



Northern Ireland
Assembly

**COMMITTEE
FOR EDUCATION**

OFFICIAL REPORT
(Hansard)

Education Budget 2010

1 September 2010

NORTHERN IRELAND ASSEMBLY

**COMMITTEE
FOR EDUCATION**

Education Budget 2010

1 September 2010

Members present for all or part of the proceedings:

Mr Mervyn Storey (Chairperson)
Mr Dominic Bradley
Mr Trevor Lunn
Mr John McCallister
Mr Basil McCrea
Miss Michelle McIlveen
Mr John O'Dowd

Witnesses:

Ms Catherine Daly)	
Mr John McGrath)	Department of Education
Mr Diarmuid McLean)	
Mr Mark McNaughten)	

The Chairperson (Mr Storey):

I welcome to the Committee John McGrath and Catherine Daly. You are welcome back again. I understand, Catherine, that this may be your final time with us at the Education Committee, as you are moving to another post. We wish you well and thank you for your patience and endurance and the help that you have given in trying to steer the Committee through what, for many of us, are difficult and challenging facts and figures. We are not accountants, so we thank you. Diarmuid, you are welcome back. There are a few questions that some of us may have in

relation to capital, and, if John permits you — I am referring to John McGrath, not John O’Dowd — we may raise those.

I also welcome Mr Mark McNaughten, who is the newly appointed director of finance at the Department. Congratulations on your appointment — or commiserations, depending on how you want to look at it. We wish you well, and we promise not to be too sore on you on your first day here. You are welcome to the Committee. John, it is in your hands.

Mr John McGrath (Department of Education):

Thank you Chairperson. We are very happy to be here and to have the opportunity for dialogue with the Committee on certain aspects of the Budget process. We will be happy to deal with any supplementary issues that you may wish to bring up, whether they concern the Budget or something linked to it.

I will give some background and set the context for the Budget 2010 to make sure that we are all on the same wavelength. The Chancellor presented the UK Budget on 22 June, at which time he confirmed that the overall spending review announcement would be made on 20 October and that it would be only at that point that budgets for UK Departments and the devolved Administrations, including the Northern Ireland block, for the next four years would become fully clear. It is also worth noting that this year’s spending review will set budgets for four years instead of the usual three-year period, so we are talking about the period from 2011-12 to 2014-15.

It is important to note, however, that the June Budget announcement confirmed revised forecasts for public expenditure in general. Specifically, it expected that the current expenditure — that is, resource — would fall by 0.4% in cash terms per annum, or 2.7% in real terms, and that capital budget would fall by 6.9% per annum in cash terms, or 9% in real terms. It is clear from those projections that the financial context within which the 2010 Budget process is to be conducted by the Executive will be extremely constrained and that significant cuts to departmental baselines are likely.

It is expected that the Executive’s draft Budget proposals will be published for consultation

after the spending review outcome is known and that the revised Budget, setting departmental spending plans for the next four years, will be finalised towards the end of December. Committee members will be aware that the Department of Finance and Personnel (DFP) has written to Departments seeking detail of departmental spending proposals across the Budget 2010 period, and details of the Department's resource and capital proposals, as lodged by the Minister, were sent to the Committee for information last week, as the Chairperson has noted.

In summary terms, resource pressures amount to £174 million, £210 million, £301 million and £359 million over the four years of the Budget period. It is important, however, to note that the working assumption on the resource budget is that the opening baseline for each of the four Budget years will be the same as the 2011 baseline position and will be adjusted for some technical items such as the removal of ring-fenced funding. On the other hand, the starting point for the capital baseline is, effectively, zero. In addition, the spending proposals that have been submitted to DFP represent, in the Minister's view, the bare minimum that is necessary to protect front line services. However, those proposals may be subject to change depending on the overall budget decisions and the decisions on savings delivery plans.

On the capital side, pressures of £204 million, £273 million, £320 million and £308 million have been registered. Those amounts include the resource consequences that arise from the capital proposals.

The Committee is well aware that significant investment is needed in the schools estate to bring it up to an acceptable standard. We have a large, dispersed estate of some 1,233 schools with an asset value of around £4.5 billion, and we simply have insufficient funds at the minute to maintain its integrity. A number of schools failed to meet the school building handbook standards. The problem is also reflected in the chronic backlog of school maintenance, which stands at around £290 million. An element of that is a result of our inability to press ahead with the replacement of old, deteriorating and substandard schools. Members will note that a resource bid for maintenance has been registered to help to address that issue.

Significant investment has been made in the schools estate in recent years. Since 2007, we have completed 44 major school projects, which represent an investment of around £326 million.

Although those are positive steps forward, a very large number of schools remain in desperate need of new capital investment. The bids that have been submitted in respect of capital for the Budget period will only partly address that demand. Although the Minister could have sought further capital funding — there is a justifiable case for that — she has, given the overall constrained position, taken a realistic view, and, thus, the proposal submitted to DFP represents the bare minimum that is required.

The Committee will be aware that DFP has sought details of the areas in which savings will be made in departmental budgets across the Budget 2010 period. DFP's assessment is that we will face a 5% reduction per annum over the four-year period, which will compound between 20% and 25%. As I said, that is a working assumption at this stage, and any decisions on the level of cuts to be applied to departmental budgets will be a matter for the Executive to agree. The full extent of required savings is likely to be known only when the outcome of the national spending review is announced in the autumn and when the Executive take decisions on the balance that needs to be struck between savings, maintaining services and certain key priority developments.

My Minister is keen that any reductions to education services and to the education budget that are agreed by the Executive will be applied in a way that protects front line services as much as possible. She is committed to endeavouring to minimise the impact of any reductions of staff numbers on educational provision. However, given that some 80% of the education budget relates to pay costs, I am sure that the Committee will appreciate the scale of the difficulty. My Minister recognises fully that difficult decisions must be made on the Budget process, and, based on her clear view of the economic argument for it, she is very clear about the critical need to invest in education. Furthermore, she is clear about the need to raise standards and invest in skills and employability to enable us to flourish economically. She has made those arguments at the Executive subcommittee on the economy, which is taking forward the work of Richard Barnett and his report.

The Minister is very clear about the need to invest in the education estate and has argued for more capital this year to allow more schools to be built. As the Committee is aware, she secured an additional £13 million for capital investment in the June monitoring round, and she continues to make the case for a substantial and sustained investment programme to build more schools that

will be fit for the future. My Minister will look at all options to protect front line services as much as possible during this process, and she is clear about the need to look seriously at reducing bureaucracy and the number of public bodies. In that context, she finds it difficult to understand why her proposal to set up the Education and Skills Authority, and in the process abolish nine bodies and make significant savings, is being delayed rather than accelerated.

I know that the Committee is disappointed not to have received any detail in relation to potential reductions in services. However, my Minister is keen to discuss and to agree the Budget 2010 process with her ministerial colleagues before submitting details on budget reductions. She believes that it is premature to postulate details on savings before a work initiative by the Executive at their awayday is progressed and parallel work on a new Programme for Government is taken forward.

As the Chairperson knows, the Minister wrote to the Committee on 30 June to seek its views on how she could engage with the Committee to ensure that its views and thoughts were reflected in the overall budget considerations. The Committee has highlighted its disappointment that it has not been possible to do that to date, but the invitation remains open. In particular, the Minister is keen to have the co-operation and input of the Committee in the future in determining where such savings as required might be made.

The Chairperson:

Thank you, John. To deal with the latter point first, the Committee will deal with the Minister's letter after the briefing because it requires a considered response. The Minister expressed concern in her letter to the Committee on 8 August 2010, saying:

“My key purpose in writing to you in June was to ensure that we could engage effectively on the process in July and August”.

We wrote to the Department, asking for the information that would be submitted on 30 July, and we did not receive that information until 25 August. We still await the information that was submitted on 25 August. We have still not received that.

If there is to be an engagement with this Committee, and if there is to be a proper, useful and constructive exchange, it will be only on the basis of relevant information on which I think this Committee can take objective views. However, I still take the view that it is this Committee's

duty and responsibility to scrutinise the Minister's decisions. That is our primary function. Nevertheless, as the Minister has said on a number of other issues, we are where we are. We have received, at last, the paper that is before members, and I think that it is better to deal with that than to engage in recriminations around whether the Minister is disappointed or to discuss her personal feelings.

Can we get to the nub of this, Mr McGrath? In all that the Department and the Minister have given the Committee and in light of all of the information that we have, there is not one element of prioritisation. If I heard correctly, according to the last few comments that you made, the Minister was still saying at the end of August and into the beginning of September that it would be premature to give us any idea or decision. She then goes on about an awayday for the Executive. Has the Minister got any idea as to her priorities? Yes, you have listed all the pressures, and we see that in all the papers, but when the Minister went to see the Finance Minister was she at any stage able to tell him her Department's priorities? To date, not one of the items is listed as a priority in anything that we have seen.

Maybe the Minister wants me to do her job, but I am only the Chairperson of the Education Committee, not the Minister. That is the first point on priorities. Where do the Minister's priorities lie in relation to how money will be spent?

Mr McGrath:

The Minister's priorities in the current year and in the future are about protecting front line services as far as possible, raising standards, reducing bureaucracy and squeezing as much savings as possible from support services. In effect, the bulk of the spending proposals are about maintaining services, because most of them are about pay, dealing with demography and the extension of free school meals. There is very little of an expansionary nature. Therefore, the vast bulk of priorities are, in essence, about maintaining existing levels of services.

The Minister would want me to point out that, before the summer, she was anxious that there would be a dialogue with the Committee as part of the process of making spending proposals, not just about scrutiny of those proposals once they had been determined. She was referring to the work that had to be taken forward in July. The Minister takes the view — she said it herself at

this Committee — that there is a role for the Committee in giving advice to her when it was sought. She is disappointed that there was not an opportunity for dialogue between her and her officials and the Committee on the content of the spending proposals in the lead-up to the submission of those proposals.

The Minister made that same point when she held a bilateral meeting with the Minister of Finance and Personnel. She emphasised that education was fundamental to the economy. She also pointed out that different programmes of work are ongoing and that she believes that getting into detail on savings before the Budget process moves too much further forward and before the work commissioned by the Executive at their awayday, which will deal with some of the same subject areas, is taken forward would be premature. She is also of the view that the Programme for Government is critical and that in future it should shape the Budget, and not the other way round.

The Chairperson:

I would be very disappointed if the Minister of Education went to the Minister of Finance and Personnel and did not say that education was important. Surely that would be a key issue for her. In light of that, which, with the greatest respect, sounds like Civil Service-speak, the bottom line is that no priorities were given. At this stage, the Minister still has not determined any priorities in her restrained budget. She is saying that, of all that we have in front of us today, there is not one list of priorities.

I want to keep the two things separate, but I will warn Diarmuid that this is part of what is coming. The same issue arose when we looked at capital build. I have no idea, other than pretty vague criteria, as to how a school ends up on a list for a newbuild. I do not know whether a school qualifies because of a weighted score or how many windows it has. I do not know what the criteria are. A newbuild may have to comply with the entitlement framework and the policy jigsaw, as the Minister refers to it, but there are no objective criteria. How, then, are we supposed to get some sense of where the priorities lie? You have given us the pressures, which are on top of the baseline. What is underneath all that? We still do not know that, despite all the papers that are in front of us.

Mr McCallister:

My question is linked to that, Chairperson. Do we even have a definition of what the Minister regards as front line services? Given what has happened in the youth sector, one would have to say that the Minister does not regard it as a front line service. Will the definition of front line services include pupils and staff, or will it be about buildings? Does the Minister have a definition of priorities and front line services?

Mr McGrath:

There is no technical definition. I think that the Minister would regard front line services as those in which professional and other staff are working directly with children, from early years through to youth services, and which make a difference to their lives. The services that support those are also key services.

As one goes further back from the front line, one finds areas from which more efficiencies may be squeezed. However, that may also apply to some front line areas. We know that we have too many schools and too many places. We need to tighten up the schools estate and get some savings out of that.

