



Northern Ireland  
Assembly

---

**COMMITTEE FOR  
FINANCE AND PERSONNEL**

---

**OFFICIAL REPORT**  
**(Hansard)**

---

# **Reviews of Budget and In-Year Monitoring Processes**

20 January 2010

**NORTHERN IRELAND ASSEMBLY**

---

**COMMITTEE FOR  
FINANCE AND PERSONNEL**

---

**Review of Budget and In-Year Monitoring Processes**

---

20 January 2010

**Members present for all or part of the proceedings:**

Ms Jennifer McCann (Chairperson)  
Mr Peter Weir (Deputy Chairperson)  
Dr Stephen Farry  
Mr Simon Hamilton  
Mr Fra McCann  
Mr David McNarry  
Mr Declan O'Loan  
Ms Dawn Purvis

**Witnesses:**

Mr Michael Daly )  
Mr Paul Montgomery ) Department of Finance and Personnel  
Ms Joanne McBurney )

**The Chairperson (Ms J McCann):**

I welcome Michael Daly, head of central expenditure division; Paul Montgomery, central expenditure division; Joanne McBurney, central expenditure division; and Fiona Hamill, Treasury Officer of Accounts. I invite you to make some brief remarks before we go to members' questions.

**Mr Michael Daly (Department of Finance and Personnel):**

Thank you, Chairperson. We are here to brief the Committee and take questions primarily on the review of in-year monitoring arrangements. The Minister provided a paper to the Committee before Christmas. It is fairly straight forward in that the report deals mainly with the short-term recommendations that we will implement. That is not to say that there will be a further review of in-year monitoring in the longer term. However, a lot more has to happen. Rather than go through the paper in detail, I am happy to take questions on it.

**Mr F McCann:**

What flexibility do Departments have for addressing pressures from existing budgets rather than relying on the in-year process? What scope exists for providing further flexibility in that regard?

**Ms Joanne McBurney (Department of Finance and Personnel):**

Currently, Departments are allowed to retain any de minimis reduced requirements; that is amounts below £500,000. For anything above that amount, Departments are free to move money within spending areas, which is the level that the Budget document is published at. However, they must have DFP approval to do so.

Movements crossing the spending areas shown in the Budget must go to the Executive if they are above £500,000. Departments are allowed to move money between spending areas if they can provide evidence that it is a proactive management decision that they have made to slow or stop spending in one area in order to meet a pressure arising in another area. The Executive then approves those as part of the in-year monitoring rounds.

**Mr F McCann:**

The same bids for the same items come up in every monitoring round. Does that show a lack of understanding of such a bid, or its importance? If a Department bids for assistance, it is

obviously because it attaches a high level of importance to its request.

**Mr Daly:**

The member touched on the answer. When a Department bids, it is for something that it considers that it cannot meet from its existing resources and it looks to the centre to provide that room to manoeuvre. However, when the Finance Minister makes his recommendations, the Executive have to look across all of the bids that are in. It is inevitable that, although some bids are very important for a given Department, in the overall package put forward in that monitoring round, a lot of those bids will be of lower priority. Hence, the Department will submit that bid again at the next monitoring round, and, if it fails again, it will continue to submit it.

That is one of the weaknesses in the monitoring round that we have spelt out in our paper. It is almost a disincentive for Departments to try to deal with some of those issues internally, because there is always an expectation that they might get lucky at the next monitoring round, so they keep putting in the same bids. Departments will sometimes feel that by taking any steps to address a bid in-year will compromise their chance of getting any further assistance for the monitoring round. That is really about it, it is a combination of those two effects. Unless we have been given the wrong information, a lack of understanding of the bid will not be the reason for it failing, it will be that, in the overall assessment, the bid is deemed to be of a lower priority within the available resources for distribution in that monitoring round.

