Northern Ireland
Assembly

COMMITTEE FOR
FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Outcome of June Monitoring Round

15 September 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Michael Brennan	)	Department of Finance and Personnel
Ms Joanne McBurney	)	

The Chairperson (Ms J McCann):
I welcome Michael Brennan, head of the central expenditure division in the central finance group, and Joanne McBurney, who is from the same division. Before we begin, I advise members that the purpose of this session is to offer them the opportunity to question the departmental officials on any points of detail arising from the recent ministerial statement on the June monitoring outcome and the provisional out-turn for 2009-2010. I invite the witnesses to make a few brief opening remarks, and I will then open up the session to members' questions.

Mr Michael Brennan (Department of Finance and Personnel): As members will be aware, the Executive entered the June monitoring position having to address the consequences of the £128 million cut that emerged from the UK coalition Government's emergency Budget in June. The breakdown of that was £89 million of a pressure on the current expenditure side and £38 million on the capital side. An element of that — £22·6 million — was a consequential on the Department of Justice and the Public Prosecution Service (PPS). That left a pressure on the remaining Departments of £73 million on the current expenditure side and £31 million on the capital side. The Executive had to address those pressures at the very start of its consideration of the June monitoring round.

The bids from Departments totalled £132 million on the current expenditure side and £405 million on the capital side. However, the Executive had only £41 million of current expenditure resources to reallocate and some £283 million of capital investment resources to reallocate. The capital resources were high for two reasons. One was the surrender from the Royal Exchange project, and the other was the surrender from the strategic waste investment fund. The amount of bids on the current and the capital sides significantly outweighed the resources that were available to the Executive.

The main bids that were met are as follows: £20 million to the Department of Health, Social Services and Public Safety as part of the first-call arrangement that the Health Minister has with the Executive; £200 million to Crossnacreevy to address the deficit that existed on its balance sheet as a consequence of the non-realisation of its sale; £13 million to the Department of Education for capital improvements; £10 million towards the Department for Social Development's urban regeneration budget; and £28 million to the Department of Enterprise, Trade and Investment to meet its commitments on delivering the Bombardier CSeries. A range of smaller allocations were made to Departments, but I will not delve into the detail of those unless members want me to.

Having met those bids, the Executive left June monitoring with an overcommitment of £10 million on the capital side, which we think is manageable in the remaining monitoring rounds for this year. The overcommitment on the current side was £65 million, which is quite high. The Executive decided to set aside the pressures on the Health Department and the Education Department, which were £30 million and £15 million respectively, on the condition that the Health Minister and the Education Minister worked with the performance and efficiency delivery unit (PEDU) team on trying to identify cost saving issues that could be flagged up as part of the Budget process going forward. That left a residual of £20 million of pressures on the current expenditure side, and those have now been allocated out to the remaining Departments. Therefore, the situation as we enter September monitoring is that we have a pressure at the centre of £45 million on the current expenditure side and a pressure of £10·3 million on the capital side.

The Chairperson:
You mentioned PEDU, and the Minister also mentioned it in a statement on Monday. Discussions have been held about the Health and Education Departments working with PEDU. Have any other Departments indicated that they are willing to work with PEDU? Is PEDU adequately resourced to take on that work?

Mr Brennan:
The specific arrangements as regards setting aside the delivery of the overcommitment of June monitoring apply only to Health and Education. Other Departments are engaging with PEDU on other studies but not as part of the June monitoring agreement. As to PEDU's ability to deliver, it is a small team, but what tends to happen is that, as it works with other Departments, officials from those Departments are seconded into the PEDU team and they work together collectively.

The Chairperson:
You said that PEDU is a small team. How many people are in it?

Mr Brennan:
There are four or five people in PEDU.

