Northern Ireland Assembly

Research and Information Service Briefing Paper

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Public Finance Scrutiny Unit

Monitoring Rounds: Assembly Scrutiny

This Briefing Paper aims to facilitate Assembly scrutiny of the Executive's In-year Monitoring process. It outlines the process, in particular highlighting recent amendments to the Department of Finance's guidance. It draws attention to key issues meriting the consideration of statutory committees specifically and the wider Assembly more generally.

Introduction

Most statutory committees receive routine briefings from departments about the In-year Monitoring Rounds. This Briefing Paper aims to support the Assembly and its statutory committees (committees) when considering Monitoring Round information and data.

The Paper is presented as follows:

- **In-Year Monitoring Process Rules** - Section 1 sets out key elements of the rules for the In-year Monitoring process as described in the Department of Finance's (DoF) *2016-17 In-year Monitoring Guidelines* (the DoF Guidelines).[1] In particular, the Paper highlights recent amendments to the Executive's In-year Monitoring process, as reflected in the DoF Guidelines. It identifies issues that merit Assembly consideration.
- **Potential Issues for Consideration** - Sections 2 and 3 identify potential issues to consider about the In-Year Monitoring process outlined in the DoF Guidelines. In particular, these sections address the specific role that the Committee for Finance (CfF) has in examining the operation and effectiveness of the Executive's In-year Monitoring process, as noted in the DoF Guidelines:

> *The Assembly looks to the Department of Finance (DoF) to meet its expectations in this area in a transparent, responsible and consistent fashion. It will therefore expect that departments adhere fully to the guidance and standards set out in the* [In-year Monitoring guidelines].[2]

1. In-year Monitoring Process Rules

The Executive's In-year Monitoring process:

> *…provides a formal system for reviewing spending plans and priorities for each financial year in light of the most up to date position[…] [It] is designed to aid good financial management and ensures that resources are directed towards the Executive's highest priority areas.* [3]

In other words, In-year Monitoring allows the Executive to:

- adjust the allocation of resources set out in the agreed budget in relation to emerging expenditure pressures; and/or,
- reprioritise the use of resources which are no longer required for the purpose originally allocated.

[1] DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016.
[2] DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 1.1.
[3] DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraphs 2.2. and 2.3.

The DoF Guidelines set out the parameters of the process, and specify the rules that departments should follow. The sub-sections below provide an overview of the DoF Guidelines as follows:

1.1 Role of the Assembly; and,

1.2 Changes in the In-year Monitoring process.

1.1. Role of the Assembly

The three In-year Monitoring Rounds - held in June, October and January - provide an opportunity for the Assembly's statutory committees to engage with their departments on the developing in-year financial position. Monitoring Rounds are a key opening for committees to discharge their scrutiny functions in relation to departmental expenditure plans. They may also be a time for committees to exercise influence over the prioritisation of resources, albeit in an increasingly restricted way (see sub-section 1.2 below).

The indicative In-year Monitoring timetable for the remainder of 2016-17 is shown in Table 1.[4]

Table 1[5]

	October	January 1st stage	January 2nd stage
Departmental Returns to DoF	3 October	8 December	3 January
Executive Meeting	20 October	N/A	12 January
Assembly Statement	24 October	N/A	16 January

1.2. Changes to the In-year Monitoring Process

Following the 2016 Assembly elections and the formation of a new Executive, the DoF amended its 2016-17 *In-year Monitoring Guidelines*. The changes have somewhat narrowed the scope for Assembly scrutiny, in particular committee input into resource allocations. Key changes and their potential ramifications relating to the transparency of the process are presented below:

1.2.1 Departmental bids; and,

[4]DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 3.4.

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

1.2.2 Administration expenditure.

1.2.1. Departmental bids

Unlike previous years, the Executive's 2016-17 In-year Monitoring process does not include a departmental bid stage. This removes one avenue for Assembly scrutiny that was previously available.

