



Northern Ireland  
Assembly

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Simon Thomas AM  
Chair of Finance Committee  
National Assembly for Wales  
Tŷ Hywel  
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9 February 2018

Dear Mr Thomas

### **Inquiry on the Remuneration Board's Determination Underspend**

Thank you for your letter dated 8 December 2017 seeking views on how the Northern Ireland Assembly Commission (NIAC) budgets for expenditure related to Members' pay and allowances and to highlight any issues that may have arisen under this budgeting process. This evidence is provided in my role as the Accounting Officer for the NIAC's budget. I would be pleased to offer oral evidence to the Committee should that be required.

When compiling this evidence, I have considered the legislative context for the expenditure that is incurred by the NIAC in relation to Members' pay and allowances. It might be helpful to set out that legislative context.

The NIAC is the body corporate for the Northern Ireland Assembly. Section 40(4) of the Northern Ireland Act 1998 ("the 1998 Act") specifies that the NIAC "shall provide the Assembly, or ensure that the Assembly is provided, with the property, staff and services required for the Assembly's purposes." Sections 47 and 48 of the 1998 Act make provision for the Assembly to Determine the salaries, allowances and pensions payable to Members (and former Members) of the Legislative Assembly (MLAs).

In the Northern Ireland context, the equivalent body to the Welsh Remuneration Board is the Independent Financial Review Panel ("the Panel"). The Panel was established under section 1 of the Assembly Members (Independent Financial Review and Standards) Act (Northern Ireland) 2011 ("the 2011 Act"). Section 2 of the 2011 Act specifies that the functions of the Panel are to make Determinations as to the salaries and allowances payable to MLAs under section 47 of the 1998 Act and the pensions, gratuities and allowances payable under section 48 of that Act.

The responsibility for Determining the quantum of pay and allowances for MLAs and any qualifying criteria attached to that expenditure falls to the Panel. The NIAC has responsibility for assessing whether those criteria have been met, for making resulting payments and for reporting on all payments made to MLAs each year. Budgeting for the costs associated with all payments made under a Determination also falls to the NIAC.

For the 2017/18 financial year, the NIAC's overall budget proposals (including MLAs' costs and all other revenue and capital costs) were presented to the Assembly's Audit Committee in October 2016 under a Memorandum of Understanding on the NIAC Budget Setting Process agreed with the Northern Ireland Executive (see Appendix A). This Memorandum was agreed as a response to budgeting exercises between 2010/11 and 2015/16 that saw the NIAC's budget reduced via Executive-led budget plans. The Memorandum was intended to place the process for setting the NIAC's budget on a more constitutionally sound footing.

The budget proposals that are presented to the Audit Committee include the costs arising from the most recent Determination issued by the Panel and the staffing and administration costs that are incurred by the NIAC when carrying out its statutory functions. In Estimates terms, the NIAC's expenditure is approved by the Assembly (or by Westminster for this financial year) under a single Vote. There has been some debate about the merits or otherwise of splitting this Vote into two parts; one for MLAs' costs and the other for Commission-incurred running costs but a single Vote has prevailed.

Although not explicitly set out in the Memorandum, there was considerable discussion with officials from the Department of Finance (DoF) about the treatment of costs associated with MLAs. These discussions were informed by previous cuts to the Commission's budget that were applied to the entirety of the budget when, in reality, the costs for MLAs could not be reduced as they were established under legislation (i.e. a Determination issued by the Panel). Consequently, the entirety of the budget cut was managed by the Commission through reductions in staffing and other running costs.

It was subsequently agreed that MLAs' costs would be estimated in full but that any excess budget provision that was identified during the financial year would be returned to the DoF. Similarly, should the costs associated with MLAs increase for any reason (for example, through a revised Determination issued by the Panel) the increase in costs over and above the initial estimate would be met in full from additional resources from DoF and the NIAC would not be required to fund this increase from its remaining budget.

In terms of the specific areas highlighted by the Committee and set out in your letter of 8 December, I will cover each in turn.

### **How the Assembly Commission forecasts its budget for Remuneration Board Determinations?**

The NIAC forecasts its budgetary requirements for MLAs' costs based on the maximum possible uptake of those costs. A significant element of MLAs' costs

relates to set amounts (for example, salaries and travel costs are fixed), some of the remainder are variable amounts but are well known in advance (for example, office rental and rates costs based on existing leases or MLAs' staffing costs) and much of the remaining costs are covered by annual limits (for example, there is £4,900 limit for constituency office operating costs and a £600 limit for mobile phone costs).

MLAs' salaries are included in the forecast at the levels that are prescribed in the extant Determination. The Determination includes an annual uprating of salaries if certain inflation criteria are met and any uprating is included in the salary forecasts. Salary on-costs (for example, employer's national insurance contributions and Consolidated Fund payments to the Members' Pension Scheme) are also included in the forecast.