I take the point that you made, Chairperson. The Minister has listed a number of spending proposals. For a start, that list itself is a list of her priorities. We could have had a much longer list that contained a number of expansionary items. Many of the issues are about pay, such as dealing with the likely increases in the teachers' pay bill and in the non-teaching pay bill. Those are equally important, because we need to keep the workforce. Dealing with the impact of changes to the demographic profile on the school budget is also important. These are the Minister's priorities, the vast bulk of which are things that we need to do to maintain the current level of service, particularly at the front line. Departments face an invidious choice when DFP asks them to list their priorities as one, two, three, four, five, six and seven. The world does not always work as easily as that.

The Chairperson:

That is clearly not in keeping with the guidelines that were issued to the Committee and the Department in relation to the process that would be engaged in. Departments were asked to

provide, by 30 July, details of spending proposals to address “cost pressures” and “high priority policy initiatives”. You may not think that that is the way the world operates, John, but DFP intended that some sort of priority should be given to the processes that Departments were engaged in. All that we have received to date from the Department is a list of priorities. If the Department has only a certain amount of money to spend what items will not go ahead, what items are statutory and must be done and what are things that you would do if you were living in a world in which there was a huge amount of money and we were able to expand the amount that would be given to particular Departments? I do not think that anyone would take issue with most of what is there. What is to be done if the money is not there?

I do not accept your analysis that that is not the way of the world; it is the reality that we must face, and choices must be made. I am trying to dig down to find out what is in the mind of the Minister and the Department. If you are saying that the priorities lie with the way that teachers’ pay and the non-teaching pay bill are listed, that will be first. It may be that that is not how it is. That is an arbitrary list. I am not saying that it is a prioritised list. However, as it happens, teachers’ pay is 80% of the budget. That is an inescapable cost, so it will be a priority. Surely, following on from identifying the greater priorities, you would, logically, be able to work out what the lesser priorities are. Is the Department just hoping against hope that it will get everything in the table that lists what the Department would like to have, which adds up to a huge amount of money? It certainly is a wish list.

Mr McGrath:

Chairperson, you can recognise from the table that there are a number of items — you referred to some of them — that are effectively inescapable in the sense that, if we do not get the money for them, we will have to meet the costs from elsewhere, or, for example, in the case of pay, we will have to have fewer staff to pay. One way or another we will have to absorb the costs.

There are a number of other priority developments which, if hardy comes to hardy, would not necessarily have to be done, although they are highly desirable. It does not require much insight to work out which ones they are.

The Chairperson:

Yes, but that has not been done by the Department or the Minister. You used the phrase “being presumptuous” earlier. You talked about an awayday with the Minister and discussing —

Mr McGrath:

The word was “premature”.

The Chairperson:

It was “premature”. I apologise.

Mr McGrath:

That was about the savings. It is important to remember that the DFP process is sequential. We put in spending proposals, but even in the DFP process, a month later we would be asked to identify areas for savings and, a month after that, to produce details. In a sense, you are recognising all those things wrapped up together because it is difficult to separate one side from the other. My experience over many spending rounds is that Departments can sometimes naturally identify the group of inescapable items and the groups of highly desirable items, but to be asked to prioritise them as one, two, three, four, five, six or seven is often unrealistic. Your point is rightly made: the pay bill is almost inescapable. Teachers’ pay is not necessarily more critical than that for non-teachers, which includes classroom support, bus drivers and educational welfare officers. In a sense, they are equally important for maintaining service. That is the point that we are making.

The Chairperson:

On the issue of pay, there is a freeze on public pay for two years. Does that include teachers?

Mr McGrath:

First, the teachers are currently in the third year of an agreement, which is unaffected by the pay freeze. Secondly, the pay freeze covers inflation rises. Staff across the public sector are entitled to incremental increases year on year. That is not covered by the pay freeze.

The Chairperson:

So they will still receive those increases?

Mr McGrath:

Yes.

The Chairperson:

Those are their scales?

Mr McGrath:

Yes, the steps up the scale. That is the steer from the Treasury on that issue, which means that there are bids for pay for teachers for next year.

The Chairperson:

That is the reason why —

Mr McGrath:

That is because of the increment.

Mr D Bradley:

Are teachers in Northern Ireland included in that pay agreement? I thought that that agreement applied only to England and Wales.

Mr McGrath:

No, they are included in it.

The Chairperson:

It is a national agreement.

Mr McGrath:

If there was any scope for us to explore that we would. I believe that the Finance Minister's view is that he should be more bullish about the issue of contractual entitlement to increments etc, but

the Treasury steer is that people have contractual entitlements. There is case law on that, and an awful lot of time, money and effort would be spent on lawyers.

The Chairperson:

Does the third year of that agreement end on 31 March 2011, or does it run into the next financial year?

Mr McGrath:

No, the pay award covers this financial year.

The Chairperson:

Does their financial year run from March until the following April?

Ms Catherine Daly (Department of Education):

It runs to August each year, so there is a part-year effect into 2011-12.

The Chairperson:

Where are we with resource allocation plans in education and library boards? The Minister said during the summer that she would not approve those until she was satisfied. You know of the debacle in relation to summer schemes. Have they now been accepted or rejected by the Department? It is now 1 September, and they still do not know what they are doing.

Mr McGrath:

The resource allocation plans have all been approved in the last few weeks, with a number of conditions attached that involve safeguards that the Minister wanted to include. Those are about protecting front line services, equality duties and issues like that, and they are included precisely to avoid some of the issues that arose during the handling of the summer scheme proposals, which the Minister did not regard as having been best handled, aside from the merits of the proposals.

The Chairperson:

When will the Committee see what those conditions are in relation to each education and library

board?

Mr McGrath:

I will be happy to provide you with the correspondence. They were subject to a degree of scrutiny that was perhaps greater than that in previous years, because, for the first time in most people's memory, we were looking at a shrinking budget. Therefore the assessment of the resource allocation plans had to be more critical. A lot of time and effort went into that on the part of the officials and the Minister. We will be quite happy to provide the Committee with copies of the approval letters.

Mr D Bradley:

What is the situation regarding earmarked funding?

Mr McGrath:

In what sense?

Mr D Bradley:

I know that several payments have been made, but the one for this particular period has not been made to the boards. That is to cover things like literacy and numeracy projects, STEM projects and so on.

Ms Daly:

At this point in time, around 76% of the total earmarked budget of around £200 million has been allocated. There are some funds that remain to be allocated, and those are largely in respect of PPP payments. In relation to literacy and numeracy, around £8 million — I do not know the exact figure — is still to be allocated. That depends on action plans that are coming in from the boards. Work is ongoing with that, and we expect that those funds will be allocated in September.

Mr D Bradley:

Are you are saying that the boards have not submitted action plans even though the school year has begun?

Ms Daly:

Work is ongoing between the boards and the Department on those action plans. I am not saying that they have not all been submitted; however, they have not all been agreed. It is expected that they will be agreed and that funds will be allocated later this month.

Mr D Bradley:

Have any of the boards had to release seconded teachers because some or all of the earmarked funding has not been paid to them?

Ms Daly:

I am not aware of specific incidents of that. The boards have highlighted to the Department the importance of getting earmarked funding out as quickly as possible because of the budget implications. We are working to get that funding allocated as quickly as possible. Some of the earmarked funding will not go out until the year end because of contractual commitments. However, it is hoped that all earmarked funding that has budget implications for the boards will be out later this month.

Mr D Bradley:

OK.

Mr McGrath:

The Department intends to ensure that all the money is out by the end of September, unless it is being kept for something else, such as PPP payments, which will maybe fall later in the year. However, any money for services or support services will be out by the end of the month.

The Chairperson:

Are the funding allocations late partly because the Assembly was late in approving the Budget, which then had a knock-on effect?

Mr McGrath:

The whole process has been late.

The Chairperson:

The funding allocations are getting later and later every year. That is unacceptable. If that is partly the Assembly's fault, it is also to blame.

Mr McGrath:

The Executive failed to agree the Budget in line with the timetable, so the process went on longer. There were difficult decisions this year, so the Minister made it clear that the boards, in shaping the resource allocation plans (RAPs), should take into consideration her steer on protecting front line services as much as possible by squeezing bureaucracy and looking at support services. Therefore, the scrutiny of that was much more detailed than it was in the past.

You referred to the summer schemes. The Minister and the Department were sensitive to that issue and wanted to ensure that there were no hidden surprises in any of the RAPs in due course. There was a lot of analysis over the summer, but I am not sure that that held up anything, because, to all intents and purposes, the Education Service was closed down over the summer.

Mr D Bradley:

I wish to ask John a question about the item in appendix B on reducing inequalities for children with special educational needs. At one of the last sessions before the summer recess, Catherine and I had a discussion about that. I believe that £8 million was set aside for training teachers to deal with those with special educational needs. Is the amount of money shown in appendix B in addition to or in place of that £8 million?

Mr McGrath:

That is an addition to the £8 million. There is still a pot of funding for the special educational needs (SEN) review and capacity building, so £8 million will be allocated this year and in each of the next two years. That is in the baseline, but the additional resource, if we get it, will be on top of that.

The Chairperson:

John, we do not know what that baseline is, because we still have not been provided with it. If you take all appendix B —

Mr McGrath:

I suspect that you know what the baseline is, because it is the same as this year's.

The Chairperson:

Is there no change to that? It is the same as this year's?

Mr McGrath:

Fundamentally, it is the same as this year's. There might some little things in the margins, such as ring-fenced funding, but fundamentally, it is this year's budget.

Mr D Bradley:

I understood that the £8 million that had been set aside was for training teachers in new techniques in addressing special educational needs and that that included money for the boards to help to facilitate that training. Are you now saying that it is an extra £2.5 million on top of the £8 million?

Mr McGrath:

No, I am saying that we are bidding for that on top of what we have got.

Mr D Bradley:

Why is that money needed if you already have £8 million for that?

Mr McGrath:

There is a pot of about £24 million, which was profiled as £8 million for each of the next three years. That may be deferred. However, it is not recurring money. The money is there for capacity building and training, but once it is spent, it is gone. If we get the money that we are bidding for, it would stay in the baseline.

Ms Daly:

The bid is focused very specifically on reducing the terms for assessments according to the boards' statutory requirements.

The Chairperson:

The Finance Minister announced in August that, in the meantime, education and health will be exempt from their share of the £128 million hit coming from the Government. Does that affect the starting point of the Department's baseline?

Mr McGrath:

It will affect the starting point for next year.

The Chairperson:

Not for this year but next year?

Mr McGrath:

Yes. In essence, the Executive had a choice. They could either find the £127 million hit this year or defer it this year and take a double hit next year. The Executive is trying to deal with most of the £127 million hit in year, but they are taking a decision that, rather than health and education finding their shares directly, those will be found through management at the centre, primarily by the Minister of Finance.

Ms Daly:

Presentationally, it may be that DE's share will not be taken out of the opening baseline, but it will be identified as a cut. Presentationally, it depends where it appears, whether in the opening baseline or later. However, money will go from education over the period.

The Chairperson:

But the 5% will be the baseline?

Ms Daly:

That is right.

The Chairperson:

In the same announcement, there was talk about the performance and efficiency delivery unit (PEDU). If I remember the letter correctly, the Minister stated what she will require. It was a bit

like the Education Minister saying that she would not approve the resource allocation plans unless the boards did certain things. It seems as though the Finance Minister has agreed to keep the Department of Education exempt from the £128 million of cuts but requires it to engage with PEDU. Where are we? What has been the Department's response to that? Has the Department begun that process? Indeed, what is the Department's view on that? Does it think that that is worthwhile or useful?

Mr McGrath:

The proposal that the Finance Minister put forward as regards education — health is another matter — was well received by our Minister, because she agreed to it. Since then, there have been discussions between the two Departments at an official level to shape possible terms of reference that will go back to the two Ministers to get the exercise going. There are limitations to it. It is something that will have to be done fairly quickly if it is to have any impact on the next financial year. We are trying, along with DFP/PEDU colleagues, to shape terms of reference that will be acceptable to the two Ministers. Discussions on that are ongoing. We hope that it can be signed off when the Finance Minister comes back from leave.

