget Transparency' available online at: http://www.oecd.org/dataoecd/33/13/1905258.pdf (accessed 9 November 2011) (see page 8)

Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.[18]

The same point is made again in good practice guidance developed by experts in the IMF fiscal affairs department. The third of eleven *Sound Principles for a Budget System Law* states:

All revenues and expenditures are included in the budget on a gross basis. Expenditures are not offset by revenues: the [Budget System Law] specifies any exceptions.[19]

There is a distinction to be made between *reporting* and *control*. The proposal is that both net and gross data will be presented for reporting purposes.

But the change will mean that expenditure is controlled on a net basis. This may increase the incentive for departments to maximise income from fees and charges (distinct from revenue from taxation measures which must be paid to the Consolidated Fund) for services such as planning approvals or MOT tests, for example.

The revised Estimates will show the incomes that departments expect to receive, and also what they will be returning to the centre. So it should be fairly clear where a department has increased its income. In addition, fees and charges are controlled through stand-alone legislation. So the Assembly would retain oversight of departmental income.

A disadvantage of the change, however, may be that – because the Assembly would be considering fees and charges on piecemeal fee-by-fee basis – the Assembly might lose sight of the bigger picture. Also there may be a perverse incentive for departments to increase charging rather than to attempt to increase efficiency in their service delivery.

Discussion point 7: is the Committee content with this proposal? Members may feel that additional evidence or advice should be sought (perhaps from the NIAO) on the implications of this issue.

2.6. Recommendation 6: level of detail in documentation

Spending Areas in Departmental Expenditure Plans should be re-structured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department. Spending Areas should be used in all publications.

The purpose of this recommendation is to break areas of departmental expenditure down to levels which will give a clearer indication of how the money is to be used: “the reader should readily understand, at an acceptable level of detail, how much public funding is being spent on each main service in a department.”[20]

The biggest criticism of lack of detail under the current publications could probably be levelled at the Department of Health, Social Services and Public Safety which in Budget 2011-15 was allocated around £3bn to ‘Hospital, Community Health (inc discretionary FHS)’. As a starting point, it may well not be clear to a reader what FHS is, still less what proportion of the £3bn it is to receive.

On this basis then, the recommendation is to be welcomed. To continue to use DHSSPS as an example, the proposed breakdown for future publications will have expenditure lines such as:

- General Medical Services;
- General Pharmaceutical Services;

18 IMF (2007) ‘Code of Good Practices on Fiscal Transparency’ available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 10 November 2011) (see page 3)

19 IMF (2010) ‘Reforming Budget System Laws’ available online at http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 10 November 2011) (see page 9)

20 DFP (2011) ‘Review of the financial process in Northern Ireland: discussion paper for key stakeholders’ (see page 30)

- Dental Services;
- Ophthalmic Services;
- Hospital Services;
- Paramedical Services;
- Public Health Services;
- Social Care – Disability;
- Social Care – Old Age;
- Social Care – Family and Children;
- Health Support Services; and
- Fire & Rescue Services.

The important issue for the wider Assembly is to come to a collective view on what level of detail is both meaningful and appropriate.

Discussion point 8: does the Committee feel that the level of breakdown in Annex F to the discussion paper provides the appropriate level of detail? It may be helpful for the Committee to ask the Department to provide examples of the next level of detail down, so Members can get a feel for whether that would provide too much or too little information.

2.7. Recommendation 7: linking funding to objectives

Performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs.

