

Session 2009/2010

Fourth Report

Committee for Finance and Personnel

Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure

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

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Committee 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 since its establishment on 9 May 2007 has been as follows:

Ms Jennifer McCann (Chairperson)
[2] Mr David McNarry** (Deputy Chairperson)
[3] Mr Jonathan Craig***
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
[1] Mr Ian Paisley Jnr*
Ms Dawn Purvis

[1]* Mr Ian Paisley Jnr replaced Mr Mervyn Storey on the Committee on 30 June 2008
Mr Ian Paisley Jnr resigned from the Assembly with effect from 21 June 2010.
[2]** Mr David McNarry replaced Mr Roy Beggs on the Committee on 29 September 2008
[3]*** Mr Jonathan Craig replaced Mr Peter Weir on the Committee on 13 April 2010

Contents

List of Abbreviations and Acronyms used in the Report iv

Executive Summary 1

Key Conclusions and Recommendations 2

Introduction 5

Consideration of the Evidence 6

Response to the Department of Finance and Personnel Review of the
NI Executive Budget 2008-11 Process

Action Plan for Implementing the
Department of Finance and Personnel Recommendations

Other Issues and Next Steps:

Cross-departmental working

Independent Budget and Financial Scrutiny

Access to Information

Stage 2 of the Inquiry: Resources

Stage 3 of the Inquiry: Review of Monitoring Rounds

List of Appendices to the Report 23

Appendix 1

Minutes of Proceedings Relating to the Report 27

Appendix 2

Minutes of Evidence 53

Appendix 3

Memoranda and Papers from the Department of Finance and Personnel 81

Appendix 4

Assembly Statutory Committee Submissions 171

Appendix 5

Assembly Research Papers 199

Appendix 6

Other Papers 309

List of Abbreviations and Acronyms used in the Report

CED Central Expenditure Division

CFG Central Finance Group

CSR Comprehensive Spending Review

DCAL Department of Culture, Arts and Leisure

DEL Departmental Expenditure Limit

DFP Department of Finance and Personnel

DHSSPS Department of Health, Social Services and Public Safety

DOE Department of the Environment

EDP Efficiency Delivery Plan

EQIA Equality Impact Assessments

EYF End Year Flexibility

GB Great Britain

HLIA High Level Impact Assessment

HM Her Majesty's

IMF International Monetary Fund

ISNI Investment Strategy for Northern Ireland

MLA Member of the Legislative Assembly

MoU Memorandum of Understanding

NDPB Non-departmental public body

NI Northern Ireland

OFMDFM Office of the First Minister and deputy First Minister

PfG Programme for Government

PFI Private Finance Initiative

PSA Public Service Agreement

PSD Public Spending Directorate

ROSC Report on the Observance of Standards or Codes

RRI Reinvestment and Reform Initiative

SIB Strategic Investment Board

SWOT Strengths, Weaknesses, Opportunities and Threats

UK United Kingdom

Executive Summary

The Committee for Finance and Personnel commenced its Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure in July 2008. Intended to be conducted in stages, the aim of the inquiry is to maximise the Assembly's contribution to the Northern Ireland budget process and enhance the role of Assembly statutory committees and Members in budget and financial scrutiny. The first report of the inquiry, published in October 2008, formed the Committee's submission to the Department of Finance and Personnel's Review of the Northern Ireland Executive Budget 2008-11 Process, which reported in May 2010. This second report of the inquiry is the Committee's response to the recommendations arising from the Department's review.

The Committee took oral evidence from Department of Finance and Personnel officials on the outcome of the Department's review. To help inform its consideration of the review report, the Committee commissioned research on budget processes and structures in other legislatures. The Committee also received submissions from other Assembly statutory committees.

The Committee considers that a number of the principles arising from both the Department's review and the Committee's inquiry could form the basis for modelling the future budget processes in terms of engagement, openness and transparency. In particular, the Committee notes the focus afforded to increasing the linkage between the Programme for Government and the Budget, and enhancing and encouraging engagement between departments and their Assembly committees and key stakeholders. While welcoming the Department's recommendations that seek to make improvements in this regard, the Committee has identified where it considers these can be developed further.

The Committee found that a number of the recommendations were contingent on access to financial information and specialist support to assist the scrutiny by the Assembly and its committees; these issues will be considered further as part of the next stage of this inquiry. In the longer term, there is a case for the Assembly considering how its financial scrutiny system, including committee structures, could be reformed for enhanced effectiveness.

The Committee is concerned that a lack of clarity remains on the shape, frequency and duration of future budget cycles. Moreover, given that the action plan to implement the Department's recommendations was not yet agreed at Northern Ireland Executive level at the time of this report, there are doubts as to whether any or all of the recommendations can be agreed and implemented in time for the Budget 2010 process. The Committee considers that, as a necessary next step, the Assembly and Executive must agree a template for future budget processes which is based on good practice principles, including those outlined in this report.

The Committee has identified a number of key findings and recommendations from the evidence and these, together with the issues raised by the other statutory committees, are intended to inform the establishment of a regularised budget process moving forward.

Key Conclusions and Recommendations

1. The Committee firmly believes that there should be clear, visible linkage between the PfG, PSA targets and budget allocations, and therefore welcomes, as a step in the right direction, the DFP recommendation that "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)." (Paragraph 12)
2. Given its previously expressed concerns around the complexity of the current PfG and PSA framework, and in light of both the increased need for priority-based budgeting and the apparent move away from the system of PSAs in Whitehall, the Committee calls on the Executive to review the performance and accountability framework for NI departments, with the aim of establishing a more transparent and robust system for measuring and monitoring the relationship between public sector inputs, outputs and outcomes. (Paragraph 13)
3. Whilst recognising that the availability of resources will have a bearing on the targets underpinning the PfG, the Committee is strongly of the view that budget allocations should be driven by priorities and not the other way around. The Committee concurs with the DFP view that "there should at least be a clear indication of broad priorities at the beginning of the Budget process" and that the development of the PfG should precede the Budget. (Paragraph 17)
4. Whilst it considers that the setting of a clear timetable to include key milestones at the start of each budget process is of vital importance, the Committee believes that clarity is required on the shape, frequency and duration of future budget cycles. In noting that the Budget 2010 process will develop departmental spending plans for the four-year period from 2011-12 to 2014-15, the Committee recommends that a regularised annual budgetary review process is established within

this framework, with a pre-determined timetable, to enable the Executive and Assembly to make interim reappraisals of departmental allocations against progress in delivering PfG priorities and savings. (Paragraph 22)

5. The Committee calls on DFP to build in adequate provision for the Executive decision-making process and for the Assembly calendar when developing future budgetary timetables, with a view to ensuring sufficient time for engagement with the Assembly and other stakeholders. (Paragraph 25)

6. Though strongly supportive of the DFP recommendation that "there should be early and more structured engagement between departments and Assembly Committees setting out the key issues and pressures facing NI Departments", the Committee considers that decisive measures are needed to put this into practice. (Paragraph 32)

7. The Committee concurs with the recommendation from the Education Committee that DFP should take the lead in developing "standard guidance to NI departments on the timing and provision of relevant information to Assembly statutory committees" and that this should be agreed at Executive level, with departmental compliance being monitored by DFP in consultation with the Assembly statutory committees. (Paragraph 32)

8. In noting that the timetable for the Executive's Budget 2010 process has an end date of "late December", the Committee calls on DFP to offer flexibility on this deadline to provide sufficient time for engagement with Assembly committees and the wider public. The Committee found that good practice would indicate a period of 2 – 4 months should be provided for in this regard. The Committee considers this feasible given that the Budget 2008-11 was not agreed in the Assembly until 29 January 2008 and, more recently, the Revised 2010-11 Spending Plans were not agreed by the Assembly until 20 April 2010. (Paragraph 33)

9. The Committee considers that greater influence can be brought to bear on spending plans at the earlier stages in the process, and therefore is supportive of the DFP recommendation that "there should be earlier engagement with key stakeholder groups by departments as part of the Budget process". However, the Committee believes that care should be taken by departments to ensure that a wide spectrum of stakeholder interests are included at this time to ensure that it is not the larger interest groups only that have the opportunity to influence the spending plans. (Paragraph 37)

10. In noting the DFP proposal that it "should take the lead role from the Strategic Investment Board (SIB) in developing capital investment allocations in the Budget process", the Committee intends to take further evidence from the Department and also to invite separate evidence from SIB, to enable it to reach an informed position on this issue. There will also be a need to liaise further with the Committee for OFMDFM on the outcome of this work. (Paragraph 40)

11. The Committee supports the DFP recommendation that "every departmental spending proposal should clearly state the impact on the respective PSA target, if successful." However, the Committee also believes that this linkage between spending and PSA targets at the bidding stage should extend to the reporting stage, whereby the End Year Delivery Reports would enable performance to be tracked at a departmental level in terms of inputs, outputs and outcomes. (Paragraph 44)

12. The Committee agrees with the DFP recommendation that "the Draft Budget document should include an easy to read summary at the start of the document." (Paragraph 48)

13. The Committee further recommends that all relevant financial documents, including Budgets, Estimates and Resource Accounts, are simplified and harmonised to increase transparency and

enhance the relationship between allocations and performance and also to ensure that they are more readily scrutinised by Assembly committees and accessible to the wider public. (Paragraph 48)

14. The Committee welcomes the DFP recommendation that "the full list of prioritised spending proposals submitted by departments as part of the draft Budget process should be published alongside the draft Budget document, including details of which proposals will be funded from the draft Budget allocations." The Committee notes that this aligns with the conclusion in its Report on the Executive's Draft Budget 2008-2011, published in December 2007, 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. (Paragraph 51)

15. The Committee supports the DFP recommendation that "Departments should publish the High Level Impact Assessment for each spending proposal." The Committee also recommends that departments should publish the results of the equality screening undertaken in respect of each spending proposal in fulfilment of the duties imposed by Section 75 of the Northern Ireland Act 1998. (Paragraph 53)

16. The Committee would reiterate the recommendation made in its submission to the DFP review that supporting documents, such as draft PSAs and draft delivery plans for efficiencies and investments, should be published alongside the draft Budget, as this would inform committee scrutiny and could provide some assurance regarding deliverability. Whilst recognising that such draft supporting documents may require development before being finalised, the Committee believes that, with careful planning and given the proposal to develop the PfG in advance of the Budget, it is reasonable to expect these draft documents to accompany the draft Budget. (Paragraph 55)

17. The Committee does not support the DFP recommendation 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." In noting that other statutory committees have also voiced concern with this proposal, the Committee believes that this would be an inappropriate role for Assembly committees to fulfil, especially given that they would not have the authority to act on the outcome of such consultation. (Paragraph 59)

18. The Committee notes with interest the recommendations from DFP that "in responding to the draft Budget, any proposal to increase spending on a particular service by a Committee should be accompanied by an equally detailed proposal as to how this could be funded"; and that "the Committee for Finance and Personnel, in responding on behalf of all the Committees, should identify whether it views the funding proposal to be realistic or not." The Committee, however, sees such an approach as more applicable in the context of a reformed system of Assembly financial scrutiny; whereby departmental committees would have access both to the necessary financial information held by departments and to additional specialist support and where a central budget committee existed with the requisite powers. The Committee believes that such a scrutiny model warrants more detailed consideration by the Assembly in the future. (Paragraph 66)

19. The Committee is, in principle, supportive of the DFP recommendation that "the Final Budget Statement and debate should be combined with the Main Estimates process" as this should make for a more streamlined and harmonised approach. That said, the Committee looks forward to being consulted on the detail of this proposal and firmly believes that such change should only be made in the context of a settled future budget process, which will require to be agreed between the Executive and the Assembly. (Paragraph 71)

20. The Committee looks forward to receiving the action plan for implementing the DFP review recommendations and expects that this will be updated to take account of this co-ordinated response on behalf of the Assembly statutory committees. (Paragraph 72)

21. The Committee continues to place high importance on cross-departmental working, not only in terms of policy and service delivery but also in the context of improved efficiency and effectiveness across the public sector. As such, the Committee believes that the Executive must bring forward proposals for improving the arrangements both for promoting and funding collaborative working by departments and other public bodies and for measuring and monitor performance in this area (Paragraph 74)

22. The Committee considers that it would be good practice both for the Executive's draft Budget to be accompanied by some level of assessment of the fiscal sustainability of the associated policies and for some form of independent external scrutiny to be applied to the Executive's spending proposals. On this latter issue, as part of its Stage 2 Inquiry report, the Committee will be examining the potential for elements of this independent external scrutiny function to be exercised cost-effectively through the reconfiguration and greater use of the existing options for specialist support to Assembly committees and Members in undertaking financial scrutiny. (Paragraph 77)

23. The Committee considers that there is a need for DFP, at the earliest opportunity, to set out its up-to-date position on the future approach to in-year monitoring, including the option of establishing a contingency fund. It will be important that the most effective system for maintaining the optimum allocation of resources towards the Executive's highest priority spending areas is put in place in time for the implementation of Budget 2010. (Paragraph 87)

Introduction

1. In July 2008, the Committee for Finance and Personnel agreed terms of reference for an Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure. The aim of the inquiry would be to maximise the Assembly's contribution to the Executive's budget process and to enhance the role of the Assembly statutory committees and Members in budget and financial scrutiny. It was also intended that the inquiry would run in tandem with the review of the Executive's budget process being undertaken by the Department of Finance and Personnel (DFP), the terms of reference for which had been agreed in May 2008 (Appendix 3). The Committee agreed that the first part of Stage 1 of its inquiry would contribute to the DFP review, and published its Report, Stage 1: Submission to the Review of the Northern Ireland Executive's Budget Process, in October 2008.

2. Since that time, the Committee has pressed for completion of the DFP review, which it believed should assist in providing clarity on the way forward for the future budget process. In the absence of the completed DFP review, the Committee was not in a position to press ahead with the second part of Stage 1 of its inquiry, which was to consider and respond to the findings from the DFP review. Although it was initially intended to have been concluded in late 2008, DFP has, in correspondence with the Committee, cited a number of reasons for the lengthy delay in completion of the review, including: managing the in-year monitoring process; the Strategic Stocktake that was undertaken in 2008; and the Review of 2010-11 Spending Plans for NI Departments in late 2009/early 2010.

3. Following its completion, DFP officials gave evidence on the Review of Northern Ireland Executive Budget 2008-11 Process at the Committee's meeting on 12 May 2010, and this has enabled the Committee to proceed with this part of its inquiry. The main recommendations from the DFP review are listed below, and the full report is provided at Appendix 3. The Official Report

of the evidence session of 12 May 2010 is at Appendix 2. At the time of agreeing this inquiry report, the Committee understands that the DFP Review Report has not been agreed at NI Executive level.

4. To assist in its deliberations, the Committee commissioned a paper from Assembly Research to consider the NI budget process in light of international good practice in executive-legislature relations and budget processes in other jurisdictions, and this paper was considered by the Committee on 12 May 2010. During the discussion on the research paper, the Committee commissioned a further paper examining the concept of a central budget committee for the Assembly. Both papers are provided at Appendix 5.

5. To help inform this report, the Committee invited comments on both the DFP Review Report and the Assembly research paper, Considerations for Reform of the Budget Process in Northern Ireland, from the other Assembly statutory committees. The responses from the other committees have been referenced below, with the full submissions included at Appendix 4. In addition, the Committee requested the Department's comments on the Assembly research paper, the response to which is at Appendix 3.

Consideration of the Evidence

Response to the DFP Review of the NI Executive Budget 2008-11 Process

6. The DFP review was undertaken "with a view to making recommendations to improve and enhance future Budget processes."^[1] The Terms of Reference tasked the review to consider, inter alia, the relationship between Budgets and the Programme for Government (PfG), engagement with departmental Assembly committees and the management of capital investment. In addition to seeking input from key stakeholder organisations, such as those representing the community and voluntary sector, business organisations and Trade Unions, the review considered the current budget processes in Scotland and Wales. As mentioned above, the Committee made a submission on behalf of the Assembly to the DFP review, which formed part 1 of Stage 1 of this inquiry.

7. The main findings from the Review Report noted that "there was a significant degree of commonality in the issues raised by various stakeholders", for example with regard to the need to consult with key stakeholders as early as possible in the Budget process. It also noted significant differences in views in respect of some issues, such as the length of the process which was judged by some as being too short and others too long. The key recommendations proposed, which DFP considers will improve the Budget process moving forward, are set out below.

(i) The DFP review recommended that:

"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)."

8. The DFP review found that the absence of a clear link between the PfG and Budget had restricted scrutiny of the Budget proposals. The information provided by an exercise such as that recommended would therefore give a baseline against which to compare spending proposals. However, during the evidence session, Departmental officials advised that while this is a highly

desirable aim, it should ideally be commenced at the start of a calendar year and, as such, would be delayed in terms of the anticipated Budget 2010 process.

9. In their responses to the Committee, a number of statutory committees indicated that they believe it is important that clear links are established between the Budget, PfG priorities and the delivery of PSA targets; measures to make improvements in this regard are therefore to be welcomed.

10. On 20 January 2010, the Committee received a briefing from Assembly Research on Methods of Budgeting (see Appendix 5). It noted that, whilst public sector budgeting in NI, in line with GB, typically relies on the incremental approach, this method of budgeting can obscure an overall picture of performance for managers and Ministers. Zero-based budgeting, on the other hand, starts from the basis that no budget lines should be carried forward from one period to the next simply because they occurred previously. This process ensures that organisations provide business justification for each activity they undertake. Activities are then ranked in order of priority and this is where resources are focused.

11. The Assembly research outlined several case studies where the principles of zero-based budgeting have been applied. Whilst not without its own difficulties, these case studies illustrate that a phased implementation of a zero-based budgeting approach following a full business case justification, can also have a positive impact on the measurement, and accountability, of performance. The research also outlined a number of alternative budgeting techniques including:

- Priority-based budgeting;
- Decision conferencing;
- Planning Programming budgeting system;
- Performance-based budgeting; and
- Participatory budgeting.

12. In its Report on the Executive's Draft Budget 2008-11, published in December 2007, the Committee called for closer alignment between the Budget and PfG, and repeated this call in its submission to the DFP review in October 2008. The Committee considers this should have been the case as a matter of course. The Committee firmly believes that there should be clear, visible linkage between the PfG, PSA targets and budget allocations, and therefore welcomes, as a step in the right direction, the DFP recommendation that "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)."

13. Related to this issue, in its recent report on public sector efficiencies, the Committee has noted that the current PfG and PSA framework is cumbersome and overly complex at a time when priorities must be re-considered during this period of exceptional budgetary constraint. Moreover, the Committee notes that the need to simplify the monitoring of performance is a view also expressed in the guidance issued by HM Treasury in advance of the Spending Review, due to be completed in the autumn. The new Westminster Government has ended what it calls the "complex system of Public Service Agreements" in respect of Whitehall departments. The new approach will "include the publication of departmental business plans showing the resources, structural reforms and efficiency measures that will need to be put in place to protect and improve the quality of key frontline services while spending less."^[2] Given its previously expressed concerns around the complexity of the current PfG and PSA framework, and in light of both the increased need for priority-based budgeting and the apparent move away from the system of PSAs in Whitehall, the Committee calls on the Executive to review the performance

and accountability framework for NI departments, with the aim of establishing a more transparent and robust system for measuring and monitoring the relationship between public sector inputs, outputs and outcomes.

(ii) The DFP review recommended that:

"The PfG should be developed to a timetable slightly in advance of the Budget."

14. While recognising that it would not be possible to finalise targets underpinning priorities until Budget allocations are finalised, the review recommended that an indication of broad priorities should be available at the start of the Budget process to provide a degree of clarity on spending proposals. In their oral evidence to the Committee, the Departmental officials confirmed that, as the First Minister and deputy First Minister are responsible for the PfG, this recommendation is subject to their consideration and agreement.

15. Again, a number of statutory committees indicated their support for this recommendation, as it will serve to further define and strengthen the link between the PfG and Budget. In particular, both the Committee for Agriculture and Rural Development and the Committee for Regional Development stressed that the Executive's priorities should drive the budget, not the other way around. In addition, the Committee for Regional Development further recommended that

"the costs and achievements/ outcomes against each PSA be published in order that Committees have the opportunity to evaluate the prioritisation of Departmental bids as well as allocations against each of its departmental PSAs, when considering both the draft budget and draft PfG."

16. The Committee for OFMDFM considered that Equality Impact Assessments (EQIA) should also be completed in advance of the Budget.

17. Whilst recognising that the availability of resources will have a bearing on the targets underpinning the PfG, the Committee is strongly of the view that budget allocations should be driven by priorities and not the other way around. The Committee concurs with the DFP view that "there should at least be a clear indication of broad priorities at the beginning of the Budget process" and that the development of the PfG should precede the Budget.

(iii) The DFP review recommended that:

"A clear timetable setting out the key milestones should be made publicly available at the start of each Budget process."

18. Respondents to the DFP review considered that a clear timetable for the Budget process should be agreed and published. The review found that there was a perception that the draft Budget was a fait accompli; setting a timetable and raising awareness of the key milestones would help ensure that stakeholders would be fully aware of when to best influence spending proposals.

19. In its response to the Committee, the Regional Development Committee contended that it is not a perception but a reality that the draft Budget is a fait accompli. It was therefore supportive of this recommendation, as were the committees for OFMDFM, Education, Employment & Learning and Health.

20. The absence of a settled budget process has been of particular concern to the Finance and Personnel Committee for some time. Since the publication of its Report on the Draft Budget 2008-11, the Committee has repeatedly sought clarity on the future budget process, in both

written correspondence with the Department and the Minister, and also during evidence sessions with Departmental officials. In its recent Report on the Review of 2010-11 Spending Plans for NI Departments, the Committee called for "the urgent establishment of a formal process for Assembly scrutiny of future Executive Budgets and expenditure."

21. The Committee is aware that the International Monetary Fund's (IMF) note on the Role of the Legislature in Budget Processes contends that nearly all countries adopt budgets annually.^[3] Assembly research found that good practice indicates that a regularised annual process with a pre-determined timetable should be adhered to. In recognising the need for strategic planning, an annual budget should not cover a period of one year only, but should also include budget forecasts for at least the medium term (normally a three-year period). In this regard, the Committee notes that the recent DFP guidance to departments on Budget 2010 states that the process "will involve the development of the spending plans for NI departments covering the four year period 2011-12 to 2014-15".^[4] It is unclear to the Committee, however, whether this will, in effect, mean that a quadrennial process is now envisaged, or whether the Executive instead intends to establish a process for reviewing the departmental allocations on an annual basis, or at some other point during the four-year period which would involve Assembly input.

22. Whilst it considers that the setting of a clear timetable to include key milestones at the start of each budget process is of vital importance, the Committee believes that clarity is required on the shape, frequency and duration of future budget cycles. In noting that the Budget 2010 process will develop departmental spending plans for the four-year period from 2011-12 to 2014-15, the Committee recommends that a regularised annual budgetary review process is established within this framework, with a pre-determined timetable, to enable the Executive and Assembly to make interim reappraisals of departmental allocations against progress in delivering PfG priorities and savings.

23. The Committee is aware that the timing of Executive decisions on financial issues will have a bearing on budget timetables. In evidence to the Committee on 11 February 2010, the Finance Minister suggested that delays in achieving Executive decisions had resulted in a truncated process in respect of the Review of 2010-11 Spending Plans of NI Departments. The Committee recognises that such delays can have an adverse impact in terms of the time available for engagement with the Assembly and the wider public.

24. Also in terms of timetabling, the Committee acknowledges that the calendar for Assembly sessions is an additional factor which has to be taken into account, both in terms of the process for setting future budgets and as regards in-year monitoring. On the latter, for example, DFP recently agreed to extend the deadline for departmental returns for the September Monitoring Round from 3 September to 10 September to facilitate pre-consultation with Assembly statutory committees following summer recess. The Committee has welcomed the flexibility shown by the Department in this regard.

25. In acknowledging the competing considerations outlined above, the Committee calls on DFP to build in adequate provision for the Executive decision-making process and for the Assembly calendar when developing future budgetary timetables, with a view to ensuring sufficient time for engagement with the Assembly and other stakeholders.

(iv) The DFP review recommended that:

"There should be early and more structured engagement between departments and Assembly Committees setting out the key issues and pressures facing NI Departments."

26. The DFP review noted that the timetable in respect of the Budget 2008-11 was truncated, and as a result there was no opportunity for early engagement with Assembly committees, and also with regard to the production of departmental and Executive position reports. The review contended that early, structured engagement with Assembly committees would essentially obviate the need for the publication of position reports in future budget processes. The review further considered that information supplied to committees will, through time, become more structured and standardised as a result of early engagement with departments in the Budget process.

27. In its response to the outcome of the DFP review, the Committee for the Environment stated that it would welcome any opportunity for more timely engagement, while the Committee for Employment and Learning considered this to be a key element of budget preparation. The Committee for Culture, Arts and Leisure cited previous difficulties it had encountered with processes regarding the Budget 2008-11 and the Review of 2010-11 Spending Plans. It considered that proper consultation is necessary to enable the Committee to make a meaningful response to the draft Budget. The committees for Health and OFMDFM were also broadly supportive of this recommendation.

28. As noted above, the Agriculture and Rural Development Committee considered that strategic direction should be the primary driver for a budget and, in that respect, has also requested early engagement with its Department in the development of strategic plans. Contrary to the DFP review apparently advocating against the publication of position reports, the Committee for Regional Development believes that they provide early opportunities for committees to explore the budgetary position faced by departments. That Committee also considered that engagement should be continual and ongoing, rather than taking place only at specific times in the process.

29. In its response, the Committee for Education called for DFP to draw up "standard guidance to NI departments on the timing and provision of relevant information to Assembly Statutory Committees." This guidance would require to be developed in consultation with the Assembly statutory committees and agreed by the Executive, with the commitment of individual Ministers being essential to ensuring its implementation. The Education Committee also proposed that "it would be for DFP in consultation with the Committee for Finance and Personnel (...co-ordinating the views of all Statutory Committees) to monitor Departments' adherence to the standard guidance."

30. The Assembly research recommended that consultation with the Assembly and its committees should be full and proper, with good practice suggesting a time frame of between two and four months. This would allow committees to fully scrutinise proposals and call for additional evidence, where necessary.

31. In its co-ordinated submission to the DFP review on behalf of all statutory committees in October 2008, the Committee recommended "that a budget process is established which maximises the opportunity for Assembly committees to provide early input" and favoured the inclusion of a stage similar to the position reports stage in the first mandate.^[5] Despite this, in the recent mini-budget process which was undertaken to review spending plans for 2010-11, seven out of eleven statutory committees expressed dissatisfaction about the level of engagement with their departments. The Committee was strongly critical of the lack of proper engagement on departmental spending plans and considered that

"there is a need to establish firm protocols for the provision of timely and appropriate budgetary information to the statutory committees."^[6]

32. Though strongly supportive of the DFP recommendation that "there should be early and more structured engagement between departments and Assembly Committees setting out the

key issues and pressures facing NI Departments", the Committee considers that decisive measures are needed to put this into practice. Without wishing to be prescriptive on the information provided by departments to their respective Assembly committee, the Committee believes that there is a minimum standard that must be adhered to. In that respect, the Committee concurs with the recommendation from the Education Committee that DFP should take the lead in developing "standard guidance to NI departments on the timing and provision of relevant information to Assembly statutory committees" and that this should be agreed at Executive level, with departmental compliance being monitored by DFP in consultation with the Assembly statutory committees.

33. Also in respect of this DFP review recommendation, the Committee notes that the guidance on Budget 2010, which DFP issued recently to departments, states that "the unavoidable delays in initiating the Budget 2010 process means that there will be less scope to take this forward as part of the current process than will be the case in future years."^[7] On this point, in noting that the timetable for the Executive's Budget 2010 process has an end date of "late December", the Committee calls on DFP to offer flexibility on this deadline to provide sufficient time for engagement with Assembly committees and the wider public. The Committee found that good practice would indicate a period of 2 – 4 months should be provided for in this regard. The Committee considers this feasible given that the Budget 2008-11 was not agreed in the Assembly until 29 January 2008 and, more recently, the Revised 2010-11 Spending Plans were not agreed by the Assembly until 20 April 2010.

(v) The DFP review recommended that:

"There should be earlier engagement with key stakeholder groups by departments as part of the Budget process."

34. As noted at paragraphs 18-19, respondents to the DFP review considered that the draft Budget was a *fait accompli*, and that the formal consultation period was therefore too late to significantly influence departmental spending proposals. Therefore, early engagement with key stakeholders was considered to be important. Respondents to the review criticised the level of engagement across departments, as not all departments consulted publicly on their plans.^[8]

35. The committees for Education and Health both indicated that they were broadly supportive of this recommendation. The committees for Employment & Learning and the Environment considered that stakeholder participation is a key element in the preparation of budgets and was therefore to be welcomed and encouraged. The Committee for Regional Development agreed that stakeholder engagement should be encouraged on an ongoing basis; however, it sounded a note of caution that this would not obviate the need for meaningful consultation or consideration of equality implications of Budget and PfG proposals at either departmental or Executive level. The Committee for OFMDFM suggested that, if EQIAs were completed in advance of the draft Budget, this would lead to earlier engagement.

36. In addition to the criticism levelled at the lack of engagement between departments and their Assembly committees during the recent Review of 2010-11 Spending Plans, a number of submissions made to both DFP and the Finance Committee by stakeholders were critical of the level of public consultation in that process; for example, the Methodist Church in Ireland's Council on Social Responsibility^[9] regarded the consultation as "at best flawed and at worst opaque. The process falls far short of good practice for consultations". It pointed to varying levels of information that were made publicly available, and questioned how stakeholders would be in a position to respond to a consultation when it was not clear what they were being consulted on. The submission recommended that consultation is conducted properly, with full details and guidelines being provided. In this regard, the Committee was also critical of the level of public consultation that had been undertaken in the Review of 2010-11 Spending Plans

process. Indeed, the Committee did not become aware that DFP had issued a public consultation notice inviting responses on the Executive's proposals until after the process had concluded.

37. The Committee considers that greater influence can be brought to bear on spending plans at the earlier stages in the process, and therefore is supportive of the DFP recommendation that "there should be earlier engagement with key stakeholder groups by departments as part of the Budget process". However, the Committee believes that care should be taken by departments to ensure that a wide spectrum of stakeholder interests are included at this time to ensure that it is not the larger interest groups only that have the opportunity to influence the spending plans.

(vi) The DFP review recommended that:

"DFP should take the lead role from the Strategic Investment Board (SIB) in developing capital investment allocations in the Budget process."

38. The DFP review stated that "some stakeholders thought that there was too much confusion regarding the roles and responsibilities in respect of the capital allocations between SIB and DFP...In particular, with regard to the ongoing resource consequentials of the capital investment plans as well as consideration of the contextual issues within individual departments." As such, the Department proposed that, while SIB should retain focus on longer term investment plans, DFP should assume responsibility for capital as part of the overall Budget process.

39. The Committee found that there was no clear consensus on this issue from the views received from the other Assembly statutory committees. The Education Committee was supportive of the recommendation, while the Health Committee considered the current interaction between DFP, SIB, ISNI and DHSSPS to be confusing. The Employment and Learning Committee suggested that the recommendation should be examined more closely by the Finance Committee and the Committee for OFMDFM had no agreed view on the recommendation. The Committee for Regional Development urged caution in that there was a need to ensure that any limitations in terms of timeframes for spending reviews or budget cycles should not have a negative impact on a longer term strategy for capital investment.

40. A similar point was raised during the evidence session, when Departmental officials were asked if this recommendation would not result in the SIB merely becoming an implementation body, without consideration of strategic issues. In response, Departmental officials stated that they considered the opposite would be the case, and that the SIB would be better able to focus on more strategic elements. The Committee is mindful, however, that it has not had sight of the consultation responses provided to DFP on this issue, nor has it received the view of SIB on the matter. As such, at its meeting on 23 June 2010, the Committee agreed to take separate evidence from both DFP and SIB on the proposal in the autumn. Therefore, in noting the DFP proposal that it "should take the lead role from the Strategic Investment Board (SIB) in developing capital investment allocations in the Budget process", the Committee intends to take further evidence from the Department and also to invite separate evidence from SIB, to enable it to reach an informed position on this issue. There will also be a need to liaise further with the Committee for OFMDFM on the outcome of this work.

(vii) The DFP review recommended that:

"Every departmental spending proposal should clearly state the impact on the respective PSA target, if successful."

41. The DFP review considered that this measure would enable links to be made between spending proposals and outputs or outcomes. It was recognised, however, that some departmental expenditure may not be directly linked to PSA targets.

42. The Committee for Health, Social Services and Public Safety stated that much of its budget is spent by organisations other than the Department; future processes should therefore take cognisance of such links and structures. The committees for Education and OFMDFM were supportive of this recommendation. In its submission, the Committee for Regional Development contended that expenditure outwith PSA targets should be monitored to ensure achievement of stated outcomes, and that it should be included as part of the PSA monitoring process. Similarly, the Assembly research recommended that such spending should be presented alongside the Budget, as good practice would suggest.

43. Arising from the Assembly research, the Committee notes that the IMF Code of Good Practices on Fiscal Transparency (2007) states that

"Results achieved relative to the objectives of major budget programs should be presented to the legislature annually."^[10]

44. In reviewing the NI process against this Code, the Assembly research found that the PfG Delivery Report does not link PSA targets to individual departments, and stated that such an approach would be useful in enabling read across from the Delivery Report (i.e. outputs and outcomes) to the PfG and the Budget. It therefore recommended that "requests for resources should be disaggregated and justified." The Committee supports the DFP recommendation that "every departmental spending proposal should clearly state the impact on the respective PSA target, if successful." However, the Committee also believes that this linkage between spending and PSA targets at the bidding stage should extend to the reporting stage, whereby the End Year Delivery Reports would enable performance to be tracked at a departmental level in terms of inputs, outputs and outcomes.

(viii) The DFP review recommended that:

"The Draft Budget document should include an easy to read summary at the start of the document."

45. The DFP review found that a number of respondents considered that an "at a glance" summary should provide details of available resources, how they will be allocated and the anticipated outcomes. Public finance is a complex area, and the review concluded that such a summary should assist in making the Executive's proposals accessible to a wider audience.

46. This recommendation was supported by the committees for Education, the Environment, Health, OFMDFM and Regional Development. The Committee for Employment and Learning suggested that departments could be tempted to obscure information by the use of jargon and technical terminology, which "damages the process."

47. On a related issue, the Assembly research noted that information included in the Budget, in-year monitoring rounds and departmental accounts are provided on a resource basis whereas Estimates are presented on a cash basis, and stated that it is "all but impossible for anyone other than an expert in public sector accounting to reconcile the streams of information." This issue was also evident in the detailed comparison of the process in NI to the IMF's note on the Role of the Legislature in Budget Processes.^[11] The Assembly research pointed to the reform process known as the Alignment (Clear Line of Sight) Project being undertaken by the Westminster Government, which aims to "simplify its financial reporting to Parliament by

ensuring that it reports in a more consistent fashion, in line with the fiscal rules, at three stages in the process – on plans, Estimates and expenditure outturns." [12] The Assembly research suggested that such reforms could address a number of concerns in relation to the NI budget process, including: reconciliation of data across different publications; improving control of spending outside the estimates; the removal of confusing accounting practices and concepts; and the expansion of the Estimates to cover non-departmental public bodies (NDPBs). The research concluded that the financial information streams should be harmonised and aligned, to increase transparency and enhance the relationship between allocations and performance.

48. The Committee agrees with the DFP recommendation that "the Draft Budget document should include an easy to read summary at the start of the document." The Committee also agrees with the findings of the Assembly research in terms of the lack of transparency, and indeed confusion, resulting from the myriad of formats in which budget and financial information is presented. While recognising that this is complex by nature, the Committee further recommends that all relevant financial documents, including Budgets, Estimates and Resource Accounts, are simplified and harmonised to increase transparency and enhance the relationship between allocations and performance and also to ensure that they are more readily scrutinised by Assembly committees and accessible to the wider public.

(ix) The DFP review recommended that:

"The full list of prioritised spending proposals submitted by departments as part of the draft Budget process should be published alongside the draft Budget document, including details of which proposals will be funded from the draft Budget allocations."

49. The DFP review noted that during the Budget 2008-11 process confusion arose as to what was and was not being funded as a result of departments having significant flexibility "to distribute their draft Budget allocations between spending areas up until the final Budget position was agreed". This recommendation would therefore aim to address this shortcoming by providing greater clarity at the draft Budget stage.

50. In their responses to the Committee, a number of other statutory committees indicated broad support for this recommendation. The Committee for Culture, Arts and Leisure pointed out that it is difficult to determine departmental priorities when descriptors such as "inescapable" and "committed" are used to describe spending proposals. That Committee also expressed frustration with the lack of information on specific projects or programmes, with only high level figures having been provided in previous budget processes.

51. In light of the broad support amongst the other statutory committees, the Committee welcomes the DFP recommendation that "the full list of prioritised spending proposals submitted by departments as part of the draft Budget process should be published alongside the draft Budget document, including details of which proposals will be funded from the draft Budget allocations." The Committee notes that this aligns with the conclusion in its Report on the Executive's Draft Budget 2008-2011, published in December 2007, 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." [13]

(x) The DFP review recommended that:

"Departments should publish the High Level Impact Assessment for each spending proposal."

52. The DFP review noted suggestions that equality considerations should, as a matter of course, be embedded within spending proposals and therefore any negative consequences would have

already been considered. In addition, some considered that the impact assessments should be completed on PSAs rather than on bids, as allocations will be made against priorities. Nonetheless, the review considered that "it should be clearly stated which existing Equality Impact Assessment (EQIA) as well as other relevant impact assessment the proposal is linked to, and if not, when the respective programme EQIA or other relevant impact assessment will be completed."

53. As with the view expressed by the Committee for OFMDFM, the Committee supports the DFP recommendation that "Departments should publish the High Level Impact Assessment for each spending proposal." The Committee also recommends that departments should publish the results of the equality screening undertaken in respect of each spending proposal in fulfilment of the duties imposed by Section 75 of the Northern Ireland Act 1998.

(xi) The DFP review recommended that:

"Supporting documentation including, for example, draft PSA and Efficiency Delivery Plans should be published as soon as possible after the draft Budget and PfG to provide a greater understanding of what will be achieved with the Budget allocations."

54. While the DFP review recognised the importance of providing this supporting documentation as early as possible to enable effective scrutiny of spending proposals, it stated that there is "limited scope to provide supporting material until a later date". Following the evidence session with Departmental officials on 12 May, the Committee queried whether there is not a case for draft delivery plans accompanying the draft Budget and PfG to inform committee consideration and, in the case of efficiency delivery plans, provide some assurance regarding deliverability. Also, the Committee noted that respondents to the DFP review had identified "a lack of information provided on the efficiencies to be delivered by NI departments and how they would be achieved". In a written reply to the Committee's query, the Department explained that "in recognition of the quantum of work required of both DFP and departments in order to produce the draft Budget document, for practical reasons it was recommended that the publication of supporting documentation should be as soon as possible after the publication of the draft Budget document."

55. Responses from a number of other statutory committees indicated that any measures that would increase transparency were to be welcomed, and they were therefore supportive of this recommendation. However, the Regional Development Committee expressed a similar concern to this Committee in terms of why initial draft PSAs and EDPs could not accompany the draft Budget, particularly in view of the proposal to more closely link allocations to PSA targets. The Committee would reiterate the recommendation made in its submission to the DFP review that supporting documents, such as draft PSAs and draft delivery plans for efficiencies and investments, should be published alongside the draft Budget, as this would inform committee scrutiny and could provide some assurance regarding deliverability. Whilst recognising that such draft supporting documents may require development before being finalised, the Committee believes that, with careful planning and given the proposal to develop the PfG in advance of the Budget, it is reasonable to expect these draft documents to accompany the draft Budget.

(xii) The DFP review recommended 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."

56. The DFP review noted that formal public consultation is not undertaken as part of the Welsh Budget process, although the public is able to respond to the draft Budget directly. Welsh Assembly committees undertake scrutiny of their respective department's budget allocations over a four week consultation period. Similarly, no formal public consultation is undertaken by the Scottish Executive, although again the public can respond directly on the draft Budget. The review considers that this approach should be followed for NI, whereby the Assembly committees would become the "key conduit for public responses to the Executive's draft Budget proposals."

57. The responses from most of the other statutory committees were not supportive of this recommendation. The Committee for Regional Development was of the view that committees would not have the authority to act on the outcome of the consultation and, as such, responsibility for consultation should rest with the Executive. The Committee for Education also did not consider this to be appropriate, while the committees for Enterprise, Trade and Investment and Culture, Arts and Leisure noted that they do not take the lead role in consulting on any other departmental policies. The Committee for Health, Social Services and Public Safety sounded a note of caution with regard to the lack of committee resources to undertake such a consultation.

58. The Committee recognises that all Assembly committees will, in fulfilling their scrutiny role, wish to consult with key stakeholders with regard to departmental spending proposals. However, members noted during the evidence session with Departmental officials on 12 May 2010 that Assembly committees, as currently constituted, may not have the time, resources, specialist knowledge or ability to do anything other than to act as a conduit for information passed to them by the public or various groups.

59. The Committee does not support the DFP recommendation 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." In noting that other statutory committees have also voiced concern with this proposal, the Committee believes that this would be an inappropriate role for Assembly committees to fulfil, especially given that they would not have the authority to act on the outcome of such consultation.

(xiii) The DFP review recommended that:

"In responding to the draft Budget, any proposal to increase spending on a particular service by a Committee should be accompanied by an equally detailed proposal as to how this could be funded."

60. The review notes that, in Scotland, any alternative spending proposals by committees are costed, and details of how the costs will be provided for are also included. The Finance Committee in the Scottish Parliament examines the overall Budget position and allocations. The review considered the process in Scotland to be more developed than in NI, and it was noted that there "appears to be more of an overall collective purpose with portfolios or departments working together towards the same aim, which has resulted in more cross departmental working."

61. The review also pointed to the process in Wales, whereby Assembly committees can only put forward alternative spending proposals within the total resource available. To keep within the resources available to the NI Executive, it was proposed that the implications that funding alternative proposals will have on other services should be clearly set out. Furthermore, the DFP review also suggested that "the Committee for Finance and Personnel, in responding on behalf

of all the Committees, should identify whether it views the funding proposal to be realistic or not."

62. The Committee for the Environment advised that it is aware of funding constraints faced by that Department, and therefore avoids putting forward unrealistic spending proposals or reductions. The Committee for Health, Social Services and Public Safety indicated that it was broadly supportive of this recommendation; however this view was not widely shared among other statutory committees. The Committee for Education considered that it does not have the necessary resources to undertake detailed costings and funding arrangements for any alternative spending proposals it puts forward; furthermore, it did not have access to the necessary information from its Department to support this. The Regional Development Committee rejected this recommendation "on the grounds that it would not be practical or achievable without full disclosure of information from departments and the Executive, in a regular, timely, transparent and accessible manner." The considerations in respect of resources, in terms of specialist support on public finance, and access to information are discussed later in the report.

63. Finally, while welcoming the focus afforded to committees by DFP in this review, the Committee for Employment and Learning stressed that each committee should be free to scrutinise its own Department, and the Committee for Finance and Personnel should have the role of co-ordinator and not arbiter of the process. Similarly, the Committee for Culture, Arts and Leisure stated that it is not convinced that it is appropriate for the Finance Committee to arbitrate on proposals from other statutory committees. On this point, the Finance and Personnel Committee considers that a conflict of interest could arise if it were to assess alternative spending proposals put forward by other statutory committees in respect of their departments, while it also has a responsibility for assessing the departmental plans for DFP.

64. In its consideration of this issue, the Committee commissioned research on the potential for the Assembly to establish a central budget committee in the future (Appendix 5). The Assembly research paper noted that budgets are dealt with by legislatures in the following three ways:

- (i) centralised, where a budget committee is assigned full responsibility for budget issues;
- (ii) dispersed, where responsibility is divided amongst sectoral committees; and
- (iii) a hybrid model, whereby portions of the budget are considered by sectoral committees and action is recommended within a framework set by a centralised budget committee.

The current system in NI is dispersed, with the Finance and Personnel Committee performing a co-ordinating role; examples of centralised and hybrid models in other jurisdictions were also examined.

65. The research paper cites a number of issues that would need to be considered more fully, including the need to:

- decide whether to move forward with a centralised or hybrid model, or retain the status quo;
- explore whether a budget committee's remit could be expanded to include monitoring of cross-cutting issues, including the delivery of PfG and PSA targets;
- examine if existing legislative provision allows for a budget committee to be established, or whether an amendment to legislation is required; and

- consider the potential membership of a budget committee and if there would be the possibility for a conflict of interest where a Member might sit on both it and a statutory committee.

In addition, the research paper points out that committee procedures and structures are linked to the overall budget process, which is likely to be subject to a degree of reform moving forward. Therefore, consideration should be given as to whether the committee structure should be redesigned in parallel with budgetary reforms, or if it would be more appropriate to wait for a firm budget process to be established and then design the structures accordingly.

66. The Committee notes with interest the recommendations from DFP that "in responding to the draft Budget, any proposal to increase spending on a particular service by a Committee should be accompanied by an equally detailed proposal as to how this could be funded"; and that "the Committee for Finance and Personnel, in responding on behalf of all the Committees, should identify whether it views the funding proposal to be realistic or not." The Committee, however, sees such an approach as more applicable in the context of a reformed system of Assembly financial scrutiny; whereby departmental committees would have access both to the necessary financial information held by departments and to additional specialist support and where a central budget committee existed with the requisite powers. The Committee believes that such a scrutiny model warrants more detailed consideration by the Assembly in the future.

(xiv) The DFP review recommended that:

"The Final Budget Statement and debate should be combined with the Main Estimates process."

67. The DFP review considered that the current process for agreeing and debating the Budget and Main Estimates encourages "significant amounts of repetition, duplication and confusion." The recommendation is to follow the approach in Scotland, whereby both are taken forward simultaneously. Following the evidence session with Departmental officials on 12 May, the Committee sought clarification on how this proposed approach would work in practice. In follow up correspondence, DFP explained that:

"...rather than voting on the revised Budget in December or January, the Vote on Account in February and the Main Estimates in June, this process would mean that the revised Budget and Main Estimates and Budget Bill are combined in December or January, negating the need for a Vote on Account."^[14]

68. The Department did, however, recognise that a detailed review would be needed to consider the practical implications of these changes to the financial processes and that this review would include consultation with the Assembly statutory committees and with the Comptroller and Auditor General.

69. The committees for Education, Health, OFMDFM and Employment & Learning were supportive of this recommendation. On the other hand, while it considered there is a need to streamline the process, the Regional Development Committee stated that it was not in a position to support this recommendation in the absence of detail regarding the future budget process. It also stressed that streamlining the process should not unwittingly result in it becoming less transparent or providing less opportunity for debate in plenary.

70. Related to the issue of streamlining the process, reference has been made previously to the Assembly research findings with regard to the different formats used to present information on the Budget and the Estimates, and the need for this supporting information to be simplified and aligned.

71. During the evidence session with Departmental officials, the Committee heard that the merging of these stages should increase the time available for scrutiny by committees, as it would no longer be necessary to consider the issues either separately or in parallel. The Committee is, in principle, supportive of the DFP recommendation that "the Final Budget Statement and debate should be combined with the Main Estimates process" as this should make for a more streamlined and harmonised approach. That said, the Committee looks forward to being consulted on the detail of this proposal and firmly believes that such change should only be made in the context of a settled future budget process, which will require to be agreed between the Executive and the Assembly.

Action Plan for Implementing the DFP Recommendations

72. During the evidence session on 12 May 2010, DFP officials undertook to provide the Committee with a copy of the action plan for the implementation of the recommendations included in the Review report. Whilst it was requested that this be provided in advance of the Committee's meeting on 19 May, the Department subsequently advised that it could not be made available until it received Executive clearance and this had not taken place by the time the Committee agreed this Inquiry report on 30 June. As such, the Committee looks forward to receiving the action plan for implementing the DFP review recommendations and expects that this will be updated to take account of this co-ordinated response on behalf of the Assembly statutory committees.

Other Issues and Next Steps

Cross-departmental working

73. A number of key points that were raised in the DFP review report were not directly addressed in the recommendations. In particular, stakeholders noted the competition for Budget allocations among departments, which made cross-departmental working difficult. It was also perceived that cross cutting issues were often afforded only low priority. It was suggested that the agreement of the PfG in advance of the Budget may assist in this regard as departments would be better able to take direction from priorities which had been set. It was further suggested that OFMDFM would be "the most suitable part of the Executive to facilitate cross departmental working and joint bidding".

74. In terms of the Committee's previous consideration of this issue, in 2007, as part of its examination of the Executive's Draft Budget 2008-2011, the Committee raised a number of concerns with DFP regarding the discontinuation of discrete cross-cutting funds, which had previously existed in the form of the Priority Funding Packages and the Executive Programme Funds. The Department made a number of points in response, including that: the creation of the such funds required departmental budgets to be "top sliced", which reduced resources available for the generality of pressures across departments; the pattern of underspend in these ringfenced funds had been considerably higher than the average; and the cross-cutting dimension would be dealt with through the Executive's PSAs. Nonetheless, in its Report on the Executive's Draft Budget 2008-2011^[15], the Committee sought assurance that these important spending areas, such as Children & Young People, would not lose priority and that any new funding arrangements do not hinder access by the voluntary and community sector. The Committee continues to place high importance on cross-departmental working, not only in terms of policy and service delivery but also in the context of improved efficiency and effectiveness across the public sector. As such, the Committee believes that the Executive must bring forward proposals for improving the arrangements both for promoting and funding collaborative working by departments and other public bodies and for measuring and monitor performance in this area.

Independent Budget and Financial Scrutiny

75. The Committee noted from the Assembly research that the IMF's Code of Good Practices on Fiscal Transparency (2007) states that, in respect of assurances on integrity, fiscal information should be externally scrutinised.^[16] It advises that "independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions". In comparing the NI budget process against good practice, the Assembly research noted that no verification or scrutiny is undertaken by independent experts on the Executive's budget proposals or the financial information and assumptions underpinning the proposals. The research suggested that the independent analysis could be provided by consulting an independent fiscal agency, or by passing responsibility for fiscal projections and assumptions to a fiscal council, as is the case in the Netherlands, Austria and Belgium; though it was recognised that the cost of funding such a fiscal council may be prohibitive.

76. The Assembly research also suggested that the Executive should publish an assessment of the fiscal picture. In contrast to what good practice would advise, there was no comprehensive assessment of fiscal sustainability in the 2008-11 Budget or the recent Review of 2010-11 Spending Plans. The Executive does publish a Net Fiscal Balance report co-ordinating all revenue statistics, which highlights the large fiscal deficit in NI. However, the Assembly research pointed out that this is not published alongside the Budget and does not provide an assessment of the sustainability of proposals or programmes. The Assembly research suggested that:

"the Executive should produce – as far as it is possible to do so in the context of how Northern Ireland is funded – an assessment of the fiscal sustainability of its policies including:

- A statement of fiscal risks.
- Some form of medium-term fiscal plan.
- A regular assessment of demographic change and its potential impact."^[17]

77. Whilst recognising that the Executive does not have full fiscal control and therefore direct comparisons with arrangements in other jurisdictions are difficult, the Committee considers that it would be good practice both for the Executive's draft Budget to be accompanied by some level of assessment of the fiscal sustainability of the associated policies and for some form of independent external scrutiny to be applied to the Executive's spending proposals. On this latter issue, as part of its Stage 2 Inquiry report, the Committee will be examining the potential for elements of this independent external scrutiny function to be exercised cost-effectively through the reconfiguration and greater use of the existing options for specialist support to Assembly committees and Members in undertaking financial scrutiny.

Access to Information

78. The importance of committees having access to appropriate and timely information on departmental budgets and expenditure has been alluded to already in this report. The Committee considers that the implementation of some of the aforementioned recommendations will assist in this regard and help to address an important determinant to improving the Assembly's financial scrutiny. That said, the Committee believes that additional provisions are likely to be required. As part of the evidence received for Stage 2 of the Inquiry, the Committee has heard that the pilot period that successfully established a Public Finance Scrutiny Unit in the Scottish Parliament enabled information access via a Memorandum of Understanding (MoU) between the Parliament and the Executive. Included in the options which the Committee intends to explore as part of Stage 2 of the Inquiry are:

- (i) The Assembly agreeing a MoU with the Executive to facilitate information flows.
- (ii) Enabling information flow through regulation (e.g. additions to the Assembly's Standing Orders); and
- (iii) Enabling information flow through primary legislation.

Stage 2 of the Inquiry: Resources

79. Given the planned publication of a draft Budget in autumn 2010^[18], the Committee agreed to proceed with Stage 2 of its Inquiry "to review the resources available for assisting Assembly statutory committees and members in undertaking budget and financial scrutiny and to put forward a set of practical recommendations for enhancing the capacity of the Assembly in this regard" in parallel with Part 2 of Stage 1. The Committee expects to publish the report on Stage 2 of its inquiry shortly after summer recess.

Stage 3 of the Inquiry: Review of Monitoring Rounds

80. Stage 3 of the Budget Scrutiny Inquiry aimed to "review the processes for the in-year monitoring of departmental expenditure by the Assembly and its statutory committees, with a view to making recommendations to further improve the operation of the processes and to facilitate more effective scrutiny". However, subsequent to the Terms of Reference for this inquiry being agreed by the Committee in July 2008, DFP decided to undertake its own review of the in-year monitoring process. The Committee took evidence from DFP officials on 20 January 2010 on the outcome of this review, which was completed in late 2009. The DFP report, Review of the NI Executive In Year Monitoring Process, and the Official Report of the evidence session are provided at Appendix 3 and Appendix 2 respectively.

81. In considering the strengths of the current process, the review found that nearly £2bn had been reallocated via in-year monitoring rounds between 2005-06 and 2008-09, thereby allowing the Executive to respond to additional emerging pressures and changing circumstances. However, weaknesses identified included the administrative burden on departments and the varying levels of engagement with Assembly statutory committees. In particular, during the evidence session, the Departmental officials considered the issue of repeat bids by departments and noted that monitoring rounds are:

"almost a disincentive for Departments to try to deal with some of those issues internally, because there is always an expectation that they might get lucky at the next monitoring round, so they keep putting in the same bids".^[19]

82. The following options for change were set out by the review:

- (i) Abolish the in-year monitoring process;
- (ii) Reduce the number of monitoring rounds;
- (iii) Increase the number of monitoring rounds; and
- (iv) Greater scope for allocations to be made between monitoring rounds.

83. The review considered that the abolition of monitoring rounds would mean that reduced requirements would be reallocated internally, rather than considered strategically at a central level; as a result, funding may not be reallocated to the highest priority areas at Executive level.

The review concluded that "the rationale for an in year monitoring process remains valid as the most effective mechanism to support the Executive in managing the public expenditure position". It also concluded that consideration should be given to the number of monitoring rounds in the financial year, providing clearer linkages with PfG targets and outputs/outcomes, improving forecast outturn information and better engagement with Assembly committees. On this latter point, the Committee welcomed the opportunity to co-ordinate responses from the statutory committees on the relevant extract from the recent DFP guidance to departments on in-year monitoring.

84. In considering the in-year monitoring process, the Assembly research indicated that it compares favourably against the IMF's note on the Role of the Legislature in Budget Processes,^[20] as the opportunity to debate the outcome of monitoring rounds can be seen as good practice in terms of openness and transparency. In that respect, the Assembly research suggested that the in-year monitoring process should be retained; though details of the impact that any changes in allocations will have on PfG priorities should also be made clear, a practice that is not followed at present.

85. In the DFP Review of the Budget 2008-11 Process, it was noted that the Welsh Assembly Government did not allocate all available resources within the Budget, but rather held what is, in effect, a contingency fund for allocation through the in-year monitoring process. In accepting that the consequences of this could result in a more short-term focus and a less strategic approach to budgeting, the review nonetheless noted that the level of reduced resources declared in the in-year monitoring process for 2008-09 and 2009-10 may mean that "there may be a case for considering the Welsh approach over the longer term."

86. The Assembly research contended that the Executive should consider establishing a contingency reserve. While recognising that in-year monitoring rounds add transparency, the decrease in reduced requirements means that this mechanism may not be totally sufficient to address unforeseen pressures. Should a contingency fund be established, good practice would suggest that it should be 1-3% of total budgeted expenditure. The Assembly research also referred to the Minister of Finance and Personnel's statement to the Assembly on 12 January 2010, when he indicated that he was "open" to considering the options with regard to how the Executive could deal with unforeseen circumstances and pressures that arise during the budget period. Similarly, during the evidence session on 12 May 2010, Departmental officials advised that:

"The Minister has mandated us to carry out, once we reach Budget 2010, a quick and important review of what sort of monitoring process should be in place to underpin either one- or three-year spending plans. The key question is whether it will be the same as the current position of reliance on a monitoring round and no contingency fund, the creation of some form of contingency fund or the use of overcommitment. The Minister wants to look at that issue quickly, and it will obviously be influenced by the overall resource position."

87. The Committee considers that there is a need for DFP, at the earliest opportunity, to set out its up-to-date position on the future approach to in-year monitoring, including the option of establishing a contingency fund. It will be important that the most effective system for maintaining the optimum allocation of resources towards the Executive's highest priority spending areas is put in place in time for the implementation of Budget 2010. Given that DFP has already completed a review of the in-year monitoring process and has plans for a follow up review, the Committee does not consider that there is any value in proceeding with Stage 3 of its Inquiry. The Committee will instead wish to be briefed on and respond to the outcome of the further work by the Department in this area.

List of Appendices to the Report

Appendix 1 – Minutes of Proceedings (Extracts)

5 November 2008

19 November 2008

4 February 2009

18 March 2009

22 April 2009

16 September 2009

18 November 2009

25 November 2009

9 December 2009

13 January 2010

20 January 2010

24 March 2010

21 April 2010

12 May 2010

2 June 2010

9 June 2010

16 June 2010

23 June 2010

30 June 2010 (draft)

Appendix 2 – Minutes of Evidence

20 January 2010

Reviews of Budget and In-Year Monitoring Processes – DFP Officials

12 May 2010

Review of Budget Process 2008-2011 – DFP Officials

Appendix 3 – Memoranda and Papers from DFP

1. DFP: Response on the Review of the Budget Process
2. DFP: Postponement of Evidence Session on the Review of the Budget Process
3. DFP: Reason for Delay in Budget Process Review
4. DFP: Further Postponement of Evidence Sessions
5. Minister of Finance and Personnel: Review of Budget Process and In-Year Monitoring Arrangements
6. DFP: Report on the Review of the In-Year Monitoring Process
7. Minister of Finance and Personnel: Review of the Logistical Arrangements in the 2008-11 Budget Process
8. DFP: 2010-11 In-year Monitoring Guidelines – Engagement with Committees
9. Minister of Finance and Personnel – Outcome of Review of Budget Process
10. DFP: Report on the Review of the NI Executive Budget Process
11. DFP: Response to Questions on Budget Process Review and View on Assembly Research Report
12. Minister of Finance and Personnel: Budget (No. 3) Bill and Future Budget Process
13. DFP: NI Executive Budget 2010 – Guidance for Departments

Appendix 4 – Assembly Statutory Committee Responses

Commissioning note to statutory committees

Committee for Agriculture and Rural Development

Committee for Culture, Arts and Leisure

Committee for Education

Committee for Employment and Learning

Committee for Enterprise, Trade and Investment

Committee for the Environment

Committee for Health, Social Services and Public Safety

Committee for the Office of the First Minister and deputy First Minister

Committee for Regional Development

Committee for Social Development

– Assembly Research Papers

1. Considerations for reform of the budget process in NI
2. MethodAppendix 5s of Budgeting
3. A central budget committee for the NI Assembly: some considerations

Appendix 6 – Other Papers

The Methodist Church in Ireland – Review of 2010-11 Spending Plans

- [1] DFP report on the Review of the NI Executive Budget 2008-11 Process (Appendix 3).
- [2] HM Treasury, The Spending Review Framework, Cm7872, June 2010, p. 8.
- [3] <http://www.imf.org/external/pubs/ft/tnm/2010/tnm1004.pdf> (see Page 2, footnote 5).
- [4] NI Executive Budget 2010 – Guidance to Departments, Public Spending Directorate, DFP, June 2010, p.2.
- [5] http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report15_08_09r.htm (Paragraph 6).
- [6] http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_41_09_10R.html (Paragraph 22).
- [7] NI Executive Budget 2010 – Guidance to Departments, Public Spending Directorate, DFP, June 2010, p.5. (Appendix 3).
- [8] DFP report on the Review of NI Executive Budget 2008-11 Process (Paragraph 2.18).
- [9] Methodist Church in Ireland, Council on Social Responsibility, Correspondence with the Committee for Finance and Personnel, 15 March 2010 (Appendix 6).
- [10] www.imf.org/external/np/fad/trans/code.htm (see Part 3.2.4).
- [11] <http://www.imf.org/external/pubs/ft/tnm/2010/tnm1004.pdf>.
- [12] http://www.hm-treasury.gov.uk/psr_clear_line_of_sight_intro.htm.
- [13] Committee for Finance and Personnel, Report on the Executive's Draft Budget 2008-2011, December 2007, http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm.
- [14] Appendix A to DFP correspondence dated 28 May 2010. See Appendix 3 to the Report.

[15] http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm (Paragraphs 188-190).

[16] <http://www.imf.org/external/hp/fad/trans/code.htm> (Part 4.3.4).

[17] Assembly Research Paper 147/10: Considerations for reform of the budget process in NI (Appendix 5).

[18] See correspondence dated 4 June 2010 from the Minister of Finance and Personnel to the Committee at Appendix 3.

[19] <http://archive.niassembly.gov.uk/record/committees2009/FinancePersonnel/100120ReviewsofBudget.htm>.

[20] <http://www.imf.org/external/pubs/ft/tnm/2010/tnm1004.pdf>.

Appendix 1

Minutes of Proceedings of the Committee relating to the Report

**Wednesday, 5 November 2008
Room 152, Parliament Buildings**

Present: Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jnr MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies: Jennifer McCann MLA

10.03 am The meeting commenced in open session.

3. Matters Arising

Members noted that DFP had requested that the briefing scheduled for 12 November on the Executive's Review of the Budget Process is rescheduled and that a written response on how DFP plans to take forward the Review, in terms of Assembly input, was to be forwarded.

Wednesday, 19 November 2008

Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Jennifer McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jnr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies: Peter Weir MLA.

10.08 am The meeting commenced in open session.

3. Matters Arising

In relation to the Executive's Review of the Budget Process, members noted that DFP officials will provide a formal response to the Committee report and will brief the Committee on the detail of future budget processes once the Executive has considered DFP's findings and recommendations.

Wednesday, 4 February 2009

Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Jennifer McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jnr MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies: None

10.01 am The meeting commenced in open session.

9. Committee Work Programme

Members considered a request from DFP to postpone the briefing on the outcome of the Review of the Executive's Budget Process.

Agreed: that the briefing will be postponed until mid-March 2009.

Wednesday, 18 March 2009 Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Fra McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Heather Galbraith (Clerical Officer)
Chris McCreery (Clerical Officer)

Apologies: Dr Stephen Farry MLA
Jennifer McCann MLA
Ian Paisley Jnr MLA
Dawn Purvis MLA

10.10am The meeting commenced in open session.

9. Committee Work Programme

12.37pm Mr Weir returned to the meeting.

Members were advised of a DFP request for the briefing on the Department's response to the Committee's submission to the Review of the Executive's Budget Process to be delayed again from 1 April to 29 April 2009.

Agreed: that the Clerk will pursue this issue with the Departmental Assembly Liaison Officer and report back to the Committee next week.

Agreed: that the current draft of the programme will be published on the Assembly website.

Wednesday, 22 April 2009

Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Jennifer McCann MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jnr MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Chris McCreery (Clerical Officer)
Dr Robert Barry (Assembly Research)

Apologies: David McNarry MLA

10.08am The meeting commenced in open session.

9. Committee Work Programme

Members considered the current draft of the Committee work programme until summer recess.

Members noted the explanation for a further delay in DFP's response on the Review of the Budget Process.

Wednesday, 16 September 2009

Room 152, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)

Karen Jardine (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)

Apologies: None

10.07am As notification had been received that the Chairperson would be late, the Deputy Chairperson took the Chair and commenced the meeting in open session.

9. Correspondence (received since 9 September 2009)

Due to a delay in the arrival of the witnesses for the first oral briefing session, the Committee noted the following correspondence:

- DFP: Budget Process & Monitoring Round Reviews.

Wednesday, 18 November 2009 Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jr MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Fra McCann MLA
Dawn Purvis MLA

10.02am The meeting commenced in open session.

3. Matters Arising

The Committee noted the composite request for information from the Department of Finance and Personnel (DFP) which provided an update on any matters arising not covered elsewhere on the agenda.

Agreed: that the Committee will write to the Minister seeking a firm date for completion of the DFP reviews of the Monitoring Round process and the Executive's Budget process, which have been ongoing for a considerable time and were to be with the Committee before the start of the current Assembly session.

Wednesday, 25 November 2009

Room 135, Parliament Buildings

Present: Peter Weir MLA (Deputy Chairperson)
Simon Hamilton MLA
Mitchel McLaughlin MLA
David McNarry MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Fra McCann MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Jennifer McCann MLA (Chairperson)
Dr Stephen Farry MLA
Adrian McQuillan MLA

10.10am As notification had been received that the Chairperson would be absent, the Deputy Chairperson took the Chair and commenced the meeting in open session.

4. Matters Arising

Members noted that the Chairperson has written to the Minister requesting an update on the completion of the DFP reviews of the Monitoring Round process and the Executive's Budget process.

10.14am Mr Hamilton joined the meeting.

10.14am The Committee moved into closed session.

Wednesday, 9 December 2009

Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Mitchel McLaughlin MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

Apologies: Peter Weir MLA (Deputy Chairperson)
David McNarry MLA
Fra McCann MLA

10.10am The meeting commenced in open session.

8. Committee Work Programme

Members considered the current draft of the Committee work programme until February 2010 and its key priorities until summer recess 2010.

Agreed: that DFP officials be invited to brief the Committee on the outcome of the review of the in-year monitoring round process.

Agreed: that the Committee writes to the Minister of Finance and Personnel expressing its disappointment that no date has been set for his officials to complete the Review of the Budget 2008 – 2011 process and inviting him to brief members on the Review at an early opportunity;

Agreed: to proceed with the second stage of the Committee's three-stage Inquiry into the Role of the Assembly in scrutinising the Executive's Budget and Expenditure.

Wednesday, 13 January 2010 Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Mitchel McLaughlin MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jr MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)

10.06am The meeting commenced in open session.

3. Matters Arising

Members also noted correspondence from the Minister of Finance and Personnel on the Review of the Executive's 2008-11 Budget Process and the Review of Spending Plans for Northern Ireland Departments 2010-11, in which he advised of his availability to brief the Committee on the latter issue.

Agreed: to invite the Minister of Finance and Personnel to brief the Committee on the Review of Spending Plans 2010-11 at a special meeting on Monday 8 February, providing an earlier date cannot be scheduled.

Wednesday, 20 January 2010

Room 135, Parliament Buildings

Present: Jennifer McCann MLA (Chairperson)
Peter Weir MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
David McNarry MLA
Declan O'Loan MLA
Dawn Purvis MLA

In Attendance: Shane McAteer (Assembly Clerk)
Kathy O'Hanlon (Assistant Assembly Clerk)
Karen Jardine (Assistant Assembly Clerk)
David McKee (Clerical Supervisor)
Kevin Marks (Clerical Officer)
Colin Pidgeon (Assembly Research)

Apologies: Mitchel McLaughlin MLA
Adrian McQuillan MLA

10.05am The meeting commenced in open session.

5. Methods of Budgeting (Research Briefing)

The Committee received a briefing on an Assembly Research paper on Methods of Budgeting.

10.44am Mr Weir returned to the meeting.

10.44am Mr McCann left the meeting.

10.59am Mr McCann returned to the meeting.

Agreed: that Assembly Research will provide further information as requested by the Committee during the evidence session.

Agreed: the Committee will forward the research paper to DFP for a response on the options available for improving budgeting methods within departments.

Agreed: the research paper will be included in the body of evidence for the Committee's forthcoming Report on the Review of 2010-11 Spending Plans for NI Departments.