The Chairperson:

Appendix B gives us some sort of outline in relation to a list of issues. Can we get the baseline for each of the figures in appendix B?

Mr McGrath:

I am sure that we can.

The Chairperson:

Will that be the whole baseline?

Mr McGrath:

I was going to say that it will be the whole baseline. Otherwise, it is meaningless.

The Chairperson:

Exactly. It is meaningless unless we have the whole thing.

I do not want to get into this debate today, but I notice that you have again been sent to relay the Minister's desire for the ESA. I will set that aside, because it is a political issue that is still unresolved. It could be resolved easily, but there just does not seem to be the political will to do it. However —

Mr O'Dowd:

When will you make your mind up on it?

The Chairperson:

I have made my mind up on it very clearly. I am well rehearsed on it. We are talking about delivery plans, so it is time for delivery.

As regards convergence, Mr McGrath, you said in correspondence in May that the focus is to ensure that the £13 million savings must be achieved from the management and admin cost in order to protect children and young people. What is the current state of play in relation to the convergence delivery plans? My reading of what you are saying in relation to the resource allocation plans is that, before signing off on them, the Minister could have included as one of her requirements that there had to be an effective convergence agreement as to how they were going to save the £13 million. Was that included?

Mr McGrath:

There is reference to convergence, and the Minister was making that point. Considerable progress is being made and momentum is gathering at the minute, and that has been sharpened by the financial climate. Some boards still depend on significant progress on convergence to enable them to live within their means. Possible savings that may come down the track mean that the convergence or streamlining needs will need to go much further than was originally assessed.

The Chairperson:

Was the next step in relation to the convergence plan a business plan?

Mr McGrath:

It would have been a number of business plans across different areas.

The Chairperson:

Have they been submitted to the Department? Do they need the Department's approval?

Mr McGrath:

The eventual business plan agreed through convergence to rationalise a particular service and, linked to that, the letting go of a number of staff, will have been approved by the Department, because that will have been the basis for the Department's agreement on severance packages for the staff concerned.

The Chairperson:

Back in June, we wrote to the Department to request the breakdown of those, but nothing has come back. Obviously, they are still in the process of being formulated.

Mr McGrath:

The convergence work did not move at the pace that we were keen on early in the year. It is safe to say that this year's financial climate and that which appears to be coming in future years has meant that a lot of people's reluctance to address issues has been overtaken. I expect that there will be more progress from autumn onwards than has been the case in the first half of the financial year. We will be happy to come back and brief the Committee in detail on that.

The Chairperson:

Are we still looking at a reduction in the management costs of £13 million?

Mr McGrath:

At least that in full-year effect, but there will probably be more, because we are saying that if there are significant savings to be taken out next year, we will, again, be looking at administration as one of the first areas to be examined. Our ambitions around convergence for this year, frankly, did not go far enough. I think that that view is acquiring greater acceptance across most of the education system now.

The Chairperson:

One of the problems since 2006, which pre-dated a lot of discussion around convergence, was the

vacancy control that was in place. That has created huge problems for the management of the system. Has consideration been given by the Department, in consultation with the boards, to ways to alleviate some of the pressures by having a different approach to that policy?

Mr McGrath:

We are looking at the rules around vacancy control. One principle that is emerging is that if we reorganise a service on a regional basis, and if we are satisfied that that service is largely the way that it will be in the future under an ESA model, we could say that we are satisfied that those posts would be permanent and we could move to fill them permanently. Therefore, progress in convergence will get us progress in moving away from vacancy control.

The Chairperson:

Another issue is aligned to that of filling posts. Until recently, there has been a deficit in the democratic input to all boards. I notice that the Minister made an announcement over the summer about appointments and reappointments of members to boards. I am aware that some elected members have received correspondence about the possibility of their reappointment to an education and library board. When will the Minister make a decision about addressing the democratic deficits that exist in education and library boards? Boards are being asked to make cuts on services, but there are no political representatives on the boards to voice an opinion or to raise a concern.

Mr McGrath:

Again, this process has been much more prolonged than anybody had imagined. The Minister is keen to make appointments. She is conscious of the issues that face some boards. The difficulty, as rehearsed earlier, is that applying the Commissioner for Public Appointment's principles and procedures has taken much longer. We have had difficulties with some councils not making nominations to give the Minister the necessary choice; however, that has narrowed down and only one council is still baulking at that, but that has presented difficulties. I suspect that the Chairperson knows what I am talking about. That, in particular, has held up one —

The Chairperson:

Would it not be easier to write to the Minister to ask for the names of those whom she wants to

see appointed? That maybe would be an easier process for the Minister to follow, rather than to have this whole charade of the Minister wanting to have choice. Well, I do not buy into that, John. We were able to carry out this process year on year prior to that Minister being in post. Then, all of a sudden, it became a problem.

Mr McGrath:

Well, I —

The Chairperson:

It is not acceptable, because —

Mr McGrath:

As we rehearsed, Chairperson, the Minister wanted the process through which councillor nominees are moved onto boards to reflect the principles applied to public appointments in general in Northern Ireland. That is the approach that she adopted. She regards that as good practice that probably should have been applied in previous years. That the process has taken so much longer is something that she regrets as well. It is also to be regretted that, in the cases of some councils, it has proved difficult to get sufficient appropriate nominations for the Department to process. If names are put forward but people do not fill in the appropriate applications to enable us to move forward, there is little that we can do.

The Chairperson:

Or somebody who has sat on an education board for two previous terms may not be acceptable because they do not have experience. I do not buy into that, Mr McGrath. That is the bottom line and my personal view.

Mr Lunn:

On the same point, Mr McGrath, have you any insight into the Minister's thinking about the South Eastern Education and Library Board, which the Minister has consistently refused to reinstate, and I know that she is under pressure from the various councils involved? Surely, it would at least be cost-effective to reconstitute the South Eastern Education and Library Board with an agreement to work within its budget rather than to pay commissioners a load of money

every day.

Mr McGrath:

Fundamentally, I think that the Minister's view remains that she wants ESA to come into being and the current arrangements are interim to that. In respect of the South Eastern Education and Library Board, those arrangements are adequate and working and they have made some contribution to reducing the deficit.

The Chairperson:

That is not the case. The arrangements are not for the interim. Commissioners were imposed because the South Eastern Education and Library Board would not endorse the will of the Department. That was the reason. It was nothing to do with ESA. They are not interim arrangements. The commissioners were brought in because the board would not do what the Department wanted it to in relation to the very issue that we are discussing — budget cuts. For that reason, the Department used article 101. Ironically, we are now in the situation of having no elected representatives on education and library boards, and the boards are being asked to do exactly the same thing. I do not think that the Minister would like to preside over that situation.

Mr Lunn:

I was never a member of the South Eastern Education and Library Board, but I understand that it talked itself out of existence by refusing to accept the budgetary constraints at the time.

Mr McGrath:

That predates me but, essentially, the board would not pass a budget to enable it to live within its means, which it is required to do, regardless of who is Minister of the day. The commissioners have managed the board and have helped to reduce its outstanding deficit, which is significant. I do not think the Minister is of the view that she should change the existing arrangements when she still wants to see ESA come into being as soon as possible.

Mr Lunn:

Do we not then get back to the issue of a democratic deficit? It has been four or five years since the decision to appoint commissioners was taken. How long will it be before the Minister is

persuaded to change her mind and allow elected politicians in the South Eastern Education and Library Board area to play a part, which they seem willing to play, on the basis that they work within budget?

Mr McGrath:

I can only reflect the Minister's view. I can pass back to her the sentiments that you are expressing on that.

Mr Lunn:

I must confess that I did not object to what happened, because it was an impossible situation for the Department at the time. I do not think that it was meant to be forever, and, on the present basis, I wonder whether the Minister will ever think that there is a case for reinstating that board or whether it is damned for evermore.

Mr McGrath:

I will pass your sentiments on to the Minister.

Mr Lunn:

Pass that one on to her.

Mr O'Dowd:

Which council has not forwarded nominations for ESA?

Mr McGrath:

Belfast City Council has not forwarded sufficient nominations to give sufficient choice to the Minister.

The Chairperson:

The Minister wanted eight nominations. Belfast City Council, by democratic vote, selected four. There are four places to fill.

Mr McGrath:

Originally, that was the case. I understand that the council decided collectively that it would meet the Minister's wishes. Three political parties, under the system that operates in the council, have nominated two candidates each, and one party has insisted on nominating only one candidate. That is where the matter sits.

The Chairperson:

Mr O'Dowd thought that it was Ballymoney Borough Council.

Mr McGrath:

There are no difficulties in Ballymoney.

Mr O'Dowd:

In my opinion, the democratic deficit in the education boards is the fact that they still exist. There has been a failure of leadership to establish ESA. The Committee was recalled for a specific purpose, which is to discuss the budget and budgetary constraints. Unless you are prepared to make difficult decisions around bureaucracy, you will end up cutting front line services. You can tinker around the edges and complain that priorities have not been listed from one to 20, but, unless bureaucracy is tackled, front line services will have to be cut.

The Chairperson:

If £13 million were saved, or, as the Department envisages, £20 million, from the reduction of the boards, would that save all our ills?

Mr O'Dowd:

No, but there would be year-on-year savings.

The Chairperson:

It must be a very small boat that you are trying to turn around if £20 million will save it.

Mr O'Dowd:

Year on year, £20 million that would have been spent on bureaucracy will make a major

difference to front line services. That is the reality. I certainly did not come to the Assembly to scrutinise the decisions of Ministers, but it seems to be the viewpoint of certain Committee members that they are here to do that. Committees are here to scrutinise the work of Ministers but also to offer alternatives.

If members have alternatives to the list of 20 objectives in front of us, we need to hear them. We could have been meeting about that over the summer. We could have been setting out an alternative budget process. We can certainly get the baseline figure for 2010-11, but we had it before. The Committee, rightly, has gone through the budget time and time and again, so we know the figures; they are on record. I have no difficulty with quizzing departmental officials, and, if members want to grandstand by criticising this or that Minister, that is great. It will not make a ball of blue's bit of difference to the budgetary process. You can argue over £20 million if you want, but, unless you are prepared to tackle bureaucracy, you must be prepared to cut front line services.

The Chairperson:

Is that addressed to John or to me?

Mr O'Dowd:

It is to you, Chair.

The Chairperson:

There is a whole debate around that. We will come on to discuss the capital budget with Diarmuid. The Minister must pay attention to the issue of £347 million having been squandered between 2005 and 2009, rather than flogging the dead horse of trying to change bureaucracy for the sake of ideological positions. That is a bigger issue for the Minister.

Mr O'Dowd:

I am surprised that the Chairperson is surprised by that figure, which has already been through the Committee. Year-on-year returns from Departments to the centre go through Committees to go through the Assembly.

Mr D Bradley:

Mr McGrath, I see that an increasing amount is allocated to PPPs. How cost-effective are PPPs as a means of procuring capital schemes?

Mr McGrath:

How long have you got?

Mr D Bradley:

I have 15 minutes, starting from now.

Mr McGrath:

The purpose of the spending proposal is to reflect the increased charges the Department expects to receive when the PPPs that are currently in train are delivered. No PPP can go ahead without an approved business case that demonstrates that it provides value for money.

There are differing views on the appropriateness of the use of PPPs. However, given the current climate, a number of major schools have come on stream in the past few years with some outstanding results, and eight schools are either due to come on stream or are very close to it. Under the current constrained circumstances, PPPs provide an additional way of bringing schools on stream. In the future, as capital gets tighter, we may have to explore more innovative ways of financing. If you are —

Mr D Bradley:

How long do the unitary payments continue for?

Ms Daly:

Between 20 and 25 years.

Mr McGrath:

They continue for between 20 and 25 years. There is a trade off, and it is a bit like a mortgage. However, parents of those children who attend the new Belfast Boys' Model School, St Mary's College in Derry or St Joseph's Primary School in Carryduff would probably be of the view that

the investment in those schools has been worthwhile for their children's future, regardless of the financing method used.

