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THE ROLE OF ESTIMATES AND THE ASSOCIATED LEGISLATIVE PROCESSES

This paper outlines the role of resource Estimates and the associated legislative processes which is necessary for setting in place the legal and financial framework for public expenditure in Northern Ireland. It gives an overview of the difference between Main Estimates and Supplementary Estimates and explores the relationship between the Budget process, In-Year Monitoring Rounds and Executive Programme Funds.

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SUMMARY OF KEY POINTS

- Estimates set out detailed spending limits, in order for the Northern Ireland Executive to seek authority from the Assembly for sufficient funds.
- These estimates are made up of two types, the Main Estimates and the Supplementary Estimates.
- The Main Estimates break down the spending plans which were agreed in the Budget the preceding December.
- Once the Assembly approves the Main Estimates the expenditure framework for the current financial year is put in place.
- Each estimate will be produced in a standard format. However since 2001-2002, estimates need to take account of Resource Accounting & Budgeting (RAB) in accordance with the Government Resources and Accounts Act (NI) 2000.
- Spring Supplementary Estimates (SSEs) provide details of additional resources and/or cash required to that sought in the Main Estimates for the same financial year.
- SSEs represent the implementation of financial changes, which have taken place since the opening budgetary position, e.g. through Monitoring Rounds and Executive Programme Funds.
- In understanding the role of estimates it is important to distinguish between budgets, estimates and accounts. Each has different but interrelated roles.
- Budget Bills provide the legal authority for departments to draw from the Consolidated Fund and allocate these sums to the particular services specified in the estimates.
- Vote on Account is the mechanism in place whereby the Assembly can approve the necessary expenditure to finance 'existing services.' It is normally calculated as 45% of the preceding years total voted provision. This ensures sufficient funds are in place for the required resources before the Main Estimates are appropriated in the summer.
- The budget cycle is a detailed and lengthy process. It is a continuous process with overlapping exercises that are essential in the shaping of the public expenditure framework for Northern Ireland.

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THE ROLE OF ESTIMATES AND THE ASSOCIATED LEGISLATIVE PROCESSES

1. INTRODUCTION

This paper explains the role of Resource Estimates and the associated legislative processes which are necessary for setting in place the legal and financial framework for public expenditure plans in Northern Ireland. It explains the difference between Main Estimates and Supplementary Estimates and helps the reader to make the appropriate links with the overall Budget process, in-year monitoring rounds and the Executive Programme Funds. In preparing this paper, technical advice was sought from the Department of Finance and Personnel.

2. THE ROLE OF ESTIMATES AND THE BUDGETARY PROCESS

Following the establishment of the Budget in December, the Estimates set out detailed spending limits. They provide the basis for the Northern Ireland Executive to seek authority from the Northern Assembly for funding. They are referred to as Main Estimates and Supplementary Estimates. Main Estimates are produced in June and provide detailed expenditure limits based on the Budget produced the previous December. Supplementary Estimates are required to amend the spending plans and incorporate changes agreed in the Monitoring Rounds.

3. MAIN ESTIMATES

The Main Estimates are the translation of the expenditure proposals set out in the Budget. The 2002-03 Main Estimates therefore should be presented on the basis of the 2002-03 Baseline as currently established by Budget 2001. They require annual approval by the Assembly into detailed requests for funds for specific services to implement the Administration's policies.

The Main Estimates are presented to the Assembly in June. Once the Assembly approves the Main Estimates the expenditure framework for the current financial year is put in place. The Budget Bill in June/early July thereafter provides the statutory authority for the expenditure. This legal process enables the Assembly to approve the use of resources and associated cash requirements as reflected in the Budget and detailed in the Main Estimates. Though most public expenditure is reflected in Estimates, existing statutes may authorise funds to be drawn from the Northern

Ireland Consolidated Fund¹ on an on going basis to finance certain services. These are drawn from as Consolidated Fund Standing Services and are handled separately from the estimates procedures.²

3.1 FORMAT OF ESTIMATES

All Estimates (whether Main or Supplementary) are produced in a standard format broadly based on that used for cash-based Estimates (see Annexe 1 for a more detailed description of the format). Under Resource Accounting and Budgeting (RAB), each Northern Ireland department produces a single Estimate. However this does not apply to the three Superannuation Schemes, which are presented as separate, additional, Resource Estimates by DHSSPS, DFP and DE.