This recommendation responds directly to previous calls from the Committee for linkages between funding allocations and objectives. This was also a recommendation made in a previous research paper, and is underpinned by international best practice on fiscal transparency. In addition, the idea of linking funding and objectives was put forward by DFP in its *Review of Northern Ireland Executive Budget 2008-11 Process:*

> ***(1) An exercise should be conducted at the start of the next Budget process to seek to determine the level of public expenditure underpinning actions to deliver each Public Service Agreement in the Programme for Government (PfG).*** *One of the constraints identified in scrutinising the draft Budget proposals and PfG was the absence of a link between the two documents. This information would provide a baseline position against which spending proposals could be compared. Ideally this should go further in terms of the funding allocated for the objectives within each PSA.*

In the discussion paper, however, DFP's position on this appears to have changed somewhat – seemingly on the basis of past experience. It argues:

> *It is often stated that there should be linkages between expenditure plans and outcomes, including to PSA targets. However, it has proved, in the past, impractical to map spending areas to PSA targets in any meaningful way. Budgets would need to be disaggregated to a level that would produce a web of confusing information. The driver of PSA targets should be performance and the efficient delivery of the target, not the amount of funding allocated to it. It is concluded performance should not be considered to have any direct link to funding inputs.*[21]

21 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 6)

It is not hard to imagine that the business of linking spending plans to the outcomes they are intended to achieve is difficult. Nevertheless, it evidently can be done because many nations do employ forms of outcome budgeting.

It may be of particular interest to the Committee that the Scottish Government has undertaken a project which developed a methodology for aligning resources to outcomes. The result is funding maps which show the links between spend and activity and outcome performance. While this has highlighted some difficulties (such as properly understanding the relationship between activities and outcomes, for example) it does seem that considerable progress has been made.[22]

Discussion point 9: does the Committee accept the position that allocations should not be linked to performance and outcomes? Members may wish to seek more evidence on the experience of outcome-based budgeting from Scotland to satisfy themselves that the difficulties involved in the process do indeed outweigh the benefits.

2.8. Recommendation 8: revised Estimates and Resource Accounts

The Estimates and Resource Accounts should be revised as shown in Annexes D and E [of the discussion paper].

The purpose of this recommendation is to make the Estimates and Resource Accounts publications more transparent and easier to read.

Proposed Main Estimate Structure

The table at paragraph 4 on the first page of Annex D to the discussion paper shows the budget position when approved and reconciles this to the current position at the time of preparing the estimate. The total figures are carried through to Part I on page two, which then adds in non-voted expenditure, non-budget voted expenditure and provides an explanation of the purpose (the ambit) of the expenditure.

The second table then removes any sums previously approved by the Assembly through the Vote on Account. The Committee should note that later in the discussion paper (see paragraph 111) it is suggested that the Vote on Account procedure could be dispensed with if the Estimates and Budget Bill were presented along with the final stage (revised) Budget in January. For further discussion see the section below in relation to Recommendation 13.

The next table presented, on page three, is *Part II: subhead detail*. This table carries forward the resource and capital DEL totals from the first table on page one. It is this table that shows the level of income that departments will be retain, and therefore shows the gross total expenditure as well as the net figures contained in the other tables. *Part II: subhead detail also provides the breakdown of expenditure by unit of service.*

Part II: resource to cash reconciliation on page four takes the total resource requirements (DEL + AME + non-budget requirement) and adjusts these to a cash figure by removing items that are part of departments' consumption of resources (such as capital depreciation) but do not require cash payments. This is also where the adjustment for cash payments to sponsored NDPBs is shown.

The table on page five, *Part III: extra receipts payable to the Consolidated Fund*, shows any income received by the department which it does not retain (and therefore net off from its expenditure) but passes back to the centre. Part III: NDPBs provides detail of the cash grant-in-aid payments to those bodies and relates to the figures in *Part II: resource to cash reconciliation.*

22 Source: presentations made at CIPFA conference: Outcome Budgeting: Scotland's Public Sector Challenge, held on 24 October 2011, provided to RaISe by e-mail.

Finally, *Part III: accounting policy changes* will show any adjustments to the figure work as a result of changes in accounting policy, to allow previous years' figures to be reconciled.

Discussion point 10: is the Committee satisfied that the proposed Main Estimates structure provides a sufficiently clear and transparent presentation of the resources required by departments?

Proposed Resource Accounts

Annex E to the discussion paper presents an illustrative example of how the resource accounts of a department would look once the revised terminology and alignment are achieved under the earlier recommendations.