**Mr F McCann:**

When the Department of Finance and Personnel sees the same bid recurring, does it tell the relevant Department that it is the fifth or sixth time that the bid has been submitted and that it would be better met from within the Department's existing budget?

**Mr Daly:**

The normal challenge role from my colleagues in Supply division would be to bottom out those issues with the Department and try to press it to fund the bids internally. However, if a Minister believes that the bid must go to the centre that is where it comes.

**Ms Purvis:**

Paragraph 1.4 of the paper submitted to the Committee by the Department of Finance and Personnel states that:

“A further issue in terms of the broader financial management agenda”  
is, ultimately, to move to a focus on output and outcomes. Did the review find that there was not sufficient focus on outputs and outcomes?

**Mr Montgomery:**

We have noticed that the in-year monitoring process focuses on funding requirements, as opposed to what is delivered. The general perception is that the focus was on the amount of spending that was needed, as opposed to what was delivered and whether there was a better way to deliver than calling upon Executive resources.

**Ms Purvis:**

Was the weakness found in the present monitoring round process the extent to which funding needs do not consider outputs, funding comes first?

**Mr Montgomery:**

It is not that we do not consider outputs. It is simply that the information is either not available in respect of the Programme for Government or that a lot of targets are not particularly output based and fail to meet the smart criteria — specific, measurable, agreed and realistic.

**Ms Purvis:**

Would one way of looking at that be to include the PSA or the Programme for Government targets in bids?

**Mr Montgomery:**

Yes, that is where it is at.

**Ms Purvis:**

Paragraph 1.4 also states that moving to an outcome-focused:

“will be dependent on departments having adequate management skills”.

Is there a skills gap? If so, what is it?

**Ms Fiona Hamill (Treasury Officer of Accounts):**

A strengthening of the financial skills that exist in Departments is required. The Committee will be aware that the Civil Service has come through a radical period of reform over the past 15 years, and there has been a move from a basic cash-base system to a sophisticated financial

system. In the initial years, Departments focused heavily on traditional accounting skills.

As that has bedded in, we have recognised that we need to develop the business support financial skills in Departments and the ability to robustly and radically challenge the financial requirements that are coming through Departments. We are working on that and looking in detail at how we can build up those skills. We have recruited one cadre of accountants who have a specific set of skills, and we need to broaden those skills. We also need to develop non-professional skills within Departments. We are working on that programme. We have developed new training, and we will continue to do so over the next couple of years, within the context of the financial environment into which we are heading. We cannot develop high-cost training programmes, because Departments will not have the resources to send staff on hugely expensive exercises. However, we need to start to develop. We want to make financial skills instinctive and ensure that every part of a decision goes through a Department, rather than as it is now, where, it could be argued, the decisions are floating up round the finance function and senior staff.

**Ms Purvis:**

It is a crucial and intense piece of work. In the previous session, Mr O’Loan talked about improving communication between Departments and the Department of Finance and Personnel. If those skills exist in Departments, that communication will be improved.

**Ms Hamill:**

That is correct.

**Ms Purvis:**

Paragraph 2.3 of the report refers to the approach adopted by Whitehall Departments. They keep a reserve in their initial budgets to meet emerging pressures. Is Whitehall or Northern Ireland’s system most effective? Is the same approach taken in other jurisdictions?

**Mr Daly:**

I do not know the position in the other jurisdictions, but Mr Montgomery might come in on that. The general feeling around the system at the moment is the question of whether to have monitoring rounds. If we do not, and the Executive want to be in a position to meet emerging pressures, as I said last week, there are two ways to do so. First, we could scale back on the

existing programmes, or, in other words, cut Departments to meet that. Secondly, we could hold back a contingency fund at the start. The difficulty with holding back a contingency fund is that, from the outset, there is available expenditure which is not delivering services. It is a question of how much to hold back and how long it should be held back for. Do you take £50 million or £100 million and hold it back for the entire year? Or, do you start to work it out of the system as you approach the end of the year? If you opt for that, what do you do if you get to the end and something happens?