What Impact has RAB had on Estimates?

From 2001-02, there has been an important change in the format of Estimates to take account of Resource Accounting and Budgeting in accordance with the Government Resources and Accounts Act (NI) 2000. In the past the Northern Ireland Assembly authorised only cash to be spent by Departments but now the Assembly must approve the consumption of resources as well as cash hence the change to the format of Estimates to Resource Estimates³. The 2002-03 Main Estimates will be the second year in which Estimates will be presented to the Assembly on a resource basis.

3.2 OPERATING CONTROLS UNDER RESOURCE ACCOUNTING AND BUDGETING

Under the previous cash simplified Estimates the transfer of provision between votes required Assembly approval, while movement between lines requires virement approval from DFP. Under the structure of resource Estimates the level of control remains broadly the same. Assembly approval is required for the movement of provision between RfRs within the Estimate (where there is more than one RfR)⁴.

¹ Northern Ireland Consolidated Fund (NICF) is the account into which payments and receipts (not specifically directed elsewhere) to the Northern Ireland Assembly flow. Issues from the Fund are made to meet Northern Ireland Expenditure.

² DFP, Supply Estimates and Appropriation Acts in 1999/2000 and 2000/2001: An Explanatory Memorandum

³ Northern Ireland Spring Supplementary Estimates 2001-2002, Department of Finance and Personnel, February 2002

⁴ DFP Brief

4. SPRING SUPPLEMENTARY ESTIMATES

Spring Supplementary Estimates (SSEs) provide details of additional resources and/or cash required to that sought in the Main Estimates for the same financial year. Assembly approval must be sought for the use of the additional resources and associated cash requirements. Assembly approval might be needed to:

- Seek authority for additional resources/and or cash for any new services;
- Increase provision for existing services;
- Increase net resources because a shortfall is expected in accruing resources;
- Increase accruing resources
- Draw attention to the diversion of funds already voted for one service to another service within the same request for resources.

This normally takes place in February. While Supplementary Estimates can be taken at different times in the financial year, in general only Spring Supplementary Estimates (SSEs) are normally taken.

4.1 RELATIONSHIP BETWEEN SUPPLEMENTARY ESTIMATES & IN YEAR MONITORING ROUNDS

During the year the open budgetary position changes as further funding decisions are made by the Executive through the in-year Monitoring Rounds (which normally take place in June, October, December and February) and the End Year Flexibility arrangements for carry over of under-spends from previous financial years. This allows the Executive the opportunity to respond to new funding pressures through the re-allocation of funding in-year.

The last monitoring round before the Spring Supplementary Estimates is held in December. The outcome of the December Monitoring Round is announced in January. The monitoring round that is held in December is timed so as to provide a final opportunity to seek approval for expenditure changes in the Supplementary Estimates. This timing is aimed at maximising the efficient use of resources before the end of the financial year.

The agreed in-year monitoring changes (from December and previous rounds) are subsequently incorporated into the SSEs together with any technical changes.

The February Monitoring Round, which follows the Spring Supplementary Estimates, is more of a tidying up exercise. At this stage there is limited opportunity to re-deploy significant resources before the end of the financial year. For this reason departments are encouraged to surrender funds as early as possible through the in-year monitoring rounds so that the funding can be reallocated and spent.

4.2 RELATIONSHIP BETWEEN SUPPLEMENTARY ESTIMATES AND EXECUTIVE PROGRAMME FUNDS

The current SSEs also include decisions, which have been made in relation to the Second Tranche of the Executive Programme Funds, which were announced on 3 December 2001⁵.

The Supplementary Estimates therefore represent the implementation of financial decisions which have been taken since the opening position agreed by the Assembly the preceding June. As there is no further opportunity for amendment, SSEs must also anticipate any changes, which Departments know will be required before the end of the financial year.

5. BUDGETS, ESTIMATES AND ACCOUNTS

In understanding the role of estimates, it is important to distinguish between budgets, estimates and accounts. Each has different but interrelated roles.

