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IN-YEAR MONITORING OF PUBLIC EXPENDITURE AND A PRELIMINARY ANALYSIS OF FEBRUARY MONITORING 2002

This paper provides an explanation of the In-Year Monitoring of Public Expenditure and the formal processes underlying the Monitoring Rounds. It also gives a preliminary analysis of the February 2002 Monitoring Round. In order for this paper to be written, technical advice was sought from the Department of Finance and Personnel on the Monitoring Process.

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SUMMARY OF KEY POINTS

- In-Year Monitoring is the formal system which compares actual expenditure against Departmental spending plans for a given financial year and enables the adjustment of resource allocations to reflect changed circumstances in that year.
- Monitoring Rounds are an important part of the financial cycle in terms of budgetary control and planning
- Monitoring Rounds provide a means of scrutiny of public expenditure on an on-going basis and as a means of aiding departmental planning, performance and control.
- It contributes to good financial management by helping the Executive to target resources more effectively and respond to new funding pressures.
- During each Monitoring Round, Departments must submit their bids for additional resources or surrender items arising from reduced requirements.
- Bids and Reduced Requirement should be consistent with the aims and objectives of New TSN and the Programme for Government.
- There are normally four Monitoring Rounds- one in June, October, December and February
- The October and December Monitoring Rounds will contain more activity as the financial year is well advanced at this stage.
- The Spring Supplementary Estimates, which follow the announcement of December monitoring, reflect all of the agreed in-year monitoring changes.
- The February Monitoring Round is the last one for the financial year, therefore, opportunities to spend are limited before the end of the financial year
- This years February Monitoring Round was primarily concerned with making the necessary changes to estimated requirements and fine-tuning of allocations.
- The main issues in the February Monitoring were the level of under-spend in Departments.
- Net reduced requirements came to £64.8 million.
- £13 million of reduced requirements will be required to confirm the spending plans of Departments in 2002-03.
- £6.9 million was allocated to new bids from Departments.
- The balance will be allocated to Classroom 2000, to meet current funding pressures and enhance the Executive Programme Funds.
- Monitoring Rounds are a good starting point for considering Budget 2002.

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IN-YEAR MONITORING OF PUBLIC EXPENDITURE AND A PRELIMINARY ANALYSIS OF FEBRUARY MONITORING 2002

1. INTRODUCTION

This paper provides an explanation of the In-Year Monitoring of public expenditure, the formal processes underlying the Monitoring Rounds and a preliminary analysis of the February 2002 Monitoring Round. In preparing this paper advice was sought from the DFP on the Monitoring process.

2. THE PURPOSE OF IN-YEAR MONITORING

A key aspect of good financial management is to compare actual resources used in a given financial year against the plans made for that year. Since a budget is a plan of what a Department wants to achieve in the planning period, it can be used to judge actual performance. Any differences between what has happened and what was planned can help to identify:

- Emerging pressures and reduced requirements.
- Help ensure that, at the end of the financial year, actual spending is within overall resource allocations.
- The accuracy of financial forecasting and planning within Departments.

In-Year Monitoring is the formal system, which compares actual expenditure against Departmental spending plans for a given financial year and enables the adjustment of resource allocations to reflect changed circumstances in that year. It contributes to good financial management by helping the Executive to target resources more effectively.

During each Monitoring Round Departments must submit their bids for additional resources or surrender resources arising from reduced requirements. This exercise is co-ordinated by the Department of Finance and Personnel. It is the Department's role to brief the DFP Minister, who in turn will advise the Executive on the proposals for each round. DFP must also liaise with the Economic Policy Unit and the Equality Unit of OFMDFM¹. The approval of proposals must be sought by the Executive. Subsequently, the DFP Minister makes a statement to the Assembly outlining the Executive's decisions to the Assembly. The Monitoring decisions are then subject to

¹ DFP communication

scrutiny by members during plenary session. There is no formal consultation with the Committee for Finance and Personnel before the announcement of the Executive's decisions on the Monitoring rounds but discussions on the Monitoring rounds will normally take place with the Committee.

3. THE MONITORING TIMETABLE

There are normally four Monitoring Rounds, in June, October, December and February.

