



Northern Ireland Assembly

Research and Library Service

Inquiry into the Parliamentary Budget Office Bill 2010 - submission

1 The Northern Ireland Assembly's Committee for Finance and Personnel's Inquiry into budget scrutiny.

The Northern Ireland Assembly's Committee for Finance and Personnel (CFP) is currently holding an Inquiry into budget scrutiny. Terms of Reference are:

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.¹

The review by the Department of Finance and Personnel (DFP) referred to above in Stage One was long delayed and has only recently been presented to CFP, so there has been considerable slippage in the timetable for this Inquiry.

The issues which are currently being considered by the Standing Committee on Finance and Public Administration have been addressed to some degree in the course of the Inquiry. As an Assembly research officer, it is not for me to comment on what CFP has found in the course of its Inquiry. However, I have undertaken some research work in support of CFP and my comments on the issues identified in relation to the *Parliamentary Budget Office Bill 2010* are presented below.

1 The merit of independent analysis and scrutiny

The four general principles of the IMF *Code of Good Practices on Fiscal Transparency* 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*

¹ http://www.niassembly.gov.uk/finance/2007mandate/inquiries/executive_budget.htm

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.²*

Clearly the final bullet point is of most relevance to the Standing Committee on Finance and Public Administration.

CFP has recognised the absence in Northern Ireland of independent verification or scrutiny of the Executive's budget proposals. It must also be noted, however, that the Northern Ireland Executive does not have full fiscal powers and much fiscal policy remains the preserve of the UK Government in Westminster.

Table 2 below is an assessment of the NI budget process in relation to the IMF Code which may be of some interest to the Standing Committee on Finance and Public Administration.

² <http://www.imf.org/external/np/exr/facts/fiscal.htm>

Table 2: Assessment of alignment of NI budget process with IMF Code on Fiscal transparency³

IMF Code Reference	Requirement	Comment
1.1.3	<i>The responsibilities of different levels of government, and the relationships between them, should be clearly specified.</i>	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 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.
2.1.1	<i>A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.</i>	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).
2.1.3	<i>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.</i>	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)
2.1.4	<i>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.</i>	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.

³ Extracted from <http://www.niassembly.gov.uk/researchandlibrary/2010/4510.pdf>

2.2.2	<i>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.</i>	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.
2.2.3	<i>Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.</i>	The monitoring rounds present <i>de facto</i> 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.
3.1.1	<i>The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.</i>	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.
3.1.2	<i>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.</i>	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.
3.1.3	<i>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.</i>	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).
3.1.6	<i>The budget documentation should report the fiscal position of sub-national governments and the finances of public corporations.</i>	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.
3.2.2	<i>Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.</i>	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.
3.2.4	<i>Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.</i>	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.
3.3.1	<i>The timely publication of fiscal information should be a legal obligation of the government.</i>	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.
3.3.2	<i>Advance release calendars for fiscal information should be announced and adhered to.</i>	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. ⁴ 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 postponement of reviews for what may be seen as political purposes seems to run counter to the spirit of open budgeting and fiscal transparency.
4.3.4	<i>Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.</i>	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).

⁴ Official Report, House of Commons, 14 July 2009 available online at: <http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090714/debtext/90714-0002.htm> (accessed 27 April 2010) (see column 145)

2. The growing trend for a parliamentary budget office around the world

The Office of Budget Responsibility

The Standing Committee on Finance and Public Administration's terms of reference specifically mention the UK. The Committee may wish to note that, whilst the UK Government in Westminster has established an Office of Budget Responsibility which has a remit that might be comparable with some aspects of the parliamentary budget office role, it reports to the *Government* not the *legislature*.

The role of the new office is set out on its website:

The Office for Budget Responsibility (OBR) will make independent assessments of the public finances and the economy. It will have direct control over the forecast and make all the key judgments that drive the official projections. It will have full access to the necessary data and analysis produced by the Treasury.

The OBR will also present a range of outcomes around its forecasts to demonstrate the degree of uncertainty. Based on these range of outcomes, in each Budget and Pre-Budget Report the OBR will confirm whether the Government's policy is consistent with a better than 50 per cent chance of achieving the forward looking fiscal mandate set by the Chancellor.

The OBR will also have a role in making an independent assessment of the public sector balance sheet, including analysing the costs of ageing, public service pensions and Private Finance Initiative contracts.⁵

So the key difference between the UK's new OBR and the Canadian Parliamentary Budget Officer, for example, is that the OBR will be producing forecasts for the UK Government, whereas the PBO analyses on behalf of the legislature the forecast put forward by the Canadian Government.

Resources for budget scrutiny

A summary of the resources available for budget scrutiny in the UK and Ireland (and further afield) can be found at:

<http://www.niassembly.gov.uk/researchandlibrary/2010/6010.pdf>

CFP has considered this paper and other evidence, including taking evidence from colleagues from Westminster and the Scottish Parliament⁶ and will report on stage 2 of

⁵ <http://budgetresponsibility.independent.gov.uk/what-we-do.html>

its Inquiry in the autumn. Whilst it has considered the option of a parliamentary budget office, I believe it unlikely that it will recommend such an institution be created for Northern Ireland. This is due to a number of factors:

- The Northern Ireland Assembly is a devolved administration, but fiscal policy is highly centralised in Westminster;
- The current fiscal climate might make a parliamentary budget office an expensive luxury for Northern Ireland at a time when public expenditure is being severely squeezed; and,
- Neither the Scottish Parliament nor the Welsh Assembly has, as yet, proposed creating equivalent offices.

So while it is true that in the Scottish Parliament and the Northern Ireland Assembly there is a trend towards increasing the capability of the legislature in terms of analysing budget statements from the executive, it is not strictly correct to equate this with establishing a parliamentary budget office along Canadian lines - although the Scottish Parliament's Financial Scrutiny Unit has established links with the Canadian PBO.

Colin Pidgeon
Public Finance Research Officer
NI Assembly Research and Library Service

20 July 2010

⁶A video recording of the evidence session is available online at http://news.bbc.co.uk/democracylive/hi/northern_ireland/newsid_8701000/8701993.stm . The Official Report is available at: <http://www.niassembly.gov.uk/record/committees2009/FinancePersonnel/100526BudgetScrutinyInquiry.htm>