All PPPs are passed to DFP, are heavily scrutinised and require an awful lot of work. The Department hopes to conclude the Lagan College and Tor Bank Special School PPPs, which have been ongoing for some time. The sooner that they can be completed the better, as they will replace some desperate pieces of estate, particularly on the Tor Bank site, and will represent another worthwhile investment.

The Chairperson:

To an observer it seems that the Belfast Education and Library Board has a different procurement methodology for newbuilds to that of the other boards. Indeed, you have mentioned that.

Mr McGrath:

Yes; absolutely.

The Chairperson:

When one considers spend on projects, the Belfast Education and Library Board has had a considerable degree of success in delivering projects. Are there lessons to be learned there? It has a —

Mr McGrath:

It has a strategic partner.

The Chairperson:

Yes; how does that compare with the other boards? There were problems with the frameworks, which all collapsed, and we saw the consequences of that. Traditional procurement practices, PPPs and what we have in the Belfast board are also used. Would it not be better for the Department to have a more streamlined approach to the way in which it decides to build schools, particularly given the comments that were made in the audit report?

Mr McGrath:

The use of the strategic partnership arrangement (SPA), frameworks and PPPs allowed for a mixed economy for the delivery of new schools. The Department is still awaiting an appeal on the frameworks, but they would have lapsed by now anyway.

The SPA is one way of doing business. It is very effective in getting schools built and some of the schools that have been built are highly impressive. I am unsure whether any of the Committee members have visited the new schools in Belfast, but they are impressive, and the ones that are coming on stream — particularly the two Model Schools with their community dimensions — are first class. It is a new way of doing things.

A gateway review was conducted at the end of last year. One piece of work that the Department is doing as a result of that is a benchmarking exercise to compare different procurement methods and test whether there are any trade offs in the SPA between quality and price and whether it has led to better delivery. If there are lessons to be learned, the Department wants to learn them.

The SPA is an effective vehicle for getting schools built on or ahead of time. Indeed, St Joseph's school in Carryduff was reported in the papers yesterday as being finished ahead of time and the two girls' secondary schools in Derry were finished largely on time. Therefore, once the Department gets the schools to the construction phase, they are being finished on time. You are quite right in asking whether there are lessons to be learned about the SPA, and the Department is doing a bit of work to establish whether it is a model that should be rolled out elsewhere. That is one of the pieces of work would have been carried out through the ESA.

The SPA is restricted to controlled schools in the Belfast board area. Those are the parameters.

Mr Lunn:

I want to ask about the PPPs, because I am slightly ignorant on the subject. Are PPPs not just an alternative because you cannot borrow the money? Is a PPP not simply an innovative way of borrowing?

Mr McGrath:

In one sense, a PPP is a mortgage. I will put it in simplistic terms: if there is no money to pay for a project upfront, a PPP enables it to be paid for over 25 years.

Mr Lunn:

Why can the Department not simply borrow the money at a commercial rate, instead of entering into a PPP arrangement?

Mr McGrath:

Catherine or Mark will take you through that slowly. *[Laughter.]*

The Chairperson:

And painfully.

Mr McGrath:

In simple terms, if we borrow money, it counts as public expenditure, which scores against our departmental expenditure limit.

Ms Daly:

The fundamental issue, which John mentioned earlier, is the business case. A business case is drawn up for any capital project, whether it is a PPP or a conventional one. The PPP project is tested against procurement under the conventional approach. A number of assumptions are identified within that throughout the economic appraisal. On the basis of that, in line with Treasury guidance, we determine whether the project provides value for money. Therefore, it does take account of alternative sources of finance and determines whether a PPP is the best option to provide value for money for a particular project. No project goes ahead without the business case being approved.

Mr Lunn:

What happens across the water? Do they use the same system?

Ms Daly:

They operate on the same basis.

Mr McGrath:

They use the same principles. Everything has to be vetted. It is perhaps true to say that, over the past number of years, with the market being so depressed, it was possible to be quite competitive in tying up some PPPs. At times, companies in the construction industry worked for a price that did not cover much more than their costs. Therefore, some of the PPPs that we tied up recently have been really good value.

Mr Lunn:

Two or three years ago, the Public Accounts Committee looked into the Wellington College and Balmoral High School projects, which were PPPs or PFIs. The Balmoral High School project was a white elephant and hideously expensive. On the face of it, it cost three fortunes, but there must have been cheaper options, if one had been allowed to use them.

Mr McGrath:

Leaving aside the white elephant aspect, I am not sure that I am sighted enough to deem whether the Balmoral High School project was expensive. There are two issues. One is working out what sort of school that is needed, where it is needed and what size is needed. The other is the procuring of that school as cheaply as possible. There were some issues about land valuation with the Wellington College project: somebody missed half an acre. The problem was not with the building; it was a trade-off with the —

Mr Lunn:

There was a bit more to it than that. The project was a classic example of the private sector running rings around the public sector and getting away with it. The problem was not simply a missing half acre.

Mr McGrath:

We have completed a number of projects in recent years and have a fair amount of expertise. We are confident that, with the PPPs that we tied-up in the past three or four years, as well as in the

Belfast board area with the SPA, the public sector has fought its corner.

Mr Lunn:

I will leave it at that. At the time, the Department received quite a bit of criticism from the PAC.

Mr McGrath:

I am aware of that. There are always issues about highly complex financial transactions. The private sector carries out those transactions every day of the week, whereas, in government, people might be carrying out such a transaction for the first, and possibly last, time. Therefore, they have to get sufficient expertise, advice and nous.

Mr B McCrea:

I want to pick up on a point about PFIs. Surely, it is really a question of public sector borrowing. The issue is that we cannot put any more borrowing on to the public sector because of Treasury constraints. Others have argued that it is a more expensive form of borrowing. Are they arguing along the right lines?

Ms Daly:

PFI is a way of financing capital projects. Each project is assessed individually on its specific business case.

Mr B McCrea:

You always smile at me as if you were saying, "Listen carefully; I will say this only once." The specific point that Trevor Lunn brought up is that you would not opt for that type of borrowing if it did not have the advantage of being off the books.

Ms Daly:

That is a slightly different aspect than the one that we have been discussing. That is about whether there is an impact on the capital budget. Any contract signed up until April 2009 had a direct impact on the capital budget for education. No PPP contract signed from April 2009 onwards has that budgetary implication; it does not affect capital. I have talked about value for money being a significant factor in business cases. The business case also considers affordability.

Issues arise where there is a form of finance that does not affect the budget in the same way that conventional procurement would. Where there are two similar projects, and the PPP project does not hit the budget, there is a margin of difference. The PPP project has an affordability advantage, but that has to be taken into consideration in the context of the wider issues of value for money.

Mr B McCrea:

Do you mean that it is not coming out of the capital budget?

Ms Daly:

It is not coming out of the capital budget.

Mr B McCrea:

So, it is coming out of the revenue budget?

Ms Daly:

There would be a unitary cost, yes.

Mr B McCrea:

That is why we have relatively modest capital spends this year, or whatever year we consider. Many people made various statements on the subject. John McGrath said that it was either that or people do not get a school, and I understand that. Is that what you were saying?

Mr McGrath:

Yes, if there is not sufficient normal capital. One test is that of value for money, and the other is whether there is money to carry out the project. If the normal capital spend is not available, PPP offers a way that gives value for money and gets the school built. The other issue is that building facilities management and maintenance are built into those PPP projects. The state of the building will be better guaranteed over time in a proper tied-up contract than in many of the traditionally built projects that do not include sufficient maintenance spend.

Mr B McCrea:

I understand that that is the case. The problem is that we are considering maintenance backlogs, or minor work backlogs, and there is a business case to be made to someone. I understand that you probably do that in your own appraisals, but there is a trade-off between the amount of maintenance to be paid for and whether the Department builds a new school. I am not sure that that argument has been made to the Committee. When it comes to creative solutions, there will have to be a move to making better use of whatever resources are available, which means using the schools estate in different ways. We will have to amalgamate or share facilities.

To achieve political buy-in, which is one of the benefits of having this discussion, people need to understand that it is cheaper to do things that way in the longer term, because it reduces the maintenance backlog, or whatever. That argument has not been made yet, and you will find that other people say that it is the most expensive way. That is the point that Trevor Lunn made.

Given the constraints on the capital budget, what is DFP's view? Will DFP allow the Department to go ahead with as many projects as it can get finance for? What are the constraints on making capital spends? Is it the market? Is there a market to buy that debt, or will DFP say that there is not enough revenue budget, never mind capital budget?

Mr McGrath:

It is a mix of all those issues, Basil. We receive propositions, and we try to be competitive in the market. In the past few years, we have done quite well, because the industry has been in such a difficult state that people have been willing to take business.

Mr B McCrea:

If I may interrupt, John, they have to borrow.

Mr McGrath:

Yes, they have to borrow.

Mr B McCrea:

If the cash is not available, I am not sure how much appetite there is for that sort of debt.

Mr McGrath:

There is still an appetite.

Mr B McCrea:

If that is not a constraint, it comes back to the argument about mortgaging the future. Within what constraints are you working? Are the constraints on projected CSR figures for revenue? Are you simply compiling an overall budget and planning as much as you can within that revenue budget?

Mr McGrath:

We have to make a trade-off and establish whether the gains from the PPP projects and the problems that they will help to remove are worth the commitment that is required on the revenue side. In one sense, it is not much different from the domestic housekeeping decisions that we all make.

Mr B McCrea:

Absolutely. Repeatedly, schools are built within a certain timescale, but the community that they are built to serve changes within that same timescale. An estate that is full of young mums needs a primary school. By the time that the school is built, those children have all grown up and need a secondary school. By the time that the secondary school has been built, the children have left to do other things. Has there been an attempt to examine genuinely creative school buildings, such as modular builds, whereby the core is built, with bits and pieces being bolted on subsequently?

Mr McGrath:

Obviously, one would not build a primary school that could become a post-primary simply by scale. However, increasingly, we explore the scope for getting as much flexibility in schools as possible and even to building in flexibility so that some could be expanded. Issues at the core of the capital review that we completed include how to cope with changes in demographics, need, socio-economics and, in some cases, schooling patterns to ensure that we do not end up with the Balmorals of this world. One tries to build some flexibility into the design.

Mr B McCrea:

We take too long to make decisions on planning permission and on all sorts of issues. Can the Department, given that it is a statutory agency, not do something to seek automatic planning permission?

Mr McGrath:

You would have to raise that with the Minister of the Environment, but I doubt that —

Mr B McCrea:

With respect, John, should you not raise it? The Chairperson made the point earlier about the amount of capital that was retuned. There are all sorts of reasons for slippage, but it appears that many reviews are carried out. Reviews are good, and we want to ensure that money is spent properly. However, if we keep carrying out reviews, getting planning permission, chopping up maintenance into minor works, but not getting schools built —

Mr McGrath:

I do not disagree. The review was an important strategic exercise. However, for individual schools that want a newbuild and want to know where they will find a site and obtain planning permission, feasibility studies are undertaken, and the process can become protracted. The people who undertake the process for that school might be doing so for the first and only time, and it becomes protracted. We want to make that process quicker in any way possible.

Mr B McCrea:

Thank you for that. I will finish by saying that, if you acknowledged the resource constraints but asked whether the money that is available could not at least be spent in a more expeditious manner, you would find that people were more supportive.

Mr McGrath:

We are keen to do that. Bluntly, one of the issues facing us is that there are too many schools in the mix at the moment, and they will not all be provided for. We spend time, effort and fees to progress economic appraisals for schools that will not see the light of day for seven or eight years. We would like to be able to tell schools that they will have to wait, that we will look after their

maintenance and minor works, but that it is not worth our raising hopes. Then, we could concentrate our fairly limited professional resource and expertise on the schools that we want to get to market.

Mr B McCrea:

I support you on that.

The Chairperson:

One of the comments that John made earlier was about examining the budget. Sorry, Trevor —

Mr Lunn:

I would just like to finish on the PPPs. Catherine, you said that all PPPS had to go through a rigorous process and present a business case, and so on, but presumably it is, fundamentally, about value for money. When you consider a PPP project, with what do you compare it? If the only alternative is to write a cheque for which you do not have the money, what other option is there?