Budgets convey spending authority within the Executive's framework for expenditure control and are administrative limits imposed on departments and sponsored bodies. They restrict the amount of expenditure that departments and other bodies may make. Budgeting aggregates do not in themselves convey cash or resources. Budgeting is done at public sector level, i.e. it includes full consumption and investments of NDPBs and Public Corporations, not just grants paid.

⁵ DFP Minister, Supply Resolution Debate, Opening Speech, February 2001

Estimates are subject to Assembly control and are the mechanism by which the Northern Ireland Assembly:

- a. Vote resources to departments for their departmental use and for grants paid to bodies beyond the accounting boundary; and
- b. Votes the overall cash consequences of the Estimates.

Accounts are produced to show how responsible bodies have used the resources at their disposal. Various public sector bodies produce accounts. Departmental Resource accounts must be produced annually. The Controller and Auditor General for Northern Ireland examines them and presents them to the Assembly for approval.

Most expenditure will score in the same way in the Budget, Estimates and Accounts, e.g. current grants to the private sector. Budget and Estimates are reconcilable and should be consistent in that they use the same dataset. However specific numbers and treatments may well be different.

6. ESTIMATES AND THE BUDGET BILL PROCESS

6.1 BUDGET BILLS, SUPPLY RESOLUTIONS AND THE ROLE OF THE ASSEMBLY

In order for the Assembly to approve the Resource Estimates, there is a legislative process, which provides the legal authority for departments to draw from the Consolidated Fund and appropriate these sums to the particular services specified in the Estimates. This is done through Supply Resolutions and the Budget Bill process, There are two Budget Bills in the budgetary cycle. Budget Bill (No 1), normally in February, gives the formal legal authority for departments to incur expenditure and use resources as set out in the SSEs and the Vote on Account (see below). Budget Bill (No 2), normally introduced in June, seeks the Assembly's approval for the balance of resources and associated cash requirements as detailed in the Main Estimates. Prior to the introduction of the Budget Bills to the Assembly, the Committee for Finance and Personnel have the opportunity to consider the Estimates in preparation for the Supply Resolution debates in the Assembly.

6.1.1 Supply Resolutions

Supply resolutions are not legislation but are a necessary precursor. This is the important stage before the Budget Bill is presented to the Assembly. It is at this stage that the Assembly has to vote on whether to approve the Estimates. The Minister of

Finance and Personnel puts down a motion which seeks the approval of the total amounts of both cash and resources in the relevant Estimates for the Assembly to consider. Once approved, this motion becomes the "Supply Resolution." The Assembly can vote to accept, reject or reduce the amounts sought, or pass an amendment to narrow the scope of the services covered. However it cannot vote to increase these amounts⁶.

6.2 ROYAL ASSENT AND ACCELERATED PASSAGE

The Budget Bill No 1 must receive Royal Assent before the end of the financial year to maintain a continuous flow of funding. To achieve this, the SSEs are produced as quickly as possible after decisions on December Monitoring are made known.

Accelerated passage of the Budget Bill is therefore necessary to meet the tight timetable. This is usually written into the Budget Bill with the proviso that the Finance and Personnel Committee is content that adequate consultation has taken place.

6.3 VOTE ON ACCOUNT

Because the Main Estimates are not ready for presentation before the beginning of the financial year, it is necessary to obtain authority for some spending to cover the first few months of each financial year.

The Vote on Account is the mechanism by which the Assembly can approve the necessary expenditure to finance 'existing services.' Existing Services means services for which sums have been appropriated up until the end of one financial year and the beginning of the next prior to consideration and appropriation of the Main Estimates in the summer⁷. The Vote on Account is introduced as a separate Supply Resolution on the same day the resolution covering the SSEs.