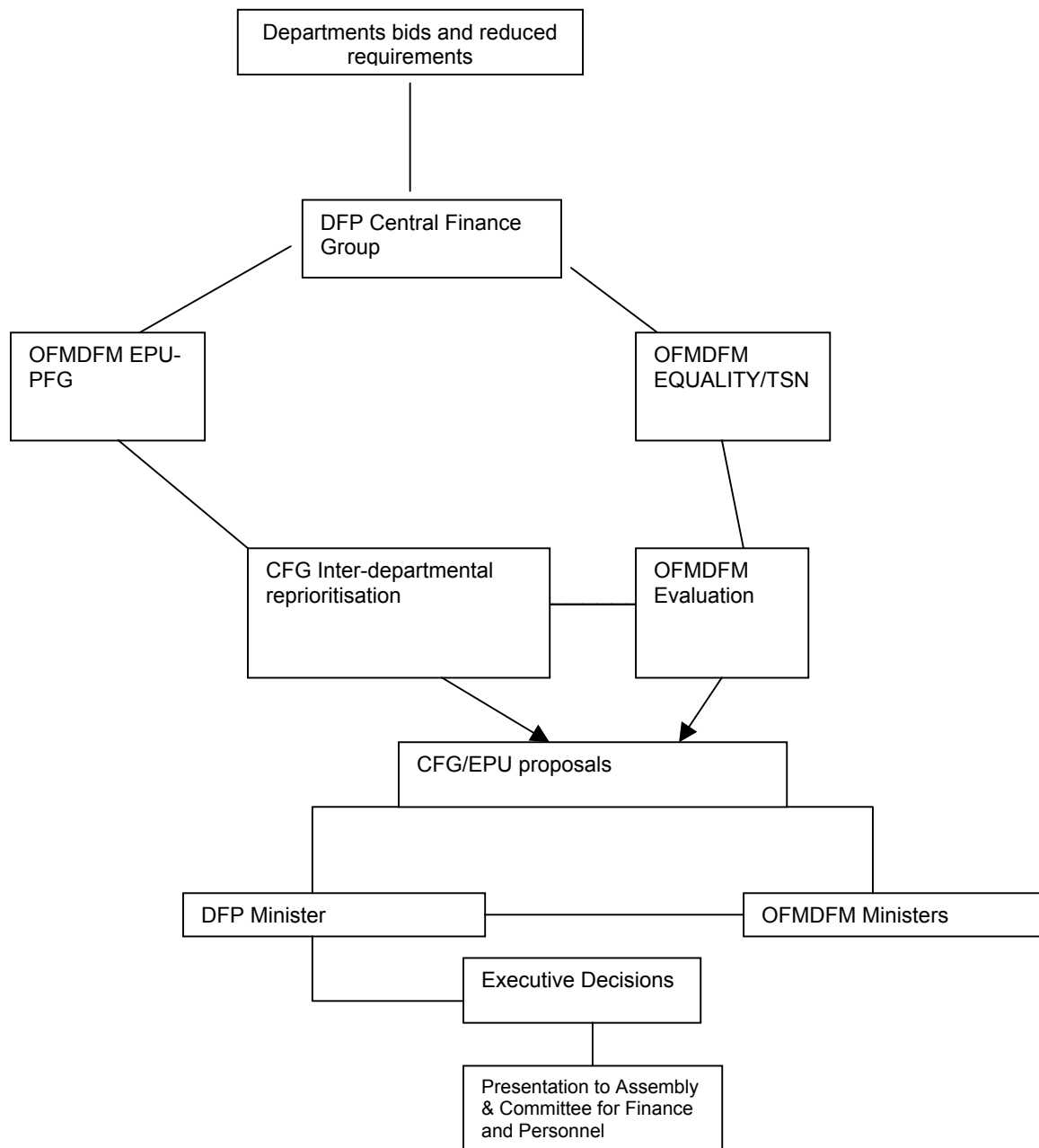
Little happens in the June Monitoring Round, as it is very close to the beginning of the financial year and too early in the financial cycle for any major changes to have occurred to the opening budgetary position.

The October and December Monitoring Rounds will contain more activity as the financial year is well advanced at this stage and Departments will have a better idea of emerging pressures and also whether they are unlikely to spend allocations by the end of the financial year. Departments are normally encouraged to surrender and identify easements as early as possible so that they can be deployed to the best effect. The Spring Supplementary Estimates, which follow the announcement of the December Monitoring Round (usually in February), reflect all of the agreed in-year monitoring changes from the December and previous rounds. 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 Estimates².

The final monitoring round for the financial year is in February. In practical terms, opportunities to spend are limited before the end of the financial year. It is therefore problematic if departments make large surrenders at this stage as the opportunity for other departments to take advantage of the funding are very limited³.

² Spring Supplementary Estimates are normally produced in early February to reflect changes to the open budgetary position detailed in the Main Estimates in June resulting from funding decisions made by the Executive through in-year Monitoring Rounds, End Year Flexibility arrangements and, this year decisions made in relation to the second tranche of the Executive Programme Funds. Main Estimates break down spending plans by Departments agreed in the Budget.

3.1 DIAGRAM OF THE OVERVIEW OF THE MONITORING PROCESS



³ Minister for Finance and Personnel, Supply Resolution Debate, February 2002

4. ITEMS THAT MUST BE REPORTED IN MONITORING ROUNDS BY DEPARTMENTS

During the year changes occur to the opening budgetary position as further funding decisions are made by the Executive through the in-year Monitoring Rounds in response to new funding pressures.