Ms Daly:

I do not know the details, but one of the basic tests of any business case for a PPP project is to compare it against the conventional procurement of the same project. That is referred to in the business case as a public sector comparator. That method compares the scoring of conventional procurement and PPP projects in relation to value for money. They are compared on a like-for-like basis.

Mr Lunn:

Presumably, conventional procurement means that someone is asked to draw up a scheme, it is put out to tender, a price is given, and the money is available to pay for it. That system falls down, because the money is not available to pay for schemes.

Mr McGrath:

We still use conventional procurement as a benchmark to establish that we are in the right territory in relation to value for money.

Mr Diarmuid McLean (Department of Education):

The cost of capital is taken into consideration over the 25-year period of the mortgage.

Mr Lunn:

You do not compare it with the situation in which the Department could borrow the money, pay the interest over 25 years and maintain the property itself.

Mr McGrath:

No, because we cannot do that.

Mr Lunn:

That is part of the problem.

Mr McGrath:

A point was made about the issue of time. If you were to visit some of the new schools in Belfast — I do not know whether the Committee has done so —

The Chairperson:

No, but I think that it would be *[Inaudible.]*

Mr McGrath:

Some head teachers almost shaped the design of their school personally. They could take you round their school and tell the Committee what they wanted and what they got. Those head teachers invested a huge amount of time and effort to get the school that they wanted. It may have taken time, but you should ask whether they would do anything differently. Although they might wish some things had been done differently, it is quite outstanding to see their pride and feel the sense that they have flexed the handbook to get, for example, a hall for multiple use. They would probably acknowledge that the process took a long time, but ask you to look at where they sit now.

Mr B McCrea:

We should consider how big commercial operations work. When Tesco builds a store, it is a

Tesco store that is built to one plan and one model. It just goes bang, bang, bang and achieves economies of scale. It is not necessary to design every school, or to go through all those processes.

The Chairperson:

However, Tesco also plans a store of a particular size and, four years later, puts a roof on it and doubles the space. I remember that Tesco did that in places such as [*Inaudible.*] It is not ideal.

Mr B McCrea:

I am not saying that —

The Chairperson:

That is the concept behind what you are saying.

Mr B McCrea:

I am simply saying that there may be something to learn from commercial operations. I am asking the question. People may take pride in great bespoke design, but it is always more expensive. If a school is allowed to add another storey when needed, and if not, it does not —

Mr McGrath:

That is a matter for debate, and the Audit Office report to which we referred mentions improvements in design. There is fairly significant evidence that building quality schools can enthuse kids and help to raise standards, rather than making a school building simply a roof over their heads. Were the Committee to visit the new Boys' Model School, I would commend it for doing so.

In my previous job, I worked on not simply replacing the school but making it a learning campus with different facilities. That school is in an area that is not marked by statements from within the public sector about people in north Belfast. The headmaster did not want it to look like a school; he wanted people to think that it was anything but a school. One can see the enthusiasm of the kids. It is not about their simply being in a building; the school gives them pride and enthusiasm. This year, more kids wanted to be head boy in that school than in any year

previously.

I have to debate with Gavin Boyd on the issue. It is a question of whether the building of schools is a case of one size fits all, or should schools be places in which people can take pride and enjoy being in. My last job focused on urban design and regeneration, so I take the view that schools add to the areas in which they are located. If you were to visit Ashfield Girls' School —

Mr B McCrea:

I will go and check that. The trouble is that a bespoke school may be great for pupils of the Boys' Model or Ashfield Girls' School. However, for a student in Downpatrick, which is not getting a new school because the Department has spent all its money elsewhere, there is an equality issue.

Mr McGrath:

Absolutely. I know that, but good design does not necessarily cost more. Do you know what I mean?

Mr B McCrea:

There is an argument to revisit that. The Department is almost like the police, in that it does all sorts of good work, but never bothers to explain it to anybody. There is the matter of going public and acknowledging that some issues must be examined. If you are right in saying that, in the long term, quality design delivers better educational outcomes and longer-life buildings, and if that is a fact that can be stood over, the Department needs to tell people why it is doing what it is.

Mr McGrath:

I think that there is such evidence. Outcomes from students and staff are still needed, but head teachers Jim Keith at the Boys' Model, Johnny Graham at the Girls' Model and principals at the new schools in Londonderry would reflect that. Indeed, the arguments about the new schools adding to educational standards were articulated by the Finance Minister when he visited the Boys' Model two or three months ago.

Mr B McCrea:

The Finance Minister is a great expert on education, because he used to be Chairperson of this Committee. However, all I am saying is that there must be an informed public debate. Many schools will be extremely disappointed at not being granted a build. They will, rightly, come along and ask, on the basis of equality, why one child is being educated to a certain standard, but another is not. The Department needs to construct an argument that it is delivering the optimum outcome for everyone.

Mr McGrath:

Yes.

Mr B McCrea:

I am simply saying that good governance means trying to explain that to people. Maybe I have to go and do a bit of work myself.

Mr Lunn:

Perhaps the Department could have a word with Tesco, because —

Mr McGrath:

I think that we will stick to our own estate at the minute. *[Laughter.]*

Mr Lunn:

Aside from the fact that Tesco builds sophisticated barns, whereas the Department builds schools, I do not believe that Tesco writes a cheque for its buildings. Rather, it almost adopts a PPP approach by writing individual cheques each year for what might be called a unitary charge on Tesco branches, and a separate organisation builds, maintains, insures, and so forth.

The Committee will receive the baseline figures at some stage. Off the top of their heads, does anybody have any idea what the baseline figure is for PPP payments at the moment? I am fascinated by that. Is a further £8.6 million needed?

The Chairperson:

At some stage, were we given a figure of around £101 million?

Mr McClean:

No, that is the capital hit on our departmental expenditure limit this year.

The Chairperson:

Right.

Mr McGrath:

That is the one-off hit.

Ms Daly:

The PPP figure is almost £24 million.

The Chairperson:

Yes, it is £23.8 million.

Mr Lunn:

That is not as much as I had thought, which is, at least, some comfort. Thank you very much.

The Chairperson:

Although some of the information in the appendix relates to the previous baseline, some of those categories are new. As members have not seen them before, we do know what they relate to in the baseline. We need that information to be read across, John.

Mr McGrath:

OK. We have that information.

The Chairperson:

John, you talked earlier about teachers' pay. Did I pick up correctly that you mentioned "likely" pay increases for teachers?

Mr McGrath:

Yes.

The Chairperson:

There is a national three-year agreement that must be honoured, until it comes to an end. In 2011-12, that costs £9.9 million, but the amount is almost £50 million by 2014-15. Why is there a sudden rise?

Mr McGrath:

My colleagues will add to my answer. After the pay freeze, we had to work on the assumption that there will be pay increases in line with GDP and other factors that DFP shares with us. Therefore, we need to reflect that. If it turns out that there is another pay freeze, our numbers would change.

The Chairperson:

Have you worked on the assumption of a 2.5% pay increase?

Ms Daly:

We worked on the assumption of a 2.7% increase, following on from the end of the three-year agreement.

The Chairperson:

Has the same applied to non-teaching staff?

Ms Daly:

Yes.

Mr McGrath:

Until someone tells us something different, we must ensure that we reflect what we think is likely, based on the GDP factors that the Treasury uses.

The Chairperson:

My next question goes back to the argument about capital and resource budgets. If that budget settlement were allocated to you, what flexibility exists within the structure to enable the Department to reallocate, redirect or make changes to it? From 2005-09, there were in-year changes to the capital budget of £247 million. I get confused; there is the green book, the Treasury and certain rules about what you can and cannot do. If the requirement to which you have committed yourselves is not needed, what procedure will the Department follow?

Ms Daly:

The funds contained in the overall resource budget structure can be allocated within a single unit of service. That covers all schools' expenditure. There is scope to move from resource to capital, and that is controlled at DFP level, but there is no scope to move from capital to resource. There is no flexibility; it is a one-way process.

The Chairperson:

You could, therefore, reallocate money in the resource budget to any of the listed items.

Mr McGrath:

We could, but it is important to work out the trends and settlements. In recent times, the trend has been that the Department of Education, as is the case with other Departments, receives a lump sum. It will not receive money according to what bids were or were not met. Rather, it will be given a block of money, and it is up to the Minister, as is the case with other Ministers, to decide how to use that money. It is not necessarily the case that there will be a budget settlement in which the Department will be given specific money for teachers' pay, non-teaching staff's pay and other listed items. The recent trend has been that the cake is divided at the end of the budget process. The education budget is a lump sum, with a slight separation between the school side and the youth side, and it is up to the Minister to determine the distribution of those funds.

The other side of that is that, this year, it will be up to each Minister to determine the balance between new investment and the extent to which savings have to be made. Those decisions will be for each Minister to make.

Ms Daly:

The other constraint relates to ring-fenced or earmarked funding from DFP. For instance, if the innovation fund in this budget round is not used for the intended purpose, there is no flexibility to move it within the budget, and it would have to be surrendered to the centre. There is no flexibility to move any money that is allocated and ring-fenced.

The Chairperson:

I will try to keep to the resource budget, and I would appreciate any comments that members have in that regard. You talked about the extension of free school meals. If the Minister were to take that decision, it would have a knock-on effect on the eligibility criteria. The combined values in the two tables amount to a huge sum of money. Is the provision of free school meals a statutory requirement? If not, will you clarify what the Minister's position would be were that provision not put in place? It goes back to the question of prioritisation.

Is one consideration of the Minister or Department in relation to those issues related to the fact that she has statutory requirements? She is very good at telling us about her statutory requirements in relation to other issues. It is because of her statutory requirement to two particular sectors that she gives preference to one of them when making allocations. She has a list of obligations that she must meet under statute. Given the cost, and if it is a non-statutory requirement, what consideration would be given to a policy such as the extension of free school meals, the cost of which would amount to more than £80 million over that period?

Mr McGrath:

If it turned out that the Budget settlement did not give sufficient flexibility to pay for the extension of free school meals from new money, the Minister would have to work out whether she could afford to pay for that and what the trade-off would be were she keen to do it.

The Chairperson:

Is it a statutory requirement?

Mr McGrath:

No, it is not.

The Chairperson:

Is it not?

Mr McGrath:

No, it is not. Free school meals were extended at a UK level. The Minister then decided in-year that she wished to reflect that and, thereby, to help to tackle social need. However, in England, that decision has been reversed.

The Chairperson:

What is the situation in Wales? Are the Welsh now looking at what happened in England and considering the issue?

Mr McGrath:

I am not that close to the issue. However, I suspect that Wales might be fairly closely linked with England.

The Chairperson:

The English reversed the decision. They made the decision, implemented it and then reversed it.

Mr McGrath:

They made the decision to extend free school meals, but they did not get round to it.

The Chairperson:

Did they not implement it?

Mr McGrath:

One of the first things that Michael Gove did was to reverse the decision. I think that that decision also applies to Wales.

The Chairperson:

It would.

Mr McGrath:

No, actually; England decided to extend the criteria but the Welsh decided not to. Therefore, it was a situation of “as you were”. It may be dependent on the outcome of the overall Budget process. At the end of the process, once overall funds have been allocated and savings levels have been set, it is quite likely that all Ministers will face difficult decisions when trying to find a balance between the things that they would like to do and the things that they will have to cut to fund them.

The Chairperson:

When will the extension to free school meals start? Has it started in this financial year?

Mr McGrath:

It started in this financial year at nursery stage. A second tier will come into effect next year. The number of children now eligible for free school meals is nearer to 30,000 than 20,000, which was the original assessment. That is another reason why the cost has gone up and why Ministers might have to make all sorts of difficult decisions in due course.

The Chairperson:

Prioritisation is required.

Mr McGrath:

Yes, it is. Certain issues are nearly de facto and inescapable, and other issues are necessary, inescapable but also highly desirable.

The Chairperson:

Is there a statutory obligation to pay teachers their wages?

Mr McGrath:

Yes, there is, but there is no statutory obligation to employ a certain number of teachers. There is not much in statute about the amount of money that should be spent on what. Certain things must be provided, but the statutes do not state the level at which they must be provided. In that sense, much of what is spent on education and health is not statutorily determined.