6. Reviews of Budget and In-Year Monitoring Processes (Evidence from DFP)

The Committee took evidence from the following DFP officials: Michael Daly, Head of Central Expenditure Division, Central Finance Group; Fiona Hamill, Treasury Officer of Accounts; Paul Montgomery, Central Expenditure Division, and Joanne McBurney, Central Expenditure Division.

The session was recorded by Hansard.

11.04am Dr Farry left the meeting.

11.24am Mr McNarry joined the meeting.

11.29am Dr Farry returned to the meeting.

Agreed: that a list of issues on the reviews of the budget and in-year monitoring processes is forwarded to DFP for written response.

Wednesday, 24 March 2010

Room 135, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr David McNarry MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Mr Ian Paisley Jnr MLA
Mr Fra McCann MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Kevin Marks (Clerical Officer)

Apologies: Dr Stephen Farry MLA

10.09am The meeting commenced in open session.

8. Committee Work Programme

Agreed: the Committee will commission research on budget processes in other jurisdictions from Assembly Research.

Wednesday, 21 April 2010

Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Jonathan Craig MLA

Dr Stephen Farry MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

10.07am The meeting commenced in open session.

6. Outcome of Review of 2010-11 Spending Plans for NI Departments (DFP Briefing)

Following the evidence session, Members noted that the Committee will receive a briefing on the outcome of DFP's Review of the Executive's Budget Process 2008-11 at its meeting on 12 May.

Agreed: following the evidence session scheduled for 12 May, the Committee will proceed with part two of Stage 1 of its Budget Scrutiny Inquiry, which is to consider and respond to the findings of DFP's review. The Committee will also proceed with Stage 2 of the Inquiry regarding the capacity of the Assembly in budget and financial scrutiny. The Committee will aim to complete both stages in advance of the summer recess.

11.41am Mr Craig returned to the meeting.

Wednesday, 12 May 2010 Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Colin Pidgeon (Assembly Research)

10.09am The meeting commenced in open session.

4. Assembly Research Briefing: Considerations for reform of the budget process in NI

The Committee received a briefing on the Assembly Research paper: Considerations for Reform of the Budget Process in NI.

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

Agreed: to forward the Research paper to DFP for response.

10.53am Dr Farry left the meeting.

5. Review of the Budget Process 2008-11 (DFP Briefing)

The Committee took evidence on the Review of NI Executive Budget 2008-11 Process from the following DFP officials: Mr Richard Pengelly, Budget Director; Mr Michael Brennan, Head of Central Expenditure Division; and Mrs Julie McIlhatton, Central Expenditure Division.

The evidence session was recorded by Hansard.

11.12am Mr Hamilton left the meeting.

11.21am Mr Hamilton returned to the meeting.

11.42am Mr McQuillan left the meeting.

11.48am Mr McLaughlin left the meeting.

11.49am Mr McLaughlin returned to the meeting.

11.56am Mr McCann left the meeting.

11.59am Mr McCann returned to the meeting.

12.00pm Dr Farry returned to the meeting.

12.02pm Mr McNarry left the meeting.

12.03pm Mr McLaughlin left the meeting.

Agreed: that the DFP officials will provide further information as requested by the Committee during the evidence session, and also respond in writing to any follow up issues not already covered.

Agreed: to forward the DFP paper, together with the Assembly Research paper, to the other statutory committees and the Chairpersons' Liaison Group for comment, and to help inform the Committee's forthcoming Inquiry Report.

Wednesday, 2 June 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Jonathan Craig
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan
Mr Declan O'Loan

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Colin Pidgeon (Assembly Research)

Apologies: Mr David McNarry (Deputy Chairperson)
Ms Dawn Purvis MLA

10.07am The meeting commenced in open session.

6. Budget (No. 3) Bill 2010 – Main Estimates 2010/11 (DFP Evidence Session)

Agreed: that the Committee will write to the Minister of Finance and Personnel to seek assurances regarding improved consultation and transparency in respect of future budget processes. The Committee will request an urgent response to help inform its decisions with regard to accelerated passage and support for the suspension of Standing Orders.

7. Assembly Research Briefing: Considerations on a Central Budget Committee

The Committee received a briefing from Assembly Research on "Considerations on a Central Budget Committee".

Agreed: that the Committee will give further consideration to the concept of a Central Budget Committee in its forthcoming reports on the Inquiry into the Role of the Assembly in Scrutinising the Executive's Budget and Expenditure.

The Committee also noted the Assembly Research paper "Resources for Budget scrutiny: preliminary assessment of option costs".

11.25am Mr McCann left the meeting.

11.30am Mr McCann returned to the meeting.

10. Correspondence

The Committee considered the following correspondence:

- DFP: Review of 2008-11 Budget Process

Wednesday, 9 June 2010

Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Jonathan Craig

10.10am The meeting commenced in open session.

4. Budget (No.3) Bill – Consideration of request for accelerated passage and suspension of standing orders

Members also considered correspondence from the Minister of Finance and Personnel responding to the Committee's request for assurances in terms of addressing the need for improved transparency and consultation by departments with their respective Assembly committees as part of the future budget process.

Agreed: to copy the relevant extract of the Minister's letter on the future budget process and the "early draft timetable for Budget 2010 process" to the other statutory committees for information and planning purposes.

Agreed: to request a copy of the DFP guidance in respect of Budget 2010 and the Savings Delivery Plans that was due to be issued to departments in early June.

Agreed: to invite DFP officials to brief the Committee at its meeting of 30 June 2010 on the Department's progress in preparing its return for the Budget 2010 process.

11.14am Mr McNarry left the meeting.

Wednesday, 16 June 2010

Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA

Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Fra McCann MLA

10.06 am The meeting commenced in open session.

7. Inquiry into the Role of the Assembly in Scrutinising the Executive's Budget and

Expenditure – Stage 2: Evidence from Assembly Research and Library Service.

The Committee took evidence from Dr Gareth McGrath, Director of Engagement, NI Assembly Secretariat; and Dr John Power, Head of Assembly Research and Library Service, NI Assembly Secretariat.

The evidence session was recorded by Hansard.

12.40pm Mr McQuillan returned to the meeting.

12.44pm Mr Hamilton left the meeting.

12.54pm Ms Purvis left the meeting.

1.00pm The Chairperson left the meeting and the Deputy Chairperson took the Chair.

Members also noted responses on the Budget Scrutiny Inquiry from the Committee for the Environment and the Committee for Health, Social Services and Public Safety.

1.08pm The Chairperson returned to the meeting and resumed the Chair.

Agreed: that the responses from the other statutory committees will be included in the evidence base for the ongoing Inquiry.

Wednesday, 23 June 2010 Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Mr Jonathan Craig MLA
Dr Stephen Farry MLA
Mr Simon Hamilton MLA

Mr Declan O'Loan MLA
Mr Fra McCann MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Christopher McNickle (Clerical Officer)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Ms Dawn Purvis MLA

10.31am The meeting commenced in open session.

The Committee agreed to return to agenda item 4.

8. Second Report on the Budget Scrutiny Inquiry – Consideration of Draft Report

11.55am The meeting moved into closed session.

Members considered a working draft of the Committee's Second Report on the Budget Scrutiny Inquiry.

Agreed: that the draft Report will be amended, taking account of points raised, and will be brought to the Committee for formal consideration at next week's meeting.

The Committee also considered a response from the Committee of Culture Arts and Leisure on the Inquiry.

Agreed: that the correspondence is included in the evidence base of the Inquiry Report.

Agreed: that evidence sessions with the Strategic Investment Board and appropriate DFP officials will be scheduled in the autumn to seek clarification on the roles and responsibilities in respect of capital allocations and the delivery of the investment strategy.

12.21pm The Committee moved in to open session.

Wednesday, 30 June 2010
Room 135, Parliament Buildings

Unapproved

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Jonathan Craig MLA
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA

Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Miss Leanne Johnston (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Colin Pidgeon (Assembly Research)

Apologies: Mr David McNarry MLA (Deputy Chairperson)

10.04am The meeting commenced in open session.

4. Second Report on the Budget Scrutiny Inquiry

The meeting moved into closed session at 10:08 am.

The Committee undertook paragraph-by-paragraph consideration of its draft Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure.

Agreed: that paragraphs 1-5 stand part of the Report;

Agreed: that paragraphs 6-7 stand part of the Report;

Agreed: that the following sentence is added to paragraph 13:

"The Committee considers this should have been the case as a matter of course."

Agreed: that "and robust" is added to paragraph 14;

Agreed: that paragraphs 8-14 as amended stand part of the Report;

Agreed: that paragraphs 15-19 stand part of the Report;

10.14am Mr McQuillan joined the meeting.

Agreed: that paragraph 25 is amended to refer to "regularised annual budgetary review process";

Agreed: that paragraphs 20-28 as amended stand part of the Report;

Agreed: that the following sentence is added to paragraph 37:

"The Committee found that good practice would indicate a period of 2-4 months should be provided for in this regard".

Agreed: that paragraphs 29-37 as amended stand part of the Report;

Agreed: that paragraphs 38-42 stand part of the Report;

Agreed: that paragraphs 43-46 stand part of the Report;

Agreed: that paragraphs 47-51 stand part of the Report;

Agreed: that paragraphs 52-56 stand part of the Report;

Agreed: that paragraphs 57-60 stand part of the Report;

Agreed: that the following sentence is added to paragraph 63:

"The Committee also recommends that departments should publish the results of the equality screening undertaken in respect of each spending proposal in fulfilment of the duties imposed by Section 75 of the Northern Ireland Act 1998."

Agreed: that paragraphs 61-63 as amended stand part of the Report;

Agreed: that paragraphs 64-66 stand part of the Report;

Agreed: that paragraphs 67-71 stand part of the Report;

Agreed: that paragraphs 72-79 stand part of the Report;

Agreed: that paragraphs 80-85 stand part of the Report, with a minor amendment to paragraph 82;

Agreed: that paragraph 86 stands part of the Report;

Agreed: that the final sentence in paragraph 88 is amended as follows:

"As such, the Committee believes that the Executive must bring forward proposals for improving the arrangements both for promoting and funding collaborative working by departments and other public bodies and for measuring and monitoring performance in this area."

Agreed: that paragraphs 87-88 as amended stand part of the Report;

Agreed: that paragraphs 89-91 stand part of the Report, with a minor amendments to paragraphs 89 and 91;

10.28am Dr Farry left the meeting.

10.28am Mr Craig left the meeting.

Agreed: that paragraph 92 stands part of the Report;

Agreed: that paragraph 93 stands part of the Report;

10.29am Mr McCann left the meeting.

Agreed: that paragraphs 94-101 stand part of the Report;

Agreed: that the Executive Summary stands part of the Report, with a minor amendment to the penultimate paragraph.

The Committee noted the response on the Inquiry from the Committee of the Office of the First Minister and deputy First Minister (OFMDFM).

Agreed: that the correspondence is included in the evidence base of the Inquiry Report;

Agreed: that the Appendices stand part of the Report;

Agreed: that the extract of the unapproved Minutes of Proceedings of today's meeting is checked by the Chairperson and included in Appendix 1;

Agreed: that the Report, as amended, be the Fourth Report of the Committee for Finance and Personnel to the Assembly for session 2009/10;

Agreed: that the Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure be printed.

Members noted that, in line with normal protocol, a typescript copy of the Report will be issued to DFP and two typescript copies will be laid in the Business Office in advance of printed copies being made available.

The Committee agreed the following draft motion to debate the Report in plenary:

"That this Assembly approves the Second Report of the Committee for Finance and Personnel on its Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure; and calls on the Minister of Finance and Personnel, in conjunction with Executive colleagues, to implement, as applicable, the recommendations contained therein".

The Committee noted that, in line with normal protocol, the Report will be embargoed until the date of the debate in plenary.

The Committee noted that, arising from the research undertaken for the Inquiry, the Assembly Researcher, Colin Pidgeon, had been invited to make a written submission to the Australian Senate's Parliamentary Office Bill 2010.

Agreed: that an embargoed copy of the Committee's Report could be forwarded to the Australian Senate as part of the Researcher's forthcoming submission.

Members discussed preparations for the Third Report on the Budget Scrutiny Inquiry, which would focus on the resources available for supporting Assembly committees and Members in undertaking budget and financial scrutiny. The Committee staff would continue drafting the report for consideration by the Committee following summer recess.

Agreed: the broad basis for the Committee's forthcoming recommendations and upon which the Third Report will be prepared.

10.35am The meeting moved into open session.

Appendix 2

Minutes of Evidence

20 January 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr David McNarry
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Michael Daly
Mr Paul Montgomery Department of Finance and Personnel
Ms Joanne McBurney

1. The Chairperson (Ms J McCann): I welcome Michael Daly, head of central expenditure division; Paul Montgomery, central expenditure division; Joanne McBurney, central expenditure division; and Fiona Hamill, Treasury Officer of Accounts. I invite you to make some brief remarks before we go to members' questions.

2. Mr Michael Daly (Department of Finance and Personnel): Thank you, Chairperson. We are here to brief the Committee and take questions primarily on the review of in-year monitoring arrangements. The Minister provided a paper to the Committee before Christmas. It is fairly straight forward in that the report deals mainly with the short-term recommendations that we will implement. That is not to say that there will be a further review of in-year monitoring in the longer term. However, a lot more has to happen. Rather than go through the paper in detail, I am happy to take questions on it.

3. Mr F McCann: What flexibility do Departments have for addressing pressures from existing budgets rather than relying on the in-year process? What scope exists for providing further flexibility in that regard?

4. Ms Joanne McBurney (Department of Finance and Personnel): Currently, Departments are allowed to retain any de minimis reduced requirements; that is amounts below £500,000. For anything above that amount, Departments are free to move money within spending areas, which is the level that the Budget document is published at. However, they must have DFP approval to do so.

5. Movements crossing the spending areas shown in the Budget must go to the Executive if they are above £500,000. Departments are allowed to move money between spending areas if they can provide evidence that it is a proactive management decision that they have made to slow or stop spending in one area in order to meet a pressure arising in another area. The Executive then approves those as part of the in-year monitoring rounds.

6. Mr F McCann: The same bids for the same items come up in every monitoring round. Does that show a lack of understanding of such a bid, or its importance? If a Department bids for assistance, it is obviously because it attaches a high level of importance to its request.

7. Mr Daly: The member touched on the answer. When a Department bids, it is for something that it considers that it cannot meet from its existing resources and it looks to the centre to provide that room to manoeuvre. However, when the Finance Minister makes his

recommendations, the Executive have to look across all of the bids that are in. It is inevitable that, although some bids are very important for a given Department, in the overall package put forward in that monitoring round, a lot of those bids will be of lower priority. Hence, the Department will submit that bid again at the next monitoring round, and, if it fails again, it will continue to submit it.

8. That is one of the weaknesses in the monitoring round that we have spelt out in our paper. It is almost a disincentive for Departments to try to deal with some of those issues internally, because there is always an expectation that they might get lucky at the next monitoring round, so they keep putting in the same bids. Departments will sometimes feel that by taking any steps to address a bid in-year will compromise their chance of getting any further assistance for the monitoring round. That is really about it, it is a combination of those two effects. Unless we have been given the wrong information, a lack of understanding of the bid will not be the reason for it failing, it will be that, in the overall assessment, the bid is deemed to be of a lower priority within the available resources for distribution in that monitoring round.

9. Mr F McCann: When the Department of Finance and Personnel sees the same bid recurring, does it tell the relevant Department that it is the fifth or sixth time that the bid has been submitted and that it would be better met from within the Department's existing budget?

10. Mr Daly: The normal challenge role from my colleagues in Supply division would be to bottom out those issues with the Department and try to press it to fund the bids internally. However, if a Minister believes that the bid must go to the centre that is where it comes.

11. Ms Purvis: Paragraph 1.4 of the paper submitted to the Committee by the Department of Finance and Personnel states that:

"A further issue in terms of the broader financial management agenda"

is, ultimately, to move to a focus on output and outcomes. Did the review find that there was not sufficient focus on outputs and outcomes?

12. Mr Montgomery: We have noticed that the in-year monitoring process focuses on funding requirements, as opposed to what is delivered. The general perception is that the focus was on the amount of spending that was needed, as opposed to what was delivered and whether there was a better way to deliver than calling upon Executive resources.

13. Ms Purvis: Was the weakness found in the present monitoring round process the extent to which funding needs do not consider outputs, funding comes first?

14. Mr Montgomery: It is not that we do not consider outputs. It is simply that the information is either not available in respect of the Programme for Government or that a lot of targets are not particularly output based and fail to meet the smart criteria — specific, measurable, agreed and realistic.

15. Ms Purvis: Would one way of looking at that be to include the PSA or the Programme for Government targets in bids?

16. Mr Montgomery: Yes, that is where it is at.

17. Ms Purvis: Paragraph 1.4 also states that moving to an outcome-focused:

"will be dependent on departments having adequate management skills".

Is there a skills gap? If so, what is it?

18. Ms Fiona Hamill (Treasury Officer of Accounts): A strengthening of the financial skills that exist in Departments is required. The Committee will be aware that the Civil Service has come through a radical period of reform over the past 15 years, and there has been a move from a basic cash-base system to a sophisticated financial system. In the initial years, Departments focused heavily on traditional accounting skills.

19. As that has bedded in, we have recognised that we need to develop the business support financial skills in Departments and the ability to robustly and radically challenge the financial requirements that are coming through Departments. We are working on that and looking in detail at how we can build up those skills. We have recruited one cadre of accountants who have a specific set of skills, and we need to broaden those skills. We also need to develop non-professional skills within Departments. We are working on that programme. We have developed new training, and we will continue to do so over the next couple of years, within the context of the financial environment into which we are heading. We cannot develop high-cost training programmes, because Departments will not have the resources to send staff on hugely expensive exercises. However, we need to start to develop. We want to make financial skills instinctive and ensure that every part of a decision goes through a Department, rather than as it is now, where, it could be argued, the decisions are floating up round the finance function and senior staff.

20. Ms Purvis: It is a crucial and intense piece of work. In the previous session, Mr O'Loan talked about improving communication between Departments and the Department of Finance and Personnel. If those skills exist in Departments, that communication will be improved.

21. Ms Hamill: That is correct.

22. Ms Purvis: Paragraph 2.3 of the report refers to the approach adopted by Whitehall Departments. They keep a reserve in their initial budgets to meet emerging pressures. Is Whitehall or Northern Ireland's system most effective? Is the same approach taken in other jurisdictions?

23. Mr Daly: I do not know the position in the other jurisdictions, but Mr Montgomery might come in on that. The general feeling around the system at the moment is the question of whether to have monitoring rounds. If we do not, and the Executive want to be in a position to meet emerging pressures, as I said last week, there are two ways to do so. First, we could scale back on the existing programmes, or, in other words, cut Departments to meet that. Secondly, we could hold back a contingency fund at the start. The difficulty with holding back a contingency fund is that, from the outset, there is available expenditure which is not delivering services. It is a question of how much to hold back and how long it should be held back for. Do you take £50 million or £100 million and hold it back for the entire year? Or, do you start to work it out of the system as you approach the end of the year? If you opt for that, what do you do if you get to the end and something happens?

24. From talking to officials in other Departments, as part of our ongoing look into the future on the issue, the balance seems to be towards monitoring rounds as a good way to do this. However, as we have discussed at the Committee already, as financial management skills improve and as budgets become tighter, the degree of room in which to manoeuvre that will emerge in monitoring rounds will make it more difficult.

25. Therefore, we have not made a final decision, but that is the key question: whether to deliberately hold back money that could be better used on the ground. To date, the Executive's view has been to get the money out on the ground or, in respect of using the overcommitment,

get more on the ground and work the overcommitment out of the system by the end of the year, rather than what would, in effect, be an undercommitment.

26. Ms Purvis: Given that there has been a trend towards lower levels of underspend and the need to remove the overcommitment provision, do you think that Northern Ireland is likely to move towards the Whitehall model?

27. Mr Daly: I do not have a view on that, because I can see disadvantages in it. As I said earlier, it means taking a sizeable amount of money out of the system at the start of the year.

28. Mr Hamilton: Before reading the paper, I thought that there was a need for a radical reform of the in-year monitoring process. I thought that it could be effective at times, but, at other times, far from effective. By reading the paper and balancing both arguments, I see that it is far from perfect, but we need something like that to continue. You can tinker around the edges to try to make it more effective, but at this time something largely similar to what is there is probably best.

29. I know that there are process issues and that Departments feel that when they finish one monitoring round, they are into another. There are communication issues, issues with Committees and issues with the scrutiny or, sometimes, the perceived lack of it. There has been criticism that monitoring rounds do not allow for fundamental changes, that bids must be within certain parameters and that it is difficult to adapt to big issues that fall outside the Programme for Government.

30. Most of the criticism in the past number of years has been that people have perceived that the system is ineffective because it does not allocate large amounts of money. That view does not stack up with the figures because, in the past two years, over £1 billion has been allocated. Most Assembly Members' view of the monitoring rounds is characterised by the past few rounds, which have not redistributed much money. There are many positive reasons for that such as better management of existing resources by Departments and good financial management. Moreover, there are bad reasons such as the fact that pressure on Departments has meant that they must spend all their money. The fact that the Health Department has first call has put pressure on the amount that can be distributed.

31. However, the biggest problem is overcommitment. If overcommitment is reduced to the point where it does not exist, I assume that more money will be available to distribute. Without that overcommitment, an additional several hundred million pounds could have been allocated through monitoring rounds in the past couple of years. Although I do not know the budget for future years, I presume that that is still the case. If the overcommitment issue is addressed, there will be more money to redistribute. That might tackle that perception that monitoring rounds are not effective because they are not distributing money.

32. Mr Daly: That is the expectation. We met the Committee last week to discuss the December monitoring round. The prime objective is to reduce the overcommitment to a manageable level. If overcommitment is zero in future years, when resources are declared surplus at a monitoring round, they will immediately be available for redistribution rather than being the first call on an overcommitment.

33. Mr Hamilton: That is part of the problem; DFP has to store money for winter to tackle the problem and is not giving it out. MLAs and Departments say that the process is no good because they do not receive any money.

34. Mr Daly: That is it; when an overcommitment is set at the start of the year, there may be a perception in some areas that nothing further happens. However, I assure you that colleagues

work actively throughout the year to reduce the overcommitment to zero by the end of the year. That is a difficult process, because one must anticipate the outcome of the next monitoring round and, therefore, a prudent level to get to now. The only information available is the historic information, which, as we know, is not necessarily a good predictor of the future because the scenario changes all the time.

35. Mr Hamilton: There has been a lack of understanding of the severity of that problem and the difficulty that it poses for in-year monitoring. I hope that, when it is gone, there will be no problem.

36. Ms Purvis: Given that lower levels have been allocated in recent monitoring rounds, is there a risk that Departments will build that into their budgets so that it is not possible to be sure of the baseline as a true figure? They might feel that, because less money is being allocated, they need to hold onto it and store a wee bit more.

37. Mr Daly: There is always a suspicion that Departments might be attracted in that direction. However, the other side of the public spending directorate is our supply colleagues. Part of their job is to scrutinise and challenge Departments on their budget position on an ongoing basis. If there is any slack in the system, they try to get a good understanding so we can ensure that those reduced requirements are surrendered at monitoring rounds. That is the purpose of the programme of baseline reviews that they are taking forward at the moment.

38. Mr Weir: My contribution is more of a comment than a question. An examination is under way to ensure that we get the processes and strategy right.

39. Looking at the last handful of monitoring rounds, I appreciate that over the last couple of years the public sector has been in a very different position financially as a result of the recession. I welcome the progress that has been made to date. Looking at it in the longer term, I feel slightly guilty about it. For my sins, I was a member of the Finance Committee during the first Assembly. I remember that monitoring rounds at that stage returned, on a quarterly basis, tens of millions of pounds that had not been spent. There was not a proper control over this in the Departments. I do not know whether you were DFP officials at that stage, but on each occasion when those sums, of vast and embarrassing proportions, were up for reallocation because they could not be spent, there was always an alibi or excuse from the DFP officials, to the effect that that quarter was a unique occasion, or the sum excessively high; yet, curiously, the following quarter, it tended to be something not dissimilar. Whatever further work there is to be done, it is good that we are in a process of continuous improvement. A few adjustments should still be made, but we should acknowledge the fact that processes are massively better, both from the point of view of the Executive and the DFP. They ensure that there is a focus on spending money as originally intended.

40. Mr O'Loan: Thank you very much for your report and useful investigation. I want to say a number of things to which you may or may not want to respond, and they include a degree of questioning. My starting point is that we should have a more in-depth review of the Budget on an annual basis. Had we done that over this three-year period, there would be fewer issues to discuss during the monitoring rounds. If we take an overview of how finances have been handled and the public perception of that, it does not look good. It does not look like a well-managed process; it looks too much like flying by the seat of one's pants. We see mountains ahead, and we must adjust the aircraft to dodge the peaks: that kind of thing. Not every media report is accurate and I do not claim that every politician is accurate either.

41. Mr Daly: This is being reported by Hansard.

42. Mr O'Loan: Nonetheless, there is a problem there. I was glad that you exceeded your terms of reference, which were simply

"to improve the contribution of the in-year monitoring process".

43. You discussed whether we should abandon the process. I do not agree that you can abandon it. With respect to the previous speaker's comments, there has to be such a process. To allow every Department to hold onto what money it gets and to allow it, when a programme disappears, to absorb the funds in some other activity, does not allow sufficient examination of relative priorities. There has to be such a system. However, I do not think there is sufficient scope for dealing with contingencies. The reserve system, the mechanism for making allocation, the decision of what tests one uses and when that test is applied in-year: all need more thought. The present situation creates very difficult situations and bad perceptions. One will always hit the doldrums such as swine flu, the redundancies at Bombardier and the major issue of carving £370 million out of the Budget for next year.

44. I have one or two other thoughts. You talked about removing the June monitoring round. You said that its primary function was dealing with EYF. However, if one prepared the annual Budget better, would not EYF be clear at the outset? That issue should be taken out of the equation, and then, eventually, the idea of removing the June round might be considered.

45. I worry about the amount of money that comes up late in the year, around February, when it may be late to reallocate it well. In the previous session, we talked about the culture between DFP and other Departments. Is the information coming from Departments? Do they flag up the fact that there is a potential problem and that they may not be able to deliver, or does it suddenly arrive on DFP's plate that they are declaring it as a reduced requirement? If so, that is not satisfactory.

46. We talked in the previous session about zero-based budgeting. I do not have a lot of faith in the idea that we are capable of performing all the analysis required for zero-based budgeting. I wonder if you need an independent review of departmental performance on some sort of selective basis. I am staggered that the report states that bids that are made in monitoring rounds are not assessed against Programme for Government targets. I would have thought that that was absolutely fundamental for prioritisation. Therefore, my overview is that the issue should by no means finish here. We need to give further consideration to the quality of the process and bring a lot more into that debate on the issue of trying to create some reserve to deal with contingencies.

47. Mr Daly: As I said at the outset, these are the short-term, more immediate recommendations, which we will implement. However, there is an acknowledgement that as we move forward and financial management ability and systems improve, we will have to return to the scenario. I will not try to pick up on all the points that you made because there was quite a bit there. However, with regard to the June monitoring round, ideally it should be a technical round, which deals with small issues rather than major reallocations. However, in practice, that is not always the case. Last year, there was the deferral of water charges and next year we will have to deal with capital receipts. However, all things being equal, that is what it should be.

48. As regards the EYF point, although we will know in advance the overall profile of drawdown of EYF, as was the case with the 2008-2011 budget, not all EYF was allocated at the outset. Therefore, there is still a decision to be taken as you move into the year.

49. In respect of the linking of Programme for Government targets to in-year monitoring bids, that is something that we have in place at the moment.

50. Ms McBurney: We ask Departments for information on the impact that any bid, reduced requirement or proposed linkage between spending areas will have on their Programme for Government targets. However, you are saying that we need to take that a bit further in the review and have better output-based measures to allow us to develop that, rather than not doing it at all. It simply needs to be developed further.

51. Mr Daly: I take the point about zero-based budgeting, because its starting point must be whether we even need to bother doing it, so, for example, do we need to have schools or hospitals. Clearly, we cannot simply say that we are not going to have those facilities. Therefore, to a certain extent, programmes on current expenditure will change at the margins, but that marginal change should be related to changes in output and not just a roll forward and something for inflation. However, as regards an independent review, that is the purpose of the baseline review that colleagues are involved in. Selected areas where our colleagues in supply will try to get in beneath the budgets will improve their challenge role to try to ensure that that independent challenge is provided to assist in the improvements in value for money, delivery of output, sufficiency and that sort of thing.

52. The Chairperson: The Committee has been trying to get a sense of how the review of the 2008-2011 process will inform any future Executive budgeting process. Can the Department offer an indicative date of when it is going to set out its proposals for a future process?

53. Mr Daly: As the Minister pointed out, we had intended to have the review of the generic budget process done last summer, but, for various reasons that I will not go into now, it was delayed. At the moment, the small team that was working on the review is actively working on the 2010-11 revised budget process.

54. Once we get that out of the way, my intention is to get that done very quickly. I appreciate that the Committee wants to take delivery of the final position, as it will help inform the arrangements in the Assembly, and although I cannot give an indicative date I hope to have it completed in March 2010. However, before it can be done the 2010-11 process must be completed.

55. Ms Purvis: A recent Public Accounts Committee report considered the alignment of the PSA in the Programme for Government. Given the focus on outputs and outcomes, are the existing financial systems in Departments and Account NI sufficiently aligned with PSA targets and indicators to provide the necessary management information on inputs, outputs and outcomes?

56. Ms Hamill: I can speak to Account NI on that issue. However, all Departments now work off the Account NI financial system, which has been built to map across and provide output for the CED systems from financial accounting to public sector spending. How that information is mapped to specific PSA targets is the responsibility of individual Departments, but the system is certainly capable of doing it.

57. Ms Purvis: The outworking of that remain to be seen.

58. Ms Hamill: It does.

59. Departments are really only new owners and developers of the Account NI system, but they will learn the system and how to make it work. I was the director of technical implementation on the programme, and I am confident that it is competent enough to handle that in the medium to long term as Departments learn their requirements and become able to specify their requirements.

60. The Chairperson: Thank you.

12 May 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan

Witnesses:

Mr Michael Brennan
Mrs Julie McIlhatton Department of Finance and Personnel
Mr Richard Pengelly

61. The Chairperson (Ms J McCann): I welcome Richard Pengelly, budget director of the central finance group, Michael Brennan, head of central expenditure division, and Julie McIlhatton from central expenditure division. You are very welcome. We have already received a detailed paper from you, so I invite you to make some opening remarks, after which members will have an opportunity to ask questions.

62. Mr Richard Pengelly (Department of Finance and Personnel): The Committee received a detailed paper in the past couple of days, which the Minister has cleared. The best that I can do today is to try to contextualise the review of the Northern Ireland Executive Budget process 2008-11. The origins of the review date back to the restoration of devolution in May 2007. Although the Executive and the Assembly adopted the Budget process at that stage, it was one that had started many months before, under direct rule, and it was difficult to make a substantive change in direction in those circumstances. However, when that process came to an end, we felt that it was important to take stock and review it to ensure that it met the needs of the Assembly. The Executive endorsed that view in March 2008, and we started the review.

63. Unfortunately, the difficulty from March 2008 to now has been that, while we began data collection and a series of interviews and meetings with all stakeholders — and there was a useful contribution from the Committee — the last Budget process, which was initially due to conclude with a draft position being outlined in September, ran on. Indeed, it was fully adopted by the Executive and Assembly only recently. That was the main reason for the delay.

64. Overall, there is a strong alliance between the recommendations in the report and the points that the Committee made. One recommendation focuses on the need for more transparency around PFI deals and borrowing. That is purely a logistical issue. At the time when the Budget is concluded, we do not have that information available; it only becomes available later. When an allocation is made, it is not subject to a certain procurement methodology. Our view has always been that that would be too dogmatic. Once an allocation is in place and a project can move forward, a detailed business case is assessed by the relevant Department. Information on that is currently published as part of the Estimates; so it is available.

65. That is a quick overview. Committee members have the report, so, rather than listen to me ramble on, members may want to ask questions.

66. Mr McNarry: The review and the report are extensive, and they are all the better for that. It is interesting that there is a section entitled, "Next Steps". I am glad to know that you are thinking about the next steps. That section mentions the expected reduction in the level of resources available for allocation in the coming years. We must bear in mind that the forthcoming process for the Executive's 2010 Budget will cover the period 2011 to 2014, which, in itself, may be significant. It is different to the standard approach. What are the bones of that paragraph? What might it mean in practice?

67. Mr Pengelly: In practice, it differentiates between what we call the Budget 2010 process, which we are now starting, and a standard Budget process. The review focused very much on what a devolved generic Budget process should be like in a steady-state environment. Obviously, any local process is heavily influenced by the position at national level. Let me outline what would typically happen at national level with a national spending review that is to conclude in 2010. Work on the spending review would probably have started in the autumn of 2009, and significant work on the forecast position would have been carried out; it would be well-advanced. There would be a national announcement in July 2010, and the local process would really gain momentum because there would be a definitive quantification of the position. We are way behind in the 2010 Budget process because of the election and other issues. What that means in practice for this year is that, in the next couple of days, we will be starting discussions with the Minister of Finance and Personnel on how to take matters forward. We will bring something forward quickly both to the Executive and the Committee.

68. Mr McNarry: I understand why you will be talking to the Minister in the next couple of days. However, in the context of the review, are you implying that it is not your intention or plan to have an annual Budget process during the three years? Is that part of your forward planning?

69. Mr Pengelly: Again, it will depend on what happens at national level. There is normally a three-year position at national level. Last time, the Executive's conclusion was to put in place a three-year Budget. This takes one into the conceptual debate about whether long-term budgeting is better than short-term budgeting. The view at that time was that a three-year set of plans was better than an annual plan. The actual decision about what happens for 2011-12 to 2013-14 will be determined, but if there is only a one-year outcome at national level, there will be only a one-year position here.

70. Mr McNarry: This may not be your fault; it may be as a result of circumstances dictated by the national electorate. However, we have a new Government — I do not know for how long — that are going to stick to a fixed period. They might operate differently.

71. Mr Pengelly: Yes; very much so.

72. Mr McNarry: How influential will that be when it comes to your response? If your mindset had been that with the Labour Government there was a three-year Budget; that might change now. Therefore, do you perceive any difficulties? Will you be able to respond in time to shorter periods?

73. Mr Pengelly: Yes. The process that we have set out will be a Budget process. Whether it covers the next year or next three years; that process will stand. It simply means that if a new Government go to one-year budgeting, we will have to run that process every year.

74. Mr McNarry: Do you think that it would be better for the system here if we go to one-year budgeting?

75. Mr Pengelly: Ultimately, it is a view for the Executive. As far as the technical aspects are concerned, assuming that the process runs and we get a conclusion in December 2010, the 11

or 12 Departments would much prefer to know their resource position for the next three years for planning, continuity of services and knowing how they can deliver those services, rather than one year and having to make sense of what is in place for years two and three.

76. Mr McNarry: Would it put pressure on the Departments if they had to go annually?

77. Mr Pengelly: It might put negative pressure on the Departments, because they would start to think short term rather than long term. Experience suggests that longer term planning delivers more stability, more efficiency and better provided resources. The caveat with the three-year position would be that one would not want to categorically lock out the option of review in years two and three. The issue is that a review could conclude years two and three as originally set without adjustment, or there might be a need for adjustment.

78. Mr McNarry: I understand that. I am interested in how the Departments would cope with the pressure. If there is a mindset of having a three-year Budget period and working to that period, is there a professional attitude that if it has to be done in a year, then it will be done in a year? I want a positive answer on that. Can we mirror the rest of the rest of the United Kingdom and have no casualties in respect of how the policies are driven. The public want to hear what our delivery is. Are the Departments up to adjusting to what they may be asked to do? I realise that this is a hypothetical question. However, if the new Government produce a Budget in 50 days, and I think that they will do so, are we already thinking about what might be included? We may have to adjust in 50 days rather than in a year or whatever.

79. Mr Pengelly: There are two parts to that question. First, I think that the Departments are up for it: I think we can do it. At the start, I mentioned the uncertainty and the national political decision.

80. Mr McNarry: You have sat here with respect to PEDU issues, and I have been fairly supportive of your frustrations. That is why I am asking you whether the Departments are up for it. I am not criticising the abilities of Departments, but it seems to me that they have not been forthcoming in seeking guidance and help. There has to be teamwork.

81. Mr Pengelly: We had a very good session on PEDU recently. However, the main issue with PEDU is partly the fear factor and the reluctance, primarily at ministerial level, to engage with PEDU as a concept.

82. Mr McNarry: Do not talk to me about the fear factor when we are going into the unknown and a Budget in 50 days that has people scared out of their wits.

83. Mr Pengelly: It is the fear of what PEDU might do. Understandably, Departments look to the Audit Office. However, I differentiate between a slight reluctance to engage with PEDU and the Departments' ability and capacity to engage once they get past that. I do not doubt that the ability, capacity, mindset and professionalism are there.

84. You referred to the Budget in 50 days, which was confirmed this morning. Obviously, the Treasury was very quiet on that matter throughout the election period. However, the latest forecast is for £6 billion of reductions. Clearly, it will depend on how that amount is applied, and there are issues around protection for the health budget, although that protection is fairly poorly defined. We estimate that it would mean reductions of between approximately £100 million and £200 million to the Executive's Budget in the current financial year. I would avoid dismissing that sum as being a small percentage of £8 billion and therefore doable. A reduction of £100 million to £200 million is a significant amount of public services.

85. Mr McNarry: I would prefer it to be between £60 million and £100 million, because there is a considerable gap between having to absorb reductions of £100 million and reductions of £200 million. Absorbing the latter is going to hurt.

86. Mr Pengelly: That would be the worst-case scenario, and we hope that the figure will be considerably smaller than that. Several months ago, our Minister wrote to his Executive colleagues in light of the emerging forecasts. Although no work has been commissioned, and in the absence of knowing the specifics, the Departments have been given notice at ministerial and official level that they need to start thinking and be ready to move very rapidly with proposals on how we will achieve this.

87. Mr McNarry: In light of what you said, and given what we do not know and the speculation around what might happen, do you think that it is worthwhile entertaining at least the argument that this upcoming period of public expenditure constraints will necessitate regular Budget reviews to see us through the next two years?

88. Mr Pengelly: I understand your point. However, there is an equal argument that, when facing a period of constrained public expenditure, longer-term planning becomes all the more important. When resources are constrained, there is not enough money at departmental level to do all the things that one wants to do. Therefore, phasing becomes all the more important. To be able to say that we may not be able to do all the things that we want in year 1, but that we have been able to phase them in through firm plans for years 2 and 3, offers coherent government and public services.

89. Mr McNarry: Mr Pengelly, I am now hearing you recite the same opinions that you gave when we talked about cuts, and this is nothing to do with what has happened nationally. We were talking about cuts and holes in the Executive's Budget, which you dismissed as not being there. Last week, it was pressures; now you are talking about phasing. I, along with many others, have talked consistently about reprioritising. With what we are now facing, and with the responsibilities we have as elected representatives, we are, to use your terminology, the fear factor among the public concerning the impact on jobs, particularly public sector jobs. When I was knocking on doors, I met many people who could be described as junior civil servants. They have that fear factor and are facing the unknown.

90. I would like the Department to plan the steps that we need to take. The fear factor must be addressed for people who are worried about their jobs and all the things that go with that, such as family, mortgage, etc. We need to be more specific in getting that message out.

91. We do not know what will be in the Budget in 50 days, although we have a fair idea, and we are not sure if we will have the luxury of planning the Budget three years in advance or whether we will have to have an annual one. Nevertheless, we know what the problems are; so I am merely wondering whether they can be addressed over one or three years — within 12, 24 or 36 months. The political establishment should translate and send a message to Mr and Mrs Public, who are anxious, to potential investors, and, indeed, to everybody that this is what we are in for and that we all have to work together to pull out of the recession,. Do you anticipate that sufficient information will flow out in good time to enable us to make a quick assessment of where we will be hit?

92. Mr Pengelly: As I said, we have commissioned Departments, individually and at business-area level, to look at likely implications, and we have tried to create some scenarios. Departments have been working on the information, and it will flow quickly. It is one thing to have the information, but it is another to brigade it across the block grant and consider the priorities and tough choices that will have to be made. The example that you gave is stark but

good with respect to one year versus three years and with respect to the employment stability of junior staff, which is obviously —

93. Mr McNarry: I was talking about nurses; I was talking about how it will affect everyone really.

94. Mr Pengelly: I was saying that it is fundamentally important, particularly in these difficult times, to keep an eye on the longer term. We can deal with the issues for 2010-11, but if we now look at the employment position for 2011-12, 2012-13 and 2013-14, we can say, because we will have done the hard work and analysis for those years, that they will be difficult times, and that the way to deal with that is to rely on natural wastage and reduce recruitment and promotion targets. Taking such steps now will be much less painful than it will be if we just deal with the short term now and do not look at those years. Then, the only way to take costs out of the system will be rapid and uncomfortable downsizing through redundancy schemes. Longer-term planning allows one to see and plan for future issues.

95. Mr McNarry: I return the final paragraph? Under the heading "Next Steps", the review refers to delay and uncertainty around this year's spending review, which is what we have been talking about, and the implications for the timing of the implementation of some of the recommendations that you are making. Although you have made recommendations, which I welcome, you need to point out the ones that you expect to be delayed. You have said that that will happen: will you tell us which recommendations we need to score out because they will be delayed?

96. Mr Michael Brennan (Department of Finance and Personnel): One key issue in the report, for example, is early engagement and consultation with the Committees on constructing a future Programme for Government —

97. Mr McNarry: Let us just deal with the question. You put down recommendations and you pointed out that some of them will be delayed. Which ones will be delayed?

98. Mr Pengelly: I will go through each recommendation quickly and say whether it is something that we can do.

99. Mr McNarry: I hope you are not going to delay all 14. If you tell me which ones will be delayed then I will know which ones will not.

100. Mr Brennan: The point I was going to make was that there is a recommendation about early consultation and engagement with the Committees. A key issue is whether we are going to have a one-year or three-year Budget process. We are awaiting clarification from the new UK Government as to what is going to happen. Hopefully, when the new Budget is produced in 50 days there will be some indication within that Budget of what lies ahead in relation to the new spending review.

101. Mr McNarry: Michael, I know all of that, and I know the process, etc. However, when people write a report — and it is a good, extensive, useful and helpful report — and it states that it expects that some of the recommendations will be delayed, that means that people had a reason for writing that even before the election results were known, and before the 50-day stuff etc. Can you tell us what are the —

102. Mr Pengelly: As regards recommendation 1, which is about the exercise at the start of the process; we are doing that. It may be delayed, because ideally we would do it at the start of the calendar year. It is now May. At this stage, I would include that as being highly desirable. If the reality now is trying to work out how Departments deal with something —

103. Mr McNarry: We are talking about re-prioritising those recommendations.

104. Mr Pengelly: Therefore, there is a question mark against recommendation 1. As regards recommendation 2, the Programme for Government is ultimately the function of OFMDFM. Therefore, the recommendation will need to be considered by Ministers in OFMDFM, so we can offer no concrete guarantees about how they will respond to that. On recommendation 3, we will clearly set out a timetable as soon as our Minister has taken it to the Executive. In an ideal situation it would be earlier than May or June.

105. Mr McNarry: Perhaps I will rephrase the question, and I do not intend to bounce you on it. On reflection, will you write to the Chairperson of the Committee, if members agree; and could we have that correspondence in time for the next Committee meeting detailing the suspect recommendations that could be delayed? You have already said that some will be delayed.

106. Mr Brennan: What you might find helpful are the action plans on each of the 14 recommendations that we are just finishing off. They give progress reports and reasons for delay, and will directly address your concerns on each of the 14 recommendations and give you detail on where we are.

107. Mr McNarry: Could we have that for next Wednesday?

108. Mr Brennan: We have to clear it with our Minister; it is subject to his approval.

109. Mr Pengelly: We will convey your request for it to the Minister and get it to you as soon as possible.

110. Mr McNarry: It would be very useful to enable us to work with you. We are going to be facing very difficult times, and we need to pull together.

111. Mr Brennan: The action plans will include considerable detail on each of the 14 recommendations, so that you can see exactly where we are.

112. Mr McNarry: Thank you.

113. Mr F McCann: Recommendation 1 on page six states that:

"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)... 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."

What will that mean in practice, and how will it differ from the process heretofore? Does it mean that the PSA objectives are not formally costed in advance under the existing approach? Is it not important that the funding allocations for the objectives in each PSA are set out to enable effective performance monitoring in relation to inputs and outcomes?

114. Mr Brennan: The key issue to flag up is that DFP, jointly with OFMDFM, commissioned an exercise on 28 April asking Departments to quantify expenditure against the PSAs so that we can track direct linkages to the PSA delivery against actual resource allocation. That is due to be completed by the end of May.

115. The Chairperson: There has been a lot of criticism about the link between the Programme for Government and the Budget in the past. Are you basically saying that we are going to get much of the same in the next process as we did in the last one?

116. Mr Pengelly: Michael will come in on this in a minute. The big issue, as far as the Department is concerned, is timing. There is the important scrutiny work of Committees and the Assembly to consider. The Budget exists to underpin the delivery of the Programme for Government. However, essentially, Committees and the Assembly are asked to look at both in parallel. A much more informed view of the Budget would be achieved if Committees and the Assembly had the time and opportunity to look at the Programme for Government and understand exactly the Executive's priorities. That is what recommendation 2 is trying to address.

117. Another recommendation is trying to draw out more transparently the linkages between the Budget and the investment strategy and how they underpin delivery of the Programme for Government.

118. If the question is, "will it ever be perfect?" the answer is no. The Programme for Government contains the Executive's strategic priorities, and developments are not necessarily articulated in the strategic priorities, because they tend to arise from changes in direction and are focused on where support is needed. Also, lots of steady-state public services are provided. Therefore, there will never be a perfect alignment. Fundamentally, this is about allowing Committees and the Assembly to ask whether the Budget enables and facilitates Departments to deliver the key strategic priorities. That is the crucial point that we want to draw out in respect of timings and substance.

119. Mr Brennan: I would add to that only that timing is critical here. There is a very narrow window during which to advise the Committees and the Executive on Budget resources that are likely to be available. The concern is to make sure that the relevant Committees know exactly what the resource environment is likely to be. The worry is that the Programme for Government is constructed and shaped somewhere in splendid isolation, without due regard to what resources are likely to be available.

120. In an ideal world, the Programme for Government should be laid slightly in advance of the construction of the Budget. However the financial environment has to be taken forward, and the Assembly, the Executive and the Committees have to know exactly what that environment is.

121. The Chairperson: On the back of Fra McCann's question: do you feel that the existing process can monitor whether outcomes are being delivered? To go back to an example raised in the previous session, fuel poverty targets for 2010 were not met. Does the current process remain appropriate when it comes to ensuring that outcomes are met?

122. Mr Pengelly: Two slightly different processes apply. The Executive delivery report, which we have talked about, is the main piece of work to ensure that targets, outputs and outcomes are delivered. For each target there is an assessment, initially by the Departments, which is challenged by a central team comprising our staff and those from OFMDFM. That work is further underpinned by accountability meetings in which the First Minister and deputy First Minister formally put the relevant spending Minister under some pressure about any difficulties in delivery there may be.

123. The recommendation being discussed specifically arises at an earlier stage than that. It means that if something is important enough to be a PSA target or a Programme for Government commitment, then we should state how much money we intend to spend on it; whether that money is sufficient, and whether there other ways of doing it. Unfortunately, that

piece of work can become difficult conceptually because there are few targets on which it is a case of spending an amount of money and that is that. Departments carry out lots of activities that contribute to a range of targets; for instance, funding the Health Service cuts across many PSA targets and commitments. Therefore, it can be difficult to do this. We can map it over time and see whether the trend in the expenditure line is increasing or decreasing in those areas in which there is difficulty in delivering outcomes and outputs. If the expenditure line is increasing, but there is no increase in output or outcome, we move into the efficiency debate.

124. The Chairperson: Let me put this another way: do you think that there is room for an external or independent body to provide advice? Obviously, there have been problems in the past, and, rather than repeat those in the next process, is there room for external or independent advice?

125. Mr Pengelly: To advise on what?

126. The Chairperson: To advise on how those targets are best met.

127. Mr Pengelly: The Executive have concluded that Departments are delivery vehicles. Targets have been put in place and Departments are endeavouring to meet them, led by Ministers who constitute external scrutiny.

128. The other form of external scrutiny is through the Committee structure, the Assembly and the Northern Ireland Audit Office. Obviously, if there are particular difficulties, individual Ministers can seek external advice. However, I am not sure, particularly in the very constrained times that we face, whether the most sensible use of resources is to commission advice on something that is a work in progress and subject to many layers of scrutiny and challenge at the moment.

129. The Chairperson: It just strikes me that we are getting the same as before.

130. Mr McQuillan: My question follows on from what the Chairperson was saying and is about the evaluation process in the Budget cycle. What did the review think about that? Did it think that evaluation of the previous year would be useful before the next Budget cycle stepped in?

131. Mr Pengelly: The review looked very much at the process. Outcomes are dealt with through delivery reports and other forums and were absolutely implicit in everything that we did. There was a group of stakeholders, and the starting point for all those discussions was to reflect on the experiences of the immediate Budget process and the one before that. Part of the review drew on the experience —

132. Mr McQuillan: Would part of the review not be to see what failed the year before so that the Budget could be put into place better next time?

133. Mr Brennan: There are some obvious lessons to be learned from the paper, and we will take those forward in the 2010 Budget process. For example, there will be early consultation with external stakeholders explaining the likely financial environment so that there is greater awareness of the context in which the Budget is taken forward. Lessons set out in the review, such as those, will definitely be taken forward into the Budget process that we are now kicking off with the Minister.

134. Mr McQuillan: I am glad to see that the penny has finally dropped with David about the consequences that the Tory Government will have in this part of the UK.

135. Mr McNarry: I do not know what point you are making. Chelsea won the Cup and the League —

136. Mr McQuillan: They have not won the Cup yet.

137. Mr McNarry: That is just as irrelevant. However, if you must make the point, Adrian, you must make it, and I hope that you will not be making it this time next year, and the year after, and the year after.

138. Mr McLaughlin: This is a good report, and I see some of the Committee's concerns reflected in it. I am not certain that they were fully addressed, but they were acknowledged.

139. The report is a review of the approach taken to the Budget 2008-2011. If there is to be an emergency Budget, then, probably, the review has only a passing benefit in that regard. We will have to respond, and it will be the usual short-order notice and, I suppose, squabble to see how we will cope and distribute the impacts.

140. In other circumstances, in which there was not a change of Administration, an emergency Budget and volatility in the international economy, we would be beginning the process of discussing the 2011-12 Budget cycle. The decision is still outstanding as to whether there will be a one-year or three-year process, and making that decision is an absolute priority. We need certainty on that so that we can begin to address the issues of timeliness and accessibility. The report acknowledges the need for information that is comprehensible by Committees and stakeholders. Performance reviews are also a key proposition, and we should return to some variation of that system.

141. Irrespective of the fact that we are going to have a Budget in 50 days, the Executive, at some point in the near future, will need to plan what they want to do on the basis of the information available. Therefore, the recommendation on milestones is also a positive proposition. Is that meant to be a standard pro forma across all Departments to enable Committees to operate on a level playing field when assessing proposals? If that is the case, how many milestones are we talking about? Can you give us a description of the performing targets and how those will be defined for Departments?

142. Mr Brennan: The Budget in 50 days will be for the 2010-11 period, but, ideally, we would like to see some indication of how the new Government will address the year 2011-12 and beyond, and whether there will be one-year or three-year Budget. That will, effectively, shape the milestones for us in taking forward our Budget.

143. Mr McLaughlin: Are you talking about the three-year comprehensive spending review period?

144. Mr Brennan: Yes.

145. Mr McLaughlin: Neither you nor I know whether that is going to change; but are you saying that we need to know whether the three-year comprehensive spending review process will be continued by the new Administration before we can make a decision about having a three-year or one-year Budget?

146. Mr Brennan: It will shape the context in which we shape the Budget. Our Minister has set out his expectations if there were a three-year settlement, based on the figure work that the Treasury provided in the March Budget, which was effectively flat cash on current expenditure and a 9% per annum reduction on the capital side for three years. If that changes considerably,

it will change the environment; therefore, it will change our milestones for taking the Budget process forward.

147. Members will be aware that our Minister has concerns about lack of engagement with Committees. It is a key issue for progressing the Budget smoothly over the next six to nine months. Milestones such as Departments engaging early with their Committees and setting out their capital and current investment plans are all key issues. Early engagement is the critical issue in this report, and that will filter through to the milestones and to delivering the Budget.

148. Mr McLaughlin: Acknowledging that the Budget in 50 days may create delays, and you have already touched on that in your response to David's question, what you are putting down is a template for the normal budgetary cycle. It would begin to address the issues of timeliness, accessibility and transparency. Therefore, there will be a standardised format. Will that apply to all Departments or to specific Departments?

149. Mr Pengelly: We want to put certain minimum requirements in place. Obviously, it is for individual Committees to decide what they do, but we want to say to Departments that there are certain pieces of information, which are the bare minimum, that must be available commonly at a certain point in time to Assembly Committees to allow for proper scrutiny.

150. We would never want to rule out Committees seeking more information. The minimum information should be at a level that facilitates good scrutiny, but individual Committees may want to go further. I think that it would be helpful to have some discussions about that, perhaps by this Committee doing work with other Committees. Our Minister is content for us to continue to work through the Finance Committee with other Committees to set out what we think this offers in terms of a basis for scrutiny, and responding to Committee requests about other aspects of information would be helpful in that. We would be prescribing minimum standards across the board.

151. Mr McLaughlin: We all recognise that if the last budgetary cycle and the next one were bookends, there would be four Budget statements in a 12-month period, which would knock all sorts of preparations askew. The Committee has been drilling into this matter in a very consistent way. One cannot anticipate having emergency Budgets or the need to respond to international conditions. However, when it comes to the process itself, there may be the view that the recommendations do not add up to a lot of change. I am not sure whether that is my position. I think that you are beginning to put down the markers that will allow people to engage much earlier in the process and in a more effective way.

152. Mr Pengelly: Another point may not come out as starkly, but recommendation 14 is of fundamental importance.

153. Currently, there is a degree of engagement, scrutiny and dialogue, and there are formal Assembly processes about the Budget process. There are separate and parallel Estimates processes, which require detailed Assembly scrutiny, engagement and dialogue.

154. Recommendation 14 is about trying to find a way to merge those two processes. Our view is that this is not about offering less opportunity for Assembly scrutiny; it is about ensuring that, when scrutiny happens, time is available for it to happen properly, and when other parallel issues are not in and around the same space. Fundamentally, this recommendation will increase the time available to Committees, because they will not have to consider separate processes, budgets and various Estimates. It is about scrutinising what Departments plan to spend money on, and if it is to be carried out properly once, then this is about trying to create a much more transparent and coherent basis for that.

155. Mr McLaughlin: You will have your own views, and there will be a departmental view, but is there a presumption that the Budget will be set on a three-year cycle rather than a one-year cycle? Recommendation 14 does not cover that.

156. Mr Pengelly: The point was made earlier to Mr McNarry that action to deal with issues in years 2 and 3 can be taken now, but that can happen only if we are looking at years 2 and 3. The Department's official view is that, if we get a three-year outcome at national level, we will keep a focus on a three-year cycle. That does not rule out the option of wanting to refresh the plans for year 2 at the end of year 1, but the three-year cycle would be used as opposed to starting with a blank piece of paper for the new year. That is an issue for our Minister and the Executive.

157. Mr McLaughlin: Will you expand on recommendation 5, which is about engagement with stakeholder groups? Clearly, that is an issue, and it is causing political, as well as financial, issues.

158. Mr Brennan: We envisage much earlier external consultation on the Budget and making key stakeholders much more aware of the Budget process and the financial environment in which the Budget will be progressed.

159. Mr McLaughlin: How inclusive will that process be? There are many stakeholder groups.

160. Mr Pengelly: The key point in that recommendation — and we would say this — is that the process involves more than just Departments. Centrally, DFP had the sense that the previous Budget process was inherited by the Executive, and, at an early stage in that process, the Department undertook a significant pre-process consultation with organisations such as the Northern Ireland Council for Voluntary Action (NICVA), the Northern Ireland Committee, Irish Congress of Trade Unions (NICICTU) and many umbrella organisations.

161. The recommendation goes towards forcing Departments to engage with stakeholders. When we met NICVA at a round-table event, individual constituents said that, although it was great to talk to DFP, they wanted to talk to the Department of Education and that that Department would not speak to them. This recommendation is about getting Departments to do that.

162. Included in the recommendation is that Departments should state clearly which stakeholder groups should be involved. We will tell our Minister that, if Departments are putting forward spending proposals for him to consider responding to with a recommendation and allocation, it should be a bare minimum requirement that they should set out the views of the relevant stakeholder groups. It is a matter of trying to push that engagement down to the front line.

163. Mr McLaughlin: I understand that the outreach will be done through the relevant Departments. Will that be regarded as a direction to Departments, or will it operate in a similar way to PEDU, which Departments decide whether or not to buy into?

164. Mr Pengelly: The Finance Minister has sent this report to Executive colleagues and to the Committee: this is his firm view. It is up to the Executive to decide whether they want to turn that into a prescriptive requirement on individual Ministers. It is currently a recommendation, and the rubber will hit the road when we develop the detailed guidance that will go out from our Minister. Given that the recommendation is in the air, I have a strong sense that the Minister will say that if Departments ask for money, they will need to say how they have engaged with stakeholders.

165. Mr McLaughlin: That is what I am getting at. Is it your view that the Minister recognises or accepts the need to get endorsement from his Executive colleagues?

166. Mr Pengelly: He certainly does. For the same reasons that the Minister is keen on full and proper engagement between departmental officials and the Committee for Finance and Personnel, he is equally of the view that engagement with wider stakeholders and Assembly Committees is fundamentally important in shaping good spending proposals, particularly in the times that we face.

167. Mr McLaughlin: OK. As an aside, because David opened up an interesting discussion on PEDU, would the Minister consider taking a similar approach to the Executive in relation to the benefits of using PEDU, so that PEDU gets collective Executive endorsement? It seems to me that, given the pressures that there are going to be on us all, PEDU has an absolutely vital role to play.

168. Mr Pengelly: I think he might. I am not sure that I should go as far as to say this, but part of the frustrations involve engagement at ministerial level.

169. Mr McLaughlin: I thought it might clear the air.

170. Mr Pengelly: As I said last time I was with the Committee — and, unfortunately, with the election things have not moved on — the Minister has been doing a lot of work with one ministerial colleague to try to get PEDU into that Department. He is of a mind that, if we do not get substantive movement on that quickly, he will need to look at an alternative approach. This is an issue that I will take back to him.

171. The Chairperson: The report refers to an annual evaluation report in the Scottish Parliament that shows progress against targets. Will that be factored in here also? Should monthly monitoring also be included? Monthly monitoring provides an opportunity to reallocate funding to suit changed circumstances. Have those aspects been factored in?

172. Mr Pengelly: The Scottish evaluation report is about progress in achieving outputs and outcomes. It corresponds to the Executive's delivery report, which is made on a six-monthly basis. We do that twice a year, as opposed to an annual evaluation report. That is already in place.

173. Mr O'Loan: What we have at the moment is a very opaque process that gives little real opportunity at political or Assembly level to properly scrutinise the Budget as it is created. For all the apparent activity of Committees, including this Committee, I do not think that it is a real scrutiny process. I wonder what consideration is being given to the creation of a Budget Committee.

174. Currently, the Budget comes as a draft Budget and goes to each Committee. Each Committee looks at it and can say little other than that it would like more resources for its Department. Each is very reluctant to say that it would like that money to be taken from any other Department. The function of this Committee is merely to collate those views, which are almost all essentially in note terms. For all the paperwork that is exchanged, there is little outcome. Richard, I recall that, when the three-year Budget was created, you told us that the difference between the draft Budget and the final Budget was minimal. It might have been of the order of a 0.25% movement of moneys. That leads me to the view that serious consideration should be given to the creation of a specific Budget Committee that could look at these matters in advance. It could look closely with a Department at what was being put forward. It could look at the draft Programme for Government and how that was being

endorsed. It would have the opportunity to offer real comment on where resources might be allocated.

175. Was serious consideration given to that? Was the Minister involved in any such consideration and did he offer any view on it?

176. Mr Pengelly: Your point is factually correct. 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, to use your own terminology, 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. Although 0.25% sounds like very little, it runs into many tens of millions of pounds. It is a lot of money.

177. The Minister has views on some of the reasons for that. If all the recommendations were followed through, the extent of change between draft and final Budget might, perversely, be further reduced, because consultation is the only thing that happens between draft and final Budget. This report is fundamentally about getting that consultation and engagement done earlier, so more of those views would be wrapped up in the draft Budget, which means that there would be less rationale for movement between draft and final Budget.

178. That links into the second point about a Budget Committee. We have not put that point to the Minister, nor has he thought about it. His view remains that Committees are the right place to carry out detailed scrutiny at policy and programme level. The recommendations in the report are fundamentally about ensuring that Departments engage robustly and early with Committees to allow that detailed scrutiny to take place. I am not sure what the role of a Budget Committee would be, where it would sit, or what it would add, if the other elements were done properly.

179. Mr O'Loan: This will be more by way of comment than further question. I believe that it would add seriously to the scrutiny of the creation of the Budget, which is something for which we do not have an effective mechanism. I think that it needs serious consideration. At the moment, we have an opaque process that is not sufficiently informed politically. I do not see, coming out of the 14 recommendations, anything that will radically alter that status quo. I will leave that comment there.

180. Recommendation 6 is that DFP takes control of capital investment allocations for budget years from the Strategic Investment Board (SIB). What changes would that mean for the respective roles of DFP and SIB? I have some concerns about that. I am concerned that the "S" would be taken out of SIB and that it would no longer be a strategic body, but merely an implementation body that will not be thinking in terms of Programme for Government or even a longer-term alteration of our society, which is defined very much in strategic terms.

181. Mr Pengelly: Our view is probably the opposite of that — it will allow for more focus on the strategic elements. Take, for instance, Budget 2010. If we are going to run a process for the first three years, it will be for 2011-12, 2012-13 and 2013-14. Those three years were already set out. Although they are years 1, 2 and 3 of this process, they were years 4, 5 and 6 in the previous investment strategy. Therefore the starting point for DFP in taking this work forward will be the strategic position that our colleagues in SIB put in place during the last iteration of the investment strategy.

182. The reality, particularly in 2011-12, is that a significant amount of capital expenditure will be spent in finishing off projects that have already started. The Executive are not in the business of leaving schools and hospitals half-built. There are not that many strategic decisions to be

taken. This recommendation is saying that SIB will pass over to DFP the nuts and bolts of addressing the consequences of previous spending commitments and the amount of money that is left. There will continue to be very close dialogue between DFP and SIB. I have met SIB half a dozen or a dozen times on the working of the budget process, so there will be some engagement there.

183. Last time, we discovered that colleagues in SIB spent a lot of time dealing with operational issues related to trying to balance individual allocations to projects that were, possibly, already started, instead of focusing on the longer-term 10-year strategic horizon for capital investment for Northern Ireland. I do not want to suggest that there will not be ongoing dialogue between SIB and us as part of this, but this is about freeing up SIB to focus on the strategic issues.

184. Mr O'Loan: I think that my question raises genuine concerns that we will need to look at. I would be interested in the SIB view, and it has proven difficult here to get a SIB view.

185. Recommendation 8 is that the draft Budget document should include details of the resources available to the Executive, how it is proposed that those will be allocated, and what would be achieved as a result. With specific reference to the Executive's own revenue raising potential, will the information provided in the draft Budget relate to the fiscal sustainability of proposals? As we said earlier, spending decisions relate to PSA targets. Revenue raising decisions may also relate to those targets or have consequences for the economy, individuals or households. Will there be an assessment of those in the draft Budget?

186. Mr Pengelly: The recommendation is more about making what is ostensibly a very complex document more accessible. The points that you have made are valid and important, and the Department would want to reflect them as we start to draft the document. It is about getting the balance right, because the foreword could rapidly become a complex Budget document in its own right, rather than being an easily accessible foreword to the Budget document.

187. Mr O'Loan: The consideration of the matters that I referred to is all the more argument for the creation of a Budget Committee, which, over a longer time, would be able to address revenue raising issues as well as the spending of money. That side of things needs such proper consideration.

188. Mr Brennan: As Richard said, the Budget document is really about the spending of money. Other departmental pieces of work that deal with the revenue side are published separately. For example, the Department is looking at bringing in at an early stage the issues that were raised on the revenue side through the fiscal deficit report, whereby the summary sets out at a macro level the state of public finances in Northern Ireland on the expenditure side and the revenue side, the disjoint between them and the sources of revenue that are available to the Executive. Those sorts of issue could be set out at an early stage in the Budget document to set an overall context, and the Department can look at doing that.

189. Mr O'Loan: That documentation does not really come before Assembly Members in a way that allows them to comment usefully does it?

190. Mr Brennan: Are you referring to the fiscal deficit report?

191. Mr O'Loan: Yes. You talked about documentation that deals with the revenue side as well as the expenditure side.

192. Mr Pengelly: The revenue side is set out in the Budget document. We may try to distil that information into a shorter, snappier foreword, but it is already clearly articulated in the Budget document that comes before the Assembly.

193. Mr O'Loan: We do not have the mechanisms for political scrutiny of revenue raising proposals to the degree that we need them.

194. Mr Hamilton: On the issue of public consultation, recommendation 12 suggests that Assembly Committees should take the lead on the consultation on the Executive's draft Budget. I can well imagine why the Department or the Executive might want to get rid of public consultation. Indeed, I have had the misfortune of being at Budget consultation events in the past, and to say that they were useless would be an understatement. As the report suggests, those events tend to be hijacked by certain interests, and you do not get useful dialogue. You simply get a situation, similar to the one that we have in the Chamber at times, in which people are demanding more money for certain areas of spending.

195. My more serious point is about whether the Executive is walking away from consultation with the public beyond key stakeholder groups. I am concerned that Assembly Committees, as currently constituted, may not have the time, resources, specialist knowledge or ability to do anything other than to act as a sounding board and conduit for information passed to them by the public or various groups. Effectively, there would be no ability to do anything with the information other than to parcel it up into a report and to give it to you.

196. Mr Pengelly: I recognise that concern. It is important to read recommendation 12 along with recommendation 5. The historical situation, as you have articulated, is one in which public consultation means that people such as Mike and I attend public events throughout Northern Ireland. Those events, understandably, are held in the evenings. They are not that well attended by a cross-section of interests and tend to be hijacked by small groups. People who come with a specific interest tend to get shouted down because of the larger interest groups.

197. Although those large interest groups represent specific sectors and issues, we are present only as DFP officials; we do not have the detailed knowledge. We are trying to migrate to a situation where the detailed and comprehensive stakeholder engagement is undertaken by Departments at a very early stage. It brings the stakeholder view in early to be received by people who have a detailed and broad understanding of the subject area. That stakeholder engagement can then be put to the relevant Assembly Committee where it is subject to scrutiny and filtering. Putting the whole process together is about trying to get as many sensible views as possible from people who understand the core issues.

198. In parallel with that, we also intend, as we did last time, to make the document widely available, to take out some advertisements in the local press and to offer the public, at the draft stage, the opportunity to send individual views to us for collation. That process is not ruled out; we are trying to reposition that engagement to get more out of it. That type of stakeholder engagement and consultation is fundamentally important. To leave it until late in the process, as a dialogue with DFP that is subject to hijacking, diminishes its importance and value. Recommendations 5 and 12 must run in parallel.

199. Mr Brennan: The difficulty with the current system is that, as DFP officials at those events, we have a high-level picture of what is going on, but when the vested interest groups engage in hijacking proceedings we cannot get into their level of detail. Under this proposal, if the Health Committee decided to host a consultation, for example, it would be more involved in the activities of DHSSPS, health officials and DFP officials and could, therefore, enter into a more detailed and comprehensive discussion with the people who came along with a vested interest.