In answer to an Assembly Question on 29 June 2016, the Minister of Finance explained the amended process:

> *The new approach to in-year monitoring will be informed by ongoing engagement between departments and officials from Public Spending Directorate (PSD). Based on this engagement PSD will provide details of key pressures to be considered alongside an analysis of the overall public expenditure position. This will inform Ministerial discussions and Executive agreement on allocations through the in-year monitoring process.*[6]

It therefore seems that bid documents will no longer be available for Assembly committee examination, as indicated by the Minister of Finance when he stated:

> *I do not intend to publish the input received from departments.*[7]

On 28 September 2016, the DoF explained in evidence to the CfF the reasons for removing the bidding process:

> *It was not a case of the bids being hidden; it was simply that we did not formally seek bids. With the new arrangements in the Executive, and with having official Opposition, there has been more ongoing engagement and identification of pressures, so we have avoided a bids process as such. The guidance has been rewritten and amended to reflect that. It is not that we are seeking bids; what we are doing is engaging with Departments to identify any real pressures that are emerging.*[8]

In his October Monitoring Round 2016-17 Statement on 25 October 2016, the Minister of Finance stated:

> *The new approach is consistent with the position adopted in Scotland, Wales and the South where Parliamentary scrutiny takes place through the Estimates process and focuses upon in-year changes to budgets with no reference to bids.*[9]

The Minister's statement is made within the current context of on-going budget/financial processes-related discussion in Scotland, Wales and the Republic of Ireland (RoI)

[6] AQW 1694/16-21 accessed 4 October 2016
[7] AQW 1694/16-21 accessed 4 October 2016
[8] Official Report 28 September 2016, accessed 7 October 2016, see page 8
[9] DoF (2016) October Monitoring Round Statement, see page 2

between executive and legislative arms of government, to improve them. In at least two of the countries, such discussion follows on from engagement with the OECD (the Organisation for Economic Cooperation and Development).

In addition, his statement marks a departure from the previous Northern Ireland In-year Monitoring process, which for all its limitations, at least made available some additional relevant information and data, which was used to inform the In-Year Monitoring process through Assembly scrutiny; and arguably served to enhance the transparency of public expenditure processes in Northern Ireland. The removal of the bidding process raises a question as whether it could be seen as a retrograde step in the Executive's approach to budgeting.[10]

Such removal also appears to follow unfavourable findings of the 2015 *Open Budget Survey*, i.e. internationally many legislatures' strength is diminished by:

> *…significant constraints on their ability to perform adequate oversight during budget implementation. In these countries, the executive can arbitrarily change the budget approved by the legislature without consulting or seeking the legislature's approval. Therefore, actual spending can deviate from the spending plan authorized by the legislature. In a large majority of survey countries, the executive can circumvent the Enacted Budget by redistributing funds between ministries, spending excess revenues, or spending amounts set aside in contingency funds, all without first seeking legislative approval or input.*[11]

Potential issue for consideration:

1. The CfF may wish to ask the DoF to set out how *'…ongoing engagement and identification of pressures…'* occurs. What is the formal process? Or is it simply *ad hoc*? If the latter, how does the DoF ensure that all departments are adequately engaged with and that their pressures are given due consideration by the Finance Minister?

Greater clarity about how this process operates in practice will enable the CfF to consider the most appropriate means of scrutinising the DoF's application of the In-year Monitoring process.

Potential issue for consideration:

2. In anticipation of the Finance Minister's Monitoring Round Statements, Committees may wish to routinely ask their respective departments about their

[10] For discussion, see also RaISe (2010) Considerations for Reform of the Budget Process in Northern Ireland, accessed 25 October 2016, see page 61

[11] International Budget Partnership (2015) Open Budget Survey, see page 51

ongoing engagement with the Finance Minister and the pressures, if any, that they have identified.

Such information would enable committees to monitor patterns and trends in departmental expenditure, enabling more robust financial scrutiny in a time of austerity.