The most notable change to the format of the resource accounts is as a result of Recommendation 2, the consolidation of NDPBs within the departmental accounting boundary. This means that in addition to the accounts of the core department being presented, there are an additional two columns presented: core department + agencies and then 'departmental group'.

Discussion point 11: is the Committee satisfied with the revised format of resource accounts? The Committee may wish to seek technical advice from the NIAO on the proposed changes.

2.9. Recommendation 9: Programme for Government

That the Budget should be developed in the context of a Programme for Government agreed by the Executive.

The discussion paper notes that:

> *…the need for the formulation of a Programme for Government prior to or at least, in tandem, with the development of a Budget is an opinion that has been expressed repeatedly in many forums.*[23]

This is in recognition of the principle that the Executive's spending plans as set out in the Budget should give support the priorities expressed in a Programme for Government (PfG) rather than being presented in what could perhaps be described as a 'policy vacuum'. The result of this position – as occurred with Budget 2011-15 – is the perception that PfG priorities will be *driven by the budgetary decisions that have already been made*, rather than the budgetary allocations being made in support of previously agreed political priorities.

This recommendation would result in better alignment between the Northern Ireland budget process and international good practice. For example, a Technical Guidance Note published by experts at the IMF states that:

> *The expected and recent past results (outputs and/or outcomes) of budget programs are reported in the budget document.*[24]

This underpins section 2.1.3. of the IMF *Code of Good Practices on Fiscal Transparency:*

23 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 39)

24 IMF (2010) 'Reforming Budget System Laws' available online at http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 10 November 2011) (see page 9)

A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided.[25]

Indeed, it is in fact also a requirement of Northern Ireland legislation. Section 64(1) of the Northern Ireland Act 1998 requires that:

The Minister of Finance and Personnel shall, before the beginning of each financial year, lay before the Assembly a draft budget, that is to say, a programme of expenditure proposals for that year which has been agreed by the Executive Committee in accordance with paragraph 20 of Strand One of the Belfast Agreement.[26]

Paragraph 20 of Strand One of the Belfast/Good Friday Agreement in turn provides that:

The Executive Committee will seek to agree each year, and review as necessary, a programme incorporating ***an agreed budget linked to policies and programmes****, subject to approval by the Assembly, after scrutiny in Assembly Committees, on a cross-community basis.*[27]*[emphasis added]*

The recommendation is, therefore, only restating the de jure position as it exists already – that the PfG and Budget are to be inextricably linked documents. That the Budget 2010 process took place in the absence of an agreed PfG was picked up in RaISe Briefing Paper Options for strategic budget stages (discussed in Committee on 5 October 2011). This paper raised the possibility that a form of duty might be placed on the Executive to bring forward a PfG at a particular time, linked to the timing of the budget process.[28]

On this basis, and because of the requirements of international good practice, the recommendation is to be welcomed, perhaps with the caveat that the wording used in the discussion paper be amended. It reads:

The Committee for Finance and Personnel and Assembly Members have expressed concern regarding the development of a Budget in the absence of a Programme for Government. It is concluded that the formulation of a Programme for Government prior to or, at least, in tandem with the development of a Budget is desirable.[29] *[emphasis added]*

It may be argued that the final sentence should read ‘essential’ in place of ‘desirable’.

Discussion point 12: the Committee may wish to consider recommending to DFP that the wording relating to this recommendation is strengthened.

2.10. Recommendation 10: early strategic budget phase

That, if circumstances and time permits, the Budget timetable should include an early strategic phase, allow sufficient time for consultation by Committees and with the public and be strictly adhered to by all concerned.

