

Public Finance Scrutiny Workshop Series

Research and Information Service
Finance and Economics Research Team
Public Finance Scrutiny Unit

29 April 2024

Public Finance Scrutiny Workshop Series

Overall Aim:

To better equip Members of the Legislative Assembly (MLAs) and those who support them (staffers, political party researchers, Assembly officials and others) in Northern Ireland Assembly plenaries and committees

Related Objectives:

Through accessible explanation, reducing complexity and confusion, the themed modules seek to:

1. Increase knowledge and understanding of public finance
2. Raise awareness of good practice in public finance
3. Nurture applied learning amongst MLAs and those who support them
4. Strengthen Northern Ireland Assembly scrutiny in plenaries and committees
5. Support delivery of efficient, transparent and accountable governance in Northern Ireland through informed scrutiny and oversight

“Five-stop” online reference guide - themed modules: (updated as needed)

1. **Northern Ireland Executive Budget Cycle:**
explaining key concepts to support Assembly scrutiny
2. Northern Ireland Public Finances:
demystifying and supporting Assembly scrutiny throughout the Budget cycle
3. Spending Plans and Supply Estimates Process:
supporting Assembly scrutiny during Formulation and Approval stages of Budget cycle
4. In-Year Monitoring:
supporting Assembly scrutiny during Execution stage of Budget cycle
5. Resource Accounts:
supporting Assembly scrutiny during Audit stage of Budget cycle

Module 1 - Northern Ireland Executive Budget Cycle: explaining key concepts to support Assembly scrutiny

Themes for today:

- ❖ **Contextualising Assembly scrutiny of the Northern Ireland Executive Budget and Public Spending**
- ❖ **Explaining the Northern Ireland “Public Finance Framework” (“PFF”)**

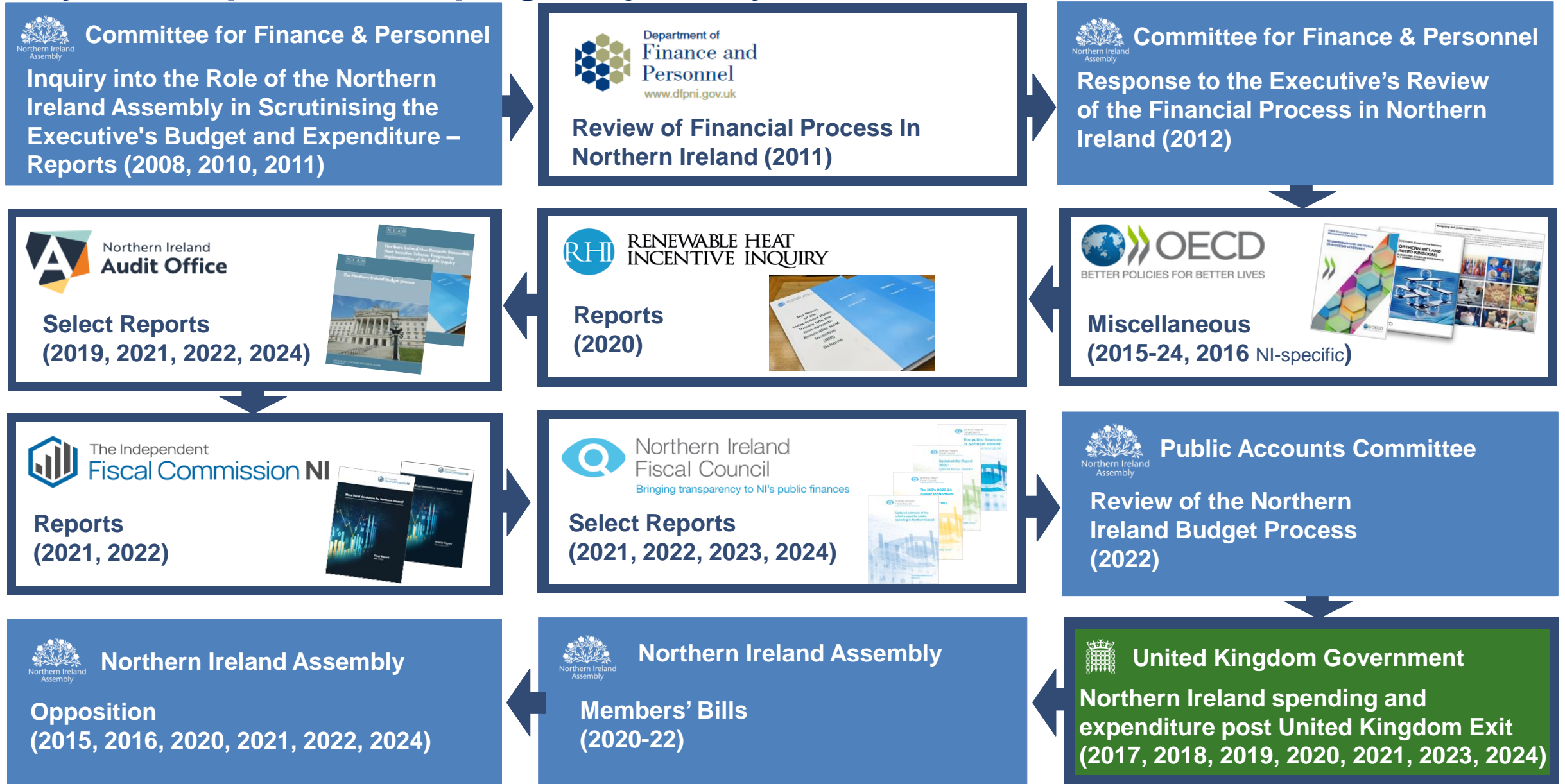
❖ Contextualising Assembly scrutiny of the Northern Ireland Executive Budget and Public Spending:

- Key developments shaping the journey
- RaISe-PFSU mapping exercise post United Kingdom Exit - 4 apparent categories
- Members' Bills in the Northern Ireland Assembly
- Opposition in the Northern Ireland Assembly

❖ Explaining the Northern Ireland “Public Finance Framework” (“PFF”):

- What is the PFF; what are examples of when it is relevant; why is it important to understand; does it stay the same or change; what are its main components?
- Government budget cycle stages - international principles and good practice
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- Northern Ireland’s “twin tracks” - Budget policy and Budget legislation

Key developments shaping the journey:

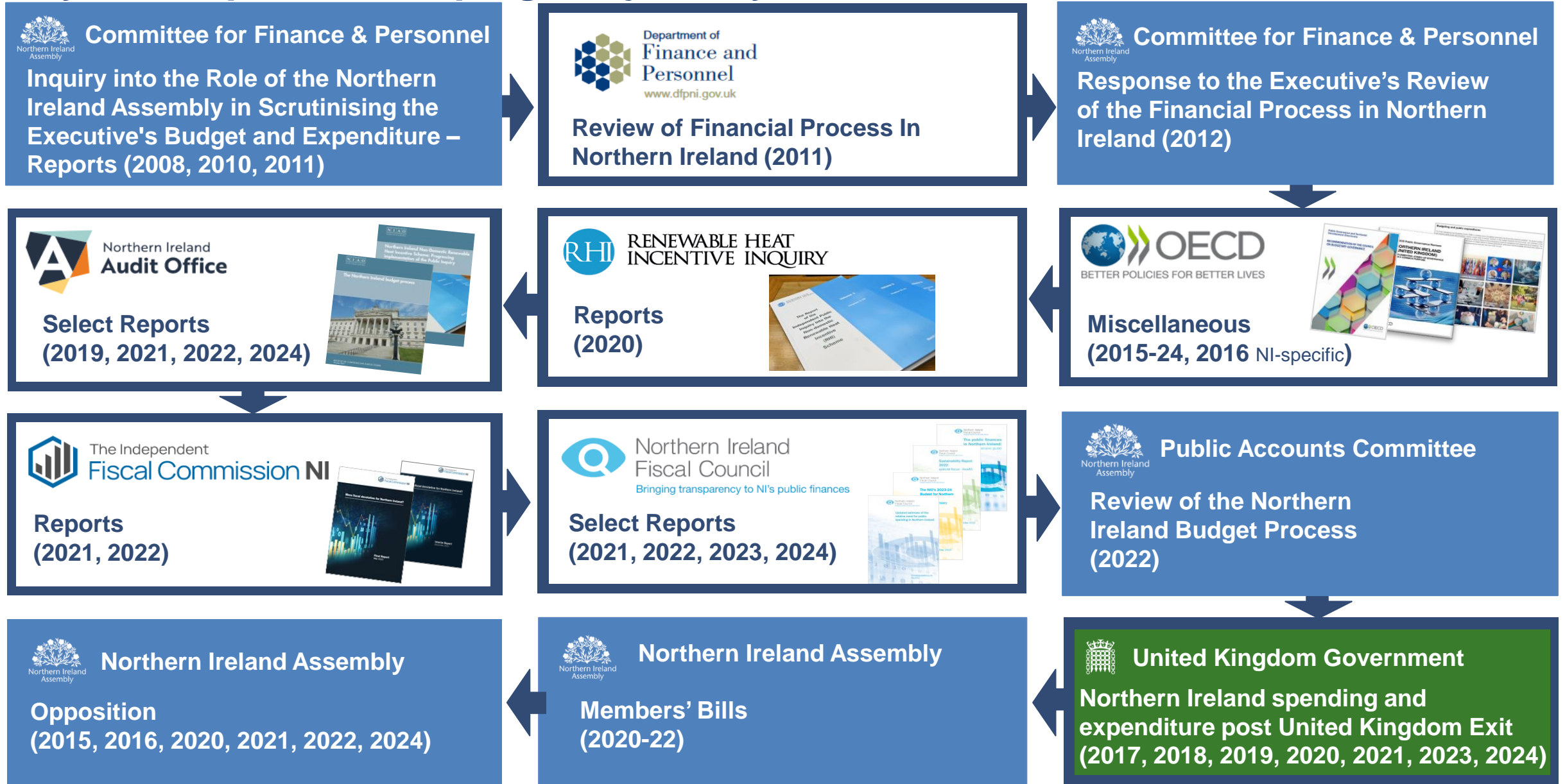


❖ KEY POINTS:

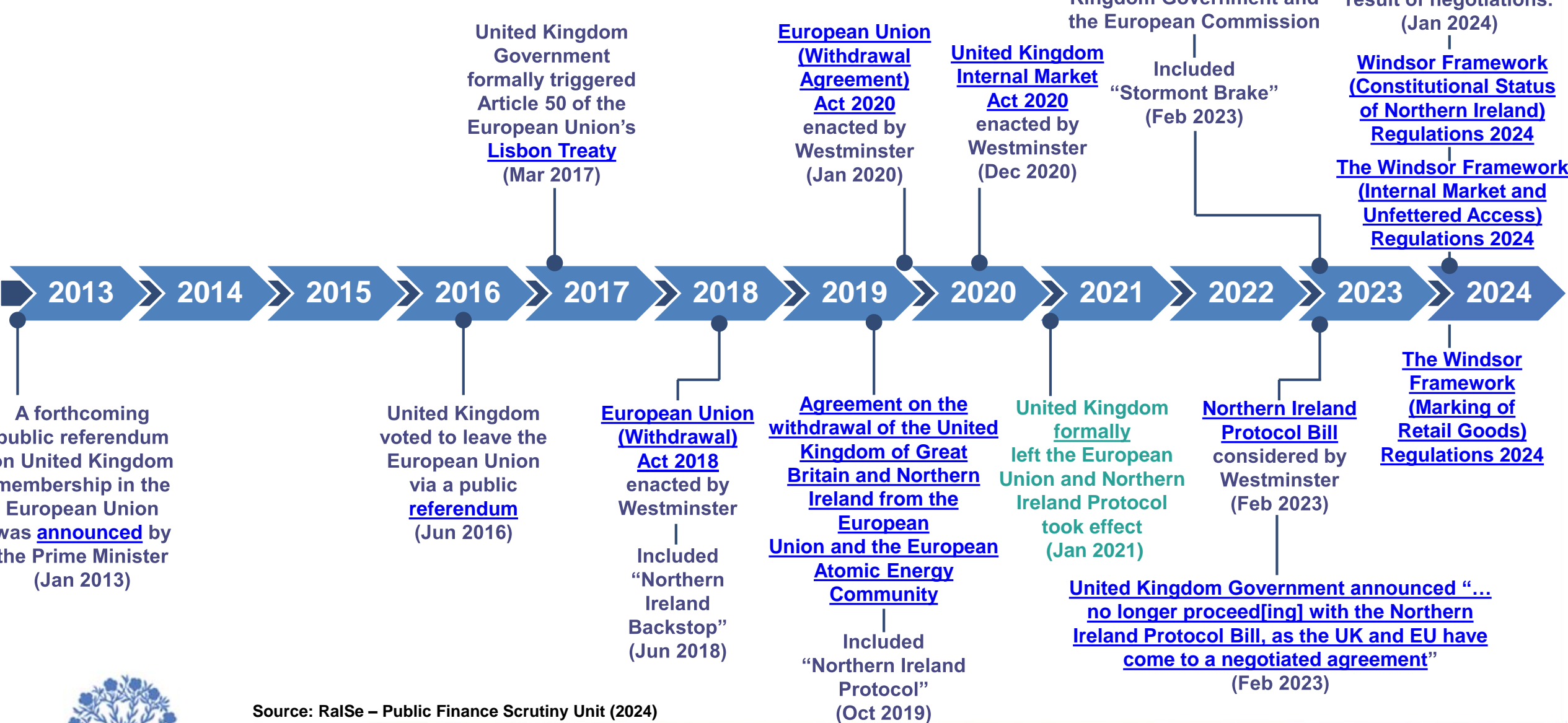
- Significance of previous slide:
 - It highlights key developments – past and recent - in the Assembly's journey to date, to:
 - Enhance MLAs' **scrutiny** of the Executive Budget and public spending – in Assembly plenaries and committees
 - More fully utilise committees' **advisory** function
 - It also encourages MLAs to be mindful - in plenary and committee - of:
 - The impact of Members' Bills on departmental budgets (see later slide)
 - Opposition developments providing another potential information/data source for committees' reference (see later slide)
- Going forward ...

