National Assembly for **Wales**
Cynulliad Cenedlaethol **Cymru**

The Budget Process and Financial Scrutiny in the UK Administrations

Abstract

This paper provides background briefing on the different systems and structures of financial scrutiny in the devolved administrations of Wales, Scotland and Northern Ireland and in the UK Parliament.

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The Budget Process and Financial Scrutiny in the UK Administrations

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Executive Summary

Responsibility for United Kingdom fiscal policy, macroeconomic policy and public expenditure allocation across the country lies with HM Treasury. Following devolution in Scotland, Northern Ireland and Wales, Government funding for the devolved administrations has continued to be determined within the context of the United Kingdom Spending Reviews.

The allocation of public expenditure across the services under the control of the Governments in Scotland, Wales and Northern Ireland is at the discretion of the devolved administrations within the overall totals assigned to them.

This paper provides background briefing on the different systems and structures of financial scrutiny in the devolved administrations of Wales, Scotland and Northern Ireland and in the UK Parliament.

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Cynulliad Cenedlaethol Cymru National Assembly for Wales

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1 The Budget Framework of the UK

Responsibility for United Kingdom fiscal policy, macroeconomic policy and public expenditure allocation across the country lies with HM Treasury. The Budget is the annual financial statement and review of levels of taxation, presented to the House of Commons by the Chancellor of the Exchequer. It contains all the tax measures considered necessary to raise sufficient funds to meet planned Government expenditure for the year ahead.

Following devolution in Scotland, Northern Ireland and Wales, Government funding for the devolved administrations has continued to be determined within the context of the United Kingdom Spending Reviews. After the Chancellor's 2004 spending review statement, HM Treasury issued a statement of funding policy[1] on July 10 2004, setting out the current arrangements for funding the devolved administrations. The United Kingdom Government votes the necessary provision to the relevant Secretary of State who, in turn, makes a payment to the devolved administration.

The block grants (or assigned budgets) allocated to the devolved administrations are contained within their Departmental Expenditure Limits (DEL). Changes to these budgets are generally determined by the Barnett formula[2]. Under the formula, Scotland, Wales and Northern Ireland receive a proportion of changes in planned spending by UK government departments in England. The changes are determined by the quantity of the change in planned spending in departments of the United Kingdom Government, the extent to which the relevant United Kingdom programme is comparable with the services carried out by each devolved administration and each country's population proportion[3].

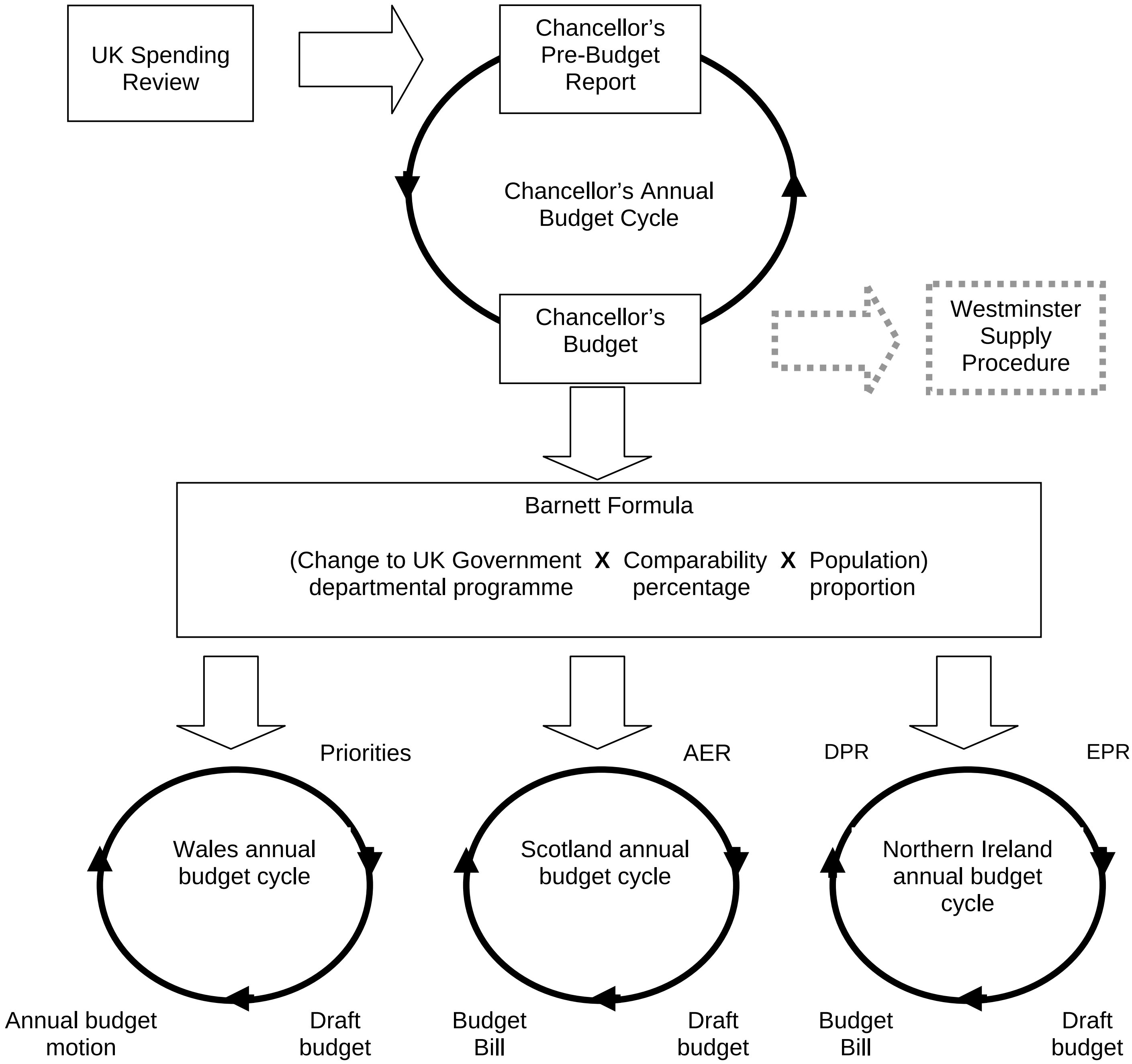
Historic expenditure patterns are of much greater significance in determining the overall DEL of the devolved administrations. The Barnett Formula applies only at the margins, to *changes* in planned spending. Hence, the underlying baselines that were in place at the time of the introduction of the formula remain largely unaffected, although the formula is modified from time to time to take account of demographic changes. These baselines form the core of the new budget, while the formula allocates shares of planned changes in expenditure on a population basis.

Each devolved administration's budget is not funded exclusively by grant from the United Kingdom Parliament. Further funding to meet policy priorities may be secured from locally financed expenditure, including non domestic rates and (in Scotland) the Scottish Variable Rate of Income Tax. Capital spending can also be funded through borrowing by the local authorities of Scotland, Wales and Northern Ireland and other public bodies. European Structural Funds expenditure falls within the devolved administrations' Departmental Expenditure Limits as is the case with United Kingdom Government departments.
The allocation of public expenditure across the services under the control of the Governments in Scotland, Wales and Northern Ireland is at the discretion of the devolved

[1] *Funding the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly: A Statement of Funding Policy* is available on the Treasury website at: http://www.hm-treasury.gov.uk/media/CB2/3C/Funding_the_Scottish_Parliament_National_Assembly_for_Wales(296kb).pdf
[2] This largely removes the need to negotiate directly the allocation between Treasury Ministers, Secretaries of State and Ministers of the devolved administrations.
[3] For further information see MRS Quick Guide 13 – *The Block Grant for Wales and the Barnett Formula*

administrations within the overall totals assigned to them. Additional pressures on budgets should usually be accommodated within the Total Managed Expenditure (TME) agreed with HM Treasury. This is consistent with the arrangements for departments of the United Kingdom Government, and access to the Reserve would be considered in exceptional circumstances only. Unforeseen pressures should be managed within existing budgets by offsetting savings and re-allocating priorities.