This recommendation is aimed at addressing the concerns that have been frequently articulated (both by the Committee and other statutory committees of the Assembly) that there has historically been insufficient engagement between Executive departments and those committees on budget proposals prior to the draft Budget being presented. The discussion paper notes the arguments previously advanced by the Committee:

25 IMF (2007) ‘Code of Good Practices on Fiscal Transparency’ available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 10 November 2011) (see page 2)

26 http://www.legislation.gov.uk/ukpga/1998/47/section/64

27 Northern Ireland Office (1998) ‘The Belfast Agreement’ available online at http://www.nio.gov.uk/agreement.pdf (accessed 26 Sept 2011)

28 RaISe (2011) ‘Options for strategic budget stages’ available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/10311.pdf (accessed 10 November 2011)

29 DFP (2011) ‘Review of the financial process in Northern Ireland: discussion paper for key stakeholders’ (see page 7)

The Committee for Finance and Personnel strongly argue for an early strategic phase in the Budget process to enable the Assembly to engage with departments and external stakeholders at the outset and then thoroughly debate the issues and influence the development of the Budget, which, in turn, could pay dividends at the later stages of the process.[30]

Further, the discussion paper also makes proposals about what statutory committees could be expected to do during this phase:

The terms of reference for each Committee at this stage should be to identify and challenge the pressures facing departments going forward, to rank in order the priorities for expenditure against the PfG and to identify the plans to meet any pressures within the current or a reduced funding envelope.[31]

This suggestion seems to fit with what the committees have said they feel they should be doing in the early part of the budget process.

Discussion point 13: the Committee may wish to consider DFP's proposed terms of reference for the early strategic phase in the light of views received from other committees.

Taken at face value this recommendation is to be warmly welcomed – with one significant caveat. The phrase "if circumstances and time permits" could be viewed as a 'get-out clause' for the Executive. Although the remainder of the recommendation talks of strict adherence to the Budget timetable, this is of questionable value coming after that preceding sub-clause; the recommendation as worded would allow the Executive to cite either time or circumstances, meaning that the early strategic phase should be cancelled. This could undermine the value of having a timetable agreed between the Assembly and Executive.

There are perhaps options for handling this issue; the Executive could be required to seek Assembly agreement to 'exceptional circumstances'. Or alternatively, the Committee may wish to suggest different ways of increasing certainty in the financial process; the Committee has already considered options for an early pre-draft budget strategic phase and that legal advice is pending on the potential for giving it a statutory footing.[32] Substantive discussion of this point may be best postponed until legal advice has been received.

Discussion point 14: is the Committee satisfied that this recommendation is sufficiently robust to avoid the historic problems with lack of engagement with the Assembly from being repeated? The Committee may wish to consider recommending that DFP strengthens the recommendation by omitting "if circumstances and time permits". The Committee may wish to defer its final position until it has considered the feasibility of statutory provision.

2.11. Recommendation 11: budget timetable

An 'Ideal' Budget timetable would be (presuming the development of a Programme for Government prior to or slightly in advance of the Budget):

30 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 7)

31 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 41)

32 RaISe (2011) 'Options for strategic budget stages' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/10311.pdf (accessed 10 November 2011). This paper was presented to the Committee on 5 October 2011 when it agreed that legal advice would be sought on the options considered. See Minutes of Proceedings at: http://www.niassembly.gov.uk/finance/2011mandate/minutes/2011/111005.htm

1 February	Detailed Budget Guidance and Timetable issued to key stakeholders
February-April	Engagement by Committees with Departments and other key stakeholders on spending priorities and availability of resources
May	Committee for Finance & Personnel (CFP) collate Committee reports and prepare a Report to the Assembly on proposals for living within the expected funding envelope.
By 31 May	CFP's 'Take Note' debate in the Assembly on spending priorities and proposals for the funding of those priorities
1 June	Submissions of spending proposals, etc. from departments to DFP
June to August	Consideration of spending proposals, etc. by DFP from a central strategic perspective and advice provided to the Finance Minister on a range of scenarios for presentation to the Executive
By mid-September	Draft Budget agreed by Executive and launched for public consultation
September to December	Public Consultation
By 31 December	Final Budget agreed by Executive and approved by the Assembly

The Committee has previously called for an established and agreed budget timetable which is adhered to.[33] The timetable proposed in the discussion paper is discussed here, bearing in mind the comments raised above in relation to the early strategic phase and the delivery of the PfG alongside or prior to the Budget.