- **In future, apply learning from past and recent developments** - in particular, the findings and recommendations stated in the highlighted reports, to:
 - Avoid repeating the past
 - Support robust, evidence-informed Assembly scrutiny - via MLAs sitting in plenary and committee – of departments’:
 - Policy and budget planning
 - Public spending
 - Related decision-making
 - Hold the Executive and its individual departments to account for their use of the public purse and delivery of public services
 - For example, have they done so in an **efficient and effective manner that represents “value for money”** – “***getting a good deal from public expenditure***”?
 - See: [What is value for money \(VFM\)? | Department of Finance \(finance-ni.gov.uk\)](https://www.finance-ni.gov.uk/what-is-value-for-money)
 - Provide – ultimately - effective scrutiny and oversight of the departments

Key developments shaping the journey:



United Kingdom Exit – timeline of key events:



Source: RaISe – Public Finance Scrutiny Unit (2024)

RalSe-PFSU mapping exercise post United Kingdom Exit – 4 apparent categories:

Continuing European Union funding

Northern Ireland continues to receive support from European Union Structural and Investment Funds (ESIF), with “N+3” (as previously explained), via PEACEPLUS; also potentially Horizon Europe (agreed September 2023)

“Match Levels of Funding”/“Domestic Alternatives”

“Match Levels of Funding” succeed ESIF via European Social Fund, European Regional Development Fund, LEADER element of RDP and INTERREG B and C, with “N+3”, in the form of “Shared Prosperity Fund”, which is administered via Whitehall Department for Levelling Up; “Community Renewal Fund”; and, “Domestic Alternatives” succeed Erasmus in the form of “Turing Scheme” and Creative Europe in the form of “Global Screen Fund”

“European Union Replacement Funding”

During SR2021, United Kingdom Government committed to maintain funding for the specified period, which previously was available to: farms via European Agricultural Fund for Rural Development, with “N+3”, and European Agricultural Guarantee Fund, with “N+3”; and, fisheries via European Maritime and Fisheries Fund, with “N+3”

“European Union Competitive Funds” (no currently known replacements)

Connecting Europe Facility, Health, Disease Eradication (Tuberculosis) and COSME

❖ KEY POINTS:

- Going forward, apparent findings arising from RaISe-PFSU's mapping exercise (2023) could inform MLAs when engaging with departments on their budgets and public spending, in both plenary and committee
- Further mapping could better ascertain where such funding gaps have arisen in the short, medium and long terms; and which departments/organisations are impacted, as well as what those gaps amount to

❖ **SCRUTINY POINTS:**

- 1. For each department that received European funding pre-United Kingdom exit from the European Union, has that department undertaken any work to identify any funding gaps arising from the United Kingdom's exit? Please detail.**
- 2. If yes to (1.) above, what has that department done to identify and quantify those gaps? Please explain, including methodology to identify and calculate.**
- 3. If yes to (1.) above, please detail:**
 - a. What has been the impact of any such gaps on departmental budgeting and delivery of public services?**
 - b. What is the anticipated impact of those gaps in future - in the short, medium to long terms?**
- 4. If no to (1.) above, are there any departmental plans for such an exercise going forward? Please explain in full.**

Members' Bills in the Northern Ireland Assembly (MBs):

❖ A MB:

- Is a non-Executive Bill
- Brought by a one or more MLAs, in accordance with Northern Ireland Assembly [Standing Orders](#) and other Assembly requirements
- Is accompanied by an “Explanatory and Financial Memorandum”, which includes information about the Bill, including its financial implications if enacted and implemented

❖ During the 2017-2022 Northern Ireland Assembly mandate, the introduction of MBs significantly increased, and many were successful (10)

❖ **KEY POINT:** If a MB is enacted, the relevant department is to implement the new legislation. The Minister then needs to factor that into departmental policy and budget planning, and related decision-making going forward

Opposition in the Northern Ireland Assembly:

- ❖ The [Assembly and Executive Reform \(Assembly Opposition\) Act \(Northern Ireland\) 2016](#) included a provision to establish an Opposition in the Assembly – an “Official Opposition” and conferred the Opposition certain rights and benefits within the Assembly, including:
 - **Opposition business:** in each Assembly session, ten days to be allotted for Opposition business
 - **Ministerial Statements:** the first question on the statement shall be asked by a member of the Opposition
 - **Topical Questions:** the first Topical Question to a Minister shall be asked by a member of the Opposition
 - **Committee Membership:** so far as practicable, at least one seat on each statutory committee is to be allocated to a member of the Opposition
 - **Business Committee:** at least one member of the Business Committee must be a member of the Opposition
 - **Public Accounts Committee:** the Chairperson of the Committee is to be nominated by the Leader of the Opposition and the deputy chairperson is to be nominated by the Deputy Leader of the Opposition (in the case of more than one party being in the Opposition)
- ❖ **KEY POINT:** The noted Opposition speaking and nomination rights in the Assembly, which include matters relating to public finance, including, but not limited to, the Executive Budget

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❖ Explaining the Northern Ireland “Public Finance Framework” (“PFF”):

- What is the PFF; what are examples of when it is relevant; why is it important to understand; does it stay the same or change; what are its main components?
- Government budget cycle stages - international principles and good practice
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Key things to understand about the PFF...

What is the "PFF"?

It is a term used by the Assembly's Public Finance Scrutiny Unit (PFSU), to loosely refer to the "rules", which define the scope of the boundaries in which central and devolved government, and their legislatures, are empowered to act and take decisions on matters relating to Northern Ireland public finance.

What are examples of when it is relevant?