Figure 1. Overview of the relationship between the Chancellor's Budget and the budgets of the devolved administrations[4]



[4] The position in Wales reflects the 2006 Budget Planning Round, governed by transitional standing orders – for further information see MRS QuickGuides 4 *The Draft Budget Stage – 2007-08 Budget* and 5, *Budget Process Stage 3 – The Annual Budget Motion*

2 The Budget at Westminster

2.1 The Chancellor's Budget

The budget process at Westminster is split into two stages: expenditure planning and parliamentary approval.

The Government undertakes expenditure planning through the Spending Review and annual Budget cycle. Spending Reviews set firm and fixed three-year Departmental Expenditure Limits and, through Public Service Agreements (PSA), define the key improvements that the public can expect from these resources. They target resources at the Government's priorities, match these resources with reforms and set targets for improvements in key public services.

The 1998 Comprehensive Spending Review (CSR)[5] involved a thorough review of departmental aims and objectives and a zero-based analysis[6] of each spending programme. It set spending plans and PSAs for financial years 1999-2000, 2000-01 and 2001-02. Although spending reviews set three year spending plans for DEL totals, the spending review process has occurred at two year intervals. The Government has undertaken spending reviews in 2000, 2002, and 2004. These three reviews were all undertaken on a resource basis, not, as in 1998, on a cash basis[7].

On 19 July 2005 the Chief Secretary to the Treasury announced that the Government intended to launch a second Comprehensive Spending Review (CSR) reporting in 2007[8], to identify what further investments and reforms would be needed to equip the UK for the global challenges of the decade ahead:

> With the start of the next Spending Review period coming a decade after the first, the Government proposes to launch a second Comprehensive Spending examining what the investments and reforms initiated to date have delivered and what further steps must be taken to ensure that Britain is fully equipped to meet the challenges of the decade ahead.
>
> This review will:
>
> - take a zero based approach to assessing the effectiveness of Departments' existing spending in delivering the outputs to which they are committed;
> - examine the key long-term trends and challenges that will shape the next decade and assess how public services will need to respond; and
> - look at how the public expenditure framework can best embed and extend ongoing efficiency improvements and support the long-term investments needed to meet these challenges.
>
> The review will complement the work of the long-term reviews already underway into the future of transport, skills, pensions and local services.

Until the announcement of the results of the current Comprehensive Spending Review in 2007 (covering financial years 2008-09 to 2010-11), the Treasury has indicated that departmental allocations will be held at agreed levels for 2007-08.

[5] The 1998 CSR is available from the Treasury website at: http://www.archive.official-documents.co.uk/document/cm40/4011/4011.htm
[6] Zero-based analysis is a method of budgeting in which all expenditures must be justified each new period, as opposed to only explaining the amounts requested in excess of the previous periods' funding
[7] Resource budgeting takes account of resources, expenditure, cash and accruals providing a better measure of the cost of activities within government departments than simple cash-based budgeting
[8] As a result, there was no spending review in 2006

The results of the Spending Review are reported to Parliament in a statement. A command paper is also presented to Parliament and published. The Chancellor announced in this year's Budget that the 2007 CSR will report in the autumn. This is a departure from recent years when they have been in the summer. The pre-Budget report sets out forecasts for the economy and the public finances and explains how the Government views its policies in helping to deliver its long term goals. Acting as a signal of the Government's intentions, it describes the reforms that are being considered ahead of the next Budget, on which consultation will take place in the months ahead, alongside some announcements of policy.

The Budget is the annual event within the spending review cycle which sets out the Government's taxation plans and planned expenditure on services for the coming financial year. It also provides a further assessment of the economy and the public finances and presents forecasts for each over the next few financial years. The Budget details the Government's economic and fiscal objectives, reports on progress made towards achieving these objectives and explains the further steps the Government intends to take to meet its objectives.

Information contained in the Budget is published in two parts. The *Economic and Fiscal Strategy Report* (EFSR) explains how the measures and other decisions announced in the Budget build upon those already introduced. The *Financial Statement and Budget Report* (FSBR) forms the second part of the Budget and brings together in summary form all the measures and decisions announced since the last Budget that affect the Budget figure work, and illustrates how these changes might impact on government revenues and spending during the Budget period.

The Budget is the major financial and economic statement made annually by the Chancellor of the Exchequer to Parliament and to the Nation. As such, it is the most publicly visible element of the wider public expenditure planning and control system in the United Kingdom.

2.2 Parliamentary Approval and Financial Scrutiny at Westminster

Under long-established constitutional practice, it is the Crown (the Government) that makes demands for money, the House of Commons that grants these demands and the House of Lords that assents to the grant[9]. The funds requested by the Government in the Budget proposals are termed *estimates* in Westminster. They are prepared by Government departments and, after examination and amendment by the Treasury, are presented to the House of Commons (HoC) by the Financial Secretary to the Treasury. Only the Treasury can lay estimates.

The supply procedure begins with the presentation by the Treasury to the HoC of the *main estimates*, usually in March, containing a request for funds for the coming financial year[10]. The estimates set out the resource budgets for each government department. They are made up of a number of requests for resource (RfR) and show the total gross expenditure and appropriation in aid (income) for each RfR and the cash requirement – the amount required from the Consolidated Fund. Parliament plays no part in the allocation decisions which form the basis of the estimates. Parliamentary authority comes with the passing of a

[9] The Lords' role in the passage of the Appropriation Act and Consolidated Fund Act is purely formal. In financial matters, the Lords have no powers to overturn the Commons' approval.
[10] Parliament does not usually approve the main estimates until late July / early August. Funds for the early months of the financial year are therefore provided by a system of *votes on account*. These are normally presented to Parliament in November of the previous financial year (alongside the winter supplementary estimates) and seek approval for use of 45 per cent of the amounts authorised to date for that financial year in the coming financial year.

Consolidated Fund (Appropriation) Bill by Parliament which, when enacted, is known as the Appropriation Act.

The Appropriation Act authorises the Government to use resources up to the amounts requested in the main estimates (and in subsequent supplementary estimates). It also authorises the maximum income that may be appropriated in aid (or recycled – as opposed to being surrendered, or lost) and the cash that may be issued from the Consolidated Fund. The Act also limits the way in which the money can be spent by prescribing how the overall sum is to be appropriated to particular estimates in order to finance specified services. Since 2004–05 there have been two Appropriation Bills per session[11]: one in March, following spring Supplementary Estimates, and one in July following Main (and any summer Supplementary and Revised Estimates).

The Government may decide to ask Parliament for additional resources and/or cash during the year through the presentation of Supplementary Supply Estimates. The summer Supplementary Estimates (usually in June) are the first of three annual revisions to the main estimates that the Government may make during a financial year[12]. Revised Estimates may also be presented, which replace the original main estimate prior to the supply resolution being voted on. Revised Estimates can either reduce the provision sought in the original estimate or vary the way in which it is to be allocated.