1.2.2. Administration expenditure

In previous years, the Minister's Monitoring Round Statements included a table listing departmental administration expenditure. This enabled the Assembly to monitor trends in departments' expenditure on 'back office' functions as opposed to 'frontline' service delivery. This information is likely to be of interest to committees in the context of increasingly scarce resources. Prior the Executive's *Budget 2011-15,* departments' administrative costs were separately controlled and limited.[12]

The DoF Guidelines state that there is no strict ceiling on administration expenditure:

> *…there is no formal limit on the level of administration costs. It is for individual Ministers to decide on the proportion of their budget that is allocated to frontline services or administration costs.*

Nevertheless, the DoF will continue to monitor and record departments' administration expenditure:

> *This decision does not remove the need to record information at that level and any movement between frontline services and administration costs must be recorded and will be monitored by DoF at each monitoring round.*[13]

However, no administration cost data was provided in the Minister's June Monitoring statement.[14]

2. Potential Issues for Consideration

This section focuses on elements of the In-year Monitoring process which all statutory committees (committees) could scrutinise (blue boxes). Particular points for the CfF are also highlighted (pink boxes), as they build upon the points identified for the other committees in the blue boxes. The identified issues are intended to enhance the transparency of the In-year Monitoring Process.

This section sets out scrutiny points that address:

2.1 Overarching concerns;

2.2 Reduced requirements;

[12] See RaISe (2011) Draft Budget 2011-15, accessed 19 October 2016, see pages 16-17

[13] DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 5.11.

[14] DoF (2016) June Monitoring Statement accessed 4 October 2016

2.3 Proactive management action; and,

2.4 Administration expenditure.

(Further departmental function-specific elements are considered in section 3.)

2.1 Overarching concerns

Relying on relevant information and budget scrutiny sources, the overarching purpose of committee Monitoring Round scrutiny should be:[15]

- to enhance the transparency of the decision-making relating to public expenditure;
- to further develop committees' understanding of their respective departments' financial management capabilities;
- to enhance committees' ability to carry out an influential advisory role around expenditure priorities; and/or,
- to assist committees to hold Ministers and their departments accountable for their performance.

The last bullet point is of particular import given the Executive's increased focus on outcomes in its forthcoming Programme for Government.

2.2 Reduced requirements

Reduced requirements are defined in the DoF Guidelines as:

> *…amounts arising as a result of:*
>
> - *increased levels of receipts not inextricably linked to additional expenditure necessarily incurred;*
> - *unplanned asset sales (i.e. above those included in the relevant budget position);*
> - *a service or function requiring less than its existing provision;*
> - *an allocation for a specific purpose not able to be spent on the intended project or function;*
> - *savings from changes to pay/price assumptions; and,*
> - *a decision to cease or reduce a service or function (other than departmental proposals for the reduction/cessation of expenditure lines to meet pressures arising elsewhere with the department).*[16]

[15] Based upon a variety of sources including: the Belfast/Good Friday Agreement; Centre for Public Scrutiny, Hansard Society and Nuffield Foundation publications; and previous RaISe papers.

[16] DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 5.6

This definition is notable because it is broader than simply a lower-than-expected requirement for resources. For example, it is not necessarily intuitive that unexpectedly high income from fees or charges (such as MOT testing) would fall within the category of a reduced requirement.

The reduced requirements surrendered by departments are used by the Executive to fund reallocations to other departments.

The DoF Guidelines require all reduced requirements over the *de minimis* threshold of £1 million to be surrendered as early as possible in the financial year.

Potential issues for consideration:

3. Committees could ask their respective departments to routinely report reduced requirements, including an explanation for why they have arisen, and to do so in advance of each Monitoring Round.

This could help committees to understand developments in their respective departments' financial positions.

4. Committees could scrutinise the timing of their respective departments' declaration of reduced requirements.

In this way the Assembly could use its scrutiny function to help ensure that reduced requirements are returned to the Executive for reallocation as soon as possible. This could serve a number of purposes, not least helping to ensure that the Executive has the ability to address emerging expenditure pressures.