Throughout the Executive Budget cycle - all its stages - formulation, approval, execution and audit - when: the Executive and departments are planning, prioritising, approving, implementing, monitoring, managing, accounting, auditing, investing and reporting on policy delivery, expenditure allocation, public spending, borrowing, revenue raising (Regional Rates, sales of assets and other); and, the Assembly is discharging its advisory and scrutiny roles in plenaries and committees.

Why is it important to understand?

The PFF creates both flexibilities and constraints for the Executive and the Assembly when exercising their powers and taking decisions on matters relating to Northern Ireland public finances. For example, the Northern Ireland Executive Budget cycle is a sub-cycle of the United Kingdom Government's Budget cycle. The two cycles inter-relate. That means, for example, the United Kingdom Government always completes the formulation stage of its Budget cycle, before the Executive can do the same for the formulation stage of its Budget cycle. The Executive cannot start before the United Kingdom Government's Budget cycle.

Does it stay the same or change?

It is a "living instrument", which has evolved over time, as changes gradually have arisen from, for example, political agreements and subsequent legislation and related financial support packages.

What are its main components?

The rules are found in: legislation transposing the devolution settlement: fiscal and spending frameworks: public policy priorities of government: budgeting frameworks to manage across departments; and, legislative financial accountability processes. Those various components - non-legislative and legislative - can be grouped as follows: political agreements; financial support packages; inter-governmental concordats; legislation; government priorities, policies, guidance and practice; and, legislative procedure and practice.

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Government budget cycle stages - international principles and good practice:

❖ OECD's Ten Principles of Good Budgetary Governance (2015)



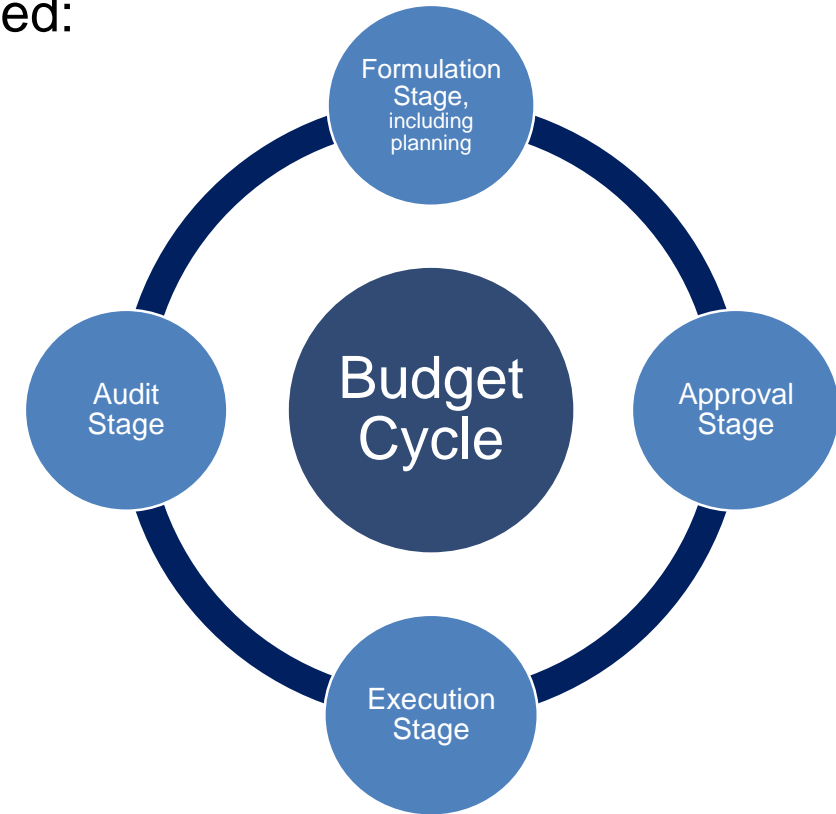
The **ten principles** of good budgetary governance *at a glance*

1. Manage budgets within clear, credible and predictable limits for fiscal policy
2. Closely align budgets with the medium-term strategic priorities of government
3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner
4. Ensure that budget documents and data are open, transparent and accessible
5. Provide for an inclusive, participative and realistic debate on budgetary choices
6. Present a comprehensive, accurate and reliable account of the public finances
7. Actively plan, manage and monitor budget execution
8. Ensure that performance, evaluation & value for money are integral to the budget process
9. Identify, assess and manage prudently longer-term sustainability and other fiscal risks
10. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit

Government budget cycle, with distinct four stages:

- ❖ [Findings arising from case studies undertaken by the Organisation for Economic Cooperation and Development \(OECD\)](#) have established:
 - International good practice
 - Online budgeting and public expenditure library
- ❖ Central to those OECD findings is (emphasis added):

*The budget life cycle refers to the major events or stages of the budgetary decision-making process, as well as the implementation and ad-hoc review of those decisions over time. Specifically, **the budget cycle has four stages: formulation (which includes planning), approval, execution and audit.***



Source: RaISe – Public Finance Scrutiny Unit (2023), relying on [OECD](#) (2018)