200. Mr Hamilton: So, we will be the people who will be hijacked by the vested interests.

201. Mr Pengelly: That seems fair.

202. Mr Hamilton: It sounds like a hospital pass.

203. Mr McLaughlin: It sounds like devolution to me. Pass the buck, in other words.

204. Mr Hamilton: As a Committee, we have taken an interest in this issue in relation to obtaining more specialist knowledge and resources for Committees. We have made recommendations and reports in the past about that. I do not think that such a recommendation would be as successful as it potentially could be unless it was backed up by those resources and that knowledge, which we could either develop in-house or bring in as and when required.

205. Mr McNarry: I was looking at the last paragraph on page 44 of the review paper when I was reminded of something. I have raised the issue of a contingency fund many times in the Assembly. I have heard previously all your arguments about why we should not have one. I am pleased that the reference to resource allocation in paragraph 3.25 of the review paper highlights the Welsh approach of using what is essentially a contingency fund. It states that there may now be a case for considering such an approach in the longer term, in light of reduced surplus resources being declared by Departments. We have all welcomed the fact that Departments have been spending. Are you in a position to provide more detail on any consideration that has been given to that issue and how it might work in practice in Northern Ireland?

206. Mr Pengelly: That paragraph highlights the fact that the Welsh hold something back. The report also highlights that Scotland adopts an approach of overcommitment. That underpins the essence of the debate, which is that there is not necessarily an easy or a correct answer to the issue. It is an issue of judgement, and different Administrations do different things.

207. The current approach to monitoring, in which there is no contingency but an in-year monitoring process, was developed in the context of the current spending plans. The Minister's view is that it would be foolhardy to change that approach until the end of the current spending plan, which will take us up to the end of the current financial year.

208. Mr McNarry: I thought that the Minister had said that it was foolhardy full stop. Certainly, he has been pretty concise about that in response to anything that I have asked him in the House.

209. Mr Pengelly: I think that we are talking about slightly different things. The Minister agrees that we need to review our approach to monitoring, and he wants us to do that. However, he thinks that it should be done in the context of a new set of spending plans. The current approach was developed in the context of current spending plans, so there will be no change until the end of the current financial year.

210. The Minister has mandated us to carry out, once we reach Budget 2010, a quick and important review of what sort of monitoring process should be in place to underpin either one- or three-year spending plans. The key question is whether it will be the same as the current position of reliance on a monitoring round and no contingency fund, the creation of some form of contingency fund or the use of overcommitment. The Minister wants to look at that issue quickly, and it will obviously be influenced by the overall resource position.

211. Mr McNarry: I am very glad to hear that, because that is progress. Perhaps the Minister does listen sometimes but pretends otherwise when he is on his feet in the House. I know that you could not possibly comment on that. Will you keep us sighted of developments? You have said, more or less, that once the Minister gets to a position, he would like to do it quickly. Perhaps you could advise us of any ongoing updates so that we are not caught unawares.

212. Mr Pengelly: Yes; absolutely.

213. Dr Farry: I apologise for missing most of the presentation. I look forward to reading the Official Report in due course.

214. I do not want to go over anything that has been asked already, but I will ask about the discrete issue of how we handle the Barnett consequential and the transparency of that. I appreciate that it will probably be a theoretical debate for the foreseeable future and that there will probably be negative consequential in terms of reduced funding for Northern Ireland. Nevertheless, are there any ideas on how we can trace how the Barnett consequential come into our process? How can we trace those through revised figures so that people can see where decisions to invest have been taken at a UK level? The public could then judge how the Executive made their decisions arising from the UK-level decisions.

215. Mr Pengelly: Will you let us away with saying that we have answered that already?

216. Dr Farry: I will if you did answer it earlier.

217. Mr Pengelly: I am joking.

218. Michael will give the detailed answer to your question. All that I will say is that, at a macro level, Barnett consequential are essentially moneys that accrue to the Northern Ireland Executive as a consequence of political decisions made by a different Administration in a different geographical area. The starting point for the Executive as regards the whole concept of devolution is that that money is available to them. The Executive will see what the policy choices are elsewhere, and they will have a view on whether those are good, bad or indifferent. I do not think that the Executive would ever want to get into a situation in which their homework is being marked on the basis of they did this and we did that. Michael has looked at the matter in more detail.

219. Mr Brennan: There is a great degree of transparency in the mechanics and operation of the Barnett formula and the information that we get from the Treasury. However, to use a dreadful word, unhypothecated allocation applies. In other words, as Richard said, the Executive retain complete discretion on where resources go. Stakeholders frequently look at an allocation in Whitehall and determine what their allocation in Northern Ireland should be. However, the simple mathematics of the situation means that the Executive do not have the ability or the discretion to meet all those needs. The numbers are set out quite clearly. The Budget document lists figures for the Northern Ireland departmental expenditure limit. There is a breakdown of where those figures come from, so that it can be seen that 90% of the Budget, for example, is Barnett determined. Discretion on where that money goes lies solely with the Executive. The simple reason for that is that one cannot meet 100% of the needs generated from Whitehall.

220. Mr Pengelly: Let us take the abolition of prescription charges in Northern Ireland as an example to illustrate an interesting point. That is not something for which we have ever received Barnett consequential, but it was proposed by the Health Minister and agreed by the Executive. Putting it in place has a resource cost. If we are not getting Barnett consequential to meet that cost, it has to be funded by Barnett consequential from elsewhere. That creates a very muddy picture.

221. Dr Farry: There is an argument for some degree of transparency. I appreciate that, with devolution, we have full discretion over how we spend our resources according to local priorities, but what happens in other jurisdictions is relevant. Some of it may be good practice, but some of it is bad practice. There are legitimate questions. The boiler scrappage scheme is an example. I appreciate that there may be good reasons why we do not replicate what has been done

elsewhere in the UK. However, in order to inform public debate on the issue, it is right that people ask why we should not consider implementing that scheme in Northern Ireland when it is being done in Great Britain. There may be perfectly reasonable answers, but asking those questions is part and parcel of a democratic process.

222. Mr Pengelly: I could not agree more, but I am uncomfortable with the Barnett formula being the entry point. There are often headline announcements in England about funding, but the money for that could be a redeployment or reallocation of existing funding or some minor Barnett consequential. The entry point to that important debate is about policy sharing or analysis. It should look at the policy of the boiler scrappage scheme rather than looking at the financial outworking through a pretty complex formula.

223. Dr Farry: A particular problem for us as elected representatives arises from our media. We have the Northern Ireland media, which sometimes know the difference between devolved and non-devolved matters and sometimes do not, as was apparent in coverage of the most recent Westminster election campaign. We also have the national media, and it is possible that people turn on the 10 o'clock news and see a scheme being announced by the Government without understanding that it applies only in England and Wales. There is sometimes an assumption that the scheme applies nationally. When an announcement was made about fuel efficiency schemes in September 2008, elected representatives had a lot of calls from people asking how they could access those schemes. We had to explain that Northern Ireland was doing its own thing on that. The confusion can easily arise.

224. Mr Brennan: As Richard said, it works both ways. The abolition of prescription charges is one example; the derogation from the aggregates levy is another. We must take the rough with the smooth in the application of the Barnett formula. We cannot cherry-pick the elements that we want to highlight and the others that we want to ignore.

225. Dr Farry: I am all for openness. I will take the rough and the smooth.

226. The Chairperson: Thank you very much. We will forward any remaining issues that members have for a written response.

Appendix 3

Memoranda and Papers from DFP

Response on the Review of the Budget Process

Assembly Section
Craigantlet Buildings
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email: Norman.Irwin@dfpni.gov.uk

Mr Shane McAteer
Clerk
Committee for Finance and Personnel

Room 419
Parliament Buildings
Stormont

17 November 2008

Dear Shane

I am writing in response to your request for further details as regards how DFP intends to take forward the Review of the Northern Ireland Executive's Budget Process in terms of input from the Assembly including the Committee for Finance and Personnel.

In relation to the input from the Committee for Finance and Personnel, you forwarded to me the Committee's Submission to the Review on 24 October 2008, which incorporates input from other Committees, and have requested that an official response is made by 28 January 2009. The Department will provide a formal response and officials will be available to attend the Committee, to discuss any matters arising in the response, and on the detail of the future Budget process once the Executive has considered the review's finding and recommendations.

As regards the Assembly, you will be aware that the Review relates primarily to how the process is taken forward. Therefore, the Finance Minister will await the outcome of the Review before deciding how this should be communicated to the Assembly.

I trust this clarifies the arrangements.

Yours sincerely,



NORMAN IRWIN

Postponement of Evidence Session on Review of Budget Process

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

29 January 2009

Dear Shane

I am writing in relation to the Review of the Northern Ireland Executive Budget Process which was due to be discussed by the Committee for Finance and Personnel on 11 February 2009 including an evidence session with officials from Central Expenditure Division (CED).

As the Committee will be aware the small core team of officials within CED who are conducting the Review, also have responsibility for a range of other business objectives including the management of the In-Year Monitoring process as well as the Strategic Stocktake exercise. Whilst the initial intention was for the Review to be completed in autumn 2008, the increased requirements in other work areas has resulted in a delay in the Review being taken forward.

Therefore, it is not expected that the Review will be completed in time for the evidence session in February and thus I would ask that the Committee postpones the evidence session on the Review of the Northern Ireland Executive Budget Process until it is completed and agreed by the Executive.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Norman', followed by a long, sweeping horizontal stroke.

NORMAN IRWIN

Budget Process - Reason for delay

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419

Parliament Buildings
Stormont

16 April 2009

Dear Shane

I am writing in response to your letter of 19 March 2008 regarding the DFP's Review of the Northern Ireland Executive Budget process. In particular, you have requested information on the reasons for the delay in responding to the Committee's submission to the Review.

A key issue in this respect is that a significant element of the DFP response to the Committee's submission will be incorporated in the final report of the Review. Therefore it is not possible to provide a response to the Committee until the Review itself is finalised.

It was originally intended that the Review would be completed before the end of 2008. However, more immediate pressures in terms of the in-year monitoring process and the Strategic Stocktake meant that it was not possible to complete the Review to the original timescale. In addition, other planned activities for the remainder of the 2008-09 financial year have restricted the scope to bring the process to completion at an earlier stage.

The position remains that it is intended to provide the Minister with a draft report of the Review and response to the Committee's submission as soon as possible. Once approved by the Minister, these will be forwarded to the Committee.

Yours sincerely,



NORMAN IRWIN

Further Postponement of Evidence Sessions

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

14 September 2009

Dear Shane

The DFP reviews both of the Budget Process and In-Year Monitoring Arrangements are scheduled for consideration by the Committee at its meeting on 23 September.

As the Minister has not yet considered draft reports of either review, it would not be appropriate for officials to brief the Committee at this stage. While I am not, at this point, in a position to confirm a date when this will be possible, I will do so as soon as I can.

I trust this is helpful.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Norman", followed by a long, sweeping horizontal stroke.

NORMAN IRWIN

**Minister of Finance and Personnel -
Review of Budget Process**

From the Office of the
Minister for Finance & Personnel

COMMITTEE FOR

04 DEC 2009

F & P



Department of
Finance and
Personnel

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Your reference:

Our reference: COR 1013/09

Ms Jennifer McCann
Chairperson
Committee for Finance and Personnel
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4 December 2009

**REVIEW BUDGET 2008-11 PROCESS AND IN-YEAR MONITORING
ARRANGEMENTS**

Thank you for your letter of 23 November 2009 regarding the Review of the logistical arrangements in the Budget 2008-11 process as well as the Review of the In-Year Monitoring process.

In terms of the latter, the overall aim of the Review was to consider whether the Executive still needs an in-year process and what form this should take. This Review has now been completed with the Final Report attached.

The main finding of the Review was that there is still a need for an in-year monitoring process in the short term as the most effective mechanism to support the Executive in managing the public expenditure position. Over the longer term, improved financial management by departments and an increased focus on the delivery of FIG targets rather than expenditure controls would in theory reduce the need for a formal in-year monitoring process. However, for the remainder of the current Budget period at least, and in particular the need to reduce the level of overcommitment for both 2009-10 and 2010-11, the rationale remains for the in-year process. There are a number of short-term recommendations which will be implemented as soon as possible.

Regarding the Review of the Budget 2008-11 process, although the intention was to have the Final Report completed over the summer period, the Committee will be aware of the significant issue that emerged in respect of the deferral of water charges for domestic customers. This has meant that the officials responsible for the Review have been diverted to take forward the Review of 2010-11 Spending Plans, which is a more immediate pressure for the Executive. I cannot, therefore, give you a date by when the Review will be completed, but I can assure you that I do not wish it to be delayed any longer than is absolutely necessary.

Yours sincerely

SAMMY WILSON MP MLA

Review of the NI Executive In Year Monitoring Process

**Public Spending Directorate
Department of Finance & Personnel**

1. Introduction

1.1 The in-year monitoring process is the main mechanism through which the Executive can make adjustments to its spending plans during the course of each financial year, in response to changed – or changing – circumstances since the original Budget was agreed. There are normally four monitoring rounds conducted each year in June, September, December and February.

1.2 In light of the importance of the in-year process (almost £2 billion has been recycled within the system through this process over the past four years), there is clear merit in reviewing the process, to ensure that it remains fit for purpose. As a result, the 2008-09 DFP Operational Plan indicated that the in-year monitoring process would be included in a programme of reviews of major non-reform processes. In addition, given that two years and nine monitoring rounds have passed since the restoration of devolution in May 2007, it was felt that the time was now appropriate to consider the operation of the process in terms of the role of Assembly Committees and in particular their interaction with departments.

1.3 More recently, an emerging issue throughout the 2008-09 in-year monitoring process was the relatively low level of reduced requirements declared by departments which was followed by a substantial reduction in the level of end-year underspend at Provisional Outturn. Although the former is consistent with the first year of a Spending Review^[1], the latter represents a clear departure from the performance in recent years. On the assumption that the level of underspend will remain low going forward, there is a need to consider the approach to the in-year monitoring process.

1.4 A further issue in terms of the broader financial management agenda is the extent to which departments should be provided with flexibility as regards the movement of resources previously allocated by the Executive in order to achieve the targets set out in the Programme for Government. Whilst the ultimate aim in this respect is to move from a process focused on simple financial inputs to one where outputs and outcomes are paramount, this will be dependent on departments having adequate management skills in place as well as there being sufficient focus on the achievement of outputs.

1.5 Whilst these are undoubtedly issues that will need to be considered as part of the development of the in-year process over the longer term, the main focus of the current review is on the position for the remainder of the current planning period (ie up to and including 2010-11).

1.6 In light of the context set out above, the aim of the Review was to consider whether or not the Executive still needs an in-year process and if so, what form should this take? In turn, the objectives of Review were to consider and make recommendations as regards the scope:

(a) to improve the contribution of the in-year monitoring process to the effective management of the resources available to the Executive;

(b) for more effective use of resources within both DFP and departments regarding the operation of the in-year monitoring process; and

(c) to facilitate improved engagement between department and Assembly Committees in the monitoring process.

1.7 The Review was conducted by officials in the Public Spending Directorate in DFP with the intention of producing a short sharp focused assessment of the latest position and the options for change.

2. Background to In- Year Monitoring Process

Introduction

2.1 The primary rationale for the in-year monitoring process is to provide the Executive with a mechanism to amend the expenditure plans set out in the previous Budget in light of emerging pressures and the resources which become available throughout each financial year. The in-year monitoring process has allowed the Executive to make an effective response to issues such as flooding incidents and the economic downturn as well as other emerging pressures.

2.2 At the Executive meeting on 7 June 2007 it was confirmed that all decisions on the allocation of public expenditure to departmental programmes will be taken by the Executive, following advice from the Minister of Finance and Personnel, and that these decisions will be taken during the Monitoring process for in-year spending adjustments and during the Budget process for longer term spending plans.

2.3 The approach adopted by Whitehall departments of building in a reserve to their initial budget plans to enable emerging pressures is distinct to that operated by the Northern Ireland departments in recent years where, in response to significant levels of underspend, the approach has been adopted of over-commitment at Block level in terms of current expenditure.

2.4 However, in response to the reduction in the level of end-year underspend in 2008-09, the Executive has agreed, as part of the 2009-10 June Monitoring Round, that there is a need for a more aggressive approach to managing down the level of overcommitment as part of the current and future in-year monitoring processes.

Basic Stages in Monitoring Process

2.5 The in-year monitoring process begins early in the financial year and continues on until the conclusion of the February monitoring round. The main stages of the process for each monitoring round are set out below with further detail provided in Annex A:

- Commissioning note for each monitoring round issued by DFP;
- Departmental monitoring returns sent to DFP following consultation with the respective Assembly Committee and agreement of the departmental Minister;
- DFP collates and analyses departmental monitoring returns;
- DFP Minister issues draft Executive Paper for comment;
- Executive meeting to agree monitoring round recommendations;
- DFP Minister announces outcome of monitoring round in Assembly; and
- Evidence session by DFP officials to Committee for Finance and Personnel on the outcome of the monitoring round.

2.6 Although these are the main stages for each monitoring round there is a significant amount of work involved as regards the figurework underlying the headline monitoring round transactions.

Differences between Monitoring Rounds

2.7 It is also important to appreciate that not all monitoring rounds are the same in terms of the financial context and hence the transactions that are involved. For example, the June monitoring

round takes place near to the start of the financial year. As a result, there is little in the way of reduced requirements declared by departments at this time. Furthermore, historically the key purpose of the June monitoring round was to allocate End Year Flexibility (EYF) funding to departments. Table 1 below shows that the main in-year allocations take place in September and December, accounting for almost 90% of total allocations in 2008-09.

Table 1: Bids met in Monitoring Rounds, 2005-06 to 2008-09

£ million	Current Expenditure				Capital Investment			
	2006-07	2007-08	2008-09	2005-06	2006-07	2007-08	2008-09	
June	0.0	35.7	0.0	5.5	58.8	1.8	0.0	2.8
September	0.0	0.0	23.0	21.0	40.0	0.0	71.3	25.0
December	21.5	54.6	82.0	42.4	3.3	12.7	74.1	26.8
February	2.0	0.0	1.6	6.0	0.8	0.0	58.9	0.0
Total	23.5	90.2	106.6	74.9	102.9	14.5	204.2	54.6

2.8 There are normally reasonable levels of reduced requirements declared in the February monitoring round as shown in Table 2 below, and hence resources available for allocation. However, there are also constraints in terms of the ability of departments to utilise additional allocations at this late stage in the financial year as well as the need to align the February monitoring position with the spending limits set out in the Spring Supplementary Estimates which are normally approved beforehand.

Table 2: Reduced Requirements in Monitoring Rounds, 2005-06 to 2008-09

£ million	Current Expenditure				Capital Investment			
	2006-07	2007-08	2008-09	2005-06	2006-07	2007-08	2008-09	
June	33.8	26.9	10.7	15.2	24.9	25.0	36.5	21.3
September	44.8	50.4	58.2	41.1	48.0	24.7	28.1	51.3
December	36.6	57.1	107.5	72.6	22.4	32.2	132.3	31.8
February	32.1	24.3	47.5	19.5	14.4	60.9	61.7	4.3
Total	147.3	158.8	223.9	148.4	109.7	142.7	258.6	108.7

Financial Costs of Administering the In-Year Monitoring Process

2.9 The in-year monitoring process involves staff in departments both within Finance Directorates as well as those involved in the administration of spending programmes. There are also costs involved in terms of the process of the interaction with Ministers and the Assembly. However, the in-year monitoring process is expected to be only a small part of the overall workload of staff within each department, with the information requirements for the monitoring process expected to be readily available from the regular and routine financial management related activity within departments. Therefore it is highly unlikely that a reduction or cessation of the monitoring process would result in significant savings

2.10 Within the division with primary responsibility for the in-year process (Central Expenditure Division) the best estimates are that 8.45 Full- Time Equivalent Staff at a cost of £0.3 million each year are involved in what is termed the provision of advice and information on the deployment and use of public expenditure. This function includes a broad range of activities such

as Forecast Outturn and Provisional Outturn analysis in addition to the formal in-year monitoring process. In addition, the responsible CED staff only spend a certain proportion of time on the monitoring process.

2.11 The same applies to staff working in the Supply Divisions within the Public Spending Directorate (PSD) where a similar level of resources is devoted to the scrutiny and evaluation of departmental public expenditure submissions, although it should be noted that no one single member of staff spends more than half of their working time on this activity. Therefore, the best available estimate is that the total administrative cost of the in-year monitoring process within DFP is between £0.3-0.5 million. However that figure needs to be considered in the context of the £10 billion of expenditure that is being managed in the process – i.e. a 1% improvement in effectiveness of total spend (or similarly a 1% reduction in total underspend) by the successful management of the process is worth some £100 million to public services in Northern Ireland. Alternatively, effectiveness gains (or underspend reductions) amounting to 0.005% are needed for the process to be self-financing.

3. SWOT Analysis of In- Year Monitoring Process

In advance of considering the various options for change regarding the in-year monitoring process it was important that the Review first considered the strengths and weakness of the current approach as well as the opportunities and threats going forward.

Strengths

(a) Allows the Executive to effectively manage emerging pressures, and respond to changing circumstances - this has been shown by the £387 million that has been reallocated in 2008-09 following £793 million in 2007-08, £406 million in 2006-07 and £383 million in 2005-06; and

(b) Monitoring rounds provide opportunities for other exercises to be conducted - although the main emphasis of the in-year process is on reduced requirements etc. the fact that a formal process is in place has provided the opportunity for the Executive to conduct other exercises over the past year in terms of delivery against the Programme for Government, the response to the economic downturn and the latest position regarding the realisation of capital receipts.

Weaknesses

(a) Unrealistic expectations that additional resources will become available - whilst it is often perceived that the in-year monitoring process will provide the solution to all the spending pressures faced by the Executive the reality is that the level of allocations possible is heavily dependent on the level of reduced requirements surrendered by departments. Therefore, there needs to be recognition that there is often greater scope for departments to address pressures from within existing budgets rather than relying on the in-year process;

(b) Uncertainty as regarding the outcome of bids for additional spending reduces the incentive for departments to take early action to reduce pressures internally - the potential for additional resources to be made available through monitoring rounds may mitigate against departments taking pro-active early action internally to manage spending pressures if this is perceived to weaken the case for additional funds as part of in-year monitoring;

(c) Reduces incentive for departments to undertake a robust analysis of issues in the context of the Budget process - although the complex and volatile nature of public expenditure planning means that there will inevitably be some estimates made at the time of the Budget, the scope to make potentially significant changes through the Monitoring Process also means that there is

less incentive for departments to invest the time and effort required to develop the most accurate information possible, with associated risk of requesting more funding than is necessary simply to provide a margin of comfort;

(d) Administrative burden on departments particularly in respect of perceived tight and changing deadlines - whilst the administrative burden on departments in overall terms from the in-year monitoring process is not particularly significant as the information required should simply be a by-product of that required as part of sound financial management, it is recognised that there are a number of spikes around the time when departmental returns are due to DFP and when the draft Executive paper is circulated for comment;

(e) Technical issues leading to confusion regarding public expenditure position - whilst the in-year monitoring guidance clearly sets out the controls in place for the process, the technical issues involved can cause confusion when interpreted by those not fully aware of the guidance. For example, in the distinction between a reduced requirement and a pro-active reduction;

(f) Inconsistent approach to engagement with Assembly Committees - there has been a significant degree of dissatisfaction by some Committees regarding the level of detail provided by departments regarding their monitoring round submissions as well as the timing of the engagement. Although the timing issue is in part unavoidable due to the tight timescales involved in each monitoring round, it should be possible for departments to engage with Committees on an ongoing basis regarding key expenditure issues rather than this only occurring at the time of each monitoring round; and

(g) Reduces incentive for departments to provide accurate Forecast Outturn information - one of the key concerns from departments in terms of the provision of Forecast Outturn information is that they will be under pressure to declare projected underspends as reduced requirements in the following monitoring round. However, it is recognised by DFP that there are differences in the extent to which departments can be certain that resources will not be required for the purpose originally intended.

Opportunities

(a) Availability of improved financial management information - as the Account NI reform programme is rolled out this is expected to improve the standard, reliability and timeliness of financial information available to departments. In turn this would be expected to improve the accuracy of the information provided to DFP. In addition, this may also provide the basis for a more regular, if less intensive, in-year process to review the financial position facing NI departments;

(b) Enhanced level of scrutiny of departments' financial positions following devolution - under Direct Rule there was only limited awareness of the in-year monitoring process and little scrutiny of the in-year public expenditure position. The restoration of devolution has increased the level of scrutiny and challenge which is expected to develop further as Assembly Committees gain a greater understanding of the issues involved; and

(c) Reduction in level of over-commitment planned for in Budget process - this means that more of the resources available as part of the in-year monitoring process will be available for allocation rather than being required to manage down the level of over-commitment through each financial year. However, the level of new inescapable pressures facing the Executive means that the effective level of over-commitment for 2009-10 is close to that for 2007-08.

Threats

(a) More constrained financial position placing unrealistic burden on in-year monitoring process - the slowdown in public expenditure growth over the 2007 Comprehensive Spending Review period, which is expected to continue beyond 2010-11, has meant that there has been relatively less scope for the Executive to make allocations in the Budget process which in turn has increased expectations in relation to the in-year process. At the same time the slowdown in public spending is also expected to have an impact on the level of reduced requirements declared by departments and hence the scope to meet emerging pressures;

(b) Short-term decisions undermining primacy of in-year monitoring process - one of the main benefits of the current process is that it allows all the pressures identified by departments to be considered against each other in light of the overall level of resources available. Whilst it is recognised that exceptional pressures may arise which require attention outside of the monitoring round process it is important that such occasions are the exception. In addition, it is important that any allocations are set in the context of the resource position which only becomes clear as part of each monitoring round;

(c) Impact of DHSSPS flexibility from 2007 Budget process on level of resources available for allocation - whilst the flexibility afforded to the department in terms of the first call on £20 million of available resources and the ability to retain reduced requirements appears to have operated relatively successfully, it does represent a potential threat going forward in terms of the resources available for reallocation to meet emerging pressures; and

(d) Staffing levels in CED - one of the key factors in ensuring the sound management of public expenditure in Northern Ireland has been the expertise of the small core team of support staff in Central Expenditure Division. There is a significant risk in terms of insufficient resources and staff being available to carry out and update this function.

4. Options for Change

4.1 In the context of the assessment set out above there are a number of potential options as regards the approach going forward in respect of the in-year monitoring process. These are considered below in terms of the costs and benefits of each option beginning first with the key question as to whether there needs to be an in-year monitoring process before moving on to consideration of alternative approaches:

Abolish In-Year Monitoring Process

4.2 This option would provide for a small reduction in costs for DFP but would risk a significant cost to wider public services. Furthermore, there could be an increase in administrative costs in other departments as more resources would be required to manage pressures internally. The automatic ability to re-allocate reduced requirements within departments would in turn remove the ability of the Executive to consider these additional available resources in terms of a strategic consideration of the pressure and priorities across departments, with the risk that funds are not recycled to the highest priority areas on an Executive wide basis.

4.3 In addition, whilst the management of internal pressures would be possible for larger departments, as shown by the example of DHSSPS in 2008-09, it would represent a real challenge for smaller departments. Although some departments may prefer to be provided with 3 year budgets and flexibility to facilitate longer-term planning, this would remove the central role of the Executive to reprioritise available resources from a strategic perspective in line with their priorities – or in response to unanticipated external events (for example, the recent flooding issue).

Reduce number of Monitoring Rounds

4.4 A general reduction in the number of Monitoring Rounds each year is unlikely to result in significant savings whilst there is a significant risk that removing the later rounds would constrain the ability of public services to respond to changes in circumstances as a result of increased delays in Executive approval being obtained for changes in expenditure plans.

4.5 However, in light of the current financial context and the proximity of June to the start of the financial year, there is an argument for the removal of this monitoring round. The counterpoint is that there are still some funds available for allocation as part of the June monitoring round whilst there are normally a significant number of technical issues as well as commitments from previous years that need to be resolved as early in the financial year as possible. In the recent 2009-10 June Monitoring Round, over £230 million in allocations were made to departments.

Increase number of Monitoring Rounds

4.6 The roll-out of Account NI has the potential to allow for up to date financial information to be available to departments and the Executive (perhaps even on as much as a monthly basis). Movement to a monthly monitoring round process would provide the scope for the Executive to respond to emerging pressures in a timelier manner rather than having to wait up to three months as per the current timetable. However, the Account NI system will need to be firmly embedded in all departments before such an approach could be adopted.

Greater scope for allocations to be made between Monitoring Rounds

4.7 Although the Executive agreed in June 2007 that all decisions on the allocation of public expenditure to departmental programmes will be taken during the Monitoring process for in-year spending adjustments, it was also agreed that in exceptional circumstances if a Minister believes that a matter has to be dealt with outside of these arrangements then he or she can discuss that with the Finance Minister. If they conclude that the matter requires immediate attention, then the Finance Minister will recommend a course of action for agreement by the Executive.

4.8 Whilst this latter provision has in general been invoked only in exception, there has been some frustration expressed that the current process has prevented funding decisions from being taken forward as soon as possible with consequential difficulties in terms of delivery. Therefore one option would be to allow greater flexibility for the Executive to make financial allocations at each meeting which would then be resolved as part of the next monitoring round.

4.9 However, there are significant costs to this approach in terms of the sound management of public expenditure and in particular the fundamental principle that allocations should only be made in the context of the resources available. Perhaps more importantly, this "first come, first served" approach would also mean that there is less strategic consideration of all the issues facing departments at the one time, with the risk of the situation arising whereby it is not possible to fund a higher priority pressure because allocations have previously been made to lower priority areas. There is also the risk that departments will have less incentive to take remedial action in response to emerging pressures. These points are also relevant in terms of making decisions regarding allocations for future years as part of the in-year monitoring process.

5. Conclusion and Recommendations

The main aim of this Review was to consider whether there is still a need for an in-year monitoring process, and if so what form should it take. The overall conclusion from the Review is that the rationale for an in-year monitoring process remains valid as the most effective mechanism to support the Executive in managing the public expenditure position. Although there would be some direct savings in terms of staff in DFP from a decision to abolish the process, this would be offset by increased workloads in departments and potentially material costs to the overall public expenditure position.

5.1 This leads onto the question as to what form the in-year monitoring process should take and what changes are required to the current approach in terms of the effective management of the resources available to the Executive, the administrative costs of operating the process as well as the form of engagement between departments and Assembly Committee's.

5.2 The ideal in this respect is a process which facilitates the optimal allocation of resources in a timely and responsive manner with minimal bureaucratic burden in terms of both departments and DFP. In taking this forward it is essential that all spending needs can be assessed against each other on the basis of objective evidence and in the context of available resources whilst ensuring value for money. In addition, the Northern Ireland Executive as a whole and individual departments must live within their respective expenditure controls.

5.3 Furthermore, the ultimate aim of the process should be to support departments in delivering the best possible services for all the people of Northern Ireland. Therefore, there needs to be significant involvement with local political representatives through the Assembly Committee's in a two way process which considers both spending needs and funding constraints.

5.4 In terms of the other options discussed in Section 4, although there remains a need for a June monitoring round in the short term, going forward the more constrained position as regards access to EYF means that there is a strong case for this monitoring round to be removed. However, some departments have advised that even the December round may be too late in terms of allocations for large capital projects which suggests that there is still a need for some form of process earlier in the financial year.

5.5 Over the longer term there should be scope for greater frequency in the Executive being informed of the financial position for NI departments, which should also reduce the need for financial allocations and commitments to be made between monitoring rounds, although this will be dependent on progress regarding improvements in financial reporting.

5.6 However, there are a number of aspects to the in-year monitoring process which would benefit from further development over the next 1-2 years as highlighted in Section 3. These include greater direction being provided to departments in terms of the engagement with Assembly Committees which should be set out in In-Year Monitoring Guidance in terms of timing and form of written evidence to ensure a common approach. As part of this all Departments should be required to prioritise the spending proposals put forward as part of in-year monitoring.

5.7 In addition, there is a need for improvement in the value of Forecast Outturn information in terms of the in-year monitoring process, where departments have previously been reluctant to identify potential underspends due to the risk that they would be taken as reduced requirements. Therefore greater assurance and clarity should be provided to departments regarding the use of Forecast Outturn information in the in-year monitoring process.

5.8 A further issue is that the monitoring round process has tended to focus too much on level of funding rather than the true goal of improved public services. The spending allocations set out in the Budget are agreed on the basis that they will allow departments to achieve the commitments set out in the Programme for Government (PfG). Therefore, in putting forward the case for

additional funding, there should be greater prominence given to the associated PfG targets in terms of why additional resources are required.

5.10 Whilst some progress can be made in this respect in the short term, it is also recognised that the linkage between funding and public service outputs/outcomes will be dependent on the quality of the performance indicators underpinning the PfG which will be further developed in the coming years.

5.11 Over the longer term, improvements in financial management capabilities within departments will also provide the scope for departments to have greater flexibility in the use of resources in achieving PfG targets which should in turn reduce the need for a formal in-year monitoring process.

5.12 A key concern expressed by both departments and Committee's has been in respect of the timescales involved in each monitoring round. However, this is balanced against the need for the Executive to be provided with the most up to date information possible as regards the overall financial context. The Review has examined this issue and concluded that there is no scope to extend the timescales involved for each monitoring round without materially reducing the quality of advice provided to Ministers.

5.13 However, a key issue in the most recent Monitoring Round was the late circulation of the draft Executive paper for comment. In the context of the normal three week window between the submission of departmental returns and the Executive meeting to discuss each monitoring round, there were a number of detailed and complex issues involved in the 2009-10 June Monitoring Round which meant that it was not possible to circulate the draft Executive paper until the day of the Executive meeting.

5.14 Therefore the main recommendations from the Review are as follows

- (a) There is still a need for a formal in-year monitoring process to allow for the effective management of the resources available to the Executive;
- (b) Consideration should be given to restricting the June Monitoring round solely to technical issues for the 2010-11 financial year onwards;
- (c) Clear guidance should be issued to departments regarding the need for early engagement with Assembly Committees as regards financial issues, which should not necessarily be restricted to monitoring rounds;
- (d) All spending proposals put forward by departments should clearly state the relevant PfG target they relate to, as well as the impact if it is approved by the Executive;
- (e) The timetable for the in-year monitoring process should be made publicly available early in each financial year, for example on the DFP website;
- (f) Draft Executive papers should be circulated to departments for comment at least four working days in advance of the respective Executive meeting;
- (g) The in-year monitoring guidance should clearly set out the relationship between Forecast Outturn information and the in-year monitoring process.

In addition, there are a number of other issues regarding the in-year monitoring process including the flexibilities afforded to departments as well as the scope to provide the Executive

with more regular updates on the financial position of departments that will need to be considered over the longer term as financial management capabilities improve across departments.

Public Spending Directorate
Department of Finance and Personnel

Annex A

Basic Stages in the In Year Monitoring Process

A.1 The in-year monitoring process begins early in the financial year with officials in Central Finance Group (CFG) issuing guidance as regards how the process for the financial year will be conducted including the transactions that will be allowed and the indicative timetable. Although, the broad principles tend to remain the same each year, there have been some changes in recent years particularly in respect of the management of capital programmes.

A.2 At the beginning of each monitoring round a commissioning note is issued from CFG reminding departments of the general principles involved in the process, providing details of any additional requirements for the round and confirming the timetable for returns. Once departmental returns are submitted and data keyed onto the CFG management database, officials in CFG then collate and analyse the information provided by departments, requesting further information and clarification as required. This forms the basis of advice to the Finance Minister which in turn is developed into a draft Executive paper for circulation to Ministers for comment including an assessment of the latest financial position and recommendations for the way forward. Based on the comments provided by departments, a final paper is then submitted for the Executive meeting. The outcome of the monitoring round is then announced to the Assembly at the earliest possible opportunity with CFG officials providing a briefing to the Committee for Finance and Personnel on the following Wednesday morning.

A.3 In normal circumstances there is at most three weeks from the deadline for monitoring returns being submitted to CFG through to the Executive meeting on each monitoring round. This represents a tight turnaround time, which has been put under further strain in the two most recent monitoring rounds by the Executive having interim discussions on the financial position in advance of formal consideration. It is recognised that this also places considerable pressure on departments to produce and achieve Ministerial approval for monitoring submissions in time for the CFG timetable as well as the often very short turnaround times expected in respect of comments on the draft Executive paper. However, every effort is made by CFG to provide material to departments as soon as it has been approved.

[1] In the first year covered by the 2004 Spending Review (2005-06) NI departments declared £147.3 million in current expenditure reduced requirements compared to £148.4 million in 2008-09 (first year of 2007 Comprehensive Spending Review) whilst the level of capital investment reduced requirements were £109.7 million and £108.7 million respectively.

Minister of Finance and Personnel - Review of the Logistical Arrangements in the 2008-11 Budget Process

From the Office of the
Minister for Finance & Personnel



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Chairperson
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Telephone: 028 90529140
Email: private.office@dfpni.gov.uk
Your reference:
Our reference: INV/449/2009

7 January 2010

Dear Jennifer

I am writing in response to your letter of 17 December 2009 in respect of the Review of the logistical arrangements in the Budget 2008-11 process.

Whilst I appreciate the concerns of the Committee at the delay in finalising the report, the main focus at this time is on the Review of the 2010-11 Spending Plans of NI departments which is of a more immediate priority in the early part of 2010.

In this context, I do not expect the Review of the logistical arrangements in the Budget 2008-11 process to be brought to a conclusion until final revised spending plans for the 2010-11 financial year are in place.

I understand from officials that, during the Committee meeting of 6 January, my attendance has also been requested to discuss the draft expenditure plans for 2010-11.

As I stated in my letter of 30 October 2009 I would welcome an opportunity to attend a meeting at a date that is mutually agreeable to both parties.

Yours sincerely

SAMMY WILSON MP MLA

Response to Questions on Budget Process Review and View on Assembly Research Report

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
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Parliament Buildings
Stormont

29 March 2010

Dear Shane,

During the course of the evidence session on the Review of In Year Monitoring, officials undertook to provide the Committee with a draft of the section on Engagement with Committees which is to be included in the 2010-11 In-Year Monitoring Guidelines. These guidelines will be issued to departments and published on the DFP website.

The proposed text is attached at Annex A and I would be grateful if any comments could be provided as soon as possible to allow the guidelines to be issued by the end of April at the latest.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Norman', followed by a long, sweeping horizontal stroke.

NORMAN IRWIN

Annex A

Engagement with Departmental Assembly Committees

5.1 Assembly Committees have an important role to play in the scrutiny of departmental spending plans, for that reason departments must ensure that they engage fully with their Assembly Committees in respect of the In-Year Monitoring process. The extent and timing of this engagement is obviously a matter for individual Committees, and there should be early engagement with Committees in order to establish their requirements. DFP would recommend that Committees should be kept informed of financial matters on an ongoing basis.

From the Office of the
Minister for Finance & Personnel



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Your reference:

Our reference: SUB/178/2010

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10 May 2010

NI EXECUTIVE REVIEW OF BUDGET 2008-11 PROCESS

I am writing to advise the Committee for Finance and Personnel of the outcome of the Review of Budget 2008-11 Process. I recognise that the completion of the Review has been significantly delayed due to more immediate pressures such as the need to review the 2010-11 spending plans of NI departments, and I am grateful for the Committee's patience on this matter.

The Budget 2008-11 process was completed in January 2008. Subsequently, the Executive agreed in March 2008 that there should be a review to evaluate the logistical arrangements underlying the development of Budget 2008-11, with a view to making recommendations to improve and enhance future Budget processes. This has now been completed and the Final Report is attached for your information, incorporating the comments previously provided by the Committee in its submission to the Review.

The intention had been that all the findings of the Review would be reflected in the approach to the 2010 NI Executive Budget process. However, the delay and uncertainty in respect of the national Spending Review process means that it may only be possible to implement some of the recommendations in the process this year.

I look forward to the outcome of the Committee's Inquiry into the Scrutiny of the NI Executive's Budget and Expenditure which will now be taken forward following the outcome of this Review.

Yours sincerely

SAMMY WILSON MLA

Minister of Finance and Personnel - Outcome of Review of Budget Process

Review of Northern Ireland Executive Budget 2008-11 Process

Public Spending Directorate Department of Finance & Personnel March 2010

Contents

Executive Summary and Recommendations

Introduction

Section 1 Budget Process in Northern Ireland

Section 2 Stakeholder Views on Budget Process

Section 3 Budget Process in Wales

Section 4 Budget Process in Scotland

Conclusion

Annex A Terms of Reference for Review

Annex B Committee Response (excluding appendices)

Annex C UK Public Expenditure System

Executive Summary and Recommendations

Introduction

The primary objective of the Budget process is to support the delivery of the Programme for Government (PfG) through the allocation of the resources available to the Executive over subsequent years to enable the delivery of the best possible services for the people of Northern Ireland (NI). The provision of advice and support to the Finance Minister on the development of the Budget is the responsibility of the Public Spending Directorate within the Department of Finance and Personnel.

In the context of the outcome of the United Kingdom (UK) wide Comprehensive Spending Review (CSR) in October 2007, Budget 2008-11 set out the expenditure plans for NI departments over the period 2008-09 to 2010-11 in line with the PfG. The final version of the document was agreed by the Executive and approved by the Assembly in January 2008.

In overall terms Budget 2008-11 was successful in terms of the production of an agreed set of expenditure plans in advance of the start of the 2008-09 financial year.

However, it was also recognised that the process initiated by the incoming Executive (in May 2007) had been commenced, and indeed substantially progressed, during the previous period of Direct Rule. In this context the need was identified to review the overall process, to ensure the future approach is fit for purpose in the devolved context. In particular there were a number of

areas where it was felt that the process could be improved, including the linkage between spending proposals and public service outcomes as well as the presentation of the draft Budget position and the nature of the engagement with Assembly Committees.

Background

In this context, the Executive agreed in March 2008 that there should be a review to evaluate the Budget 2008-11 logistical arrangements, with a view to making recommendations to improve and enhance future Budget processes. The Terms of Reference for the Review are set out in Annex A.

The main source of evidence for the Review was from a series of structured interviews supplemented by written responses. Views were sought from key stakeholder organisations representing the views of Trade Unions, Business Organisations and the Community and Voluntary Sector amongst others. However, the primary input was from those with a direct involvement in the process within departmental Finance Divisions.

As part of its broader inquiry into the role of the NI Assembly in scrutinising the Executive's budget and expenditure, the Committee for Finance and Personnel provided a valuable and substantive input to this Review incorporating comments from other Assembly Committees - attached at Annex B (excluding Appendices).

In addition, the approach to the Budget process in Scotland and Wales was also considered. However, it was not possible to review the experience in the Republic of Ireland, as envisaged in the original Terms of Reference, due to the timing of the Budget process in the Republic of Ireland conflicting with the consultation period of this Review.

Interviews were conducted with departments and key stakeholders over the 2008 summer/autumn period while the Committee for Finance and Personnel published its submission to the Review on 22 October 2008. The Review Team is most grateful to all those who took the time and effort to meet with them or provide written comments, and in particular for the constructive and open input that was provided.

Main Findings

Overall, there was a significant degree of commonality in the issues raised by the various stakeholders. However, there were also a number of striking differences. For example, while some thought that the overall Budget process was too short, which may reflect the unique nature of 2008-11 process, the opposite view was also put forward that it was too long.

The main issues raised were in terms of the consultation, where a strong preference was expressed for earlier engagement by departments. This is a critical point as it was clear from the consultation process that Assembly Committees did not feel that they had a significant impact on the respective departments input to Budget 2008-11. The view was also put forward that the consultation documentation should provide clearer linkages with the PfG and the Investment Strategy for Northern Ireland (ISNI).

In terms of timing, it was suggested that some form of statement as regards the priorities of the Executive should be set out at the outset of the Budget process. There was also support amongst some groups for a return to the approach of producing Position Reports early on in the process (as was the case in 2001 and 2002) or at least greater standardisation in the provision of material to Assembly Committees. The view was also put forward that supporting documentation such as Efficiency Delivery Plans and Investment Delivery Plans should be

published alongside the draft Budget, although this may be difficult in the limited amount of time available.

It was also suggested that the Executive's priorities in the PfG should be published in advance of the Budget while the draft Budget should be published in September in order to allow the revised document to be published in December.

The processes in Scotland and Wales were investigated with a number of lessons identified which could be applied to the process in NI. In both Scotland and Wales the level of supporting documentation published alongside the draft Budget proposals is less than in NI whilst consultation is mainly through the Committees and over a shorter period than is the case in NI. This is possibly due to a clear timetable being set at the start of the process and early engagement with departments.

Another key difference is that the Committees in Scotland and Wales are restricted to making changes within the overall funding envelope. The Estimates and Budget processes are more integrated in Scotland and Wales, with the revised Budget serving as the equivalent of the Main Estimate in NI.

Recommendations

Having considered the available evidence and the views of key stakeholders, the recommendations from this Review are as follows:

- (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.
- (2) The Programme for Government should be developed to a timetable slightly in advance of the Budget. A key difficulty for both departments and Assembly Committees in Budget 2008-11 was the lack of clarity as to the priorities of the Executive as spending proposals were being developed and prioritised. While the finalisation of the PfG is, to a considerable extent limited to resource availability and hence the Budget position, there should at least be a clear indication of broad priorities at the beginning of the Budget process.
- (3) A clear timetable setting out the key milestones should be made publicly available at the start of each Budget process. One of the key findings of the Review was the perception that, once the formal consultation process of the draft Budget has commenced, it is too late to significantly influence spending proposals. However, this is when many stakeholders first become aware of the process. There is therefore a need to increase awareness of the key milestones in the Budget process and in particular the window of opportunity to influence departmental spending proposals.
- (4) There should be early and more structured engagement between departments and Assembly Committees setting out the key issues and pressures facing NI departments. The more truncated timetable in 2007 meant that there was insufficient time for early engagement or the production of a Position Report for Budget 2008-11. While some consultees saw merit in the publication of the Position Reports there is significant risk that this could become a bureaucratic exercise. However, earlier engagement should be more structured in order to provide greater

standardisation in the material provided to Committees. There may also be value in formal feedback from departments to Committees following the publication of the final Budget.

(5) There should be earlier engagement with key stakeholder groups by departments as part of the Budget process. In the longer term departments should move to a situation where there is greater regular contact with stakeholder groups on an ongoing basis obviating the need for specific contact in relation to the Budget process. In their draft Budget submissions, departments should clearly state which stakeholder groups have been consulted with in the development of spending proposals. Greater effort is also needed in respect of the hard to reach groups which do not normally engage in public consultation exercises.

(6) DFP should take the lead role from the Strategic Investment Board (SIB) in developing capital investment allocations in the Budget process. Whilst the SIB fulfils an important role in providing advice on the development of the direction of travel as regards the Executive's spending plans over the longer term, the complexities involved in the public expenditure planning process, including in particular the resource implications from capital projects, mean that both capital and resource allocations for the Budget period should be considered together as part of the Budget process by DFP.

(7) Every departmental spending proposal should clearly state the impact on the respective PSA target, if successful. Although the original intention in Budget 2008-11 was to link each spending proposal with a specific output or outcome, that was not possible in light of the relatively slow progress in developing the PfG. The agreement by the Executive of a PfG means that this link can explicitly be made in future Budget processes. It is recognised that not all departmental expenditure can necessarily be explicitly linked to a specific PSA target. In these cases expenditure should be firmly justified and desired outcomes specified.

(8) The Draft Budget document should include an easy to read summary at the start of the document. Although public finance is a complex issue, it is essential that as broad an audience as possible is able to read and understand the Executive's draft proposals. This should include details of the resources available to the Executive, how it is proposed that these are allocated and what will be achieved as a result.

(9) The full list of prioritised spending proposals submitted by departments as part of the draft Budget process should be published alongside draft Budget document including details of which proposals will be funded from the draft Budget allocations. In light of the more constrained overall public expenditure environment in Budget 2008-11, there was significant flexibility for departments to distribute their draft Budget allocations between spending areas up until the final Budget position was agreed. However, this also created significant confusion as to what was and what was not being funded.

(10) Departments should publish the High Level Impact Assessment for each spending proposal. In addition to the information currently provided, it should be clearly stated which existing Equality Impact Assessment (EQIA) as well as other relevant impact assessments the proposal is linked to, and if not, when the respective programme EQIA or other relevant impact assessment will be completed.

(11) Supporting documentation including, for example, draft PSA and Efficiency Delivery Plans should be published as soon as possible after the draft Budget and PfG to provide a greater understanding of what will be achieved with the Budget allocations. While there is a significant amount of time and effort involved in the production of the core Budget documentation, which means that there is limited scope to provide supporting material until a later date, it is also clear that there would be value in additional supporting material being produced as early in the process as possible. However, it is equally important that this documentation is actually used

rather than being treated as part of a process. This issue should be kept under review with information no longer provided if it is not being used to scrutinise expenditure plans.

(12) 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. Following the approach in Scotland and Wales and in light of the role of the Assembly to represent all the people of Northern Ireland, there should be a greater focus on Assembly Committees as the key conduit for public responses to the Executive's draft Budget proposals, rather than the current approach which has become dominated by public sector organisations and vested interest groups.

(13) In responding to the draft Budget, any proposal to increase spending on a particular service by a Committee should be accompanied by an equally detailed proposal as to how this could be funded. Draft Budget proposals are normally based on the allocation of all of the funds available to the Executive. Therefore, in order to provide a complete assessment of alternate proposals the implications for other public services need to be clearly set out. In order to prevent unrealistic spending reductions being put forward to the Executive, the Committee for Finance and Personnel, in responding on behalf of all the Committees, should identify whether it views the funding proposal to be realistic or not.

(14) The Final Budget Statement and debate should be combined with the Main Estimates process. The current approach whereby final Budget allocations are debated and agreed by the Assembly in January with the process largely repeated in the following June as part of Main Estimates results in significant amounts of repetition, duplication and confusion. Whilst this in part reflects the amount and complexity of the material required for both exercises, adopting a more simplified approach as in Scotland would allow both to be taken forward at the same time. DFP intend to take this forward, and have started some preparatory work.

Next Steps

This Review has considered the logistical arrangements for the 2008-11 Budget Process in order to determine how the Budget process could be further improved in the future. The recommendations set out above are based on the approach that should be taken in a standard Budget process.

However, the NI Executive is expected to experience significant public expenditure constraints in the coming years with a reduction in the level of resources available for allocation which means that the forthcoming process for the 2010 Budget period (2011-14) may be significantly different to the standard approach. In addition, the timetable for the 2010 Budget process will be affected by the delay and uncertainty in respect of the national Spending Review process this year. This will have implications in respect of the timing of the implementation of some of the recommendations.

Introduction

1. The objective of the Budget process in Northern Ireland is to determine the future years' spending plans for the services devolved to the Northern Ireland Executive. The most significant Budget processes are those which follow immediately after a national Spending Review.

2. The Northern Ireland Budget process has three main stages:

- Preparation of the Draft Budget;

- Public Consultation; and
- Preparation and agreement of the Revised Budget.

3. There is a significant amount of work involved in each of these stages, particularly the development of draft Budget proposals for agreement by the Executive. The revised Budget takes on board any changes to the draft Budget, mainly as a result of the public consultation and is also agreed by the Executive. Although there are a broad range of individuals and organisations involved in the production of the Budget, primary responsibility for managing and coordinating the process lies with the Public Spending Directorate (PSD) within the Department of Finance and Personnel (DFP).

4. The aim of the Budget process is to achieve the optimal balance of funding for the public services provided by NI departments. This is in light of the Executive's priorities, the outcomes that departments plan to deliver and the constraints of the overall amount of funding available.

5. The Executive agreed on 13 March 2008 that there should be a review of the 2008-11 Budget process. The objective of this Review was to consider the logistical arrangements for future Budget processes; to seek to further improve and embed the linkages between spending allocations, and the Programme for Government (PfG) and to establish stronger and more explicit linkages between the allocation of funding to Departments and the delivery of outcomes approved by the Executive.

6. The Review also examined the future arrangements for direct public engagement, in the context where elected representatives in the Assembly now have a direct input to the Budget process, and ultimate responsibility for approving the Budget outcome. The full Terms of Reference for the Review are set out in Annex A.

7. An important contribution to the DFP Review has come from Committee for Finance and Personnel (see Annex B) which is currently conducting its own inquiry into the scrutiny of the Northern Ireland Executive's budget and expenditure^[1]. This first stage report of the Committee's inquiry compiled the views of the other statutory committees, with the intention of maximising the Assembly's contribution to the NI Executive budget process and enhancing the role of the Assembly statutory committees and members in the Budget and regarding financial scrutiny.

8. The DFP Review was undertaken by Public Spending Directorate (PSD) officials, under the direction of senior management in DFP. A series of structured interviews and written inputs were received from other devolved regions, key external stakeholders and departments.

9. The following sections contain details of the:

- Section 1 – Budget Process in Northern Ireland – provides a summary of the main issues arising from the 2008-11 Budget process.
- Section 2 – Stakeholder Views on Budget Process – this section summarises the views of a range of organisations representative of the various groups involved in the Budget process.
- Section 3 – Budget Process in Wales – this section contains a summary of the Welsh Budget process and investigates what lessons there are for Northern Ireland.
- Section 4 – Budget Process in Scotland – this section contains a summary of the Scottish Budget process and investigates what lessons there are for Northern Ireland.

- Conclusion – draws together the main findings from the Review and sets out a series of recommendations to improve the process.

Section 1: Budget Process in Northern Ireland

Background to Budget Process

1.1 In 2008-09 Northern Ireland departments spent £8.6 billion in terms of current expenditure and £1.5 billion in respect of capital investment, not including the £8.8 billion of Annually Managed Expenditure (mainly social security expenditure) which is not part of the local Budget process. This funding is spent on a range of services from health and education through to promotion of the arts, support to business and development of our infrastructure such as roads and social housing.

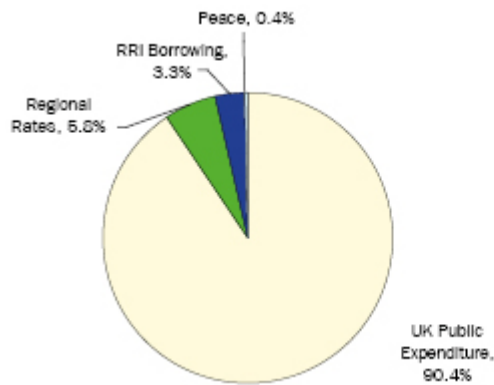
1.2 The traditional nature of the Budget process (at both UK and NI level) is that the focus is primarily on incremental changes, as a large proportion of the available funding is largely predetermined through ongoing costs, such as wages and salaries and established spending programmes. This limits the scope to radically change spending between departments in the short term. Although the concept of zero-based budgeting implies that 100% of expenditure is reviewed, the nature of employee and service contracts means that substantial changes might involve prohibitive initial costs.

1.3 There are four principle sources of funding for public expenditure by the Executive, which are:

- Share of the UK's Public Expenditure allocations – this is determined by the Barnett Formula. Any increase (or decrease) each year in the funding for comparable public services in England is distributed across Scotland, Wales and Northern Ireland in proportion to their population. Expenditure is allocated as a block grant which provides the Devolved Administrations with the flexibility to reallocate funds between services according to local priorities rather than simply mirroring the approach of Whitehall departments.
- Regional Rates – revenue received from taxation of domestic and non-domestic property in Northern Ireland. The revenue collected is not attributed to specific spending programmes, but instead supplements the overall amount available for allocation by the Executive.
- Borrowing under Reinvestment and Reform Initiative (RRI) – the RRI arrangements permit borrowing for capital investment, currently up to a maximum of £200 million per annum with the amounts borrowed to be repaid over subsequent years.
- EU Funding – the level of funding available from the EU has declined over the years. This is funding for specific projects.

The following chart shows that of these sources the most significant share comes from the share of overall UK Public Expenditure (funded from UK wide general taxation). Due to its significance for the funding of the Devolved Administrations a short summary of the UK public expenditure system is provided in Annex C.

Sources of Funding Available to NI Executive, 2009-10



Background to Budget 2008-11

1.5 The 2008-11 Budget process determined the spending plans for Northern Ireland Departments over the financial years 2008-09 to 2010-11. This was the first Budget process under the restored Executive and Assembly.

1.6 Restoration of power to the NI Executive took place on Tuesday 8 May 2007 following the election of a four-party Executive of 12 Ministers and 2 Junior Ministers. The agreed draft Budget was published in October 2007 at the same time as the draft Programme for Government (PfG) and the draft Investment Strategy for Northern Ireland (ISNI). The final Budget 2008-11 was agreed by the Executive and approved by the NI Assembly in January 2008.

1.7 Although initial preparatory work on the Budget 2008-11 process had started in 2006 (as part of the UK Comprehensive Spending Review), in normal circumstances the formal Budget process would have been underway since the start of the 2007 calendar year. Therefore the restoration of devolution had a major impact on the timetable for this process. There is a clear distinction between the length of the process in terms of departments (almost two years) and the six months that involved the Assembly. This is reflected of the divergence of views regarding the overall length of the process.

1.8 The timing of the Budget process, alongside that of the PfG meant that the Executive's priorities were not as clear during the developmental stage of the 2008-11 Budget process than was the case in previous years, and is expected to be in future years.

1.9 A further complication was that the outcome of the national 2007 Comprehensive Spending Review (CSR) was announced by the Chancellor of the Exchequer on the 9 October 2007. This marked a departure from previous Spending Reviews, the outcome of which had been announced earlier in July. This meant that the Executive had a shorter period of time than normal between the overall level of available funding being confirmed and the publication of the draft Budget position. Although there was a general expectation as to the likely outcome, the later 2007 CSR announcement did result in a delay in the publication of the draft Budget document and hence the time available for public consultation. The 2007 CSR resulted, in overall terms for Northern Ireland, in annual average growth in funding from Treasury across the period of 1.2%. This was a lower rate of increase than the outcome of recent Spending Reviews^[2] which incorporated further complexity into the process.

1.10 There was also a significant issue in respect of water and sewerage services which are fully funded by consumer charges in the rest of the UK, whereas in Northern Ireland the services are currently primarily funded via public expenditure. Northern Ireland therefore does not receive any Barnett consequential in respect of these services. The Executive's approach in this respect

was informed by the Strand One Report of the Independent Water Review Panel which was published in October 2007.

Budget process for Budget 2008-11

Background

Following the Chief Secretary to the Treasury's announcement in July 2005 that there would be a UK-wide Comprehensive Spending Review in 2007, Northern Ireland departments began initial preparatory work through 2006 in respect of the local Budget process with a focus on options for value for money savings, in light of the expected slowdown in the growth of public spending.

Pre-Consultation

As part of this preparatory work a pre-consultation exercise was undertaken late in 2006 and early in 2007 to take the views of key stakeholders^[3], including trade unions, business organisations and the third sector regarding the spending priorities and the associated outcomes for NI departments over the Budget period.

The consultees raised a number of issues relevant to their particular sectors. In particular, there was concern that although departments produced strategies which appeared to address relevant needs, there was insufficient consideration of implementation and the level of resources needed to enable the targets set out in these strategies to be achieved. The representatives from the business community highlighted the need to focus on "growth enablers" and in particular address deficiencies in education and skills. One generic issue was in respect of the status of the pre-consultation exercise given that it was initiated under Direct Rule, while the expectation was that devolution would be restarted before the end of the overall Budget process.

Draft Budget

At the start of most financial planning exercises, guidance is issued to NI Departments setting out the context, timetable and requirements as regards departmental submissions. The draft Budget guidance was issued to departments in March 2007 including:

- an overview of the Public Expenditure position;
- Ministerial priorities;
- the performance framework;
- guidance on departmental spending proposal returns;
- guidance on the equality and sustainable development considerations; and,
- a draft timetable.

1.15 The spending proposals were to be submitted to DFP in May 2007 although this was delayed with the returning Executive and new Departmental Ministers. In response, departments submitted over 260 proposals with a cost of over £6 billion, almost double the amount of resources expected to be available for allocation.

1.16 Based on an assessment of the spending proposals and in light of the expected level of available resources a series of draft Budget scenarios were developed over the summer period. Following initial discussion at the Executive on the 24 May 2007 the draft Budget position was

discussed at Executive meetings on the 13 September 2007 and 8 October 2007. Bilaterals were also held between the Finance Minister and Executive colleagues to discuss the aspects of the draft Budget proposals relating to their respective departments.

1.17 The planned level of resources the Northern Ireland Executive was due to receive over the period 2008-09 to 2010-11 via the block grant from HM Treasury was confirmed in the Chancellor's 2007 CSR statement. However, on the basis of the early indications from HM Treasury it was possible to develop a draft Budget position in advance with a reasonable degree of accuracy.

1.18 The draft Budget was agreed for public consultation at the Executive and published for public consultation on the 25 October 2007. The draft PfG 2008-11 and draft ISNI 2008-18 were both published on the same day. There was a joint public consultation exercise for all three documents.

1.19 The public consultation on the draft Budget was 10 weeks long. In response there were several comments that the overall amount of time available for the public consultation process was insufficient, and that included the Christmas holiday period.

1.20 As part of the consultation process there were four public events in Armagh, Belfast, Enniskillen and the North West, attended by over 230 people including public servants and political representatives. In addition, separate consultation meetings were held with a range of stakeholder groups including the Northern Ireland Local Government Association, the Federation of Small Business and the Equality Coalition.

1.21 There were over 9,500 written responses received by the 4 January 2008 closing date, including petitions and a series of standardised letters. These were published on the OFMDFM website^[4].

1.22 The main themes raised at both the public consultation events and in the written responses were in relation to the need for additional funding support for the Arts, Mental Health and Learning Disability Services, Youth and Library Services, Sports as well as investment in social housing.

1.23 As part of the Committee for Finance and Personnel's consideration of the draft Budget a Take Note debate was held (during the public consultation period) in the Assembly on 27 November 2007. The DFP Assembly Committee also undertook its own consultation exercise, with other departmental committees and key stakeholders. Some departments also carried out additional public consultation during this period regarding their own departmental priorities and spending areas.

1.24 Following Ministerial agreement on 21 January 2008 the Executive's final budget plans were published on 22 January 2008 and approved a week later by the Assembly. The final PfG and ISNI were published on 28 January 2008. Following the publication of the final documents a consultation report was made available on the OFMDFM website^[5].

Main Issues with the 2008-11 Budget Process

1.25 The main issue in respect of the logistical arrangements for the 2008-11 Budget process was the change in timetable, due to the restoration of devolution in Northern Ireland. In particular, sufficient time was needed to allow new Ministers to become acquainted with their portfolios. This resulted in some aspects of the process being compressed into shorter timescales, within a process that departments had been involved in for a much longer period of

time. This was also in the context of a delay in the UK Comprehensive Spending Review announcement which would normally have been mid July and was delayed until 9 October 2007, with the draft Budget for Northern Ireland being published on 25 October^[6].

1.26 One of the original aims of the process was to develop a much greater linkage between spending allocations and the outputs or outcomes that the funding was intended to achieve. In particular, the proforma that was returned for each spending proposal included a section on outputs. However, because of the delay in taking forward the PfG, departments were unclear as to the Executive's overall priorities as well as the targets to be set out in the PfG. This made it very difficult for departments to provide this information in the spending proposal proforma and similarly for DFP officials to make an assessment of the relative merits of each proposal.

1.27 In light of the lack of clarity regarding the Executive's priorities and the scale of the spending proposals submitted relative to the available resources, it was decided to provide departments with overall allocations which they could then prioritise amongst spending proposals.

1.28 The Strategic Investment Board (SIB) took the lead role in terms of the capital investment allocations in the Budget process reflecting the linkage with the longer term ISNI. While DFP provided details regarding the overall funding envelope, there was concern that insufficient emphasis was placed on affordability in the ISNI process as well as the resource implications of capital projects. There was also uncertainty, regarding the respective roles of DFP and SIB in the process.

1.29 The Committee for Finance and Personnel coordinated the responses from the other departmental committees to the draft Budget. However, the relatively limited time available since the Committees had been in operation meant that the challenge function was less developed than otherwise would be the case, in terms of not only the prioritisation of spending proposals but also the identification of areas where spending might be reduced in order to accommodate spending proposals.

1.30 The consultation process produced a large number of responses and was quite varied in terms of the issues raised. The final Budget document included a response to the main issues raised during the consultation process. A key issue for the Executive in considering comments received during the consultation was whether the issues raised represented the consensus view of the general public as opposed to lobbying of interest groups. In particular, the latter tended to dominate the consultation process by submitting standard letters, arranging petitions and attending public consultation meetings. The clear risk here is that the consultation process simply identifies the most effective interest group rather than where there is greatest need for amendment to the draft expenditure plans.

Section 2: Stakeholder Views on Budget Process

Introduction

2.1 There are a broad range of organisations involved in the Budget process including:

- External stakeholders - Trade Unions, Business Bodies, Community and Voluntary Sector, Section 75 groups, and research organisations. These organisations are primarily involved in the consultation part of the Budget process, both during the pre consultation and public consultation stages.

- Departments - Departmental Finance Divisions act as the main interface between departments and DFP in the Budget process. They are responsible for coordinating the Budget process within departments including the coordination of the development of spending bids between policy areas and the submission of departmental Budget submissions to DFP.
- Public Spending Directorate – this is comprised inter alia of Central Expenditure Division which is responsible for the logistical arrangements of the Budget process and the Supply Divisions who interact with departments in terms of the overall process and in particular the context of Budget submissions.
- Assembly Committees - the Committee for Finance and Personnel coordinates the views of Assembly Committees in response to the draft Budget and reports on them. Assembly Committees have a crucial role in terms of critically assessing departmental priorities, spending plans and targets, as well as ensuring value for money. This continues subsequently with the scrutiny of departmental delivery against plans by committees.

2.2 In July 2008 the Review team wrote to departments and external stakeholders inviting them to put forward their views as regards the 2008-11 Budget process. In most cases this was in the form of a structured interview, with a list of questions provided in advance, while the option was also available to provide supplementary written evidence. Although all departments were invited to comment, in light of the large number of regional stakeholder groups involved in the Budget process only a sub-set of representative external organisations were included. All respondents were advised that their responses would be made anonymous.

2.3 As part of its broader inquiry, the Committee for Finance and Personnel undertook to consult with other Committees regarding the DFP departmental Review. The associated report is available on Committee website^[7] - see Annex B for main body of the Committee's report.

2.4 Set out below is a summary of the comments from stakeholders including NI departments whilst the views of the Assembly Committee's are reflected later in the section.

Stakeholders

Timetable, Information and Communication

2.5 Some stakeholders commented that the Budget process was too protracted, whilst others thought that there was a long lead in time with everything happening at the end. However, most recognised that this was simply a consequence of the timing of the restoration of devolution.

2.6 Stakeholders thought the draft Budget allocations should be agreed by the Executive before the summer recess in order to meet the deadline of publishing the draft Budget in September. It was also considered important for the revised Budget documents to be published before Christmas in order to aid the financial planning process within departments and their sponsor bodies.

2.7 There was general contentment with the internal guidance issued by the Public Spending Directorate (PSD) at the start of the process. However, it was suggested that the guidance should have included more information on the priorities and efficiencies, to reduce the possibility of misinterpretation by departments. In addition, more information would have been useful in terms of EU funding, changes to baselines and the treatment of resource consequential from capital projects.

2.8 Some stakeholders thought that a timetable of the Budget process should be published on the website as this enhanced planning would allow both internal and external stakeholders to be better prepared for the Budget process.

2.9 Some stakeholders thought that there was too much confusion regarding the roles and responsibilities in respect of the capital allocations between SIB and DFP. In particular, with regard to the ongoing resource consequential of the capital investment plans as well as the consideration of the contextual issues within individual departments. Some stakeholders suggested that it would be simpler for DFP to take control of the capital for the budget years, while SIB focused on the longer term. There was some concern regarding the SIB engagement throughout the process, therefore it was suggested that the process of developing the longer term Investment Strategy for Northern Ireland should also be reviewed.

Priorities, Outcomes, Capital and Cross Departmental Working

2.10 Stakeholders commented that the priorities should be set in advance of the Budget, with the PfG published first. This would mean that the departmental chapters in the Budget document could more easily link into what would be delivered. Some stakeholders commented that the broad outline of the PfG should be completed in advance with the detailed targets determined after the Budget.

2.11 One stakeholder thought that there should be a better tracking system in terms of budgets flowing into outcomes. It was generally agreed that spending proposals should continue to be linked to outcomes detailed in the PSAs, although it should be recognised that there will always be some necessary expenditure that cannot be directly linked to any of the PSAs.