2.3 Proactive management action

Generally speaking, departments are restricted in their ability to move resources around – particularly in relation to the category of expenditure (i.e. capital or resource), to or from a ring-fenced area. Having said this, departments *may* ask the DoF for permission to take 'proactive management action',[17] i.e. limit spending in one area to fund a pressure in a higher priority area.

Potential issues for consideration:

5. Committees could ask their respective departments to explain the circumstances in which they would consider moving resources for proactive management reasons.

[17] DoF (2016) In-year Monitoring of Public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 5.21-5.26

This could help committees to understand when such movements could occur, thereby enhancing the transparency of the decision-making involved.

6. Committees could ask their respective departments to outline any criteria they might employ when deciding whether to undertake such proactive management action.

This could help committees to hold departments to account for their decisions regarding resource movement. In particular, it would enable committees to examine whether departments' decision making is underpinned by a cogent rationale, e.g. it is not arbitrary or irrational, due to, e.g. inadequate planning.

Potential issue for consideration:

7. The CfF could ask the DoF to explain the circumstances in which it would either agree or reject a proposal from a department for proactive management action, including an explanation of the underlying rationale or criteria that would be applied.

2.4. Administration expenditure

In brief, departmental administration costs include activities such as provision of policy advice, business support services, back-office administration of benefits, advice on and administration of grant programmes, technical or scientific support. In other words, those things which are not direct frontline service provision.[18]

In previous years, Assembly committees have scrutinised such spending by departments. In consequence, at various times the Public Finance Scrutiny Unit (PFSU) has provided committees with briefings on administrative cost trends in Northern Ireland departments, supporting committee scrutiny though Assembly Questions, for example.[19] As noted above, no administration cost data was provided in the Minister's June Monitoring 2016-17statement.[20]

Potential issue for consideration:

8. Committees could ask departments to provide details of their administration expenditure.

This could help committees to understand the relative balance between frontline and back-office expenditure by their respective departments.

[18]For more detail see RaISe (2010) Resource DEL: administrative cost controls, accessed 6 October 2016
[19]See, for example AQW 53627/11-16,accessed 6 October 2016
[20]DoF (2016) June Monitoring Statement accessed 4 October 2016

Potential issue for consideration:

9. The CfF could ask the DoF to explain why no administration cost data were published in the Minister's June Monitoring Statement.

The future provision of administration costs data could serve to enhance transparency about Northern Ireland's public finances and to further enable the CfF's scrutiny of the Northern Ireland Civil Service (NICS) reform agenda.

3. Committee-specific Scrutiny of future Monitoring Rounds

This section focuses on elements of the In-year Monitoring process that are relevant only to particular departments. It therefore includes scrutiny points that are respectively relevant to:

3.1 Committee for Finance (red boxes);

3.2 Committee for Health (green box); and,

3.3 Committees for Education and the Economy (grey box).

3.1 Committee for Finance

3.1.1 Administrative expenditure at NI level

In Section 2.4 above, it states that committees could ask their respective departments to provide details of their administration expenditure. The DoF Guidelines state that the DoF will monitor departments' administration expenditure.[21]

Potential issue for consideration:

10. The CfF could ask the DoF to routinely provide data on administration expenditure (in particular the trend relative to frontline expenditure).

The future provision of administration costs data could serve to enhance transparency about Northern Ireland's public finances and to further enable the CfF's scrutiny of the Northern Ireland Civil Service reform agenda. For example, monitoring administration expenditure would enable the CfF to examine the impact of departmental reorganisation on the overall cost of administration, i.e. did it reduce as expected?

3.1.2 Non-Departmental Expenditure Limit adjustments

The DoF Guidelines explain that Non-Departmental Expenditure Limit (DEL)[22] (i.e. Annually Managed Expenditure, or AME) changes can be conducted during each

[21] DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 5.11.

[22] DEL is expenditure that is controllable and subject to firm multi-year limits. AME is volatile and demand driven and not readily controllable in advance.