In addition, other changes arise as departments seek to adjust the detail of the Estimates (within the flexibility allowed to them) when:

- Expenditure does not match the original projections, e.g. increased provision needed for a new or existing service.
- The level of estimated income/receipts increases or decreases.
- Technical adjustments are identified.

In terms of the Monitoring Rounds the above scenarios will lead to a Department's surrendering Reduced Requirements, submitting Bids or putting forward Technical Adjustments for approval. For example during the Monitoring Rounds up to and including December 2001, departments declared reduced requirements or easements of £146.2 million. However this was weighted against total bids for additional resources of £415.5 million (n.b. the figure for bids might contain some double counting as departments are likely to re-submit unsuccessful bids in further rounds)⁴.

4.1 GENERAL REQUIREMENTS OF MONITORING ROUND SUBMISSIONS

Following the 1998 Comprehensive Spending Review (CSR) the Departmental Expenditure Limits (DEL) was made the key control of public expenditure.⁵ Since the introduction of Resource Budgeting⁶ the DEL has been further split into two controls: the Resource Del (includes admin costs) and the Capital Del. Departments cannot

⁴ Ibid

⁵ Departmental Expenditure Limits (DEL) is a spending aggregate that sets firm expenditure limits for a three year period.

⁶ Resource budgeting is accruals based budgeting system that focuses more on resources consumed and not just cash spent.

make transfers between these two controls except by submitting a reduced requirement or proposed Bid in a Monitoring Round.

Bids and reduced requirements should be consistent with the aims and objectives for the Programme for Government. As stated by the Minister for Finance and Personnel, Dr Sean Farren, MLA, a number of factors have previously been considered in the allocation of resources.

“Decisions about the allocation of resources have been influenced by equality requirements as set out in the Northern Ireland and policy precepts such as New TSN and the Programme for Government”⁷

4.2 REDUCED REQUIREMENTS

A reduced requirement is an activity, that no longer requires the funds which has been allocated or where additional receipts arise. All reduced requirements have to be surrendered by Departments. They cannot be used for other purposes. Reduced Requirements can occur for a number of reasons including:

- A service requires less than what was planned to meet its agreed objectives.
- Savings resulting from changes to pay and price assumptions.
- The time-bound element of a project/ service provision has expired.
- A decision to cease or reduce a service or function except if this is to finance an emerging pressure.
- Windfall receipts are forecast which do not impact on additional expenditure in the service or function.

An example of a reduced requirement relating to the current financial year is the £13.6 million which was surrendered by Department of Enterprise, Trade and

⁷ Minister for Finance and Personnel, Supply Resolution Debate, February 2002

Investment from the Industrial Development Board, arising from the economic downturn⁸.

4.3 BIDS

During the year, emerging pressures will arise resulting from changing circumstances. Bids might occur as a result of an unforeseen pressure resulting in the need to fund existing or new services. An example of a Bid that could not have been planned for was Foot and Mouth Disease. An additional £32 million was needed by the Department of Agriculture and Rural Development (DARD) to cover the unforeseen costs of Foot and Mouth Disease and animal disease⁹.

4.4 TECHNICAL ADJUSTMENTS

Technical adjustments (TAs) are included in Monitoring rounds. They include the following types of transfers:

- Transfers between Objectives within a Department
- Transfers between Departments
- Transfers between NI and GB Departments including NIO

5. FEBRUARY MONITORING 2002

This years February Monitoring Round was primarily concerned with making the necessary changes to estimated requirements and the fine-tuning of allocations, rather than on any new policy change or new priorities.¹⁰ The problem of under-spend in Departments was also highlighted.

5.1 Comparisons with February 2001 and 2002 Monitoring Rounds

In February 2001 net reduced requirements came to £25 million and new bids amounted to £3 million, thereby leaving a balance of £22 million. Of that £22 million £12 million was carried over as provision by Departments to allow for circumstances

⁸ Ibid

⁹ Ibid

¹⁰ Minister for Finance and Personnel, Public Expenditure 2001-02, February Monitoring Round, Statement to the Assembly, 19 March 2002

where expenditure had been postponed due to delays outside the control of the responsible department, e.g. NISRA Census, Aid to the Pig Industry etc.¹¹

The remaining £10 million of reduced requirements was allocated to the Executive Programme Funds. This left no additional funds to be carried forward as EYF from this round to 2002-03 financial year.

This year the figure for net routine reduced requirements amounted to £31.2 million. (see table below).