The Chairperson:

Do members have any other questions about resource? I will be keen to hear what others have to say about that, because I have no doubt that we will be asked again about John's comments. It will be useful for members to keep in mind any suggestions about the proposals for resource spending, because we will have to come back to that issue next week. Are there any other comments about resource before we move on to capital?

Mr Lunn:

School meals budgets could be cut at a stroke by getting Jamie Oliver to provide only a healthy option. I suppose that that is on the record now.

Mr B McCrea:

Is that a proposal?

The Chairperson:

If there are no further comments —

Mr B McCrea:

The big issue is the pay freeze. How much is 2.7% of the budget if that comes through? What is the saving?

Mr McGrath:

I am sorry, Basil?

Mr B McCrea:

I suspect that the big factor is that you —

Mr McGrath:

If there were another pay freeze, one could probably assume that the sum for incremental rises would remain.

Ms Daly:

It would be roughly £25 million, year-on-year.

Mr McGrath:

Basil's question is about how much would be saved without an inflationary increase.

Ms Daly:

If there were no pay increase, around £25 million would be saved.

Mr B McCrea:

I know that you have to work on the assumption that the pay increase is there until it is not there, but are you aware of any discussions that might suggest a pay freeze or a reduced pay rise?

Mr McGrath:

I am not aware of that at all. There are issues of wider industrial relations whether, after a two-year pay freeze in the public sector, Ministers at national level wanted to impose a further pay freeze. In a difficult budgetary climate, there could be a trade-off. By not having a cost-of-living increase, much money could be saved in the public sector.

Mr B McCrea:

There is substantial pressure on public finances, but when do you expect to be able to say that it will be 2.7% or some other figure? By when will such an announcement have to be made?

Mr McGrath:

The spending review at national level will be announced on 20 October. I suspect that some of the supporting documentation on that will include trends and projections on how wage bills are expected to rise. That will be part of the copious documentation that will come with the spending review. The decisions that the Chancellor will have to make at national level will have to be made around some assumptions.

Mr B McCrea:

Therefore, some £25 million would be saved. What is the cost of the inflationary drift for people increasing on the spinal points?

Ms Daly:

Do you mean the cost of the inflationary drift without a pay increase?

The Chairperson:

Would that save the figures that are quoted: £9.9 million in 2011-12, £10.8 million in 2012-13 and £26.4 million in 2013-14?

Mr McGrath:

That line of figures shows the additional amount that is needed for the combination of the two strands that we are discussing: incremental pay rises and cost-of-living pay rises. If you want, we can break the figures down into those two strands.

Mr B McCrea:

The figure that you quoted of £25 million confuses me slightly. How did you reach that figure? Is it required over four years?

Ms Daly:

We are assuming that a budget of £1 billion with an increase of 2.5% each year. That gives a cost of around £25 million.

Mr B McCrea:

Is that an increase of £25 million over four years?

Ms Daly:

No; it is £25 million each year.

Mr B McCrea:

Your figures show that a resource increase of £9.9 million will be needed for teachers' pay in

2011-12.

Mr McGrath:

Catherine was referring to the entire wage bill, which includes teaching and non-teaching posts.

Mr B McCrea:

The non-teaching wage bill requires an additional £4.5 million in 2011-12, in addition to the teaching wage bill, which requires an extra £9.9 million.

Mr Mark McNaughten (Department of Education):

There are other factors, including higher-paid staff dropping out on retirement and cheaper staff coming in; they called recyclables. A number of elements make up the total. We will provide a breakdown that will show the increase in incremental drift as well as the pay increase. The way in which it is presented is quite complicated.

Ms Daly:

The difficulty is that the recyclables are not uniform each year based on the existing teaching workforce payroll. Numbers are coming off the top and coming on at lower parts of the pay scale. Sometimes, one cancels the other out completely, and, sometimes, it does not. That is why it is not possible to take a simple reading. As Mark said, we can provide a breakdown of the different elements.

The Chairperson:

Catherine, is that not taken account of in the upfront costs for the delivery of savings through redundancies, which will be £56.3 million in 2011-12, £34.8 million in 2012-13, £76.2 million in 2013-14 and £68.3 million in 2014-15? I am not suggesting that there has been double accounting by the Department, but Mark said that allowances have been made for staff leaving and other staff coming in. Is that different to the upfront costs for the delivery of savings in redundancy costs?

Ms Daly:

Yes, it is.

Mr McNaughten:

The routine costs for those who are, for example, at the top of the pay scale and still in the workforce are covered under the first line.

Mr McGrath:

The Department is working on the premise that significant savings will have to be made by the education service in due course. Some 80% of the service's overall expenditure goes on staff. Significant savings will mean job losses, and one cannot effect job losses without putting money upfront in the form of redundancy payments. That is a factor across all public services and the Department is putting that —

Mr B McCrea:

Why is that the case? Presumably, there are nationally agreed contractual agreements, and the Department cannot make people redundant without giving them enhanced pension rights, and so forth. Is that correct?

Mr McGrath:

Yes, there are contractual entitlements. If the Department is forced to reduce its teaching or non-teaching workforce, there must be money available upfront to allow that to happen; that is no different to the Health Service or any other large public service. The Department must register that need now. If the Department receives a Budget settlement that means that jobs have to go in some areas, and it does not have the means to allow those jobs to go when the budget is reducing, it will be in a very difficult position.

The Chairperson:

Do the figures include teaching and non-teaching redundancies or just those that will be made in teaching?

Mr McGrath:

They include both groups.

The Chairperson:

Those figures equate to a certain number of teachers, caretakers or whoever who will lose their jobs. How many staff members does the Department expect to make redundant in the four years between 2011 and 2015? Should we take £30,000 as representing one staff member, or would it be more than that because we are dealing with redundancies.

Mr McGrath:

That is difficult. The figures do not reflect such a microanalysis.

The Chairperson:

However, John, you can see where the Committee is coming from —

Mr McGrath:

Yes, I can.

The Chairperson:

One of the criticisms that is levelled against the Committee by the Minister is that it has not engaged with her. It wants to help by finding out roughly how many jobs the Department expects to go between 2011 and 2015.

The Department made an assumption, and I am not sure whether it has been told that certain sectors will be amalgamating more of their schools. The Department is dealing with teachers who are currently employed, and I wonder how it has concluded that in 2011-12 there will be 300 fewer teachers, for example, because there will be five or six fewer schools. On what rationale are the figures based?

Mr McGrath:

It will be a higher level than that. From what the Department has been told, it feels that it could be losing 5% per annum.

The Chairperson:

Do you mean 5% of its budget per annum?

Mr McGrath:

Yes, I do. Therefore, to achieve that level of savings a certain number of jobs will have to go. The figures supplied are a high-level calculation of that.

The Chairperson:

The Department has calculated the money that it will have and, on that basis, the number of staff who will lose their jobs.

Mr McGrath:

The figures are at a very high level. They are not linked to planned redundancies or the detail, because the Department is nowhere near those calculations yet. The Department is not alone in reflecting the fact that the amount of money that may have to come out of the block will largely be paid for by job losses. That is where the largest amount of money is spent. Money is needed to fuel that process and to get it going. This is more than a marker, but it is not a plan.

Mr B McCrea:

It depends on what you think should be in a four- or five-year plan. It will cost £56 million to get rid of people, whereas a wage freeze could make a £25 million saving. My worry is that, in certain cases, it is almost too expensive to get rid of people.

Mr McGrath:

On that scale, I know what you mean. It becomes almost counterproductive. In the early years, more money has to be found than is intended to save. It pays for itself over time, but, in those early years, it is difficult. At a macro level, you are right. Ministers, at UK level or in the Executive, could articulate that there could be a trade-off in that no pay increases across the public sector would save not only a lot of money but a lot of jobs. That would have to be brokered with the trade unions. However, you are right.

Mr B McCrea:

You are right to register that. We know that that is the case. However, it seems to me that you end up putting people out early at the end of their careers at 55 years of age with little prospect of re-employment. That is damaging; somewhere along the line, we have to have that debate. I see it on the Policing Board, which cannot afford to make any redundancies. We do not have enough

money to make anyone redundant and have to find other methods. That £56 million, if you are right, translates to losing about 8% of people a year for four years. It may be that the most expensive people are being lost.

Ms Daly:

Those are significant numbers, but the figures have been calculated on the bids that need to be registered with DFP now, and our assessment, on a pro rata basis, of the budget split between pay bills and non-pay bills. If the anticipated reductions were applied on a pro rata basis, this is effectively our best estimate of what would be a prudent bid to put forward. We hope that that would be the worst-case scenario.

The Chairperson:

That does not take into account the ring-fencing of £128 million. That is taken out of the equation. You are making an assumption only on a 5% figure.

Mr McGrath:

That is 5% per annum.

The Chairperson:

Per annum?

Mr McGrath:

Five per cent per annum translates into £350 million.

Ms Daly:

Yes, it does.

Mr McGrath:

That is about 20% of the overall budget. If that were the case, and my Minister would, obviously, strenuously want to avoid that, much of that saving would have to come from job losses. There is a limit to what else can be squeezed.

Mr B McCrea:

We all understand that. I am saying that society has certain choices to make. Whether or not someone is going to keep his or her job is completely different from the decision that you would like to make.

The Chairperson:

Alternatively, you prioritise the amount of money that you have in order to protect front line services. That is the fundamental problem to which we still have not been able to get an answer, because there is no priority, other than outlining the existing pressures.

Mr B McCrea:

I agree. That is exactly what folk have been telling us; here is the scorecard, and these are the numbers that you can play with, depending on the policy decisions that you make. Is that correct?

Mr McGrath:

Most of those costs, such as pay and the maintenance of existing service levels, are inescapable. A few bids are expansionary, but they are quite small in cost.

Mr B McCrea:

How do we have the debate that, if we are linked to national wage bargaining, all we are doing is reflecting the scores on the doors?

Mr McGrath:

I understand your point, but that issue is not within my remit. It may be an issue for the Executive as a whole to consider, because it is an issue for the public sector here as opposed to just the education sector.

Mr B McCrea:

We need to shape the debate on what we want to do to protect front line services; Mervyn made that point. If we are borrowing £1 for every £4 that we are spending, somebody has to do something. It is above my pay grade to make the argument, but somebody has to come along at

some stage and say that we would be better off maintaining our schools so that our kids are educated and people are not made redundant, even though it would mean that we would all have to take a bit of a pay cut. That is where we are supposed to have a certain amount of flexibility. That brings us into the argument about whether we are separated from national bargaining, which may be something that we do not want to do.

You have probably provided those options to the Minister. However, with regard to the wider consultation, perhaps we should start to examine those options.

Mr McGrath:

We have not started to examine them, because that can be done only at Executive level. It would be difficult to sustain your suggestion in the education sector if the same did not apply to the Health Service or to the police because a real pay freeze with trade unions would have to be brokered in exchange for job levels being better protected. That would have to be an Executive policy to be in any way sellable to the trade union side.

Mr B McCrea:

I take your point that the Department cannot act independently; the Executive would have to do that. If the argument were put properly, the average person in Northern Ireland could be persuaded to support a reduction in pay if employment and services were maintained. Nobody has yet made that argument. Perhaps the Executive will do that; we shall see.

The Chairperson:

We live in hope. You know what the add-on to that is.

John O'Dowd commented earlier on the Department's reducing bureaucracy to protect front line services. If that is the case, will you explain why, over the four-year period, the Department has taken to itself, if the figures for administration and resource are added together, almost £9 million? All it can say in its defence is:

“this funding would allow the Department to continue to be adequately staffed and would enable the Minister to accomplish the Departmental priorities with the necessary staffing complement.”

That means that the Department is seeking more staff, yet we have been discussing a reduction in staff in schools. A proposal to increase the number of staff at Rathgael House but decrease the

number of staff in schools could not be sold to schools, unions or the Committee. What is the justification for an additional £9 million between 2011 and 2015?