2.12 Most respondents thought that the prioritisation of bids added value to the process although it was suggested that it can cause confusion during the public consultation.

2.13 Cross departmental working was mentioned as key to ensuring that services do not fall between departmental boundaries and for more efficient delivery of services. Some groups thought that there had been difficulties in the operation of previous cross cutting funds due to a lack of ownership and additional bureaucracy. Therefore, it was felt that central funds do not address the inherent risks in respect of services which are the responsibility of more than one department.

2.14 Joint departmental bids were considered to be the ideal but proved difficult in practical terms. OFMDFM was highlighted as being the most suitable part of the Executive to facilitate cross departmental working and joint bidding. Some thought that a Budget process which followed after the PfG may encourage more linked bids, as currently there can be differences across the departments on the prioritisation of services, with better prioritisation helping to provide departments with direction.

2.15 However the lack of joint bids was said to be partially cultural within departments as there is competition for resources, in an environment where the size of a Budget allocation is seen as an indicator of success, and any reduction as a failure. Others suggested that the current set up of departments and the configuration of the Executive made cross departmental working more difficult.

Consultation, Committees and Debates

2.16 The draft Budget was considered by some to be a *fait accompli*, with stakeholders feeling that the official consultation period was too late to make a significant impact on the outcome of the process. Most external stakeholders however, felt that they were able to make a difference to the development of the Budget position through their normal engagement with departments. In particular, the stakeholder groups the Review team spoke to tended to try and influence departments and Committees in advance of the bids being submitted to DFP.

2.17 Some thought that departments should engage more proactively with their key stakeholders at the time when they were developing and prioritising bids. It was suggested that earlier engagement could be facilitated through the reinstatement of Position Reports which had previously been published at the start of the formal Budget process. Another thought that it would be better to have ongoing engagement between key stakeholders and departments rather than formal public consultation.

2.18 The lack of consistency across departments in terms of consultation was highlighted as a flaw, with some departments publicly consulting and others not. In addition, some departments proactively sought views while others did not. It was suggested that there should be a more standardised approach.

2.19 Some commented that the amount of time for the public consultation was too short while others recognised that there would always be timing difficulties. One group questioned the need for public consultation under devolution as the public representation should now be primarily through MLAs and Committees.

2.20 The amount of time between the close of the public consultation exercise and presentation of the revised Budget position seemed too fast to allow for meaningful consideration of the views expressed.

2.21 Some stakeholders were unsure of the usefulness of the public consultation meetings as members of the general public were unlikely to attend, while others mentioned consultation fatigue. The difficulty of responses being from groups with a vested interest rather than public opinion was raised as an issue. It was also suggested that there might be value in weighting responses in terms of quantity of responses versus the quality of the supporting evidence. One stakeholder group suggested that a citizen jury or civic forum might help to better garner the views of the general public, with another suggesting that better use of modern interactive media might provide a richer response. One group thought that children should be directly consulted with.

2.22 Some departments viewed the public consultation process as generally reinforcing the priorities which formed the basis of their draft Budget spending proposals rather than changing them. It was also suggested that more choice, in respect of an alternative distribution of available resources should be incorporated into the departmental chapters of the draft Budget to help make the consultation more meaningful. It was also thought that the consultation might be improved if the departmental chapters in the draft Budget document included more detailed information on the outcomes to be achieved.

2.23 Some consultation responses were recognised as being constructive, by departments although many were described as little more than petitions for additional funding. One comment was made that the majority of responses related to policy decisions rather than budget allocations. There is also an issue in terms of the Budget process itself building up unrealistic expectations. In particular, the public consultation stage suggests that there can be substantial changes made to the draft Budget allocations whereas this is not normally the case given that all available resources have been allocated.

2.24 Some commented that there should be more interaction with Assembly committees regarding where efficiencies should come from and how they should be delivered, with a greater appreciation of the realities regarding the level of resources available. There were varying degrees of scrutiny by Assembly committees whilst most stakeholders thought that there should be greater standardisation in the information provided to ensure consistency and aid scrutiny.

2.25 Some respondents thought that during the Assembly debates on the Budget the Finance Minister was answering questions which would be more appropriately directed to the respective departmental Minister.

Documents and Impact Assessments

2.26 Some stakeholders indicated that the Budget document should include an 'at a glance' summary at the start of the document which illustrates the source of funding to the Executive, the total amounts available and how it is split across the departments. It should also show the significant changes from the previous Budget.

2.27 Generally the document was well received, with most stakeholders content with its length, in terms of the quantity of information provided. One group thought the departmental chapters were too long and repetitive of the PfG and ISNI, whereas another commented that the text and formatting could be more citizen friendly. It was suggested that the terminology used across the Budget, ISNI and PfG should be standardised. There should also be stronger links between the documents whilst it was also felt that there was insufficient analysis of needs in the Budget document.

2.28 The departmental chapters were criticised on the basis that the expenditure lines provided were not meaningful to the public in respect of the implications for specific services. There was also a need to provide more information, with better linkages to what will be delivered. The "cut and paste" Equality sections were said to be unacceptable. One stakeholder wanted to see a children's budget while another group wanted to see gender budgeting.

2.29 Some felt there was a lack of information provided on the efficiencies to be delivered by NI departments and how they would be achieved. It was suggested that the Efficiency Delivery Plans (EDPs) should have been published alongside the draft Budget. It was also commented that the draft Equality Impact Assessment (EQIA) should have been published alongside the draft documents.

2.30 It was suggested that the High Level Impact Assessments (HLIAs) did not help to prioritise bids as issues such as equality are already imbedded within their proposals and so there was little or no difference between the proposals as any negative impacts would have already been incorporated. One stakeholder commented that while it is useful to ensure that equality considerations have been incorporated, there is concern that if it was published the material could be taken out of context. One stakeholder thought that rural proofing should be included in the Budget process.

2.31 It was also suggested that the impact assessments should be completed on the PSAs rather than the bids as the bids should follow the priorities. Most of programmes against which bids are made have completed impact assessments, although it was recognised as providing additional verification.

2.32 One stakeholder commented that more information should be provided in the draft Budget in terms of the impact of variations in the change in the regional rate and the potential revenue

yield so that informed responses could be provided, and that more information should be provided on the assumptions used in the Budget^[8].

2.33 Some thought that the website could be better used with more information, for example, as regards the detailed spending proposals including those not met whilst one stakeholder suggested an ongoing blog of the process would be useful.

Assembly Committees

2.34 In providing a coordinated response on behalf of the Assembly Committees to the DFP departmental review, the Committee for Finance and Personnel set out nine main recommendations, as set out below:

- a) The Budget process should maximise the opportunity for Assembly Committees to provide early input into the process. Future processes should include a stage similar to the Departmental Position Report / Executive Position Report which should be timetabled to ensure completion before the Assembly goes into summer recess.
- b) A set timetable should be agreed which determines when departments will provide information to Committees.
- c) Fuller more standardised information on departmental bids and their outcomes should be published as part of the Budget process.
- d) In addition to the information on bids for additional resources, departments should also provide their Committees with a critical evaluation of the programmes and resources within their existing baselines, including how these support PfG priorities.
- e) The recommendation in the PKF report, Review of Forecasting and Monitoring, published in June 2007, that the planning and budgeting process should move away from the existing incremental approach and towards a system which provides a transparent link between inputs and outputs.
- f) Supporting documents, such as departmental Efficiency Delivery Plans and Investment Delivery Plans, should be published alongside the draft documents and that these should be rigorous in detailing how and when the planned efficiencies and investments are to be achieved.
- g) There should be a closer alignment between the PfG and the Budget documents, in particular a more visible linkage between PfG priorities and goals, PSA objectives and the allocations, departmental objectives and spending areas in budgets.
- h) The draft Budget and ISNI should include information on the extent to which the overall capital investment will be based on anticipated PFI, the extent to which the capital allocations for individual departments will draw on RRI borrowing, together with accumulated debt under RRI and the projected level of loan charges during the budget period.
- i) Consideration should be given to streamlining the plenary aspects of the budget process to avoid repetition of debate, once the Assembly has approved the Budget.

2.35 The Assembly committees also commented on a number of other issues. These have been grouped into similar topics in the following paragraphs.

Timetable

2.36 The timetable was too short for statutory committee scrutiny and for public consultation. The publication of an annual report illustrating spend and delivery would improve budget scrutiny.

Bid Prioritisation

2.37 The prioritisation of bids is considered essential as committees considered that there appeared to be limited scope for manoeuvre once the inescapable bids had been accounted for. There was also confusion as to whether inescapable or committed was a higher priority in terms of spending proposals.

Impact of Committee Views

2.38 Committees felt that there was little evidence that their views had been considered in the revised Budget. Therefore, they suggested that there should be a formal feedback mechanism to allow post Budget scrutiny.

Capital Investment

2.39 The indicative nature of the spending proposals in the latter years of ISNI were deemed a less than optimal method of planning large capital projects, making it harder to achieve value for money. However, this approach reflects the simple fact that the funding available to the Executive is determined for the following three years, at most. Even then, the Block Grant is still subject to change as part of subsequent UK Budget and Pre Budget Reports.

Cross departmental proposals

2.40 The large number of cross cutting priorities was viewed as making it difficult for committees to monitor the performance of their respective departments and relate it to the Budget.

2.41 There was concern at the lack of cross departmental working and the low priority placed on cross cutting objectives. In response it was suggested that consideration should be given to a system of financial incentives and penalties for the delivery of cross departmental priorities. There was also felt to be a lack of time for cross committee working, with the recommendation that a bespoke committee should be established to meet three or four times a year to review and monitor performance on PfG priorities.

Public Consultation

2.42 The comment was made that more time should have been made available to Assembly committees to undertake their own consultation with stakeholders with one of the committee's commenting on how useful it had found its own consultation.

Plenary Process

2.43 There was concern that at the launch of the Draft Budget the documentation is embargoed until the statement commences which means that members do not have opportunity to contribute fully to the following debate.

2.44 Some committees thought that the Take Note debate was the best opportunity to influence the revised Budget position as it is a more informed debate. In general, committees wanted a more streamlined process so that there was not repetition of debate. It was felt that the priorities in the draft PfG should be debated before the Budget process is formally commenced.

Committee Role

2.45 Some Assembly committees thought that the challenge and support was appropriate in terms of departmental Budget spending proposals, and that it was for each committee to determine the correct balance in the Budget process. However, others thought there may be a need for specialist resources to provide standing or ad hoc technical advice to support committees in respect of their challenge and scrutiny functions.

Draft and Revised Budget Documents

2.46 It was felt that the language used across the Budget, ISNI and PfG documents should be standardised. It should also be more transparent in respect of how changes in resources relate to changes in priorities. The draft PfG should be published further in advance of the draft Budget, for better scrutiny and so that it could better inform the draft budgetary allocations.

Lessons for Future Budget Processes

2.47 There are a number of common themes in the views expressed by stakeholder groups in respect of the 2008-11 Budget process and many areas of agreement as regards the scope for improvements to the Budget process. These include:

- Departments should consult with key stakeholders at an early stage in the Budget process, prior to bids being submitted. In the longer term there should be ongoing contact with stakeholders obviating the need for specific contact as part of the Budget process.
- The overall priorities should be determined prior to the draft Budget position being developed, so that they can better inform the Budget process.
- A timetable for the Budget process indicating when the consultation period will take place should be issued as early as possible. This would allow consultees and the Assembly committees to prepare accordingly in a timely fashion. This could be published on the PfG/Budget website.
- The amount of information to be provided by departments to the Assembly committees should be included in the guidance so that it is standardised. Furthermore, it should be recommended that the bids, outcomes and links to PfG are also provided. The committees should also be provided with formal feedback following the publication of the revised Budget by their department.
- A summary should be provided in the Budget document which should provide an 'at a glance' understanding of where resources are being spent and where possible the terminology used in the Budget, PfG and Investment Strategy should be aligned.
- Any delivery plans should be published along with or as soon as possible after the draft Budget document, as should the high level EQIA.
- There should be work to further develop cross cutting PSAs to aid cross departmental working and on costing PSAs including values in existing budget baselines, in order to provide better linkages with outcomes.

- Further investigation should be completed on how to ascertain the views of as broad a range of the public as possible, on whether this role can be fulfilled by the Assembly under devolved Government.
- There should be further investigation into streamlining the Estimates and Budget process in order to avoid duplication of debate. There should also be a review of the capital process undertaken by SIB.

Conclusion

2.48 A large number of issues were raised by stakeholders and there are several areas where work can be taken forward and improvements implemented. However there are some contextual issues of note.

2.49 In particular, although it would assist departments for the overall priorities to be determined prior to the Budget, the targets underpinning the priorities cannot be finalised until the Budget allocations are further developed. In terms of the overall timescales, the Budget process is politically led and there can be many causes of delays in publication outside of the control of DFP.

2.50 In addition, while DFP can advise departments of the best practise in terms of interaction with Assembly committees. It is not possible to dictate what information departments should provide to committees. This is an issue for individual departments, Ministers and committees.

2.51 Although the publication of Pre-Budget Position Reports was advocated by some consultees, this can become very bureaucratic, potentially impacting on the time available to produce the draft Budget. Therefore earlier and more structured engagement with Assembly committees is considered to be more appropriate.

Section 3: Budget Process in Wales

Structure of Government

3.1 The Welsh Assembly Government (WAG) is responsible for the delivery of devolved public services in Wales including the economy, health, education and local government.

3.2 The total Departmental Expenditure Limit in Wales for 2008-09 was £14.4 billion and is projected to rise to £15.4 billion by 2010-11. The Government of Wales Act 2006 provided the National Assembly of Wales, the legislator, with significant new powers akin to those already existing the other devolved regions^[9]. It also created the Assembly Commission, which is the corporate body of the National Assembly for Wales (NAW) which supports the Assembly Members (AMs). Its membership includes the Presiding Officer and four other AMs.

3.3 The membership of NAW is comprised of 60 AMs. There are currently 4 parties and one independent represented in the parliament. The parties are: Welsh Labour (26 seats); Plaid Cymru (14 seats); the Welsh Conservatives (13); and the Welsh Liberal Democrats (6). There is currently a Labour-Plaid Cymru coalition in government.

3.4 The Welsh Assembly Government consists of the First Minister, 8 Welsh Ministers^[10] which serve as the cabinet, the Counsel General who is the chief legal advisor to the government, and 4 Deputy Welsh Ministers. The Welsh Ministers and Deputy Welsh Ministers are appointed by the

First Minister. There are 10 Ministerial Departments, as well as the Central Services Departments.

3.5 Cabinet committees exist to allow Ministers to consider broad policy options and their development in a more reflective and deliberate way. While the Cabinet remains the ultimate decision making body, the committees allow for fuller and more strategic consideration of policy issues.

3.6 In addition there are Assembly committees which are similar to those in Northern Ireland. There are four main types of committee:

- Scrutiny Committees – which have the power to examine expenditure, administration and policy of the Assembly Government and associated public bodies. There are currently four scrutiny committees: Communities and Culture; Enterprise and Learning; Health, Wellbeing and Local Government; and, Sustainability.
- Legislation Committees – consider and report on legislation introduced to the Assembly, there are currently five permanent legislation committees
- Other Committees – these committees are named in Standing Orders of the Assembly and have specific roles, there are currently nine of these committees, including public accounts and finance.
- Ad hoc Committees – created according to the needs of the Assembly^[11]. Once consideration of the respective policy or legislation is concluded, these committees are dissolved.

3.7 Wales also has 22 unitary authorities or councils, which are responsible for delivering a wide range of services including: schools and adult learning centres; social services; libraries, street lights and street cleaning; parks and leisure facilities; trading standard; refuse collection and recycling; housing and environmental health; local planning; local transport and public bus routes; and, highways. The Welsh Assembly Government supplies 80% of local authority funding, with council tax providing the remaining 20%^[12].

Welsh Budget Process

3.8 The Budget process in Wales is taken forward on an annual basis, although on a larger scale at the time of a UK wide Spending Review. The One Wales document^[13] sets out the current administrations priorities over the four year period (2007-11). It was published in June 2007 and forms the basis of the Labour-Plaid Cymru administration. The Welsh Assembly Government published a One Wales Delivery Plan^[14] in April 2008 which sets out 228 specific commitments to be delivered by April 2011.

3.9 The broad timetable for the Budget process in Wales is that in the spring of each year a commissioning letter requesting spending proposals for the period covered by the Budget is circulated to Ministers. There is currently little standardisation in the format of spending proposals or the supporting evidence required from departments, although this is being explored.

3.10 In the past, a scoring system has been used to compare bids across the departments. However, there is now a pure assessment of the value of each bid. There are also official level meetings and Ministerial bilaterals which help to inform the indicative allocations for each department.

3.11 The Budget and Performance Cabinet Committee proposes a draft Budget position, and early in the summer the full Cabinet agrees indicative budget allocations for departments. The Budget is determined for the next financial year and the indicative amounts are allocated for the remaining years of the Spending Review.

3.12 In the autumn, the draft Budget must be published before the 7 October^[15] for approval by the National Assembly. However, due to the late announcement of the 2007 Comprehensive Spending Review a temporary Standing Order was voted which extended this deadline on a one-off basis to 5 November 2007.

3.13 The Finance Committee leads the scrutiny of the Budget on behalf of the National Assembly of Wales with the other Committees scrutinising the proposed allocations for their respective areas, with some committees cutting across departmental boundaries, such as Equality of Opportunity and Sustainability Committee. All of the Committees hold their own evidence sessions over a four week long consultation period^[16]. In order to assist the Committees to prepare for this intensive period of work, they are made aware of the timetable at an early stage of the process.

3.14 The Finance Committee investigates the overall impact of the draft Budget proposals taking evidence from officials, external stakeholders and the Finance Minister. It also collates the views from the other Committees and can propose changes to the budget. However this is under the constraint that any proposed changes are within the total level of resources available to the Welsh Administration^[17].

3.15 The public can also respond directly, although there are no public consultation events and a response from the public is not specifically requested in the draft Budget document. This on the basis that the Budget allocations reflect the priorities set out in the One Wales document.

3.16 Following consideration of the report from the Finance Committee, the final Budget and main expenditure allocations must be published by 3 December^[18]. If approved, this provides the legal authority for spend for the next year, fulfilling the same function as the Main Estimates in Northern Ireland. There are usually two Supplementary Budgets to allow for in year changes.

3.17 In order to deal with potential issues which arise during the financial year, the Welsh Assembly Government has a central reserve and also uses any access to End of Year Flexibility (EYF) to deal with issues emerging in year. Therefore all available resources are not allocated to departments as part of the Budget process.

3.18 The Welsh draft Budget document is broadly similar to the Estimates document in Northern Ireland although less detailed. The 2007 documents had very little in the way of introduction or explanation of departmental responsibilities beyond the ambits, however recent budget documents have developed this area by including some additional information.

3.19 The link to outcomes has been identified as an area for improvement and officials are developing an outcome focussed strategic framework which will aid resource allocation, business planning and performance management.

Lessons for Northern Ireland Budget Process

3.20 An advantage of the approach in Wales is that priorities are determined at the beginning of the term of the administration and remain in place over its lifetime. Although there are a large number of priorities, they are ranked providing a degree of direction in terms of spending allocations.

3.21 The experience in Wales shows the value in having a clear set of detailed priorities in place at the start of a Budget process. However, there is a balance between the certainty needed for effective planning and the flexibility necessary to accommodate changing circumstances.

3.22 The Welsh system is still evolving. The process is annual but more streamlined than in Northern Ireland in terms of the linkage between Budget and Estimates. However, there is less information available within the Welsh draft Budget document and less scope for public consultation.

3.23 The agreed timetable aids the process and allows the Committees to be prepared for the short four week consultation period while it also meets the demands of the Budget being finalised in time for departments to prepare for the next financial year. The agreed indicative Budget position early in the summer allows more time to prepare the draft Budget for publication in the autumn.

3.24 The Assembly committees in Wales are only able to propose changes to the budget within the total resources available. This has the benefit of ensuring that the proposals set out in response to the draft Budget better reflect the overall position in respect of available resources.

3.25 The Welsh Assembly Government does not allocate all of the resources available to the departments as part of the Budget process. While this has the impact of providing more resources for allocation during the in year monitoring process it may also result in less strategic budgeting and more short-termism in the management of resources. However, in light of the reduced level of surplus resources declared by Northern Ireland departments as part of the 2008-09 and 2009-10 financial years, there may be a case for considering the Welsh approach over the longer term.

Section 4: Budget Process in Scotland

Structure of Government

4.1 The Scottish Government has responsibility for all devolved matters as passed to the Scottish Executive in 1999. The Scottish Parliament passes laws and also scrutinises the work of the Scottish Government.

4.2 The members of the Scottish Government are chosen from the party or parties holding the most seats in the Parliament. The Scottish Government is made up of:

- The First Minister
- The Scottish Law Officers
- Five Cabinet Secretaries and ten Ministers supported by Scottish Government directorates, which are staffed by civil servants.

4.3 The Scottish Cabinet consists of the First Minister and the five Cabinet Secretaries and the Minister for Parliamentary Business^[19]. The Scottish Cabinet is the term used for what would be called the Executive in Northern Ireland. The Cabinet normally meets weekly while the Scottish Parliament is sitting. In addition, there are also currently three Cabinet sub-committees on Scottish Resilience, Legislation and the Glasgow 2014 Legacy Plan.

4.4 The Scottish Parliament consists of 129 Members of the Scottish Parliament (MSPs), one of which is elected by the other MSPs to serve as Presiding Officer, and two MSPs elected as

Deputy Presiding Officers. The Scottish Parliamentary Corporate Body (SPCB) provides the staff, accommodation and services needed by the Parliament to complete its work. It is made up of four members elected by the Parliament from among the MSPs and is chaired by the Presiding Officer.

4.5 There are currently 5 parties and one independent represented in the parliament. The parties are: Scottish National Party (47 seats); Scottish Labour Party (46 seats); the Scottish Conservative and Unionist Party (17); the Scottish Liberal Democrats (16); and the Scottish Green Party (2). The Scottish National Party has formed a minority government.

4.6 There are seven mandatory Committees in the Scottish Parliament:

- audit;
- equal opportunities;
- European and external relations;
- finance;
- public petitions;
- standards, procedures and public appointments; and,
- subordinate legislation.

4.7 There are also seven subject committees.

- economy, energy and tourism;
- education, lifelong learning and culture;
- health and sport;
- justice;
- local government and communities
- rural affairs and environment; and,
- transport, infrastructure and climate change.

4.8 The Parliament can also choose to set up other committees that it thinks are necessary to scrutinise a specific subject or area, which are termed subject committees.

4.9 Committees normally have between five and fifteen MSPs as members, selected with regard to the balance of the various political parties in the Scottish Parliament. A committee can form sub-committees and can hold joint meetings with other committees. People who are not MSPs but who have specialist knowledge of a particular area may be appointed as committee advisors. Committees bring together the functions of scrutinising the work of the Scottish Government and examining legislation.

4.10 Scotland also has 32 local authorities or councils, which are responsible for delivering a wide range of services including: schools; social work; libraries, museums and galleries; parks and leisure facilities; waste collection and recycling; housing and environmental health; planning decisions and licensing; public transport and road maintenance; and, electoral registration. Most of the funding for local authorities comes from the Scottish Government, around 80%, with the remainder raised through local council tax^[20].

Scottish Budget Process

4.11 The Scottish Government adopts a similar approach to Wales in publishing a Budget document each year with indicative figures for the remaining years of the Spending Review period. However in non-Spending Review years, when there is generally little change in available funding and thus allocations, the process is truncated.

4.12 There are 3 main stages to the Budget process in Scotland:

- Stage 1 - Annual Evaluation Report (Spending Review years only). The Annual Evaluation Report (AER) sets the strategic context for the forthcoming Budget process. It must be published by the 31 March, or the first day thereafter on which Parliament sits^[21]. The AER includes a performance report showing progress against targets as well as a statement of the Government's priorities for the forthcoming Budget process. Parliamentary Committees and the public are invited to put forward their views on the Executive's proposals. The Finance Committee then produces a report which is debated by the full Parliament in June, this concludes Stage 1.
- Stage 2 - Draft Budget. The Draft Budget for the following year is normally published by 20 September^[22] and sets out the Scottish Government's spending plans for the following year and indicative figures for the rest of the Spending Review period. Parliamentary Committees are consulted for their views. At this stage, the Finance Committee may propose changes to the Budget, but only if they net to zero (i.e. proposed increases must be offset by savings elsewhere in the budget). The Finance Committee then makes a report which pulls together recommendations from the various subject committees' reports, and this is debated in Parliament in December, marking the end of Stage 2.
- Stage 3 - Budget Bill. The final stage of the Budget process starts with the laying of the Budget Bill in January. The Budget Bill sets out the Scottish Government spending plans for the following year, taking into account comments made at Stage 2. The Budget Bill should be laid by 20 January each year, or the first day thereafter on which Parliament sits, and must complete all of its stages by 14 February^[23]. Only Ministers can propose amendments at this stage, and once enacted, the Bill provides the statutory authority for expenditure by the Government. Parliament's consideration of the Budget Bill consists of three phases to it. Phase 1 is a debate in the Parliament, phase 2 is an evidence session with the Minister for Finance at the Finance Committee and phase 3 is a further debate in the Parliament.

2007 Budget Process

4.13 Due to the deferral in the UK Spending Review from 2006 to 2007 an AER was not produced. During the 2007 Comprehensive Spending Review the bids submitted by business areas were prioritised against five strategic objectives^[24] of the Scottish Government. The draft Budget position was produced in a similar fashion to the Northern Ireland Executive, with several iterations of the allocations to portfolios. As was also the case in Northern Ireland, the Scottish Budget is overcommitted at the Budget stage in part to minimise the level of underspend.

4.14 In terms of cross cutting issues, all of the departments contribute to the objectives and single Purpose, which is "to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth". The Scottish Government Economic Strategy^[25] sets out the approach to delivering this Purpose to ensure that all of the Government's resources and policies are focused on its achievement.

4.15 Equality considerations are completed at business level in advance of spending proposals being produced. Therefore, there is no additional information required in the form of High Level Impact Assessments (HLIAs) as part of the Scottish Budget process.

4.16 Following the publication of the draft Budget, the Finance Minister provides evidence, as requested, to committees in order to inform their input to the Finance Committees report, which coordinates the overall response from Committees. Committees can propose alternative spending proposals within portfolios or departments, which include estimated costs. However, only the Finance Committee examines the overall draft Budget and the allocations to portfolios or departments.

4.17 There is no formal public consultation in terms of actively seeking the views of the general public and stakeholders following the publication of the draft Budget. Business areas are in regular consultation with key stakeholders, particularly at Stage 1 of the process which is deemed a better time to influence decisions. However members of the public and stakeholders can submit their views in writing following the publication of the draft Budget.

4.18 There is no revised Budget document published as the last stage is the Budget Bill, which is where the allocations are finalised. The differences between the Budget and Estimates structures are not significant which streamlines the Estimates and Budget processes.

4.19 During each financial year monthly monitoring is undertaken, with a Cabinet review every quarter. This provides an opportunity to reallocate funding in line with changing circumstances while there are two Budget reviews to formalise the changes. However this process is being examined to see if it could be reduced to one review.

4.20 In order to allow the public to scrutinise how the Scottish Government is performing against its targets, details are published on the Scotland Performs[\[26\]](#) website.

Lessons for Northern Ireland Budget Process

4.21 The Scottish system has many similarities with that in Wales and appears to be more streamlined than the Budget process in Northern Ireland. There would be benefit in further investigation into streamlining the Budget and Estimates processes in Northern Ireland to reduce duplication.

4.22 The Scottish system encourages interaction with key stakeholders at an earlier stage in the process than generally occurs in Northern Ireland, which then influences the bids put forward by Scottish departments. This in turn obviates the need for a formal public consultation process. While there are potential benefits to adopting this approach, there would need to be an assurance regarding the nature of engagement by local departments before this could be adopted in Northern Ireland.

4.23 The role of Committees appears to be more developed than in Northern Ireland, as it involves providing costed alternative spending proposals and includes how these costs would be provided for. There also appears to be more of an overall collective purpose with portfolios or departments working together towards the same aim which has resulted in more cross departmental working.

4.24 As equality considerations are an integral part of the policy development process in Northern Ireland, consideration should be given as to whether it is necessary to conduct a further assessment at the Budget proposal stage in line with the approach taken by the Scottish Government.

Conclusion

5.1 This objective of this Review was to assess the logistical arrangements in the 2008-11 NI Executive Budget process with a view to making improvements for future processes.

5.2 The primary focus during each Budget process is in respect of the expenditure allocations for specific services over future years, and how the delivery of services are expected to change as a result. In reaching this final position it is essential that the decisions taken by the Executive are based on relevant objective based evidence as well as the views of the people of Northern Ireland. It is for this reason that the logistical arrangements are important to ensure that the Finance Minister, and in turn the Executive, has the best possible information available in a timely manner.

5.3 The nature of logistical processes means that there is limited data available to determine the optimal approach or to objectively compare one approach to another. This meant that the main evidence for this Review has been in the form of the views of those most directly involved in the Budget process, including key external stakeholder groups, Assembly committee's and departments.

5.4 In this context, there was a risk that the outcome from the Budget 2008-11 process might have distorted the views expressed in relation to the process itself. However, the comments put forward were found to be constructive and positive reflecting a genuine desire to improve the Budget process. The Review also considered the Budget processes in Scotland and Wales which both appear to adopt a more streamlined approach than is the case in Northern Ireland.

5.5 Following consideration of the issues raised, the recommendations from this Review are as follows:

(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.

(2) The Programme for Government should be developed to a timetable slightly in advance of the Budget. A key difficulty for both departments and Assembly Committees in Budget 2008-11 was the lack of clarity as to the priorities of the Executive as spending proposals were being developed and prioritised. While the finalisation of the Programme for Government is, to a considerable extent, limited to resource availability and hence the Budget position, there should at least be a clear indication of broad priorities at the beginning of the Budget process.

(3) A clear timetable setting out the key milestones should be made publicly available at the start of each Budget process. One of the key findings of the Review was the perception that, once the formal consultation process of the draft Budget has commenced, it is too late to significantly influence spending proposals. However, this is when many stakeholders first become aware of the process. There is therefore a need to increase awareness of the key milestones in the Budget process and in particular the window of opportunity to influence departmental spending proposals.

(4) There should be early and more structured engagement between departments and Assembly Committees setting out the key issues and pressures facing NI departments. The more truncated

timetable in 2007 meant that there was insufficient time for early engagement or the production of a Position Report for Budget 2008-11. While some consultees saw merit in the publication of the Position Reports there is significant risk that this could become a bureaucratic exercise. However, earlier engagement should be more structured in order to provide greater standardisation in the material provided to Committees. There may also be value in formal feedback from departments to Committees following the publication of the final Budget.

(5) There should be earlier engagement with key stakeholder groups by departments. In the longer term departments should move to a situation where there is greater regular contact with stakeholder groups on an ongoing basis obviating the need for specific contact in relation to the Budget process. In their draft Budget submissions, departments should clearly state which stakeholder groups have been consulted with in the development of spending proposals. Greater effort is also needed in respect of the hard to reach groups which do not normally engage in public consultation exercises.

(6) DFP should take the lead role from the Strategic Investment Board (SIB) in developing capital investment allocations in the Budget process. Whilst the SIB fulfils an important role in providing advice on the development of the direction of travel as regards the Executive's spending plans over the longer term, the complexities involved in the public expenditure planning process, including in particular the resource implications from capital projects, mean that both capital and resource allocations for the Budget period should be considered together as part of the Budget process by DFP.

(7) Every departmental spending proposal should clearly state the impact on the respective PSA target, if successful. Although the original intention in Budget 2008-11 was to link each spending proposal with a specific output or outcome, that was not possible in light of the relatively slow progress in developing the PfG. The agreement by the Executive of a PfG means that this link can explicitly be made in future Budget processes. It is recognised that not all departmental expenditure can necessarily be explicitly linked to a specific PSA target. In these cases expenditure should be firmly justified and desired outcomes specified.

(8) The Draft Budget document should include an easy to read summary at the start of the document. Although public finance is a complex issue, it is essential that as broad an audience as possible is able to read and understand the Executive's draft proposals. This should include details of the resources available to the Executive, how it is proposed that these are allocated and what will be achieved as a result.

(9) The full list of prioritised spending proposals submitted by departments as part of the draft Budget process should be published alongside draft Budget document including details of which proposals will be funded from the draft Budget allocations. In light of the more constrained overall public expenditure environment in Budget 2008-11, there was significant flexibility for departments to distribute their draft Budget allocations between spending areas up until the final Budget position was agreed. However, this also created significant confusion as to what was and what was not being funded.

(10) Departments should publish the High Level Impact Assessment for each spending proposal. In addition to the information currently provided, it should be clearly stated which existing Equality Impact Assessment (EQIA) as well as other relevant impact assessments the proposal is linked to, and if not, when the respective programme EQIA or other relevant impact assessment will be completed.

(11) Supporting documentation including, for example, draft PSA and Efficiency Delivery Plans should be published as soon as possible after the draft Budget and PfG to provide a greater understanding of what will be achieved with the Budget allocations. While there is a significant

amount of time and effort involved in the production of the core Budget documentation, which means that there is limited scope to provide supporting material until a later date, it is also clear that there would be value in additional supporting material being produced as early in the process as possible. However, it is equally important that this documentation is actually used rather than being treated as part of a process. This issue should be kept under review with information no longer provided if it is not being used to scrutinise expenditure plans.

(12) 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. Following the approach in Scotland and Wales and in light of the role of the Assembly to represent all the people of Northern Ireland, there should be a greater focus on Assembly Committees as the key conduit for public responses to the Executive's draft Budget proposals, rather than the current approach which has become dominated by public sector organisations and vested interest groups.

(13) In responding to the draft Budget, any proposal to increase spending on a particular service by a Committee should be accompanied by an equally detailed proposal as to how this will be funded. Draft Budget proposals are normally based on the allocation of all of the funds available to the Executive. Therefore, in order to provide a complete assessment of alternate proposals the implications for other public services need to be clearly set out. In order to prevent unrealistic spending reductions being put forward to the Executive, the Committee for Finance and Personnel, in responding on behalf of all the Committees, should identify whether it views the funding proposal to be realistic or not.

(14) The Final Budget Statement and debate should be combined with the Main Estimates process. The current approach whereby final Budget allocations are debated and agreed by the Assembly in January with the process largely repeated in the following June as part of Main Estimates results in significant amounts of repetition, duplication and confusion. Whilst this in part reflects the amount and complexity of the material required for both exercises, adopting a more simplified approach as in Scotland would allow both to be taken forward at the same time. DFP intend to take this forward, and have started some preparatory work.

Next Steps

5.6 This Review has considered the logistical arrangements for the 2008-11 Budget Process in order to determine how the Budget process could be further improved in the future. The recommendations set out above are based on the approach that should be taken in a standard Budget process.

5.7 However, the NI Executive is expected to experience significant public expenditure constraints in the coming years with a reduction in the level of resources available for allocation which means that the forthcoming process for the 2010 Budget period (2011-14) may be significantly different to the standard approach. In addition, the timetable for the 2010 Budget process will be affected by the delay and uncertainty in respect of the national Spending Review process this year. This will have implications in respect of the timing of the implementation of some of the recommendations.

Annex A

Review of NI Executive Budget Process Terms of Reference

Background

1. Upon the restoration of devolution, in May 2007, the incoming Finance Minister assumed responsibility for a Budget process that had started a considerable time before, under the oversight of direct rule Ministers. However in the period between May and October the Finance Minister was able to draw up spending proposals for the next three years, in consultation with his Ministerial colleagues that were approved by the Executive as basis for public consultation between October and January. In January a final set of Budget proposals were approved by the Executive and Assembly.
2. While this reflected a successful outcome for the first Budget process conducted under the new Executive and Assembly, the Finance Minister has concluded that it would be valuable to review the processes (as distinct from the outcomes) followed during this first exercise to ensure that he and his officials in DFP can make improvements where appropriate before the next local Budget exercise is carried out, most likely in 2009.
3. In light of the fact that there will not be a national Spending Review in 2008, and hence that there will be limited, if any, additional resources available for allocation in 2009-10, the Executive agreed on 13 March 2008 that there should not be a substantive local Budget process this year, but instead a strategic stocktake of the position in the autumn. This provides some time and capacity within DFP to undertake the above review of the Budget process followed last year.

Objectives

4. The overall objective of the review is to consider the arrangements for future Budget processes; to seek to further improve and embed the linkages between spending allocations, and the Programme for Government (PfG) and to establish stronger and more explicit linkages between the allocation of funding to Departments and the delivery of outcomes approved by the Executive. The review will also look at future arrangements for direct public engagement, in the context where elected representatives in the Assembly now have a direct input to the Budget process, and ultimate responsibility for approving the Budget outcome.
5. The review will consider and make recommendations in the following areas:
 - Linkage between Budget process and Programme for Government;
 - Management of capital investment proposals
 - Engagement by departments with Statutory Committees of the Assembly;
 - Supporting evidence to be provided by departments for the Budget process and in particular the content of spending proposals;
 - Scope for greater cross-departmental co-operation in the funding of services;
 - Consultation on draft proposals, including consultation with the statutory Committees of the Assembly; and,
 - The integration of Statutory Equality and Anti-Poverty considerations within the Budget process.

Methodology

6. The review will seek the views of Departments and key stakeholders regarding the strengths and weaknesses of the most recent process. The Finance and Personnel Committee, in particular, has indicated a keenness to be involved at an early stage in improving the Budget

process. Although evidence will be sought from a range of sources the main input will be from structured interviews. It will also be important that the review considers the approach to the Budget process in the rest of the UK, focusing on the parallel devolved administrations in Scotland and Wales.

Output

7. The output of the review will be a report by DFP officials to the Finance Minister setting out an assessment of the process as well as recommendations for improvement.

Review Team

8. The Review Team will be comprised of a small number of officials in the Public Spending Directorate working under the direction of DFP senior management.

Annex B

Committee For Finance And Personnel

Report on the Inquiry into the Scrutiny of the Northern Ireland Executive's Budget and Expenditure

Stage 1: Submission to the Review of the Northern Ireland Executive's Budget Process

Terms of Reference

The Committee for Finance and Personnel will undertake the following three-stage exercise aimed at maximising the Assembly's contribution to the NI Executive budget process and enhancing the role of Assembly statutory committees and members in budget and financial scrutiny:

Stage 1

1. To contribute to the ongoing Review of the NI Executive Budget Process by the Department of Finance and Personnel (DFP) by

a) examining the budget scrutiny processes in other applicable legislatures, for the purpose of identifying lessons for NI;

b) co-ordinating the views of the Assembly's statutory committees on the strengths and weaknesses of the 2007 Budget process; and

c) reporting on the outcome of (a) and (b) to DFP by end of October 2008.

2. To consider and respond to the findings from DFP's Review.

Stage 2

3. Following confirmation of the Executive's future budget process, to review the resources available for assisting Assembly statutory committees and members in undertaking budget and financial scrutiny and to put forward a set of practical recommendations for enhancing the capacity of the Assembly in this regard.

Stage 3

4. To review the processes for the in-year monitoring of departmental expenditure by the Assembly and its statutory committees, with a view to making recommendations to further improve the operation of the processes and to facilitate more effective scrutiny. This review to take place after the end of the current financial year, when the statutory committees and their respective departments will have experience of operating the recently introduced format for monitoring round information.

Executive Summary

The scrutiny of public expenditure is a vital parliamentary function, which has been a significant feature of business in the Northern Ireland Assembly in both the current and previous mandate. This report contains the output from the first stage of a three-stage 'Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure', which the Committee for Finance and Personnel commenced in July 2008. The overarching aim of the Inquiry is to maximise the Assembly's contribution to the Northern Ireland budget process and enhance the role of Assembly statutory committees and members in budget and financial scrutiny.

The Committee framed the terms of reference for its Inquiry to complement and contribute to a parallel 'Review of the NI Executive Budget Process' which the Department of Finance and Personnel (DFP) commenced in May 2008. The Committee's work would focus on the internal arrangements within the Assembly and between the Assembly and the Executive; whereas the DFP Review would be wider in scope and would involve engaging a range of key stakeholders. Stage 1 of the Committee Inquiry would contribute to the DFP Review by identifying potential lessons from the budget scrutiny process in other applicable legislatures and by co-ordinating the views of the Assembly's statutory committees on the strengths and weaknesses of the 2007 budget process.

This report on Stage 1 of the Inquiry makes a range of recommendations to DFP, on behalf of the Assembly statutory committees. These include suggested improvements to the budget timetable and documentation, departmental budget submissions, and the plenary aspects of the budget process. The contributions from the committees are supplemented with research papers which highlight potential considerations for the DFP Review.

The research provided to the Committee has indicated both that the Assembly has a relatively strong committee system, including in terms of the powers of committees to undertake budget scrutiny, and that the budget scrutiny process in the first mandate compared favourably with other legislatures in terms of the opportunity for input by committees. The challenge now, therefore, is to establish a future process which builds on that which existed in the first mandate and maximises the contribution from elected representatives in the Assembly. The recommendations in this report aim to inform the ongoing DFP Review in this regard, with a view to seeing improved arrangements in place for the 2009 Budget process.

Key Recommendations

Arising from Stage 1 of its Inquiry, the Committee for Finance and Personnel makes the following recommendations to the Department of Finance and Personnel:

1. That a budget process is established which maximises the opportunity for Assembly committees to provide early input. The future process should include a stage similar to the Departmental Position Report/Executive's Position Report stage of the process in the first mandate, which should be timetabled to ensure completion before the Assembly goes into summer recess. (Paragraph 6)
2. That a set timetable is agreed to determine when departments will provide information to committees. (Paragraph 7)
3. 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. (Paragraph 7)
4. That, in addition to information on bids for additional resources, there is a case for departments also providing their committees with a critical evaluation of the programmes and resources within their existing baselines, including how these support PfG priorities. (Paragraph 8)
5. That DFP should follow through on the recommendation in the PKF Review of Forecasting and Monitoring, published in June 2007, that the planning and budgeting process should move away from the existing incremental approach and towards a system which provides a transparent link between inputs and outputs. (Paragraph 8)
6. That supporting documents, such as departmental Efficiency Delivery Plans and Investment Delivery Plans, should be published alongside the draft Budget, PfG and ISNI documents and that these should be rigorous in detailing how and when the planned efficiencies and capital investments are to be achieved. (Paragraph 9)
7. That there should be a closer alignment between the PfG and the Budget documents; in particular a more visible linkage between PfG priorities and goals, PSA objectives and the allocations, departmental objectives and spending areas in budgets. (Paragraph 10)
8. That in the interests of transparency, the draft Budget and ISNI documents should include information on the extent to which the overall capital investment will be based on anticipated PFI, the extent to which the capital allocations for individual departments will draw on RRI borrowing, together with accumulated debt under RRI and the projected level of loan charges during 2008-11. The Committee calls for this recommendation to be acted on in respect of future draft Budget and ISNI documents. (Paragraph 11)
9. That consideration should be given to streamlining the plenary aspects of the budget process to avoid repetition of debate, once the Assembly has approved the Budget. (Paragraph 12)
10. That, as part of its Review of the NI Executive Budget Process, DFP also takes on board the conclusions and recommendations contained in the attached responses from the other statutory committees to the questions posed by DFP on the 2007 budget process. (Paragraph 13)

Overview of Stage 1 of the Inquiry

Background

1. In July 2008 the Committee for Finance and Personnel agreed a terms of reference for an 'Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure'. This would aim to maximise the Assembly's contribution to the NI Executive budget process and enhance the role of Assembly statutory committees and members in budget and financial scrutiny. The Inquiry would have an inward focus on processes within the Assembly and between the Assembly and the Executive. It would also run in tandem with a wider DFP Review of the NI Executive Budget Process (Appendix 1). The Committee agreed that, given the internal focus of the Inquiry and the fact that DFP would be engaging with key stakeholders as part of its Review, the Committee would not seek external evidence from the public at this stage. Rather, the Committee decided to frame the terms of reference for its Inquiry to contribute to and complement the wider DFP Review.

2. Stage 1 of the Committee's Inquiry will contribute to the ongoing DFP Review of the NI Executive Budget Process by:

a) examining the budget scrutiny processes in other applicable legislatures, for the purpose of identifying lessons for NI;

b) co-ordinating the views of the Assembly's statutory committees on the strengths and weaknesses of the 2007 budget process; and

c) reporting on the outcome of (a) and (b) to DFP by the end of October 2008.

3. The output from Stage 1 of the Inquiry, which was agreed by the Committee at its meeting on 22 October, is attached. As part of its deliberations, the Committee commissioned two papers from Assembly Research which are attached as Appendix 2. The first of the two research papers provides a comparative analysis of budget scrutiny in NI and other legislatures and highlights potential considerations for the ongoing DFP Review. The second research paper examines the ongoing review of the budget process in Scotland by the Scottish Parliament Finance Committee. Whilst the Scottish review has not been concluded, the research paper draws out some emerging themes which will help to inform DFP's Review of the process in NI. In commending both research papers to DFP for consideration, the Committee particularly recommends that the Department, in finalising its Review, takes account of any applicable findings and recommendations from the review of the budget process in Scotland.

4. To facilitate statutory committee consideration of the strengths and weaknesses of the 2007 budget process, DFP provided twelve questions for each committee to answer. The Committee for Finance and Personnel's full response to these questions is at Appendix 3. The Committee also co-ordinated the views of the other statutory committees and these have been included in full at Appendix 3.

Committee for Finance and Personnel Response

5. The key issues arising from the Committee for Finance and Personnel's response (Appendix 3) are as follows:

Budget Timetable

6. The Committee considers that the ability of statutory committees to influence budget decisions is greatest at the early stages of the budget cycle, a theme which is also emerging from the evidence to the Scottish Parliament Finance Committee's Review of the Budget Process in Scotland. The Committee therefore recommends that a budget process is established which maximises the opportunity for Assembly committees to provide early input. The future process

should include a stage similar to the Departmental Position Report/Executive's Position Report stage of the process in the first mandate, which should be timetabled to ensure completion before the Assembly goes into summer recess.

Departmental Budget Submissions

7. The Committee would recommend that a set timetable is agreed to determine when departments will provide information to committees. The Committee also reiterates the recommendation in its Report on the Executive's Draft Budget 2008-2011, '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.'

8. The Committee considers that, in addition to information on bids for additional resources, there is a case for departments also providing their committees with a critical evaluation of the programmes and resources within their existing baselines, including how these support PfG priorities. Related to this, the Committee calls on DFP to follow through on the recommendation in the PKF Review of Forecasting and Monitoring, published in June 2007, that the planning and budgeting process should move away from the existing incremental approach and towards a system which provides a transparent link between inputs and outputs.

9. The Committee believes that supporting documents, such as departmental Efficiency Delivery Plans and Investment Delivery Plans, should be published alongside the draft Budget, PfG and ISNI documents and that these should be rigorous in detailing how and when the planned efficiencies and capital investments are to be achieved.

Budget/Programme for Government Links

10. In its Report on the Executive's Draft Budget 2008 - 2011, the Committee recommended that there should be a closer alignment between the PfG and the Budget documents; in particular a more visible linkage between PfG priorities and goals, PSA objectives and the allocations, departmental objectives and spending areas in budgets. This is a theme emerging from the other statutory committee responses and, indeed, the Committee notes that the evidence to the ongoing Review of the Budget Process in Scotland is also suggesting the need for greater transparency and clarity in the linkage between spending and outcomes.

Capital Allocations in ISNI

11. In particular, the Committee considered that there was insufficient detail in the draft Budget document (and in ISNI) on the financing of the planned capital investment. The Committee recommended that in the interests of transparency, the draft Budget and ISNI documents should include information on the extent to which the overall capital investment will be based on anticipated PFI, the extent to which the capital allocations for individual departments will draw on RRI borrowing, together with accumulated debt under RRI and the projected level of loan charges during 2008-11. The Committee calls for this recommendation to be acted on in respect of future draft Budget and ISNI documents.

Plenary Process

12. The Committee considers that the focus for improving the plenary aspects of the budget process may need to be on the Supply Resolution debates and the plenary stages of the associated Budget Bills. In particular, consideration should be given to streamlining the plenary aspects of the budget process to avoid repetition of debate, once the Assembly has approved the

Budget. This point was highlighted in the comparative research which the Committee commissioned.

Other Statutory Committee Responses

13. The responses from the other statutory committees on the strengths and weaknesses of the 2007 budget process are at Appendix 3. The key issues emerging from the responses, many of which reflect the aforementioned recommendations from this Committee, are summarised below. The Committee recommends that, as part of its Review of the NI Executive Budget Process, DFP also takes on board the conclusions and recommendations contained in the attached responses from the other statutory committees to the questions posed by DFP on the 2007 budget process.

Budget Timetable

14. The timetable for statutory committee scrutiny and public consultation on the Draft Budget was too short, though this was to a large extent unavoidable. In the year prior to the setting of a 3-year Budget, there needs to be intensive and early engagement (well before summer recess) on emerging priorities and departmental positions.

15. Committees should also be engaged annually on any review of PfG priorities (taking account of progress against PfG targets and the changing policy and financial environment) and subsequently in considering proposals for significant changes in budgetary allocations. It was considered that the publication of an annual report illustrating spend and delivery would greatly improve budget scrutiny. A similar theme, in terms of outcomes being assessed as a basis for going forward, was also highlighted in the comparative research provided to the Committee for Finance and Personnel.

Departmental Budget Submissions

16. There was a general difficulty in obtaining detailed information to enable sufficient scrutiny and prioritisation. Without information on costs it is impossible to determine where spending could be scaled back. The late finalisation of efficiency delivery plans and difficulties in identifying funding for cross-cutting priorities also posed problems. The Committee for Regional Development received bids in the DFP pro forma format and found this to be useful. There was a call for Departmental Position Reports to be reintroduced to provide advance appraisal and a basis for subsequent committee scrutiny.

Budget/Programme for Government Links

17. There is considerable room for improvement in the clarification, simplification and harmonisation of the terminology in the PfG, ISNI and Budget documents. The departmental objectives used to organise the Budget are at a different level to those in the PSAs. Aligning PSAs more closely with Budget documents would allow an assessment of what is to be achieved with the allocated funding and enhance Committee scrutiny. As PfG outcomes were not costed, it was difficult to assess the adequacy of bids. One Committee suggested a preliminary Assembly debate on the priorities in the draft PfG before commencement of the Budget process.

Bid Prioritisation

18. Whilst prioritisation of bids is considered essential, there was limited scope for manoeuvre once inescapable bids had been accounted for. Some bids were classified as 'inescapable' and others as 'committed.' It was unclear which had higher priority.

Impact of Committee Views

19. There was little evidence of issues raised by committees being addressed in the revised Budget and subsequently a call is made for a formal feedback mechanism to address post-budget scrutiny (e.g. Departmental statements to the Assembly after the Budget has been passed).

Capital Allocations in ISNI

20. The period beyond the second year of the Budget and ISNI is only indicative. This is a less than optimal method of planning large capital infrastructure projects and makes it harder to achieve value-for-money as the market is not as well prepared as it might be. Given the importance of infrastructure investment in tackling social need, details of the geographical distribution of investment should be published with the ISNI. The important link between ISNI and capital realisations was also emphasised.

Cross-departmental Proposals

21. Consideration should be given to a system of financial incentives and penalties for the delivery of cross-departmental priorities. The large number of cross-cutting PSAs make it difficult for committees to monitor performance and relate it to the Budget. A more robust system is needed to identify measures to deliver cross-cutting priorities and for monitoring the level of funding allocated to them. The Committee for the Environment expressed concern at the lack of cross-departmental working in practice and the low priority placed on cross-cutting objectives by individual departments.

Public/Stakeholder Consultation Responses

22. Oral evidence from key stakeholders was useful for highlighting probable impact on services. However more time was needed to facilitate more appropriate stakeholder engagement.

Plenary Process

23. The Ministerial Statement on the Draft Budget is embargoed until the statement commences which does not give members an opportunity to contribute fully.

High Level Impact Assessments (HLIAs)

24. Whilst several committees did not see the outcome of the HLIAs, some who did expressed concern at the lack of quantifiable or challengeable information.

Committee Role

25. There may be a need for specialist resources to provide standing or ad hoc technical advice to support committees' challenge and scrutiny functions (an issue which the Committee for Finance and Personnel will consider during the next stage of its ongoing Inquiry).

Draft/ Revised Budget Documents

26. More information may be helpful for stakeholders in the public consultation. It should be clearer how changes in resources relate to changes in priorities and new interventions being supported by Budget allocations should be explicit.

Next Steps

27. Following a briefing from DFP officials on 12 November 2008, the Committee for Finance and Personnel will consider and respond to the findings from DFP's Review. Once the Executive's future budget process has been confirmed, the Committee will undertake Stage 2 of its Inquiry: 'to review the resources available for assisting Assembly statutory committees and members in undertaking budget and financial scrutiny and to put forward a set of practical recommendations for enhancing the capacity of the Assembly in this regard.'

Annex C

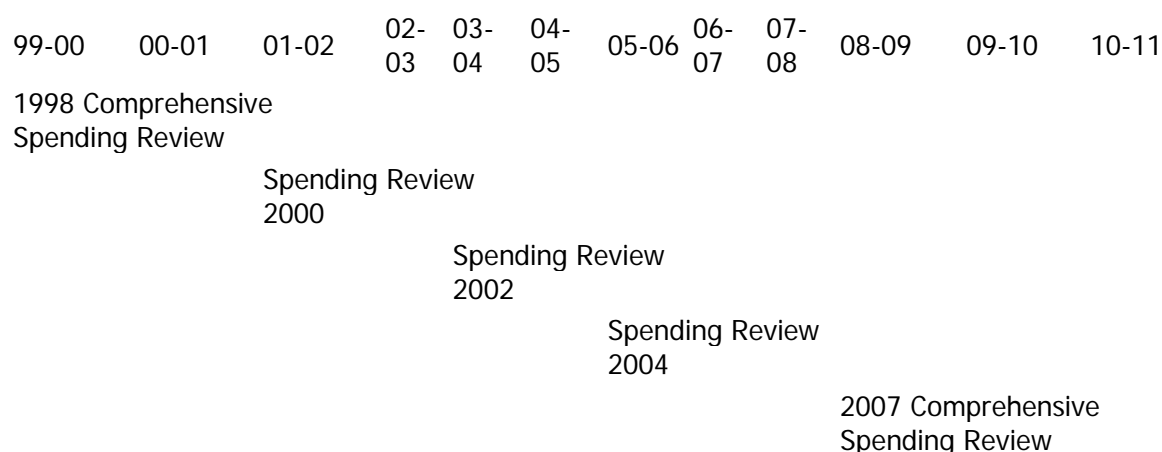
Uk Public Expenditure System

Spending Reviews

The total budget of each devolved administration is composed of a number of separate categories of public expenditure. These are defined as Departmental Expenditure Limits (DEL) set over three years during the spending reviews and Annually Managed Expenditure (AME) set yearly during the budget.

National spending reviews are undertaken normally every two years, most recently in 2007 with the next Spending Review due to take place in 2010. The following chart displays the recent spending reviews:

UK Spending Reviews



These spending reviews set firm and fixed three year plans for the DEL. This then also determines the level of funding available to the devolved administrations through the out working of the Barnett Formula.

Barnett Formula

The Statement of Funding Policy, which was first published in March 1999, details the allocations of expenditure to the devolved administrations^[27]. Under the Formula, Scotland, Wales and Northern Ireland receive a population-based proportion of changes in planned spending on comparable United Kingdom Government services in England. Changes in each devolved administration's spending allocation is determined by the quantity of the change in planned spending in departments of the United Kingdom Government, the extent to which the relevant United Kingdom programme is comparable with the services carried out by each devolved administration and each country's population proportion.

Change to the UK Government Department's Programme	x Comparability percentage	x Appropriate population proportion
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The allocation of public expenditure between the services under the control of the devolved administrations is for the devolved administrations to determine. This largely removes the need to negotiate directly the allocation between Treasury Ministers, Secretaries of State and Ministers of the devolved administrations.

Budget

Each March the Chancellor makes the Budget statement to the House of Commons which is the UK's annual financial statement, and includes a review of taxation levels and an announcement of spending plans. Once the Chancellor has returned to his seat the budget information is made available to Members of Parliament, the public and the press.

The Pre Budget Report is delivered by the Chancellor to the House of Commons usually late autumn. It provides a progress report on what has been achieved so far and gives an update on the economy and public finances and sets out the direction of the Governments policy in the run up to the Budget.

Neither the Budget nor the Pre Budget Report are subject to public consultation.

[1] This full report including appendices is available from http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report15_08_09r.htm

[2] Annual average real growth in Departmental Expenditure Limit (DEL) funding for the NI Executive from the 2002 Spending Review was 3.3% and from the 2004 Spending Review was 3.1%.

[3] The list of consultees were: Children in Northern Ireland (CiNI); Confederation of British Industry (CBI); Equality Commission Northern Ireland (ECNI); Institute of Directors (IoD); Northern Ireland Committee, Irish Congress of Trade Unions (NIC ICTU); Northern Ireland Council for Voluntary Action (NICVA); Northern Ireland Local Government Association (NILGA); Northern Ireland Public Service Alliance (NIPSA); Sustainable Development Commission; and, Womens Policy Group.

[4] See www.pfgbudgetni.gov.uk

[5] See <http://www.pfgbudgetni.gov.uk/analysis.pdf>

[6] It is important to note that the announcement of the outcome of the next UK wide Spending Review, due in 2010, is also expected to be delayed beyond the normal July date.

[7] See: http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report15_08_09r.htm

[8] A 1% increase in the domestic regional rate would yield an increase in rates income of approximately £2.8 million and a 1% increase in the non-domestic regional rate provides an increase of approximately £3.0 million.

[9] This Act created a formal legal separation between: the National Assembly for Wales, the legislative; and the Welsh Assembly Government, the Executive. Assembly measure can go further than the subordinate legislation which the Assembly had power to make under the 1998 Act. The 2006 Act established the Welsh Consolidated Fund on 1 April 2007, where the money voted by Parliament to Wales is held.

[10] As described in the Government of Wales Act 2006

[11] For example, the 2005 Committee on Smoking in Public Places.

[12] <http://wales.gov.uk/topics/localgovernment/localauthorities/?lang=en>

[13] <http://wales.gov.uk/strategy/strategies/onewales/onewalese.pdf?lang=en>

[14]
<http://new.wales.gov.uk/about/programmeforgovernment/strategy/publications/1walesdeliveryplan/>

[15] The National Assembly's Standing Order 27 – Financial Procedures states: "Not later than 7 October in each financial year, a Welsh Minister must lay before the Assembly a draft Budget setting out the amounts of resources and cash which the government proposes to use for the following financial year and provisional amounts for the subsequent two years or for such other period as the Minister considers appropriate".

[16] This is also included in Standing Order 27 – Finance Procedures states: "The Finance Committee must consider and report to the Assembly on the draft Budget no later than four weeks after it has been laid before the Assembly. The Finance Committee's report must append any recommendations which the Finance Committee has received from other Committees"

[17] This is also included in Standing Order 27 – Finance Procedures which states: "The Finance Committee's report may recommend changes to the amounts proposed in the draft Budget provided the net effect of those changes would not increase or decrease the aggregate amounts of resources or cash proposed in the draft Budget for the government".

[18] This is included in Standing Order 27 – Finance Procedures which states: "The annual Budget motion as required under Section 125 of the Act must be tabled by a Welsh Minister on or before 3 December."

[19] Apart from this Minister, Junior Ministers, appointed by the First Minister under the terms of Section 49 of the Scotland Act 1998, are not members of the Cabinet.

[20] See: <http://www.scotland.gov.uk/Topics/Government/local-government/17999>

[21] This is set out in the Budgeting Process Agreement between the Scottish Executive and the Finance Committee, which defines the administrative arrangements for the budget process. http://www.scottish.parliament.uk/business/committees/finance/Written_Agreement_between_F_C_and_Exec_at_22.6.05.pdf

[22] See footnote 21.

[23] See footnote 21.

[24] The five strategic objectives of the Scottish Government are: (1) Wealthier & Fairer - enable businesses & people to increase their wealth & more people to share fairly in that wealth; (2) Smarter - for people to succeed from nurture through to life long learning, ensuring higher & more widely shared achievement; (3) Healthier - help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care; (4) Safer and Stronger - help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life; and, (5) Greener - improve natural and built environment and the sustainable use and enjoyment of it.

[25] From The Government Economic Strategy, The Scottish Government, November 2007, <http://www.scotland.gov.uk/Resource/Doc/202993/0054092.pdf>

[26] See: <http://www.scotland.gov.uk/About/scotPerforms>

[27] Available at http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf

Response to Questions on Budget Process Review

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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
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28 May 2010

Dear Shane

I am writing in response to your letter of 14 May 2010, in which you requested further information regarding the Review of 2008-11 Budget Process.

Please find attached at Appendix A, the responses to the additional questions raised by the Committee. In addition, the Action Plan to implement the recommendations from the Final Report of the Review will be provided to the Committee, once it has been agreed by the Minister and the Executive.

In response to the request that the Committee be kept informed on progress regarding the establishment of a 'contingency fund', as stated at the Committee meeting on 12 May 2010 and within the Final Report of the Review, there are varying approaches taken in Scotland and Wales. Paragraph 3.25 of the Final Report makes it clear that there are advantages and

disadvantages to the Welsh approach of holding resources back for a contingency fund. The Executive's approach on this matter will be considered as part of the broader Budget 2010 process.

The Committee also requested a DFP view on the Assembly Research paper, Considerations for reform of the budget process in NI which is attached at Appendix B.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Norman', followed by a long, sweeping horizontal stroke.

NORMAN IRWIN

Annex A

Publication of Supporting Documentation

1. Recommendation 11 (page 9) states that supporting documentation, such as draft PSAs and Efficiency Delivery Plans (EDPs) should be published as soon as possible after the draft Budget and PfG.

- Is there not a case for draft delivery plans accompanying the draft Budget and PfG to inform committee consideration and, in the case of EDPs, provide some assurance regarding deliverability?

It is recognised within the Final Report that the supporting documentation to the draft Budget is important not only to Committees but also to external stakeholders. The ideal would therefore be for the supporting documentation to be published at the same time as the draft Budget. However in recognition of the quantum of work required of both DFP and departments in order to produce the draft Budget document, for practical reasons it was recommended that the publication of supporting documentation should be as soon as possible after the publication of the draft Budget document.

In addition, recommendation 4 of the Review highlights the need for departments to engage at an early stage with Assembly Committees; this would include engagement on the development of savings.

Committees providing alternative spending proposals

2. Recommendation 13 (page 10) suggests that alternative spending proposals from Committees should be accompanied with detail of how these are to be funded. It also suggests that the Finance & Personnel Committee should fulfil a role in assessing such proposals.

- In order for Committees to accompany their alternative spending proposals with full costings/funding plans, would they not first require a much greater level of access to departmental financial information than has existed heretofore?
- While the Finance & Personnel Committee presently does not have any formal authority to adjudicate or challenge proposals from other Assembly statutory committees, did you find evidence of such a role being fulfilled by the finance committees elsewhere, including Scotland and Wales?

It is essential that any spending proposal put forward by either a department or Assembly Committee is set in the context of affordability in order that it can be properly assessed, as a fundamental principal of budgeting. The expectation is that spending proposals put forward by Committees will relate to bids previously submitted by departments that have already been costed as part of the Budget process or to issues which they will have previously discussed with departments including funding requirements.

Recommendation 4 in the Final Report states that there should be not only earlier but more structured engagement by departments with Committees, in respect of Budget proposals. However individual Committees may seek further information as they investigate the options.

As in Northern Ireland, both the Scottish and Welsh Finance Committees lead the scrutiny of the proposed budget, with other committees scrutinising the proposed allocations for their respective areas.

However, in both Scotland and Wales the Committees proposed changes are constrained to the total level of resources available. Committees in their response to these Finance Committees must provide options for reduction if they are recommending increased spending in another area. The Finance Committees in Scotland and Wales are therefore more able to concentrate more on examining the overall draft Budget position for the departments.

Streamlining the Estimates and Budget Processes

3. The paper refers to more "streamlined" processes in both Wales and Scotland, and Recommendation 14 (Page 10) states that the "Final Budget Statement and debate should be combined with the Main Estimates process."

- How would this work in practice, including in terms of the level of detail provided to the Assembly and the timings?

Recommendation 14 suggests that the Budget and Estimates processes could be streamlined as in Scotland and Wales. In broad terms this would mean that the revised Budget position would be the Main Estimates and Budget Bill.

Therefore rather than voting on the revised Budget in December or January, the Vote on Account in February and the Main Estimates in June this process would mean that the revised Budget and Main Estimates and Budget Bill are combined in December or January, negating the need for a Vote on Account.

However, in order to consider the practical implications of making these changes to the financial processes a detailed review is required. This review would need to involve consultation with the NI Assembly through its statutory committees, as well as consultation, at an official level, with the Comptroller and Auditor General.

Annex B

Research Paper 147/10 – Consideration for Reform of the Budget Process in Northern Ireland

1. DFP notes the research paper presented to the Committee for Finance and Personnel, the issues raised and the concluding recommendations.
2. It is recognised that the majority of the recommendations relate to the scrutiny and challenge role of the Assembly and its Committees during the Budget process as well as the Assembly's relationship with the Executive and are, therefore, for the Assembly to address.
3. It should be noted, however, that DFP has concerns around some of the knowledge and understanding of the NI public expenditure system demonstrated in the paper and, while acknowledging the intricacies of NI public expenditure, would stress that officials are available to work with the Committee and Assembly staff to improve understanding.
4. DFP notes the view conveyed in the paper regarding a lack of transparency and obvious alignment between Budgets and Estimates and, at this stage of devolution, it may now be appropriate to take stock and reform the wider financial process in Northern Ireland (not just the Budget process) with a view to achieving a simplified and streamlined process, and publications, that better suit the needs of the Assembly. To this end, extensive consultation by DFP with the Assembly through the Committee for Finance and Personnel and the Public Accounts Committee would be of the utmost importance, alongside consultation with the Comptroller and Auditor General.
5. DFP officials would be happy to discuss the needs of the Assembly in this regard and to agree the way forward.

From the Office of the
Minister for Finance & Personnel



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Your reference:

Our reference: COR 535/2010

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14 June 2010

Thank you for your 3 June 2010 letter on the Budget (No.3 Bill) and my request to the Committee to grant accelerated passage to this legislation.

You raise a number of important points that go beyond the specifics of this Bill and I would like to therefore take this opportunity to record my views on these wider points.

On the issue of suspending Standing Orders to remove the Further Consideration Stage and the minimum 10-day period for the passage of the Bill, I would like to stress that this request in no way diminishes the amount of time that the Assembly has to debate the issue. The Assembly debates will mirror practice in previous years exactly. The 10-day period is to allow consideration of the Bill and the tabling of amendments. As Budget Bills are the statutory outcome of a Budget already debated on more than one occasion by the Assembly and approved (in this case as recently as 20 April 2010) then I considered it practical and efficient to move a motion to suspend Standing Orders on this occasion. In addition, it is generally recognised, in light of Section 63 of the Northern Ireland Act 1998, that the acceptance of amendments to Budget Bills can only occur in very limited circumstances and would most probably only come from myself. I assure the Committee that I do not plan any such amendments.

On the wider points made in relation to the budget process I must record that I share your concern and exasperation at the varying degrees of engagement and consultation between departments and the relevant Assembly Committees. I have spoken about this concern previously within the Assembly. In the context of the forthcoming budget process I have issued a paper to my Executive colleagues on how I envisage the process progressing over the coming months. In this Executive paper I have explicitly called on colleagues to engage early and meaningfully with their Committees. I have made the point that transparency is critical to ensuring that the emerging budget has credibility.

Minister of Finance and Personnel - Budget (No. 3) Bill

In relation to timetabling of the Budget 2010 process I have presented an outline timetable to Executive colleagues. This timetable, presented below, is very constrained which makes it ever-more imperative that there is early engagement with the various Committees.