The HoC's consideration of individual estimates is primarily a task for the Departmental Select Committees, which examine the expenditure of particular departments. Departmental Select Committees may decide to examine individual main, revised or supplementary estimates, ask the department for further information about any aspects and examine Ministers and officials regarding particular expenditure. A Committee's conclusions frequently take the form of a report.

Fourteen clear days must elapse between the presentation of an estimate and the HoC vote on the related supply resolution[13]. The Government aims to leave at least 14 days between presentation and vote, and to give Select Committees advance proof copies of Supplementaries ahead of presentation. In practice, some two to four weeks are usually available for Select Committees to examine supplementaries on the three main occasions on which they are presented[14].

Under arrangements set out in Standing Orders, the House of Commons has an opportunity to debate, and vote on, individual estimates on three Estimates Days in each Parliamentary session[15]. When this happens the debate is generally informed by a report from the relevant Committee. The time available on Estimates Days is allocated on the advice of the Liaison Committee, whose membership includes the Chairmen of the Departmental Select Committees. The choice of subject also lies with the Liaison Committee which recommends, in effect, particular Select Committee reports which can be 'pegged' to an individual estimate.

The motion which the House debates is worded simply that the sum specified in the Estimates should be granted and is moved by a Minister[16]. A member may table an

[11] Prior to this there had been only one Appropriation Bill per session
[12] Revisions can also be made in the winter (usually November) and spring (usually March, alongside the Main Estimates for the following financial year).
[13] Under Standing Order 55 of the House of Commons
[14] This period may be shorter in the case of any late revisions or for any special supplementaries which occur outside of the usual timetable
[15] The Liaison Committee has previously recommended that the number of Estimates Days be increased from three to six. See *Shifting the Balance: Select Committees and the Executive*, HC 300, 1999-2000, paras 59-60. Available at: http://www.publications.parliament.uk/pa/cm199900/cmselect/cmliaisn/300/30002.htm
[16] Since financial initiative is a matter for the crown

amendment to such a motion seeking a reduction in the sum, but cannot recommend an increase. A token reduction of £1,000 is often sought and is often "in respect of" a particular RfR area within the estimate. After the two estimates for discussion have been voted on, all other outstanding estimates are voted on formally without debate. The Consolidation Fund (Appropriation) Bill is set down for a second reading on a day soon after the relevant estimates have been agreed. The process is formal: there will be no debate on any of the stages and each stage will go through 'on the nod'.

While Parliament must approve government spending, in practice, most of the power lies with the Government, provided it has a majority in the House of Commons. The Hansard Society's Commission on Parliamentary Scrutiny argued:

> The process by which revenue is raised and spending programmes are allocated has become ever more politically charged. The government regards getting its spending proposals through the House of Commons, in the form already decided in Cabinet and Whitehall, as essential to its programme and its credibility. Parliament has only one real sanction; to reject the government's spending proposals. With the majority of MPs being members of the governing party, they are most unlikely to take the 'nuclear option'.[17]

Proposals for making financial scrutiny a more significant part of select committee's work have been made on a number of occasions. The Sixth Report of 1998-99 of the Procedure Committee, *Procedure for debate on the Government's expenditure plans*[18], discussed the involvement of select committees in the supply process, particularly the possibility of specifically referring the estimates to select committees. Although select committees already have the power to consider the estimates, they felt that the matter needed to be more explicit:

> … given that, almost without exception, committees do in fact undertake some examination of their department's annual report, we do not believe that a formal referral of Estimates to committees would present them with too great a burden. We believe that departmental select committees should, once a year, look closely at the expenditure incurred by their department, whether the result of that examination is radical critique or detailed examination of a small project.[19]

The Government's response to the report rejected this recommendation on the grounds that:

> Since Select Committees have the freedom to set their own agenda, committees already have power to examine and report on the Government's expenditure plans. The Government welcomes committee scrutiny of these plans. However, formal referral of Estimates and expenditure plans to Select Committees would reduce the committees' ability to determine their own priorities, and the Government is not persuaded that this would be desirable.[20]

Commentators have long recognised that select committees have tended to perform the task of financial scrutiny inadequately. This was a concern of the Hansard Society:

> The Commission believes that select committees should play a greater role in financial scrutiny. Although Standing Orders establishing the departmental select committees gave powers to examine the expenditure (as well as the administration and policy) of the relevant Government Departments and associated public bodies, the Commission's research

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[17] Hansard Society, The Challenge for Parliament: Making Government Accountable, Report of the Commission on Parliamentary Scrutiny, 2001
[18] HC 295 1998-99
[19] Ibid, para 45
[20] Government response to the Sixth Report of Session 1998-99: Procedure for Debate on the Government's Expenditure Plans, HC 388, 1999-2000, response to recommendations (i)-(m). Available at: http://www.publications.parliament.uk/pa/cm199900/cmselect/cmproced/388/38803.htm

> confirmed the low priority given to finance. Only around a third of select committee inquiries considered any form of expenditure issue and only 9.1% examined the estimates. …Part of the problem is the limited influence of such reports, as by the time a committee had received the estimates, inquired and reported, it would probably be too late to make any difference. Understandably, the greater likelihood of influencing policy of administration will condition a committee's activity.[21]

The Modernisation Committee recognised the need for improved financial scrutiny by committees in their 2002 report[22]:

> Financial scrutiny is a good illustration of the need for specialised support to select committees. It is impossible for select committees properly to discharge their job of scrutiny unless they can adequately examine the budget control of the Department they shadow and the priority of its spending plans. The introduction of Resource Accounting and Budgeting has increased both the potential for systematic financial scrutiny and the need for technical expertise to interpret it.[23]

The report recommended that the National Audit Office (NAO) be invited to help assess the need for specialist and other support staff for select committees and to advise on how this could be best provided. This led to proposals for the development of a central scrutiny unit which would be specifically geared towards providing assistance to the select committees in their enhanced role of financial scrutiny. The Liaison Committee commented that:

> … greater provision of specialist assistance from the scrutiny unit should enable committees to ensure that Departments are made accountable and transparent in more policy areas.[24]

The House of Commons Scrutiny Unit was subsequently set up in November 2002. The Unit forms part of the Committee Office in the House of Commons. It exists to strengthen the scrutiny function of the House by providing specialist expertise to select committees, especially (but not exclusively) on financial matters and draft bills. For further information on the work undertaken by the Scrutiny Unit, see *About the House of Commons Scrutiny Unit* at:
http://www.parliament.uk/about_commons/scrutinyunit/about_us.cfm

The supply estimates are not the only financial report made to Parliament. Each year, every department produces an annual report, which deals with the department's activities over the preceding 12 months and sets out its plans for the future. These accounts provide a good source for ascertaining how a department is spending its budget. Annual reports are usually examined by the relevant departmental select committee.

The role of the Comptroller and Auditor General (C&AG), as head of the National Audit Office (NAO), is to report to Parliament on the spending of central government money. The NAO[25] conducts financial audits of all government departments and agencies and many other public bodies, and reports to Parliament on the value for money with which these bodies have spent public money. It is responsible for auditing the accounts of all Government departments and agencies and for reporting the results to Parliament.