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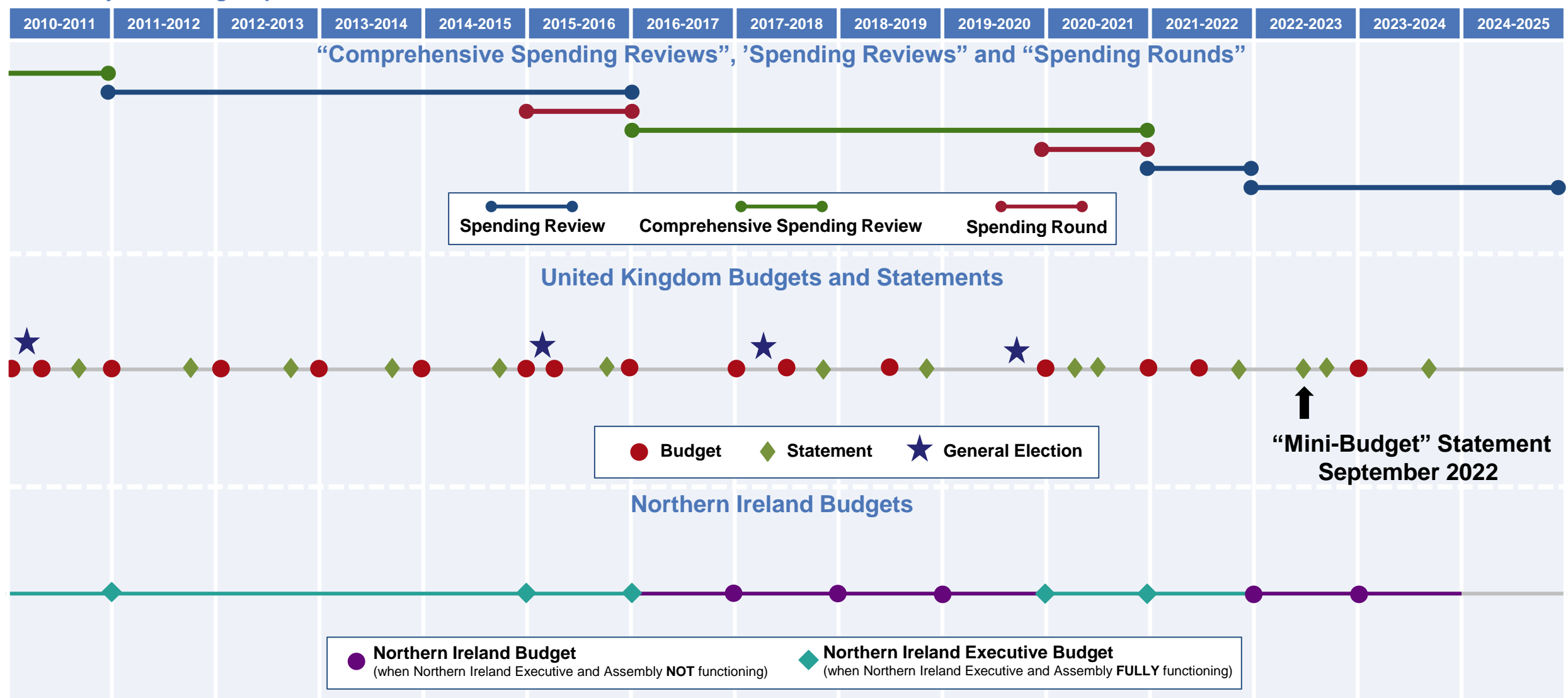
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How Northern Ireland Executive Budget cycle fits into the United Kingdom Budget cycle:

Financial year running 1 April – 31 March



Source: RaISe – Public Finance Scrutiny Unit (2024)