From talking to officials in other Departments, as part of our ongoing look into the future on the issue, the balance seems to be towards monitoring rounds as a good way to do this. However, as we have discussed at the Committee already, as financial management skills improve and as budgets become tighter, the degree of room in which to manoeuvre that will emerge in monitoring rounds will make it more difficult.

Therefore, we have not made a final decision, but that is the key question: whether to deliberately hold back money that could be better used on the ground. To date, the Executive's view has been to get the money out on the ground or, in respect of using the overcommitment, get more on the ground and work the overcommitment out of the system by the end of the year, rather than what would, in effect, be an undercommitment.

**Ms Purvis:**

Given that there has been a trend towards lower levels of underspend and the need to remove the overcommitment provision, do you think that Northern Ireland is likely to move towards the Whitehall model?

**Mr Daly:**

I do not have a view on that, because I can see disadvantages in it. As I said earlier, it means taking a sizeable amount of money out of the system at the start of the year.

**Mr Hamilton:**

Before reading the paper, I thought that there was a need for a radical reform of the in-year monitoring process. I thought that it could be effective at times, but, at other times, far from effective. By reading the paper and balancing both arguments, I see that it is far from perfect, but we need something like that to continue. You can tinker around the edges to try to make it more



effective, but at this time something largely similar to what is there is probably best.

I know that there are process issues and that Departments feel that when they finish one monitoring round, they are into another. There are communication issues, issues with Committees and issues with the scrutiny or, sometimes, the perceived lack of it. There has been criticism that monitoring rounds do not allow for fundamental changes, that bids must be within certain parameters and that it is difficult to adapt to big issues that fall outside the Programme for Government.

Most of the criticism in the past number of years has been that people have perceived that the system is ineffective because it does not allocate large amounts of money. That view does not stack up with the figures because, in the past two years, over £1 billion has been allocated. Most Assembly Members' view of the monitoring rounds is characterised by the past few rounds, which have not redistributed much money. There are many positive reasons for that such as better management of existing resources by Departments and good financial management. Moreover, there are bad reasons such as the fact that pressure on Departments has meant that they must spend all their money. The fact that the Health Department has first call has put pressure on the amount that can be distributed.

However, the biggest problem is overcommitment. If overcommitment is reduced to the point where it does not exist, I assume that more money will be available to distribute. Without that overcommitment, an additional several hundred million pounds could have been allocated through monitoring rounds in the past couple of years. Although I do not know the budget for future years, I presume that that is still the case. If the overcommitment issue is addressed, there will be more money to redistribute. That might tackle that perception that monitoring rounds are not effective because they are not distributing money.

**Mr Daly:**

That is the expectation. We met the Committee last week to discuss the December monitoring round. The prime objective is to reduce the overcommitment to a manageable level. If overcommitment is zero in future years, when resources are declared surplus at a monitoring round, they will immediately be available for redistribution rather than being the first call on an overcommitment.

**Mr Hamilton:**

That is part of the problem; DFP has to store money for winter to tackle the problem and is not giving it out. MLAs and Departments say that the process is no good because they do not receive any money.

**Mr Daly:**

That is it; when an overcommitment is set at the start of the year, there may be a perception in some areas that nothing further happens. However, I assure you that colleagues work actively throughout the year to reduce the overcommitment to zero by the end of the year. That is a difficult process, because one must anticipate the outcome of the next monitoring round and, therefore, a prudent level to get to now. The only information available is the historic information, which, as we know, is not necessarily a good predictor of the future because the scenario changes all the time.

**Mr Hamilton:**

There has been a lack of understanding of the severity of that problem and the difficulty that it poses for in-year monitoring. I hope that, when it is gone, there will be no problem.

**Ms Purvis:**

Given that lower levels have been allocated in recent monitoring rounds, is there a risk that Departments will build that into their budgets so that it is not possible to be sure of the baseline as a true figure? They might feel that, because less money is being allocated, they need to hold onto it and store a wee bit more.