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[21] Hansard Society Commission on Parliamentary Scrutiny, *The Challenge for Parliament: Making Government Accountable*, Hansard Society, 2001, paras 5.8-5.9
[22] Modernisation of the House of Commons Committee, *Modernisation of the House of Commons – First Report*, HC 224, 2001-02:
http://www.publications.parliament.uk/pa/cm200102/cmselect/cmmodern/224/22402.htm
[23] Ibid, para 29
[24] Liaison Committee, *Select Committees: Modernisation Proposals*, HC 692, 2001-02, para 10:
http://www.publications.parliament.uk/pa/cm200102/cmselect/cmliaisn/692/69202.htm
[25] More information on the work of the National Audit Office is available on their website, at:
http://www.nao.org.uk/about/index.htm

The C&AG is required to form an opinion on the accounts, as to whether they are free from material mis-statements. The C&AG is also required to confirm that the transactions in the accounts have appropriate Parliamentary authority. If the NAO identify material mis-statements, the C&AG will issue a qualified opinion. Where there are no material errors or irregularities in the accounts, the C&AG may nonetheless prepare a report to Parliament on other significant matters. Such reports may be considered by the Committee of Public Accounts of the House of Commons.

Standing Order 148 states that the Committee of Public Accounts[26] is appointed:

> "for the examination of the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and [since 1934] of such other accounts laid before Parliament as the Committee may think fit."

The Committee consists of 16 Members, including the Financial Secretary to the Treasury who does not normally attend meetings of the Committee. Members are nominated at the beginning of each Parliament on the basis of a motion made by a Government minister, after consultation with the Opposition. Changes in membership are made from time to time during the Parliament, often because Members have become Ministers or front-bench opposition spokesmen. The party proportions of the Committee, like other committees, are the same as in the House. The Committee chooses its own chairman, traditionally an Opposition member, usually with previous experience as a Treasury minister.

Reports made by the NAO can be further investigated by the Committee of Public Accounts. The committee may take further evidence from Accounting Officers, senior governmental officials who have been specially designated by the Treasury and have a personal responsibility to ensure the prudent stewardship of public funds. The Committee will then issue its own report. By convention, the Government must reply to their recommendations within two months. The C&AG and/or the Committee of Public Accounts can then decide to conduct a follow up investigation into the issues raised.

In this way, a cycle of accountability operates. Once public money has been spent by a central government body, the C&AG is free to report to Parliament on the regularity, propriety and value for money with which this has been done. The Committee of Public Accounts can take evidence on this report from the most senior official in that public body, and can then make recommendations to which the Government must respond.

In a recent publication, *Inside the Counting House (p 31)*[27] the Hansard Society argued that Parliament performs its role of scrutinising Government accounts more effectively than its role of authorising Government spending plans:

> "In the area of audit and scrutiny of past expenditure, the Public Accounts Committee, the National Audit Office and the departmental select committees provide an important level of detailed accountability. However, just because these roles and functions have many positive aspects, this does not mean that there is no room for improvement. On the authorisation of taxation and government spending plans, the procedures such as the estimates and the related acts, it is widely held that Parliament does not seek, much less obtain, any form of exacting accountability."

[26] See the homepage of the Committee of Public Accounts at:
http://www.parliament.uk/parliamentary_committees/committee_of_public_accounts.cfm
[27] Available at:
http://www.hansardsociety.org.uk/assets/Inside_the_Counting_House_-_Hansard_Society_Report.pdf

3 The Budget in Wales

3.1 The Budget Process in Wales under the 1998 Government of Wales Act

The National Assembly for Wales was constituted as a corporate body with responsibility for both executive and scrutiny functions. The Budget process provided for by the 1998 Government of Wales Act[28] was designed to enable the Assembly to distribute the resources allocated (the grant paid by the Secretary of State) to its spending priorities. This was achieved by plenary voting to adopt the budget proposed by the Finance Minister.

The three key stages for determining the Assembly budget were set out in Standing Order 21[29]. These were:

- **Stage one - Consultation on spending priorities**. Under Standing Order 21.2, the Finance Minister invited Subject Committees to submit their views on priorities for the Assembly's expenditure in the following (usually three) financial years.

- **Stage two – Draft budget**. Standing Order 21.3 required the Finance Minister to lay a draft budget before the Assembly not later than 15 November and to table a motion that the Assembly take note of it. The draft budget set out the proposed allocation of the Assembly's resources for the following financial year and the provisional allocations for (usually two) future years.

- **Stage three – Final Budget**. The Finance Minister was obliged to lay a final budget before the Assembly by not later than 10 December and at the same time table a motion that the Assembly adopt the final budget according to Standing Order 21.4. The final budget was presented broken down into several levels of detail. At the highest level, Main Expenditure Groups (MEGs) corresponded broadly to the Ministerial Portfolios. Below the MEG level, expenditure was identified within Spending Programme Areas (SPAs) defining discrete areas of expenditure within each MEG. Below the SPA level, more detailed information on expenditure was available within Budget Expenditure Lines (BELs).

Before the end of the financial year, a supplementary budget could be tabled setting out changes to the final budget arising from changes in UK Government expenditure plans or other technical changes of a budgetary nature. The Welsh Assembly Government was required to keep the Assembly informed, in Plenary, of any changes in expenditure that involved transfer of resources between MEGs.

3.2 The Role of the Assembly and Committees in Financial Scrutiny

Under Standing Order 21, Subject Committees were required to undertake specific functions at pre-determined points in the Budget planning cycle for the National Assembly for Wales. The main roles played by Committees were the expressions of priorities in May/June and consideration of the draft budget in October/November.

The expression of Committee Priorities in May/June represented the first stage of the annual budget planning round. This part of the process provided the opportunity to take an

[28] The Government of Wales Act (1998) is available at: http://www.opsi.gov.uk/acts/acts1998/19980038.htm
Part 4 of this Act relates to Assembly Finance.
[29] Archived Standing Orders of previous Assemblies and the Standing Orders of the third Assembly are available at: http://assembly/aegis/AssemblyGuidance/Standing%20Orders/standing_orders_contents.htm

overview, where general strategic priorities were considered. The Financial Planning Division of the Welsh Assembly Government issued a commissioning paper which measured progress against key targets, identified effectiveness of existing performance within existing budgets, highlighted emerging pressures and provided suggestions for meeting medium to long-term objectives.

The commissioning paper gave Committees advance notice of the budget planning round process. Ministers then brought forward position papers giving a view on performance during the previous year and reporting on progress towards, barriers to and issues surrounding achievement of existing key targets. The Committees' views on this and any other priorities were conveyed to the Finance Minister ahead of the preparation of the draft budget.

Consideration of the draft budget by Committees in October/November represented the second stage of the annual budget planning round and the final stage of structured Committee involvement. As soon as was practicable after plenary had taken note of the draft budget, Ministers sought the views of the relevant Subject Committees regarding the draft budget to pass on to the Finance Minister. Following completion of the draft budget stage, Standing Orders required no further formal input from Subject Committees. Under Standing Order 9.7(ii) however, Subject Committees had a general responsibility to "*keep under review the expenditure and administration connected with*" the implementation and delivery of policies within their portfolio.

3.3 The Budget Process in Wales under the 2006 Government of Wales Act

Under the provisions made in the Government of Wales Act 2006[30], the National Assembly for Wales as a corporate body will be dissolved. As a result, the executive function will go to the government (the Welsh Ministers) and the scrutiny function to the reconstituted Assembly. The changes in the Budget process are a natural consequence of this separation of functions.

The 2006 Act creates the Welsh Consolidated Fund (WCF) which is simply a neutral bank account held by the Paymaster General[31]. The cash grant from the Secretary of State for Wales will be paid into the WCF and any other amounts received by the Welsh Ministers (or the Assembly Commission, Auditor General for Wales (AGW) and Public Services Ombudsman for Wales (PSOW)) must also be paid into the WCF. The requirement to pay in receipts can be over-ridden up to specified limits set in the budget motion. The AGW will grant approvals to draw cash from the WCF at the request of the Welsh Ministers. He/she must be satisfied that there is valid statutory authority to allow the amounts requested to be issued. With very few exceptions[32], valid statutory authority comes by way of a budget motion authorised by the Assembly.