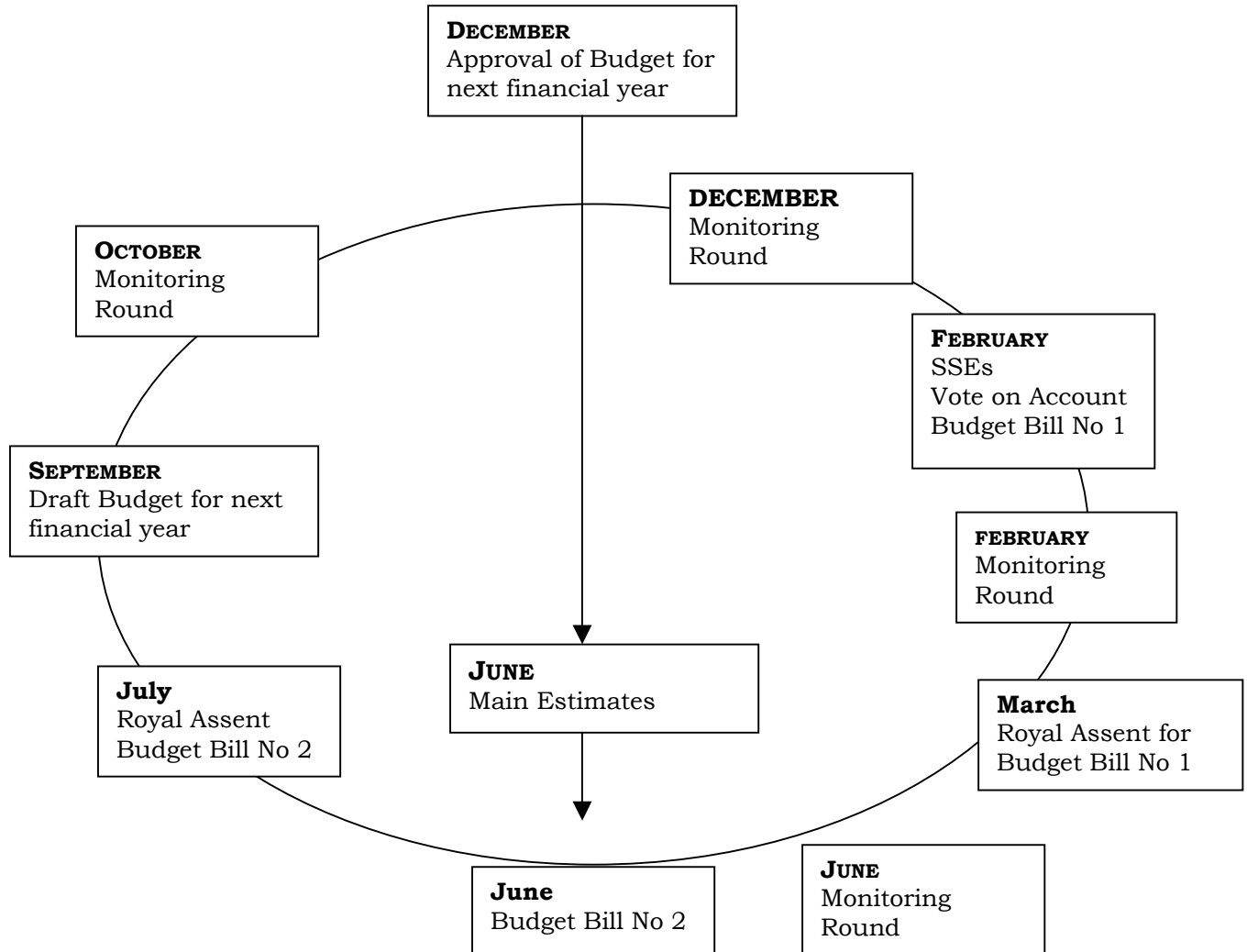
The Vote on Account is normally calculated as a proportion (45%) of the preceding years' total voted provision. This is to ensure sufficient funds are in place for the required resources before the Main Estimates are appropriated in the summer. However it should not be so high as to prejudge the Assembly's consideration of the Main Estimates⁸.