Early Draft Timetable for Budget 2010 Process

Activity	Timing
Departments begin work on plans to deliver Value for Money Savings	April
Guidance issued to departments in respect of Budget 2010 and Savings Delivery Plans	Early June
Pre-Consultation exercise with key stakeholders including Committee for Finance & Personnel	June
Receipt of departmental returns – Departments proposed spending plans including linkages to PSA's.	mid July
Ministerial bi-laterals	Late July – early Sept.
Draft proposals to Executive for consideration	September
2010 Spending Review outcome announced by HMT	October
Draft Budget published alongside draft PfG and ISNI	October
Public Consultation Process on the draft document	October to December
Revised proposals to Finance Minister for consideration	Early December
Revised proposals to the Executive for consideration	Mid December
Final Budget document published	Late December

In conclusion I would again make the point that there is a pressing need to accelerate this draft Bill through the Assembly before the Summer Recess. I would therefore ask you and your Committee to look favourably upon my request.

I have asked my officials to make themselves available to assist you further on progressing this issue.



SAMMY WILSON MP MLA

NI Executive Budget 2010 Guidance for Departments

**Public Spending Directorate
DFP
June 2010**

Section 1 – Overview and Timetable

Introduction

1.1 This purpose of this guidance is to provide details of the background and approach to the NI Executive Budget 2010 process. It outlines:

- (a) the Public Expenditure context
- (b) the processes that will contribute to it;
- (c) the inputs required from departments; and,
- (d) the timetable for the key stages in the process.

1.2 In the context of the continued uncertainty in respect of the UK public expenditure environment and the expectation of a real terms reduction in available resources, the Budget 2010 process will involve the development of the spending plans for NI departments covering the four year period 2011-12 to 2014-15. In parallel, work will need to be taken forward by departments to develop plans to deliver additional resource releasing savings over this period in order to fund the allocations made in the Budget 2010 process.

1.3 It is important to stress at the outset that a number of the planning assumptions set out in this guidance may be subject to change by the Finance Minister and the Executive, as well as in response to changing circumstances. However, in order for departments to be able to provide meaningful Budget 2010 returns, it is essential that there is some form of point of reference on which spending proposals can be based.

1.4 Throughout the Budget 2010 process, departments will have due regard to the objectives as outlined below including statutory duties concerning equality of opportunity and good relations as set out in Section 75 of the Northern Ireland Act 1998; they will also give full consideration to opportunities to address social need experienced by the most deprived people and areas, focusing particularly on opportunities to tackle the problems of unemployment and/or increase employability.

1.5 Departments are also reminded of the importance of early and regular engagement with key stakeholders during all stages of the Budget 2010 process, particularly with Assembly committees. Departments should engage with stakeholders when identifying and prioritising both spending proposals and savings plans.

Public Expenditure Context

1.4 The 2007 UK Comprehensive Spending Review was formally launched 27 months before the outcome was announced in October 2007. In contrast, the 2010 Spending Review will have to be completed in less than 6 months whilst the change in Government has resulted in additional uncertainty in respect of the expected outcome for the NI Executive. The emergency UK Budget on 22 June 2010 is expected to provide an updated position in respect of projected level of UK public spending over the next four years, although the NI Executive Departmental Expenditure Limit (DEL) will only be confirmed at the conclusion of the 2010 Spending Review in the autumn.

Current Expenditure

1.5 In respect of current expenditure, the expectation at this time is that the NI Executive DEL will remain constant in cash terms over the next four years (i.e. a real terms reduction) but from a reduced baseline position reflecting the NI Executive's share (£127 million) of the reduction in UK public spending announced on 24 May 2010. In addition, there is scope for HM Treasury to make further baseline adjustments.

1.6 The planning assumption is that there will not be significant additional amounts of resources available for allocation from internally generated sources of funding, whilst the overcommitment is expected to remain at zero for the Budget 2010 period, reflecting the improved spending performance of NI departments over the Budget 2008-11 period. This means that NI departments will need to deliver additional savings in order to generate the resources required to address the cost pressures and policy initiatives that departments are now being asked to submit- see Section 2.

1.7 It is essential therefore, that there is a strong focus on delivering savings, whilst minimising the impact on the delivery of priority frontline services. Therefore the intention is for Savings Delivery Plans to be published by departments alongside the draft Budget document, or as soon as possible thereafter, to facilitate public consultation and to ensure that the provision of priority services can be maintained. Further guidance will be issued on this matter to departments shortly.

1.8 The current expenditure baseline position for NI departments in Budget 2010 will be the Revised 2010-11 Spending Plans agreed by the Executive in April 2010 adjusted for time limited allocations, the savings projected to be made from Invest to Save Projects over the period 2011-12 to 2014-15 as well as the additional savings required as part of Budget 2010.

Capital Investment

1.9 In line with normal practice, there is no baseline position in respect of capital investment, reflecting the discrete and finite nature of most capital projects. In addition, the position in respect of the expected level of available resources to fund capital projects over the Budget 2010 period is more uncertain than for current expenditure. Although there is expected to be a significant reduction in the NI Executive capital investment DEL, there are a broad range of potential outcomes. Furthermore, although there are signs of recovery in the local property market, it is expected that departmental capital receipts will be lower than previously (indicatively) planned for over the early part of the Budget 2010 period.

1.12 Therefore, the level of resources available capital investment is expected to be less than the indicative plans for capital investment over the period 2010-11 to 2014-15 included in the second iteration of the Investment Strategy for Northern Ireland (ISNI) 2008-18. The slippage of projects from the current Budget period will increase the demand for resources whilst there should, in principle, be significant offsetting savings from lower than expected construction and land costs.

1.13 The capital allocations to NI departments for the years 2011-12 to 2014-15 will be set as part of the Budget 2010 process, informed by the work, led by the Strategic Investment Board (SIB), to develop the third iteration of the ISNI. Priority will be given to capital projects which are already substantially commenced as well as those where contractual commitments are in place for specific amounts of funding.

Departmental Baselines

1.14 Detailed baseline prints will be issued to departments shortly. As departments are not expected to be currently in a position to provide details of where they intend to make additional savings over the coming four years, the baseline prints will include a separate Unit of Service (UoS) with a negative figure for the amount of savings required of each department. As the Budget 2010 process progresses and departments identify the business areas where savings are to be made, the amount attributed to this UoS should move to zero. Although the full amount of the savings required will be attributed to Other Resource Near Cash in the first instance, departments will be able to transfer part of the savings into Administration Near Cash, in line with their Savings Delivery Plans.

1.15 The deadline for submitting Budget 2010 spending proposals is 30 July 2010. In addition, departments will be expected to have provided full details of the areas where they intend to make savings by 26 August 2010 which is also the deadline for departments to complete a Technical Exercise in respect of proposed transactions to move resources in the opening baseline position between both UoS and UoB. This represents a greater degree of flexibility for departments than would normally be the case to allow departments to more fully align funding with business requirements.

Ministerial Priorities

1.16 The broad strategic priorities for the Budget 2010 process are expected to be in line with those set out in the Programme for Government with "growing the economy" remaining the Executive's top priority. In addition, and subject to further Executive consideration, it is expected that the same basic structure in respect of Public Service Agreements will remain in place. However, there will be revisions to the specification of performance targets reflecting the departmental allocations made as part of the Budget 2010 process. In order to enhance this linkage, each spending proposal will be expected to include details of the impact of the bid being successful (against the counterfactual position) for specific quantifiable performance targets, in addition to the linkage to overall PSA's

Department of Justice

1.17 The Executive has yet to conclude on the approach as to how the Department of Justice (DoJ) and the Public Prosecution Service (PPS) should be incorporated into the Budget 2010 process. For example, in light of the financial package agreed with the Government as part of the devolution of policing and justice powers to the NI Assembly one option would be for DoJ and PPS to be ring-fenced as part of Budget 2010. However, until this decision is made by the Executive, in terms of preparatory work, both DoJ and PPS are advised to develop Savings Delivery Plans and Spending Proposals on the same basis as that for the other main departments.

Minor Departments

1.18 In line with previous arrangements, the NI Assembly and the NI Audit Office will be provided with the level of funding required by each organisation (both current expenditure and capital investment) in order to carry out their respective functions, as agreed by the Assembly Commission and the Public Accounts Committee respectively. In accordance with the overall framework for Budget 2010, the approach for the Assembly Ombudsman/Commissioner for Complaints, Food Standards Agency and NI Authority for Utility Regulation will be the subject of further specific discussion with DFP to ensure that it is fit for purpose, in light of the scale of funding to these organisations.

Consultation

1.20 One of the main themes from the Review of the NI Executive Budget 2008-11 process was the need for earlier and more detailed engagement by departments with their Assembly committees and other stakeholders as part of each Budget process. Although the unavoidable delays in initiating the Budget 2010 process means that there will be less scope to take this forward as part of the current process than will be the case in future years, it remains essential that Assembly committees are provided with as much information that is both appropriate and practical. However, it is also recognised that there can be significant differences in the form of engagement between individual departments and their respective Assembly committees whilst decisions on how to manage this relationship ultimately lie with individual departments.

1.21 In addition to the regular updates that departments should already be providing to Assembly committees in respect of their financial position for 2010-11 and future years, it is important that committees are also provided with the opportunity to provide advice and comment in respect of the Budget 2010 process. In particular, departments will be expected to consult with Assembly committees, as well as other key stakeholders, in respect of the spending proposals for Budget 2010. This should include a clear rationale for the departmental prioritisation of spending proposals whilst also highlighting the broader financial context.

1.22 However, the need to take forward the Budget 2010 process in a timely manner remains paramount and departments should not delay in providing returns to DFP by 30 July 2010, in order to consult with their Assembly committee. The pro-forma for each spending proposals will now include details of the groups that the department has consulted with in developing the bid for additional funding. Assembly committees should also be kept fully informed of any changes to their spending proposals during the course of the Budget 2010 process.

1.23 It is intended that supporting documentation such as prioritised spending proposals and Savings Delivery Plans will be published at the same time, or as soon as possible after, the draft Budget document is published in the autumn. Supporting documentation should be published on departmental websites and sent to Assembly committees. Although the draft Budget document will include high level detail in respect of the budget allocations to NI departments it is also important that Assembly committees are provided with details of which spending proposals are being supported and how much funding is being provided.

1.24 The main form of consultation on the draft Budget proposals will be through the Assembly committees and departments should seek to provide timely responses to any queries or requests for additional information. It is also important that there is recognition of the financial constraints facing the Executive and departments should highlight the consequences that additional funding for one particular area may require the funding for another to be reduced accordingly. Departments will also wish to consult with stakeholder groups with a specific interest in the allocation of resources between business areas within the department. Whilst it may not be possible to fully incorporate the views expressed during the draft Budget consultation process into the final revised spending plans for NI departments, it is important to provide feedback to stakeholder groups and in particular Assembly committees following the conclusion of the Budget 2010 process.

Timetable

1.25 Table 1 below sets out the broad timetable for the Budget 2010 process. It is important to note that there remain some significant uncertainties, particularly in respect of the timing of the outcome of the 2010 Spending Review. Therefore, there may be significant changes in timescales as the process progresses. In addition, the delay initiating the process means that the

timescale are very challenging. This reflects the importance of departments and public bodies having final spending plans in place sufficiently advance of the 2011-12 financial year to allow plans for delivery to be put in place.

Table 1: Timetable for Budget 2010 Process^[1]

Activity	Timing
Departments to begin work on plans to deliver savings- following DFP Ministers note to Executive of 12 April	April
Guidance issued to departments in respect of Budget 2010	Early June
Guidance issued to departments in respect of Savings Delivery Plans	June
Pre-Consultation exercise with key stakeholders including Committee for Finance & Personnel	June- early August
Receipt of departmental returns – Departments proposed spending plans including linkages to PSA's.	30 July 2010
Ministerial bi-laterals	August – early Sept.
Departments to provide details on savings and Technical Exercise	26 August
Draft proposals to Executive for consideration ¹	September
2010 Spending Review outcome announced by HMT	October
Draft Budget published alongside draft PfG and ISNI	October
Public Consultation Process on the draft document	October to December
Revised proposals to Finance Minister for consideration	Early December
Revised proposals to the Executive for consideration	Mid December
Final Budget document published	Late December

1.26 The next significant milestone in the process will be the submission of departmental returns for Budget 2010, which should be sent to DFP by 30 July 2010 and recorded on RBM by 5pm on this date. Details of where departmental savings are proposed to be made should be recorded on the RBM by 26 August 2010 as well as details of proposed movements of funding between UoS and UoB.

Section 2 - Departmental Returns

Introduction

2.1 The departmental returns for Budget 2010 should set out, in one document, the departments proposed current expenditure and capital investment spending plans for the years 2011-12 to 2014-15, comprised of a set of spending proposals with supporting evidence. In particular, the benefits that would be achieved as a result of the spending proposal being implemented should be clearly stated with a clear linkage to Public Service Agreement outputs/outcomes where appropriate.

2.2 In making recommendations to Ministers on the allocation of available resources, current expenditure spending proposals will be assessed in terms of alignment with ministerial priorities, impact on PSA indicators as well as the extent to which the proposal relates to an unavoidable pressure (pre-commitment or statutory/legal requirement). In addition, a positive impact on equality, good relations, poverty, social inclusion or sustainable development would also increase

the chances that a proposal will be recommended to Ministers. Therefore it is important that sufficient quality and quantity of evidence is provided, with the onus on the sponsor business area.

2.3 In light of the cross-departmental approach to the development of PSAs the preference is that the lead department for each PSA puts forward a joint proposal on behalf of the relevant delivery partner departments. This avoids the risk of two departments bidding for the same funding or not at all. There should be clear identification of when a spending proposal is linked to others so that they can be considered collectively where appropriate.

2.4 Whilst the return will reflect the department's views, it is essential that there is early and substantive engagement with the relevant DFP Supply Team – particularly in view of the tight overall resource position and the desire to avoid nugatory work for departments in terms of preparing spending proposals. Supply will therefore continue to engage with departments to discuss the approach and proposed contents of returns.

2.5 The departmental resource baselines to be used for the Budget 2010 process will shortly be provided. Only the baseline data provided by CED should be used by departments as the starting points for their returns. For the avoidance of doubt, spending proposals are only required where a department requires additional resources to those set out in the baselines. In line with the normal practice, there is no baseline position in respect of capital investment.

Contents of the Return

2.6 The structure for the departmental return is set out below:

- Summary, including overview table of spending proposals in rank order set out separately for current expenditure and capital investment;
- Set of Current Expenditure and Capital Investment Spending Proposals;
- Supporting evidence for each spending proposal in respect of:

Current Expenditure Proposals

- Description of spending proposal and the degree of alignment with Executive priorities,
- Impact(s) on PSA Key Performance Indicator(s),
- Linkage capital project,
- Extent to which bid is unavoidable (pre-commitment, statutory and/or legal obligation, price inflation), and
- Summary of Equality, Good Relations, Anti Poverty, Social Inclusion and Sustainable Development impact.

Capital Investment Proposals

- Description of spending proposal and the degree of alignment with Executive priorities,
- Linkage with capital spend in Budget 2008-11 period,
- Linkage with indicative plans for 2011-15 in ISNI 2008-18
- Extent to which contractual commitment is in place for the projects; and

- Summary of any wider economic benefits as well as Equality, Good Relations, Anti Poverty, Social Inclusion and Sustainable Development impact.
- Other Issues.

2.7 The following paragraphs specify the requirements of each section. It is important that all sections are covered in departmental returns.

Summary

2.8 The departmental submission should begin with a short textual summary of the department's proposals, followed by a table setting out the overall budgeting implications of the proposals. A pro forma for this is attached at Annex A with a separate table to be completed for current expenditure and capital investment spending proposals. At this stage the PSA/Objective linkage is in respect of the 23 PSA's in the Programme for Government (PfG) 2008-11 document. For example, a spending proposal linked to the PSA objective of Tackle the skills barriers to employment and employability, should include the value 3.1 in the PSA/objective column reflecting that this is the first objective in PSA 3.

Spending Proposals and Supporting Evidence- Current Expenditure

2.9 For each current expenditure spending proposal the departmental submission should complete Annex B which sets out details of each proposal and supporting evidence:

(a) Summary of Spending Proposal- setting out the main points of the proposal and in particular how it links with the over-arching Executive priorities. The Responsible Officer for the proposal will be contacted for clarification on the information provided in the return. Links to other proposals and the date the HLIA/EQIA was completed should also be specified, as well as the groups consulted with in developing the proposal;

(b) Resource Requirements- should be set out relative to the position in 2010-11 although this may not be appropriate for new policies/programmes. The additional funding required is split between administration and Other Resource near Cash, whilst departments should also indicate if this includes depreciation and impairments. In terms of the evidence that the level of resources proposed is the minimum necessary Departmental returns should refer to best practice levels of marginal/average costs in supporting the case. In light of the more constrained fiscal position it is also important to identify whether a reduced form of the bid might be possible (i.e. is it all or nothing);

(c) Public Service Impact- key part of each spending proposal will be the projected impact on public services as reflected in the linkage with the PSA Key Performance Indicators (KPI's). Although the expectation is that most spending proposals will be in respect of the existing KPI's within PfG 2008-11, departments will also be able to put forward proposals as regards new performance targets.

The baseline position will be the expected level of performance in 2010-11 for each KPI affected by the spending proposal. In respect of the value added from the bid being successful, the forecast values for the KPI over the next four years should be set under the two scenarios of the bid being successful and not being met. Although, the provision of KPI data will strengthen the case for a spending proposal to be funded, it is recognised that such information may not be available in all cases. Therefore supplementary information on wider benefits can be provided, although such impacts should be clear and unambiguous i.e. references to for example; improved staff morale, avoidance of industrial action and/or avoidance of public criticism etc should not be used;

(d) Extent to which proposal is unavoidable- it is recognised that in some cases there will be significant costs associated with simply maintaining existing services (MES) with little or no enhancement in respect of the delivery of public services. It is essential that sufficient evidence is presented that the proposal is definitely unavoidable and that the quantum of cost involved is the minimum necessary; and,

(e) Equality, Good Relations, Poverty/Social Inclusion and Sustainable Development Impact- it is important that specific positive impacts in respect of Equality & Good Relations, as well as Social Inclusion and Sustainable Development are considered as part of the broader assessment of each proposal.

Spending Proposals and Supporting Evidence - Capital Investment

2.10 The ISNI 2008-18 included indicative capital investment spending plans for the period 2011-12 to 2014-15. In addition, information has recently been requested from department at official level in respect of the latest cost profiles for these projects and any additional pressures, focusing on contractually committed spend. However, not all departments were in a position to provide the information as requested whilst it is important that there is a clear understanding of the capital funding requirement identified by departments. Therefore, departments are required to submit spending proposals in respect of all their capital investment requirements over the Budget 2010 period.

2.11 For each capital investment spending proposal the departmental submission should complete Annex C which sets out details of each proposal and supporting evidence. Although, departments should combine smaller scale minor works capital projects as a single proposal, it is essential that there is sufficient disaggregation to provide the Executive with a clear understanding of the proposal.

(a) Summary of Spending Proposal- setting out the main points of the proposal and in particular how it links with the over-arching Executive priorities. The Responsible Officer for the proposal will be contacted for clarification on the information provided in the return. Links to other proposals and the date the EQIA/HLIA was completed should also be specified, as well as the expected procurement method;

(b) Capital Requirements- should be set out in respect of the full amount required for each financial year as well as the associated additional resource requirements specifically associated with the project, which should not be bid for separately as a current expenditure proposal. In terms of the evidence that the level of resources proposed is the minimum necessary Departmental returns should provide evidence that they have sought to reduce the level of funding required compared to early projections, for example those in the ISNI 2008-18. In light of the more constrained fiscal position it is also important to identify whether a reduced form of the bid might be possible (i.e. is it all or nothing) or whether it would be possible to defer the project until after 2014-15;

(c) Linkage with Budget 2008-11- departments should set out details of the extent to which expenditure has already commenced in the current Budget 08-11 period and thus, that rejecting the proposal might result in wasted expenditure. This should not include details for ongoing minor works but specific larger scale projects which have expenditure tails into the Budget 2010 period;

(d) Linkage with ISNI 2008-18- departments should set out details of the annual expenditure plans for the project that were included as indicative plans in the ISNI 2008-11 as well as any details of changes to the expenditure profile. In particular, the expectation is that the current

capital funding requirements should be lower than when ISNI 2008-18 was published in January 2008;

(e) Slippage from current Budget 2008-11 Period- in addition to projects which began in the current Budget period but with tails into the Budget 2010 period (as captured in (c)), there will also be projects that were expected to start in the period 2008-09 to 2010-11 but have slipped to future years. It is important to provide details of only the amount of expenditure that has slipped from the current Budget 2008-11 period, as opposed to the total cost of the project. In order to provide assurance that previously delayed projects will progress in line with the revised timescales, departments should provide details of why there was slippage in the project as well as the steps that have been taken to ensure that it does not occur again.

(f) Contractual Commitments- it is recognised that departments may have already signed contracts in respect of projects with expenditure in both the current and Budget 2010 periods. However, the nature of commitments can vary significantly with the key factor being whether a contract has been signed for a specific amount of funding or whether a contract implies a commitment to a minimum level of capital expenditure by a department. In order to provide assurance that a contract is in place, the date that the contract was signed and the date that final DFP approval was secured, should also be specified.

(f) Economic, Equality, Good Relations, Poverty/Social Inclusion and Sustainable Development Impact- it is important that specific positive impacts in respect of Equality and Good Relations, as well as Social Inclusion and Sustainable Development should be considered as part of the broader assessment of each proposal. In the context of the key role played by public infrastructure in facilitating economic growth, departments should set out the impact on long term economic growth. In addition, there are also shorter terms economic benefits from expenditure on capital projects as a stimulus for the construction sector, which should also be set out.

Annex A

Table A1 - Summary of Current Expenditure Departmental Spending Proposals – in rank order of priority

Rank	Spending Proposal	PSA	Resource (£000's)
	2011-12	2012-13	2013-14 2014-15
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			

Table A2 - Summary of Capital Investment Departmental Spending Proposals – in rank order of priority

Rank	Spending Proposal	PSA	Capital (£000's)
2011-12	2012-13	2013-14	2014-15
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			

Annex B

Spending Proposal Pro-Forma - Current Expenditure

1. Summary of Spending Proposal

Title:

Responsible Officer:

Spending Area & UoB:

PSA/Objective

Link to other bids:

Date EQIA/HLIA assessment completed:

Bid Consultees:

Set out short summary of the main details of the spending proposal including alignment with Ministerial Priorities

2. Resource Requirements (£000's)

	Baseline	Budget 2010 Resource Requirements (additional amount)		
2010-11	2011-12	2012-13	2013-14	2014-15

Resource

Admin

Supporting evidence that level of resource requirement is the minimum necessary – include if includes depreciation and impairment

Could reduced scale of bid be delivered?

Yes/No

3. Public Service Impact on PSA Key Performance Indicators (KPI's)

PSA	Baseline	Projected Value		
		2012-13	2013-14	2014-15
PSA KPI 1		No bid		
		Bid		
PSA KPI 2		No bid		
		Bid		
PSA KPI 3		No bid		
		Bid		

How will spending proposal impact on PSA Key Performance Indicators and bring wider benefits to the public?

4. Extent to which costs are unavoidable

Unavoidable due to:	Yes/No	Details of why pressure cannot be avoided and or funded from within existing baselines?
Executive Pre-commitment		
Legal/Statutory Obligation		
Price Inflation		
Maintain parity of provision with rest of UK		
Other 1-		
Other 2-		

5. Positive Equality and Sustainable Development Impact

Will the spending proposal have a positive impact in terms of: Yes/No Detail

Equality

Good Relations

Poverty/Social Inclusion

Sustainable Development

Annex C

Spending Proposal Pro-Forma - Capital Investment

1. Summary of Capital Spending Proposal

Title:

Responsible Officer:

Spending Area & UoB: ISNI Sub-Pillar

Link to other bids:

Date EQIA/HLIA completed:

Procurement Method: Conventional/PFI On-Balance Sheet/ PFI Off-Balance Sheet

Set out short summary of the main details of the capital investment proposal including alignment with Ministerial Priorities as well as the rationale for its relative ranking against the other capital projects submitted by department.

2. Capital Requirements (£000's)

Budget 2010 Capital Funding Requirements			
2011-12	2012-13	2013-14	2014-15
Capital			
Assoc Resource			
Supporting evidence that level of capital funding is the minimum necessary and reflects the fall in construction prices.			
Could the project be deferred until after 2014-15?			Yes/No
Could reduced scale of bid be delivered?			Yes/No

3. Linkage with Budget 2008-11 Period

Has expenditure been incurred on the project in the current Budget period?	Yes/No
If yes, what has been the level of expenditure (£000's)	
	2009-10
	2010-11
Provide details of the implications of the project not being funded as part of Budget 2010.	

4. Linkage with ISNI 2008-18

Was the project included in the indicative plans for the period 2011-12 to 2014-15 as part of ISNI 2008-18?	Yes/No
If yes, what were the indicative levels of spend attributed to the project for 2011-15 (£000's)	
	2011-12
	2012-13
	2013-14
	2014-15
Provide details the reasons for any changes to expenditure profile.	

5. Slippage from Current Budget 2008-11 Period

Has expenditure on the project slipped from the current Budget 2008-11 period?	Yes/No
If yes, what amount of expenditure is expected to move to the Budget 2010 period (£000's)	
Provide details of why project slipped and measures taken to ensure that there is no further slippage.	

6. Contractual Commitments

Is a contractual commitment in place for the project?	Yes/No
If yes, what is the level of the contractual commitment for the Budget 2010 period (£000's)	
2011-12	2012-13
2013-14	2014-15
2011-15	

Date contract signed:

Date Final Business Case approved by DFP

7. Wider Economic/Social Impacts

Will the spending proposal have a positive impact in terms of: Yes/No Detail

Short-term benefit to the local construction sector.

Longer term economic growth

Equality

Good Relations

Poverty/Social Inclusion

Sustainable Development

[1] Based on the anticipated 2010 Spending Review outcome for the Executive.

Appendix 4

Assembly Statutory Committee Responses

Review of the Executive's 2008-11 Budget Process



Committee for Finance and Personnel
Room 419
Parliament Buildings
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To: Statutory Committee Clerks

From: Shane McAteer
Clerk to the Committee for Finance and Personnel

CC: Clerk Assistants, Director of Clerking and Reporting

Date: 14 May 2010

Subject: Committee Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure

1. On 2 July 2008, the Committee for Finance and Personnel agreed a terms of reference for the above Inquiry (Appendix A). Part 1 of Stage 1 of the Inquiry was completed in October 2008, and the Committee is now proceeding with other stages.

Part 2, Stage 1

2. At its meeting on 12 May, the Committee agreed to seek the views of the other statutory committees to inform its response to DFP's Review of the NI Executive's Budget 2008-11 Process. To that end, I have attached the report on DFP's review (Appendix B) and an Assembly Research paper (Appendix C), Considerations for reform of the budget process in NI.

3. Your Committee is invited to comment on both papers, including on the recommendations contained therein, by Wednesday 2 June. I apologise for the tight timescale; however, the Committee aims to complete this stage before summer recess but only received a briefing on the outcome of the DFP review at its meeting yesterday (12 May).

Stage 2

4. The Committee will consider an Assembly Research paper on the resources available for supporting legislatures in budget scrutiny at its meeting on 19 May. Similarly, to inform this stage of the Inquiry, the Committee will request input from all statutory committees, and I will copy the Research paper to you next week. As the Committee also aims to complete this stage in advance of the summer recess, the timescale for response to the paper will again be tight. In the meantime, therefore, you may wish to also give some preliminary consideration to this issue.

Shane McAteer

? 21843

Committee for Agriculture and Rural Development

To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Paul Carlisle
Clerk to the Committee for Agriculture and Rural Development

Date: 02 June 2010

Subject: DFP Budget Scrutiny Inquiry – Committee response

1. The Committee for Agriculture and Rural Development (the Committee) welcomes the opportunity to provide its comments to the Committee for Finance and Personnel (CFP) in respect of their inquiry into the Budget Scrutiny process.

2. The Committee has noted the papers, "Review of Northern Ireland Executive Budget 2008 – 11 Process" from the Public Spending Directorate of DFP and "Resources for budget scrutiny" by the NIA Research and Library.

3. The Committee would welcome any improvement to the process that would enhance its role in the undertaking of its statutory responsibilities in respect of scrutiny of the budgets. Key to this is ensuring that there is appropriate access to relevant and timely information and that an appropriate structure is in place to provide the detailed analysis required to assimilate departmental budgets and their contribution to the wider budget process and Programme for Government.

4. The Committee would endorse the recommendation that earlier engagement in the budget process is necessary. The Committee believes that strategic direction should be the primary driver for the compilation of the budget and, as such, has requested early engagement with the Department in the development of its strategic plans, and consequently its budgets, for the period 2011 – 2014. This will also provide the Committee with an opportunity to consult with other stakeholders at an early stage.

5. This early engagement should not be restricted to the setting of the budgets but should also include the Committee involvement in the monitoring rounds within the budget period. Despite assurances to the contrary, departments continue to present monitoring returns to Committees either a few days before or after the deadline for returns set by DFP. This practice must cease and departments must afford the Committee the time to properly scrutinise monitoring returns. This is critical, in particular, with respect to the September monitoring return. The DFP deadline for this return is scheduled for 3 September 2010 whenever the Northern Ireland Assembly is in recess. The Committee firmly believes that DFP must be challenged on this and forced to revisit the deadline to meet with the Northern Ireland Assembly business diary.

6. The Committee also agrees that the Programme for Government and the budgets should be linked, along with Public Service Agreements, Efficiency Delivery Plans and any other strategic documentation that impacts on the budget process, in order that a fuller and more transparent overview can be provided. The Committee believes that this will allow for a greater understanding of the inter-relationships between these processes and will afford statutory committees the opportunity to undertake more strategic and in-depth scrutiny of the budgets.

7. The Committee is, however, mindful that additional and more detailed scrutiny has resource implications. Departments have advanced levels of expertise available to them in the compilation of budgets and budgetary information and it is essential that Committees have particular types of expertise and resources available to them to ensure that they carry out their scrutiny function effectively. The Committee concurs with the opinion that this must be independent of the Executive and recognises the work undertaken by Research and Library to date in this area. The Committee would recommend that this function is enhanced, on a pilot basis, to assist statutory committees in their scrutiny of budgets whilst the Assembly Commission assesses the merits and resource implications of establishing and maintaining an independent financial scrutiny committee.

8. I hope you find these comments useful

Ian Paisley Jnr MP MLA

Chair to the Committee for Agriculture and Rural Development

Committee for Culture, Arts and Leisure

Committee for Finance and Personnel's inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure

CAL Committee Response

The CAL Committee has a number of concerns regarding how the budget process has been conducted.

In relation to the revised departmental spending plans for 2010/2011 the Committee made the following points:

In terms of public consultation and public access to the proposed changes to the department's budget, the Committee had a number of concerns. On 12 January the Finance Minister announced the proposed savings to the 2010-2011 budget to the House. In his statement he said that he had asked Executive colleagues to publish details of the implications for their individual departments on their departmental websites.

However, DCAL did not publish this information on its website until 25 January, almost 2 weeks later. This would seem to be an undue delay given the importance of the issue. The document provided on the DCAL website was entitled 'DCAL 2010-2011 Budget consultation'. However, no information was provided as to how members of the public should make their views known to the Department and there was no closing date for the consultation period.

The Committee also noted that the figures provided on the department's website only gave details of the headline cuts to various spending areas. It did not provide details of the final proposed budgets after internal re-allocations between business areas had been made. This information was provided to the Committee, and it is the Committee's view that the same information should have been available to the public through the department's website.

The Committee understands that the main form of consultation on the revised budget is to be through the Assembly Committees. However, this does not mean that the public should not be provided with transparent information about the process and how they make known their views.

In relation to the consultation in 2008 on the draft Budget, the CAL Committee made the following points:

The Committee is of the view that the level of detail provided in the draft Budget document made it very difficult for the Committee to comment constructively on the Draft Budget, particularly the impact of the funding, when it does not know which bids are to be met and which will not.

The resource and capital allocations only list the overall areas of spend – for example, arts, sport, museums. Despite making a request, the Committee received no detailed information from the Department. The Committee understands that other committees were more successful in obtaining detailed information from their respective departments.

The Committee is of the view that in future there needs to be proper consultation between the Department and Committee on how the Department intends to allocate its budget in order to facilitate the Committee in making a meaningful response to the Draft Budget consultation exercise.

In relation to the recommendations contained in the DFP Review of the Budget 2008 – 2011 process, the Committee makes the following points:

- Recommendation 9 – One of the difficulties with the budget 2008 process was that prior to the draft Budget being published, the department provided the Committee with a list of bids under various headings such as 'inescapable' and 'committed'. It was not clear from these terms what the department's priorities were, which therefore made it difficult for the Committee to offer its views on how it thought spending should be prioritized. Therefore, in any future budget process departments should be required to present to committees a full list of prioritized spending proposals which they are submitting to DFP.

The Committee was also frustrated at the lack of detail provided by the department on the draft Budget. The draft Budget only contained figures for overall areas of spend such as arts and sports, and the Committee was not able to obtain from the department how much it intended to spend on particular projects or programmes.

- Recommendation 12 – The Committee would query the notion that it should co-ordinate the department's consultation on the draft Budget. The Committee does not take this role in relation to any other policy being developed by the department. The Committee's role is to scrutinize the department, and it would expect to be briefed by the department on the outcome of the department's consultation with stakeholders on the draft Budget.
- Recommendation 13 – The Committee is not convinced that asking the Committee for Finance and Personnel to arbitrate on whether a spending proposal put forward by another Committee is 'realistic' is appropriate.

In relation to the recommendations contained in the Assembly Research paper, the Committee makes the following points:

- Recommendations 1, 2, 3 – The Committee agrees that departments should be required to provide committees with detailed information regarding their spending proposals at all stages of the Budget process.
- Recommendation 4 – The Committee agrees with this recommendation. It would point to the problems with the department's consultation on the revised spending plans 2010/2011 (see above).

Committee for Education - Extract



Mr Mervyn Storey

Chairperson, Committee for Education

Jennifer McCann
Chairperson
Committee for Finance and Personnel 3 June 2010

Dear Chairperson

Committee for Finance and Personnel Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure

The Clerk to the Finance and Personnel Committee wrote to the Committee for Education on 14 May and 19 May 2010 seeking the views of other Statutory Committees to inform its response to DFP's Review of the NI Executive's Budget 2008-11 Process, including the Assembly Research papers on Considerations for the reform of the budget process in NI and Resources for Budget Scrutiny. The Committee for Education considered these papers at its meeting of 2 June 2010 and agreed the following:

On the DFP Review of the NI Executive's Budget 2008-11 Process

a) The Committee for Education would support Recommendations (1) to (11) and (14) and would emphasize in particular the need for 'early and more structured [and more meaningful] engagement between departments and Assembly Committees setting out key issues and pressures facing NI Departments (Recommendation (4)).

The Committee for Education's submission of 5 February 2010 to the Finance and Personnel Committee on the Department for Education's proposals on the Review of Spending Plans 2010-11 highlighted it was not provided the information from DE to give its views on the measures proposed to address savings and pressure primarily because it was not in a position to fully assess the impact which potential reductions in spend would have on services, in particular on frontline classroom services.

b) The Committee for Education would not support Recommendation (12) which proposes a 'greater focus on Assembly Committees as the key conduit for public responses to the Executive's draft Budget proposals'. The Statutory Committee's role in budget scrutiny is correctly summarized in para. 2.1, fourth bullet point and in para 2.45 of DFP's Report.

c) On Recommendation (13) regarding 'any Committee proposal to increase spending on a particular service by a Committee should be accompanied by an equally detailed proposal as to how this could be funded'. The Committee for Education currently does not have access to either the necessary information from DE or the specialist resources to support the Committee to deliver detailed costed proposals to increase spending in a particular area or equally detailed proposals as to how this could be funded.

d) Finally, the Committee for Education notes the statement in para 2.50 of the Report 'It is not possible [for DFP] to dictate what information departments should provide to Committees. This is an issue for individual Departments, Ministers and Committees'. This relates to point a) above and is core to the issue of the need for a Statutory Committee to fulfil its scrutiny role as reflected in the Good Friday Agreement – that is:

Para 9, first bullet point 'consider and advise on Departmental Budgets and Annual Plans in the context of the overall budget allocation'.

The Committee for Education recommends that standard guidance to NI Departments on the timing and provision of relevant information to Assembly Statutory Committees be drawn up by DFP, in consultation with the Committee for Finance and Personnel (co-ordinating the views of all Statutory Committees). DFP would then submit the agreed standard guidance to the Executive Committee for consideration and agreement. The commitment of individual Ministers would be essential to ensure future provision of timely and relevant budgetary information to Statutory Committees. It would be for DFP in consultation with the Committee for Finance and Personnel (again co-ordinating the views of all Statutory Committees) to monitor Department's adherence to the standard guidance.

On the Research Paper 'Considerations for reform of the budget process in Northern Ireland'

(e) The Committee for Education supports in principle the 17 recommendations in this paper and in particular to address the recent experience on the Executive's Review of Spending Plan 2010-11 where:

'The consultation process was hampered both by a lack of information and by a lack of engagement with the Assembly's Committees.'

Yours sincerely



Mr Mervyn Storey MLA
Chairperson, Committee for Education

Committee for Employment and Learning



Dolores Kelly MLA, Chairperson

Committee for Employment and Learning

Ms Jennifer McCann
Chairperson
Committee for Finance and Personnel
Room 428
Parliament Buildings
Stormont
BT4 3XX 2nd June 2010

Dear Jennifer

RE: Finance and Personnel Committee Inquiry into the role of the Northern Ireland Assembly in scrutinising the Executive's budget and expenditure (Part 2, Stage 1)

With regard to the memo from your Committee Clerk of 14th May, the Committee considered the papers provided at its meeting on 19th May and Members approved the following response at the Committee's 2nd June meeting.

Review of Northern Ireland Executive Budget 2008-11 Process (DFP):

As you are aware, many Members and Committees have had issues with the budget process here over the past few years as it has appeared inconsistent and often very difficult for ordinary people to follow. The Committee is supportive of all of the recommendations contained in the Department of Finance and Personnel's review paper. The recommendations are logical and represent a good deal of common sense which should be apparent to all.

Members would be particularly supportive of those recommendations that emphasise the establishment of a clear budget timetable (recommendations 2 and 3). Members also believe it is important that there is a clear link between the budget and the delivery of specific PSA targets (recommendations 1 and 7). The Committee would also consider that engagement must be a key element of budget preparation (recommendations 4 and 5) and Members would encourage as much stakeholder input as possible. Members are also pleased to see the role of Committee being made a key focus of the review (recommendations 4, 12 and 13); however, regarding recommendation 12, the Committee for Finance and Personnel's role must remain that of co-ordinator and not arbiter of the process. Each Committee must remain free to scrutinise its relevant Department independently.

It is very important that information on the budget process should be disseminated in a timely, transparent and easily understood fashion (recommendations 8, 9, 10 and 11). Too often there is a temptation on the part of departmental finance divisions to obscure information using jargon and overly technical terminology. This damages the process and leaves Members feeling that they have not been told the whole story. The Committee would wholeheartedly support recommendation 14 as Members agree that there is currently a great deal of duplication and confusion with regard to the present separation of the Final Budget Statement and Debate and the Main Estimates process.

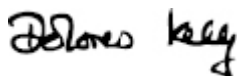
Recommendation 6 suggests that DFP should take the lead role from the Strategic Investment Board in developing capital investment allocations in the budget process; however, the Committee has no particular view on this recommendation and Members are content that the Committee for Finance and Personnel examine this proposal more fully.

Considerations for reform of the budget process in Northern Ireland (Colin Pidgeon):

The Committee is grateful for the inclusion of the above paper which Members found to be interesting. Members have no further comment on the paper.

If you have any queries regarding the Committee's response please contact the Clerk, Peter Hall, on peter.hall@niassembly.gov.uk or on 20379.

Yours sincerely,



Dolores Kelly, MLA
Chairperson

Committee for Enterprise, Trade and Investment



Committee for Enterprise, Trade & Investment,
Room 424 Parliament Buildings
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To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Jim McManus
Clerk to the Committee for Enterprise, Trade & Investment

Date: 7 June 2010

Subject: Finance and Personnel Committee Budget Scrutiny Inquiry

The Committee for Enterprise, Trade and Investment discussed your correspondence regarding the above, at its meeting on the 3 June.

The Committee welcomes the Finance and Personnel Committee's Budget Scrutiny Inquiry.

Members queried the appropriateness of Recommendation 12, of the Report on DFP's Review of the NI Executive Budget. Recommendation 12 states that Assembly committees should have the lead role in the consultation on the Executive's draft Budget proposals. Members did not consider this approach appropriate. The Committee does not take the lead role in consultation on department policy under any other circumstances. The Committee has a scrutiny role and under normal circumstances expects to be briefed by the Department on the outcomes of the Department's consultation on draft policy including the draft Budget.

Please do not hesitate to contact me if you have any questions.

Committee for the Environment



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To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Alex McGarel
Clerk to the Committee for the Environment

Date: 10 June 2010

Subject: Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure

General

1. At its meeting on 27 May 2010 the Environment Committee considered your memo regarding the role of the NI Assembly in scrutinising the Executive's budget and expenditure and asked me formulate the following response.
2. The Committee notes that the Department of the Environment has routinely provided on request written details of its budgetary and finance issues, augmenting with oral briefings when sought by the Committee.
3. The Committee routinely asks for more detail on particular spending proposals or where it has concerns about the Department's resource priorities.
4. The Committee has requested that in-year budgetary information is provided on a rolling basis so that members can readily compare current figures with those approved previously.
5. The Committee recently considered a template from the Northern Ireland Audit Office designed to assist departmental scrutiny. Members agreed to use this template in future finance and budget scrutiny sessions in the absence of other assistance or guidance being made available.

Recommendations of the Review of Northern Ireland Executive Budget 2008-11 Process

6. Recommendation 1 – The Environment Committee monitors the Department of the Environment's PSAs on an ongoing basis and is keen to see improvement in their delivery. The Committee has previously drawn attention to its concern that departments are largely allowed to self-monitoring their PSAs. If linking them to the Programme for Government (PfG) will introduce a more independent auditing process this will be welcomed by the Committee.
7. Recommendations 2 – For reasons outlined previously, measures to achieve better linkages between PfG targets and departmental PSAs would be welcomed by the Committee.
8. Recommendation 3 – A frequent concern of the Committee is the short timeframe it is given to scrutinise budgetary proposals and their implementation. It would therefore welcome any opportunity for more timely engagement.
9. Recommendation 4 – As mentioned above early engagement by the Department would be welcome.
10. Recommendation 5 – The Committee is in the process of taking evidence from external organisations that are facing funding cuts as a result of reduced resources within the Department of the Environment. While these issues have arisen within the current budgetary

period and are having to be addressed accordingly, early engagement with stakeholder groups by the Department would in general be recommended by the Committee.

11. Recommendation 6 – The Environment Committee has not considered the role of DFP in relation to the Strategic Investment Board.

12. Recommendation 7 – The Committee has, on occasion, found it helpful and informative to compare the Department's business cases for projects with actual spend on those projects. Linking each spending proposal with specific outputs or outcomes would therefore been seen as a valuable contribution to the scrutiny process.

13. Recommendation 8 – The Committee would be supportive of a recommendation for clear information to be provided by the Executive on its draft proposals.

14. Recommendation 9 – Greater clarity on departments' prioritised spending proposals would be welcome.

15. Recommendation 10 – The Committee has not considered the publication of high level impact assessments for each spending proposal.

16. Recommendation 11 – The Committee has not considered the timing of the publication of supporting documentation.

17. Recommendation 12 – The Committee agrees that statutory Assembly Committees have a key role to play in the scrutiny of the financial issues of their respective departments. However as recent practice has borne out, most issues raised by the Environment Committee tend to be department-specific and need to be addressed directly with the Department and/or separately during Plenary debates. There would thus appear only to be an additional co-ordinating role for the Committee for Finance and Personnel if and when issues of more general concern are raised.

18. Recommendation 13 – The Committee has always recognised the financial constraints under which the Department of the Environment operates and avoids making unrealistic spending reductions or proposals.

19. Recommendation 14 – The Committee has not considered the issue of combined final budget statements and main estimates.

Committee for Health, Social Services and Public Safety

Overview

i). The Committee opinion on the recommendations in appendix B are outlined below. However, the Committee also felt it would be worthwhile to give an overview of its recent experience regarding the Review of 2010 – 11 Spending Plans, since, in the opinion of the Committee many of the recommendations in Appendix B apply equally to the Review.

ii). The Committee noted that the Ministerial Statement and the Review of 2010 – 11 Spending Plans announced by Minister Wilson is explicit in saying that it was expected that Departments would consult with Assembly Committees on the proposed savings. No indicative timetable was provided in either the Ministerial Statement or the Review of 2010 – 11 Spending Plans.

iii). The Review of 2010 – 11 Spending Plans also notes that Departments are expected however to provide details of how they intend to make the savings, to publish summaries of the implications of the proposals in respect of the services they provide, give details of the impact on Equality, Good Relations and Anti-Poverty and to carry out an Equality Impact Assessment on the strategic choices involved in respect of the level of savings proposed for each department.

iv). The Department of Health, Social Service and Public Safety only provided the Committee with its Priorities for Action 2010/11 on 25th May 2010. Financial information was not provided until 27th May 2010. The extent of the financial information provided was sparse and only provided after the Committee insisted.

v). The Department of Health, Social Service and Public Safety has not provided the Committee with summaries of the implications of the proposals in respect of the services they provide, give details of the impact on Equality, Good Relations and Anti-Poverty. The Department of Health, Social Service and Public Safety has not provided the Committee with an Equality Impact Assessment on the strategic choices involved in respect of the level of savings proposed for the department.

vi). The Ministerial Statement accompanying the Review of 2010 – 11 Spending Plans notes that the revised departmental budgets should be confirmed by the start of the financial year. The Department of Health, Social Service and Public Safety provided the information on 25th / 27th May which is well past the start of the financial year.

Opinion of the Committee for Health, Social Services and Public Safety on the recommendations in Appendix B.

(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.

The Committee for Health, Social Services and Public Safety wish to point out that there appears to be very little linkage between the budget of the DHSSPS and the PSA targets. Additionally, the Department produces its own "Priorities for Actions" on a yearly basis. While the bulk of these priorities are linked to the PSA targets, some are not.

The bulk of the budget of DHSSPS is delivered through the Health and Social Care Board to the six health and social care trusts. However, it is not clear what PSAs / priorities for actions or what portion of the PSAs / priorities for actions are being delivered by bodies outside of DHSSPS. For this reason the Committee is broadly supportive of this recommendation.

(2) The Programme for Government should be developed to a timetable slightly in advance of the Budget. A key difficulty for both departments and Assembly Committees in Budget 2008-11 was the lack of clarity as to the priorities of the Executive as spending proposals were being developed and prioritised. While the finalisation of the PfG is, to a considerable extent limited to resource availability and hence the Budget position, there should at least be a clear indication of broad priorities at the beginning of the Budget process.

The Committee for Health, Social Services and Public Safety wish to indicate that it is broadly supportive of this recommendation. Moreover, it should also apply to any review of expenditure.

The Committee wish to indicate that its experience was that the review of and subsequent reduction of DHSSPS expenditure was totally out of synch with the publication of revised departmental priorities. This has caused problems through out the health and social care sector as agencies and bodies struggle to find out what services are priorities and where cuts might happen. The vacuum between the two events has caused undue confusion and distress to the many groups and bodies that deliver services in the health and social care fields – particularly the community based groups.

(3) A clear timetable setting out the key milestones should be made publicly available at the start of each Budget process. One of the key findings of the Review was the perception that, once the formal consultation process of the draft Budget has commenced, it is too late to significantly influence spending proposals. However, this is when many stakeholders first become aware of the process. There is therefore a need to increase awareness of the key milestones in the Budget process and in particular the window of opportunity to influence departmental spending proposals.

The Committee for Health, Social Services and Public Safety wish to indicate that it is broadly supportive of this recommendation and that it should apply to any review of expenditure such as the Revised Expenditure Plans. The Minister only came to the Committee on 25th May with his revised priorities and did not, until 27th May, present the associated expenditure plan. The Committee point out that this is months after every other Department engaged with its Assembly committee.

The Committee find the lack of a clear time table with which it can hold the Minister and Department to account as very unsatisfactory. [Additionally the Committee wish to point out that DHSSPS presented its revised expenditure plan as a final plan with no input from the Committee.]

(4) There should be early and more structured engagement between departments and Assembly Committees setting out the key issues and pressures facing NI departments. The more truncated timetable in 2007 meant that there was insufficient time for early engagement or the production of a Position Report for Budget 2008-11. While some consultees saw merit in the publication of the Position Reports there is significant risk that this could become a bureaucratic exercise. However, earlier engagement should be more structured in order to provide greater standardisation in the material provided to Committees. There may also be value in formal feedback from departments to Committees following the publication of the final Budget.

The Committee wish to indicate that while it is broadly supportive of this recommendation, it believes that the principle should also apply to any revisions of the budget as per the Review of 2010 – 11 Spending Plans. For example the Minister presented his Priorities for Action 2010/11 to the Committee on 25th May as a fait accompli. The Committee were however, given one week to comment on the "Commissioning Plan" for Northern Ireland. The Commissioning Plan takes its strategic direction from the Priorities for Action. While the Committee welcomes this Plan – the first Northern Ireland wide single plan commissioning health and social care services, it would have preferred a more structure approach, earlier engagement and more meaningful consultation.

(5) There should be earlier engagement with key stakeholder groups by departments as part of the Budget process. In the longer term departments should move to a situation where there is greater regular contact with stakeholder groups on an ongoing basis obviating the need for specific contact in relation to the Budget process. In their draft Budget submissions, departments should clearly state which stakeholder groups have been consulted with in the development of spending proposals. Greater effort is also needed in respect of the hard to reach groups which do not normally engage in public consultation exercises.

The Committee wish to indicate that it is broadly supportive of this recommendation and that the outputs of such engagement should be made public. The health and social care budget is, in the main, spend by other organisations, namely the health and social care Trusts. The Committee are aware that there is substantial negotiation between the Department, the Health and Social Care Board, the Public Health Agency, the Business Service Organisation and the six Health and Social Care Trusts. However this engagement is never made public.

(6) DFP should take the lead role from the Strategic Investment Board (SIB) in developing capital investment allocations in the Budget process. Whilst the SIB fulfils an important role in providing advice on the development of the direction of travel as regards the Executive's spending plans over the longer term, the complexities involved in the public expenditure planning process, including in particular the resource implications from capital projects, mean that both capital and resource allocations for the Budget period should be considered together as part of the Budget process by DFP.

The Committee wish to indicate that despite holding a separate evidence session on capital expenditure, it is still no clearer on what the capital priorities for the Department in 2010/11 are. The involvement of the SIB and the interaction between the Department, the SIB, DFP and the Investment Strategy NI are unclear and can be confusing.

(7) Every departmental spending proposal should clearly state the impact on the respective PSA target, if successful. Although the original intention in Budget 2008-11 was to link each spending proposal with a specific output or outcome, that was not possible in light of the relatively slow progress in developing the PfG. The agreement by the Executive of a PfG means that this link can explicitly be made in future Budget processes. It is recognised that not all departmental expenditure can necessarily be explicitly linked to a specific PSA target. In these cases expenditure should be firmly justified and desired outcomes specified.

As stated under recommendation one, Committee point out that there appears to be very little linkage between the budget of the DHSSPS and the PSA targets. Additionally, the Department produces its own "Priorities for Actions" on a yearly basis. While the bulk of these priorities are clearly linked to the PSA targets, some are not.

Additionally, the bulk of the budget of DHSSPS is delivered through the Health and Social Care Board to the six health and social care trusts. Some expenditure is via the Business Services Organisation and the Public Health Agency. However, it is not clear what PSAs / priorities for actions or what portion of the PSAs / priorities for actions are being delivered by bodies outside of DHSSPS. As around 90% of the budget is spend by organisations other than the Department, the Committee suggest that future processes take cognizance of this type of link.

(8) The Draft Budget document should include an easy to read summary at the start of the document. Although public finance is a complex issue, it is essential that as broad an audience as possible is able to read and understand the Executive's draft proposals. This should include details of the resources available to the Executive, how it is proposed that these are allocated and what will be achieved as a result.

The Committee wish to indicate that it is broadly supportive of this recommendation. There are a very large number of NGOs in health and social care. Some of these are very sophisticated and well able to understand the intricacies of public finance. Others are small locally based groups with limited understanding of public finance who would welcome this development.

(9) The full list of prioritised spending proposals submitted by departments as part of the draft Budget process should be published alongside draft Budget document including details of which proposals will be funded from the draft Budget allocations. In light of the more constrained

overall public expenditure environment in Budget 2008-11, there was significant flexibility for departments to distribute their draft Budget allocations between spending areas up until the final Budget position was agreed. However, this also created significant confusion as to what was and what was not being funded.

The Committee wish to indicate that it is broadly supportive of this recommendation.

(10) Departments should publish the High Level Impact Assessment for each spending proposal. In addition to the information currently provided, it should be clearly stated which existing Equality Impact Assessment (EQIA) as well as other relevant impact assessments the proposal is linked to, and if not, when the respective programme EQIA or other relevant impact assessment will be completed.

The Committee wish to indicate that it is broadly supportive of this recommendation.

(11) Supporting documentation including, for example, draft PSA and Efficiency Delivery Plans should be published as soon as possible after the draft Budget and PfG to provide a greater understanding of what will be achieved with the Budget allocations. While there is a significant amount of time and effort involved in the production of the core Budget documentation, which means that there is limited scope to provide supporting material until a later date, it is also clear that there would be value in additional supporting material being produced as early in the process as possible. However, it is equally important that this documentation is actually used rather than being treated as part of a process. This issue should be kept under review with information no longer provided if it is not being used to scrutinise expenditure plans.

The Committee would also point out that, the circumstances surrounding expenditure on health and social care are different from the bulk of other departments in that the bulk of expenditure is via the Health and Social Care Board, Public Health Agency, Business Service Organisation and the six health and social care trusts. There is often substantial delay in knowing what funding / budget has been allocated to what Trust and for what service. For this reason, any process which sheds light on what will be achieved with the health and social care budget is welcomed.

(12) 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. Following the approach in Scotland and Wales and in light of the role of the Assembly to represent all the people of Northern Ireland, there should be a greater focus on Assembly Committees as the key conduit for public responses to the Executive's draft Budget proposals, rather than the current approach which has become dominated by public sector organisations and vested interest groups.

The Committee wish to point out that the actual spending of the allocated budget is a complex process in the health and social care setting. The funding trickles down through a series of layers (Health and Social Care Board, Public Health Agency, Business Service Organisation, commissioners etc) to the six Health and Social Trusts. It is the spending decisions of the Trusts which are ultimately experienced by Northern Ireland people on the ground in hospitals, clinic, GP surgeries and their own homes etc. Early engagement with the Trusts is essential for the Committee to be able to comment on and influence spending priorities of the Trusts. Additionally, given the large number of groups with an interest in health and social care, the Committee feel it is important to hear their views. However, the Committee would be cautious that the lead role in consultation on budget did not transfer from the Executive to the Committee as it would not have the resources to deal with such a task.

(13) In responding to the draft Budget, any proposal to increase spending on a particular service by a Committee should be accompanied by an equally detailed proposal as to how this could be

funded. Draft Budget proposals are normally based on the allocation of all of the funds available to the Executive. Therefore, in order to provide a complete assessment of alternate proposals the implications for other public services need to be clearly set out. In order to prevent unrealistic spending reductions being put forward to the Executive, the Committee for Finance and Personnel, in responding on behalf of all the Committees, should identify whether it views the funding proposal to be realistic or not.

The Committee wish to indicate that it is broadly supportive of this recommendation.

(14) The Final Budget Statement and debate should be combined with the Main Estimates process. The current approach whereby final Budget allocations are debated and agreed by the Assembly in January with the process largely repeated in the following June as part of Main Estimates results in significant amounts of repetition, duplication and confusion. Whilst this in part reflects the amount and complexity of the material required for both exercises, adopting a more simplified approach as in Scotland would allow both to be taken forward at the same time. DFP intend to take this forward, and have started some preparatory work.

The Committee wish to indicate that it is broadly supportive of this recommendation.

Committee for the Office of the First Minister and deputy First Minister - Extract



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From: Cathie White
Clerk to the Committee for the
Office of the First Minister and Deputy First Minister

To: Shane McAteer
Clerk to the Committee for Finance and Personnel

Date: 24 June 2010

Subject: Committee for Finance and Personnel Inquiry into the Role of the NI Assembly in
Scrutinising the Executive's Budget and Expenditure

At its meeting of 23 June 2010, the Committee considered the Committee for Finance and Personnel's Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure.

The Committee agreed that I respond advising of the Committee's views.

Part 2, Stage 1

The Committee considered each of the recommendations contained in the Department for Finance and Personnel's Review of the Northern Ireland Executive Budget 2008-11 Process.

Recommendation 1 – The Committee agreed that this would be a worthwhile exercise.

Recommendation 2 – The Committee agreed with this recommendation and also wished to comment that the Equality Impact Assessment should also be completed in advance of the Budget.

Recommendations 3 & 4 – The Committee agreed with these recommendations.

Recommendation 5 – the Committee agreed with this recommendation and stated that if the Equality Impact Assessment was completed in advance this would lead to earlier engagement.

Recommendation 6 – The Committee had no agreed view on this recommendation.

Recommendations 7 & 8 – The Committee agreed with these recommendations.

Recommendation 9 – The Committee had no agreed view on this recommendation.

Recommendations 10, 11, 12 & 14 – The Committee agreed with these recommendations.

Cathie White

Committee Clerk

Committee for Regional Development - Extract



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Jennifer McCann
Chairperson

Committee for Finance and Personnel
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BT4 3XX 2 June 2010

Finance and Personnel Committee Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure

Dear Ms McCann,

1. At the Regional Development Committee meeting of 26 May 2010, the Committee noted two memoranda from your committee office, dated 14 and 19 May 2010, seeking the Committee's views on:

- a) DFP's Review of the Northern Ireland Executive's Budget 2008-11 Process;
- b) An Assembly Research paper, Considerations for reform of the budget process in Northern Ireland, which was prepared for the Finance and Personnel Committee; and
- c) The Assembly Research Paper, Resources for Budget Scrutiny and, more generally, on the case for enhancing the capacity of the Assembly statutory committees and members in undertaking budget and financial scrutiny.

2. On a general note, the Committee expressed its strong support for the Finance and Personnel Committee's inquiry into the role of the Northern Ireland Assembly in scrutinising the Executive's budget and expenditure. The Regional Development Committee has taken a keen interest in this aspect of its remit and, since restoration in May 2007, has highlighted funding for roads structural maintenance, the importance of investing in transport infrastructure to underpin economic recovery and growth, and the funding for water and sewerage services as key issues in its responses to the budget and programme for government, the annual expenditure reviews and in the in-year monitoring rounds.

3. Members were of the view that the Finance and Personnel Committee's inquiry is timely, and presents an opportunity to establish a clear process for more meaningful and transparent Assembly (Committee and Plenary) scrutiny of the Executive's budget and expenditure going forward.

4. The Committee was mindful of the more constrained public expenditure climate facing Northern Ireland in the period 2011-2014, as well as the delay and uncertainty surrounding the national Spending Review process and the knock-on impact on the budget process here. However, it was the view of Members that this was all the more reason to improve the Assembly's scrutiny of the Executive's budget and expenditure as there is less room for sub-optimal allocations to programmes which fail to fully deliver on the Executive's priorities.

5. Following Committee consideration of the detailed papers you provided, Members made the following response, which is structured to address the specific issues as raised by your Committee.

DFP's Review of the Northern Ireland Executive's Budget 2008-11 Process

6. The Committee considered the recommendations in the DFP review of the 2008-11 process and made the following comments.

7. DFP 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).

8. The Committee supports this recommendation, and is keen to see the greatest possible linkage established between the Programme for Government (PfG) and the Budget, and should identify funding allocated for the objectives identified within each PSA.

9. DFP Recommendation 2: The Programme for Government should be developed to a timetable slightly in advance of the Budget.

10. The Committee supports this recommendation. Members recognised that the PfG is finalised within the parameters of a finalised Budget, however they were of the firm view that the priorities in the PfG should drive the Budget allocations, rather than the other way around. The Committee would go further than this and recommends that the costs and achievements/ outcomes against each PSA be published in order that Committees have the opportunity to evaluate the prioritisation of Departmental bids as well as allocations against each of its departmental PSAs, when considering both the draft budget and draft PfG.

11. DFP Recommendation 3: A clear timetable setting out the key milestones should be made publicly available at the start of each Budget process.

12. The Committee supports this recommendation. Members were of the view that, in reality rather than perception as is stated in the report, once the formal consultation process of the draft Budget has commenced, it is often too late to significantly influence spending proposals. The window of opportunity to influence departmental spending proposals is at the point when bids are being developed, or earlier in the case of new / radical departures in Departmental activity.

13. DFP Recommendation 4: There should be early and more structured engagement between departments and Assembly Committees setting out the key issues and pressures facing NI departments.

14. The Committee supports this recommendation. Members were of the view that early position reports, or something akin to that type of document, would provide Committee's with early opportunities to explore the budgetary position faced by the department, for example in terms of committed and un-committed expenditures, staff versus overhead costs and so forth, as well as developing an understanding of the costs and outputs associated with the different areas of departmental activity. Members were also of the view that there should be an ongoing process of dialogue and feedback between departments and committees, rather than stage by stage process to be ticked-off. This, in the Committee's view would go some way towards avoiding the process becoming overly bureaucratic.

15. DFP Recommendation 5: There should be earlier engagement with key stakeholder groups by departments as part of the Budget process.

16. The Committee supports this recommendation, and encourages greater engagement with stakeholders on an ongoing basis as well a clearer indication in draft Budget submissions of how this engagement has contributed to the development of spending proposals. However, Members were clear that this should not obviate the need for individual departments or the Executive to meaningfully consult on, or consider the equality implications of, budget and PfG proposals.

17. DFP Recommendation 6: DFP should take the lead role from the Strategic Investment Board (SIB) in developing capital investment allocations in the Budget process.

18. Members recognised the importance of co-ordination between the SIB and DFP in developing capital investment allocations and the resource implications arising from these allocations, as part of a budget process. However, they were keen to ensure that the limitations facing DFP (for example, in operating within the Spending Review timeframe) would not render the Investment Strategy irrelevant. Care must be taken not to diminish the role of the Investment Strategy in signalling the Executive's intentions in relation to large scale strategic infrastructure investments to international firms and to local firms looking to develop strategic partnering arrangements to facilitate successful bidding. Preparation and bid costs for large scale infrastructure projects are frequently high and lead times are long. Without some degree of certainty going forward, investing in capacity in Northern Ireland, or building strategic partnering arrangements with international industry leaders become less attractive options for both local and international firms.

19. Members understand the constraints imposed by HM Treasury rules and arising from the public expenditure framework, however, they suggested that options might be identified and investigated for prudently extending the certainty around the size of a proportion of the capital envelope in the medium term. Aside from the benefits to the industry, international evidence indicates that investing in infrastructure makes a positive contribution to stimulating economic recovery and to underpinning growth once recovery begins.

20. DFP Recommendation 7: Every departmental spending proposal should clearly state the impact on the respective PSA target, if successful.

21. Members support this recommendation, and would further recommend that departmental expenditure not readily or explicitly linked to a PSA target should be highlighted and achievement of its stated outcomes monitored as part of the PSA reporting process.

22. DFP Recommendation 8: The Draft Budget document should include an easy to read summary at the start of the document.

23. Members supported this recommendation.

24. DFP Recommendation 9: The full list of prioritised spending proposals submitted by departments as part of the draft Budget process should be published alongside draft Budget document including details of which proposals will be funded from the draft Budget allocations.

25. Members supported this proposal, and were of the view that this information should be published at the same time as the draft Budget, together with detailed proposals for the delivery of efficiencies.

26. DFP Recommendation 10: Departments should publish the High Level Impact Assessment for each spending proposal.

27. Members supported this proposal.

28. DFP Recommendation 11: Supporting documentation including, for example, draft PSA and Efficiency Delivery Plans should be published as soon as possible after the draft Budget and PfG to provide a greater understanding of what will be achieved with the Budget allocations.

29. See the Committee's response to recommendation 9. The Committee is of the view that this information should be published at the same time as the draft Budget and PfG.

30. DFP Recommendation 12: 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.

31. It is difficult to be definitive in response to this recommendation in the absence of the proposals for a new budget process. Greater engagement with the public on the Executive's priorities and planned expenditure is to be encouraged however, as the draft Budget is developed by the Executive, revisions to this draft made by the Executive, and the final Budget agreed by the Executive, responsibility for consultation and engagement, and the power to act on the outcome of such engagement, remains with the Executive.

32. However, Members were of the view that the Assembly Committee's, on their own or through the Finance and Personnel Committee, should only take on a lead or acts as the key conduit for public responses to the Executive's draft Budget proposals, if they have the final authority to act on the recommendations it receives through such consultation or fulfilling a conduit role.

33. DFP Recommendation 13: In responding to the draft Budget, any proposal to increase spending on a particular service by a Committee should be accompanied by an equally detailed proposal as to how this could be funded.

34. The Committee rejected this recommendation, on the grounds that it would not be practical or achievable without full disclosure of information from departments and the Executive, in a regular, timely, transparent and accessible manner. Disclosure on this scale would be unwieldy and may lead to nugatory work by both departments and Committees in continuously benchmarking the costs and monitoring the services delivered by various units within departments in order to make evidence-based recommendations on how proposals might be funded.

35. DFP Recommendation 14: The Final Budget Statement and debate should be combined with the Main Estimates process.

36. Members would be keen to see simplification of the budget process, however the Committee is not in a position to support this recommendation in the absence of information on the changes proposed by DFP. The final budget debate and the main estimates are designed to perform two separate and equally valuable purposes. The Committee would urge caution lest a desire to streamline and simplify the budget process, unwittingly, led to a lack of transparency or opportunity for informed debate in plenary.

The Assembly Research paper, Considerations for reform of the budget process in Northern Ireland

37. Following Committee consideration of the papers provided, Members noted that the Assembly Research paper Consideration for reform of the budget process in Northern Ireland, made the following recommendations:

- Recommendation 1: Assembly Committees' powers to request information should be clarified and perhaps strengthened.
- Recommendation 2: The information provided by the Executive and its departments should be improved.
- Recommendation 3: Consultation with the Assembly should be conducted fully and properly
- Recommendation 4: Consultation with the public should be conducted fully and properly
- Recommendation 5: The Executive should adhere to an annual budget process
- Recommendation 6: In-year monitoring rounds should be retained but the supporting information should be enhanced
- Recommendation 7: There should be a requirement for external/independent analysis of the draft Budget and spending plans
- Recommendation 8: The Executive should publish an assessment of the fiscal picture
- Recommendation 9: The Executive should consider establishing a contingency reserve
- Recommendation 10: The Assembly's own budget allocation should be more transparent
- Recommendation 11: Requests for resources should be disaggregated and justified
- Recommendation 12: Spending outside annual appropriations should be presented alongside the Budget
- Recommendation 13: In general the budget process should become more transparent
- Recommendation 14: The Assembly should have a more structured involvement in the budget process
- Recommendation 15: The Assembly should reorganise the system of budget scrutiny by committees to support greater involvement
- Recommendation 16: The Assembly should have enhanced capability to scrutinise budgetary information
- Recommendation 17: The financial information streams should be harmonised and aligned

38. Members were broadly in support of these recommendations.

Yours sincerely,

Fred Cobain
Committee Chairperson

Committee for Social Development



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To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Peter McCallion

Date: 3 June 2010

Subject: Inquiry into Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure

At its meeting of 27 May 2010, the Committee for Social Development considered documentation you provided relating to the CFP Inquiry into budget scrutiny.

I have enclosed the Committee's previous response on in-year monitoring for information. The Committee agreed that it had nothing further to add to this response.

Members also noted the Assembly Research and Library Services Paper entitled: Considerations for reform of the budget process in Northern Ireland. Members agreed that the Committee had no comment to make on this report.

Peter McCallion

Committee Clerk
Enc.