The Budget process is further governed by the Standing Orders of the third Assembly[33]. Standing Order 21.7 requires a Welsh Minister to lay before the Assembly a draft budget setting out the amounts of resources and cash which the Government proposes to use for the following financial year (and provisional amounts for future years) not later than

[30] The Government of Wales Act 2006 is available at: http://www.opsi.gov.uk/ACTS/acts2006/20060032.htm
Part 5 of the Act deals with finance.
[31] The Paymaster General is a Government Minister who has statutory responsibility for the Government accounts held in his/her name at the Bank of England.
[32] Primary legislation provides for a small number of transactions to be a "direct charge" on the WCF. These include, for example, the salaries of the Presiding Officer, Deputy Presiding Officer, AGW and PSOW.
[33] The Secretary of State for Wales officially made the new Standing Orders for the National Assembly for Wales on 22 March 2007. See Wales Office press release at:
http://www.ossw.wales.gov.uk/2007/pn_20070322.html

7 October. There is no debate at this stage until the Finance Committee has made its report on the draft budget, which it must do within four weeks.

Following consideration of the draft budget, under Standing Order 27.17, the Finance Minister is required to table the annual budget motion as required by section 125 of the Government of Wales Act 2006, on or before 3 December. The motion must incorporate the final budget for the government, the final budget for the Commission[34], the estimate for the Auditor General[35] and the estimate for the Ombudsman[36]. The budget motion will request authorisation for the resources that can be used, income that can be retained and cash that can be drawn from the WCF. The resources that can be used will be split into *specified services and purposes* or *ambits*.

Standing Order 27.19 requires that a minimum amount of information be produced in support of the budget motion:

- The written statement required under section 125(3) of the 2006 Act;[37]
- The resources agreed by the Treasury for the Welsh block budget for the financial year covered by the motion;
- A reconciliation explaining the difference between the resources allocated to the Welsh block budget by the Treasury and the resources to be authorised for use in the budget motion;
- A reconciliation between the estimated amounts to be paid into the WCF by the Secretary of State and the amounts to be authorised for payments out of the Fund in the budget motion;
- A reconciliation between the resources to be authorised under section 125(1) (a) and (b) of the 2006 Act and the amounts to be authorised for payment out of the WCF under section 125(1) (c)[38].

Section 126 of the Government of Wales Act 2006 provides for supplementary budget motions. Supplementary budget motions may be moved at any time during the financial year by the Welsh Ministers.

Essentially, the Welsh Ministers must lay a supplementary budget if they wish to move amounts from one ambit to another, extend the scope of an existing ambit or create an entirely new ambit, or increase the amounts of any resources accruing that they are authorised to be retained under an ambit. The authorisation of a supplementary budget motion, by the Assembly, in respect of any one or more of these changes is required to prevent irregular expenditure from occurring.

[34] As agreed by the Assembly under Standing Orders 27.9-27.12
[35] As laid before the Assembly under Standing Order 27.14
[36] As laid before the Assembly under Standing Order 27.16
[37] This covers the total payments estimated to be made to the Welsh Ministers, First Minister or Counsel General by the Secretary of State, Ministers of the Crown and government departments and any payments made otherwise than by these sources for the financial year.
[38] Section 125(1) (a) refers to resources which may be used for specified services and purposes and (b) to the amount of accruing resources which may be retained for use on specified services and purposes. Section 125(1) (c) refers to the amount which may be paid out of the WCF for use on specified services and purposes.

3.4 The Prospective Role of Committees and the Assembly in Financial Scrutiny

3.4.1 Scrutiny Committees and the Finance Committee

Standing Order 12.1 of the third Assembly states that:

> There must be scrutiny committees with power within their remit to examine the expenditure, administration and policy of the government and associated public bodies.

It is the responsibility of the Business Committee to determine the titles and remits of the scrutiny committees as soon as possible after every Assembly election[39] and the Business Committee must ensure that:

> …every area of responsibility of the government and associated public bodies is subject to the scrutiny of a scrutiny committee.[40]

Standing Order 14.1 requires the establishment of a Finance Committee to consider and report on:

- Any report or other document laid before the Assembly by Welsh Ministers or the Commission containing proposals for the use of resources, including budget motions and supplementary budget motions prepared under sections 125 and 126 of the Act;
- The estimates of income and expenses prepared by the Ombudsman under paragraph 15 of Schedule 1 to the Public Service Ombudsman (Wales) Act 2005;
- The use of resources and payments out of the Welsh Consolidated Fund reported to the Assembly by Welsh Ministers under section 128 of the Act.

It is also within the remit of the Finance Committee[41] to consider and report on financial information in explanatory memoranda accompanying proposed Assembly Measures, and any other matter relating to the expenditure of the Government or payments out of the Welsh Consolidated Fund. Furthermore, the Finance Committee may choose to comment on the timetable for the consideration of budget proposals and budget motions and on the handling of financial business.

3.4.2 The annual budget process

Both scrutiny committees and the Finance Committee have the opportunity to input at the draft budget stage of the Budget Process in Wales. No motion may be moved in plenary in respect of the draft budget for the government until the Finance Committee has made its report on the draft budget. Committees other than the Finance Committee may consider the draft budget for the Government and make recommendations on it to the Finance Committee. They must do this within two weeks of the draft budget being laid before the Assembly.

The Finance Committee must make its report on the draft budget no later than four weeks after it has been laid. The Finance Committee's report must append any recommendations received from other committees. The Finance Committee may (but is not obliged to) recommend changes to the amounts proposed in the draft budget provided

[39] Standing Order 12.2
[40] Standing Order 12.4
[41] Standing Order 14.2

that the net effects do not increase or decrease the aggregate amounts – effectively, any recommended changes must sum to zero.

Within two weeks of the Finance Committee making its report the Assembly must consider a motion tabled by a Welsh Minister that it takes note of the draft budget for the government. Any amendments to this motion may only be tabled provided that the net effect of any changes would not increase or decrease the aggregate amounts of resources or cash proposed in the draft budget for the government. A Welsh Minister will then proceed to table an annual budget motion on or before 3 December.

At this stage in the budget process, the budget priorities and allocations have been finalised following consultation at the draft budget stage. No amendment may be tabled to an annual budget motion and Members' options are limited to abstaining, or voting to support or oppose the motion to authorise the budget as a whole[42]. However, the debate on the Finance Ministers annual budget motion presents individual members with the opportunity to introduce into the debate, points on any unmet priorities or issues of specific concern.

The giving of financial authority for the use of resources is therefore a matter for Members. Conversely, only Ministers can ask for the use of resources and Members cannot authorise amounts that Ministers have not asked for. This is in exact parallel with the Whitehall Westminster System (and with the other devolved administrations) where only the Crown, in the form of the Treasury, may request the use of resources and only the House of Commons may authorise the use of resources.

3.4.3 Supplementary budget motions

A Welsh Minister may table a supplementary budget motion at any time after the annual budget resolution has been passed[43]. This motion may not be moved until the Finance Committee has reported on it, or until three weeks have elapsed since the motion was tabled if the Finance Committee has not reported in this period. The Finance Committee may recommend changes to the amounts proposed in the supplementary budget proposal but the net effect of any variation must sum to zero.