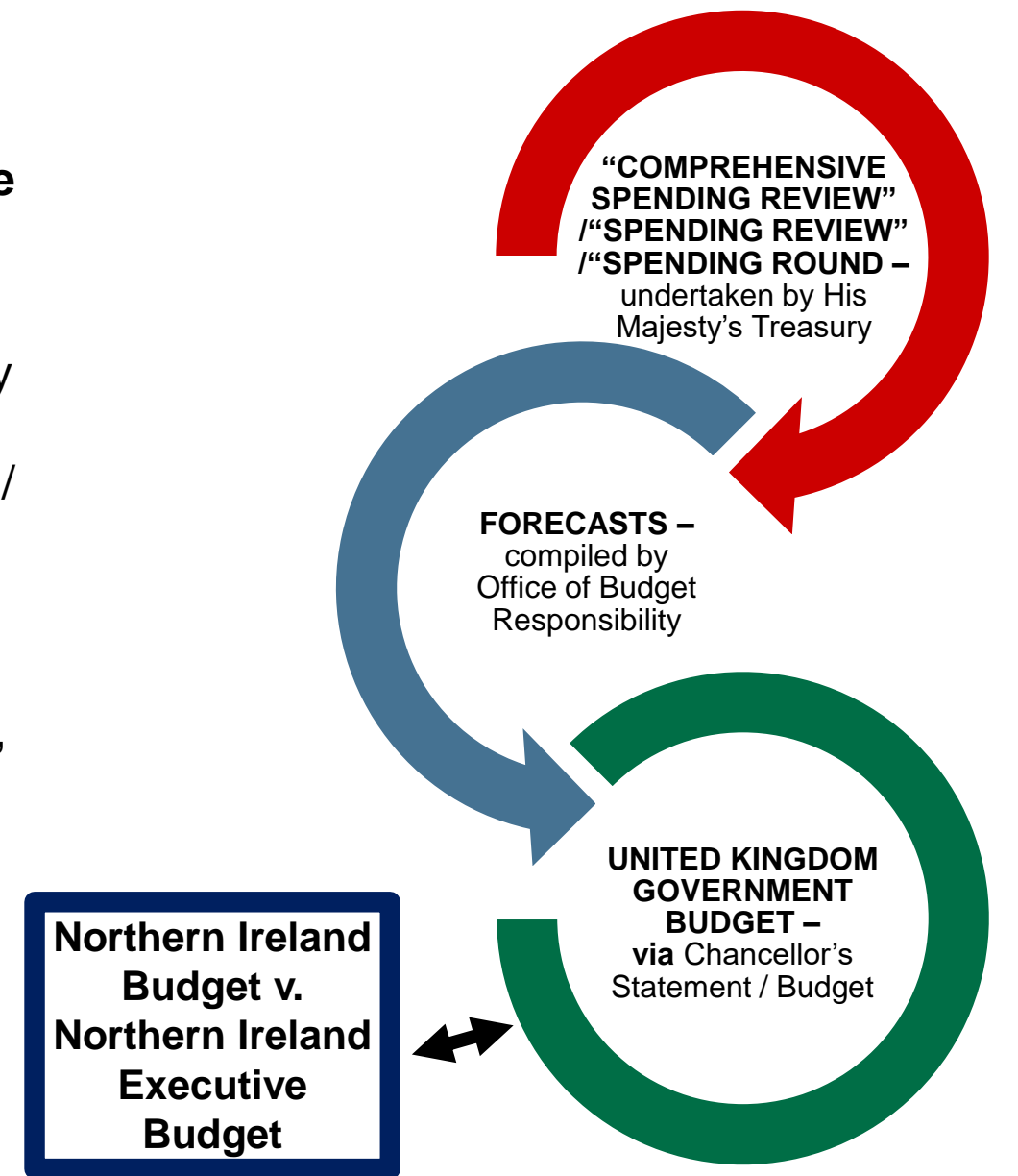
KEY POINTS: (previous slide)

- ❖ The United Kingdom Government undertakes its Comprehensive Spending Reviews, Spending Reviews or Spending Rounds via the Chancellor of the Exchequer/His Majesty's Treasury
 - Thereafter, the United Kingdom “Budget” is set, and later “Statements” could be made by the United Kingdom Chancellor of the Exchequer (Chancellor):
 - **Budgets** - Each year - sometimes more than once - the United Kingdom Government via the Chancellor has to formulate and agree a Budget
 - Required under [Charter for Budget Responsibility](#) (Autumn 2022), which specifies the United Kingdom Government's Fiscal Framework
 - **Statements** - Each year – sometimes more than once - in addition to the Budget - the Chancellor also may make Statement(s) to report on the state of the economy, and supplement information contained in the Budget
- ❖ Each time, the devolved government's Budget cycle is triggered by the United Kingdom Government's:
 - The Northern Ireland Executive's is a sub-cycle within the United Kingdom Government's overarching cycle

- ❖ **KEY POINT:** Two United Kingdom fiscal events are pre-cursors to formulating the Northern Ireland Executive Budget
 - They are part of the **Formulation (including planning) stage** of the United Kingdom Budget cycle:

1. “Comprehensive Spending Reviews”, “Spending Reviews”(C/SR) or “Spending Rounds” (SRo) – led by His Majesty’s Treasury (HM Treasury), which in turn inform the [Chancellor of the Exchequer’s](#) Statements / Budgets; named for year in which announced
2. “Forecasts” - compiled by the OBR ([Office of Budget Responsibility](#) - the United Kingdom’s Independent Fiscal Institution), based on proposed policy changes, including those relating to tax, in the wider economic context

- ❖ **KEY POINT:** Both United Kingdom fiscal events enable the United Kingdom Government to plan and set annual spending and revenue gathering for a specified period - including for Whitehall departments’ and devolved administrations’ settlements - their “Spending Envelopes”



Source: RaiSe – Public Finance Scrutiny Unit (2024)

Definitions:

Comprehensive Spending Reviews:

Focuses on each Whitehall department's spending requirements from a zero base for a specified period – that is, without reference to past plans or current expenditure, which each department must justify and bid for the entirety of its funding

Spending Reviews:

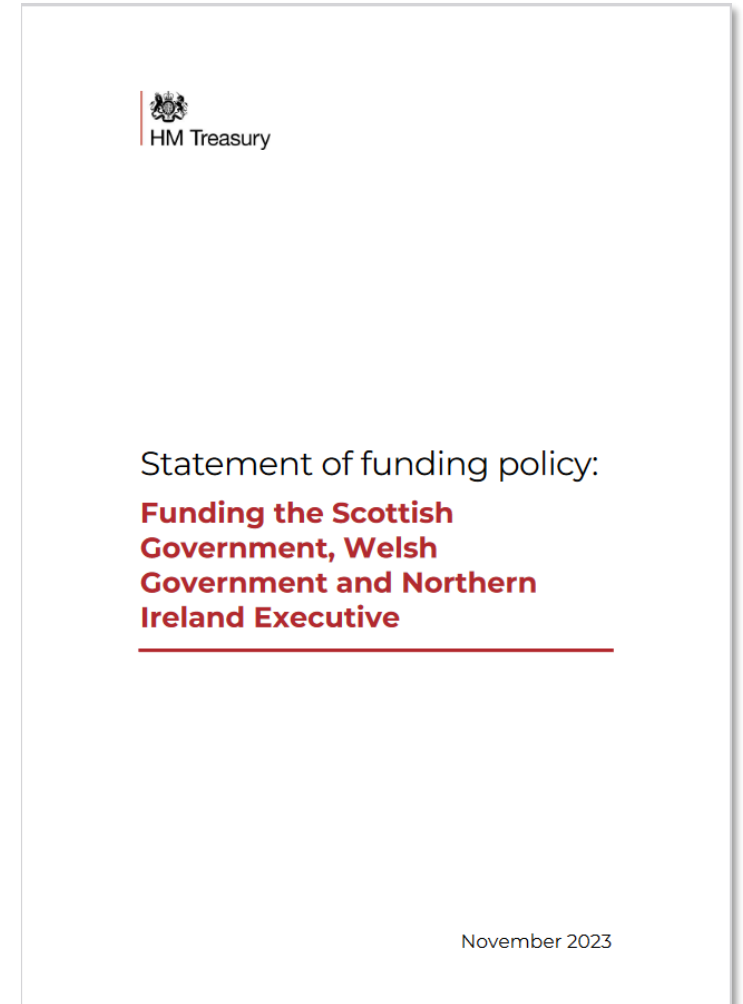
Sets Whitehall departmental budget for current and capital spending over a specified period spanning several years (Whitehall multi-year expenditure ceilings); and then departments decide how best to manage and distribute that spending within their areas of responsibility

Spending Rounds:

Is a Whitehall-led process to allocate resources across all government departments, according to the United Kingdom Government's priorities - very similar to a Spending Review. On occasion, it may allocate spending for just one year, rather than multiple years (less so, since 2010 and COVID in 2020)

❖ HM Treasury Statement of Funding Policy (“SFP”):

- Features in the Northern Ireland’s PFF – central to it
- Defines key funding arrangements for the specified SR period between United Kingdom Government and DAs for the specified SR period – HM Treasury document
- Updated as needed at SR; most recently November 2023
- Anticipated to be amended in future, if any changes arising relating to, for example:
 - Principles for allocating funding (paragraph 2.5-2.10) such as those relating to Barnett formula;
 - More fiscal devolution;
 - Changes arising from financial support package(s) following political negotiation(s) and subsequent agreement(s) reached
- **KEY POINT:** SFP is central to understanding Northern Ireland’s PFF – important to read!



❖ Other SFP provisions to be aware of:

- “Principles for inter-governmental financial relations” - [SFP, at paragraphs 2.1-2.10](#):
 - Include specific “principles for allocating funding within the United Kingdom” and related “Disputes”
- Welfare Reform in Northern Ireland - [SFP, at paragraphs 7.14-7.16, and 2.6\(10\)](#):
 - “Parity principle” - People in Northern Ireland pay the same rate of income tax and National Insurance Contributions (NICs) as rest of the United Kingdom (Great Britain), and therefore under the “parity principle” are to receive the same benefits – namely social security, child support and pension;
 - But if Northern Ireland opts to depart with a “super parity” measure, then it must meet additional costs arising from the departure (“repercussiveness”)
- Long-haul Direct Flights Air Passenger Duty - [SFP, at paragraphs 12.7](#):
 - Tax foregone to the Exchequer – so “Block Grant Adjustments” under government principles specified in SFP, including agreed mechanism to calculate the Adjustment, regardless of non-existence of long-haul direct flights; adjustment updated each year

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Northern Ireland's “twin tracks”:

❖ Simply stated:

- The Executive Budget Process concerns budget policy
 - Reflects the United Kingdom Government's plans for taxes and policies (new and amended existing) in light of the view of the state of the economy, and in turn
 - Informs Northern Ireland spending plans, as outlined in its Budget
 - Refer to Modules 3 and 4 in this Workshop Series for more detail:
 - Module 3 addresses budget policy in terms of the formulation and approval stages of the Executive Budget cycle
 - Module 4, the execution stage of the cycle
- The Bills/Acts concern budget legislation
 - Are proposed and enacted – Supply Estimates Process
 - Refer to Module 3 in this Series for more detail

Any Questions