Costs for rent and rates for MLAs' constituency offices are constrained by limits set out in the Determination with the estimate of costs for each year based on the leases that must be provided to the NIAC before any rent or rates payments can be made. These lease amounts tend to be relatively stable. Similarly, the yearly costs for MLAs' staff are stable making forecasting relatively simple. Each MLA can employ 2.0 FTE members of staff and the Determination specifies pay scales for each member of staff with uprating provisions included. Therefore, the salary costs for MLAs' staff (including employer's on-costs) can be readily ascertained.

The forecast for those elements of the Determination that are expressed as limits are calculated as "number of MLAs x limit set out in the Determination". So, for constituency office operating costs this would be 90 (MLAs) x £4,900 (limit in Determination) = £441,000. Other costs of this type are forecast in a similar manner. In practice, not every MLA will utilise the full limit available but provision is made for the full amount in the NIAC's initial budgets to provide sufficient budgetary cover for this eventuality.

There are a small number of costs where year-on-year estimates are made. These include costs for statutory redundancy payments for MLAs' staff, for costs associated with MLAs retiring through ill-health and for costs that are claimed by MLAs as result of disability adjustments. These costs are estimated based on experience of previous claims of these types and from regular interactions with MLAs.

**Whether the way in which the Assembly Commission provides information on the underspend is clear and transparent?**

Any forecast underspend or overspend on MLAs' costs is calculated internally. As noted previously, the NIAC's budget for 2017/18 was agreed by the Audit Committee in October 2016. The budget that was approved for Non-Ring Fenced DEL Resources (i.e. Departmental Expenditure Limits Resources excluding depreciation and impairment charges) was £38.414m and this total was split according to the relevant categories of expenditure. Of this amount, £15.709m related to MLAs' costs covering MLAs' salaries, MLAs' Other Costs

(including winding up expenses, disability payments, etc.), MLAs' travel costs and constituency office costs (including MLAs' staffing costs).

Each month, the actual expenditure against the total budget is reported and revised forecasts for each category of expenditure are calculated. An extract from the management accounts for December 2017 is shown at Appendix B. These reports are reviewed by senior managers and reported to the NIAC. Following that review process, the actual expenditure for all categories of expenditure (including the various categories of costs associated with MLAs such as salaries, constituency costs, travel costs, etc.) is reported to the DoF. This reporting is largely for cash management purposes. In addition, the NIAC also reports to the DoF on its up-to-date forecasts for each of these categories including MLAs' costs on a monthly basis. In this way, the impact of the agreement that is mentioned above about releasing surplus funds (or seeking additional funds) is readily apparent.

The operation of the spirit and intent of the Memorandum has been clearly demonstrated throughout 2017/18. For example, the NIAC's budget for 2017/18 that was agreed in October 2016 included the costs associated with 108 MLAs. The unexpected Assembly election in March 2017 saw a reduction in the number of MLAs to 90. In addition, the absence of Executive Ministers and a lower than anticipated utilisation of the budget for MLAs' staff costs meant that there has been excess budget provision for MLAs' costs for 2017/18 of approximately £3.754m.

Although the political situation meant that the timing of in-year Monitoring Rounds was not as intended during the year, £3.0m of this total was immediately identified to the DoF and returned at the first available opportunity. This reduced amount was then included in the NIAC's budget plans presented to Parliament by the Secretary of State for Northern Ireland in the absence of local budget arrangements. The remaining surplus over and above the £3.0m that was initially identified arose over the course of the financial year and was also highlighted and returned to DoF in subsequent Monitoring Rounds. Therefore, the agreed procedure for dealing with surplus funds that arise from an underspend on costs associated with MLAs has been implemented.

In terms of external reporting, as the categories of expenditure are below the level that is reported in Estimates and Voted by the Assembly or Westminster, there is no routine external reporting of the total costs incurred on MLAs' pay and allowances. However, in the NIAC's Annual Report and Accounts, an analysis is provided of deviations of actual expenditure from Voted amounts. This analysis typically shows how these deviations have arisen according to the different categories of expenditure (for example, NIAC staff salaries, NIAC admin costs, MLAs' salaries, etc.). In addition, details of all payments made to each MLA are reported for each year on the Assembly's website.

**How the Assembly Commission decides to utilise the underspend after meeting the Remuneration Board's Determinations?**

As noted above, this situation does not arise as any underspends on MLAs' costs are released back to the DoF. However, if a scenario arose whereby there was underspend on MLAs' costs but the NIAC required additional resources for its other activities, the NIAC would release the surplus funds available from MLAs' costs and seek additional resources through the in-year mechanisms set out in the Memorandum. This may involve further interaction with the Audit Committee.

**How other parliaments, within the UK and more widely, budget for expenditure related to Members' pay and allowances?**

I trust that the above analysis provides a useful reply to this question from the Northern Ireland perspective.

It is acknowledged that the Memorandum of Understanding on the NIAC Budget Setting Process that underpins much of the above analysis has only been in operation for one year and that the current financial year has not been a normal accounting period. However, the principle that an underspend on MLAs' costs should be released and not utilised by the NIAC has been applied this year and the NIAC has no cause to doubt that it will apply in the future. Similarly, should a future Determination require additional funds, the NIAC anticipates that those funds would be made available without recourse to the other funding streams that are managed by the NIAC.

I trust that this information is helpful to the Committee.