The discussion paper notes that:

> *The recommendations from the Committee… appear to arise from the frustration expressed on many occasions by Members with the last two Budget processes and the delays experienced in agreeing a Budget. The recommendations represent the desire for the formalisation of the Budget process through primary legislation or in Standing Orders of the Assembly or a Memorandum of Understanding between the Assembly and the Executive or a combination of such. The formalisation of a Budget process in such a manner would provide certainty regarding the key stages of Draft and Final Budget to all concerned – something that would enable departments, DFP and the Assembly Committees to plan ahead with confidence in terms of the Budget process.*[34]

It continues by arguing that:

> *While agreeing with the Committee that a Budget framework should be enshrined in primary legislation, it is considered that this already exists at an appropriate level.*[35]

The discussion paper then proposes that instead of primary legislation, a twofold approach should be considered: a 'Budget Process Agreement' between the Executive and the Assembly, and; the amendment of the Assembly's Standing Orders.

It has already been noted in this paper that the Committee has agreed to seek legal advice on the options for giving a statutory footing to certain aspects of the budget process. When received, the legal advice should allow a full discussion of whether there are appropriate changes that could be made to primary legislation (by either the Executive or through a Committee Bill) to strengthen the extant framework.

33 For a full discussion of the issues see RaISe (2011) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf

34 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 44)

35 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 44)

It is suggested that substantive discussion of this issue should be postponed until the legal opinion has been received – having said that, there are some points that are worth making at this stage.

Pre-draft budget stage

Under the proposed timetable the pre-draft budget stage would take place in February-May in y-1 (i.e. in early 2014 for the budget to be agreed for the fiscal year beginning 1 April 2015). This would greatly improve the alignment of Northern Ireland's budget process with international good practice. For example:

> *A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.*[36]

Take Note debate

The proposed timetable suggests that the Committee should sponsor a Take Note debate in the Assembly by the end of May. Holding a debate at this stage – before the draft budget is produced – would enable the Assembly to articulate to the Executive what it feels the priorities and main orientations in the spending plans should be. This in turn should help increase the Assembly's sense of ownership of the process and may help reduce the potential for disputes at a later stage, in line with the arguments previously advance by the Committee.

The overall approach would also help facilitate an element of good practice as identified by the IMF Manual on fiscal transparency which states:

> *The legislative and judicial branches [of the state] should play an active role in ensuring the availability and integrity of fiscal information. This would include having an active committee of the legislature to oversee the conduct of fiscal policy and to facilitate civil society input into budget deliberations (e.g., through receiving public submissions).* [37]

In the proposed timetable, the Committee would coordinate the reports of other statutory committees which would be taking input from civil society during their respective part of the pre-draft budget stage.

Presentation of draft budget

Under the proposed timetable the final budget would be agreed before the end of the calendar year. This would also enhance compliance with international good practice. For example:

> *The government's draft budget should be submitted to Parliament far enough in advance to allow Parliament to review it properly. In no case should this be less than three months prior to the start of the fiscal year. The budget should be approved by Parliament prior to the start of the fiscal year.38*

Budget 2011-15 was not agreed until March 2011.

Public consultation period

It has been raised by DFP that the requirement for public consultation on the draft Budget is a barrier to reform of the process and the setting of a timetable to which the Executive could

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36 IMF (2007) 'Code of Good Practices on Fiscal Transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 10 November 2011) (see page

37 IMF (2007) 'Manual on Fiscal Transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/101907m.pdf (accessed 10 November 2011) (see paragraph 41)

38 OECD (2002) 'Best Practices for Budget Transparency' available online at: http://www.oecd.org/dataoecd/33/13/1905258.pdf (accessed 9 November 2011) (see page 8)

adhere.[39] It is to be welcomed therefore that the proposed timetable does retain a period for public consultation.