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To: Shane McAteer
Clerk to the Committee for Finance and Personnel

From: Peter McCallion

Date: 22 April 2010

Subject: In-year Monitoring Guidelines

At its meeting of 22 April 2010, the Committee for Social Development considered correspondence from the Committee for Finance and Personnel in relation to In-year Monitoring Guidelines.

The Committee agreed that in respect of in-year monitoring, departmental submissions should be subject to mandatory protocols and timescales. The Committee further agreed that in-year monitoring deliverables should be produced to an agreed and unvarying format.

Peter McCallion

Committee Clerk

Appendix 5

Assembly Research Papers

Research and Library Services



Research Paper 147/10 5 May 2010

Considerations for reform of the budget process in Northern Ireland

Colin Pidgeon
Research Officer
Research and Library Service

This paper reviews the Northern Ireland budget process in the light of international best practice in open budgeting, fiscal transparency and current practice in other jurisdictions. Particular attention is paid to the provision of budgetary and financial information to the Assembly and its statutory Committees.

Library Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Key Points

- Judged against frameworks of international good practice it appears there is some considerable scope for improving the Northern Ireland budget process.
- In terms of transparency, the process is neither particularly opaque, but nor is it particularly transparent. While there is scope for improvement, there are also instances of good practice.
- A considerable quantity of financial information is produced both by the UK Government and by the Northern Ireland Executive. Not all of the information is as useful as it could be: this is either because data is not comparable or because it becomes available at a time when it isn't possible for the Assembly to use it to meaningfully influence decisions.
- In the most recent budgetary exercise – the Executive's Review of Spending Plans 2010-11 – there were also procedural problems. The consultation process was hampered both by a lack information and by a lack of engagement with the Assembly's Committees.
- At a more general level, there is a fairly clear case for the Assembly to be more involved in budgetary decisions than it is now to provide a check and balance to the Executive. Greater involvement will require a more structured budget process in the future.
- Formalisation of the budget process needs to include measures to improve the Assembly's access to financial information from the Executive, and support resources to allow Members to make best use of that information.
- The introduction of a formalised process provides an opportunity for a closer link between budgetary allocations and departmental performance.
- There is also a case for more scrutiny and assessment of the Executive's proposals and assumptions from an independent perspective.

Contents

EXECUTIVE SUMMARY

INTRODUCTION

1. THE NORTHERN IRELAND BUDGET PROCESS

1.1 Summary of main steps

1.2 The UK budget cycle, funding policy, and constraints on the Northern Ireland process

1.3 The case for change

2. HOW THE NORTHERN IRELAND PROCESS ALIGNS WITH INTERNATIONAL BEST PRACTICE

2.1 How involved should the legislature be in the budget process?

Table 1: Assessment of alignment of NI budget process with IMF guidance on the role of the legislature

2.2 Fiscal Transparency

Table 2: Assessment of alignment of NI budget process with IMF Code on Fiscal Transparency

3. INTERNATIONAL BUDGET PRACTICES AND REFORM PROGRAMMES

3.1 UK Treasury Alignment (Clear Line of Sight) Reforms

3.2 The alignment of financial information in Ireland

3.3 The role of committees in the Australian budget process

3.4 Independent fiscal analysis in Belgium

- 3.5 Performance budgeting in the Netherlands
- 3.6 Performance budgeting, transparency and the provision of financial information in OECD countries
- 3.7 The provision of financial information to the Scottish Parliament
- 3.8 The provision of financial information to the PBO in Canada
- 3.9 Committee powers in the New Zealand Parliament
- 3.10 The Finance Committee in the Swedish budget process
- 4. CONCLUDING REMARKS AND RECOMMENDATIONS

Executive Summary

The research presented in this paper looks at how well the Northern Ireland budget process aligns with international examples of best practice in terms of openness and the involvement of the legislature. The paper also explores some of the specific difficulties that the Northern Ireland Assembly and its Committees have encountered in recent budgetary exercises.

The issues are presented in the context of the constraints placed upon the Northern Ireland Executive in terms of how it receives its funding and the limited devolution of fiscal policy from the UK Government. While those constraints are very particular to Northern Ireland's circumstances, there are some international examples of budgetary practices that could offer improvements to the system. These are also briefly presented.

The key findings are that the Northern Ireland budget process is fairly transparent in terms of the availability of information. However, some of the information presented is on a different basis from others making it difficult - even for a well-informed reader – to make sense of it. To some extent this is a fundamental issue that must be addressed before any reform of the budgetary process will have much impact.

There are a number of specific issues that become apparent when the process is considered within the frameworks of international best practice. There are certainly some areas in which the transparency of the process can be improved.

The budget process focuses very much on spending the money that is there in a particular way, and there is little focus on the sustainability of revenue-raising decisions over the medium-to-long term. Also, there is little opportunity for budget proposals, or the forecasts and assumptions on which they are based, to be subject to independent scrutiny or assessment.

The timing of the production of the detailed Estimates part-way into the fiscal year results in the Assembly effectively approving spending plans after the event. The ability to be more involved upfront is curtailed by the nature of devolved funding and the rules for spending which are determined by the UK Treasury.

Even areas for which the Northern Ireland administration is fully responsible – such as the provision of information in a transparent and useable way – cannot be quickly fixed. Whilst some aspects, like the timing of the provision of briefing, can be addressed through legislation, standing orders or agreements other aspects such as the alignment of the accounting basis upon which information is presented would be a more complicated and lengthy process.

Other issues can be more easily tied down – and potentially resolved. For example, the specification of a minimum reasonable time for consultation on draft budgetary plans and the routine implementation of proper consultation procedures.

In addition to identifying areas in which practice can be improved, this research has also found that there are areas of good practice also. For example, the in-year monitoring process meets criteria for open reporting to the legislature well.

In conclusion, some recommendations are made for improving the process, as follows:

Recommendation 1: Assembly Committees' powers to request information should be clarified and perhaps strengthened.

Recommendation 2: The information provided by the Executive and its departments should be improved.

Recommendation 3: Consultation with the Assembly should be conducted fully and properly

Recommendation 4: Consultation with the public should be conducted fully and properly.

Recommendation 5: The Executive should adhere to an annual budget process.

Recommendation 6: In-year monitoring rounds should be retained.

Recommendation 7: There should be a requirement for external/independent analysis of the draft Budget and spending plans.

Recommendation 8: The Executive should publish an assessment of the fiscal picture.

Recommendation 9: The Executive should consider establishing a contingency reserve.

Recommendation 10: The Assembly's own budget allocation should be more transparent.

Recommendation 11: Requests for resources should be disaggregated and justified.

Recommendation 12: Spending outside annual appropriations should be presented alongside the Budget.

Recommendation 13: In general the budget process should become more transparent.

Recommendation 14: The Assembly should have a more structured involvement in the budget process.

Recommendation 15: The Assembly should reorganise the system of budget scrutiny by committees to support greater involvement.

Recommendation 16: The Assembly should have enhanced capability to scrutinise budgetary information.

Recommendation 17: The financial information streams should be harmonised and aligned.

Introduction

The Institute for Fiscal Studies (IFS) published its 'Green Budget' in February 2010. In relation to public services it warned that "deep cuts" are coming:

The December 2009 Pre-Budget Report pencilled in a real freeze in total public spending over the four years from 2011-12 to 2014-15. But spending on debt interest, social security and other 'annually managed expenditure' is likely to grow in real terms. Keeping to these overall spending plans would therefore require deep cuts in 'departmental expenditure limits' (DELs) – Whitehall spending on public services and administration (although the government could also cut welfare bills).^[1]

Cuts (deep or otherwise) to Whitehall departments' DELs will trigger consequential cuts to the Northern Ireland Block Grant through the Barnett Formula mechanism for comparable spending.

The Labour Government (if re-elected) has promised to protect or ringfence spending on certain priority areas, such as health, schools and overseas aid. According to the IFS "the commitment to freeze NHS spending in real terms in 2011-12 and 2012-13 would still imply the tightest two-year squeeze for the health service in the last 60 years."^[2]

The effect of protecting spending in large areas such as the NHS and education (which accounted for around 30% of total spending in 2008-9)^[3] is that the cuts will be more severe in the other lesser priority areas.

According to a recent article in Public Finance "safeguarding the budgets of health and education could leave unprotected public services facing cuts of up to 50%."^[4] The article goes on to argue that a more likely "middle range" level of cuts would be in the region of 15-20%, but then asks whether it is really likely to be politically possible to impose this level of reductions in areas such as children's services and provision for older people and vulnerable adults – especially given recent high-profile failures in child protection in England.

The alternative to targeted reductions in areas determined to be non-priority is to impose across-the-board reductions by 'salami slicing' all budget lines: "while this is a little simplistic, the idea of sharing the pain might actually be easier to manage than the alternative policy of concentrating massive cuts within some services."^[5] On the other hand, 'salami slicing' has been criticised as being a crude or blunt tool which "is easy to implement, but it is extremely damaging, particularly in the long term."^[6]

This debate is likely to continue until the next UK general election and beyond. No matter what the outcome of that election cuts are plainly inevitable to some degree. In a climate of fiscal tightening and reduced public spending there is clearly going to be considerable interest in how the Northern Ireland Executive manages its spending allocation over the next few years.

Against this backdrop, Members of the Northern Ireland Assembly and its Committees are likely to want to pay close attention to the impact of spending cuts and changes in priorities. This paper considers the budget process in Northern Ireland, particularly in relation to international standards of openness and transparency. Attention is also paid to the provision of budgetary and financial information to the Assembly and its Committees by Executive Ministers and whether there is a case for reform of the budget process to increase the involvement of the legislature.

Scrutiny of budgets by the legislature, however, is only one side of the coin: the Assembly's Statutory Committees have a remit to consider and advise on departmental budgets and annual plans. But they also have a significant role in holding Ministers and their departments to account for performance against the objectives set for them in the Executive's Programme for Government. This role implies scrutiny of departments' achievements in terms of outputs and outcomes. Over the coming period, departments' performance against their current and future Efficiency Delivery Plans, in particular, is likely to be subject to increasing attention.

Consideration, therefore, is also given in this paper to whether there is a need for a trade-off between the Assembly's respective roles in budgeting and in accountability.

1. The Northern Ireland Budget Process

1.1 Summary of Main Steps

The Northern Ireland Assembly has a remit that includes holding the Executive to account over its budgeting and spending priorities and its reporting of financial information. In particular, the Assembly's Statutory Committees each have a remit to advise and assist Ministers on matters within their responsibility. They undertake a scrutiny, policy development and consultation role with respect to departments and play a key role in the consideration and development of legislation.

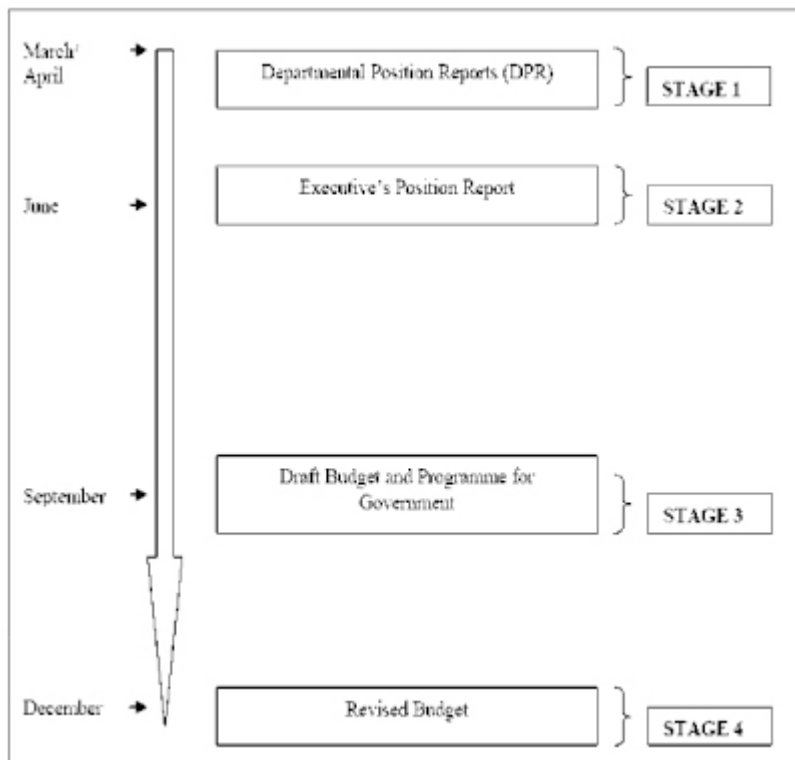
Ultimately it is the Assembly that must give the statutory authority for departments to spend money by considering and approving budget bills and Estimates. Members and Committees collectively consider departments' proposals for new programmes and the outcome of quarterly 'monitoring rounds' whereby money is reallocated in-year.

The Department for Finance and Personnel has recently been reviewing the budget process in Northern Ireland. The most recent budget covered three years (from 2008 to 2011). Previously there were annual budgets though - because of long periods of suspension of the devolved institutions in Northern Ireland - the process has not been able to bed down into a fully settled pattern.

The budget process that was used during the first mandate (between 1998 and 2002) of the devolved Northern Ireland Assembly consisted of four stages; it is summarised in the diagram below. In the current mandate (beginning with the restoration of devolution in 2007) the process altered and some of the stages have not occurred (see notes below).

The four-stage process gave the Assembly the opportunity to debate and influence the proposed allocations during the first two stages.

The Budget Process used in the first NI Assembly mandate



1.1.1 The role of NI Assembly Committees

The role and remit of Committees within the Northern Ireland Assembly are set out in the Belfast Agreement; the Northern Ireland Act 1998; and the Standing Orders of the Northern Ireland Assembly. Statutory Committees have a duty to scrutinise the departmental budgets as set out in paragraph 9 of Strand One to the 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.^[7]

Amongst the powers granted to Committees are those to:

consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation.

The Committees are involved at various stages:

- Departmental Position Reports (DPR) mark the first stage of the process, which occurs in March/April. Committees have an opportunity to receive an oral or written briefing from their department and consult upon the DPR. Following the period of consultation, committees provide feedback to their department, who then submit DPRs to the Department of Finance and Personnel (DFP) in April. Note: with the publication of a three-year budget for 2008-11 this stage did not occur in 2008 or 2009, although the Executive did conduct a 'strategic stocktake' in January of that year.
- The Executive's Position Report (EPR) is issued jointly by DFP and OFMDFM in June. The EPR summarises each department's position report and allows for consultation with committees, etc. in advance of the preparation of the Draft Budget and Programme for Government. This is the stage to reflect upon the relative priority attached to different policies and programmes, and the scope for reducing services or improving them through

efficiency improvements. The committees are briefed by departmental officials once again, and consult as they see fit. The Assembly's Committee for Finance and Personnel coordinates committees' responses to the EPR and submits these to DFP in August. Note: with the publication of a three-year budget for 2008-11 this stage did not occur in 2008 or 2009, although the Executive did conduct a 'strategic stocktake' in January of that year.

- The Draft Budget and Draft Programme for Government (PfG) are produced in September. The PfG provides an overview of the strategic issues to be addressed by the Executive and determines resource allocation decisions. At this stage the Executive consults with committees and the general public on both documents. The Assembly's Committee for Finance and Personnel coordinates committee responses, initiates a 'take note' debate in the Assembly in mid-November and publishes a report at the end of November. Note: with the publication of a three-year budget for 2008-11 this stage did not occur in 2008 2009, although the Executive did conduct a 'strategic stocktake' in January of that year.

The scope for amendment and Committee input varies as the legislative cycle proceeds through the process of revised budget and the Budget Bills Nos. 1 and 2 which incorporate the Spring Supplementary Estimates, Vote on Account, the Main Estimates and Supply Resolution.

The Secretariat will provide a more detailed briefing paper on the scope for the Assembly to introduce amendments or changes at the different stages, if Members would find it helpful.

Committees have additional scope for budget scrutiny at in-year monitoring rounds and in assessing progress in the achievement of PfG targets and Public Service Agreements (PSAs).

1.1.2 Requirement to provide information to Committees

There are no clear legal requirements for departments to provide particular information to Committees in relation to their budget-scrutiny role. If a department does not do so, it is therefore unclear how Committees could force them to disclose the information they require to discharge their functions; it may be possible for Committees to rely on section 44(1) of the Northern Ireland 1998 which provides that the Assembly or a Committee may:

require any person—

(a) to attend its proceedings for the purpose of giving evidence; or

(b) to produce documents in his custody or under his control

The Ministerial Code is also relevant, because departments are required to act in accordance with their Ministers' direction.^[8] Paragraph (ii) imposes a duty on Ministers to be accountable, through the Assembly, for the activities within their responsibilities, their stewardship of public funds and the extent to which key performance targets and objectives have been met. Also, paragraph (iii), which requires a Minister to comply with all reasonable requests for information from the Assembly.

1.1.3 In-year Monitoring Rounds

Monitoring rounds are the process through which departments declare and give up any surplus allocations from their budget lines. These can then be reallocated to other departments in line with Executive priorities and emerging funding pressures.

These changes are then given legislative effect through the Spring Supplementary Estimates which are presented alongside the Budget Bill No.1 – i.e. after the de facto reallocations and adjustments have occurred.

In his statement to the Assembly on 12 January 2010 on the Executive's Revised Spending Plans for 2010-11, the Minister of Finance opened the possibility of changing the current system:

We have to live with in-year monitoring for the next year. [But] every approach is problematic because the whole point of in-year monitoring and asking Departments to surrender money was to deal with unforeseen circumstances and inescapable bids that arose because of unpredictable events. We could do that through a contingency fund, in-year monitoring or simply by coming to the Executive as events arise and telling every Department that it must divvy up. All those options have their own difficulties.

As I said yesterday, I am open to the idea of a discussion in the Committee or the Assembly about how we deal with pressures that arise that we cannot possibly anticipate. I am happy to consider the options, but we will find difficulties with each of them. If Members decide that in-year monitoring is not the best option and there is a forcible case to support that assertion, the Department will be prepared to consider that.^[9]

The in-year monitoring process is considered further below (see table 1 and section 4) in terms of the opportunity for the opportunity for the Assembly to discuss decisions and the transparency of the mechanism. One notable point is that there is commonly no assessment presented by the Executive of how the changes in allocations through the process are likely to impact on Programme for Government priorities.

1.2 The UK Budget Cycle, Funding Policy and Constraints on the Northern Ireland Process.

1.2.1 How Northern Ireland receives its block grant

The UK Treasury sets out policy for funding the devolved administrations in Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy. In the introduction to this document it notes that:

responsibility for United Kingdom fiscal policy, macroeconomic policy and public expenditure allocation across the United Kingdom remains with the Treasury. As a result, the devolved administrations' budgets continue to be determined within the framework of public expenditure control and budgeting guidance in the United Kingdom.^[10]

The result of this is the Northern Ireland Executive receives its funding from the UK Treasury in the same way as a UK Government department – expenditure is allocated following spending reviews for a three-year period. The Executive does not have policy control of the overall level of allocated spending, though it does have complete discretion over how the total is divided amongst the Northern Ireland departments.

The consequence is that the timing of the Northern Ireland Budget is inextricably linked to that of the UK Budget. Any proposals for reform, therefore, have to be made with this in mind.

1.2.2 Notification of spending allocations by the UK Treasury

It is also important to note that it is frequently the case that officials in DFP get very little notice of changes to the block grant through the Barnett mechanism. This makes long-term planning more difficult.

For example, DFP only received notification of the contents of the Chancellor's 2010 Budget half an hour before he delivered it to the Westminster Parliament. This most recent budget delivered an additional £12.1m to Northern Ireland as a result of a comparable spending increase in England. But, because DFP did not know about it in advance, the allocation could not be built into the Revised Spending Plans 2010-11 when it was announced on 20 April 2010. Instead the funds have to be held centrally by the Executive until the next legislative means to allocate it arises.^[11]

1.2.3 Self-financed expenditure

Another point worth highlighting is that the Northern Ireland Executive's decisions on self-financed expenditure impact on the its allocation:

if levels of self-financed expenditure generated by a devolved administration grow significantly more rapidly than comparable expenditure in England over a period and in such a way as to threaten targets set for public expenditure as part of the management of the United Kingdom economy, it will be open to the United Kingdom Government to take the excess into account in considering the level of grant to the devolved administrations.^[12]

In other words, if the Executive were to increase dramatically the revenue generated through the regional rate, the UK Treasury could reduce the NI Block Grant accordingly. On the other hand, if the Executive chooses to reduce charges (as in the case of the phasing out of prescription charges), it must meet the costs from within its own allocation.

1.2.4 Requirement not to exceed allocation

The devolved administrations are all expected to live within the firm three-year plans specified in their Department Expenditure Limits (DEL) and therefore the Executive must "absorb unforeseen pressures" or contain them "by re-allocating priorities, seeking offsetting savings and using unspent entitlements from the preceding year".^[13] Any breach of the DEL:

would be viewed by the United Kingdom Government as serious mismanagement on the part of the devolved administration and the presumption would be that the following year's DEL and grant to the devolved administration would be reduced by an amount equivalent to the breach.^[14]

1.2.5 Exceptional adjustments

One final observation relevant to this section is that the UK Government reserves the right to make exceptional adjustments to the devolved administrations' budgets, if it "decides to make a uniform across the board general adjustment to public spending programmes across departments."^[15] In other words, the UK Government can cut the allocations to all spending departments, including the devolved administrations, if it wishes to, when it wishes to.

1.3 The Case for Change

Before proceeding further it is worth setting out in more detail where the drivers for change are in relation to the budget process. There is a trend internationally towards more performance-

oriented budgeting. This is important for the enhancement of accountability and for tying executive to the diverse sets of interests that is affected by budget decisions in a heterogonous society.^[16]

It has been previously identified that it would be desirable to alter the way that departments in Northern Ireland plan and budget for their activities. For example, in June 2007 consultants PKF published a review of the forecasting and monitoring of financial information in the Northern Ireland Civil Service on behalf of the Department of Finance and Personnel (DFP). The report highlighted examples of good financial management practice in departments but also made a number of recommendations for improvement.

Recommendation 4 of the report was that in the medium term:

the planning and budgeting process should move away from the existing incremental approach. This would first involve the development of a more transparent link between inputs and outputs, and would require, and indeed facilitate, greater challenge by Board members based on historic performance, thus enabling the setting of budgets that are better linked to performance targets. Performance would be subsequently monitored on a monthly basis through an effective monitoring and forecasting regime. This would ensure that Departmental budgets are more realistic and more closely managed, which in turn would facilitate, as a minimum, a significant reduction in the extent of the existing over commitment process which currently leads to budgets that are inherently overinflated and creates a climate within which there is increased pressure to seek to claw-back funding in-year.^[17]

For a survey of methodological approaches and some case studies relating to the benefits identified in the PKF report from linking budgeting with business objectives, see Assembly Research paper 06/10.^[18]

In addition – as noted in section 1.1 - the Minister of Finance has stated that he is open to suggestions for alternatives to the current process of in-year monitoring. Also, the DFP review of the budget process is soon to be completed; this may give rise to some proposals for change.

Beyond these points, the following issues have been highlighted as being problematic in relation to both the process for the 2008-11 Budget - more particularly - and the recent Review of Spending Plans for 2010-11: engagement between departments and their respective Assembly Committees; consultation on budgetary measures; the provision of information by departments; and external or independent scrutiny of budgetary proposals.

1.3.1 Engagement with Assembly Committees

The Assembly's Committee for Finance and Personnel has a remit to report to the Assembly on strategic and cross-cutting budgetary and public finance issues over and above its role in scrutinising the specific position related to the Department of Finance and Personnel.

The Committee reported on the Executive's draft Budget 2008-11 and highlighted a number of issues in relation to the budget process which are relevant to this paper. Associated recommendations were:

- the Committee echoes the call, made by a number of the Assembly statutory committees, for a closer alignment between the revised Budget and the revised PfG than exists in the draft documents; in particular a more visible linkage is required between PfG priorities and goals, PSA objectives and the allocations, departmental objectives and spending areas in the Budget. The Committee also considers 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.

- Looking ahead, the Committee considers that the future budget process and timetable needs to be settled early in 2008 to enable the Assembly statutory committees to schedule the necessary scrutiny into their work programmes and thereby provide departments with notice in terms of the future information and briefing requirements of committees.^[19]

More recently, the Committee reported on the Executive's Review of 2010-11 Spending Plans for Northern Ireland Departments. The following recommendations relate specifically to the issues considered in this paper:

- The Committee considers that the Review consultation document should have included supporting information to explain the rationale behind the targeted percentage savings for each department, as this would have added transparency to the process and enabled the scrutiny committees and the wider Assembly to make informed judgements on the basis and parameters of the Review proposals.
- The Committee notes that seven of the eleven Assembly statutory committees have expressed varying levels of dissatisfaction with shortcomings in the information provided by departments on their revised spending proposals for 2010-11, which range from a complete absence of briefing to insufficient detail and lateness of information. The Committee is strongly critical of those departments which failed to engage properly with their departmental committees on their proposed spending plans.
- The Committee wishes to remind Ministers and senior departmental officials of the legal provisions for consultation with the Assembly on public expenditure proposals, as contained in the Belfast Agreement/Good Friday Agreement, the Northern Ireland Act 1998, and in Assembly Standing Orders.
- The Committee believes that there is a need to establish firm protocols for the provision of timely and appropriate budgetary information to the statutory committees, and against which departmental performance can be measured going forward. The Committee intends to take this forward with the key stakeholders, including the other statutory committees, the Chairpersons' Liaison Group, and with DFP on behalf of the Executive. The outcome of this exercise will also be informed by international good practice in executive-legislature relations.
- The Committee believes that some of the difficulties encountered in the current mini-budget process, including in terms of insufficient engagement both by departments with their Assembly committees and by the Executive with the public, could have been minimised or avoided had DFP attached greater urgency to the completion of the Review of the Executive's Budget Process 2008-11 and the establishment of a future Budget process.
- The Committee calls for the urgent establishment of a formal process for Assembly scrutiny of future Executive Budgets and expenditure, which will both enable the statutory committees to plan the necessary scrutiny and will focus departments' attention on meeting the future briefing requirements of their committees. The Committee further recommends that the detail of the future Budget process is determined in conjunction with the Assembly statutory committees and subsequently launched with an awareness programme for all Assembly Members.^[20]

In the Executive's Revised 2010-11 Spending Plans for NI Departments, the Minister of Finance recognised some of these criticisms and stated in his Foreword:

there was concern at the level of engagement by individual departments with their respective Assembly committees. Although time constraints were a significant factor, this is something that the Executive will need to consider as part of the local 2010 Budget process which is due to formally commence shortly.^[21]

1.3.2 Consultation

A related concern over the process for the Review of the Spending Plans for 2010-11 was expressed over the level of public consultation. The Executive's consultation document stated that the main form of consultation would be through the Assembly's Committees. Leaving aside the issues identified above in relation to the engagement between departments and their respective Committees, this raises a wider point about the involvement of the public in budgetary decisions in Northern Ireland.

The Methodist Church in Ireland's Council on Social Responsibility^[22] wrote to the Committee for Finance and Personnel and expressed general dissatisfaction with the Executive's approach to consultation in the following terms:

- ...the consultation was at best flawed and at worst opaque. The process falls far short of good practice for consultations. It is not clear how a response could be made or what the deadline is for such responses [...] DFP has asked each department to publish more detailed information on its website. However, sometimes this information is not easy to locate on the websites (e.g. DHSSPS website), or when it can be located, does not contain information about what the focus of the consultation actually is or how a response can be effected (e.g. DCAL website).

The submission went on to cite a judgement by Weatherup J, handed down on 11 September 2007: "it is common ground that, whether or not consultation of interested parties and the public is a legal requirement, if it is embarked upon it must be carried out properly". (emphasis added)

In his judgement, Weatherup J cited another judgement^[23] in which the four requirements of consultation were stated:

To be proper, consultation must be undertaken at a time when proposals are still at a formative stage; it must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response; adequate time must be given for this purpose; and the product of consultation must be conscientiously taken into account when the ultimate decision is taken.

The Methodist Church in Ireland's Council on Social Responsibility wrote that "viewed against these requirements the current consultation falls far short [...] Northern Ireland deserves better of the Executive with respect to consultation."

DFP officials were asked about the effectiveness of the consultation process on the Review of Spending Plans on 21 April 2010 in an evidence session with the Committee for Finance and Personnel. In response, an official commented:

In the responses to the draft proposals, concerns were expressed by the health and social care sector about perceived cuts. However, there were no suggestions as to, for example, if we were to take resources and allocate them to area B, which other areas should have their budgets reduced to meet the pressure. That was not explored. The other issue was pro rata cuts across Departments, as opposed to the targeted approach which the Executive decided to pursue and implement. There was no great deal of analysis or response on that.^[24]

It may well be that consultees did not feel able to subject the proposals to detailed analysis simply because the information provided was in many cases insufficient for them to do so. Indeed, despite the descriptions of the documents that are available on departmental website as 'consultations' it was not clear exactly what the public was being consulted on - as noted above. It is difficult to frame a response when the question is not clearly defined.

1.3.3 Provision of information

The issue of the provision of information has been raised above both in terms of engagement with the Assembly and consultation.

The documents published by departments explaining the impact of the Executive's Review of Spending Plans 2010-11 vary in the detail they provide, and in one case have not been published. The information provided by some departments makes it difficult to understand exactly what they intend to do in relation to spending reductions.

For example, the DOE document states:

DOE will take forward a range of measures to deliver the additional savings of £3.9 million current expenditure and £0.2 million capital investment next year. These include the cessation of low priority activities, a reduction in consultancy spend and a reduction in the costs associated with the delivery of corporate services and other departmental running costs.^[25]

That is all the information that was published on the additional savings the Department is going to have to make. As an elected representative or member of the public trying to understand what the DOE intends it is not very helpful. Which activities are low priority? What will the impact of stopping them be? Will reduced consultancy spend endanger any of the Department's targets under the Programme for Government or its ability to fulfil its regulatory functions? The following section of the document goes on to detail planned improvements in public services over the same period but does not link these to the budget allocations.

The document provided by DCAL contains more information.^[26] For example it shows the proposed split of reductions across the different elements of its policy remit. The effect of the variable quality of the information is that it is difficult, if not impossible, to compare across and between departments; a picture of the impact on central government as a whole is also, therefore, difficult to construct.

A separate but also problematic issue is that the accounting basis used for different elements of financial information provided by the Executive is different. The tables of figures in the Budget, those presented in relation to in-year monitoring and the departments' accounts are presented on a resource basis. Those presented in the Main and Supplementary Estimates are on a cash basis. The essential difference is that cash accounting records cash payments and receipts as they occur within a period, whereas accruals accounting records expenditure when it is incurred and income when it is earned.^[27] This makes it all-but-impossible for anyone other than an expert in public sector accounting to reconcile the streams of information.

1.3.4 External/independent scrutiny of proposals

There is no mechanism through which the Executive seeks – or is required to seek – independent analysis of its fiscal position or of the assertions it makes in budgetary proposals.

The 2008-11 Budget states that "the substantial increases in Regional Rates bills in recent years, means that additional income cannot reasonably be expected from this source."^[28] But in a

submission to the Committee for Finance and Personnel the Economic Research Institute of Northern Ireland (ERINI) questioned this kind of assumption:

Covering a budget deficit either by raising new resources or by cutting existing allocations both involve a degree of redistribution. The issue is which approach offers the most equitable solution. In principle the Regional Rate based on capital values has a progressive element though this is complicated by a domestic cap at the upper end and various reliefs at the lower end of the income distributions. Water charges based on the same methodology would also in practice be progressive. On the other hand, expenditure cuts could be regressive depending on which service carries the greatest loss, and the degree to which additional and genuine efficiency savings can absorb the reduction.

Making an informed judgement on these matters requires a detailed study of the final incidence of both additional taxation and budget cuts. This has not been done.^[29]

The absence of such detailed independent work is problematic, because it means that the Assembly and the wider public have no access to analysis on the basis of which to challenge the position set out by the Executive. This is an issue which is also specifically addressed by the International Monetary Fund (see table 2 below).

Some of these problems may be possible to address without major reform. Other issues – particularly some of those identified in relation to the accounting basis used for the Estimates and that used for the Budget documentation - may take much longer, and much more institutional effort, to resolve.

2. How The Northern Ireland Process Aligns with International Best Practice

In this part of the paper wider issues about the involvement of the legislature in budgeting and fiscal transparency are considered. Some of these wider considerations raise questions not just for specifics of the budget process but also about the nature of devolved funding, the relationship between the Northern Ireland Assembly and the Executive, and also the internal arrangements of the Assembly itself.

2.1 How involved should the legislature be in the budget process?

The parliamentary stages of budgeting (i.e. the passage of the budget through the legislature, implementation of the budget act and the appropriation of funds) can be viewed as a bargaining process between the executive and the legislature.^[30] The character of this bargaining is determined by a number of factors, particularly in relation to the legislature's capacity to influence budget decisions.

Three categories of budgetary influence have been identified:^[31]

- Budget making legislatures have the capacity to amend or reject the budget proposal of the executive, and the capacity to formulate and substitute a budget of their own.
- Budget influencing legislatures have the capacity to amend or reject the budget proposal of the executive, but lack the capacity to formulate and substitute a budget of their own.

- Legislatures with little or no budgetary effect lack the capacity to amend or reject the budget proposal of the executive, and to formulate and substitute a budget of their own. They confine themselves to assenting to the budget as it is placed before them.

The Northern Ireland Assembly probably falls somewhere between the second and third category. Whilst theoretically the Assembly might choose to reject the budget bills laid before it, the consequence would be that Northern Ireland Departments would have no legal basis to pay their staff or deliver services and government might effectively be halted. In this respect, a 'no' vote on a budget bill could essentially be categorised as a vote of no-confidence in the Executive – although the nature of the Assembly itself, with five parties in the Executive, means that this is probably fairly unlikely to ever happen, especially as financial provisions require a cross-community vote.

The Assembly does also have the power under section 64(2) of the Northern Ireland Act 1998 to modify the draft budget. The House of Commons Notes on Clauses to the Bill explained that modification would "in practice relate to the allocation of money between departments. The overall total of the money available to the Assembly will have been pre-determined by the Treasury and cannot be increased without their agreement."^[32] This power pushes the Assembly more towards the second category. However, it should be noted that the ability to exercise the power relies on sufficient information and institutional resources and support for budget scrutiny.

It should be noted that section 59 of the Northern Ireland Act 1998 and section 7 of the Government Resources and Accounting Act (Northern Ireland) 2001 provide that, in the absence of a Budget Act, an authorised officer of DFP can authorise the use of up to 75% of the previous year's allocation. It could be argued that in effect this renders the Assembly vote somewhat pointless, although perhaps this provision is to be best viewed simply as a failsafe for use in absolute emergencies when agreement in the Assembly is simply impossible to achieve.

Starting from this basis, the following section surveys the evidence in relation to the involvement of the legislature in budgeting and considers whether there is a case for increased involvement of the Northern Ireland Assembly.

2.1.1 Theoretical arguments for a strong budgeting role for the legislature

According to Wehner "the call for greater legislative participation in budgeting is often met with scepticism. While there are indeed risks involved [...] the case for effective legislative involvement in the budget process is often not fully appreciated."^[33] He goes on to present arguments for greater legislative participation:

Constitutional requirements and the 'power of the purse'

There is a fundamental obligation on the legislature to ensure that the revenue and spending measures it authorises are fiscally sound, match the needs of the population with available resources and are properly and efficiently implemented. When a legislature does not meet this obligation, a budget process is – no matter how much time is devoted to it – ultimately ineffective.

Checks and balances as ingredients of 'good governance'

Generalised arguments against legislature involvement in budgeting presume that executives want to govern well in the best interests of the public. But, the absence of meaningful legislative checks on executive power can open the door to waste, corruption and poor budget outcomes.

Checks and balances are necessary to ensure good governance in budgeting in the medium to long term. This requires the executive to be answerable to the legislature and for the latter to be able to take action in the event of poor executive performance.

Openness and transparency

Open discussion on the contents of the budget in the legislature enhances transparency and enables effective scrutiny. Worldwide, legislatures are increasingly open about the proceedings of their committees and debates which signals a decline in the secrecy of policy and budget making.

Participation and consensus building

In many countries the business community traditionally has a strong voice during budgetary policy formation. The legislature can help to ensure a balance of views and inputs into budget decisions and provide a platform for establishing consensus with regard to budgetary trade-offs.

Demands for funds typically outweigh resources, so trade-offs become necessary. The effective involvement of a broad spectrum of participants can help to ensure that the budgetary constraints are widely appreciated and commitment to the budget is enhanced.[\[34\]](#)

2.1.2 Theoretical arguments for a weak budgeting role for the legislature

One source of support for scepticism over the role of the legislature in budgeting is the nature of the legislature itself.

Legislatures are non-centralised and collegial bodies that are both representative and policy-making institutions. As political bodies, their capacity for collective action is often stymied by a different party, ideology or constituency. Expected to be highly responsive to individual constituencies, legislatures are perennially challenged to produce simultaneously high levels of constituency responsiveness while taking responsible actions on behalf of the entire country.[\[35\]](#)

This inherent tension raises questions about how a stronger budgeting role for the legislature will manifest itself in relation to often conflicting budgetary goals:

Fiscal discipline

Some research has suggested that fiscal outcomes are better in countries with weak legislative controls. Budgetary activism in the legislature can lead to budgets in which there is pressure to spend more and to tax less, thereby generating chronic deficits.[\[36\]](#)

In addition, economists have identified what is known as 'the flypaper effect': elected bodies are more enthusiastic to spend taxes raised by other tiers of government and allocated to them as grants than they are to raise tax revenues themselves.[\[37\]](#)

Allocation

Greater legislative involvement may lead to budget resources being devoted to particularistic, distributive purposes at the expense of broader national priorities. In other words, legislatures have a tendency to reward supporters and particular constituencies with budgetary allocations.

Efficiency

Strong legislatures can and do add conditions and constraints to budget allocations and incentives; these constraints can be perceived as hampering the work of managers through micro-management if they do not provide sufficient flexibility for the management of programmes in the most efficient manner.

Accountability

Stronger legislatures may promote greater accountability for budget decisions by checking and balancing executive power. However, the question still remains: for which constituencies is the legislature most likely to act, and for what purposes?^[38] In other words, will it respond to the lobby or sectoral interest that shouts most loudly?

2.1.2 Is there a case for greater involvement for the Northern Ireland Assembly in the budget process?

Making a case for greater involvement in the budget process involves a balancing act between the competing arguments above. This balancing act has been described in the following terms:

A budget process with greater legislative control will enhance democratic accountability but with potentially the risk of eroding fiscal discipline or government efficiency. The mix of objectives advanced by legislative control will be dependent on such factors as the nature of the party system, the potential for collaboration and cooperation across the branches of government, the quality and capacity of legislators and their staff, and the incentive structures they face in balancing the potential tensions between constituency responsiveness and making effective national policy.^[39]

In order to make some sense of this, it is helpful to look at how legislatures in other jurisdictions have expanded their budgeting roles and consider the implications for relations between the legislature and the executive. Some international examples are considered in section Part 3.

It must also be remembered that the Northern Ireland budget process is inextricably linked to the UK process (see section 1.2 above), and change must be within that framework.

Before proceeding to look at international examples, it is worthwhile assessing the Northern Ireland Assembly's role in budgeting against a framework recently published by the IMF. The following section seeks to identify potential problems in respect of best practice.

2.1.3 Assessment of the Northern Ireland Assembly's role in budgeting

A useful framework for considering the Assembly's role in budgeting is provided in the IMF's recently published guidance on the Role of the Legislature in Budget Processes.^[40] The guidance addresses the following issues:

- When, in the budget cycle, should parliaments be involved?

- What do parliaments typically approve, as distinct from what they review?
- What internal structures and support should parliaments have for scrutinizing governments' draft budgets and budget outcomes?
- What accountability and legal requirements should parliaments impose on the executive?
- How should legislatures' involvement in budget processes be formalized in laws and regulations?

Under each of these headings international good practices have been identified. Table 1 below assesses the Northern Ireland Assembly's involvement in budgeting in the light of the best practice put forward in this guidance. Attention is drawn to those areas where it appears there may be scope for change in current practice.

Table 1: Assessment of alignment of NI budget process with IMF guidance on the role of the legislature.

IMF guide reference	Suggested Good Practice	Comment
Part I. A. Page 3	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.	The presentation of a draft budget by the Executive to the Assembly provides an opportunity for this sort of pre-budget review before it is formally presented. However, the decision by the Executive to present a three-year budget for 2008-11 could be seen as undermining the opportunity to debate the next year's annual budget strategy. In some countries, such a debate is the opportunity for the legislature to set binding fiscal targets and/or spending ceilings to which the executive must then adhere.
Part I. B. Page 5	The government should submit its draft annual budget to parliament 2–4 months in advance of the beginning of the new fiscal year.	The Executive's review of spending plans for 2010-11 was presented to the Assembly on 12 January 2010 and therefore met this requirement – however, see comments below.
Part I. B. Page 5	Parliament should be allowed 2–4 months to scrutinize, debate, and propose alternative budgetary policies (within limits of cost), prior to adopting and promulgating the annual budget before the new fiscal year begins.	When the Minister presented the Executive's Review of Spending Plans for 2010-11 to the Assembly he requested that the Committee for Finance and Personnel report (on behalf of all the statutory committees) by the end of February 2010 – a period of seven weeks for scrutiny. The Assembly does not have the power to propose alternative budgetary policies through its committees. The Main Estimates for the 2010-11 fiscal year will not be presented until June – and it is these through the associated Budget Bill that confer the legal authority for departments to commit resources. Additionally, as these Estimates are

IMF guide reference	Suggested Good Practice	Comment
Part I. C. Page 5	When parliament does not adopt the budget for year N+1 by the end of year N, the executive should begin implementing the previous year's budget spending at the rate of 1/12th per month (for some spending, seasonal patterns need to be taken into account). This requires clear rules on what is meant by "on the basis of existing policies" and also on the duration (number of months) for which the previous-year budget is re-enacted automatically.	<p>presented on a cash basis, it is difficult to read across from them to the Budget documentation. This undermines the ability of the Assembly to scrutinise expenditure plans.</p> <p>This recommendation relates to a situation which is institutionalised in the NI budget process whereby the main fiscal estimates are not approved in advance of new the fiscal year. The Assembly therefore must pass a 'vote on account' to prevent departments from running out of resources and provide authority to spend for the first part of the year. The Vote on Account usually allows 45% of the preceding year's total to be carried forward until the Main Estimates are presented to the Assembly in June (see also the following row in this table). The meaning of 'existing services' was given in the introduction to the Vote on Account tabled in the Assembly.</p>
Part I. C. Page 5	The basis of reversion budgets should be clearly laid out in law.	<p>Section 59 of the Northern Ireland Act 1998 (c.47) and section 7 of the Government Resources and Accounting Act (Northern Ireland) 2001 provide that - in the absence of a Vote on Account – an official of DFP may authorise an amount not exceeding 75% of the previous fiscal year's appropriation to be released. If there is still no legislative approval from the Assembly by the end of July of the fiscal year in question an official may authorise an amount not exceeding 95% of the previous fiscal year's appropriation.</p>
Part I. D. Page 6	Specify in law the main reasons for allowing adoption of supplementary budgets	<p>The financial provisions of the Northern Ireland Act 1998 (Part VI of that Act) do not appear to contain provision for the adoption of supplementary budgets. However, it must be considered that in some respects the Executive's Review of Spending Plans for 2010-11 was essentially a budget supplementary to the Budget 2008-11. (See section 1.3 for comments related to this process.)</p>
Part I. D. Page 6	Avoid adopting an excessive number of supplementary budgets, by anticipating major policy changes in advance of the annual budget. Regular budget reviews (e.g., mid-year) or periodic	See above.

IMF guide reference	Suggested Good Practice	Comment
	comprehensive spending reviews by parliament are helpful.	
Part II. A. Page 7	When fiscal sustainability is under threat and/or after fiscal consolidation has begun, adoption of fiscal rules by the legislature can be helpful to support achieving agreed objectives for sustainable medium-term fiscal and debt positions	Fiscal sustainability is mainly the preserve of the UK Government. Nevertheless, an assessment of the sustainability of certain Executive policies – such as the freezing of the regional rate and deferral of water charges – may have aided the Assembly's scrutiny of the Budget 2008-11, and of the Review of Spending Plans 2010-11.
Part II. A. Page 7	Incorporate quantitative fiscal rules into law only if the targets are realistic, political commitment is adequate and there are functioning compliance mechanisms for achieving them.	See above.
Part II. A. Page 7	The legislature should review and endorse the government's annual debt management action plan (or better, its asset-liability management plan), consistent with agreed medium-term objectives for gross and net debt.	See above.
Part II. B. Page 8	Provide to the legislature, in the context of the draft annual budget, a clear set of macro-fiscal assumptions, preferably with inputs, or after review by, an independent body ("fiscal council").	There is no clear mechanism for the Executive's budget or any assumptions that underlie it to be reviewed by an independent body. (see section 1.3.4) Under the constraints of the block funding mechanism, it is not easy for the Executive to produce fiscal forecasts, nor the assumptions that underpin them. (see section 1.2)
Part II. B. Page 8	Governments should present to parliament a [medium-term budget framework] (MTBF), covering at least the upcoming three fiscal years. Parliament should either endorse the government's MTBF to guide its consideration of the proposed annual budget, or adopt its own MTBF that transparently lays out the aggregates that the legislature agrees to attain in the years beyond the annual budget.	Fiscal sustainability is mainly the preserve of the UK Government. Nevertheless, an assessment of the sustainability of certain Executive policies – such as the freezing of the regional rate and deferral of water charges – may have aided the Assembly's scrutiny of the Budget 2008-11, and of the Review of Spending Plans 2010-11. A formal endorsement of these policies is not required outside of approving the Budget; there is no mechanism for the Assembly to adopt or propose its own MTBF.
Part II. C. Page 11	Regarding the structure of the annual budget appropriations, parliament may wish to adopt a law that provides a "permanent" format of the annual budget, especially if the focus is on transparently presenting the objectives and expected results (performance) of the government's proposed budget policies.	The format in which the estimates are presented is determined by DFP but follows the format used by the Treasury. There doesn't appear to be a formal mechanism for the Assembly to request a particular format for the presentation of information should it wish to. It is hard to envisage a situation whereby it would be necessary for the Assembly to resort to

IMF guide reference	Suggested Good Practice	Comment
Part II. C. Page 11	<p>For virement, if parliament is focusing on the results of budget policies, rather than on narrower constituency concerns, it may approve a broad-banding of annual appropriations and impose on the government only a few virement restrictions, for example, no underspending of investment in order to increase salaries. If, on the other hand, parliament chooses to maintain a detailed appropriations structure, good practice would be to delegate to the government the authority to swap spending between line items, especially at the most detailed level (the MoF would regulate this by a decree).</p>	<p>legislation to require budgetary documents to be provided in one particular format or another. However, if there is a move towards more performance-oriented budgeting in Northern Ireland, it would be important that the Assembly was presented with information that links more clearly between the inputs (i.e. budgetary allocations) and the outcomes (i.e. achievement of performance objectives). (See sections 1.3 and 3.5)</p> <p>The rules for swapping appropriations between budget lines (i.e. virement) are determined by the Treasury not by the UK Parliament or the Northern Ireland Assembly. For example, the power to switch capital DEL to resource DEL requires the agreement of the Treasury as do "significant" switches between near-cash and non-cash resource budgets. The Executive allows departments to move resources across spending areas to manage pressures where this is reflective of proactive management decisions (see also section 1.1.3). Switching between departmental allocations is managed through in-year monitoring rounds and given retrospective legislative approval by the Assembly through the Supplementary Estimates at around the same time as the Vote on Account. The Assembly is given an opportunity to debate the outcome of the in-year monitoring rounds (although this appears to be through convention rather than a legal or procedural requirement). These could be seen as very much a good practice in terms of transparency and openness.</p>
	<p>Concerning an annual budget contingency reserve, parliament may wish to (permanently) approve a reserve amounting to 1–3% of total expenditure, which the executive would spend on genuine unforeseen emergencies. For accountability, parliament should be informed by the government, at regular intervals, of the amount and object of the spending.</p>	<p>There is no contingency reserve in Northern Ireland although the Minister did suggest in his statement to the Assembly on 12 January 2010 that such a fund might be an option for the Executive to deal with unforeseen events – such as a flu pandemic. He did however note that a contingency provision would not be without problems – amongst these, presumably, would be the criteria for releasing funds.</p>
Part II. C. Page 11	Regarding the types of appropriations, in a budget system law, parliament can	Authorisation for the use of resources is provided by the Assembly through the

IMF guide reference	Suggested Good Practice	Comment
Part II. C. Page 11	specify that, in annual appropriations acts, the government is provided with authority to spend: (1) at the commitment, accrual, or cash stages of spending; and (2) the few types of annual appropriations (e.g., debt servicing) that can be exceeded without ex ante parliamentary authority.	Budget Bill. This is a requirement of section 6 of the Government Resources and Accounts Act (Northern Ireland) 2001 (c.6).
	Spending outside appropriation acts. Parliament needs to be informed of annual spending that is excluded from annual appropriations laws. The annually-updated MTBF, which would include spending based on the authority of other laws, is a useful instrument for this purpose.	Expenditure outside annual appropriation includes payments of pensions to MPs from the old Northern Ireland Parliament; maintenance of the Thiepval War Memorial; judges salaries; and the costs of the Boundaries Commission, among other things. These expenditures are included in the Public Income and Expenditure Account which is produced annually and laid before the Assembly. In the year to 31 March 2009 these were £942,000 out of a total expenditure of over £12 billion ⁴¹ and therefore are unlikely to be considered significant. The IMF good practice note refer to federal systems also (such as the USA and Australia) where expenditure outside appropriations makes up a large proportion of total spending. There is no MBTF produced by the Executive.
Part II. C. Page 11	Duration of annual appropriations. While the principle of annuality should be upheld, exceptions can be justified. Parliament should provide the authority for exceptions, notably for carrying-over annual appropriations. Restrictions on carryover are appropriate, especially for current expenditures.	The rules for carrying over of allocations are determined by the UK Treasury rather than the Assembly and set out in the Statement of Funding Policy.
	While national choices will dictate the extent to which democratically-elected members of the legislature are restrained from making open-ended spending decisions that impact adversely on fiscal sustainability, the limitation of not changing the executive's proposed fiscal balance gives the legislature capacity to increase total expenditure provided it raises revenues to offset spending.	The Assembly does not have much discretion over the total level of spending as the majority of funding comes from the block grant from the UK Treasury. Budget Bills and other financial legislation usually progress by accelerated passage and therefore the time for input from the Assembly is constrained. The absence of a Committee Stage, for example, prevents committees from taking evidence from stakeholders as to the proposed allocations. The Assembly does have an express power to amend spending proposals (s.64(2) of the Northern Ireland Act 1998) in the draft budget in terms of reallocating between budget lines but not

IMF guide reference	Suggested Good Practice	Comment
		the overall total spending. In is questionable if the institutional resources (in terms of a Parliamentary Budget Officer or other such resource) for it to be able to suggest increases in spending offset by accompanying tax increases in a suitably informed and robustly costed manner. Note also section 1.2.3.
<u>[41]</u>		
IMF guide reference	Suggested Good Practice	Comment
Part II. E. Page 13	<p>Parliament should avoid approving laws that authorize off-budget spending unless there are highly transparent arrangements for recording, monitoring, reporting, and auditing all financial transaction associated with them.</p> <p>Similarly, if parliament must introduce tax expenditures (a second best practice) this should not be outside the normal budget cycle, that is, tax expenditures should be considered alongside regular budget spending.</p>	<p>Spending that is not authorised through the Main Estimates is partially addressed through the in-year monitoring process (but only if sufficient resources to meet identified pressures are surrendered). The Executive is not responsible for large areas of UK tax expenditures such as tax credits or personal allowances – these are determined nationally. However, the Executive does have competence in relation to domestic rates reliefs for example. It is not clear that there is any current legal or procedural reason why the Assembly is not able to introduce these measures in the middle of the budget cycle. Proposals for changes to such allowances are usually considered in Committee and also in plenary -because all financial statutory rules are subject to affirmative resolution procedure.</p>
Part II. E. Page 13	Parliament should require the government to provide full and regular reports on all extra-budgetary spending, contingent liabilities, and quasi-fiscal activities.	<p>It is not clear that the Executive regularly reports on extra-budgetary elements of spend such as off-balance sheet PFI-style projects.</p> <p>Rate relief grants (a form of tax expenditure) were published in the Supplementary Estimates documents (for 2009-10) but it is not clear where other such expenditures such as Lone Pensioner Allowance are presented if there is no change to proposed allocations. The Executive does not provide a statement of fiscal risks: it would probably be useful for the Assembly to be informed of the risks – such as falling rates revenue, for example – over the budget period; there is an opportunity for this to be addressed when the in-year monitoring rounds are debated.</p>
Part II. E. Page 13	A comprehensive Fiscal Risk Statement and estimates of tax expenditure should be presented to parliament, preferably as part of annual budget documentation.	

Part II. F. Page 14	Parliamentary oversight of governments' internal control/audit systems is best communicated via reports of the external auditor. The legislature should limit its direct oversight of internal control and audit internal in government spending agencies.	Oversight is exercised through the Northern Ireland Audit Office and the Assembly's Public Accounts Committee.
Part II. F. Page 14	The executive should seek parliamentary input when contemplating major revisions of the government accounting system, for example, moves to accrual-based accounting.	Decisions on the government accounting system are taken by the UK Treasury, even when they are implemented locally (eg the move to 'whole of government accounts' was introduced by the Assembly through the Government Resources and Accounts Act (Northern Ireland) 2001 (c.6)). There are, however, elements of devolved discretion; the legislative and regulatory framework requires that the Assembly be involved in financial legislation.
Part III. A. Page 15	Establish a budget committee (or two committees in the case of bicameral legislatures) charged with setting (or endorsing) aggregate spending targets and sectoral allocations. Such a committee can be responsible for scrutinizing the government's proposed ex ante budget, as well as ex post budget execution.	The Assembly does not have a dedicated budget committee separate from the Committee for Finance and Personnel which seeks to fulfil a dual function in respect of scrutinising DFP's allocations and bids for its own resources and for co-ordinating and reporting on the responses of the other statutory committees in respect of the budget as a whole. All statutory committees have the power to scrutinise budgets ex ante, but the ability to do so effectively is reliant upon regularised process and the provision of adequate information. Ex post execution is scrutinised to some extent by statutory committees and also by the Public Accounts Committee.
Part III. A. Page 15	The work of sectoral parliamentary committees should be subject to spending ceilings proposed by the budget committee.	See above.
Part III. A. Page 15	Provide the budget committee with strong powers and adequate analytical support to enforce budget spending discipline on sectoral committees.	See above.
Part III. B. Page 16	The establishment of a parliamentary budget office can be a useful adjunct for analyzing budget policy alternatives, thereby enhancing parliament's capacity to evaluate the government's proposed budgets and to propose responsible alternatives.	The resources available to the Assembly, its Committee and its Members for analysing and costing budget policy alternatives are limited to that available within the Assembly Research Service; Committees may also engage special advisers; experience is that advisors have generally been appointed for one-off projects rather than in a 'standing' or on-

Part III.
C. Page
16

While parliaments' budget should be prepared independently from that of the executive, parliaments should nonetheless be subject to the same general procedures for executing and reporting on spending of their own budgets.

Part III.
C. Page
16

In particular, parliaments should not abuse their powers by increasing parliament's operating and investment expenses so that they become out of line with other national constitutional entities (e.g., expenses of the judiciary, the external auditor).

Part IV.
A. Page
17

Parliament should ensure that it is provided with adequate and timely budget reports for understanding the ex ante budget (especially how the annual budget is contributing to the attainment of medium-term fiscal targets) and for holding the government to account after execution of the annual budget. In this context, it is important that parliament receives final reports or accounts that compare, in identical format, the budget

going capacity. So as well as information asymmetry there is a capability asymmetry between the legislature and the Executive (see sections 3.3.3, 3.7 and 3.8).

The budget for the Assembly Commission is prepared by the Assembly's Finance section and submitted to DFP in the same way as government departments (through Main and Supplementary Estimates). Whilst preparation is therefore clearly independent, it is less clear that the approval process is independent of the Executive – it would appear that the Minister of Finance and Personnel would have responsibility for this process. It may be questioned, however, to what extent departmental officials feel able to challenge the bid submitted by the Assembly Commission in the way that they would challenge a departmental bid. The procedures for financial control and audit are set out in the Northern Ireland Act 1998 and the Government Resources and Accounts Act 2001 and appear to apply equally to the Assembly Commission as to any other body receiving funding from the Northern Ireland Consolidated Fund.

There does not appear to be in place at present a system of benchmarking the bid submitted by the Assembly Commission to DFP against those submitted by other entities – whether that be the judiciary, or other parliamentary bodies in other jurisdictions. Finally, there does not appear to be any requirement for the Commission to lay its proposed budget before the Assembly for debate or approval – although proposed allocations are contained within the Executive's budget documentation.

The timetable for the provision of budgetary information in the current system is mixed. If in future - as has been done in the past – the Executive produces a draft budget in the autumn, this will allow some time for the Assembly to consider and debate it. However, the timing of the Executive's budget is contingent upon the timing of a future spending review by the incoming UK Government. There have also been numerous concerns raised by both

	outcome with the ex ante budget as adopted by parliament.	committees and by other stakeholders in submissions to committees about the consultation undertaken on the recent Review of Spending Plans for 2010-11 and the insufficient information provided by departments. The timing of annual reports may also be an issue of concern given that they are not available at the time when Main Estimates, for example, are produced, so the ability of the Assembly to judge the Estimates (and therefore requests for resources that departments make) in the context of departmental performance. Once again the different accounting basis used raises a further complication.
Part IV. A. Page 17	Long-term fiscal projections, including the impact of demographic changes, should also be prepared.	It is not clear from published documentation that the impact of demographic change (and therefore of the inter-generational equity of spending decisions) is assessed in terms of the long-term fiscal future of Northern Ireland. Long-term fiscal projections are not undertaken, nor assessed by independent bodies, although it must be remembered that most macro-economic fiscal policy is the preserve of the UK Government, not the Executive.
Part IV. A. Page 17	Budget execution and accountability reports by government (agencies) should be provided to parliament. Depending on the type of budget system (e.g., performance-oriented), such obligations can be incorporated into law, possibly a [Fiscal Responsibility Law].	Government departments and NDPBs lay their annual reports and accounts before the Assembly before 15 November of the year following that to which they relate. If there is to be a move towards more performance-oriented budgeting (see sections 1.3 and 3.5) the timing of this information could be problematic.
Part IV. B. Page 19	Require ministers and senior civil services to appear before specialist parliamentary committees and/or the budget committee and answer questions pertaining to ex ante budget and ex post budget execution and accounts.	It is established practice that both Executive Ministers and senior officials provide briefings to Assembly Committees, although there have been problems identified with the timely provision of information and the responsiveness of some departments in terms of postponement of evidence for hearings. 1.5.iii of the Ministerial Code requires that Ministers ensure that all reasonable requests for information from the Assembly, users of services and individual citizens are complied with.
Part IV. B. Page 19	Parliament's internal regulations should specify the rules applicable for hearings and questioning.	The Assembly's Standing Orders do not provide rules for hearings and questioning.

Part V. A. Page 20	Include budget principles and procedures in budget system laws, especially when needed to implement constitutional requirements.	The law relating to the NI Budget Process is contained with the Northern Ireland Act 1998 and the Government Resources and Accounts Act (Northern Ireland) 2001 (c.6).
Part V. A. Page 20	Avoid overloading laws, including the constitution, with detailed budget rules, delegating details to the executive's regulations.	If anything, it may be possible to argue that laws relating to the Northern Ireland budget process are underloaded as opposed to overloaded. The IMF guidance asserts that budget system rules are useful when they lay out principles but are not overloaded with details.
Part V. B. Page 20	Formalize the legislature's internal rules for organizational arrangements for budget approval and review.	DFP announced it would be reviewing the budget process in 2008. The progress of this review is due to be reported to CFP on 12 May 2010. In many ways it does not make sense for the Assembly to formalise its internal procedures in advance of agreement on the future process. Agreement on these issues, if accepted and taken forward, would form part of the formalisation process.
Part V. B. Page 20	Avoid using such regulations as substitutes for general budget procedures and restrictions that should be in law, not internal parliamentary regulations.	See above.

2.2 Fiscal Transparency

2.2.1 What is 'Fiscal Policy'?

Fiscal policy is the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economy. It is the sister strategy to monetary policy with which a central bank influences a nation's money supply. These two policies are used in various combinations in an effort to direct a country's economic goals.^[42]

A helpful definition of fiscal policy is:

When the government decides on the goods and services it purchases, the transfer payments it distributes, or the taxes it collects, it is engaging in fiscal policy. The primary economic impact of any change in the government budget is felt by particular groups—a tax cut for families with children, for example, raises their disposable income. Discussions of fiscal policy, however, generally focus on the effect of changes in the government budget on the overall economy.^[43]

It can readily be seen from this definition that the Northern Ireland Executive does not have at its disposal the full range of fiscal tools: it can decide on what it buys and what it spends, but to a large degree it does not control taxation.

2.2.2 What is 'fiscal transparency'?

The Organisation for Economic Co-operation and Development (OECD) defines fiscal transparency as:

Openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections.

It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities so that the electorate and financial markets can accurately assess the government's financial position and the true costs and benefits of government activities, including their present and future economic and social implications.^[44]

In essence, the concept is that governments should be open about their financial affairs. This means that the public should have full access to information about budgets, policies, performance and governance arrangements.

Fiscal transparency as an aim has developed over centuries from when societies became more active in the utilisation of public money and concerned about the financial accountability of monarchs. Two distinct trends have been identified: a desire to make public officials accountable for their actions, and; the concerns of financial markets and the desire of investors to put their money into the instruments through which governments borrow.^[45]

2.2.3 Why pursue it?

The objectives of achieving fiscal transparency can be classified in three groups:

1. Stewardship of resources

Governments should provide data on the state of finances, for the past, present and future so that the community can make its own assessment about the viability of the policy stance, including the preventative actions taken or contemplated to reduce or avoid financial market failures. This requires that the information be comprehensive, including all activities, as well as contingent liabilities, on a consistent basis. The data must comply with specified standards.

2. Adequacy of the fiscal machinery

Information is needed on the various aspects of tax administration, expenditure management, lending and borrowing operations, sales and purchase operations, and management of the financial portfolio. Efforts in this regard are aimed, in part, to restore the credibility of the public management systems and to assure the community of the continuing effective functioning of the fiscal machinery. As an integral part of this effort, attention paid to ensuring the due process, prevention of opportunities for corruption, and the smooth working of the accountability channels associated with legislative or other forms of social action is revealed to the public.

3. Decision-making approaches

There should be a window of opportunity for the community to be informed about the decision-making approaches behind the fiscal policies sought to be pursued. The window should enable an understanding, even as decisions are made (and not after they have been made) on the main components of fiscal policy – pursuit of macroeconomic stability, effective performance in the delivery of services, and pursuit of economy and efficiency. ^[46]

Another way of looking at fiscal transparency, however, is from a broader perspective: "fiscal transparency is to be valued for intrinsic reasons, connected to legitimacy". In other words, it is an aim to be pursued simply because it is, of itself, a 'good thing'. It may also have value "on the instrumental grounds that it is capable of stimulating improved government performance."^[47]

At what may be a more tangible level, there have also been attempts to link the concept of fiscal transparency with economic outcomes. A lack of transparency, for example, was found to have been a "partial contributor to financial crises in Asia and Mexico."[\[48\]](#)

It has also been found that in terms of fiscal discipline (such as the likelihood of running into large deficits, for instance) the better-performing countries generally are those that follow more transparent fiscal practices.[\[49\]](#)

It has been found that certain practices - such as overly optimistic macroeconomic and fiscal assumptions, off-budget activities, and shifting expenditures to future years in multi-year budgets, for instance – can reduce transparency.[\[50\]](#)

Further, it has also been suggested that transparency can affect economic outcomes through financial markets. The argument is that financial markets will demand a lower premium from governments that are open about their fiscal position and risks. In other words, markets will be more confident about a fiscally transparent government's ability to service its debts.[\[51\]](#)

There is some empirical evidence for this. For example, it has been demonstrated that 'sovereign spreads' decline after governments adopt transparency-related reforms – such as the publication of IMF country surveillance reports. A sovereign spread is defined as representing:

The difference between bond yields issued on international markets by the country in question versus those offered by governments with AAA ratings.[\[52\]](#)

Also, emerging market equity funds hold fewer assets in less transparent countries, while borrowing costs are lower for those countries that adopt transparency-related reforms.[\[53\]](#) High levels of non-transparency can also be harmful to the flow of Foreign Direct Investment (FDI).[\[54\]](#)

Essentially, the argument is that "more fiscally transparent countries have higher creditability in the markets."[\[55\]](#)

In addition, studies have also shown that a country's debt is negatively related to fiscal transparency in OECD countries.[\[56\]](#) To put this another way, higher levels of transparency are associated with lower levels of debt – although it should perhaps be noted that a study conducted now may not find the same thing: the UK deficit is now very high (over £160bn in April 2010) and yet (as described below in section 2.2.5) the country scores well on fiscal transparency.

Two opposing views of the merits and impact of transparency on the effectiveness of public programmes have been identified. A pessimistic position is that effectiveness may be moderately high when there is no transparency. Initially, increasing transparency will bring gains in effectiveness. But beyond a certain point, further increases in transparency actually reduce effectiveness. This optimal point will be determined by a relationship between the advantages of transparency increasing accountability, traded off against the disadvantages of transparency – namely the amount of institutional effort (and therefore staff time, transaction costs and the politicisation of possibly routine technical matters) that has to be put into the process of preparing, publishing, explaining and perhaps defending reports on budgetary and financial information.

A more optimistic view considers effectiveness to be lower at zero transparency, and holds that the gains from increasing transparency last for much longer and the optimal point is at a higher level of transparency than in the pessimistic view.[\[57\]](#)

There does not seem to be a conclusive view on what the optimal level of transparency will be for a given country; there are a number of other variables that have been shown to have an impact on fiscal performance – such as the electoral system and the degree of political fragmentation, the degree of centralisation of budgetary institutions, and budgetary procedures.^[58]

What this debate does highlight, however, is that there is a need to strike a balance between too little and too much transparency. With this in mind, the following section looks at how the UK performs in terms of fiscal transparency.

2.2.4 The International Monetary Fund Code of Good Practices on Fiscal Transparency

The International Monetary Fund (IMF) publishes a Code of Good Practices on Fiscal Transparency. The most recent (2007) version is attached as Appendix 1. The Code was developed in response to the financial crises of the 1990s. It calls for transparency of the public sector as a whole: both central and sub-national governments should be transparent. The principles are designed to apply both to developing and developed countries.^[59]

The four general principles of the Code are:

- Clarity of roles and responsibilities. There should be a clear distinction between government and commercial activities, and there should be a clear legal and institutional framework governing fiscal administration and relations with the private sector. Policy and management roles within the public sector should be clear and publicly disclosed.
- Open budget processes. Budget information should be presented in a way that facilitates policy analysis and promotes accountability. Budget documentation should specify fiscal policy objectives, the macroeconomic assumptions used in formulating the budget, and identifiable major fiscal risks. Procedures for collecting revenue and for monitoring approved expenditures should be clearly specified.
- Public availability of information. The public should be provided with complete information on the past, current, and projected fiscal activity of government and on major fiscal risks. This should be readily accessible. Countries should commit to the timely publication of fiscal information.
- Assurances of integrity. Fiscal data and practices should meet accepted quality standards and should be subjected to independent scrutiny.^[60]

Alongside the Code, the IMF publishes a Manual on Fiscal Transparency which contains detailed guidance on good practices in fiscal transparency along with illustrative examples.^[61] This is provided to assist with the practical implementation of the Code.

Fiscal transparency is measured by member countries undertaking an assessment called the Report on the Observance of Standards or Codes (ROSC).^[62] This documents a country's current practices and establishes country-specific priorities for improving fiscal transparency.