⁶ DFP, Northern Ireland Estimates 2001-2002, p.23

⁷ Department of Finance and Personnel, Vote on Account, 2002-2003, February 2002

⁸ Ibid, page 1

6.4 THE BUDGET BILL CYCLE



7. CONCLUSION

This paper has outlined the Estimate process and associated legislative process necessary for setting in place the legal and financial framework for the public expenditure plans in Northern Ireland. The Estimate process is an essential part of shaping the detailed public expenditure plans for Northern Ireland. Much focus is often placed on the planning of the budget for the following year. This in itself is a detailed and lengthy process but is not the only key financial exercise in the budget cycle. It is important to also consider the development of the approved budget as it emerges in more detail in the Main Estimates and the changes thereafter that occur to the opening budget position as detailed in the Monitoring Rounds and Spring Supplementary Estimates. This provides an understanding of the fluidity of the budget and the need to take account of changes that occur to Departmental opening positions due to emerging pressures and easements. The budget cycle is a continuous process. It does not begin and end with the approval of the budget in December of each year but is made up of a series of overlapping exercises that are essential to shaping the public expenditure framework for Northern Ireland.

ANNEXE 1

All Estimates (whether Main or Supplementary) are produced in a standard format broadly based on that used for cash-based Estimates. Under Resource Accounting and Budgeting (RAB), each Northern Ireland department produces a single Estimate. However this does not apply to the three Superannuation Schemes, which are presented as separate, additional, Resource Estimates by DHSSPS, DFP and DE.

The Estimate will be structured on an objective and function basis. Under this presentation each Estimate is subdivided by row into Request for Resources (RfRs). Each RfR will equate to a Departmental Objective as set out in the Programme for Government. It will be further divided by expenditure category, e.g. Departmental Expenditure Limit (DEL), Annually Managed Expenditure (AME) and other Expenditure. The different types of expenditure is shown in the vertical breakdown of the table (see table below).

SUMMARY CONTENTS OF THE COLUMNS IN THE ESTIMATE TABLES

| COLUMN | <u>SUMMARY CONTENTS</u> |
|---------------|---|
| 1 | Direct Expenditure on administration including pay, superannuation, travel and subsistence, training etc |
| 2 | Direct Expenditure outside administration such as road maintenance etc |
| 3 | Grants and transfers to persons and bodies outside the departmental accounting boundary including capital grants payable to the private sector. |
| 4 | Gross Total (sum of columns 1 to 3) |
| 5 | Accruing Resources (ARs) authorised to be used to offset the gross total within the resource Budget |
| 6 | Net Total (Gross Total less Accruing Resources in column 5) |
| 7 | Forecast capital additions such as land and buildings and capital grants to the public sector |
| 8 | Forecast non-operating Accruing Resources relating to items such as the disposal of fixed assets (Land and buildings etc) |
| 9 | Total net resource provision for 2001-02 up to and including Spring Supplementary Estimates |

3.1.1 ESTIMATE TABLES

- Introduction
- Part I (including the Ambit(s);
- Part II – Subhead detail consisting of two tables setting out the subhead detail and a Resource to Cash reconciliation table.
- Part III – Extra receipts payable to the Consolidated Fund (cash and accruals).
- Schedule of Non-cash items in AME

Introduction: Each Estimate begins with an introduction, which consists of a brief description of the services, which will be funded from the vote and draws attention to any important aspects of the vote, briefly comparing provision sought with the final net provision for the year before and the likely outturn for the previous year as well.

Part I of the Estimate, as in the previous cash-based Estimates, sets out the net resource and net cash requirements sought. It also sets out the 'Ambit' of the vote which is the formal description of the services that will be financed from the Estimate, the department the estimate relates to and any sums already allocated in the Vote on Account.

Part II of the Estimate provides more detail on the resources being sought for specific services covered by the Estimate. It is at this stage that the Resource Estimate is broken down by DEL, AME and Other Expenditure with detail on the type of expenditure as well, e.g. grants, direct expenditure etc.

The table shows both the gross provision needed and also the Accruing Resources (AR). AR is income that has accrued and can therefore be deducted from the gross expenditure (with the authority of the Northern Ireland Assembly). The net amount required from the Consolidated Fund will therefore be the gross provision minus the AR.

A detailed explanation of the reconciliation between the net resource total and the net cash requirement is also shown in the second section of Part II with the net cash requirement also being subject to Assembly control.

Part III of the Estimate shows the extra receipts payable to the Consolidated Fund (CFERs), i.e. receipts, which cannot be used to offset gross expenditure, and are paid into the Consolidated Fund. At the end of Part III is another table: The Schedule of Non-Cash Items in AME. Whilst this table provides additional information it does not form part of the Estimate.