Mr McGrath:

The separation between the spending side and the saving side makes certain issues quite difficult to present. It is our view, and the Minister's view, that the Department, with its current staffing and resourcing, is heavily pressed to do what it has to do. On the spending side, we are honour-bound to identify what funding would be desirable to get us to a better place. That is important, in the same way that other bids in the spending proposals are.

The Chairperson:

I am not convinced by the arguments.

Mr McGrath:

If we end up, as we are quite likely to, with significant savings levels having to be effected, I would expect the Department to reflect in its savings plan at least the same proportion of savings that has been effected outside, or perhaps even more, if that is the expectation or the political drive from the Minister. You are seeing half of the picture. If 5% in savings per annum have to be made, we will be discussing some coming from the staffing budget. That is a guesstimate, but there might be more. It would be difficult to manage with that because we are severely constrained. However, we, as is the Civil Service generally, are doing much work on how to tighten up, squeeze costs and operate common services rather than individual services. I cannot see any outcome where the Department will end up in a net better position than front line services.

The Chairperson:

I want to move on to capital, but, first, and further to the debate that we had about teachers, would it be possible for the Committee to have a paper that outlines our position on the pay freeze with regard to national agreements. That would give us some understanding about the process. What is the current position on redundancies? We had a paper some time ago that indicated that 264 had been earmarked, but we did not receive any confirmation.

Mr McGrath:

That was in-year.

The Chairperson:

I would like an up-to-date position on that. How will that relate to the resource plans that have been approved through the education and library boards? It has an effect on them because they are the employers.

Mr McGrath:

We will do two separate papers.

The Chairperson:

Thank you.

Let us go to one area of capital expenditure that is a concern. We will go back to the issue of the 13 schools in a minute. The Middletown Centre for Autism has exercised John McCallister's mind. There are too many Johns in this room.

Mr McGrath:

That reflects the fact that it is a popular name.

Mr O'Dowd:

You can refer to me as "Young John".

The Chairperson:

In the Department's spending proposals, we discover that there is a problem with the Department of Education and Science in the Republic about the funding of Middletown. The paper states:

"the Middletown Centre for Autism has not been able to progress as planned as a result of the failure by the DES to confirm its element of funding for the project. This funding would allow for associated building costs at the Centre."

We were talking about white elephants earlier. I think that that must be at the top of the pile. It makes it look as though the Balmoral school would have been a good idea. When will we get a handle on where we are in relation to the centre?

Mr McGrath:

The Minister is committed to Middletown. However, her Southern counterpart has paused in her consideration of the centre and wants to conduct a review.

The Chairperson:

Is there a review into the Middletown centre?

Mr McGrath:

They are doing a stocktake. The Minister raises the issue frequently with her counterpart, Mary Coughlan. She is committed to the autism centre going ahead. Therefore, she does not want to be in a position, if she successfully gets some agreement with the Government in the Republic, that she has not made provision to meet her share of the costs. That is why the centre features.

The Chairperson:

That is different to what the Minister told us some time ago, when she said that she had a commitment that the money was secured and that the centre was going ahead.

Mr McGrath:

We are still dealing with the issues of a separate Government in the South, which is dealing with many budgetary issues. Situations can change.

The Chairperson:

With regard to our commitment, I asked the question with a slightly different take. I asked the Department how many children have benefited as a result of the centre; I was told the number of persons who have benefited. I did not ask for the number of persons; I asked for the number of children. Teachers and organisations have benefited from the autism centre. However, the budget position should be 50:50. Have we continued to make our contribution towards Middletown? Does the bank account for the Middletown centre show a deficit, a nil return or a less than 50% contribution from the Republic?

Or is this all around capital that was earmarked to be spent? Using arbitrary figures, did we and the Republic say that we would put up, say, £10 million each?

Mr McGrath:

I believe that it is more of that nature.

The Chairperson:

Is there a resource issue about the running costs of Middletown? Is that a 50:50 split as well?

Mr McGrath:

It would be a split but, certainly from our point of view, I do not think that there would be a problem because we are not logging it.

The Chairperson:

The Committee is keen to know where we are at in relation to a review, if one is now under way.

Mr B McCrea:

We had a discussion in another forum with people into autism, and I have a message to send back to the Minister. Without trying to put people in a box, when we are faced with spending issues and are clearly not delivering on our core things, we would not hold her feet to the fire on it if we could find a way of releasing resources. Middletown is not working. The folks in Autism NI are more concerned about their kids not getting services elsewhere. All that I can say to the Department is that we might in the past have had pointed discussions about Middletown and there was a political difference of opinion, but we are getting to the stage of being severely constrained for cash, and we need to have a responsible discussion about this and other budget lines. If you are to be the carrier pigeon, will you let the Minister know that I was not shouting or screaming at the top of my voice? I was just saying that we have to make some hard decisions here and there is a bit of quid pro quo.

Mr McGrath:

I will convey those sentiments.

Mr McCallister:

There has been no benefit, no buy-in to the policy from the perspectives of either health or education. The strong message that I get from groups I meet is that, as Basil said, this is not

working and we really need to look at it again. Without trying to make any political points, that is something that needs to be looked at urgently. The Minister must be told that it is not working.

Mr B McCrea:

But told in a very gentle way.

Mr McGrath:

I will reflect that back as gently as I can.

Mr B McCrea:

We understand that there is politics and there is politics, but we are going to have to collectively make certain difficult decisions. We are respectfully saying that if the Minister is looking at some things that are delivering and others that are not, it is better to remove those that are not.

Mr McGrath:

I will reflect that back. As I said, the Minister is keen to engage with the Committee and to hear its views around savings. That will provide the opportunity. As Mr McCallister said, there will be difficult decisions to be taken about around a range of projects or services, all of which are desirable.

Mr B McCrea:

Correct.

Mr McGrath:

There are difficult decisions to be taken.

The Chairperson:

The overall hit to the capital spend is 9%.

Mr McLean:

That is 9% year on year.

The Chairperson:

If you take that and spread it across — if you take the nine, nine, nine, nine — what is going to be the impact in relation to capital build?

Mr McGrath:

It will be significant. You are talking about a huge reduction. However, it is worse still in the sense that comparing that with what was originally projected under ISNI II makes the difference quite stark. In ISNI II, our capital line should have been rising way up from £250 million. In fact, we are stuck at £170 million this year, which will create a significant difference between aspirations and reality. My understanding of what the Finance Minister said is that 80% of what is likely to be available is already contractually committed. I am not sure about the detail of that, but in essence it would mean that there is only 20%.

Mr B McCrea:

So the compound interest, which is what I asked you about, of 9% cuts over four years is more than 20%.

Mr McGrath:

Yes.

Mr B McCrea:

Are there contractual commitments that we will not be able to meet?

Mr McGrath:

No. It is 80% of next year's figure, but the contractual commitments get lower as you go on. We have just put in our return. However, the Minister has made that statement a couple of times, and it may mean that there is not an awful lot of money in play.

Mr B McCrea:

This is where you have to help those of us who are not accountants. You said that 80% of the budget is committed. However, my understanding is that most capital things do not come on a one-off hit, they sort of run through.

Mr McGrath:

A lot of that 80% could be the second year of a three-year project. It depends on the profile.

Mr B McCrea:

This is why I have always said that I wished that I had paid more attention in maths class. It seems to me that there is more of a crisis here. It is a big number; we know that it is a big hit anyway. I am trying to make the point that the Chairperson was getting at. You are almost down to — somebody work it out for me — a 40% cut.

Mr McGrath:

It is near enough 40%.

Mr B McCrea:

If there is a 40% cut and 80% is already committed, and the 80% is not relieving itself because things are dropping off, you have a problem.

Mr McGrath:

It could be, but remember, in simple terms, if it is 100 this year, it is going to be about 90 next year. Therefore, if 80% is committed, 72 of that is already committed. I take your point, but it depends on the profile. If the commitments stay a bit flat and the envelope gets smaller, we could end up in a really difficult position. I am assuming that there is a distribution of commitments and that some of the 80% will be the last year of some stuff.

Mr B McCrea:

Do you remember those halcyon days when we talked about getting capital budgets of £100 million but we only had £50 million, because there were all sorts of phasing issues? Presumably those are still in place?

Mr McGrath:

I do not know. Only somebody sitting at the centre can take all the returns and capital, look at them and work out — I think this is a sensible idea — what the contractual commitment profile will be over the next three or four years and how that matches against the quantum of money that

is likely to be available.

Mr B McCrea:

You said “somebody at the centre”. Do you mean the Department’s centre or DFP’s centre?

Mr McGrath:

I mean DFP’s centre, because it has the block.

The Chairperson:

It is the block in terms of the 9.1%?

Mr McGrath:

It is the block in terms of adding up all the contractual commitments. You will have education, housing, health, and the Department for Regional Development.

Mr B McCrea:

Other people are better on the detail of this. However, I am going with my gut feeling, and common sense tells me that there will be a problem if you are going to lose 40%, because you spending will not come down to that level. There is a cash flow issue, and I am sure that there is a cash flow issue for the centre as well. It is not for me; you have the command of the numbers, but it just tells me that if you going to be down 40%, and you have PPPs and all of that stuff to deal with —

Mr McGrath:

We will still take a hit next year.

Mr B McCrea:

Somebody has to tell us at some stage whether this is actually doable. It is easier to announce that you will cut public expenditure by 25% in four years than to actually deliver that. There is a commitment. I think that we have an issue.

The Chairperson:

I notice that, in the write-up about major capital projects, you say that even if you were to get what you have put out in terms of the scheme, you would only be in a position to have newbuilds in the last two years.

Mr McGrath:

No. What it says is that we are making bids for all the schemes in the current investment delivery plan and that if we get that money, we would be able to go into schemes beyond that in the last two years.

Mr B McCrea:

What does that investment delivery plan mean? A huge number of schools —

The Chairperson:

That is what we want to find out.

Mr McLean:

There were 108 schools on the list originally. That was reduced to 67, and this announcement will leave a further 52 schemes still on the investment delivery plan.

Mr B McCrea:

So you think that we will be able to do 52 schemes?

Mr McLean:

Based on these profiles, yes.

The Chairperson:

Are those profiles based on the list of 52 schools?

Mr McLean:

Yes. It allows for, in the final two years, a rough estimate of doing about 16 schools a year, being roughly eight primary and eight post-primary schools. We will do a rough costing of the cost of

primary and post-primary schools without having specific projects in mind for those two years.

The Chairperson:

Where do special schools sit? Dominic made reference to it, and it is right and fair to mention the Irish-medium school that the Committee visited. Is it on the investment delivery plan list?

Mr McLean:

No.

Mr McGrath:

Ben Madigan? No, it is not on the list at the minute.

Mr McLean:

There are six special schools on the investment delivery plan list at the moment.

The Chairperson:

Does that include Castle Tower?

Mr McLean:

No, it is not on the list at the moment.

The Chairperson:

It is not on the list. Are the other six not on the list?

Mr McLean:

No, there are six on the list.

The Chairperson:

OK.

Mr McLean:

There are six special schools on the list. In addition, we hope to conclude Tor Bank, which is a

PPP with Lagan, within the next month. That special school will go ahead under a PPP. However, there are six special schools included in the list of 52.

The Chairperson:

I declare an interest, because Castle Tower is in my constituency. We will take the Irish-medium school first. How will it be treated if it is not on the investment delivery plan yet there are clear issues of need? Will that come under minor works? What are its options? Dominic and the other members who visited the school saw clearly the deficit in provision. However, they were not satisfied with the Minister's response in the correspondence in today's file.

Mr McGrath:

That is the next stage of the work that the Minister wants done after the capital review. To all intents, the IDP was inherited from the previous Budget list. It pre-dates that list.

Mr McLean:

It dates back to 2003.

Mr McGrath:

We have another 109 schemes beyond that. As I said to Basil, we will not have funding for all of them. One argument is that we should be honest with people and tell them that they will not go anywhere in the next 10 years but that we will find ways to keep them going, particularly if the state of the school is not great. However, there will be cases in that 109 — we have talked about some of them — that one might argue deserve to be brought up the list on decent criteria. That issue will need to be examined because, if some of the 109 schools are in dire straits, it is difficult to say that it could be seven or eight years before the children get adequate provision. It is difficult to marshal.