The Committee may wish to note that in apparent contradiction of DFP's previous comments, the Scottish Government did consult on its budget plans. In the Foreword to *Scotland's Spending Plans and Draft Budget 2011-12* John Swinney wrote:

> *In this document, I present Scotland's Spending Plans and the Draft Scottish Budget 2011-12 for consultation with the Parliament and the people of Scotland.*[40]

The approach that the Scottish Government in fact took was to consult with the public in advance of publication of the draft Budget. In *Public Spending in Scotland: engaging with the people of Scotland* it set out some of the results of consultation on a report by the Independent Budget Review (IBR):

> *Since the publication of the IBR report, the Scottish Government has engaged in a comprehensive debate to hear first-hand from the people of Scotland their views on the challenges and choices as a result of the unprecedented budget cuts, the priorities for their communities and the services which matter most; and for the people of Scotland to have an opportunity to contribute to the shape of spending proposals.*
>
> *The debate commenced with the launch of the Scottish Government's online consultation website, which offered the general public an opportunity to contribute to the public spending debate and give their views on the country's next budget, as the Government considered the IBR report and developed its spending plans.*[41]

The approach of consulting prior to producing a draft budget could either remove or reduce the time required for public consultation once the draft budget has been approved. This might perhaps be scheduled alongside committees' engagement with departments so that the outcome of the public consultation is available to inform the Committee's report and the Take Note debate.

Discussion point 15: the Committee may wish to consider if it feels that the approach to consultation taken by the Scottish Government may be appropriate for Northern Ireland. The Committee may wish to draw DFP's attention to that approach of early (pre-draft) engagement with the public, as it appears to offer a way of saving time in the latter part of the process.

2.12. Recommendation 12: Budget Process Agreement

> A Budget Process Agreement should be made between the Assembly and the Executive and the Assembly's Standing Orders should be amended to reflect this Agreement and specify Budget Procedures.

The aim of this recommendation is to ensure that there is a robust underpinning to the timetable proposed in Recommendation 11. The discussion above in relation to Recommendation 10 is relevant to this. The key issue is whether the Committee is satisfied that a Budget Process Agreement is a sufficiently strong means of ensuring that the timetable is adhered to.

39 Official Report, 21 Sept 2011 available online at: http://www.niassembly.gov.uk/record/committees2011/FinancePersonnel/110921_ReviewFinancialProcess.pdf (accessed 10 November 2011) (see page 14)

40 Scottish Government (2010) 'Scotland's Spending Plans and Draft Budget 2011-12' available online at: http://scotland.gov.uk/Publications/2010/11/17091127/1 (accessed 10 November 2011)

41 Scottish Government (2010) 'Public Spending in Scotland: engaging with the people of Scotland' available online at: http://www.scotland.gov.uk/Resource/Doc/918/0107970.pdf (accessed 10 November 2011) (see page 1)

Firstly it should be noted that the recommendation does have some merit. A formal agreement might have the effect of ensuring that future budget processes proceed to the agreed timescale. It would be clear to the public and all other stakeholders what is intended and presumably, in the event of the agreement being broken, there would be an element of 'shame' attached to having been the guilty party – whether that be on the part of the Executive, a statutory committee or the Assembly as a whole.

Secondly, as noted by DFP, the proposal for combined agreement and amendments to Standing Orders would have the advantage of being capable of being amended "to accommodate any accepted unavoidable slippage" in the timetable.[42]

On the other hand, that apparent advantage may also be the fundamental flaw in the proposal. Given the imbalance in power (particularly in relation to access to information) between the Executive and the Assembly there may be a risk in the Assembly accepting such an approach – although it would presumably have to agree any amendment to Standing Orders in plenary.

This issue was discussed in Briefing Paper *DFP's Review of Financial Process: considerations for improving the budget process.*[43] On the basis of the good practice advice, a balance is needed between including rules and timetables in laws and regulations, and between overloading Standing Orders with frameworks that would be more appropriately included in statute.