3.1.2 OTHER STATEMENTS WHICH ACCOMPANY THE ESTIMATES

Resource Estimates are also accompanied by a Forecast Operating Cost Statement, and a Net Resource Outturn to Net Operating Cost to Resource Budget Outturn table. From this year the Forecast Cash flow Statement is being dropped on the basis that it provided very little additional information. An additional short table reconciling the Net Capital Outturn in the Estimates to the Capital Budget Outturn has also been introduced. The statements are accompanied by notes providing additional information to the Assembly about the specific nature of the department's plans, details of grants in aid etc.

These tables also include expenditure by, and income received in, the department, which is not voted⁹ by the Assembly. The Statements are accompanied by notes providing additional information to the Assembly about the specific nature of the department's plans, details of grants in aid etc.

⁹ Voted expenditure is under the control of the Assembly and relates to the assigned part of the budget: that part which is adjusted via the Barnett Formula and is assigned in accordance with the devolved administration's own priorities. Non assigned and therefore non voted expenditure is that part of the budget which relates to specific discretionary expenditures agreed with HM Treasury and ring fenced so that the resources cannot be used elsewhere. These expenditure items are generally small scale and time limited but politically important. An example is the EU Special Programme for Peace and Reconciliation.

GLOSSARY OF TERMS

| | |
|---|--|
| Accruing resources: | Income which, with the authority of the Northern Ireland Assembly, is applied against some of the gross expenditure in the Estimate. |
| Ambit: | A formal description of the services for which Assembly authority for resource consumption and associated financing requirements is sought. |
| AME: | Annually Managed Expenditure is expenditure, which is demand led and cannot be planned more than one year in advance. |
| Assigned Budget DEL: | Is part of the Executive's budget that is driven by the Barnett formula and can be allocated at the discretion of the Executive. |
| Barnett Formula: | The formula that allocates a population share of changes in planned expenditure on comparable services by Departments of the United Kingdom Government to the devolved administrations in Scotland, Wales and Northern Ireland. |
| Budget Bill/ Act: | Budget Acts are needed to confer legal authority to Departments for expenditure. A Budget Bill introduced to the Assembly should have been preceded by a Supply Resolution. The Bill must reflect the terms of the Supply Resolution as it was approved, including any amendments. |
| Consolidated Fund for Northern Ireland | The account into which are paid Northern Ireland's attributed share taxes and other non tax receipts, plus a grant in aid from the United Kingdom to meet the difference between income and expenditure |
| DEL: | Departmental Expenditure Limit is where spending is fixed over a three year planning horizon. |
| EYF: | End Year Flexibility is the ability to carry over unspent provision in the Departmental Expenditure Limit assigned budget in one year to be carried from one year to the next. The re-allocation of EYF is at the discretion of the Executive. |
| Executive Programme Funds: | The Executive Programme Funds were established by the Executive as a means by which resources could be focussed on Programme for Government Priorities and as a mechanism that will encourage co-operation between Departments to deliver these priorities. |

| | |
|--------------------------------------|--|
| Monitoring: | Is a formal system which compares actual expenditure against Departmental spending plans for a financial year. It helps the Executive to target resources more effectively and contributes to good financial management. |
| Non Assigned Budget in DEL | Is the part of the Budget that is ring-fenced for specific purposes in DEL. Provision is not determined directly through Barnett. |
| RAB: | Resource Accounting and Budgeting is an accruals based accounting and budgeting system. |
| Request for Resources (RfR's) | An accruals measure of expenditure forming part of a Resource Estimate, based on departmental objectives. |
| Resource Accounting: | The application of accruals accounting for reporting on expenditure of the central government and a framework for analysing expenditure by departmental aims and objectives, relating these to outputs where possible. |
| Resource Budgeting: | The extension of resource accounting principles and practices in the processes by which public expenditure is planned and controlled and by which money is voted by, and accounted for to, the Assembly. |
| Ring-fenced: | Is expenditure that is specific to a particular policy or programme and cannot therefore be used for any other purpose without the prior agreement of the Treasury. |