The next bit of work that the Minister wants carried forward is to determine how we move forward with the IDP but find ways to update the IDP to schools that are in it. Some schools were not compliant. As we move forward, the process for capital review will have to be ongoing, because the issues about demographics keep applying. In a broader sense, if we encounter a scenario where we have to take a lot of money out of the system, it is quite clear that one issue to

be addressed is the issue that was flagged up under Bain about our having too many schools and too many places. Rationalisation and centralisation may be issues. Therefore, we may revisit some projects and, given the circumstances that we are now in, decide that they are not the right projects. It might have to be a bigger school. There are a lot of things in the melting pot.

Mr McLean:

In addition, if we have a decreasing budget, we may decide, as Basil said earlier, to spend more on minor works and less on newbuilds to try to maintain a bigger estate. We have looked at trying to build into the bid a more substantive and sustained level of minor works across the four years. In the past, minor works has been the minor partner that has always soaked up what has been left after major works. We are trying to put in place a more strategic approach to asset management and put in a determined line for minor works. In a decreasing budget, it may be that the newbuilds are the ones that are at risk if 1,233 schools have to continue to be maintained.

Mr B McCrea:

That is the point that I am trying to get across. We need to have options for buy-in. Committee members do not appear to be unaware of the difficulties that you face. Obviously, your first port of call is the Minister, but we can do certain things if we are made aware of your choices. Perhaps that opportunity should be taken. A collective response could be made on keeping certain schools open for longer because it is cheaper in the short term. It is about managing the cash flow. With political support, that could be done. There are also issues where we have to look at things like the financial control of schools, bursars and all of those creative things. Bain looked at costs in a particular way.

There is a huge issue about schools being a focal point in rural areas, and we may have to look at cross-funding. When a school is taken out, that does all sorts of things, like increasing transportation costs and changing housing patterns. It is a really complicated issue, and, while I understand that you will discuss all of that properly from the confines of the Department of Education and with your Minister, we need to have some way of having that dialogue so that we can make the right decision overall. A lot of schools are in areas of social deprivation, and we need to find hubs that healthcare can be put into and things like that.

Mr McGrath:

I do not disagree. There are issues now about small rural schools and focal points for local communities. If the school moves, the community founders. That is the sort of issue to be picked up in the work that is going on with the rural White Paper. Equally, some of those schools may not be viable financially or qualitatively. We need to find creative solutions be found to many of those issues.

On the other hand, there are plenty of small urban schools that are too small and have deficits. They do not have the same issues of transport, access and community. In the Sandy Row/Donagall Road area of Belfast, there are three half-empty primary schools that are all struggling and not doing well by children. Eventually, support has come from the Belfast Board and the local community to replace those with one modern school.

Mr B McCrea:

I know those schools, and we can drive it through. There will have to be a change in attitude from the political issues. Everyone wants to defend their school, but I suspect that, if it is presented in the right way, people will come together for the collective good. People do not always understand, and they do not have the information.

Mr McGrath:

I quite agree. On a lot of those issues, people never made the case about improving the standard of education. It is not about defending to the death a local school that is a poor school. That is particularly the case in Belfast. Beechfield Primary School in east Belfast is to close, and it was a school that really was not serving anyone. Better articulation, understanding and maturity are needed.

Mr B McCrea:

There are legitimate issues about community space and other non-educational things, but politicians have to resolve those. It is not a direct education issue, but it is in terms of making decisions. We take too long to make decisions. If we are going to make savings, we should make savings quickly. We should make the decision and reassure people that it does not mean that their community will be devastated, that teachers will lose their jobs or whatever. We must do

that, and you need to do it with the collective support of all political parties.

Mr McGrath:

I do not disagree at all, Basil.

Mr B McCrea:

A message needs to go back to find a way of going about it. The numbers are horrendous; we know that they are.

Mr O'Dowd:

On school capital builds, it is the flow of information to schools. There will sometimes have to be direct discussions with schools about where exactly they are on the list or, if they are not on the list, what their future holds. Some schools are just not absorbing the information that is being given to them. Other schools, in fairness to their headmasters, are not as easily confused as they would maintain they are. Those headmasters would not be in the positions that they are or be the excellent leaders that they are if there were as easily confused as they sometimes try to tell me that they are. However, they campaign for their schools, and you have to respect them for that.

What is the current outlay on school transport?

Mr McGrath:

It is £70 million.

Mr McLean:

Are you talking about the transport costs of transporting pupils or the capital costs of maintaining the transport fleet?

Mr O'Dowd:

Both.

Mr McGrath:

The first is £70-odd million.

Mr McLean:

It costs £5 million or £6 million a year just to renew, maintain and update the existing fleet. New legislation is coming in this year in relation to the lighting and signage that has to be fitted to the entire fleet. That is why the figures show a bigger hit. A bid is also shown for 2010-11.

Mr O'Dowd:

Is the other figure of £70 million funded out of resource?

Mr McGrath:

Yes.

The Chairperson:

I understand that some Members have to go at 5.30 pm —

Mr B McCrea:

The sooner the better, Chairperson.

The Chairperson:

We need to make a decision on a couple of things, and I do not want to lose the quorum.

I am getting a considerable degree of comment, anger and criticism. Of the 13 projects that were announced, some were fully compliant and some were partially compliant. Other schools were fully compliant but did not get the go-ahead. It goes back to the letter that we sent to the Department some time ago in relation to the capital review. I will not accuse the Department of hokery-pokery, but I am very concerned —

Mr B McCrea:

And jiggery-pokery.

The Chairperson:

That as well.

I have received a lot of criticism from across the piece. Some members will find it strange, but I have even had an Irish-medium school come to me. I had discussions with that school, because it believed that it was adversely affected by the way in which the process has been handled. Did some of the schools that were partially compliant not have an up-to-date business case? Do we know for sure that all the schools clearly meet the criteria and that work will commence, and that we will not be sitting here in 18 months' time because they did not meet some element of the statutory requirement that was needed to move forward? Other schools are fully compliant and have all the policies ready to go but have just not been given the green light. I get a huge amount of criticism about that.

Mr McGrath:

We will endeavour to be as clear as possible. The 13 schools that were let go were the only schools that could get on site in this financial year. That is the first test, and none outside that 13 could get on site. That was the result of a very rigorous piece of work to challenge the number — I do not mean that in a threatening way — and to test that issue. That became the test in the end. At the time that the review finished, a number of schools were partly compliant, but the Minister made it clear that there were issues that we hoped could be resolved, and they were resolved. There is no school that could have gone on site this year but is not going ahead. Some schools are just not at the stage at which they could go.

The Chairperson:

Does that not indicate that the criteria being used to determine compliance were not worth the paper that they were written on? “Fully compliant” does not really mean fully compliant, because there is another element by which schools are judged to determine whether they will get on site or not.

Mr McGrath:

The review was about testing whether those were the schools that we should build. There was no question about the ones that were fully compliant, but there were some queries about most of the ones that were partly compliant, which we needed to test. The schools that were considered compliant are the schools that we should build, which would be fit for the future and would meet the sort of test that Basil was talking about. The order in which we then use the money was

almost a feasibility test. The next issues to be considered will be what will be the next schools —

The Chairperson:

You indicated that that was the next piece of work.

Mr McGrath:

In that case, there will have to be clear criteria for how we select between the 50-odd schools that are left, because it would be feasible for nearly all of them to start next year. However, in the particular window that we had to use the money that was gained, those were the schools that could actually get on site.

Mr McLean:

In relation to the partially compliant schools, we had meetings with the relevant authorities and resolved the issues, thus making the schools fully compliant, before a decision was made to let them move ahead. We did not move ahead with a school that was partially compliant. In fact there were a couple of partially compliant schools that could have moved ahead, but the issues could not be resolved within a timescale that would have allowed them to go on site this year, and they did not go ahead. All the projects that went ahead were compliant before they were released. There were some minor issues that had to be resolved between the Department and the managing authority. Sometimes it was a small issue about agreeing the final long-term enrolment that we were building for.

The Chairperson:

Are there any other questions in relation to capital? I am conscious of the time.

That is appreciated. Obviously there is still a concern. We are not going to open that can of worms, but the tanker, as I think John described it, is being turned around. There was £247 million of in-year changes in relation to capital. Was that a framework, or a combination of all of those things? I am not trying to give the Minister an opt-out here, but we have to be honest that, related to that figure, there were issues concerning, for example, the framework and legal challenge and so on.

Mr McGrath:

Normally, when there is an Audit Office report, the convention is that we do not comment on it, because it could go to the Public Accounts Committee. We are referring to the information table in that report, which is accurate, but it might be helpful if we explain the context of it and what it means. The table outlines the difference between what the original budget would have been and what the spend was. Without giving a reconciliation for the last three years, the table shows that our spend in 2009-2010 was £33 million less than was forecast. The original spending plan made an assumption that we would get capital receipts, and those were included in the gross budget. In the end, the difference in capital receipts between what was predicated at the start and what we got at the end was £18 million. That was not underspent; we just did not have it to spend. It is not money that was surrendered; it is money that was not realised.

We had to make a contribution to the swine-flu kitty that was drawn together at the centre, and that was another £2 million. We had some adjustments from other Departments that amounted to £0.8 million. I will not go through the list. It is not that money was not spent; £18 million of it was receipts that were not realised and, therefore, was money that we did not have to spend. The year before, as you are quite right to say, the legal challenge to the framework stopped a number of things dead. The table does not purport to say that it was underspend. It says “in-year changes”.

There is a slight issue because the Audit Office referred to the Department “underspending”, and I ask the Committee to use the term guardedly. One cannot underspend. Although a Department can underspend against a target, it was not the case that we had all that money and did not spend it. Yes, some money was surrendered, but it was the smaller element. These are points that we will reflect if the matter goes to the Public Accounts Committee. The way in which it has been presented has been unfortunate.

Mr B McCrea:

That is the point. To return to Mervyn’s earlier point about the allocation of funding and the capital, had you told us that it was simply that whoever was within the criteria and could actually get on site got money, it would have taken a lot of angst out of the situation.

Mr McGrath:

I know, but these decisions flowed out of the June monitoring round — decisions on which were delayed. Therefore, having lost weeks, we ended up with a very tight window to say what exactly could get off the ground. Out of the 13, eight-and-a-half-odd —

Mr B McCrea:

I am saying that your decision makes sense to me now that I know what it is. The point that Mervyn and I were making is that you are looking at schools that are fully compliant and others that are not compliant, and we must ask why. Why are you doing that? It is simply about managing the situation. Just come and explain what is going on. I feel that every member of this Committee needs an accountant to sit with him. I have the Devil's own job understanding it. This is as far as Catherine has got me. I know that we start off with a budget. I know that, every three or four months, we add in money that appears from nowhere, and that is the revised budget. I know that we do not manage to spend it, so that is a sort of underspend, but it is not, because we did not have that money at the start. I have to try to explain all that to the folks outside. If we want the electorate's confidence, we have to do more to explain to people what is going on and that we are responding to their priority list.

Mr McGrath:

I do not disagree, given the amount of dialogue that Mr McLean, in particular, has had since the announcement with a legion of school principals to try to go over the same ground. This is the first opportunity that we have had to meet the Committee since the decisions were taken.

Mr B McCrea:

I will finish on this point, because we have to go. You are all very intelligent people, and you will anticipate where the issue will be, and you will gather round and put your defence in place. Even a simple note to the Committee that explains when something is coming up would do. I do not know whether that would break all sorts of protocols or whether you would have to get the Minister to sign it off. However, it would cut out a lot of angst if people got the information at the same time as the press get it.

Mr McGrath:

We will take those points away.

Mr B McCrea:

You would make a wonderful civil servant.

Mr McGrath:

I am, however, disappointed in Catherine's talents as a teacher.

Mr B McCrea:

She did not have much to work with.

The Chairperson:

John, there are some things that we would like you to come back on, such as the teachers' pay and so on.

Mr McGrath:

We will write to you and encapsulate what we have said, including the resource allocation plans.

The Chairperson:

Thank you for your time and your help. We wish you well, Catherine.