**Mr Daly:**

There is always a suspicion that Departments might be attracted in that direction. However, the other side of the public spending directorate is our supply colleagues. Part of their job is to scrutinise and challenge Departments on their budget position on an ongoing basis. If there is any slack in the system, they try to get a good understanding so we can ensure that those reduced requirements are surrendered at monitoring rounds. That is the purpose of the programme of baseline reviews that they are taking forward at the moment.

**Mr Weir:**

My contribution is more of a comment than a question. An examination is under way to ensure

that we get the processes and strategy right.

Looking at the last handful of monitoring rounds, I appreciate that over the last couple of years the public sector has been in a very different position financially as a result of the recession. I welcome the progress that has been made to date. Looking at it in the longer term, I feel slightly guilty about it. For my sins, I was a member of the Finance Committee during the first Assembly. I remember that monitoring rounds at that stage returned, on a quarterly basis, tens of millions of pounds that had not been spent. There was not a proper control over this in the Departments. I do not know whether you were DFP officials at that stage, but on each occasion when those sums, of vast and embarrassing proportions, were up for reallocation because they could not be spent, there was always an alibi or excuse from the DFP officials, to the effect that that quarter was a unique occasion, or the sum excessively high; yet, curiously, the following quarter, it tended to be something not dissimilar. Whatever further work there is to be done, it is good that we are in a process of continuous improvement. A few adjustments should still be made, but we should acknowledge the fact that processes are massively better, both from the point of view of the Executive and the DFP. They ensure that there is a focus on spending money as originally intended.

**Mr O'Loan:**

Thank you very much for your report and useful investigation. I want to say a number of things to which you may or may not want to respond, and they include a degree of questioning. My starting point is that we should have a more in-depth review of the Budget on an annual basis. Had we done that over this three-year period, there would be fewer issues to discuss during the monitoring rounds. If we take an overview of how finances have been handled and the public perception of that, it does not look good. It does not look like a well-managed process; it looks too much like flying by the seat of one's pants. We see mountains ahead, and we must adjust the aircraft to dodge the peaks: that kind of thing. Not every media report is accurate and I do not claim that every politician is accurate either.

**Mr Daly:**

This is being reported by Hansard.

**Mr O'Loan:**

Nonetheless, there is a problem there. I was glad that you exceeded your terms of reference,

which were simply

“to improve the contribution of the in-year monitoring process”.

You discussed whether we should abandon the process. I do not agree that you can abandon it. With respect to the previous speaker’s comments, there has to be such a process. To allow every Department to hold onto what money it gets and to allow it, when a programme disappears, to absorb the funds in some other activity, does not allow sufficient examination of relative priorities. There has to be such a system. However, I do not think there is sufficient scope for dealing with contingencies. The reserve system, the mechanism for making allocation, the decision of what tests one uses and when that test is applied in-year: all need more thought. The present situation creates very difficult situations and bad perceptions. One will always hit the doldrums such as swine flu, the redundancies at Bombardier and the major issue of carving £370 million out of the Budget for next year.

I have one or two other thoughts. You talked about removing the June monitoring round. You said that its primary function was dealing with EYF. However, if one prepared the annual Budget better, would not EYF be clear at the outset? That issue should be taken out of the equation, and then, eventually, the idea of removing the June round might be considered.

I worry about the amount of money that comes up late in the year, around February, when it may be late to reallocate it well. In the previous session, we talked about the culture between DFP and other Departments. Is the information coming from Departments? Do they flag up the fact that there is a potential problem and that they may not be able to deliver, or does it suddenly arrive on DFP’s plate that they are declaring it as a reduced requirement? If so, that is not satisfactory.