Given that legal advice on legislative options is pending, it is again suggested that substantive discussion of this issue should be postponed until the legal opinion on legislative options has been received.

2.13. Recommendation 13: Main Estimates as final stage of the budget process

In due course, consideration should be given to streamlining the end stage of the Budget process by introducing the Main Estimates as the final stage of the Budget process in December/January.

In the discussion paper DFP states that:

> *Currently the Budget process followed by the Estimates and legislative stage is convoluted and repetitive. Final Budget is normally presented, debated and approved by the Assembly in December/January, a Vote on Account is taken in February to allow services to continue into the new financial year and then the Main Estimates are presented in June. At the same time, in June, the first in-year monitoring round is presented to the Assembly amending the very plans that have not yet completed formal Assembly approval through the Estimates and Budget Bill.*[44]

The purpose of this recommendation is to reduce that repetition and make the process more logical. On the face of it, it is hard to argue against reducing unnecessarily repetitive debates which tie up the Assembly and the Minister without adding considerable value.

The previous Committee argued in its *Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure* that:

42 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 46)

43 RaISe (2011) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf (see page 13)

44 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 47)

… the provision of formal opportunities for the Assembly to influence budgetary matters early in the process would help facilitate the potential streamlining of the latter stages in the budget and estimates process, including the associated plenary debates.[45]

On the whole, the proposals in the discussion paper do seek to provide more opportunity for the Assembly to engage with the budget earlier in the process - albeit with some caveats as discussed in this paper.

As this recommendation is not intended to be implemented straight away, the Committee would probably be justified in taking a ‘wait and see’ approach to it. If the Committee is successful in shaping a budget process with which it and the Assembly generally is content, then once it has been demonstrated to produce effective early engagement and input this aspect could be reconsidered.

Discussion point 16: the Committee may wish to consider if it is content to support this recommendation on the basis that decisions can be taken at a later date once a reformed process has been developed and trialled.

2.14. Recommendation 14: passage of Budget Bills

In due course, in light of involvement of the Assembly in the early strategic stage of the Budget and throughout its development, an amendment of Standing Orders to facilitate a truncated passage of Budget Bills through the Assembly should be considered.

As with Recommendation 14, this recommendation appears to be aimed at reducing the amount of plenary time that is taken up with debating the Budget Bill, which simply gives legislative effect to the Budget that the Assembly has already agreed. The issues are similar to those presented above and so are not repeated here.

Discussion point 17: the Committee may wish to consider if it is content to support this recommendation on the basis that decisions can be taken at a later date once a reformed process has been developed and trialled.

2.15. Recommendation 15: rates income

The Rates Order should be debated alongside the expenditure plans for the next financial year, as set out in the Budget Bill.

The discussion paper states that the:

… public income strand of the rates should, arguably, be part of the entire financial process in order to minimize any risk that it may be treated as a separate emotive issue by the Assembly, divorced from expenditure plans.[46]

The eleven guiding principles established by experts in the IMF’s Fiscal Affairs department for reforming budget systems laws state that:

Short-term policy stability: anchoring commitments to achieve targets for revenues, total expenditures, fiscal balance or public debt, specified in the context of a regularly updated medium-term budget framework. Medium-term fiscal sustainability is also another important aspect of stability.[47]

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

46 DFP (2011) ‘Review of the financial process in Northern Ireland: discussion paper for key stakeholders’ (see page 50)

47 IMF (2010) ‘Reforming Budget Systems Laws’ available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 10 November 2011) (see page 9)

The relevance of this principle is that – as has been noted in previous research papers – the current Northern Ireland budget process focuses almost exclusively on the expenditure side:

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

Previous research papers[48] have highlighted the good practice requirement for the Executive to prepare and present information to the legislature relating to all government revenue and expenditure *alongside* the draft budget, so that the necessary trade-offs between policy options can be assessed.[49]

On this basis, the proposal has considerable merit. It would also help mitigate the risk to the Executive that the Budget could be passed but the rates legislation which provides some of the means to fund the agreed expenditure could fall.