Monitoring Round. Certain AME expenditure may be of particular interest to the Assembly, in particular relating to Welfare Reform.

Amongst other things, in January 2016 the 'Welfare Reform Mitigations Working Group', provided for certain Northern Ireland exemptions from the UK Government's Benefit Cap.[23] This was part of the political settlement that led to the *Fresh Start Agreement*. Because welfare costs are demand-led, it is not always certain what they will cost in advance. Therefore, the Executive's agreed mitigation measures may be greater or lesser than the amounts forecast.

Potential issue for consideration:

11. The CfF could ask the DoF to provide data on Non-DEL adjustments

The future provision of relevant welfare costs data, for example, could facilitate Assembly scrutiny of the value-for-money implications arising from the mitigation measures. In other words, to enable the examination of the costs against the benefits, and thereby help to establish whether the policy is achieving its desired aims at an acceptable cost.

3.1.3 Change fund

The Executive's *Budget 2015-16* provided funding for reform-orientated projects through its 'Change Fund', as shown in Table 2:

[23] TEO (2016) Working Group Report (see Annex 8)

	£million 2015-16
Department of Agriculture and Rural Development	
Integration of control information for EU area-based schemes	1.0
Department of Education	
Nurture Units	1.6
Department for Employment and Learning	
Essential skills of maths and English for 14-16 year olds	0.2
Condition Management Programme (CMP)	0.5
United Youth Programme Pilot Phase 2015-16	3.0
Apprenticeships and Youth Training	7.5
Collaborative Skills	2.0
Total Department for Employment and Learning	**13.2**
Department of Enterprise, Trade and Investment	
Health, innovation and life sciences	0.3
Collaborative Skills	7.1
Total Department of Enterprise, Trade and Investment	**7.4**
Department of Finance and Personnel	
Collaborative Procurement	1.3
Public sector innovation lab	0.3
Total Department of Finance and Personnel	**1.6**
Department of Health, Social Services and Public Safety	
Belfast Trust Outpatients Modernisation	0.2
RAID (Rapid Assessment Interface Discharge)	0.8
NI Strategic Innovation - Medicines Management Programme	1.5
Project Echo	0.5
All Island Congenital Cardiac Service Model	1.0
Total Department of Health, Social Services and Public Safety	**4.0**
Department of Justice	
Underachieving Boys: Supporting young offenders	0.3
Intensive resettlement and rehabilitation project	0.5
Total Department of Justice	**0.8**
Department for Social Development	
Want to work or why work	0.3
Pilot project to deliver services to older people in the home	0.1
Total Department for Social Development	**0.4**
Total Change Fund Allocations	**30.0**

The DoF Guidelines state:

> *This Fund will continue in 2016-17 and allocations will be ring-fenced and actioned through the In-year Monitoring process. The Cross-Cutting Review (CCR) element of the fund will be managed by Public Sector Reform Division (DoF) who will collate information from departments and provide a return in each Monitoring round.*[24]

Potential issue for consideration:

12. The CfF may wish to request a briefing from the DoF's Public Sector Reform Division for details about the effectiveness of initiatives funded through by the Change Fund to date.

3.1.4 NI's performance against Treasury Key Performance Indicators

In section 7 of the DoF Guidelines (about departmental financial forecasting), there is a reference to the Treasury using Northern Ireland's data as a 'key performance indicator'. The Guidelines state:

[24] DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 5.50

> *As HM Treasury uses this data as a key performance indicator, the importance of timely and accurate returns is paramount. A late return (and thus delaying the NI return) or inaccurate data provided by even one department may undermine our credibility with HM Treasury.*[25]

A 2015 examination by the PFSU of departmental forecasting accuracy from 2011-12 to 2014-15 found that for Non-Ringfenced Resource DEL expenditure[26] and for Capital DEL expenditure, departmental forecasting was generally slightly less accurate in 2014-15 than in the preceding year.[27] A similar 2014 PFSU examination found that forecasting accuracy had improved slightly in some areas.[28]

This is potentially important because poor financial control by departments (such as overspending) leads to additional expenditure pressure on the Northern Ireland Block as a whole, which could impact other departments' budgets or their ability to access in-year allocations in Monitoring Rounds. In turn, if the Treasury views NI's financial management as poor, it could have a bearing on the Executive's ability to negotiate regarding future devolved funding issues. In the context of the UK's future withdrawal from the European Union, it seems likely that the Executive would wish to have as strong a position as possible.