As of March 2010, 92 countries (including the United Kingdom which undertook the exercise in 1999) from all regions and levels of economic development had posted their fiscal transparency ROSCs on the IMF's Standards and Codes web page.^[63]

The ROSCs set out how governments meet the requirements of the Code against the four general principles. This is supplemented by an IMF staff commentary and suggestions for how transparency could be enhanced. In the UK's case the IMF staff commented that "the United

Kingdom has achieved a very high level of fiscal transparency. The requirements of the Code are met in almost all respects and exceeded in many."^[64]

2.2.5 The Open Budget Initiative – how does the UK compare internationally?

Another international accountability programme – the Open Budget Initiative – is a global research and advocacy programme to promote public access to budget information and the adoption of accountable budget systems. The Initiative gives rankings to countries based on Open Budget Questionnaires that determine, among other things, the public availability of budgeting information, the executive's budget proposal and the budget process itself.^[65]

The questionnaire evaluates publicly available information issued by the central government but does not address the availability of information at the sub-national level. The majority of the questions ask about what occurs in practice, rather than about the requirements that may exist in law and are based on similar criteria to those developed in the IMF Code.

The Open Budget Index assigns each country a score based on the average of the responses to 91 questions related to public availability of information on the Open Budget Questionnaire. This process is subjected to a process of independent peer review (and cross-checked against other indices of governance and transparency such as World Bank's World Governance.

Indicator on Voice & Accountability, the Global Integrity Index produced by Global Integrity, and the Democracy Index produced by Freedom House) and the subject governments are given an opportunity to comment on the final rankings.

The 2008 rankings found that the United Kingdom came top with a score of 88. It was one of only six countries scoring 80 or more – the others being South Africa, France, New Zealand, the United States and Norway.^[66]

2.2.6 How meaningful are these measures?

According to some commentators, such as the Institute for Fiscal Studies and the Financial Times, there is more to fiscal transparency than these kind of international measures assess: "it should always be borne in mind that formal good practice (for example excellent technical budgetary documents) may be undermined by informal bad practice (for example, manipulative media management)."^[67]

Indeed, one of the problems that has been identified with public expenditure data in the UK is not their availability but rather the complexity of those data and specific omissions. For example, the UK Treasury publishes annual Public Expenditure: Statistical Analyses (PESA).^[68] But the usefulness of these "is reduced because of frequent changes in public expenditure definitions" which means that it is difficult to compare expenditures over time.^[69] Therefore, even the most informed commentators have difficulties interpreting public expenditure data.^[70]

This problem highlights a need for the Assembly to have access to resources to support its budget scrutiny role.

So, while at the national level the UK scores well on transparency, there are also practices that undermine and confuse the position. Examples are: concerns about the off-balance sheet build-up of liabilities under PFI contracts; multiple announcements of the same increases in public expenditure (double or triple counting); and, the potential for evasion of the control of public expenditure through mechanisms such as the establishment of arms-length companies.^[71]

2.2.7 What does this mean for the transparency of the budget process in Northern Ireland?

The short answer to this, perhaps, is not a lot. Whilst the UK has performed well against these transparency standards, that is at the national level as discussed above. Also, as seen, the usefulness of these rankings is somewhat open to question.

In any case, the UK is highly centralised in respect of fiscal policy and control. Aside from the unused Scottish Variable Rate (SVR or 'Tartan Tax') the devolved administrations have little scope for raising their own revenue. Accompanying the lack of tax-varying powers is an absence of borrowing powers.

If the Northern Ireland Executive had greater (i.e. over and above what it can do through the regional rate) revenue-raising powers, it would also be likely to need the ability to borrow (in addition to what it can already borrow under the RRI^[72]). This would probably be necessary to smooth out fluctuations in tax revenues over the economic cycle.

If the Executive were to make a case for tax-varying powers (for instance to enable a lower rate of corporation tax in Northern Ireland), it would therefore probably also need to make a case for borrowing powers. In this instance, the impact of fiscal transparency on financial markets would perhaps become significant – although this would depend on what powers to borrow the Executive were granted. In other words, would it need to source finance from international markets, or would it be able (or perhaps be required) to rely on borrowing from the UK Treasury?

For the purposes of this paper, there are too many unknown variables for that discussion to be taken much further.

There are, however, some points of concern with the current system that can usefully be raised in the context of reforming the Northern Ireland budget process.

2.2.8 The transparency of the block funding mechanism

First and foremost – even given debate over international measures of fiscal transparency – the level of transparency is greatly reduced when moving from the UK to the devolved level. The UK Treasury itself, somewhat paradoxically, notes the need for transparency:

funding arrangements [for the devolved administrations] are the subject of detailed scrutiny by the elected Members and those whom they represent. It is important, therefore, that the way in which the budget of each of the devolved administrations is determined should be clear, unambiguous and capable of examination and analysis by the devolved Parliament and Assemblies and the United Kingdom Parliament.^[73]

But, the system of funding the devolved administrations through block grants altered at the margins through the Barnett Formula has been widely criticised for its obscurity. For example, in a recent report the House of Commons Justice Committee:

recommended that the Government should publish detailed factual information on how the formula works, including the criteria for whether certain funding decisions in relation to spending in England trigger consequential changes to the block grants of the devolved administrations.^[74]

Similar conclusions were reached by the House of Lords Select Committee on the Barnett Formula, which recommended that:

the Treasury should publish its statistics on the workings of the Barnett Formula - and its successor. This publication should include "all material data on devolved finance, showing the allocations of grant to the devolved administrations, changes from previous years and explanations for any changes made."^[75]

Further, the Independent Commission on Funding and Finance for Wales (the Holtham Commission) recommended:

that the UK Government should annually publish data to allow direct comparisons between Welsh Assembly Government expenditure on areas covered by the Barnett Formula and similar expenditure in England. Such a document should also detail changes to the devolved budget arising from policy, transfer and classification changes – currently this information is difficult to find.^[76]

The mechanism for funding the devolved administrations is currently outside their control. Any changes will have to be undertaken through a series of negotiations with the UK Government and the other devolved administrations.

It is important to note that there is a momentum behind calls for the block-funding system to be reformed. For the purposes of this paper, it is perhaps sufficient to note these arguments for increased transparency to inform debate over whatever new system (or modification of the current system) emerges. This would not only increase understanding of the constraints upon the Northern Ireland Executive's spending allocation for a given period, but it would also potentially increase the ability of Assembly and its Committees to hold the Executive to account.

More detailed discussion of the role of the legislature in the budget process is above in section 2.1.

2.2.9 Principles of the IMF Code of Good Practices of relevance to Northern Ireland

As noted above, the UK is highly centralised in respect of fiscal policy and budgeting. From that perspective, the entirety of the IMF Code of Good Practices on Fiscal Transparency is not strictly relevant to Northern Ireland or the other devolved administrations: parts of the Code address laws and regulations relating to the collection of tax revenues, for example.

Having said that, there are elements of the Code which – if it is accepted that fiscal transparency is indeed a reasonable objective to pursue – are worthy of some consideration. Table 2 below draws together some areas of potential concern to Northern Ireland Assembly Members.

Table 2: Assessment of alignment of NI budget process with IMF Code on Fiscal transparency

IMF Code Reference	Requirement	Comment
1.1.3	The responsibilities of different levels of government, and the relationships between them, should be clearly specified.	While it is clear from devolution statutes which political body (i.e. UK Parliament or NI Assembly) is responsible for what policy areas – i.e. those which are devolved and those

IMF Code Reference	Requirement	Comment
		<p>which are not – it is not always entirely clear that the funding relationships are specified. The workings of the UK Treasury 'comparability factor' in determining Barnett consequential are not always plainly transparent. It follows, therefore, that the relationship between a funding allocation to a UK Government department and any consequential change to the NI Block Grant is also not totally transparent.</p> <p>The criticisms levelled by seven of the eleven statutory committees in relation to the recent review of spending plans suggest that the requirement for adequate time for consideration by the legislature was not met (see section 1.3.1 of this paper). Complaints from certain stakeholders about the consultation process over the review of spending plans are also relevant (see section 1.3.2 of this paper).</p> <p>Literature on methods of budgeting and practice in some countries points to a need to link spending with intended outcomes. Some attempt to reconcile budgeting decisions with policy objectives was made in the departmental publications on the Executive's Revised Spending Plans 2010-11: some considered progress against Public Service Agreements. An explicit link between overall allocations and individual programmes is absent; it would be easier to understand the departments' intentions if the allocations were broken down and linked to the relevant policy objectives. The quality and detail of the information provided by departments varied from fairly detailed (DARD) to absent (DHSSPS) and in the majority of cases were inadequate for an informed view on the proposals to be formed. (see section 1.3.3)</p> <p>There is no explicit assessment of fiscal sustainability in the 2008-11 Budget, nor the Review of Spending plans, although some issues – such as a gradual reduction in the public subsidy Northern Ireland Water and the trend of public-spending increases - are considered. It should also be remembered that, as the Executive does not have control over a full range of fiscal powers, a statement on fiscal sustainability of the UK Treasury's fiscal policies may not be meaningful.</p>
2.1.1	A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.	
2.1.3	A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.	
2.1.4	The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.	

IMF Code Reference	Requirement	Comment
2.2.2	A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.	<p>The requirement to present a midyear report on budget developments may be rendered less significant to Northern Ireland, because of the absence of total fiscal control. Having said that, it may be that the current system of monitoring rounds fulfils this requirement to some extent in any case as these address spending pressures, reallocations and accounting changes.</p>
2.2.3	Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.	<p>The monitoring rounds present de facto changes in expenditure as a result of internal reallocations within departments. The outcomes of monitoring rounds are the subject of Ministerial Statements and questions in plenary of the Assembly; Statutory Committees may receive briefing from officials in their corresponding departments.</p>
3.1.1	The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.	<p>It is uncertain in the instance of the recent review of Spending Plans whether the Executive could claim to have met this criterion. A central document was published but it was left to individual departments to publish their own supplementary material. These were not published at the same time and not at all in relation to DHSSPS.</p>
3.1.2	Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.	<p>The Northern Ireland Estimates 2009-10 present annual spending provisions for each department alongside the provision for 2008-09 and the outturn for 2007-08. This is also provided against each budget line. However it has been noted that because of frequent changes to public expenditure definitions, it is difficult to reliably compare time series data (see section 2.2.6). A further difficulty is that the outturn from the preceding year is not available at the time the Estimates are published. No forecasts are presented in the Estimates documentation.</p>
3.1.3	Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.	<p>In the Northern Ireland context, assessment of fiscal risk might be constrained to only anticipated changes in the level of the block grant. As the DEL total is assigned by the Treasury through spending reviews at the UK level it is arguable that statements on the fiscal significance of central government expenditures are not necessarily required of the NI Executive. However, an assessment of the relative significance of public expenditure in Northern Ireland in terms of revenue might be helpful (see 3.1.6 below).</p>

IMF Code Reference	Requirement	Comment
3.1.6	The budget documentation should report the fiscal position of sub-national governments and the finances of public corporations.	<p>This requirement is not directly applicable to Northern Ireland. However it is worth noting that the UK Treasury does publish data on identifiable expenditure and the devolved administrations spending as an index in the PESA. However, this does not report on revenue generated in each region or country.</p> <p>Budget documentation is presented on a resource basis but the absence of significant revenue information beyond what is collected from the regional rate may be a barrier to transparency. Some attempt to put the budget into a UK context by reporting the outcomes of previous Spending Reviews is made. It should be noted though that some other financial documentation (such as that in support of the Vote on Account) is presented in terms of net resources and net cash requirements.</p>
3.2.2	Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.	<p>The Executive published a Programme for Government Delivery Report which does not link PSA targets to individual government departments. Whilst this approach may be designed to promote the concept of joined-up government, information on the lead department for each PSA target would be useful in enabling read across from the Delivery Report to the PFG and the Budget. In any case it is debatable whether all the PFG targets are meaningful in terms of results achieved against objectives. It would probably be helpful in terms of transparency if departments produced disaggregated requests for resources which showed clearly where the intended resources are intended to go.</p>
3.2.4	Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.	<p>Section 64 of the NI Act 1998 requires the Executive to publish its budget before the beginning of a financial year (i.e. not after the event); the Estimates, however, are not generally produced until June of the financial year to which they relate.</p>
3.3.1	The timely publication of fiscal information should be a legal obligation of the government.	<p>The next UK Treasury Comprehensive Spending Review was due in the summer of 2009 but on 14 July 2009 the UK Chancellor stated that this would not go ahead.⁷⁷ Consequently there is a gap in the fiscal information available both at the UK and at the devolved level. Presumably a Spending Review (Comprehensive or otherwise) will be held after the UK general election. The</p>
3.3.2	Advance release calendars for fiscal information should be announced and adhered to.	

IMF Code Reference	Requirement	Comment
4.3.4	Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.	<p>postponement of reviews for what may be seen as political purposes seems to run counter to the spirit of open budgeting and fiscal transparency.</p> <p>There is, as a general rule, no independent verification or external scrutiny of the Executive's budget proposals or financial information. The 2008-11 Budget document, for example, asserts that further increases in revenue could not reasonably come from increases to the regional rate. Independent analysis of this assertion would also have aided transparency. (see section 1.3.4).</p>

[77]

3. International Budget Practices and Reform Programmes

3.1 UK Treasury Alignment (Clear Line of Sight) Reforms

It has been highlighted a number of times in this paper that there are different streams of information with regard to public finance (i.e. the budget, Estimates and departmental accounts) in the UK and that these are prepared using different accounting bases. The current system is a relic of the Bill of Rights 1689[78] and, consequentially, modern concepts of openness and transparency are ill-fitted to it.

The UK Government has embarked upon a reform process called the Alignment (Clear Line of Sight) Project. This is intended to:

simplify the Government's financial reporting to Parliament, ensuring that it reports in a more consistent, transparent and straightforward fashion at all three stages in the process – on plans, Estimates and expenditure outcomes.[79]

The advantages of the system which the project will introduce have been described as "significant" and are defined as:

- A simpler system, with a single set of numbers, which is more transparent, more comprehensible and easier to use, and which improves public debate and understanding through enhanced scrutiny of government spending.
- Better government through improved democratic involvement for, and accountability to, Parliament and the public.
- A significantly enhanced ability by government to maintain firm control over public spending, while not altering the way the fiscal rules are defined.
- Building into the system the right incentives to deliver better value for money.
- A more coherent presentation of financial reporting documents that meets the needs of government and Parliament, is consistent with best practice in the private sector and does not create complexity elsewhere.

- A rationalisation of the number of occasions each year on which Government presents financial reporting documents to Parliament, resulting in greater coherence and comprehensibility in the Government's reporting to Parliament.
- A financial regime which is burden-reducing for departments and promotes greater administrative efficiency, thereby enabling departments to focus on making substantive improvements to the value for money of their spending.^[80]

In essence, the project aims to simplify the management and reporting of public expenditure and improve the way that Whitehall works.

The reforms will address a number of the concerns raised throughout this paper in relation to the Northern Ireland process: the difficulty of reconciling data across different publications and legislative measures; increasing parliamentary control of expenditures that are currently outside the estimates; confusing accounting concepts such as "non-cash" and "near-cash" will be removed; and the Estimates will be expanded to cover not only central government bodies but also non-departmental public bodies (NDPBs).

3.2 The alignment of financial information in the Republic of Ireland

The principles of Government accounting are mainly derived from the Constitution, and from the institutional and financial relationships between parliament and the executive which have been developed over the years. In many respects the system in Ireland is now rather like the one the UK hopes to have through the Clear Line of Sight project. Historically, the Republic of Ireland used the same system as the UK.

The system now used, while it still has many similarities, is more sophisticated in terms of aligning requests for resources with performance.

When the Select Committee on Finance and the Public Service considers Estimates for the Finance and Taoiseach Vote groups it also considers the Annual Output Statements (AOS) at the same time.^[81] The annual Estimates for other Departments and Offices, with their associated Annual Output Statements, are considered by other Dáil Select Committees as appropriate.

A template for the format of the AOS is provided as Appendix 2. It can be seen that there is a clear attempt to link budgetary allocations with the objectives for each department or group of departments' programmes. An important feature of these is that they have to include all the bodies under the aegis of the department.

3.3 The role of committees in the Australian budget process

The Standing Orders of the Australian Parliament specifically refer the annual and additional estimates of the Executive to the legislative and general purpose standing committees for examination and report.^[82] The formal hearings on the estimates are the opportunity for the Senate and the public to be informed of a government's expenditure and planned expenditure. As such the meetings are required to be in public session.

In the period from 12 February to 31 December 2008 each committee of the Senate held number of estimates hearings - from a minimum of eight hearings to a total of 24 hearings by the Rural and Regional Affairs and Transport Committee. Over the course of those hearings the committees called an average of 550 witnesses on the estimates, compared to an average of 112 witnesses for their work on legislation.^[83]

The scrutiny of the estimates is seen as "an important part of the Senate's calendar and a key element of the Senate's role as a check on government."^[84]

3.3.1 Documentation provided to the legislature

Australian government departments table explanations of the estimates called Portfolio Budget Statements (PBS) which are provided to assist with scrutiny of the details.^[85] The PBS covers not only the relevant government department but also associated agencies.

The PBS directly links the budgeted resources to a specified outcome and within that breaks down the specific programmes to which resources are allocated. The figures for allocations for the year in question (year 0) are presented alongside the revised budget for year -1 as well as plans for years +1, +2 and +3.

Beneath each budgeted programme, there are sections on programme deliverables and programme key performance indicators.

3.3.2 Conduct of hearings

Estimates hearings are held three times each year:

for four to five days in May to consider the Budget and the main appropriation bills with a supplementary round of two to three days of hearings in October; and for two to three days in February to consider the additional appropriations. The committees are free to set additional times for estimates hearings if they so choose. Any such additional hearings would have to occur before the time set by the Senate for the committees to report. The Senate does not meet on days when main estimates hearings are taking place.

The hearings are conducted in Parliament House with the responsible minister or their Senate ministerial representative and officials in attendance. Although it is desirable that a minister be present at the hearings, it is not required by the Standing Orders. In practice, ministers always appear. All government departments and agencies, including bodies established by statute and companies in which the government has a share-holding, may be called to give evidence. Non-government bodies in receipt of public funds have also appeared.

The committee proceeds by calling on items of proposed expenditure usually by reference to the programs and subprograms for which funding is described in the PBS. Senators then seek explanations from ministers and officers. The evidence is heard in public and the committees are not empowered to receive confidential information or material in the absence of a specific resolution of the Senate.

The only substantive rule of the Senate relating to the scope of questions is that questions must be relevant to the matters referred to the committees, namely the estimates of expenditure. Any questions going to the operations or financial positions of departments or agencies are relevant questions. A Senator's right to seek such explanations is supported by resolutions of the Senate which recognises that as the estimates represent departments' and agencies' claims on the Commonwealth for funds, any questions going to the operations or financial positions of the departments and agencies which shape those claims are relevant. Annual reports are statements to Parliament of the manner in which departments use the resources made available to them, and therefore references to annual reports are relevant.

Most questions are answered at the hearings, but witnesses may also choose to take questions on notice and provide written responses after the hearing. Members and participating members

of committees may also place questions on notice. Such questions are lodged with the secretary of the committee and are distributed to members of the committee and to relevant departments.^[86]

3.3.3 Resources for committees

The issue of the resources required by a legislature to support its budget-scrutiny role is considered in more detail in Assembly Research Paper 99/09 (forthcoming). For the purposes of this discussion, it is sufficient to note that each legislative and general purpose standing committee has a dedicated member of staff who concentrates solely on the estimates and other financial processes and information.

3.4 Independent fiscal analysis in Belgium

Many of the weaknesses in the Northern Ireland budget process that have been highlighted in relation to international best practice issued by the IMF relate to the absence of fiscal data and projections published by the Executive. Further, it has also been highlighted that many countries incorporate independent analysis into their budgetary process.

There is a considerable body of evidence that supports fiscal rules as a control to prevent fiscal deficits. However, more recent evidence suggests that the inflexibility of rules can mean that delegating some aspects of fiscal policy to an external agency may be beneficial.^[87] It must be remembered in this context that as the Northern Ireland Executive does not have full fiscal policy responsibility, any measure must be tailored to fit local circumstances.

The design of fiscal policy is problematic and this can be reflected in increasing deficits, procyclicality and the pursuit of unsustainable policies. This can be caused by "inappropriate use of discretion in fiscal policymaking."

Whilst discretion in policymaking can be valuable with regard to responding to changed circumstances or fulfilling an electoral mandate it "can be misused, especially in the presence of political and distributive conflicts, and if governments have short-term horizons."^[88] It is argued, therefore, that the challenge is how to reduce the undesirable features of discretion whilst maintaining flexibility.

A number of countries have tried institutional reform as a means of achieving this; they have established institutions which can help in the formulation and implementation of sound fiscal policies. Theory has identified various factors which suggest that in practice the delegation of fiscal policy could be beneficial. Policy can be delegated to two types of agency:

- independent fiscal agencies, or;
- fiscal councils.

In theory an independent fiscal agency (IFA) could set an annual target for budget balance or veto proposals which do not agree with a particular fiscal rule. But there are no working international examples of an IFA.

There are, however, examples of fiscal councils (FCs). An FC could help improve fiscal policy through independent analysis and forecasts and the promotion of public debate and scrutiny. Evidence from across Europe suggests that FCs which provide assessment generally may be more effective in promoting fiscal discipline than those that simply provide pure

analysis.^[89] There is also evidence to suggest that the institutional design of budget processes can have an impact on fiscal outcomes.^[90]

A significant reason for this may be that "official growth forecasts are biased towards optimism and that forecasting bias [...] has hampered fiscal consolidation."^[91] This is why good governance frameworks recommend independent scrutiny of fiscal policy assumptions.

Belgium is one of only three EU Member States to rely solely on national independent agencies for macroeconomic forecasting that determine public revenue and spending projections – along with Austria and the Netherlands. There are two fiscal councils: the High Council of Finance and the National Accounts Institute. The latter has to approve fiscal forecasts before they are considered 'official'.

Evidence shows that the fiscal councils "have contributed to the indisputable improvement of Belgian public finances."^[92] Whilst the specific institutional characteristics are country specific, three lessons have been identified for designing fiscal councils elsewhere:

The institutions dealing with positive economics should enjoy a fully independent status, but owing to the specific knowledge required to fulfil their tasks, they should remain public.

Since normative economics are linked to preferences, it is much more difficult for public opinion to accept a complete transfer of this kind of responsibility to an independent institution. This justifies the necessity for complete institutional separation between positive and normative issues.

One way to make the budgetary process successful is to share responsibility between several strong independent institutions and experts to minimize political pressure on each of the individuals or institutions.^[93]

When looking at the three countries that relied on independent fiscal agencies for forecasting, it is striking that they are not generally governed by majority governments. Indeed, it has been argued that "minority and coalition governments have the greatest incentives to negotiate a budget agreement prior to the formal release of the budget itself."^[94] For this reason, the lessons from Belgium may be of greater comparability with Northern Ireland and its power-sharing executive than some other states.

3.5 Performance budgeting in the Netherlands

The Dutch budgetary system was described by the IMF as part of the ROSC process in 2006 as 'best practice' in terms of transparency. The main elements identified were:

- 1) the good structure and openness of the budget process;
- 2) the integrity and (political) independence of the Court of Audit, the Netherlands Bureau for Economic Policy Analysis (CPB) and Statistics Netherlands (CBS); and
- 3) a trend-based fiscal framework which establishes political agreement over expenditure ceilings and macroeconomic constraints.^[95]

The Netherlands has a system of ten political parties in the legislature. The government negotiates in advance with the parties in the coalition to develop guidelines for the four-year period of the cabinet. This guidance contains an overall cap on spending, deficit and debt-reduction targets and other macro-policy statements.

The programme-based budget is detailed over a multi-year period. Every line item and sub-item has a multi-year estimate produced by the spending department. This has contributed to a culture of fiscal discipline:

Even the opposition parties respect the fiscal rules; for example, a proposition of a party to increase expenditure in one policy area is always accompanied by a proposal to decrease expenditures in another policy area.^[96]

It must be noted, however, on the counter-side it is also observed that:

Regarding efficiency, however, the results are less evident. There is still a lack of clarity about the contribution of government programmes to policy objectives. In many cases, performance indicators "hit the target but miss the point" and evaluation research does not review the effects of policy. The twofold aim of budget reform – transparency and efficiency – cannot be achieved by one instrument, the budget. The budget should be used for discussion of the main political issues, but other instruments such as policy reviews are advised for facilitating efficiency improvements.^[97]

This evidence links back to the observation made in the introduction that there is a trade-off between pre-budget transparency, and post-budget accountability. The lesson from the Netherlands seems to be that budgetary reform will not necessarily drive increased efficiency. However, it can drive increased transparency. It has been previously discussed that increased transparency in budgeting can bring benefits, not least that it allows for greater accountability, and that, of itself, can drive efficiency.

3.5.1 In-year monitoring

Another interesting feature of the Dutch system is the mechanism for approving budget changes in-year:

The National Budget Information System, or IBOS, is used for accounting purposes: a system for the approval of budget changes. De facto it is a discussion system. IBOS has existed for 20 years, and it forms a "spring hinge" between the financial control division of the line ministry and the budget inspectorate (IRF) of the Ministry of Finance. IBOS gives the Minister of Finance a day-to-day macro view of the development of the budget (check and agree with budget changes).

How does it work? Suppose the Ministry of Agriculture has to employ extra personnel (because of chicken flu, for example) for which the costs are estimated at EUR 400 000. An employee of the control division of the Ministry of Agriculture logs into IBOS. He/she accounts EUR 400 000 of expenditures, regarding the relevant policy programme or line item. This proposal is presented to the Inspectorate of the Budget (Ministry of Finance). The employee of the inspectorate makes up his/her mind and authorises the budget change, of course considering the political prudence. The budget rules apply (for example, setbacks have to be compensated by cutbacks). A special code for the budget change – for autonomous reasons (rise in number of students) or for policy reasons (extra road programme) – is programmed into the computerised system.^[98]

In this way, a computerised system is used to give the budgetary flexibility to switch expenditure between lines, whilst at the same time maintaining control of the overall spend.

3.6 Performance budgeting, transparency and the provision of financial and performance information in OECD countries

In 2007 the OECD surveyed the use of programme budgeting and the use of budget-linked performance targets and information in member countries.^[99] It was found that practices varied across the OECD countries but there was common ground in the reforms.

Four areas were identified as being important to underpin program-oriented budgeting which raise some useful considerations for the Northern Ireland process:

- reclassification of the budget and multi-annual estimates

The UK was found to be one of a number of countries which "offer good examples of reclassified budgets based on mainly programmatic criteria."^[100] Northern Ireland follows this kind of model. For example DFP's DEL provision in the Supplementary Estimates is broken into 11 areas (including Finance and Personnel Policy; NICS Shared Services, and; NICS Accommodations Services)

- a multi-annual fiscal framework

As previously highlighted, the resources available to the Northern Ireland Executive are largely allocated by the UK Government as part of its Spending Review Cycle. Spending Reviews are presented with multi-annual indications which are then formalised annually through the budget process. A difficulty arises for Northern Ireland when the UK Government does not hold a Spending Review in accordance with its pre-determined timetable, undermining the Executive's ability to plan into the medium term.

- the use of performance information in budgeting

The OECD highlighted the example of the UK in its survey in relation to budget-linked performance targets because of the use of Public Service Agreements (which the Northern Ireland Executive also uses to underpin the programme for Government) and associated outcome measures. But it was also found that:

while focusing on outcomes rather than outputs may reduce the number of different (ultimate) targets and make the budget documentation more focused and transparent, the relationship between expenditures and outcomes becomes less clear. Governments may have an effect on outcomes but do not control them. Underachievement on outcome targets can always be blamed on unexpected social and economic developments.^[101]

- the budget documentation

Much of the focus of this paper has been on increasing the information available to the Northern Ireland Assembly and public. The OECD, however, does sound a word of caution against over-loading the budget documentation with too much performance-related information:

there is no need to explain the background of policy reforms that do not lead to changes in the fiscal framework or reallocations between programmes (policy decisions because of underachievement on outcomes), since such explanations may be detrimental to the transparency of the budget.^[102]

This evidence highlights a need to balance between too much and too little performance-related information in the budget documentation. Also consideration must be given to whether an understandable desire politically to focus on outcomes against the clarity produced by focusing on outputs.

3.7 The provision of financial information to the Scottish Parliament

The Scottish Parliament Information Centre has established a Financial Scrutiny Unit. The governance arrangements and staffing of the Unit are considered in Assembly Research Paper 99/09 (forthcoming). It is of interest to note that the reformed budget process in Scotland is undergoing further change and so it is difficult to draw conclusions from its operation. For the purposes of this paper, it is helpful to highlight the way in which the Scottish Parliament has tried to address the imbalance of information between the legislature and the executive.

An Agreement between the Scottish Government and the Financial Scrutiny Unit (attached as Appendix 3) addresses how requests for information should be framed, to whom they should be addressed, and requires that responses should be handled factually and in good time. It also cautions that government officials should not be drawn into discussion of the merits of a particular policy.

This approach raises the question – in the context of the difficulties in relation to engagement with Assembly Committees and the provision of information – whether a similar approach might be a sufficiently robust model for Northern Ireland.

3.8 The provision of financial information to the Parliamentary Budget Officer in Canada

The Parliamentary Budget Officer (PBO) was established in 2006 by amendment to the Parliament of Canada Act (Chapter P-1). More detail on the role is provided in Assembly Research Paper 99/09 (forthcoming). For the purposes of this paper, it is worth noting that the PBO has specific powers to gain access to the information needed to provide advice and analysis to parliamentarians in statute.

Section 79.3.1 of the Parliament of Canada Act states:

79.3 (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Parliamentary Budget Officer is entitled, by request made to the deputy head of a department within the meaning of any of paragraphs (a), (a.1) and (d) of the definition "department" in section 2 of the Financial Administration Act, or to any other person designated by that deputy head for the purpose of this section, to free and timely access to any financial or economic data in the possession of the department that are required for the performance of his or her mandate.^[103]

This is alternative means of addressing the information asymmetry between the legislature and the executive.

3.9 Committee powers in the New Zealand Parliament

The powers of committees to require information are clearly spelt out in standing orders:

192 Exercise of power to send for persons, papers and records

(1) A committee with the power to send for persons, papers and records may order that a summons be issued to any person—

(a) to attend before that committee to be examined and give evidence:

(b) to produce papers and records in that person's possession, custody or control to that committee.

(2) Every summons issued under this Standing Order—

(a) must state the time and place at which it is to be complied with by the person to whom it is addressed, and

(b) is signed by the Speaker and served upon the person concerned under the Speaker's direction.^[104]

It is possible that the provision of an express power to issue a summons which calls for papers and records may be a model for strengthening Assembly Committees' powers to get briefing from Ministers and departments on financial and other issues, when – in recent months at least – this has proved problematic. The fact that a time and date may be specified may be of particular interest.

A committee in New Zealand must apply to the Speaker for a summons to be issued. The Speaker must be satisfied that:

(a) the evidence, papers or records sought by the committee are necessary to its proceedings, and

(b) the committee has taken all reasonable steps to obtain the evidence, papers or records.^[105]

This provision appears to be designed to prevent spurious summons being issued, or committees issuing summons before they have gone through less formal channels.

3.10 The Finance Committee in the Swedish budget process

In spring each year the government prepares a Fiscal Policy Bill, which contains guidelines for the coming year's budget policy. This is scrutinized by the Finance Committee and reported on to Parliament; the first parliamentary decision is in the autumn.

A Budget Bill is prepared by the executive the following September which proposes aggregate expenditure ceilings. There are 27 expenditure areas in total. The Finance Committee is responsible for the aggregate spending total as well as the 'frames' for each of the 27 areas; this hierarchical structure was a key part of budgetary reform in the 1990s and early 2000s.

Sectoral committees are responsible for between one and four expenditure areas. They can make allocational proposals within the approved ceilings for each area; they can propose shifting funding between items within an area, but may not breach the total set for the area:

In effect a hard budget constraint has been imposed on sectoral committees. Members on the sectoral committees initially resisted this change, but against the backdrop of fiscal crisis, the reformers assembled enough support for the new process to be accepted.^[106]

This model may be of some interest for considering how a central budget or finance committee could be fitted within the processes of the Northern Ireland Assembly. Revision of the committee structure alone, however, was not considered to be entirely the cause of Sweden's recovery from a position of fiscal crisis in the 1990s.

A major factor is also the voting procedure:

The report of the Finance Committee contains a proposal as well as reservations from the opposition parties that cover total spending, the allocation of expenditure across different areas as well as revenue changes. These are treated as packages, unlike in the previous system where shifting majorities could form on individual items [of expenditure]. Under the new system, opposition proposals are eliminated until one main alternative remains. Opposition parties are ideologically fragmented and typically do not unite against the government, but only support their own proposal.^[107]

The voting procedure itself is set out in the Riksdag Act:

Settlement by acclamation

Art. 5. When a matter is settled by acclamation, the Speaker puts to the question every motion put forward in the course of the deliberations. The question shall be worded in such a way that it can be answered with a 'Yes' or 'No'. The Speaker declares what he understands to be the result, and confirms the decision by striking his gavel, unless a member calls for a vote.

Settlement by means of a vote

Art. 6. When a matter is settled by means of a vote, the principal proposal is that motion which in the Speaker's view the Riksdag adopted by acclamation. When there has been no acclamation, the principal proposal is the motion determined by the Speaker. A second motion is put up against this principal proposal to act as a counter-proposal. If there are more than two motions which can be put up against each other, the Riksdag shall first apply Article 5 to determine which shall constitute the counter-proposal.

Voting is by open ballot. Under the rule laid down in Chapter 4, Article 5 of the Instrument of Government, the proposal which obtains the support of more than half the members voting constitutes the decision of the Riksdag, unless otherwise provided in the Instrument of Government or in this Act. The Speaker announces the result of the vote and confirms the decision by striking his gavel.^[108]

It is interesting to note the way the voting procedure deals with a parliament fragmented on ideological lines. It may be that the application of an adapted procedure along these general lines could provide a means to counter-balance both the Executive and a centralised budget or finance committee in the Northern Ireland Assembly. It would mean a quite radical departure from current practice for handling amendments, and would probably require primary legislation.

4. Concluding Remarks and Recommendations

A considerable number of issues have been raised in this paper. Some of them – which go to the heart of the inter-institutional relationship between the Northern Ireland Assembly and the Executive – may require high-level political agreement at an almost philosophical level. Others are more specific procedure-related issues with the operation of the current process as it stands.

Recommendations

Recommendation 1: Assembly Committees' powers to request information should be clarified and perhaps strengthened.

A variety of models have been identified by this research.

- A clear agreement on the provision of financial information between Executive and the Assembly along the lines of the Scottish Government's Agreement with the Scottish Parliament Information Service.
- Requirements could be specified in primary legislation, similar to the approach taken for the Parliamentary Budget Officer in Canada.
- Standing orders could be changed and provide clearer arrangements, similar to the New Zealand approach.

Recommendation 2: The information provided by the Executive and its departments should be improved.

- Statutory committees should be asked to specify the nature of the information they require to discharge their budget-scrutiny role. This should be in terms of a minimum level of detail which should allow the Committees to identify specific areas on which they require further detail.
- Figures should be presented, where possible, in a format to allow read-across between different streams of financial information.
- Clarity should be increased so that the linkage between a Public Service Agreement and a budgetary allocation can be tracked across all relevant publications including the Budget, the Executive's Delivery Report in reference to the Programme for Government and in-year monitoring rounds.

Recommendation 3: Consultation with the Assembly should be conducted fully and properly

If the Executive asks committees for their views, the consultations should be proper:

- Statutory committees should be asked to suggest a minimum period for the presentation on financial information to them in advance of the legislative measure being brought before the Assembly. Good practice suggests that this should be in the region of two to four months.
- Time should be allowed for committees to decide if further briefing is required and if there is a need to call for evidence.
- Clear guidelines should be provided as to whether committee's recommendations should be zero-sum i.e. if they recommend an increased allocation to one programme, they should identify another programme which should be reduced.

Recommendation 4: Consultation with the public should be conducted fully and properly

If the Executive embarks on a public consultation exercise it should do so properly:

- A clearly specified end date for responses.
- To whom the responses can be sent and how.
- Direction to consultees on what the parameters of the consultation are and guidelines for whether recommended changes to allocations should be zero-sum.

Recommendation 5: The Executive should adhere to an annual budget process

Good practice points to a regularised and annual process in which a pre-determined timetable is adhered to. However, this does not mean that the budget should only cover one year. In fact, good practice indicates that it should also give indicative figures for the medium term (commonly this is a three-year horizon).

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.

Recommendation 7: There should be a requirement for external/independent analysis of the draft Budget and spending plans

Good transparency and accountability practice suggests that budget proposals should have some independent input:

- An independent fiscal agency could be consulted on proposals; or
- Responsibility for fiscal projections and assumptions could be passed to a fiscal council as in the Netherlands, Austria and Belgium.

Recommendation 8: The Executive should publish an assessment of the fiscal picture

Good transparency and accountability practice suggests that the Executive should produce – as far as it is possible to do so in the context of how Northern Ireland is funded – an assessment of the fiscal sustainability of its policies including:

- A statement of fiscal risks.
- Some form of medium-term fiscal plan.
- A regular assessment of demographic change and its potential impact

Recommendation 9: The Executive should consider establishing a contingency reserve

Whilst the mechanism of in-year monitoring has been shown to be good practice in terms of transparency, it may not be sufficiently effective in meeting unforeseen pressures. If a contingency reserve is established good practice suggests that:

- It should be 1-3% of total budgeted expenditure.
- The Assembly should cede authority to allocate it to the Executive but require that it is informed promptly and regularly of any allocations.

- Given the power-sharing coalition in the Executive, it may be necessary to spell out conditions for application in legislation or a code of practice approved by the Assembly.

Recommendation 10: The Assembly's own budget allocation should be more transparent

Good practice suggests that the Assembly rather than the Executive should be responsible for setting the Assembly's budget.

- The Assembly's request for resources should be debated as a separate issue not only as part of the Executive's budget proposals.
- The Assembly should be required (perhaps through statute) to ensure that its requests for resources are benchmarked against and broadly in line with other constitutional entities.

Recommendation 11: Requests for resources should be disaggregated and justified

Good practice suggests that results achieved relative to objectives should be presented. To support this, departmental requests for resources should be broken down into programmatic areas. A model is provided by the Portfolio Budget Statements used in Australia.

Recommendation 12: Spending outside annual appropriations should be presented alongside the Budget

Good practice suggests that extra-budgetary spending should be brought into the documentation or the Executive should be required to make a more explicit statement of such spending than it does currently.

Recommendation 13: In general the budget process should become more transparent

An increase in fiscal transparency should make the Executive more accountable for the money it spends and enhance understanding of how this is funded. Steps towards this could include:

- The Executive could request that the transparency of the Barnett and block funding mechanism as it stands is enhanced.
- If the mechanism for funding the devolved administrations is to be reformed, the case should be made that any future system should employ transparency as a core principle in its design.

Recommendation 14: The Assembly should have a more structured involvement in the budget process

Good practice suggests more emphasis on medium-term planning in budgeting. Increased Assembly involvement should act as more of a balance to the Executive, ensuring more intergenerational equity^[109] and resulting in decisions taken more on a more sustainable basis. The Assembly needs to decide whether the focus of this involvement should be on the setting of budgets, the evaluation of performance against budgets or a mixture of both. Restrictions on committee and Assembly time will mean this trade-off must necessarily be struck.

Recommendation 15: The Assembly should reorganise the system of budget scrutiny by committees to support greater involvement

International practice suggests that a budget committee be established with overall responsibility for considering aggregate spending and to which all financial instruments are referred. It could set parameters for the contribution of statutory committees and undertake a strategic phase of scrutiny (as in the Swedish parliament – see section 3.10). Or it could be solely responsible for budgetary considerations. In either case, primary legislation would almost certainly be required.

Recommendation 16: The Assembly should have enhanced capability to scrutinise budgetary information

Good practice suggests that where there is an increased role for the legislature in budgeting, it needs to be supported by additional capability and resources to enable it to do so effectively.

Recommendation 17: The financial information streams should be harmonised and aligned

To make easier the linkage between Budget documents and the Estimates, they should be presented on the same accounting basis. This is an essential step to increase transparency and enable more of a relationship between allocations and performance. The example from the Republic of Ireland and the UK Treasury project provide a possible models.

Appendix 1 IMF Code of Good Practices on Fiscal Transparency

INTERNATIONAL MONETARY FUND
CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY (2007)

I. CLARITY OF ROLES AND RESPONSIBILITIES

1.1 The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

- 1.1.1 The structure and functions of government should be clear.
- 1.1.2 The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.
- 1.1.3 The responsibilities of different levels of government, and the relationships between them, should be clearly specified.
- 1.1.4 Relationships between the government and public corporations should be based on clear arrangements.
- 1.1.5 Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.

1.2 There should be a clear and open legal, regulatory, and administrative framework for fiscal management.

- 1.2.1 The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.
- 1.2.2 Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.
- 1.2.3 There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.
- 1.2.4 Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.
- 1.2.5 Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.

II. OPEN BUDGET PROCESSES

2.1 Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.

- 2.1.1 A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.
- 2.1.2 The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained.
- 2.1.3 A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.
- 2.1.4 The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.
- 2.1.5 There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy framework.

2.2 There should be clear procedures for budget execution, monitoring, and reporting.

- 2.2.1 The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.
- 2.2.2 A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.
- 2.2.3 Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.
- 2.2.4 Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.

III. PUBLIC AVAILABILITY OF INFORMATION

3.1 The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.

- 3.1.1 The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.
- 3.1.2 Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.
- 3.1.3 Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.
- 3.1.4 Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.

- 3.1.5 The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.
- 3.1.6 The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.
- 3.1.7 The government should publish a periodic report on long-term public finances.

3.2 Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.

- 3.2.1 A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.
 - 3.2.2 Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.
 - 3.2.3 The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.
 - 3.2.4 Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.
- 3.3. A commitment should be made to the timely publication of fiscal information.**
- 3.3.1 The timely publication of fiscal information should be a legal obligation of the government.
 - 3.3.2 Advance release calendars for fiscal information should be announced and adhered to.

IV. ASSURANCES OF INTEGRITY

4.1 Fiscal data should meet accepted data quality standards.

- 4.1.1 Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.
- 4.1.2 The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.
- 4.1.3 Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.

4.2 Fiscal activities should be subject to effective internal oversight and safeguards.

- 4.2.1 Ethical standards of behavior for public servants should be clear and well publicized.
- 4.2.2 Public sector employment procedures and conditions should be documented and accessible to interested parties.

- 4.2.3 Procurement regulations, meeting international standards, should be accessible and observed in practice.
- 4.2.4 Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.
- 4.2.5 Government activities and finances should be internally audited, and audit procedures should be open to review.
- 4.2.6 The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.
- 4.3 Fiscal information should be externally scrutinized.**
 - 4.3.1 Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.
 - 4.3.2 The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.
 - 4.3.4 Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.
 - 4.3.4 A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.

Appendix 2 Template for AOS in Republic of Ireland

Template for Annual Output Statement 2008

1. Summary Statement of High level Goals for the Ministerial Vote Group, with associated Aggregate Impact Indicator for each High Level Goal consistent with the Statement(s) of Strategy, and cross-referenced to the Programmes set out at 3 & 4 below under each High Level Goal.

The purpose of this Summary Statement is to highlight the need for consistency between (i) the High Level Goals set down in the Statements of Strategy and (ii) the Programmes that form the basis of this Annual Output Statement.

2. Total Budget for Ministerial Vote Group – by source of funding by year: - Short introduction. [Votes covered, sources of non-voted funding, Appropriations-in-Aid, etc.]

	2007 € million	Outturn 2007 € million	2008 € million	% Change on Outturn
Net Voted Expenditure*				
Appropriations in Aid*				
Gross Voted Expenditure*				
Non-Voted (State source)				
Total Gross Expenditure				

* As in Revised Estimates Volume

3. Breakdown of Total Gross Expenditure at 2 above by Programme

Short introduction, [The Gross Expenditure outlined at 2 above is broken down across the Programme areas listed below. In identifying Programme areas, Departments should have regard to the need for consistency with their Statement(s) of Strategy and the High Level Goals therein]

Gross Programme Expenditure	2007 € million	Outturn 2007 € million	Year 2008 € million	% Change on Outturn
Programme A				
Programme B				
Programme C				
Programme D				
Programme E				
Programme F (Etc.)				
Total Gross Programme Expenditure				
Exchequer pay and pensions included in above gross total*				
Number of associated Public Service employees and pensioners*				

* As in Revised Estimates Volume

4. Individual Programme details for each programme

State High Level Goal as per Statement(s) of Strategy

List key strategies to achieve high level goal as per Statement(s) of Strategy

Inputs				
Programme A etc. (As at 3)	2007 €m	Outturn 2007 €m	2008 €m	%Change on Outturn
Programme Expenditure - Current - Capital				
Programme Administration - Pay - Non- Pay				
Support Expenditure				
Total Gross Programme Expenditure				
Number of Staff employed on Programme (whole time equivalents) as at 31 December 2007			Number of Staff	
Outputs*				
2007	2007	2008		
Output Target	Output Achieved	Output Target		
(As per 2007 AOS)				

*Small number (1 or 2) high level outputs for each Programme.

It is not necessary to engage in excessive effort or use of resources to determine the precise contribution of support staff (technical, legal, computer etc.) to individual programmes. This can be determined by estimating the contribution of the relevant staff on an appropriate basis such as apportionment of time or in proportion to the number of the Department's overall staff accounted for directly on the programme. Alternatively, a separate programme can be created for support services.

Appendix 3

Agreement Between The Scottish Government and The Scottish Parliament Financial Scrutiny Unit

The Financial Scrutiny Unit (FSU) was established on 26 October 2009. It is a new research and analytical team which sits within SPICe and was set up with the purpose of aiding the scrutiny of the public finances in Scotland by parliamentary committees and individual Members.

The FSU has approached us with a view to agreeing arrangements under which they could obtain information from the Scottish Government to help them answer individual queries which they themselves do not have the required information to do so. The agreement attached, which is based largely on the existing agreement between the Scottish Government and SPICe, was been drafted by the new Unit and agreed by the Cabinet Secretary for Finance and Sustainable Growth.

Protocol

FSU Requests relating to information already in the public domain e.g. published budgets at Level 3 and above will, we expect, be directed to Finance Co-ordination in the first instance. Requests about more detailed information will be sent to relevant Finance Team Leaders, copied to Finance Co-ordination. Responses to such requests should also be copied to the Finance Co-ordination mailbox so that we can maintain an overview of the traffic to and from FSU.

Finance Teams should record the amount of time they spend working on any FSU requests and report to their Deputy Director on a monthly basis. A monthly review of the volume of requests and any issues arising will take place at the Finance Director's monthly management meeting.

We also intend to review activity and performance with the FSU on a quarterly basis.

Thank you for help with this. We recognise this is another task but the arrangements have been designed to spread the burden and will be kept under review.

Agreement between the Scottish Government and the Scottish Parliament Financial Scrutiny Unit

Introduction

This document builds on the current guidance which regulates contacts and information sharing between the Scottish Government and the Scottish Parliament's Information Centre "Guidance on Contacts with the Scottish Parliament Information Centre (SPICe)" It sets out an understanding between the Scottish Government and the Scottish Parliament's Financial Scrutiny Unit (FSU) and focuses particularly on the handling of requests for information from the FSU.

Role of FSU

The FSU was established on 26 October 2009. It is a new research and analytical team which sits within SPICe. The purpose of the FSU is to aid the scrutiny of the public finances in Scotland by parliamentary committees and individual Members. It was created by the Scottish Parliamentary Corporate Body (SPCB) with cross-party parliamentary support from the Finance Committee and the Conveners' Group. Writing to the Finance Committee (1 October 2009), the Cabinet Secretary for Finance and Sustainable Growth said that the Scottish Government would

be happy to discuss "arrangements and procedures to enable the proposed Financial Scrutiny Unit to have appropriate access to information held by the Scottish Government."

The work of the Unit may include producing:

- Analysis of costings of Government policy and legislation
- Estimates of costings and impacts of alternative spending proposals
- Detailed analysis of the Scottish Government's budget documents
- Work in conjunction with Scottish Parliament committees' budget advisers to provide further analysis of budget portfolios
- Monitoring and tracking different aspects of Government expenditure
- Resources, such as budget spreadsheets, to allow further analysis to be carried out directly
- Short briefings on specific topics of particular interest to committees and the wider parliament.

The FSU provides a quick and straightforward means of providing MSPs with much information related to public finance. The more relevant information that SPICe holds or has access to, the better the service that it will be able to provide to MSPs who may, in turn, be less likely to approach the Scottish Government directly for information – either by lodging a Parliamentary Question or by other means.

The FSU will only be able to provide Parliamentarians with these services if it has reasonable and timely access to financial and budget data held by the Scottish Government and related bodies. The co-operation of the Scottish Government, therefore, is essential to enabling effective scrutiny of government expenditure.

As noted in the earlier protocol, the Scottish Government is a key source of information for SPICe staff as a whole. For its part, SPICe can play an important role in channelling Government information to MSPs quickly. The main message that this agreement seeks to convey is that it is important for all concerned that staff of the Scottish Government and the FSU should work together effectively, and that they should be aware of the different contexts in which they operate and also the legislation under which they operate.

Freedom of Information (Scotland) Act 2002

While the Freedom of Information (Scotland) Act 2002 (FOISA) establishes a legal right of access by anyone to all recorded information, subject to certain conditions and exemptions, requests for information received from SPICe / FSU, whether received by telephone or in writing, will be not normally be treated as FOI requests. However, they should be handled as quickly and informally as possible, whilst working within the spirit of FOISA. This is because of the nature of the working relationship between SPICe and Scottish Government officials, and because SPICe and FSU staff may be acting as intermediaries and making the requests on behalf of others. If, on rare occasions, SPICe or FSU staff wish to have an information request treated within the full FOISA regime then this will be specifically noted in the written request. SPICe / FSU will also state the reasons for wishing to use this route.

FSU Requests for Information

The following paragraphs set out the requirements on FSU staff and Scottish Government officials when information requests are made.

SPICe / FSU staff seeking financial or budget information will:

- consider other possible sources and the demands on Scottish Government officials' time before deciding to approach them for assistance;
- approach officials at Branch Head (generally C1) or above. SPICe / FSU staff have access to the Scottish Government Business Directory. They will use this to try to identify the relevant Branch Head. Where the relevant person is not readily available, or where grade or position is not clear from the Business Directory, they will contact the Deputy Director or other person in the branch or directorate instead;
- all requests and replies to be copied to Scottish Government Finance Co-ordination mailbox;
- respect the constraints placed upon civil servants by virtue of their relationship with Ministers and also, if applicable, by the FOISA
- respect the anonymity of officials providing the information. They will not pass the names of officials to MSPs or their staff nor will they give their client's name to officials. If the request is submitted in writing and specifically requested to be considered under the FOISA, they will need to provide a name and address for correspondence; but it will be their own even if they are requesting the information on behalf of an MSP.

Scottish Government officials who are approached should:

- ensure that any queries are handled by the Branch Head (or above) best placed to deal with them. If the relevant official is in any doubt about the propriety of offering particular information, he/she should consult his/her Senior Lead Officer (SLO) for FOI for advice;
- respond positively and timeously wherever possible, in keeping with the spirit of FOISA. If dealing with the request under the FOISA the response should be given promptly but in any case being mindful of the 20 working day timescale following receipt of the request. They should be conscious that SPICe / FSU staff are frequently operating to tight deadlines;
- set out, as clearly as possible, the factual information required. Officials must not be drawn into debate on the merits of policy options and must give due consideration to the terms of FOISA if responding in accordance with either of these pieces of legislation; and
- respect the confidentiality under which SPICe / FSU operates. Where they are pursuing queries on behalf of an MSP, SPICe / FSU staff will not be at liberty to reveal the name of the MSP, nor of anyone else, initiating the query. Civil servants should not press them to do so or refuse to assist them for this reason.

Review of Agreement

This agreement should be kept under regular review by both the Scottish Government and the Financial Scrutiny Unit.

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Research and Library Services



Research Paper 628/09 January 2010

Methods of Budgeting

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A paper that presents different approaches to budgeting in the public sector along with case studies of their application by various organisations internationally.

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Key Issues

- As a budget is a forward plan expressed in money terms, it is unlikely that any refinements to the budgeting process will ever enable budgets to be perfect. By nature they contain a level of assumption about uncertain conditions.
- Budgeting in the public sector can be viewed as more problematic than in the private sector. There is no profit or loss bottom line by which the performance of organisations can be measured. Further, measurement of the outcomes of public-spending programmes can be problematic. This makes the alignment of the budget process with intended outcomes a complex task.
- Public sector organisations such as government departments are large and complex. They design interventions across a wide range of policy areas and have to balance competing pressures.
- The current process of incremental budgeting for departments in Northern Ireland has a number of drawbacks. Some of these problems could probably be lessened by moving to alternative approaches to budgeting. But any alternative approach will also have its own drawbacks. And some of the approaches outlined in this paper can be very resource-intensive.
- It is often difficult from the budget documents presented to see how departmental spending is aligned with the priorities of the Programme for Government. For example, the tables presented following the quarterly monitoring rounds indicate departments' reduced requirements. They also show proposed reallocations. But there is no explicit link between the reallocation of money and departmental objectives or performance.
- Alternative approaches to budgeting outlined in this paper attempt in various ways to make more explicit the link between budgets and performance and outcomes.

Contents

Introduction

1. Budgeting Basics

2. Incremental Budgeting

3. Zero-Based Budgeting

4. Alternative Budgeting Techniques

4.1 Priority-based budgeting

4.2 Decision conferencing

4.3 Planning programming budgeting

4.4 Performance-based budgeting

4.5 Participatory budgeting

4.6 Resource-restricted budgeting

5. Budgeting in Uncertain Contions

6. Adjusting the Budget

7. Concluding Remarks

Introduction

In June 2007 consultants PKF published a review of the forecasting and monitoring of financial information in the Northern Ireland Civil Service on behalf of the Department of Finance and Personnel (DFP). The report highlighted examples of good financial management practice in departments but also made a number of recommendations for improvement.

Recommendation 4 of the report was that in the medium term:

the planning and budgeting process should move away from the existing incremental approach.[emphasis added] This would first involve the development of a more transparent link between inputs and outputs, and would require, and indeed facilitate, greater challenge by Board members based on historic performance, thus enabling the setting of budgets that are better linked to performance targets. Performance would be subsequently monitored on a monthly basis through an effective monitoring and forecasting regime. This would ensure that Departmental budgets are more realistic and more closely managed, which in turn would facilitate, as a minimum, a significant reduction in the extent of the existing over commitment process which currently leads to budgets that are inherently overinflated and creates a climate within which there is increased pressure to seek to claw-back funding in-year.[1]

In the Republic of Ireland, a report by a Special Group on Public Service Numbers and Expenditure Programmes was released in July 2009. Similar to the PKF report on NICS departments, the McCarthy report recommended a more explicit link between spending by public bodies and outcomes. It particular it recommended that:

Every proposed new spending programme should be accompanied by a Public Service Performance Charter, which sets out clearly the business case for the programme, the resources that will be required and output/impact indicators that can be used to measure success or failure of the programme.

Further, these proposed Public Service Performance Charters are to be linked into other existing publications:

The annual Estimates of Expenditure should be produced on a programme-by-programme basis, fully consistent with the Annual Output Statements and our proposed Public Service Performance Charters with full allocation of administrative and staffing costs.[2]

DFP officials indicated in evidence given to the Committee for Finance and Personnel on 15 October 2008 an aspiration to move towards linking performance management with what is known as zero-based budgeting:

Dr Farry: I turn to the issue of the PKF report. What is the status as regards the implementation of the report's recommendations? Bearing in mind the wider discussions on budget processes, could consideration be given to starting from the current baseline and making adjustments up or down, setting goals and working out what resources to allocate against them, rather than starting the budget processes every three years?

Mr Pengelly: The PKF report contained a series of recommendations. The Department appointed an individual from its financial management directorate — which is the other side of the house from us — to work specifically on that matter. Much good work has been done and continues to be done. A short-term issue has arisen in that that individual has been promoted and moved to another Department — fortunate for him, but not for us. His promotion is perhaps an indication of his success in dealing with those recommendations. Therefore, some progress has been made, but more remains to be done. It is one of our key objectives, and we continue to focus on it.

Essentially, your question is whether we should carry out zero-based budgeting. Ideally, yes, we should. The scale of the task for public services is huge. Equally, incremental budgeting takes one into some very bad places. The combination of the enhanced performance-management framework and system, and better information about delivering on targets, will go a long way towards bridging the gap.

Separately, the central finance group wants to start a programme of rolling-baseline reviews. It would be a task beyond us to carry out a zero-based review of everything as part of every Budget cycle. Over a period of three or five years, I would like to subject 100 of each Department to that sort of zero-based analysis — that could mean doing 20 a year in a five-year cycle or 33 in a three-year cycle. That would fall very much to Jack's side of the house as part of the normal supply dialogue. We want to build an information base to do that.^[3]

DFP's Central Finance Group's Balanced Scorecard for 2009-10 includes targets in relation to baseline reviews. Objective 1 in its Business Results Quadrant ('To secure, plan, manage and monitor public expenditure, including EU Programme expenditure, in line with the priorities set by the Executive') was underpinned by the following target:

No less than 15 per cent of departmental baselines to be reviewed (as first step towards full coverage over 5-year period)

The associated action was to undertake a rolling programme of baseline reviews. It should be noted, however, that the Department has confirmed^[4] that the process of baseline reviews does not indicate a move towards zero-based budgeting. The baseline reviews are intended to give DFP a better understanding of departments' positions to enhance Central Finance Group's challenge function.

The purpose of this paper is to describe in this context the theoretical approaches to budgeting that may be applied in the public sector. Analysis of the advantages and disadvantages of different approaches is also presented alongside some case studies. Some considerations for the efficiency agenda are also presented.

1. Budgeting Basics

1.1 Definition of a budget

A budget can be defined as a quantitative economic plan in respect of a period of time.^[5]

1.2 Functions of a budget^[6]

Budgets can fulfil one or more of the following functions:

1. mapping. A budget can be used to detail the road to be travelled in fulfilment of an organisational objective. It details all the steps to be taken, and therefore can act as a check on the overall viability of the organisation's objectives.
2. controlling. The budget can ensure the achievement of objectives by placing a planning control framework over the steps to be taken.
3. co-ordinating. By spelling out the linkages between parts of the organisation's plan, the budget can help to co-ordinate activities.
4. communicating. The budget is a means for management to explicitly inform staff and the wider public what the organisation will be doing.
5. instructing. A budget is often just as much a form of executive order as an organisational plan since it lays out the requirements of the organisation – it may therefore be regarded as a managerial instruction.
6. authorising. As well as an instruction, the budget is an authorisation to take action within the specified limits. In that respect, the budget performs a delegating function.
7. motivating. Budgets can act as a motivational tool to encourage managers to perform within targeted limits.
8. performance measurement. A budget may provide a benchmark against which actual performance can be measured.
9. decision-making. A well-designed budget can be a useful tool in evaluating the consequences of proposed changes in actions, since it should be possible to track the effect of any change throughout the organisation.

Different budgeting methodologies allow the budget to perform these roles in different ways and to differing extents. For example, the planning programming approach (see section 4.3) can be clearly seen as underpinning the decision-making function. Conversely, one of the criticisms of the incremental approach is that it does not allow for full consideration of proposed changes in action as it is a more backward-looking method; it could be argued that incremental budgeting does not support decision making very well.

1.3 Economic theory and budgeting

Economists have developed various tools and concepts for considering the allocation of resources in the public sector. These include analysis of when and how the public sector should intervene in failing markets; measuring marginal utility and cost effectiveness; allocative efficiency and cost-benefit analysis.^[7]

Ultimately, however, all the economic techniques have their problems. For example, how to measure the benefits of decreased mortality as a result of a public health programme. One way of approaching this might be to try to value a lost human life in terms of potential income that is forgone.

One difficulty of using such an opportunity-cost approach is that it would value the life of a healthy male in his mid-thirties over that of a healthy female in her mid-thirties because the income not earned by the male if he dies is likely to be higher than that of the female – simply because male earnings tend to be higher as a result (at least in part) of gender-income inequality. What if the male had a severe disability? His potential earnings are then much reduced.

In public policy terms, is an intervention aimed at reducing a disabled males' mortality 'worth' less than a healthy female because his earning potential is lower?

This is just one instance of the difficulties of applying economic theory to budgeting. In 2001, Fozzard concluded:

After a search of sixty years for a comprehensive theory of budgeting that would resolve the basic budgeting problem, it is somewhat disappointing to arrive at a conclusion that no such theory exists and it is unlikely that such a theory can ever be formulated [...] nevertheless, considerable progress has been made in the development of analytical techniques that support the appraisal of public expenditure decisions. Individually these techniques do not provide a satisfactory basis for resource allocation decisions, though they are more powerful when combined so that spending decisions are subject to an analysis of the underlying rationale for public intervention, the relative costs and benefits of alternative interventions and the distributional impact of spending.^[8]

If, then, economic theory is imperfect in resolving the budgeting problem, what remains is to look at different approaches that have been used in the public sector and consider the advantages and disadvantages of different models.

2. Incremental Budgeting

2.1 What is incremental budgeting?

Public sector budgets in Northern Ireland and elsewhere in the UK typically rely on the incremental approach (although the Comprehensive Spending Review 2007 process did involve a series of departmental baseline reviews). The previous year's budget for a department or division is carried forward for the next annual budget. It is adjusted for known factors such as new legislative requirements, additional resources, service developments, anticipated price and wage inflation and so on.

It is known as incremental budgeting because the process is mainly concerned with the incremental (or marginal) adjustments to the current budgeted allowance. In that respect it is rather similar to the NI block funding: any changes are up or down from the existing funding for particular activities.

According to the Chartered Institute for Public Finance and Accounting (CIPFA), a key characteristic of the approach is that budget preparation is a process of negotiation and compromise. "Incremental budgeting is therefore based on a fundamentally different view of decision making than more rational approaches."^[9]

This is because negotiated settlements between interested parties require a willingness to compromise. If consensus breaks down, compromise cannot be reached and the incremental process becomes invalid. According to CIPFA, use of this model, therefore, requires a relatively stable form of representative government.

The process itself is straightforward. The key stages are:

- establishing the base: decide what is committed expenditure and then make adjustments to reflect unavoidable changes, for example:
 - i. full-year effects of staff appointments;
 - ii. full-year effects of the capital programme;
 - iii. salary increments;
 - iv. non-recurring items which should be removed;
 - v. external factors e.g. changes in legislation or government funding regimes;
 - vi. changes in price levels for labour, goods and services;
- adding to the implications of the development budget to reflect proposed savings and growth;
- aggregating and producing the new budget.

2.2 Advantages of incremental budgeting

- easily understood (as it is retrospective), makes marginal changes and secures agreement through negotiation;
- administratively straightforward (and therefore cheap);
- allows policy makers to concentrate on the key areas of change. Ministers, elected representatives and senior officials are not required to study long and detailed budgetary documents;
- particularly useful where outputs are difficult to define/quantify; and,
- stable and, therefore, changes are gradual.

2.3 Disadvantages of incremental budgeting

- backward looking – focus more on previous budget than future operational requirements and objectives;
- does not allow for overall performance overview;
- does not help managers identify budgetary 'slack';
- often underpinned by data or service provision which is no longer relevant or is inconsistent with new priorities;
- encourages systemic inertia and 'empire building';
- tends to be reactive rather than proactive; and,
- assumes existing budget lines are relevant and satisfactory.

2.4 Further considerations

Certain characteristics of public service organisations mean that the incremental budgeting system fits quite well into the overall public finance system. Departments and their agencies are often large and complex and fulfil a range of functions in different policy areas. Decisions can, however, sometimes be made very quickly. It can be easier to accept the distribution of most expenditure as given and to concentrate on deviations from the existing pattern. This approach, therefore, reduces the need for Ministers and senior officials to frequently spend large amounts of time dealing with reviews of budgets.

CIPFA argues that business area managers "find it easier to communicate a few changes to politicians within the annual decision making process. Slow adjustments to budgets are often easier to implement than sudden shifts in priorities."^[10] From a business-management perspective it's generally better to introduce change gradually; it can therefore be argued that the incremental approach is rational for public services as the effects of changes can be monitored and alterations made as the need becomes apparent.

The biggest difficulty is that it can be problematic for managers and Ministers to get an overall picture of performance. Also, the potential for inertia is a source of possible concern; the inefficient and ineffective use of resources can be perpetuated and creative thinking could be stifled.

3. Zero-Based Budgeting

3.1 What is zero-based budgeting?

Zero-based budgeting – unlike the incremental approach – starts from the basis that no budget lines should be carried forward from one period to the next simply because they occurred previously. Instead, everything that is included in the budget must be considered and justified.

According to CIPFA, zero-based budgeting in its purest form "involves the preparation of operating budgets on the assumption that the organisation is starting out afresh in the new planning period – it as is the life of the organisation exists as a series of fixed-term contracts."^[11]

The approach relies upon the involvement of all executive managers. It requires the organisation's objectives to be clearly stated – as with any budget process – but also considers and assesses different ways of delivering those objectives before the budget is allocated. It is, therefore, less 'how should we deliver this service with the money available' and more 'here's what we have to achieve, different options for achieving it and the budget required for each of those options'.

The process requires specification of minimum levels of service provision, the current level, and an 'incremental' level – either between the minimum and the current or an improvement over the current level. Options for delivering at each level can then be evaluated and a justification put forward along with the request for resources.

Essentially, this is a process of providing business justification for each activity undertaken by an organisation. According to CIPFA, "the analysis should also extend to considering the benefits of the activity, alternative courses of action, how to measure performance, and the consequences of not performing the activity."^[12] Activities are then ranked in order of priority and this is where resources are focused.

3.2 Advantages of zero-based budgeting

- allows questioning of the inherited position and challenge to the status quo;
- focuses the budget closely on objectives and outcomes;
- actively involves operational managers rather than handing them down a budget from above;
- can be adaptive to changes in circumstances and priorities; and,
- can lead to better resource allocation.

3.3 Disadvantages of zero-based budgeting

- more time consuming than incremental budgeting (i.e. it may become overly bureaucratic and produce excessive paperwork);
- need for specialised skills/training;
- difficulties can arise in the identification of suitable performance measures and decision/prioritisation criteria (if there is insufficient information in some areas ranking them could also be problematic);
- the specification of a minimum level of service provision (if below the current level) may demotivate managers;
- questioning of the inherited position can be seen as threatening to organisations and their people (so careful management of the people element is essential); and,
- may be difficult to cost and estimate resource requirements for options different from the current practice (giving rise to greater uncertainty).

3.4 Further considerations

According to CIPFA, the key benefit of a zero-based approach is that it focuses attention on "the actual resources that are required in order to produce an output or outcome, rather than the percentage increase or decrease compared to the previous year."^[13] Clearly the time/resource-consuming nature of the approach is a major consideration for DFP.

CIPFA argues that the technique is usually used most effectively when applied to activities that are wholly or mainly discretionary in nature – and therefore can be ceased. In many areas of public-sector activity this will not be the case because of legislative and regulatory obligations. But CIPFA also cautions that "it is very easy to fall into the trap of assuming that something is non-discretionary for no other reason than the activity has been carrying on at a similar level for a number of years."^[14]

So, there is a need to identify first what the discretionary areas are. Then there is a need to define in measureable terms the outputs and outcomes that are required. There are parallels here with the debate over the efficiency-savings agenda. The public sector traditionally has difficulty in focussing on outcomes rather than inputs (see, for example, Arthur Midwinter's written submission to the Committee for Finance and Personnel in relation to Efficiency Delivery Plans).

CIPFA recommends a phased introduction to a zero-based approach. Initially focus should be on the less complex areas – this is to allow for budget practitioners skills and experience to be built up. Secondly, the approach should be contained to activities that are truly discretionary. Thirdly,

it is suggested that the approach should be adapted so that it "becomes a consideration of the impact on service delivery of step changes up or down in resource provision."^[15]

Given the current focus on efficiency savings and the difficulties associated with establishing service-delivery baselines against which to measure the impact of proposed savings, it seems that more wide-spread use of zero-based budgeting techniques could be helpful. There seems to be considerable cross-over between the requirements of the budgeting approach and the requirements for proper efficiency delivery plans.

For example, part of the zero-based budgeting process requires the identification of activities with clearly measurable inputs and outputs which should then be ranked in terms of priority. This is similar to the need to prioritise activities to establish where efficiency savings could be made in the lower-priority programmes.