Discussion point 18: is the proposal that corporation tax, Air Passenger Duty and any other revenue-raising powers be handled in a similar manner, should they be devolved?

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

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

3. Gaps in the recommendations

The majority of this research paper has focussed on the initial recommendations presented by DFP in its discussion paper. This section looks at issues that have been raised previously that have not been addressed.

3.1. Strategic review during budget execution

The most obvious gap relates to the strategic budget review phase proposed in Briefing paper 62/11[50] which is intended to satisfy a number of issues:

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

The proposal was further developed in Briefing paper 103/11 *Options for strategic budget stages*[51] which presented a number of ways the strategic review phase could be incorporated with the existing monitoring round process.

In the discussion paper, DFP has dismissed this concept on the basis that:

> *To provide for unnecessary reviews of the Budget would be an inefficient use of resources in a time of financial constraint. On balance, it would not be prudent to build in to the Budget process provision for a regular review of the Budget on an annual or biennial basis.*[52]

The key question here is whether a strategic review phase can fairly be classified as an "unnecessary review" or not. It appears on the face of it that there is some confusion about what is intended by the strategic review phase. As conceived in Options for strategic budget stages the strategic review phase is supposed to meet the IMF Code of good practices on fiscal transparency which states that:

> *A timely mid-year report on budget developments should be presented to the legislature.*[53] .

The strategic review stage is not necessarily conceived of as a regular reopening of the budget, but rather that the Executive would be required to report to the Assembly on spending against plans, revenue generated against projections, and other circumstances that could be described as 'budget developments' - such as significant changes to the block grant as a result of changes to spending in England triggering (positive or negative) Barnett consequentials, for example. From this perspective, it is more about empowering the Assembly to assess whether or not a full review of the multi-annual allocations is required.

50 RaISe (2011) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf (see pages 8 to 11)

51 RaISe (2011) 'Options for strategic budget stages' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/10311.pdf (accessed 10 November 2011)

52 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see page 47)

53 IMF (2007) 'Code of good practices on fiscal transparency' available online at: http://www.imf.org/external/np/pp/2007/eng/051507c.pdf (accessed 8 November 2011) (see paragraph 2.2.2)

The discussion paper states:

> *Such pressures would rarely be of the magnitude as to require a re-opening of the agreed Budget and an entirely new Budget process – for example, the recent student loan adjustments.*
>
> *However, if such an occasion arose, and it is possible, the Executive would recognise the need for a review of the Budget and proceed accordingly.*[54]

In essence, the purpose of the strategic review would be to look across years. It is conceived of, to some degree, as a rebalancing of power between the Executive and the Assembly so that the latter has more of an input into whether the spending plans it has approved are to be re-opened or not.

Discussion point 19: the Committee may wish to consider whether it is satisfied with DFP's position on a strategic budget review stage or if it would like to recommend that this issue is thought about again.

3.2. Provision of information

It is acknowledged that the alignment proposals contained in the discussion paper will go some way to helping the Assembly gain a better understanding of how the money it approves is used. A major criticism in past processes, however, has been of the level of information that has been provided to statutory committees by departments, and the timing of the release of information – if it is released at all.

Whilst it is properly for committees to assert what information they require from departments, it is notable that the discussion paper does not specifically address the issue of information provision. This is, perhaps, surprising because the success or otherwise of the proposed changes – and particularly the functioning of the early budget process – is reliant to a great extent on the Assembly getting the information to enable it to make an effective contribution.

It is possibly intended that these kinds of detail would be contained within the proposed Budget Process Agreement – this is hinted at but is not fully explicit in the discussion document.

Discussion point 20: although it is primarily for the Assembly to progress the Committee may wish to ask DFP to consider the issue of information provision given its central important to making the financial process work.

54 DFP (2011) 'Review of the financial process in Northern Ireland: discussion paper for key stakeholders' (see pages 46-47)

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