February 2001 Monitoring Round	£m	February 2002 Monitoring Round	£m
Net reduced requirements	25	Net reduced requirements	31.2
Bids Funded	-3	Bids funded	-6.9
Approved EYF	-12	Allocation to Budget 2002-03	-13
Executive Programme Funds	-10		
EYF	0	EYF	11.3

It is likely that some of the reduced requirements will have been for items that Departments might need in the next financial year. However Departments may not automatically be able to retain resources under End of Year Flexibility¹² procedures unless it is for expenditure that is approved by the Executive. Approved EYF is generally for provision that has been unspent but outside of the control of the responsible Department, e.g. capital projects.

From this Monitoring Round £13 million of the net routine reduced requirements is required to confirm the spending plans of Departments in 2002-03 as approved by the Assembly in December 2001. In preparing the draft Budget the Executive decided that, in view of the pattern of under-spend, it anticipated that £48 million would become available from those sources¹³. The amount of carry forward was reduced to £40 million as the Executive decided to bring forward into 2001-02 some £8 million of its planned spending on the health service¹⁴. £21.3 million was set aside in the September Round leaving a balance of £13 million to be found in the February Monitoring Round.

¹¹ Letter from the Minister of Finance and Personnel to the Chair of the Finance and Personnel Committee

¹² End Year Flexibility (EYF) allows unspent provision in the Departmental Expenditure Limit assigned budget in one year to be carried forward into later years (s).

¹³ Given that £51.7 million EYF from 2000-01 became available and was announced in the June Monitoring Round for allocation in the 2001/02 financial year, one could say this was a reasonably accurate forecast to make.

¹⁴ Budget 2002-03, Northern Ireland Executive, p.8

A further £6.9 million from the routine reduced requirements will be used to meet bids for additional resources from Departments. The Executive has agreed that all bids submitted should be met. They are mostly for relatively minor “tidying up” allocations.

Once the above deductions have been made from the net reduced requirements, there is a balance of £11.3 million in routine savings which cannot be spent in 2001-02 and which will be carried forward to 2002-03 as EYF. There is likely to be a further amount of end year flexibility, which will only be identified when provisional outturn data is available in May. The level of net reduced requirements for the financial year 2001-02 cannot be determined until this data becomes available.

In addition to the routine reduced requirements of £31.2 million announced in the February Monitoring Round, an additional £23.9 million from the DHSSPS Resource Budget and £9.9 million from the Classroom 2000 project has become available. In terms of the DHSSPS budget, the planned level of services in 2001-02 turned out to be £23.9 million less than the opening budget position ¹⁵. Due to the unusual nature of the DHSSPS reduced requirement it has not been viewed as part of the routine Monitoring Round by the Minister of Finance and Personnel¹⁶ and has therefore been quoted as a separate figure to the £31.2 million of routine net reduced requirements. However the combined total of reduced requirements arising from the DHSSPS budget, Classroom 2000 and routine reduced requirements amounts to £65 million.

The Executive has decided to use the EYF money of £11.3 million and the £23.9 million from the DHSSPS to augment the Executive Programme Funds to address some immediate funding issues early in the financial year, e.g. Harland and Wolff plc employers’ liability insurance claims of £10 million. Money that is not distributed at this stage will be carried forward for distribution in the June Monitoring Round.

The figures to date illustrate significant levels of under spend this year. The outcome of the February Monitoring Round demonstrates a pattern of under-spending that has given rise to large amounts of room to manoeuvre money in successive rounds. On a positive note this has enabled the Executive to make good the commitment of allocating £40 million to the Budget 2002-03 from the anticipated under-spend this year. However of particular concern to the Minister is the surrenders of large sums at this stage which can not be allocated so near to the end of the financial year¹⁷.

¹⁵ Ibid, p.6

¹⁶ Ibid, p.4

¹⁷ Ibid, p.6

The issue of under-spend in Departments is also relevant in the context of Budget 2002¹⁸ which will set out the spending plans for 2003-04 to 2005-06, particularly if Departments are declaring pressures on their resources against patterns of under spends. This should give opportunities for Departments to consider where savings can be made in light of the pattern of reduced requirements and help inform if resources could be better utilised to fund other much needed services and inescapable pressures.

6. CONCLUSION

Monitoring Rounds are an important part of the financial cycle in terms of budgetary control and planning. It is a continuous process of immense importance, both for the management of individual spending programmes and in aggregate. They provide a vital mechanism for the Executive to respond to new funding pressures and also to address easements within Departments. In terms of the Assembly they provide a means of scrutiny that enables the monitoring of public expenditure on an ongoing basis informing both the financial performance in the current financial year and as a means of providing a yardstick for departmental planning, performance and control in subsequent years. Some of the principal objectives of the Budget process will be to ensure and improve the delivery of public services by targeting resources optimally and improving the management of administration costs. Monitoring Rounds in this context therefore provide a benchmark of past performance of Departments that can help inform the Budget 2002 process.

¹⁸ The Spending Review 2002 (SR 2002) is the UK Spending Review which will set out plans for 2003-04 to 2005-06. Budget 2002 is the local process.