Yours sincerely



**LESLEY HOGG**

**Clerk to the Assembly/Chief Executive**

# MEMORANDUM OF UNDERSTANDING ON THE NIAC BUDGET SETTING PROCESS

Appendix A

## Preparation of Draft Budget:

### **Context**

The Assembly Commission (the "Commission") prepares a draft budget for the period of the Executive's Budget as notified by the Department of Finance (DoF). This budget is established in advance of the timetable established by DoF for Executive Departments;

### **Key Milestones**

- a. As part of the development of the Commission's draft budget, the Commission actively obtains data and projections from the DoF relating to the wider outlook for the Northern Ireland Block for the entirety of the budget period;
- b. The Commission, taking account of the DoF projections, proposes its draft budget and presents it to the Audit Committee. At the same time, the Commission also provides the draft budget figures to the DoF;

## Interaction with Audit Committee:

### **Context**

Via an agreed mechanism (e.g. Standing Orders) and in keeping with the Executive budgetary timetable, the Audit Committee lays a report on the Commission's draft budget;

### **Key Milestones**

- a. In advance of laying that report, the Commission attends an Audit Committee meeting(s) to give evidence on its draft budget;
- b. In advance of laying that report, the Audit Committee receives written evidence from DoF (cleared in advance by the Finance Minister) on the wider outlook for the Northern Ireland Block and the DoF view of the Commission's draft budget. In considering the Commission's draft budget, the Committee should have due regard to the evidence provided by the DoF.
- c. Evidence to the Committee from the DoF shall be included in the Committee's report to the Assembly;
- d. The Committee prepares and lays its report;

# MEMORANDUM OF UNDERSTANDING ON THE NIAC BUDGET SETTING PROCESS

Appendix A

## Finalisation of Budget:

### **Context**

The Commission prepares its final budget, taking on board the recommendations of the Audit Committee and submits a motion to the Business Committee;

### **Key Milestones**

- a. The Assembly as a whole debates the final budget in Plenary before voting on the motion (without amendment) that it be *"agreed and incorporated into the Executive's Budget and the subsequent Main Estimates."*
- b. The vote of the Assembly in respect of the Commission's budget is reflected, without amendment, in the budget prepared by the Executive;

## In-Year Amendments to Budget:

### **Context**

On an in-year basis, financial controls are established that are aligned to the arrangements for setting the initial budget.

### **Key Milestones**

- a. The Commission prepares and submits its contribution to Monitoring Rounds and the Spring Supplementary Estimate. The submission of the Commission's contribution to Monitoring Rounds and the Spring Supplementary Estimate will be subject to agreed thresholds between the Commission and the Committee. If these thresholds are not exceeded, the Commission will not seek the Audit Committee's view on its in-year position.

## Review:

This methodology will be reviewed within one year of its first use and at the conclusion of every Executive budget setting period.

NIAC INTERNAL MANAGEMENT ACCOUNTS EXTRACT

Appendix B

Finance Report - December 2017

£000	Opening full year budget presented to Audit to Committee	Full Year budget reported to DoF in Dec-17 Monitoring	Current Month - Dec 2017			Year to Date			Full year Outturn Forecast	Variance of Outturn Forecast to Opening Full Year budget	Variance of Outturn Forecast to Dec-17 Full Year budget	Prior Year Outturn
			Actual	Budget	Var	Actual	Budget	Var				
Income	-	(152,080)	(12,458)	(12,428)	30	(103,815)	(104,259)	(443)	(152,080)	-	(69,096)	
Secretariat Salaries	16,539,000	15,839,155	1,295,656	1,338,292	42,636	11,670,044	11,712,680	42,636	15,799,253	(39,902)	15,666,609	
Admin costs	5,309,000	4,414,871	305,253	308,732	3,479	3,329,532	3,333,011	3,479	4,407,854	(901,146)	4,825,771	
Members' Salaries	7,586,000	5,976,762	483,064	483,540	476	4,409,625	4,410,100	476	5,976,762	(1,609,238)	7,028,529	
Members' Other Costs	110,221	87,328	2,043	2,223	180	80,417	80,597	180	87,328	(22,894)	1,589,647	
Members' Travel	441,000	304,912	21,351	21,668	316	233,492	233,808	316	302,646	(138,354)	312,848	
Constituency Costs (incl. staff)	7,572,000	5,588,933	453,826	475,822	21,996	4,221,916	4,243,911	21,996	5,588,933	(1,983,067)	6,158,714	
Party Allowance	857,000	744,285	52,056	77,151	25,095	487,737	512,832	25,095	744,285	(112,715)	752,436	
(Profit)/loss on disposal of fixed assets	-	-	-	-	-	-	-	-	-	-	272,099	
<b>Total</b>	<b>38,414,221</b>	<b>32,804,166</b>	<b>2,600,793</b>	<b>2,695,000</b>	<b>94,207</b>	<b>24,328,947</b>	<b>24,422,680</b>	<b>93,734</b>	<b>32,754,982</b>	<b>(5,659,239)</b>	<b>(49,185)</b>	<b>36,537,557</b>