Potential issues for consideration:

13. The CfF may wish to ask the DoF to provide evidence of any feedback it has received from the Treasury about Northern Ireland's performance against the forecasting key performance indicator.

14. The CfF may wish to ask the DoF to detail any other key performance indicators monitored by the Treasury, again including evidence of any Treasury feedback.

3.2 Committee for Health

3.2.1 Department of Health flexibilities

The In-year Monitoring process provides additional flexibilities for the Department of Health (DoH). The flexibilities relate to **Resource DEL only** and are as follows. The DoH:[29]

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[25]DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 7.8.

[26]i.e. that part of Resource DEL that is not ringfenced. The ringfenced element of Resource DEL is primarily for depreciation and impairments. Capital expenditure is on the purchase, construction of an asset from which benefit will be derived over a number of years.

[27]RaISe (2015) Departmental financial forecasting 2011-12 to 2014-15, accessed 13 October 2016, see Figures 1-4

[28]RaISe (2014) Departmental financial forecasting 2011-12 to 2013-14, accessed 13 October 2016, see Figures 1-5

[29]DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 5.51-52

- does **not** have to surrender reduced requirements like other departments (see subs-section 2.1. above), but it **must** surrender Capital DEL reduced requirements;
- has full flexibility to reallocate Resource DEL reduced requirements to other areas within the Department;
- has full flexibility to reallocate any Resource DEL expenditure to higher priority areas within the same category of spend (i.e. proactive management action – see sub-section 2.2. above; and,
- **may not** table Resource DEL pressures, unless in the event of major and unforeseeable circumstances (although this condition does not preclude the Executive making an allocation to the DoH).

Potential issue for consideration:

15. The Committee for Health may wish to ask the DoH to routinely provide details of all movements between spending areas during each Monitoring Round.

The future provision of data about reprioritisation to higher-priority areas could serve to enhance transparency about the DoH's finances, enabling the Committee's ability to scrutinise and advise on departmental budgets.

3.3 Committees for Education and the Economy

3.3.1 End-Year Flexibility schemes

The Executive has agreed two End-Year Flexibility (EYF) schemes:[30]

- The Schools Surplus scheme.[31] This allows individual schools to call on their reserves to plan financially and also to build up savings in one year for future spending; and,
- The Further Education (FE) colleges scheme. This provides FE colleges with similar flexibilities to manage their budgets.

Potential issue for consideration:

16. The Committees for Education and for the Economy could ask for specific briefings about the level of reserves held in the EYF schemes and any projections for when these reserves might be drawn down and spent.

[30] DoF (2016) In-year Monitoring of public Expenditure Guidelines 2016-17 (revised July 2016), accessed 29 September 2016, paragraph 8.6-8

[31] For more detail on the Schools Surplus scheme, see RaISe (2016) Budget 2016: Background Briefing for the Committee for Education (section 5.6)

4. Concluding remarks

This Briefing Paper demonstrated that the changes to the In-year Monitoring process for the 2016-17 year have introduced some barriers to Assembly scrutiny of departmental financial management. Nevertheless, the Paper identified where there is scope for committee scrutiny, whereby Ministers would be held to account, for their proactive management action and their relative prioritisation of administrative expenditure.

More generally, the underlying issue here is the timely availability of accurate and usable information and data. These are central to effective committee scrutiny. If such are not forthcoming, committees need to make relevant and timely requests. In addition, and crucially, their respective departments need to provide appropriate replies in a timely fashion, i.e. when committees may meaningfully contribute to Ministerial decision making.