Amendments to a supplementary budget motion may only be tabled to vary the motion and no amendment can be tabled or moved except by a Welsh Minister. The authorisation of a supplementary budget motion by the Assembly is required to prevent irregular expenditure from occurring.

[42] Clause 127 of the Government of Wales Act provides for the use of up to 75% of the resources; the retention of income up to 75% of the retained income; and the payment of cash out of the WCF up to 75% of the cash approved for the previous financial year for services and purposes approved in the previous year if the Assembly does not adopt a main budget resolution before the beginning of the financial year. The percentage increases to 95% after the end of July, if no budget resolution has been approved for that financial year.
[43] Standing Order 27.21

4 The Budget in Scotland

4.1 The Budget Process in Scotland

The budget process in Scotland originates from the recommendations of the Financial Issues Advisory Group (FIAG)[44]. The Group was established by the Secretary of State for Scotland in February 1998 and was given the task of proposing rules, procedures, standing orders and legislation for the handling of financial issues by the Scottish Parliament.

The current process reflects revisions made since devolution with the agreement of the Scottish Parliament's Finance Committee, to take account of the spending review and to reduce the incidence of repetition encountered in the original procedures. The Scottish Budget operates on a two year cycle, based around the biennial spending review. In spending review years, the process is made up of three stages. In non-spending review years, (where there is generally little change in the budget figures) the process is truncated. The three stages of the budget process in Scotland are shown below:

- **Stage 1 – Annual Evaluation Report (AER).** (In spending review years only). Following consultation with the Finance Committee, the format of the Annual Evaluation Report is now a long term strategy document, focussing on performance and strategic issues and setting the scene for the forthcoming spending review. It must be published by the end of March or the first day thereafter on which Parliament sits. The AER includes a performance report showing progress against targets from the previous spending review and gives a statement of the Executive's priorities for the next spending review. Each chapter of the report covers the expenditure area of a particular department or Ministerial portfolio. The report is a consultation document, and the relevant subject committees are responsible for commenting on the relationship between expenditure plans and priorities. This may involve consultation with outside bodies and interested individuals and the public are also invited to put forward their views on the Executive's proposals contained within the AER. The Finance Committee then co-ordinates the responses into a report which is debated by the full Parliament in June, concluding stage one of the process.

- **Stage 2 – Draft Budget.** The Executive considers the responses received from Parliament in stage one of the process and prepares spending plans accordingly. The Draft Budget for the following year is published in September or October and sets out the Executive's detailed spending plans for the following year[45]. Again, as at stage one, Parliamentary Committees and the public are consulted for their views. The Subject Committees report to the Finance Committee on the various relevant parts of the package, to identify whether or not the recommendations made by Parliament in stage one have been acted upon by the Executive. At this stage, the Finance Committee may propose changes to the budget, not involving more money in total. (i.e. proposed increases in budget allocations must be offset by savings elsewhere in the budget.) The Finance Committee then makes a report, which pulls together the recommendations from the various subject Committees' reports, and is debated in Parliament in December. This marks the end of stage two of the process.

[44] See *Principles of the Scottish Parliament's Financial Procedures: Final Report by the Financial Issues Advisory Group*. Published by the Scottish Office and available at: http://www.scotland.gov.uk/government/devolution/fiag-00.asp

[45] The Executive must indicate at this stage if it intends to use the tax varying power in the following financial year

- **Stage 3 – Budget Bill.** The final stage of the budget process involves the publication of the budget and the formal Scottish Parliamentary process of enacting the Budget (Scotland) Bill. The Bill sets out the spending plans of the Scottish Ministers for the following year, having taken into account comments made at earlier stages in the budget process. Only Ministers may propose amendments at this stage and, once enacted, the Bill provides the statutory authority for expenditure by the Executive. The Budget Bill must be laid by 20 January each year and must complete all three of its stages by 14 February. The first stage is a debate in parliament, followed by an evidence session with the Minister for Finance at the Finance Committee and concluding with a further debate in the Parliament.

The timings of the different stages of the Scottish budget process have been known to be affected by proceedings in Westminster. Stage one of the process in Scotland has not occurred this year, despite it being a spending review year, due to the postponement of the 2006 Comprehensive Spending Review to 2007 and the clash in timings with the Parliamentary elections. In addition, the fact that CSR07 is due to report in the autumn (as opposed to the summer which had been the previous norm) is likely to impact on the timings of stage 2 of the budget process in Scotland.

The Scottish Budget process is designed to encourage participation by the Scottish public in the debate on how best to spend the budget. Budget documents are freely available and published on the website of the Scottish Executive. Stages one and two of the process are essentially consultation exercises, and all interested parties have the opportunity to make their opinions known, either in writing or at consultation sessions. The aim is to increase the transparency of the budget process and ensure that Scotland's budget is spent efficiently and effectively by seeking a wide range of views.

The documents published at the different stages of the budget process serve different purposes and are presented in different ways. The AER and the draft budget (stages one and two) are presented on a portfolio basis, in terms of Ministerial responsibility. The Budget Documents accompanying the Budget Bill are represented on a Departmental (or Vote) basis. This is for reasons of stability[46] and because each budget heading is allocated an accountable officer within the Scottish Executive who accounts to Parliament for the use of resources under their control.

The documents record expenditure at different levels to ensure that scrutiny of the Budget can be relatively detailed. Level one reflects expenditure recorded at portfolio level, level two covers expenditure at sub-portfolio level and level three is expenditure in any detail greater than sub-portfolio level. These levels are comparable to the main expenditure group (MEG), spending programme area (SPA) and budget expenditure line (BEL) levels of detail familiar in the Welsh Assembly Government budget documentation.

Budget Bills authorise, for the financial year in question, the use of resources by the Scottish Administration and all other bodies and office-holders whose expenditure is paid out of the Scottish Consolidated Fund.

4.2 The Role of Committees and the Parliament in Financial Scrutiny

A report commissioned by the Finance Committee of the Scottish Parliament highlighted that pre-devolution there had been relatively little scrutiny of the Scottish Budget[47]. Post

[46] Departments are thought less likely to alter than Ministerial portfolios
[47] See Flynn, N (2001) *Moving to Outcome Budgeting*. Commissioned for the Finance Committee by the Scottish Parliament Research and Information Group, para 4.15: http://www.scottish.parliament.uk/business/committees/historic/finance/reports-02/fir02-mob-02.htm

devolution, the new committees have a remit to consider financial proposals and financial administration of the Scottish Executive which relate to or affect any competent matter[48].

As a result, subject Committees are now responsible for the scrutiny of the relevant chapter of the AER (relating to their subject area) and also for scrutinising the draft budget. The scrutiny process involves taking evidence from Ministers, senior officials and any other relevant individuals and organisations. Although public consultation is ordinarily a matter for the Parliament, the Scottish Ministers undertake to report to Parliament the results of any public consultations they carry out on expenditure proposals. The Finance Committee has the responsibility of co-ordinating the responses submitted by the various subject committees, producing a report based on these submissions and reporting back to the Parliament.

In Scotland, the Finance Committee is one of eight mandatory Committees in the Scottish Parliament[49]. (This is in contrast to subject Committees, which are established by the Parliament to deal with a particular subject). According to Standing Orders[50], the Parliamentary Bureau must, by motion, propose the establishment of the Finance Committee within 21 sitting days of a general election.

Standing Orders rule 6.6 prescribes the remit of the Finance Committee:

> "1. The remit of the Finance Committee is to consider and report on:
>
> (a) any report or other document laid before the Parliament by members of the Scottish Executive containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;
>
> (b) any report made by a committee setting out proposals concerning public expenditure;
>
> (c) Budget Bills; and
>
> (d) any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund."