3.5 Zero-based budgeting in action: case studies

In 2007, the Swedish Institute for European Policy Studies (SIEPS) advocated the use of a zero-based approach for reviewing and setting the EU budget:

After some experiments in various countries [zero-based budgeting] soon disappeared from the budgetary tool-box, but the same reasons that made it unwieldy in the yearly budgetary process should make it much more attractive for the longer budgetary cycle of the European Union.^[16]

In 2005, the Treasury announced the Comprehensive Spending Review 2007 would use a zero-based approach.^[17] But as hinted at in the SIEPS comment above, the methodology has been around much longer than that.

Case study: zero-based budgeting in the United States in the 1970s

In 1979, the US Comptroller General reported to Congress under the title Streamlining Zero-base Budgeting Will Benefit Decisionmaking.^[18]

Zero-based budgeting (ZBB) was used in the late 1970s in putting together the President's budget documents before submission to Congress. The report examined the experiences of Federal agencies, State and County governments and private industry.

The report found that:

Despite popular expectations, some organisations, including the Federal agencies contacted, had an overall sense of disappointment with zero-base budgeting... ZBB has created little change in the Federal budget process and generated limited optimism for the system in the agencies we studied.^[19]

It was argued that the administration was anxious to get ZBB implemented. There was, as a result, no attempt to tailor ZBB concepts to agencies' needs or implementing the methodology in a way that would integrate it with all budget processes: A "strict process" approach to ZBB was used for the executive portion of the Federal budget process, but all other parts (at the lower levels) remained unchanged.

Problems encountered in implementing "strict process" ZBB included inadequate planning, which in turn led to:

1. excessive use of resources, such as staff, paper and automatic data processing systems;
2. useless data and duplication of effort due to unresponsive information systems; and
3. frustrations created when, despite ZBB, management did not cut expenditures, follow proposed priority rankings or adjust programmes.[\[20\]](#)

But the study also found that, outside the Federal arena, some organisations did manage to incorporate ZBB concepts into their budget systems:

They did not make the mistake of considering ZBB little more than a process. They looked at themselves and they looked at the concepts, and only then did they devise a process – a process to suit their special needs. This spelled success. It can be successful in the Federal Government too.[\[21\]](#)

The successful organisations did not attempt to apply all the ZBB concepts during the budget cycle. Rather they were introduced in phases: planning, budgeting and reassessment. The analysis of alternative approaches should become part of the planning phase. Decisions made in the planning phase should feed into the budgeting phase – which should incorporate the alternative funding levels and the determination of programmes priorities. Comprehensive information should only be created for those programmes that are scheduled for in-depth review. For others, only minimal information should be produced. The reassessment phase should include the programme effectiveness reviews that feed information into the next planning and budgeting phases.

The report observed that Federal agencies were "not handling the process in phases and are having problems. For example, they are not able to identify realistic, alternative ways of carrying out the programs and activities, and evaluations are not being effectively fed into the process."[\[22\]](#)

Despite difficulties at the Federal level, a number of US authorities persisted with zero-based budgeting. ZBB was used in Texas from 1973-1991 when it was replaced by a performance-based budgeting system.[\[23\]](#)

Further, there appears to have been a resurgence in confidence relating to zero-based approaches in recent years. The City of London Police policing plan for 2009-12 describes zero-based budgeting as one of four interlinked key strategic processes – the other three being control strategy, risk assessment and business planning.[\[24\]](#)

Further afield, on 31 March 2009 the Latvian Cabinet of Ministers agreed to institute a zero-based approach to develop amendments to its 2009 state budget.[\[25\]](#) The aim was to reduce the Latvian budget deficit to 3% of GDP – one of the Maastricht criteria for membership of the Euro. The decision was taken against a background of falling GDP and average earnings, a decline in the balance of payments and reducing tax revenues.

Case study: the Idaho Department of Water Resources

The Idaho Department of Water Resources is responsible for managing water resources in the state, including the development of hydro-electric power, management of river basins and regulating the use of water.

It began a zero-based budget review in summer 2008. This included review of the statutory basis of each programme and analysis of the impact that an increase or decrease of twenty percent in funding would have.

Following this initial assessment, additional ZBB analysis was carried out, focussing more on individual business processes and cost centres. Managers were directed to critically evaluate each of their business processes using evaluation questions and guidelines developed by the Department's Division of Financial Management.

The aim was to enable managers to evaluate the individual cost centres and identify potential areas of improvement, through streamlining or modifying the approaches taken. Some cost centres put forward for modification while others were put forward to be eliminated. Where streamlining measures or alternative approaches were identified within the Department's authorities, cost-saving measures were implemented and resource savings reallocated to priority work.

Coupled with this assessment was the development of spreadsheets showing the amount of personnel time devoted to each business process. This is intended to allow managers to monitor and then manage the resources necessary to deliver the organisations objectives.

According to the Department's website:

Zero-based budgeting has proven to be a valuable management tool for assessing program requirements systematically, to help managers identify work efforts to achieve desired results.[emphasis added] The Department's Senior Management Council (SMC) will continue to review progress and implement necessary course corrections on a periodic basis to ensure that we continue to meet requirements in a logical fashion with overall best use of available staff resources. Savings have been applied to priority programs within the Department and this approach should result in gradual elimination of the considerable backlogs in several of our programs. With respect to backlog reduction, we anticipate it will take several years of continued high intensity performance to draw-down current backlogs to an acceptable level.^[26]

So, the zero-based approach is not seen simply as a means of better budgeting alone, it is viewed as a means to driving better achievement of business objectives. It appears to have enabled the Department to reprioritise and reallocate funding to non-discretionary duties.

But, importantly, the measurement of performance, and accountability for that performance, can be viewed as crucial to the zero-based budgeting approach. The right information has to be presented to decision makers and this doesn't seem to necessarily follow if ZBB is implemented as a stand-alone initiative.

Case study: Oklahoma

In 2003 the State of Oklahoma passed a zero-based budgeting law. In an attempt to control government spending, ZBB was mandated for the whole budget and every agency covered by its requirements.

In that first year, budget appropriation hearings listened to the Oklahoma Department of Human Services (DHS) describe increases in child support collections. However:

What zero-based budgeting didn't require DHS to report was that if Oklahoma's efficiency at collecting on these deadbeats would have merely matched the 50-state average, DHS would have collected 44 percent more for Oklahoma children. Instead of the \$143 million in deadbeat

dad collections in 2003, DHS would have secured \$206 million, or an additional \$63 million for Oklahoma children.^[27]

Oklahoma's legislature then required each agency to design performance measures. However, some performance measures "were at best measures of inputs and outputs and at worst a mockery of the concept." The Energy Resources Board, for example, submitted a measure that required it to "increase the number of positive media stories".

It has been argued that the failure of the state authorities to penalize the failure of agencies to meet their own performance measures further undermined accountability. Also in the first three years since the inception of ZBB, Oklahoma state budget appropriations rose by nearly 20%.

So the lesson from this example appears to underpin the assertion by CIPFA that full business justification is need for each area – not simply in terms of alternative levels of service, but also in respect of benchmarking performance with comparable agencies.

4. Alternative Budgeting Techniques

What follows is a brief summary of alternative budgeting techniques that may also be of some use or interest in the public services.

4.1 Priority-based budgeting

Priority-based budgeting is a modification of the zero-based approach. It focuses on corporate priorities and allocates growth and savings in budgets accordingly. It is based on a thorough on-going review of departmental services. According to CIPFA, the review requires a statement of:

1. the objectives/purpose of the service;
2. targets/standards the service is trying to achieve, and;
3. various thresholds at which the service could operate.

Base on analysis of these statements, elements of spending by each business unit could be classed as essential/highly desirable/beneficial and this information would be presented to decision makers.

4.2 Decision conferencing

This approach is computer-software aided. It allows participants in decision-making conferences to identify key service areas and the resources committed. Costs and benefits of levels of activity are given scores and plotted on a graph – these can be varied to allow the implications for service delivery to be evaluated. While it can be an effective tool, CIPFA suggests that the focus is largely at service level and is more difficult to apply across services. Also, it is time consuming and expertise with the associated software is required across organisations.

4.3 Planning Programming budgeting system

This system is primarily associated with corporate management and identifies alternative policies, the implications of their adoption and provides for their control. The key difference from traditional approaches is that it relates cost estimates to programmes using a cross-cutting method rather than attributing costs on a traditional departmental basis.

This approach was first used by the US federal government half a century ago. In the UK the Ministry of Defence and a number of English local authorities also experimented with the system. However, according to CIPFA, from 1970s it became apparent that the model was flawed with the following criticisms:

- it is costly and time consuming;
- it is difficult to identify and quantify objectives in the public sector;
- it can depoliticise the budget process by taking decisions away from elected representatives; and,
- outcomes from activities can be difficult to measure (for example the populations increased wellbeing from reducing crime) as they may be intangible;

Also, there are difficulties with developing budgeting systems on a programme basis because departments contribute to more than one programme at a time:

For instance, a police authority could have objectives such as accident prevention and crime prevention. The provision of a police patrol car in an area could contribute towards both of these programmes, but how should the costs be split between two objectives? The problem is that two budgeting systems would be required:

1. departmental – for expenditure control in relation to departmental responsibilities e.g. controlling the cost of the police car fleet, and;

2. programme – the budget for crime prevention.[\[28\]](#)

4.4 Performance-based budgeting

The main aim of this approach is to connect performance information with the allocation and management of resources. Performance-based budgets need to contain information on the following elements:

- inputs (measured in monetary terms);
- outputs (units of output);
- efficiency/productivity data (cost per activity);
- effectiveness information (level of goal achievement).

Similar to zero-based budgeting, the performance-based approach should begin at a policy level with the organisation developing goals and explicit policy objectives. Managers then must develop relevant performance measures which will track the achievement of these objectives.

These performance objectives are then integrated with budget preparation to allow for the alignment of spending plans with performance reporting at the time the budget process is initiated. At the end of each budget period performance-based audits can be completed, which measure the results of programmes using the same performance measures produced in the budgeting process. In this way, the approach seeks to avoid the problems associated with trying to establish baselines after the event which gives rise to difficulties in the measurement of delivery of efficiency savings, for example.

A fundamental question arises though. To what extent is performance information available? Secondly, is that performance information used at each stage of the budget decision-making

process (i.e. preparation, approval, execution and audit evaluation)? Research in the United States where the approach was pioneered found that many states reported performance measures alongside their budget, but this is not the same thing as using the information in decision making.^[29]

The UK Government put in place a system of public service agreements in 1998 (and this has been replicated in Northern Ireland) which also sought to align objectives with spending. At local government level, a duty of best value was placed on authorities to secure continuous improvement in the economy, efficiency, and effectiveness of services. This has forced authorities to give prominence to performance information by publishing best value performance plans. Again, however, according to CIPFA, the evidence suggests that authorities published these documents alongside separate budget documents – which does not suggest that the processes of budgeting and performance management are fully integrated. CIPFA acknowledges that there has been insufficient research in this area to draw full conclusions.

CIPFA identifies the following issues as possibly contributing to the slow development of performance-based budgeting:

1. public entities need to be clear about what they are trying to achieve. Therefore, there needs to be clear strategic direction in the organisation (which may not always be the case);
2. translating strategic goals and objectives into performance measures can be very difficult. In many public services, outcomes are difficult to measure and there is a tendency to fall back upon less appropriate output and input measures;
3. systems for collecting cost and performance information may need to be developed. Costing out services can be difficult and in particular decisions on how to deal with overheads are problematic;
4. problems may exist in respect of presenting this information to those making decisions on budgets. Information may need to be presented in appropriate formats to a variety of users. If information on performance is separated from accounting operations then this will hinder the ability for it to penetrate decision-making processes associated with the operations;
5. there may be procedural problems caused by failure to change existing budgeting rules and processes. Organisations continue to publish budget and performance in separate documents;
6. a lack of political acceptance of reform may prevail. Performance information represents a threat to the 'political' aspect of budgetary decision making since its explicit measurements tend to limit the discretion politicians can exercise. It has to be said, however, that in a complex environment of competing interests it is difficult to see how any rational, planning-based system can be expected to totally replace political decision making, and;
7. management may not accept a performance budgeting process. There are often problems in defining who is accountable for performance and managers may fear that they will be reprimanded for failure to achieve published performance targets, and thus may try to avoid being accountable.^[30]

Once again, many of these issues have been aired previously, in this paper and elsewhere, and seem to present fundamental difficulties with public sector budgeting. Others, in relation particularly to the reduction of political control over budgeting, are different considerations from those identified with other budgeting approaches.

The case study presented below addresses, amongst other things, CIPFA's observation at point 4 in the above list about the need for the appropriateness of information that is presented.

Case study: performance-based budgeting in Arizona

Arizona [...] uses a budgeting system that combines strategic planning, performance measurement, and program evaluation. The system, called Program Authorization Reviews (PAR), requires all agencies to submit a one-page overview of its performance measurements for the upcoming fiscal year along with its regular detailed budget request. The recent FY 1998-1999 budget also required an extensive PAR budget submittal from 14 select agencies that included complete performance information and data on 30 programs and subprograms.

More specifically, PAR required these 14 agencies to answer four main questions in their budget submittals. One question addressed how programs and their objectives related to their agency mission statements. Another question asked was how efficient and effective programs were in carrying out their activities and in attaining their objectives. The two remaining questions inquired as to how well programs measured up in comparing expected to actual results and, additionally, as to the use of cost-effective alternatives.

Arizona's PBB approach has been applauded for not "overloading" its budget document with superfluous performance information and data. Providing decision-makers with a manageable, yet thorough, set of performance data for making good spending choices is a time-consuming and hard won endeavor. Arizona appears to have proven that this can be done.^[31]

A further case study illustrates how the problem of aligning performance and budgets may be addressed. The approach used in Oregon also integrates a considerable element of participatory budgeting, which is discussed further in section 4.5.

Case study: performance-based budgeting and strategic planning in Oregon.

Oregon is recognized, arguably, as the most sophisticated or highly evolved state in terms of model strategic planning and PBB initiatives. Called "Oregon Benchmarks" – and alternately "Oregon Shines" – the model system was introduced in 1989 when over a hundred citizens and policy-makers came together to develop a multi-year strategic plan for the state. The state legislature also created that year the Oregon Progress Board to maintain, revise and oversee the implementation of the state's comprehensive strategic plan "well into the twenty-first century."

In 1991, with plentiful input from all levels of government and the people of Oregon, the Progress Board adopted 158 indices or "benchmarks" that they considered of the greatest priority to the progress of the state. These measures were oriented to performance and not effort. The Progress Board was interested, for example, not in measuring or monitoring school expenditures to assess school performance, but rather, in measuring student achievement as predicated on standardized testing.

In 1994, the Progress Board implemented a program to facilitate performance by restructuring many of the state's intergovernmental and programmatic relationships. For instance, it managed to relax federal guidelines and restrictions to implement more efficiently and effectively programs dealing with child services, disabled employees, wildlife preservation, juvenile justice, and welfare recipients. As of 1997, 32 agencies were participating in the Progress Board's "restructuring" program.

In 1997, Oregon's legislature mandated that the Progress Board's strategic planning/PBB process be a permanent fixture of the state's government. The law required that the Progress Board report to the state legislature as to the general status of efforts in strategic planning and PBB among Oregon's agencies. A detailed and "complete update" of Oregon Benchmarks is to be completed and reported to the legislature every six years.

Today, agencies in Oregon's state government are required to develop "results-oriented" performance measures that are tied directly to both agency strategic plans and budgets. Input is encouraged not only from internal agency personnel but also from other state agencies, elected officials, service delivery clients, interest groups, and the public at-large. Participants and observers alike believe that this input is invaluable to the planning and budgeting process and ultimately reflects the values and priorities of all Oregonians.[\[32\]](#)

4.5 Participatory budgeting

This approach is used primarily by local government in Great Britain and elsewhere (it originated in Brazil in the mid-1980s) and attempts to give local groups ownership of the budgetary process. Local communities have a say in prioritising services or projects through activity such as community-led debate, neighbourhood votes and public meetings.

Participatory budgeting is based on the following principles:

- citizens' groups have as much power as possible in the decision-making process.
- representation must be fair and equitable.
- appropriate training is given to participatory groups. This may require a dedicated council team.
- there is some commonality/theme in the type of budget/grant being allocated e.g.
- regeneration;
- neighbourhood development;
- project based;

so that decision making can be made by reference to some benchmark or standard.

- the process is linked directly to the council's budget-making process.
- it is generally targeted at 'hard to reach' groups not otherwise involved in decision-making processes – thus making the biggest gains.[\[33\]](#)

It can be seen clearly from these principles why this approach to budget setting is more common at the local tier of government. In Northern Ireland, where many functions that are delivered by local government in Great Britain are delivered by central government departments (and will continue to be even after local government reorganisation in 2011), there may be scope for departments to use a more participatory approach in certain areas. For it to be possible, selected projects and programmes would have to be localised in nature: trying to organise true community participation in budgeting at the regional level would appear to be problematic (see case study below for an example of using technology to facilitate participatory budgeting).

Potential advantages of the approach include:

- improved decision-making;

- better understanding of budgeting processes;
- people will take ownership of actions where they have been involved in the decision-making process;
- projects more likely to be delivered;
- democratic, and transparently so;
- commitment to further development of PB;
- less cynicism or apathy towards the local authority;
- reducing the 'democratic deficit';
- reaching parts of the community otherwise excluded from decision-making.[\[34\]](#)

Possible disadvantages are:

- the council may be seen as abrogating its responsibilities;
- participation may be low;
- decisions may be biased towards those groups who can articulate their need over true need;
- it is limited generally to grant-type budgets rather than core activity;
- budget allocations may be one-off and give rise to problems of continuity of funding;
- it is not a substitute for true community budgeting and is a long way from neighbourhood controls over local services;
- it may be seen as undermining the council;
- many key local services, of community interest, are outside local government control (e.g. doctors' surgeries, policing) and may need formal partnership arrangements to make progress;
- it could potentially be seen as bypassing the democratic process;
- organisations which benefit from additional funding may not necessarily adhere to the same budgetary/financial disciplines and procedures as other public bodies.[\[35\]](#)

In some respects, certainly, participatory budgeting has potential to empower communities and raise the level of democratic input to decision making. However, its nature limits the scope of functional areas to which it can be applied.

Case study: participatory budgeting in Cologne, Germany

Participatory budgeting was introduced in Cologne as part of a wider agenda in the city of 'services for citizen participation'. The municipal administration recognized that to put citizens at the centre of governance it is necessary to give them a say over public funds.

Participatory budgeting has been piloted in the city through an e-participation internet platform. The platform empowers citizens to participate in planning the budget by submitting proposals, comments and assessments, and submitting votes for or against specific proposals. The system encourages ongoing online discussions, rather than dialogue always being part of a tightly time-limited event. To manage the flow of conversation and to target contributions, the interactive website was carefully and transparently overseen by forum facilitators.

The success of the project is due, not least, to its high profile across the city – the project was publicly advertised and information leaflets were sent to each household. The levels of involvement in Cologne surpass comparable projects elsewhere in Europe – around 5,000 proposals were submitted during the first trial and more than 52,000 votes were entered. There were around 120,000 unique visitors to the website. The pilot phase of the project cost approximately €300,000 to set up and run. The initiative is now developing towards the introduction of improved systems in 2010.[\[36\]](#)

Other innovative methods have been used in the UK as forms of participatory budgeting:

Case-study: empowering communities in South Somerset

The South Somerset district area is divided into four sub-district areas, each serving around 40,000 residents.

Forums are held in these sub-district areas. These give a voice to community aspirations and a local dimension to the delivery of services. They also provide the link between community needs and decision making through building consensus among representatives.

Area forums are currently being used for:

1. prioritising of projects
2. funding of projects
3. planning
4. buying in enhancements to service delivery, should the community desire them.

They are also being used as the mechanism for operating the 'community kitties' and community 'calls for action'.

Each area has been allocated £40,000 for buying in services. Area forums can then engage with the public to agree what the money should be spent on.

Area forums help to give a voice to community aspirations. They give the delivery of services a local dimension, which provides a link between community needs and decision making.

An independent doorstep budget 'trade off' exercise was undertaken to feed into the budget setting process. Residents were allocated a set number of points that they could 'spend' on their preferred services. They were presented with a list of services and had to make choices and trade-offs using their points. This helped members to make budget decisions based on community preferences. It also sent the message to residents that councils had limited funds.

Some area forums have taken it further. They are empowering their communities to make decisions about 'small pots of money'. However, these are often significant in the eyes of the community. Area committees are given an additional £40,000 to begin the process of better aligning service need with service delivery.[\[37\]](#)

4.6 Resource-restricted budgeting

Resource-restricted budgets are similar to cash-limited budgets (see section 6.4 below). Limits are applied to particular resources (i.e. staff or equipment) and works rather like the incremental approach but in reverse.

It begins with the supply aspects (for example the number of staff that are available to meet future needs) and it is assumed fundamentally that these are fixed. From this point it works backwards to the required incremental change.

According to CIPFA, "the process offers control over resources in question and provides clear unambiguous direction but tends to ignore the practicalities of service delivery and may make the service unmanageable because of the restrictions imposed."[\[38\]](#)

5. Budgeting in Uncertain Conditions

5.1 Rolling budgets

A rolling budget can be defined as "a budget constantly updated by adding a further period, e.g. a month or quarter and removing the earliest period."[\[39\]](#) A quarterly rolling process, therefore, would mean that a budget would be prepared every three months, each time rolling forward for one year. The first quarter would be planned in great detail and remaining quarters less so, reflecting the uncertainty about the long-term of the organisation. According to CIPFA, "on the control side the budget will provide a more reliable standard against which to judge performance."[\[40\]](#)

The potential advantages of using rolling budgets are that:

- they reduce uncertainty in budgeting which is important in highly volatile industries where sales levels and prices may fluctuate;
- managers need to reassess the budget frequently;
- more realistic budgets will aid motivation;
- planning and control will always be based on up-to-date information which covers a significant period into the future.

The disadvantages of rolling budgeting are that:

- it is time and resource intensive;
- managers may find the constant revision of budgets disruptive and unsettling;
- continuous updating may not be justified where the changes are not continuous.

There are fairly evident problems with attempting to introduce rolling budgets in the public sector. Public bodies usually have fixed limits over the budget period, and unless the overall system of budgeting was changed, it would be difficult to introduce for certain departments or business units. CIPFA states that in the public sector, rolling budgets could be "somewhat pointless".[\[41\]](#)

5.2 Contingency budgeting

Contingency budgeting is useful for new organisations where detailed budgeting is difficult because there is no past experience to draw upon. The absence of reliable detail is compensated for by a contingency budget to cover as many areas as required.

According to CIPFA:

The use of contingency budgeting ultimately assists in ensuring best practice as it requires organisations to evaluate alternative scenarios and develop contingency plans to ensure that project implementation risk is minimised. Sophisticated techniques using contingency budgeting are increasingly being used to deliver IT projects where up to 50 of allocated budgets may be set aside after the essential or minimum expenditures are determined. This means that alternative strategies can be used in the event of project failure or delay. In these scenarios budgets are viewed more as a guide to an efficient expenditure pattern.^[42]

Case study: contingency budgeting in New York State^[43]

Contingency budgeting models have become increasingly prevalent in the public sector within the US where annual budgets are subject to direct approval by district or state electors. Under the 1997 Education Law introduced by the State of New York, school boards are required to place a contingent budget as well as their preferred budget including proposed growth and savings items to the electors to enable them to make informed decisions about tax levies.

The initial stage of contingency budget preparation is to determine what is contingent or mandatory expenditure. In the New York case these are considered to be expenditures which are deemed to be absolutely necessary to maintain and operate schools, as well as any statutory items prescribed by law. This minimum expenditure would include all expenditure associated with:

1. the maintenance of the education programme including appropriate extra-curricular activities;
2. preserving property;
3. salary increases for contracted employees who have a negotiated increase; ensuring the health and safety of all staff and students.

It would exclude items such as:

1. subsidised cafeteria services;
2. non-recurring items of expenditure in prior year budgets;
3. costs related to increases in school enrolments;
4. relative increases in the proportion of the overall budget incurred on administrative costs;
- 5 capital improvements and equipment purchases other than those necessary to preserve property and the health and safety of all staff and students.

The mandated spending cap for the contingency budget would be linked to the retail price index applying in that financial year. The contingency budget would then function as a fall back budget should the proposed budget be rejected.

The obvious difficulty with contingency budgeting for the public sector in Northern Ireland is that it would be difficult to sustain long term. Contingency budgets lack detail or links to service planning. There would be difficulties therefore in associating contingency budgets with departmental objectives or performance.

6. Adjusting the Budget

6.1 Fixed/flexible budgeting

Most public sector budgets can be regarded as fixed budgets as the level of resources often determines the level of activity and service provision. These resource levels are usually established in advance of the financial year. Although described as fixed, they can be varied through revisions made to reflect changing circumstances (i.e. through the quarterly monitoring rounds).

A flexible budget, however, is designed to be changed in line with variations of the level of activity. At the preparation stage, variable and semi-variable costs are identified, changing the budget as activity levels change. Typically, this type of budget is used in manufacturing industries where there may be changes to the planned levels of production; this results in changes to the necessary budgets for raw materials or components, for instance.

Flexible budgets are uncommon in public services; although changes in demand for services do arise, budgets are often fixed. This means that unanticipated demand cannot be catered for, or a department is pressurised to deliver higher volumes of services with existing resources. An example might be a hospital pathology unit budgeting for a given level of activity. But a new government initiative to reduce waiting lists could increase the number of tests being requested, and the budget may not be sufficiently flexible to deal with this.

6.2 Activity-based budgeting

Activity-based budgeting is an approach developed from activity-based costing used in the private sector. Rather than assuming that overheads are related to volumes of production or service, the technique attempts to identify what drives costs by linking overheads to activities. This provides more robust information for budget preparation as planned changes in production or service can be connected to changes in costs.

According to CIPFA, to date "this has limited application in the public sector due to the lack of detailed work on activity bases and cost drivers."^[44] In theory, nevertheless, budgets can be designed to reflect an activity-based costing approach. In practice, though, it is an under-developed approach as little financial information is currently available on activity bases and the associated cost drivers.

The result is that all costs – including overheads – are allocated to activities on the basis of the characteristics which are felt to drive these costs. CIPFA argues that this is "potentially an effective way of addressing the issue of high fixed costs in a public sector environment."^[45]

The key stages in activity based budgeting are to:

The key stages in activity based budgeting are to:

- identify the organisation's activities;
- determine the cost drivers;
- spread departmental costs to costs drivers;
- calculate budgeted activity levels.

The potential advantages of the activity based model are that:

- it identifies the cost of activities;
- it allows for resource allocation at different activity levels;
- it establishes a link between decision making and cost behaviour;
- it fits in with control systems.

The potential drawbacks are that:

- there may be problems in defining cost drivers;
- it is not possible to monitor on a frequent basis in the short term;
- it requires a total review of an organisation's accounting and possibly managerial systems.

6.3 November price-base budgeting

This approach was used by local authorities up to the early 1990s, but has mostly now been superseded by cash-limited budgets. The November price base approach takes the current year's budget and increases it in line with the known pay awards at 31 October of that year, affecting the following financial year, along with the organisation's own best estimates of price changes up to that date including, where appropriate, local price movements. Known increases in taxation e.g. employers' national insurance contributions are also included.

This budgetary model does not incorporate assumptions about likely inflation or pay increases which are not known on 31 October in the base service budgets. Instead, a provision for inflation and unconfirmed pay awards is held back as a contingency and released to services budgets during the course of the financial year as and when pay awards or inflationary pressures become known.

The detailed steps are illustrated below:

- calculate increase in price levels from last year's base budget date up to the current base budget date;
- estimate effects of further price increases to the end of the budget period in overall terms;
- provide contingency for this amount and retain it centrally.

Example: preparing budgets at November 2008, with a financial year running from April–March.

Original budget for 2008/2009 – five employees at £20,000 each at November 2007 price base. Employees then received a 5% pay award in July 2008 and it is estimated that they will receive 4% in July 2009.

Using the November price basis the budgets would be as follows:

2008/2009 revised budget $£100,000 + (£100,000 \times 0.05 \times 9/12) = £103,750$

2009/2010 original budget $£100,000 + (£100,000 \times 0.05) = £105,000$

(In contingencies an amount of $£105,000 \times 0.04 \times 9/12 = £3,150$ would be allowed, but not allocated to the departmental budget.)

CIPFA explains that the main reasons for authorities moving away from this approach are "because it limits the ability of managers to manage their budgets and is administratively complex requiring constant revision."^[46]

6.4 Cash-limited budgeting

Under this approach. Budget holders are required to plan their activities to ensure that their net expenditure does not exceed a pre-set cash limit. It relies on assumptions about inflation and pay awards, for instance, which are not known at the time the base budget estimates are made.

Example: preparing budgets at November 2008, with a financial year running from April–March.

The original budget for 2008/2009 was five employees at £20,000 each at November 2007 price base with the assumption that there would be a 5% pay award in July 2008. At November 2008 it is now known that the staff did receive a 5% pay award in July 2008 and it is now estimated that they will receive 4% in July 2009.

The original 2008/2009 budget would have already included an allowance for effect of the pay award:

2008/2009 original budget $£100,000 + (£100,000 \times 0.05 \times 9/12) = £103,750$.

Similarly the 2009/2010 budget will include an allowance for the pay award expected in July 2009.

2009/2010 original budget $£100,000 + (£100,000 \times 0.05) = £105,000$
plus $£105,000 \times 0.04 \times 9/12 = £3,150$.

Total 2009/2010 original budget = £108,150.

The advantage of this approach is that managers know what their budgets are going to be from the outset – and there is an incentive therefore for them to deliver within budget. But, it is not directly linked to service planning. Also if the prediction for inflation is too low, it may result in a requirement for reductions in services.

Continuing the example above, if the July pay award were to actually be 7%, then to maintain a steady level of service the actual budget required would be: $£105,000 + £5,512$ (i.e. $105,000 \times 0.07 \times 9/12 = £110,512$).

7. Concluding Remarks

This paper has not answered the question of which approach to budgeting will lead to NICS Departments achieving the optimum allocation of resources. As was noted in section 1.3 there may be no theoretical model that will provide the perfect solution.

Nevertheless, it has been shown that a variety of approaches have been employed across the public sector, in the UK and internationally. It seems reasonably clear that NICS Departments could benefit from using the different approaches where the circumstances fit. The main benefit from zero-based, planning programme and performance-based budgeting is the link between

budgets and business objectives. Even participatory budgeting, which is quite a radical departure from the incremental approach, appears to offer some strong benefits in this regard.

Clearly, any approach will also have some associated drawbacks. Significantly for the public sector, these tend to revolve around the amount of time and energy that has to be devoted to the analytical exercises to support the budgeting. But this effort could be repaid through improved performance.

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Research and Library Services



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A central budget committee for the Northern Ireland Assembly: some considerations

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Research and Library Service**

The paper looks at models for the purpose and design of a budget committee from international examples and suggests some issues that need to be considered if the Northern Ireland Assembly to establish one.

Relationships with sectoral committees are highlighted and some legal issues considered.

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Key Points

- A budget committee could be established following either a totally centralised model or as a hybrid of centralisation and dispersal between the Statutory Committees and their sectoral remits.
- There is an option for a budget committee to assume a monitoring role in respect of budget implementation – and therefore the delivery of the Executive's Programme for Government. It could take responsibility for scrutinising other performance-related aspects, such as departmental Efficiency Delivery Plans.
- There are some legal issues that will need clarification. In particular the provisions in the Northern Ireland Act 1998 relating to the establishment of committees.
- If a hybrid model is chosen, a budget committee would need a clearly defined remit in relation to budgeting and its relationship with the Statutory Committees. It might need the power to challenge or even overrule the views of other committees.
- There is a wide range of ways that budget committees can operate. An Assembly committee is more likely to be effective in budgeting if its design is considered alongside reform of the budget process.

Executive Summary

This research looks at possible models for establishing a budget committee within the Northern Ireland Assembly. In doing so various issues are highlighted as appearing to be important considerations in such a committee's design.

The paper looks first at what a budget committee would do. What would be the role of a budget committee? Internationally there are different models for budget committees. It is suggested that the role between a potential budget committee and the Assembly's Statutory Committees in relation to budgets generally needs to be determined (Issue 1). It is also suggested that there might be a role for a budget committee in monitoring delivery as well as inputs (Issue 2) but this would rely on progress on other fronts (such as the provision of information by the Executive, for example) first.

Secondly, the paper addresses structural issues and how a budget committee might be established. It is suggested that legal advice is needed on the relevant provisions of the Northern Ireland Act 1998 (Issue 3) as it appears that amendments may be necessary. Further, it is suggested that the powers of the Statutory Committees as envisaged in the Belfast

Agreement need to be examined in this context (Issue 4). A central budget committee would fundamentally alter the role of the Statutory Committees that was envisaged in that Agreement.

Thirdly, the research looked at the powers that a budget committee might need in relation to other sectoral/subject committees by drawing on some international examples. It is suggested that the design of a budget committee and consequent changes to the Assembly's overall Statutory Committee structure should be undertaken in parallel with any reform of the wider Northern Ireland budget process (Issue 5): a good fit between committee structure and overall process is more likely to be achieved if considered at the same time.

The final section of this paper looks at the membership of a budget committee in the context of the rules of the Assembly. Intuitively it seems that there should be some formal division between a budget committee and those that scrutinise departments. No real evidence was found in the standing orders of other legislatures to support this assertion, however. It is suggested that once the overall purpose and form of a budget committee has been developed further consideration needs to be given both to its leadership and to its membership (Issue 6).

Contents

Key Points

Executive Summary

Contents

1. Introduction
2. What would a budget committee do?
3. How could a budget committee be established?
4. What powers would a budget committee need?
 - 4.1 A centralised budget committee
 - 4.2 A hybrid budget committee
5. Who would sit on a budget committee?

1. Introduction

This paper follows from Assembly Research paper 45/10 Considerations for Reform of the budget process in Northern Ireland.^[1] It recommended that the Assembly reorganise the system of budget scrutiny by committees and establish a budget committee (Recommendation 7). It was suggested that the budget committee could have overall responsibility for considering aggregate spending and financial instruments might be referred to it, rather than the other Statutory Committees.

The purpose of this paper is to consider how a budget committee might operate within the Northern Ireland Assembly. Details from other jurisdictions are presented to show the kind of institutional considerations that may be important. Throughout the paper issues that might need to be addressed are identified to help inform any future work.

2. What would a budget committee do?

In essence, a budget committee might assist the Assembly in altering and rebalancing the relationship with the Executive over budgetary issues. Across a number of Organisation for Economic Co-operation and Development (OECD) countries there has been a move to

expand the role of standing committees to deal with the budget. These committees are authorised to review the estimates, take evidence, demand information on the budget, and recommend legislative action. In countries where the legislature may amend the budget, its committees also recommend changes in the fiscal plans submitted by the government.^[2]

The way that committees are structured to deal with the budget varies. These differences can be categorised into three patterns:

Table 1: Models of committee structures for budget scrutiny.^[3]

	Characteristics	Advantages	Disadvantages
Centralised	A centralised budget committee is assigned full responsibility for budgetary issues.	1. Encourages looking at the whole budget in fiscal rather than narrower sectoral terms 2. Eases task of co-ordination 3. Promotes consistency in the response of the legislature to budgets 4. May encourage fiscal discipline.	1. Sectoral committees may feel disempowered. 2. May reduce opportunities for sectoral interests to influence the budget.
Dispersed	Responsibility for budgetary issues dispersed amongst sectoral committees.	1. Encourages focus on programmes. 2. Allows greater sectoral expertise to be tied in to legislative budget consideration. 3. May allow sectoral interests greater opportunity to influence the budget.	1. May discourage fiscal discipline. 2. Response of the legislature may be uncoordinated.
Hybrid	Sectoral committees review relevant portions of the budget and recommend action within a framework set by a centralised budget committee.	1. Can combine both a programme and an overall fiscal outlook. 2. Can encourage fiscal discipline and use sectoral expertise.	1. Sectoral committees may feel disempowered.

At present, the Northern Ireland Assembly Statutory Committee structure fits into the 'dispersed' category - although there is a co-ordinating role for the Committee for Finance and Personnel in reporting to the Assembly on the scrutiny of cross-departmental budgetary issues. In relation to sectoral input from other Statutory Committees, it does not have a remit of challenging their views, merely reporting them.

Under a centralised model, the budget committee would remove all budget-related duties from the Statutory Committees, leaving them to focus on sector-specific policy, legislation and performance issues. An effect of this – counter-intuitively perhaps - might be to weaken budget scrutiny in the Assembly as it could reduce the application of sectoral expertise from decisions on allocations.

On the other hand, there could be an increase in fiscal discipline as the centralised committee is encouraged to look at decisions from a 'global' perspective.

Under a hybrid model, the budget committee could be responsible for engaging with the Executive at the early stages of budget formulation and consider issues relating to the overall budget allocation and the split between departments. It would then be for the Statutory Committees to consider proposals at a later stage (probably once a draft budget has been produced) in terms of the split of their respective departments' allocation between programme areas.

Monitoring departmental performance

The Department for Finance and Personnel (DFP) recently presented its Review of Northern Ireland Executive Budget 2008-11 Process to the Committee for Finance and Personnel. A DFP official stated that

DFP, jointly with OFMDFM, commissioned an exercise on 28 April asking Departments to quantify expenditure against the [Public Service Agreements] so that we can track direct linkages to the PSA delivery against actual resource allocation.^[4]

Once this kind of joined-up information becomes available it should be more possible for Assembly Committees to monitor departmental progress against Programme for Government targets. If departments' Efficiency Delivery Plans and Investment Delivery Plans were also linked in this way, it could become an important part of a budget committee's role to monitor progress against those also as part of a remit to take account of the implementation phase of the budget.

Issue 1

The relationship between a budget committee and the Statutory Committees needs be determined – and this would need decisions on whether to move forward with a centralised or hybrid model or to retain the dispersed model. There may be an important role for the Chairpersons' Liaison Group and/or the Business Committee in considering this issue.

Issue 2

At present, delivery of cross-cutting programmes and the Executive's Programme for Government generally is the responsibility of the Office of the First Minister and Deputy First Minister (OFMDFM). Consequently, it is the responsibility of the Statutory Committee for OFMDFM to hold that Department to account on this aspect of NICS Departmental performance. However, Efficiency Delivery Plans, for example, fall within the remit of the Committee for Finance and Personnel. It may be worth exploring if there is some merit in bringing all these cross-cutting issues under the remit of a budget committee.

3. How could a budget committee be established?

The statutory provisions giving the Assembly the power to establish committees are contained in the Northern Ireland Act 1998 (c.47).^[5] Section 29(1) of that Act provides that the Assembly's Standing Orders must make rules:

(a) for establishing committees of members of the Assembly ("statutory committees") to advise and assist each Northern Ireland Minister in the formulation of policy with respect to matters within his responsibilities as a Minister;

(b) for enabling a committee to be so established either in relation to a single Northern Ireland Minister or in relation to more than one; and

(c) conferring on the committees the powers described in paragraph 9 of Strand One of the Belfast Agreement.

Paragraph nine of Strand One of the Belfast Agreement states:

The 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;
- consider and advise on matters brought to the Committee by its Minister.

Issue 3

Section 29(1)(b) seems to empower the Assembly to establish only a single committee in relation to a Northern Ireland Minister. If a budget committee were established and the Committee for Finance and Personnel were retained this would mean the Assembly had two committees in relation to the Minister for Finance and Personnel. The Committee may wish to seek legal advice to establish whether a budget committee could be established under the existing provisions or whether an amendment to the legislation would be necessary.

It might be possible to establish a budget committee as a sub-committee of the Committee for Finance and Personnel, however this approach would not provide it with any additional powers in relation to the other Statutory Committees (see section 4 below). Under Standing Order 63 a sub-committee can only discharge delegated functions of – and must report to - the parent Statutory Committee.^[6]

Other alternatives that might be considered are:

- the establishment of a budget committee as a ad-hoc committee with terms of reference that would allow it to take on a centralised budget role as a matter of joint concern; or
- all the Statutory Committees sitting concurrently to deal with the strategic phase of budgeting.

Issue 4

Paragraph nine of Strand One of the Belfast Agreement states that each Statutory Committee will have the power to consider and advise on its respective Departmental budget. The relationship between a budget committee and the Statutory Committees would need to be developed with this in mind.

4. What powers would a budget committee need?

The powers that a budget committee would need will depend to a large extent on whether it were to be a totally centralised committee with responsibility for all budgetary decisions within the Assembly or a hybrid.

4.1 A centralised budget committee

As noted above, a budget committee on the centralised model would take over the Statutory Committees current remit to scrutinise and advise their respective Ministers on budget allocations.

Budgeting in Austria

The parliamentary process for the budget in Austria provides an interesting model for consideration in the Northern Ireland context. This is because typically no political party enjoys a majority and therefore coalitions are necessary.

The budget process

The time that Parliament in Austria has to consider the budget proposal is relatively short. The budget is presented two months before the start of the fiscal year; in most OECD countries a three-month period is more common.^[7]

The Minister of Finance begins the process with a speech in late October, following which Parliament is immediately adjourned. The following day members of parliament respond in a debate that typically lasts eight to ten hours. Then the budget proposal is referred to the Budget Committee.

Committee stage

The Budget Committee consists of a main committee and a number of sub-committees (see section 5 below regarding membership of a budget committee). The main committee is responsible for the budget proposal as a whole, and also for in-year monitoring of implementation – the Minister of Finance is required to report to it quarterly.

The Budget Committee's examination takes place over a one-week period. The main committee first examines the overall budget strategy (the 'budget hearing'). For this hearing, each political party nominates an outside expert (i.e. not a Member of Parliament) to take part in the questioning of the Minister.

The next stage moves to the sub-committees. The budget of each government ministry is examined over a one-week period at a more detailed and programme-specific level. Each sub-committee then reports to the main Budget Committee.

The Budget Committee reconvenes to discuss the sub-committees' reports and to consider any amendments to the budget.

Amending the budget

There are three types of amendment that may be moved by the Budget Committee:

Government amendments

These can be technical corrections, responses to new political pressures, or – most commonly – the result of negotiations between the coalition parties on sensitive issues that were not finalised prior to the introduction of the budget. The Minister of Finance would have mentioned these areas in his/her budget speech. It should be noted that these negotiations do not take place in the Budget Committee but are rather conducted by the leaders of the coalition parties, who then inform parliament of the decisions. The subsequent amendments may increase total expenditures or – more commonly – involve reallocations of expenditures within the same total level of expenditures.

Budget Committee amendments

The Budget Committee may introduce amendments on its own initiative. This can sometimes be a response to the lobbying efforts of spending ministries – who "lost" in negotiations with the Ministry of Finance – for increased expenditure. It is extremely rare that this practice is successful, but it does happen and is regularly attempted.

Opposition amendments

Opposition parties may propose amendments. As their amendments would by definition not be agreed by the majority in the committee, the opposition will only announce their amendments in the Budget Committee, and then formally introduce them in plenary session during the second reading of the budget. There is no possibility for the majority to "kill" amendments in committee.^[8]

The conclusions that the Budget Committee reaches form the basis for the next reading of the budget.

Second reading

One or two weeks after the Budget Committee's examination, second reading takes place in plenary and takes around a week. The chair of the Budget Committee outlines agreed amendments and their rationale. Next a senior member of each sub-committee initiates a discussion on each ministry's allocation. This is also the stage when opposition parties may introduce their amendments – consolidated into a single proposed amendment for each budget chapter – although these amendments are "uniformly rejected."^[9]

Third reading

This is the final stage and consists of a vote being taken on the budget as a whole. It occurs immediately after the conclusion of the votes on each chapter. There is no separate debate for third reading.

How well does this work?

It has been argued that "the present committee structure for deliberating the budget is exemplary in most respects, as it seamlessly links the discussion of finance (budget committee) and policy (sectoral committees), in administrative terms."^[10]

It was also noted, however, there were areas in which committee involvement could be strengthened. Whilst the focus of this section of the paper is on structural issues relating to committee design, it is worth noting that:

The Budget Committee could, for example, concentrate more on the aggregates. It could give voice to the "macro" budgetary issues, overall priorities between different chapters, and fiscal sustainability. This is especially important with the introduction of the budget strategy report. The sectoral committees could also concentrate on integrating further the budgetary and substantive policy aspects of their work. This is especially important if performance and results information is to be integrated into the discussion, as envisaged by the proposed budget reforms. The sectoral committees could then be in a position to link budget, policy and performance.^[11]

It should also be noted that Austria has embarked on a process of reform of its budgeting – particularly in relation to linking stage one of the process to a medium-term expenditure framework and making the budget information less input-oriented.^[12]

4.2 A hybrid budget committee

A hybrid budget committee does not take responsibility for all budget scrutiny. Rather it would take over some of the scrutiny function from Statutory Committees whilst they retain elements related specifically to their sectoral remit.

Issue 1 (see section 1) needs to be explored before much detail on specific design issues is either possible or helpful. In order to inform the discussion, however, some case study information may be of interest.

The Finance and Expenditure Select Committee, New Zealand

The Finance and Expenditure Select Committee is a committee of the House of Representatives (note that the New Zealand Parliament is unicameral, so there is no upper chamber). There is a two-stage parliamentary process on the New Zealand Budget.

The budget process –stage one

The first stage is divided into the following steps:

- The Budget Policy Statement.

This is tabled (usually in December) in the House of Representatives by the Minister of Finance and states the broad strategic priorities for the forthcoming budget; explains any changes in long-term fiscal objectives; and, explains changes in short-term fiscal intentions.

Under the Parliament's Standing Orders^[13], the Budget Policy Statement is referred to the Finance and Expenditure Select Committee which has 40 days to report to the House and its report is then debated.

- Delivery of the budget

The government moves an Appropriation Bill to give effect to its budget. The first stage (which is not debated as in the Northern Ireland Assembly) of this comes before the Budget Statement which occurs at the same time as the second stage of the Appropriation Bill.

- Fiscal Strategy Report and Economic and Fiscal Update.

At the same time as the Budget Statement the government presents a Fiscal Strategy Report and Economic and Fiscal Update. This is also referred to the Finance and Expenditure Select Committee which has two months to report to the House.

- Half-year economic and fiscal updates and statement on long-term fiscal position

This is published between 1 November and 31 December (and can therefore help inform scrutiny of the following year's Budget Policy Statement. Again, this publication is referred under Standing Orders to the Finance and Expenditure Select Committee.

The budget process – stage two

After consideration by the Finance and Expenditure Select Committee and the House of the overall budgetary position, stage two looks in more detail at the estimates.

- Referral of Estimates

Under Standing Orders the Estimates are referred firstly to the Finance and Expenditure Select Committee. It may

(a) examine a Vote itself, or

(b) refer a Vote to any subject select committee, or

(c) examine some of the appropriations contained in a Vote itself and refer the remainder to any subject select committee, or

(d) refer the appropriations contained in a Vote to two or more subject select committees.^[14]

- Examination of Estimates

Each select committee to which a Vote is referred examines the Estimate, and either recommends the appropriation be accepted or amended. They have two months to report to the House and then there is a debate on all the Estimates and the Votes are taken.

- Supplementary Estimates

A similar process is used for supplementary estimates, whereby the initial referral under Standing Orders is to the Finance and Expenditure Select Committee.

It is interesting in the context of this paper that it is the Finance and Expenditure Select Committee that decides what it will investigate itself and what it will refer (in effect delegate) to the sectoral committees.

The Finance Committee in the Swedish budget process

A further example of a hybrid system is provided by Sweden's budgeting process.^[15]

The budget process

In spring each year the government prepares a Fiscal Policy Bill, which contains guidelines for the coming year's budget policy. This is scrutinized by the Finance Committee and reported on to Parliament; the first parliamentary decision is in the autumn.

A Budget Bill is prepared by the executive the following September which proposes aggregate expenditure ceilings. There are 27 expenditure areas in total. The Finance Committee is responsible for the aggregate spending total as well as the 'frames' for each of the 27 areas; this hierarchical structure was a key part of budgetary reform in the 1990s and early 2000s.

The role of sectoral committees

Sectoral committees are responsible for between one and four expenditure areas. They can make allocational proposals within the approved ceilings for each area; they can propose shifting funding between items within an area, but may not breach the total set for the area:

In effect a hard budget constraint has been imposed on sectoral committees. Members on the sectoral committees initially resisted this change, but against the backdrop of fiscal crisis, the reformers assembled enough support for the new process to be accepted.^[16]

This model may be of some interest for considering how a central budget or finance committee could be fitted within the processes of the Northern Ireland Assembly. Revision of the committee structure alone, however, was not considered to be entirely the cause of Sweden's recovery from a position of fiscal crisis in the 1990s.

The voting procedure

A major factor is also the voting procedure:

The report of the Finance Committee contains a proposal as well as reservations from the opposition parties that cover total spending, the allocation of expenditure across different areas as well as revenue changes. These are treated as packages, unlike in the previous system where shifting majorities could form on individual items [of expenditure]. Under the new system, opposition proposals are eliminated until one main alternative remains. Opposition parties are ideologically fragmented and typically do not unite against the government, but only support their own proposal.^[17]

The voting procedure itself is set out in the Riksdag Act:

Settlement by acclamation

Art. 5. When a matter is settled by acclamation, the Speaker puts to the question every motion put forward in the course of the deliberations. The question shall be worded in such a way that it can be answered with a 'Yes' or 'No'. The Speaker declares what he understands to be the result, and confirms the decision by striking his gavel, unless a member calls for a vote.

Settlement by means of a vote

Art. 6. When a matter is settled by means of a vote, the principal proposal is that motion which in the Speaker's view the Riksdag adopted by acclamation. When there has been no acclamation, the principal proposal is the motion determined by the Speaker. A second motion is put up against this principal proposal to act as a counter-proposal. If there are more than two motions

which can be put up against each other, the Riksdag shall first apply Article 5 to determine which shall constitute the counter-proposal.

Voting is by open ballot. Under the rule laid down in Chapter 4, Article 5 of the Instrument of Government, the proposal which obtains the support of more than half the members voting constitutes the decision of the Riksdag, unless otherwise provided in the Instrument of Government or in this Act. The Speaker announces the result of the vote and confirms the decision by striking his gavel.^[18]

It is interesting to note the way the voting procedure deals with a parliament fragmented on ideological lines. It may be that the application of an adapted procedure along these general lines could provide a means to counter-balance both the Executive and a centralised budget or finance committee in the Northern Ireland Assembly. It would mean a quite radical departure from current practice for handling amendments, and might require primary legislation.

Issue 5

From the examples presented above, it can be seen that a central budget committee can take a variety of forms. What does seem evident is that the committee procedures and structure are linked to the overall budget process. As the budget process in Northern Ireland is likely to undergo some reform over the coming period it should be considered if the committee structure should be redesigned in parallel; the alternative is to wait for the new process and to then try to design a structure to fit onto that process.

5. Who would sit on a budget committee?

At present the Northern Ireland Assembly's Statutory Committees' membership is determined in accordance with party strength in the Assembly as a whole.^[19]

Committee chairpersons

The positions of chairperson and deputy chairperson are filled through a system of nominations: "in making nominations, nominating officers shall prefer committees in which they do not have a party interest over those in which they do have a party interest."^[20]

'Party interest' is defined as the Minister to which a Statutory Committee will relate being of the same party as the nominating officer. In relation to the Committee for the Office of First and Deputy First Minister (COFMDFM) it is either of the joint Ministers of that Department. The effect of this is to prevent the chairperson of a Statutory Committee being from the same political party as the Minister whose performance it is scrutinizing.

This gives rise to an obvious problem in relation to a central budget committee. The budget, like the Programme for Government, is a product of the Northern Ireland Executive. While it is brought forward by the Minister for Finance and Personnel it does not belong to him or her. So who would chair a committee with overall responsibility for the budget?

The convention in Germany (which operates a centralised budget committee) is that the chair of the Budget Committee is filled by a member from the opposition.^[21]

In Austria, the Budget Committee is made up of 26 members of parliament (each of whom has a substitute or 'understudy' member), with each party represented according to number of seats in

the parliament overall. Each sub-committee of the main Budget Committee comprises members of the sectoral committees. It is chaired, however, by a member of the main Budget Committee.

The current Chair of the Budget Committee is a member of the OVP which is the second largest party in the National Council. It should be noted that the Austrian Parliament operates on quite an unusual model with three Presidents. Also members have 'free mandates' enshrined in legislation; there can be no compulsion for members to follow the party line, although in practice they usually do.^[22]

It is also interesting in the case of Austria that political parties on the Budget Committee can delegate the function of members of parliament at the primary budget hearing to an outside – and unelected – expert: "most of the discussion takes place between the Minister of Finance and these outside experts."^[23]

The reality is that budget practices and the committees that scrutinize the executive's proposals across the globe are extremely diverse.^[24] There is a relevant model from within the Northern Ireland Assembly, too.

COFMDFM scrutinizes the Office of First and Deputy First Minister which has responsibility for the Programme for Government – like the budget this is a product of the Executive collectively. The Committee is chaired by Members who are not from either of the two biggest parties - as required by standing orders. It might be that a budget committee could follow this precedent. Or perhaps it should be chaired by a Member of the Assembly whose party is not in the Executive?

Committee membership

Generally speaking, the composition of committees internationally reflects that of the parent chamber. Parliamentary political groups are typically represented in committees in proportion to their numerical strength in the chamber. Special consideration can be given to smaller groups to ensure their representation in committees, either as full members or as observers.^[25]

In some parliaments (such as Luxembourg for example), members of the Budget Committee can attend the meetings of other permanent committees and receive requests from them. In these countries, permanent committees in turn can nominate one or more of their members to participate as advisers in the Budget Committee.^[26]

It might be considered that if a central budget committee has a challenge function – or indeed can overrule – in regard to the views of a sectoral committee on a budget proposal there would be a conflict of interest for members who were sitting on both committees. It hasn't proved possible, however, to find an example in the standing orders of other parliaments that explicitly addresses this issue.

Issue 6

Consideration of the posts of chairperson and deputy chairperson and of membership of a budget committee generally needs to be explored further. It would be helpful to reach conclusions on the model of budget committee that is to be followed first; the extent of its powers in relation to or relationship with the Assembly's Statutory Committees will give a clearer picture of what rules on membership might be needed.

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at: <http://assist.assemblyni.gov.uk/services/rsrchlib/research/reports/dept/fp/2010/pidgeon4510.pdf>

[2] Schick, A (2002) 'Can National Legislatures Regain an Effective Voice in Budget Policy' OECD Journal on Budgeting Vol 1 No.3 available online
at: <http://www.oecd.org/dataoecd/62/57/43514045.pdf> (accessed 14 May 2010) (see page 29)

[3] Adapted from Schick, A (2002) 'Can National Legislatures Regain an Effective Voice in Budget Policy' OECD Journal on Budgeting Vol 1 No.3 available online
at: <http://www.oecd.org/dataoecd/62/57/43514045.pdf> (accessed 14 May 2010)

[4] Committee for Finance and Personnel Official Report 12 May 2010 available online
at: <http://archive.niassembly.gov.uk/record/committees2009/FinancePersonnel/100512ReviewofBudgetProcess.pdf> (accessed 25 May 2010) (see page 12)

[5] Northern Ireland Act 1998 (chapter 47) available online
at: <http://www.statutelaw.gov.uk/legResults.aspx?LegType=All+Legislation&title=northern+ireland+act&Year=1998&searchEnacted=0&extentMatchOnly=0&confersPower=0&blanketAmendment=0&sortAlpha=0&TYPE=QS&PageNumber=1&NavFrom=0&activeTextDocId=2045126> (accessed 14 May 2010)

[6] The NIA Standing Orders are available online
at: <http://archive.niassembly.gov.uk/sopdf/2007mandate/StandingOrders.pdf> (accessed 18 May 2010)

[7] Blöndal, JR and Bergvall, D (2007) 'Budgeting in Austria' OECD Journal on Budgeting Vol. 7 No.3 available online at: <http://www.oecd.org/dataoecd/57/47/40961371.pdf> (accessed 24 May 2010)

[8] Blöndal, JR and Bergvall, D (2007) 'Budgeting in Austria' OECD Journal on Budgeting Vol. 7 No.3 available online at: <http://www.oecd.org/dataoecd/57/47/40961371.pdf> (accessed 24 May 2010) (see page 18)

[9] Blöndal, JR and Bergvall, D (2007) 'Budgeting in Austria' OECD Journal on Budgeting Vol. 7 No.3 available online at: <http://www.oecd.org/dataoecd/57/47/40961371.pdf> (accessed 24 May 2010) (see page 19)

[10] Blöndal, JR and Bergvall, D (2007) 'Budgeting in Austria' OECD Journal on Budgeting Vol. 7 No.3 available online at: <http://www.oecd.org/dataoecd/57/47/40961371.pdf> (accessed 24 May 2010) (see page 20)

[11] Blöndal, JR and Bergvall, D (2007) 'Budgeting in Austria' OECD Journal on Budgeting Vol. 7 No.3 available online at: <http://www.oecd.org/dataoecd/57/47/40961371.pdf> (accessed 24 May 2010) (see page 20)

[12] Meszarits, V and Seiwald, J (2008) Federal Ministry of Finance Working Paper 3/2008 'Budgetary Reform in Austria: Towards tighter coupling within the financial and management system' available online
at http://english.bmf.gv.at/budget/theaustrianfederalb_399/working_paper.pdf (accessed 24 May 2010)

[13] New Zealand Parliament (2008) 'Standing Orders of the House of Representatives' available online at: <http://www.parliament.nz/en->

[NZ/PB/Rules/StOrders/1/b/6/00HOHPBReferenceStOrders2-Standing-Orders-of-the-House-of-Representatives.htm](http://www.parliament.nz/en-NZ/PB/Rules/StOrders/1/b/6/00HOHPBReferenceStOrders2-Standing-Orders-of-the-House-of-Representatives.htm)(accessed 18 May 2010) (see pages 101-4)

[14] New Zealand Parliament (2008) 'Standing Orders of the House of Representatives' available online at: <http://www.parliament.nz/en-NZ/PB/Rules/StOrders/1/b/6/00HOHPBReferenceStOrders2-Standing-Orders-of-the-House-of-Representatives.htm>(accessed 18 May 2010) (see Standing Order 327 pages 102-3)

[15] Material from Assembly Research Paper 45/10 presented again here for ease of reference.

[16] Wehner J (2007) 'Budget reform and legislative control in Sweden' Journal of European Public Policy Vol.14 no.2 313-332 (see page 320)

[17] Wehner J (2007) 'Budget reform and legislative control in Sweden' Journal of European Public Policy Vol.14 no.2 313-332 (see page 321)

[18] See an English-language translation of the Riksdag Act online at: http://www.riksdagen.se/templates/R_PageExtended_6422.aspx (accessed 05 May 2010)

[19] The NIA Standing Orders are available online at: <http://archive.niassembly.gov.uk/sopdf/2007mandate/StandingOrders.pdf> (accessed 18 May 2010)

[20] Standing Order 48(5)

[21] Budget4change 'Preliminary donor budget scoping paper' available online at: <http://www.budget4change.org/library/reports/preliminary-scoping-papers/germany.pdf> (accessed 24 May 2010)

[22] See the Austrian Parliament's website which has some useful pages in English: http://www.parlament.gv.at/EN/AP/PA/PAHEUTE/P_PART/ROLE/role-E_Portal.shtml (accessed 26 May 2010)

[23] Blöndal, JR and Bergvall, D (2007) 'Budgeting in Austria' OECD Journal on Budgeting Vol. 7 No.3 available online at: <http://www.oecd.org/dataoecd/57/47/40961371.pdf> (accessed 24 May 2010) (see page 17)

[24] See <http://blog-pfm.imf.org/pfmblog/2010/01/how-do-parliaments-approve-budget-laws-and-oversee-budget-processes.html> (accessed 24 May 2010)

[25] Yamamoto, H (2008) 'Tools for parliamentary oversight: A comparative study of 88 national parliaments' Inter-Parliamentary Union available online at <http://www.ipu.org/PDF/publications/oversight08-e.pdf> (accessed 24 May 2010)

[26] Yamamoto, H (2008) 'Tools for parliamentary oversight: A comparative study of 88 national parliaments' Inter-Parliamentary Union available online at <http://www.ipu.org/PDF/publications/oversight08-e.pdf> (accessed 24 May 2010) (see page 37)

Appendix 6

Other Papers

The Methodist Church in Ireland - Review of 2010-11 Spending Plans



**The Methodist Church in Ireland
Council on Social Responsibility**

15 March 2010

Assembly Finance & Personnel Committee
Committee Clerk
Shane McAteer
Room 419,
Parliament Buildings,
Stormont,
Belfast, BT4 3XX

Dear Mr McAteer

Re Review of 2010-11 Spending Plans

Please find enclosed a response to the above document from the Council on Social Responsibility. I understand that the period of consultation may have ended, however given the comments in the response regarding the consultation process I would request that this response be brought to the attention of the Assembly Finance & Personnel Committee for information. I should point out that I would be happy to meet with you or your officials to discuss any aspect of this response.

With ever good wish.

S Wesley Blair (Revd Dr)

Enc.

Revd Dr S Wesley Blair, Chair, N Executive
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Review of 2010-11 Spending Plans for NI Departments**A Response****I Introduction**

In responding to the Programme for Government 2008-11 (PFG) the Council on Social Responsibility of the Methodist Church in Ireland (CSR) acknowledged the Executive's decision to declare "growing a dynamic and innovative economy its top priority as Northern Ireland must become self reliant and competitive". CSR notes that 3 years later the "development of the economy as the top priority remains the right approach". In response to PFG however CSR continued "Nevertheless, the Council does not wish to see the four other priorities lost in this drive. Nor does the Council wish to see models of wealth creation being adopted that would lead to greater disparities in income and less social inclusion for some." CSR therefore readily acknowledges with gratitude the additional steps taken over the past period regarding e.g. additional Household Fuel Payments etc. CSR also notes the further deferral of domestic water charges to 2010-11.

Of greatest importance however, CSR recognises the rapidly changed – and changing – economic landscape at global, national and local levels and further recognises that these changes are bound to have major implications for Northern Ireland in the years to come.

II Consultation Process

CSR acknowledges that the Review was issued as a consultation document on 12 January 2010. However the consultation was at best flawed and at worst opaque. The process falls far short of good practice for consultations. It is not clear how a response could be made or what the deadline is for such responses. Further the document is not readily accessible, for example, it is not clear which services will have to be curtailed to make the "additional savings" required. DFP has asked each Department to publish more detailed information on its website. However, sometimes this information is not easy to locate on the websites (e.g. DHSSPS website), or when it can be located, does not contain information about what the focus of the consultation actually is or how a response can be effected (e.g. DCAL website).

In a judgement handed down on 11 September 2007 Weatherup J set out guidelines regarding the duty incumbent on Government departments to consult properly. It is acknowledged that there is no statutory duty on DFP to consult, however Weatherup J points out

"It is common ground that, whether or not consultation of interested parties and the public is a legal requirement, if it is embarked upon *it must be carried out properly*." (my italics)

Weatherup J in his judgement then spells out the four requirements of proper consultation:-

"To be proper, consultation must be undertaken at a time when proposals are still at a formative stage; it must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response; adequate time must be given for this purpose; and the product of consultation must be conscientiously taken into account when the ultimate decision is taken."

Viewed against these requirements the current consultation falls far short. As a society, Northern Ireland can reasonably expect openness and transparency of the Executive and anything less has the potential to damage significantly, perhaps irreparably, the political process. In short, Northern Ireland deserves better of the Executive with respect to consultation.

III General Remarks

(a) Water Charges

CSR notes (1.8) that spending plans for 2010-11 were predicated on a phased introduction of domestic water charges. The necessary *quid pro quo* of this decision was that there would then be a gradual reduction in the public subsidy to NI Water (2.12). It is appreciated that by deciding to defer the introduction of water charges a consequential burden has been placed on the Executive, and CSR readily acknowledges the assistance of HM Treasury up to and including 2009-10. CSR would also wish to pay tribute to those involved in securing this additional funding (some £100M). Going forward, however, an annual cost of £200M is clearly not sustainable and so CSR recognises that a phased introduction of water charges is both inevitable and correct.

However, the issue of "double charging" has not been addressed either in the Review or elsewhere. An element of rates, whether commercial or domestic, contributes to the provision of water and therefore any introduction of water charges ought to have a consequential impact on rates. Clearly further research and reflection on this issue is required.

(b) Equal Pay

In a probing analysis of the Review Prof Colin Harvey and his collaborators analyse the proposals to see how they may contribute to the advancement of economic and social rights. They do so by comparing the proposals with a variety of international benchmarks. An aspect of this analysis identifies immediate obligations resting on the Executive. In particular they identify the right to "fair wages and equal remuneration for work of equal value without distinction of any kind." Bearing this in mind CSR welcomes warmly the indication that payments due to equal pay perform in NICS will be implemented as soon as possible. CSR recognises the very significant cost involved (£155-170M) and also the fact that £100M has been secured from HM Treasury to offset partially the cost involved. Again CSR would commend warmly those who lobbied successfully in this matter.

(c) Capital Receipts

CSR recognises the very significant downturn in the property market and notes that this trend continues with property values having dropped some 40% from their peak. This clearly impinges on projected income coming from the disposal of surplus assets (2.15). CSR also notes that there will be a further shortfall (3.20). However CSR further notes that with "slippage in two major projects planned for 2010-11 which are broadly equivalent in value to the anticipated shortfall in receipts" the net impact of these considerations will have no bearing on the 2010-11 budget.

Clearly however this is an issue that has the potential for very significant impact in future years.

(d) Rating

The proposal of 1.11 is predicated on a stark choice between increasing regional rates or a re-prioritisation of existing budget allocations. CSR appreciates the very significant increase in real terms of the regional rate in recent years and in consequence the view that a further increase at this time would not be appropriate. However, for future years there must clearly be increases in the regional rate and given this reality CSR would press the Executive to keep such increase to a modest level – say in line with RPI increases.

Further, CSR can appreciate the wisdom of the Small Business Rate Relief Scheme given the present economic circumstances. However no arguments are presented with reference to the deferral of the rating of Vacant Dwellings, nor is a time scale given for the introduction of this measure.

(e) Planned Over-commitment

CSR notes that spending plans were based on an initial level of planned over-commitment being reduced from £100M in 2008-09 to £60M in 2010-11 (2.14). CSR also notes that in light of experience the Executive has agreed to plan on the basis of a zero over-commitment for 2010-11 (3.5). CSR takes a view that this latter position may be over-optimistic and failure to reach this target will have implications for future years.

(f) Impact of UK Budget and pre-Budget Reports

CSR notes that there will be a reduction in respect of the NI share of additional £5Bn of efficiencies expected of UK departments (3.3). It would have been helpful to get an indication of the likely impact of this decision on the NI budget going forward.

IV Specific Comments

CSR acknowledges that the proposed re-prioritisation of spending allocations between departments (4.3) is the most appropriate way forward and also that delivery of frontline services continues to have high priority. The following comments are offered recognising the very real pressures identified above.

(a) DHSSPS

CSR notes the modest increase of £24.8M (0.5%) increase regarding current expenditure together with a reduction of £21.5M (approx 1%) regarding capital expenditure. CSR welcomes the former and regrets the latter. More importantly, CSR would ask the Executive to recognise the historic under-funding of DHSSPS over many years and endeavour to address this issue over the coming years.

(b) DE

CSR notes that the UK has ratified the UN International Covenant on Economic Social and Cultural Rights 1966 (ICESCR). Specific immediate obligations include the "right to free and compulsory education for all" (Art. 13 2)(a). Against this background CSR notes with concern a reduction of £51.6M (2.6%) in DE current expenditure budget and a reduction of £31.8M (15.8%) re. capital expenditure.

(c) DRD

The increases of £85.6M (25%) re DRD current expenditure and £94.3M (20%) re capital expenditure presumably are the outworking of the policy that "development of the economy as top priority", however these increases by any standard do seem disproportionately large. A detailed explanation justifying such increases would have been helpful.

Conclusion

The above comments notwithstanding CSR continues to wish the Executive well in all their endeavours.



S Wesley Blair (Revd Dr)
(Chair Council on Social Responsibility)