Research and Information Service
Briefing Paper

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Public Finance Scrutiny Unit

Restructuring Northern Ireland Departments: Machinery of Government Changes

Paper 2 of 4

As part of a four-part series on the Executive Budget 2016-17, this Briefing Paper seeks to inform the context in which the Executive has made allocations. It addresses on-going government restructuring and changes to arise from it, which impact on the Executive's budgetary decisions for the forthcoming financial year. The Paper also seeks to facilitate the Assembly's financial scrutiny of the Departments Bill (the Bill), currently progressing through the Assembly.

Introduction

On 30 November 2015 the Office of the First and deputy First Minister (OFMdFM) introduced the Departments Bill (the Bill) in the Assembly. The Bill proposes to restructure government departments in Northern Ireland, reducing them to nine from twelve. Such change necessitates modification of the Executive's budgeting and accounting, in line with relevant provisions specified in guidance issued by the Treasury and the Department of Finance and Personnel about Machinery of Government (MoG) changes.

This Briefing Paper seeks to inform the context in which the Executive has made allocations. It addresses on-going government restructuring and changes to arise from it, which impact on the Executive's budgetary decisions for the forthcoming financial year. The Paper also seeks to facilitate the Assembly's financial scrutiny of the Departments Bill (the Bill), currently progressing through the Assembly.

It is presented as follows:

- Section 1 explains the Bill provisions;
- Section 2 explains Treasury and Department of Finance and Personnel (DFP) guidance governing MoG changes relating to budgeting and accounting; and,
- Section 3 defines value for money savings according to the National Audit Office, to assess the Executive's savings assertion.

Scrutiny points are outlined throughout the Paper.

All references to "the Bill" refer to the Bill <u>as introduced</u> by the Minister.

1. Departments Bill

Introduced in the Assembly on 30 November 2015 by the OFMdFM, the Departments Bill (the Bill) aims to restructure government departments in Northern Ireland, reducing them to nine from twelve. The Bill seeks to transfer all current departmental functions across nine new departments, resulting in the retention of six existing departments, with the same roles and responsibilities, or additional ones arising from the departments that are to be dissolved. If enacted and implemented as introduced, the Bill would require modification of the Executive's budgeting and accounting, in line with relevant provisions specified in guidance governing Machinery of Government (MoG) changes, as issued by the Treasury and the Department of Finance and Personnel (DFP). .

On 8 December 2015, a Junior Minister explained the Executive's view on what the Bill is expected to achieve:

> *The provision for good government through streamlined and efficient administration, improved opportunities for policy development, savings on*

> *unnecessary bureaucracy and the delivery of better services to the public will be the ultimate outcomes of the Departments Bill.*[1]

In effect, the proposed departmental reduction aims, all other things being equal, result in more efficient administration, representing better value for money, as well as some consequential cost savings.

2. MoG guidance

Relying on Treasury guidance in the area, the DFP defines MoG changes as:

> *the merger of two or more entities into one new entity, or the transfer of functions from the responsibility of one part of the public sector to another.*[2]

Guidance relating to MoG changes concerning budgeting and accounting are outlined below.

2.1. Budgeting

For the application of MoG changes to budgets (i.e. expenditure plans), the Treasury's *Consolidated Budgeting Guidance*[3] sets out the following principles:

- An MoG change in isolation should not affect the spending power of either the transferring or receiving department, i.e. no department should be left better or worse off as a result of the transfer of the budget;
- The transfer should completely 'net out' between the two (or more) departments, e.g. a DEL budget transfer should be recorded as negative by the transferring department and should be recorded as positive DEL by the receiving department. The MoG changes should therefore be cost neutral. Each department involved in the MoG change should ensure that the information provided by it is checked by and agreed between the two, to ensure that the given information is complete, consistent and correct;
- Should the function (following the transfer) require provision in excess of the amount transferred, the additional provision should not be part of the MoG and the receiving department should seek additional budget as normal (i.e. through the In-year Monitoring process in Northern Ireland); and,
- The Accounting Officer in the transferring department should have formal responsibility for the transferred function up until the relevant Estimate and related legislation has received Parliamentary (Assembly in Northern Ireland) approval. From that point onward, the Accounting Officer would be fully accountable for the transferred function, i.e. not only in the current and future year, but also for the

[1] http://data.niassembly.gov.uk/HansardXml/plenary-08-12-2015.pdf (page 15)
[2] DFP DAO 05/13 (see page 1)
[3] Consolidated Budgeting Guidance 20115-16 (see page 28) Note that Consolidated Budgeting Guidance applies to Northern Ireland as set out in the Statement of Funding Policy (see page 7)

historical period. The Accounting Officer in the receiving department should seek assurance about the values of transferred items, and that the department received all documentation relating to the function from the transferring department.

Scrutiny points:

The Assembly's statutory committees may wish to ask their respective departments about how they would ensure the principles listed above would be applied if the Bill is to be implemented as introduced.

2.2. Accounting

For accounting procedures, the Treasury's *Financial Reporting Manual*[4] applies.

The Department of Finance and Personnel (DFP) supplements this Treasury guidance, specifying how that guidance should be applied to Northern Ireland's specific circumstances. In particular, the DFP identifies two 'essential responsibilities' that departmental Accounting Officers should follow:

- *Each Accounting Officer affected should agree with his or her successor(s) how regularity, propriety and value for money in the deployment of public money in the organisation should be maintained through the transition;* ***and*** [emphasis added]***,***
- *Where merger accounting is to be applied, the Accounting Officer in place after the financial year end (where there has been a change) should ensure that he or she has sufficient assurance about the information underpinning the organisation's resource accounts to sign them with confidence. There is no set way of doing this though there are clear advantages to planning this as part of any machinery of government changes that may take place in the course of the year.*[5]

Scrutiny point:

The Assembly's statutory committees may wish to ask their respective departments about how their Accounting Officers would ensure these responsibilities are fulfilled if the Bill is implemented as introduced.

[4] Financial Reporting Manual
[5] DFP DAO 05/13 (see page 2)

3. What constitutes 'value for money' savings?

At paragraph 13 the Bill's accompanying Explanatory and Financial Memorandum (EFM) outlines the Executive's assessment of the Bill's financial impact if implemented as introduced.

The EFM states:

> *A more efficient and streamlined administration should result, with financial savings resulting from three fewer Ministerial offices and the rationalisation of departmental hierarchies.*[6]

When assessing this savings assertion, consideration could be given to the National Audit Office's (NAO) definition of value for money savings, i.e. where actual spend is below the counterfactual. This is found only when savings are:[7]

- **Sustainable**: Savings must exist for at least the current year and be sustained for two subsequent financial years;
- **Neutral to service quality**: Reforms must not have impacted adversely on the quality of public services in terms of strategic objectives and public service agreements;
- **Cashable**: Cashable gains involve reducing inputs without affecting service quality. Non-cashable gains (in which outputs are increased for a given level of input) cannot be reported;
- **Realised**: Savings must have materialised in the year in which they are reported, in order to impact overall spending levels; **and**,
- **Net of Costs**: The upfront / investment costs and additional ongoing / running costs associated with the generation of savings must be subtracted from the value of the benefit to show the 'net saving'.

Scrutiny points:

The Assembly's statutory committees may wish to ask their respective departments about estimated savings (consistent with the above definition) that would accrue from the Bill, if it is to be implemented as introduced.

Responses should include:

1) an explanation of which functions would be delivered more efficiently; and,

2) the level of upfront investment that would be required to release the savings.

[6] EFM (paragraph 13)
[7] Independent review of reported CSR07 value for money savings, *National Audit Office,* July 2010 (p. 5)