We talked in the previous session about zero-based budgeting. I do not have a lot of faith in the idea that we are capable of performing all the analysis required for zero-based budgeting. I wonder if you need an independent review of departmental performance on some sort of selective basis. I am staggered that the report states that bids that are made in monitoring rounds are not assessed against Programme for Government targets. I would have thought that that was absolutely fundamental for prioritisation. Therefore, my overview is that the issue should by no means finish here. We need to give further consideration to the quality of the process and bring a

lot more into that debate on the issue of trying to create some reserve to deal with contingencies.

**Mr Daly:**

As I said at the outset, these are the short-term, more immediate recommendations, which we will implement. However, there is an acknowledgement that as we move forward and financial management ability and systems improve, we will have to return to the scenario. I will not try to pick up on all the points that you made because there was quite a bit there. However, with regard to the June monitoring round, ideally it should be a technical round, which deals with small issues rather than major reallocations. However, in practice, that is not always the case. Last year, there was the deferral of water charges and next year we will have to deal with capital receipts. However, all things being equal, that is what it should be.

As regards the EYF point, although we will know in advance the overall profile of drawdown of EYF, as was the case with the 2008-2011 budget, not all EYF was allocated at the outset. Therefore, there is still a decision to be taken as you move into the year.

In respect of the linking of Programme for Government targets to in-year monitoring bids, that is something that we have in place at the moment.

**Ms McBurney:**

We ask Departments for information on the impact that any bid, reduced requirement or proposed linkage between spending areas will have on their Programme for Government targets. However, you are saying that we need to take that a bit further in the review and have better output-based measures to allow us to develop that, rather than not doing it at all. It simply needs to be developed further.

**Mr Daly:**

I take the point about zero-based budgeting, because its starting point must be whether we even need to bother doing it, so, for example, do we need to have schools or hospitals. Clearly, we cannot simply say that we are not going to have those facilities. Therefore, to a certain extent, programmes on current expenditure will change at the margins, but that marginal change should be related to changes in output and not just a roll forward and something for inflation. However, as regards an independent review, that is the purpose of the baseline review that colleagues are involved in. Selected areas where our colleagues in supply will try to get in beneath the budgets

will improve their challenge role to try to ensure that that independent challenge is provided to assist in the improvements in value for money, delivery of output, sufficiency and that sort of thing.

**The Chairperson:**

The Committee has been trying to get a sense of how the review of the 2008-2011 process will inform any future Executive budgeting process. Can the Department offer an indicative date of when it is going to set out its proposals for a future process?

**Mr Daly:**

As the Minister pointed out, we had intended to have the review of the generic budget process done last summer, but, for various reasons that I will not go into now, it was delayed. At the moment, the small team that was working on the review is actively working on the 2010-11 revised budget process.

Once we get that out of the way, my intention is to get that done very quickly. I appreciate that the Committee wants to take delivery of the final position, as it will help inform the arrangements in the Assembly, and although I cannot give an indicative date I hope to have it completed in March 2010. However, before it can be done the 2010-11 process must be completed.

**Ms Purvis:**

A recent Public Accounts Committee report considered the alignment of the PSA in the Programme for Government. Given the focus on outputs and outcomes, are the existing financial systems in Departments and Account NI sufficiently aligned with PSA targets and indicators to provide the necessary management information on inputs, outputs and outcomes?

**Ms Hamill:**

I can speak to Account NI on that issue. However, all Departments now work off the Account NI financial system, which has been built to map across and provide output for the CED systems from financial accounting to public sector spending. How that information is mapped to specific PSA targets is the responsibility of individual Departments, but the system is certainly capable of doing it.

**Ms Purvis:**

The outworking of that remain to be seen.

**Ms Hamill:**

It does.

Departments are really only new owners and developers of the Account NI system, but they will learn the system and how to make it work. I was the director of technical implementation on the programme, and I am confident that it is competent enough to handle that in the medium to long term as Departments learn their requirements and become able to specify their requirements.

**The Chairperson:**

Thank you.