Standing Orders[51] also provide for the Committee to consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.

Essentially, the Finance Committee is concerned with public expenditure in Scotland. In practice, the principal focus of its activities is the annual, three stage budget process, which culminates in the Parliament voting on the Budget Bill.

The Budget process in Scotland (as described in the previous section) is intended to allow the Parliament's Committees and Members the opportunity to comment on the Executive's spending plans at several points during the year prior to the annual budget being agreed. The role of the Parliament and Committees throughout the three-stage process is guided by an agreement between the Finance Committee and the Scottish Executive[52].

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[48] Rule 6.2. Standing Orders of the Scottish Parliament. Standing Orders of the Scottish Parliament 2nd edition (11th revision, December 2006) are available on line at: http://www.scottish.parliament.uk/business/so/so_final.pdf
[49] Rule 6.1,5,c Standing Orders of the Scottish Parliament.
[50] Rule 6.1,6,a Standing Orders of the Scottish Parliament
[51] Rule 6.6,2 Standing Orders of the Scottish Parliament
[52] A written agreement between the Finance Committee and the Scottish Executive on the budgeting process was established in 2000 and updated in 2005. This agreement can be viewed at:

4.2.1 Stage one of the Budget Process

The first stage of the Budget process allows Parliament to take a strategic look at the budget, consult with the public and make recommendations to the Executive. In order to avoid the prospect of the Parliament considering financial issues without sufficient information, the Scottish Ministers undertake to submit a provisional expenditure plan by 31 March each year. The Parliament's subject committees comment on the budget in relation to the area for which they have scrutiny responsibility.

Stage one of the process is essentially a matter for the Parliament. However, in order to assist committees in the development of their views on the expenditure proposals, the Scottish Ministers will endeavour to respond, within 14 days, to all requests from Parliament (including the Finance and subject committees) for information on their spending plans. Responses from all subject committees are submitted to the Finance Committee which conveys the recommendations to the Executive by means of its stage one report. There follows a plenary debate on the report and later, the Executive is required to respond in detail to the report.

4.2.2 Stage two of the Budget Process

At the second stage of the Budget process, Parliament has the opportunity to assess whether the Executive has taken on board the comments made during stage one of the process. The Executive presents firm spending plans including any additional allocations received from Westminster since the publication of the AER, normally by 20 September. It is possible that on occasion a UK level spending review will take place around the same time and the results of such a review may have a direct impact on the size of the Scottish Executive's budget through the application of the Barnett Formula. If it becomes clear that a UK spending review will take place at a time that would affect stage two of the budget process, the Scottish Ministers will consult the Finance Committee on a revised timetable for the budgeting process for that year.

The Finance Committee again co-ordinates responses from subject committees into a report to be debated by the Parliament that comments on the various aspects of the Scottish Ministers expenditure proposals. The Finance Committee may also (although is under no obligation to) propose an alternative budget at this stage. The total spend proposed by the Finance Committee must not exceed the total proposed by the Scottish Ministers. Following consultation amongst the committees, the Parliament debates a motion tabled by the Finance Committee. Other committees or individual Members may also table motions and amendments to the Executive's spending proposals at this stage. It is for the Parliamentary Bureau to decide which amendments to put forward for consideration by the Parliament. Amendments proposing change in any areas must make recommendations as to how these changes will be financed so that the total spend is not increased.

In their report, the FIAG highlighted the importance of providing opportunities for committees and members to influence the spending proposals of the Executive. The group stressed that the most appropriate time for main Parliamentary input was during the early stages of the budget process, when priorities are being set. This was to ensure that

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http://www.scottish.parliament.uk/business/committees/finance/Written%20Agreement%20between%20FC%20and%20Exec%20at%2022.6.05.pdf
The Finance Committee in Scotland also has written agreements on the budgeting process with the Scottish Parliamentary Corporate Body and the Scottish Commission for Public Audit. None of these agreements are intended to create any legal rights or obligations on any of the bodies involved.

plenty of opportunity for debate arose and that the final approval of spending proposals would be left as more of a formality.

4.2.3 Stage three of the Budget Process

Because of the extensive pre-legislative scrutiny undertaken, the time allocated to the passage of the Budget Bill in stage three of the process is truncated. Only a member of the Executive is allowed to bring forward amendments to the Bill at this stage of the process. Together with a complete set of Budget proposals, the Executive should produce an accompanying commentary setting out how it has responded to the Scottish Parliament's earlier reports and the latest developments in London. According to Standing Orders[53], Parliament may not vote on the Budget Bill until 20 days have elapsed from the date it was presented, but must vote within 30 days of its presentation. This is in part to give spending bodies as much notice as possible of their spending allocations and also to ensure that there is sufficient time for the bill to receive Royal Assent.

The Parliament votes either to pass the Bill (thereby authorising expenditure for the following financial year) or reject the Bill in its entirety. It was a recommendation of the FIAG that Parliament retained the right to accept or reject the Budget as a whole in order to ensure that the Executive does not flout its position to an unacceptable degree. However, the group stated that outright rejection of the final budget should be an option of last resort and would be highly unlikely. If the Budget Act is not in place by the end of the financial year, the Public Finance and Accountability (Scotland) Act 2000 allows for expenditure to continue for previously approved purposes up to the same rate as the previous year. The Government of Wales Act contains a similar provision for Wales.

4.2.4 Financial Scrutiny outside the Budget Process

The Executive is able to request Parliamentary authority to make in-year changes (known as revisions) to planned expenditure. Budget revisions usually occur in summer, autumn and/or spring and are outside the main budget scrutiny process for the following financial years' spending plans. They usually seek approval to transfer monies between the Departments of the Scottish Executive or to allocate transfers of monies between Whitehall and the Scottish Executive. The Scottish Ministers are not able to transfer funds between allocations without the prior approval of the Parliament. The Finance Committee holds the responsibility for scrutinising the proposals and for making a recommendation to Parliament as to whether or not they should be agreed.

In line with recommendations made by FIAG, the Executive is allowed to move funds around within departmental budgets to respond to changes in need. Such transfers are subject to internal controls and Parliament must be informed of the transfers on a regular basis. The total amount of funds that may be transferred between budget sections[54], without the prior approval of the Parliament through the Budget revision procedure, is the lesser of 15% of the receiving section's budget or £50 million (1999 values). Transfers within budget sections are not subject to any limits.

There is some Parliamentary control over the Scottish Ministers' ability to enter into contingent liabilities[55]. Before granting any guarantees or indemnities in excess of

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[53] Rule 9.16,5 Standing Orders of the Scottish Parliament
[54] A budget section refers to the level below the department as a whole. This is analogous to a Spending Programme Area (SPA) within a Main Expenditure Group (MEG) of the Welsh Assembly Government Budget.
[55] Contingent liabilities are possible future liabilities that will only become certain on the occurrence of some future event. Within this context, contingent liabilities essentially represent legally enforceable undertakings given in the form of a

£1 million, the Scottish Ministers will present their proposals to the Finance Committee. The Finance Committee considers the proposal within 20 days and either approves the proposal or proposes an amendment. The Scottish Ministers can accept the amendment or notify the Finance Committee that they disagree. Should a disagreement occur, it is for the Finance Committee to decide whether to allow the Executive to proceed with its proposal or to refer the matter to the Parliamentary Bureau for a debate. This control is not intended to place restrictions over the Scottish Executive's ability to enter into contracts.

Access to the Reserve (a small budget maintained by the Scottish Executive from within the assigned budget to meet unforeseen, exceptional expenditure) also requires Parliamentary authority. Scottish Ministers (with Cabinet approval where appropriate) may apply for additional funding from the Reserve through, what is essentially, a bidding process. Parliamentary authority is sought through the usual process of in-year revisions and would be accordingly scrutinised by the Finance Committee. This will also be the case in Wales, effectively.

guarantee or indemnity which would bind the Executive into providing the resources in the event of the guarantee or indemnity maturing or a letter or general statement of comfort which could be considered to impose a moral financial obligation on the Executive.

5 The Budget in Northern Ireland

5.1 The Budget Process in Northern Ireland

The budget process in Northern Ireland has evolved and changed over the years since devolution. The process described below represents the procedures in place prior to the suspension of the devolved administration in 2002 in determining the budget for 2003-04. There are four distinct stages in the budget process. Stages one to three relate to expenditure planning, the making of the Budget and its endorsement by vote in the Assembly. Stage four deals with the technical and legislative processes required to formally authorise the Budget as agreed by the Assembly.

- **Stage one – Departmental Position Report.** The Department for Finance and Personnel (DFP) issues commissioning letters to the Northern Ireland departments in the springtime[56], together with guidance on the format, presentation and content required in the Departmental Position Report (DPR)[57]. The production of the DPR provides details of a department's performance and the progress it has made towards delivering the priorities of the Executive. It also gives an assessment on the future departmental requirements necessary to deliver these priorities. The DPR is not a decision making document but it is of key importance in identifying both the barriers to fulfilling the commitments given in the Programme for Government, and the strategies and resources required by departments to deliver on their identified priorities and sub-priorities. Each department submits their DPR to the DFP in April, having received committee feedback on the report following consultation.

- **Stage two – Executive's Position Report.** The Executive Position Report (EPR) is issued jointly, in June, by the DFP and the Office of the First Minister and Deputy First Minister (OFMDFM). In the EPR, the Executive sets out the key issues affecting public services that should influence the Programme for Government and Budget for the coming financial year. The report is the basis for advanced consultation ahead of the preparation of the Draft Budget and Programme for Government in September. It also sets out in summary form the DPR of each Department and identifies how the Programme for Government might proceed. The EPR is not a decision making document. Its purpose is to highlight issues of strategic importance to the Assembly and seeks a 'steer' from Members and committees in the development of the draft budget.

- **Stage three – Draft Budget and Programme for Government.** The Executive issues the draft budget in September in tandem with the draft Programme for Government (PfG). The draft PfG sets out the Executive's programmes and priorities and the associated outline spending plans for the coming year. The PfG and the Budget are closely linked and the priorities contained within the PfG drive decisions on the allocation of resources within the Budget. It provides an overview of the Executive's work and demonstrates how policies and programmes delivered by different departments can be best combined to achieve agreed priorities. Public Service Agreements in the PfG set out the key targets that each department is seeking to deliver. The actions identified in the programme are supported by the allocations that are presented in the budget documents. Following committee

[56] February or March
[57] The production of Departmental Position Reports was an innovation in the Budget process for 2002, created, in part, as a response to suggestions made by the Committee for Finance and Personnel. See the Executive's Position Report to the Assembly: Developing the Programme for Government and the Budget for 2003-04, recommendation 5 and section 2 - the Budget Process. Available at:
http://www.niassembly.gov.uk/finance/reports/report1-02.htm

feedback on the draft budget and PfG, the Minister for Finance and Personnel introduces the **Revised Budget** in the Assembly in mid-December for debate and approval.

- **Stage 4 – Legislative Requirements.** The final stage of the budget process in Northern Ireland concerns the formal legislative requirements for authorisation of expenditure agreed by the Assembly in the December Budget. The Budget Bill No.1, incorporating the Spring Supplementary Estimates and the Vote on Account, is introduced in the Assembly in February. There is little opportunity for change at this stage and the Bill, which must reflect the figures agreed by the Assembly in the December Budget debate, may proceed by accelerated passage. Royal Assent follows by 31 March at the latest. The Budget Bill No.2 and Main Estimates are introduced in the Assembly during June / early July, again with little opportunity for change. Under the Northern Ireland Act (1998), amendments to Budget Bills require a section 63 motion from the Minister for Finance and Personnel. Royal Assent usually follows in July.

5.2 The Role of Committees and the Assembly in Financial Scrutiny

Under the Belfast Agreement[58], the Statutory Committees and the Committee of the Centre[59] of the Northern Ireland Assembly have a statutory duty to scrutinise the Northern Ireland Budget. Paragraph nine of Strand One of the agreement states that:

> Committees will have a scrutiny, policy development and consultation role with respect to the Department with which each is associated, and will have a role in initiation of legislation. They will have the power to:
>
> consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation;…

The Finance and Personnel Committee was established during the first mandate of the Northern Ireland Assembly:

> to advise and assist the Minister of Finance and Personnel in the formulation of policy with respect to matters within his responsibilities and to undertake a scrutiny, policy development and consultation role with respect to the Minister of Finance and Personnel.[60]

The committees of the Northern Ireland Assembly play an important consultative and advisory role throughout the stages in the process of the budget formation. During stage one of the process, Departments consult Assembly subject committees on the DPR. Subject committees can take oral evidence and written briefing from the Minister and senior departmental officials and other interested organisations and individuals. It is for committees to decide how widely they consult before providing feedback on the DPR to the relevant department.

Stage two of the process involves consultation between committees and the Executive on the EPR. Committees are asked for their views on the relative priority which might be attached to the different policies and programmes within the EPR. They may also give

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[58] A copy of the Agreement (also known as the Good Friday Agreement) reached in multi-party negotiations on 10 April 1998 is available at:
http://www.nio.gov.uk/agreement.pdf

[59] The Committee of the Centre is established under Standing Order 54 to examine and report on the functions carried out in the Office of the First Minister and the Deputy First Minister and on any other related matters determined by the Assembly. Standing Orders of the Northern Ireland Assembly (as of 9 September 2002) are available online at:
http://www.niassembly.gov.uk/sopdf/pdf/So14.pdf

[60] See the homepage of the Finance and Personnel Committee:
http://www.niassembly.gov.uk/finance/financehome.htm

their views on the scope for meeting new challenges, potentially by reducing some services, improving effectiveness or through efficiency savings and improvements. At this stage, committees will consult with their department, and more widely as they see fit, in forming an opinion on the EPR. The Committee for Finance and Personnel is responsible for co-ordinating the various responses and producing a report for submission to the DFP in August.

The last significant opportunity for committee influence on the budget process comes during stage three, the draft budget stage. At this stage, the Executive consults with the Assembly committees and the public on the proposals contained within the draft budget. The Committee for Finance and Personnel is responsible for co-ordinating the responses from all of the Assembly committees to the draft budget. It also initiates a 'take note' budget debate in the Assembly in mid-November at which the proposals in the draft budget are debated by the full Assembly. Following the debate, the Committee for Finance and Personnel produces a report on the draft budget by the end of November, which is submitted to the Executive. The Minister for Finance and Personnel accordingly introduces a Revised Budget in the Assembly in mid-December for debate and approval. There is little scope for influence or change by this stage of the process.

The Budget process in Northern Ireland then, is designed to provide a number of opportunities for committees, Members and the general public to make a contribution to the Northern Ireland budget. In addition, the role and remit of the committees provides extensive powers for committees to scrutinise the activities of departments and the Northern Ireland Executive.