Mr O'Loan:
My question is on the provisional out-turn. The current underspend was £65·1 million or 0·7% of all spend. A lot of progress has been made in getting underspend under control. Nevertheless, £65 million is a lot of money. I have some inkling of how complex an exercise it is across all Departments to try to hit the target spot on. Do you think that that is the best we can do? What are the current end-year flexibility (EYF) rules about that? They seem to keep changing. Are we going to get that money back? Given the present financial difficulties facing every section of the public sector and Her Majesty's Exchequer, do we have a special case for the return of that money? Is that case being made?

Mr Brennan:

I will make some general comments about the EYF and the past trend on underspend. Joanne may then want to say more on the EYF rules.

Getting the underspend down to £65 million is quite impressive when one looks at the trend over the past decade. It is coming down considerably. The difficulty is that, particularly on the non-cash side of departmental budgets, provisions and depreciations are hard to predict. My expectation is that, as we roll out the Treasury's "clear line of sight" regime, it should make it significantly easier for Departments to plan their budgets. It will make it a much more transparent system, one in which it is easier to plan ahead.

The Treasury has commissioned a review of the EYF regime that will be in place for the next spending review. However, we do not know the detail of that.

Ms Joanne McBurney (Department of Finance and Personnel):

Under the current EYF regime, any underspends form part of our EYF stock and the drawdown of that has to be agreed with the Treasury, so that will be dependent on its review. Normally, that would be agreed over the spending review period. Around the time of the spending review, we will have more clarity on the EYF position.

Mr O'Loan:

Do we have certainty that that money will come back to us?

Ms McBurney:

Previously, we would have had certainty, but it will depend on the review of EYF and any changes that the Treasury makes.

Mr Brennan:

Today, the Finance Minister is with the Chief Secretary and that is one of the issues that they are discussing as part of the spending review negotiations.

Ms Purvis:

You talked about the pressure that remains: £45 million in current spending and £10·3 million in capital. You hope that that will be met in the remaining monitoring rounds this year. How risky is that? If an emergency arose, such as swine flu or flooding, how risky is it to have that amount of pressure to be met with in-year monitoring, whereby we will not be able to free up some funds from Departments in order to hive them off to a higher priority?

Mr Brennan:

The £10 million on the capital side is manageable and can be addressed as a matter of routine through the next three monitoring rounds. The £45 million of pressure on the current side is high. That pressure was, effectively, created as a consequence of the £128 million cut that was imposed on us. We have a safety valve in that the Treasury has agreed that we can carry forward any balance outstanding at the end of the year into the start of the next financial year to address it then. The other option is to engage in a short-term immediate cuts exercise, which would result in pro rata cuts across Departments, but that is a last reserve.

Ms Purvis:

The Minister mentioned the fact that the monitoring round process has enabled this to happen. Is that an indication of the Minister's encouragement for a policy of holding on to the in-year monitoring process in future years?

Mr Brennan:

The monitoring process delivers a number of benefits to Departments in that it allows Ministers to surrender money that they know they cannot use and which would be an embarrassment to them at the end of the year if it were still sitting on their books. It also allows the Executive to re-prioritise on an almost ongoing basis during the course of a budgetary year. During the course of the year, it allows the Executive to steer money towards their emerging priorities, which may not have been envisaged at the start of the year when the Budget was struck.

Ms Purvis:

It is a good argument, and some Committee members see the benefit of the in-year monitoring process, but the Minister suggested that many did not see the rationale for it. Was he referring to other Departments?

Mr Brennan:

I suspect that some Ministers might take the view that their budget is what they hold to throughout the year, and they do not worry about the danger of having a significant underspend on their books at the end of the year. They would rather do that than possibly surrender money. Different Ministers probably have different views.

Ms Purvis:
However, the in-year monitoring process is here for the foreseeable future.

Mr McKay:
There is an overall underspend of 0·7%. On Monday, the Minister said in his statement that that was a big improvement compared with recent years. Another factor that we need to take into account is that we are coming out of a period of direct rule and are adjusting to a sustained period of devolution. Rather than looking back at previous years here, how does the management of our accounts compare with other jurisdictions across the water and down South? The Department of Finance and Personnel (DFP) had an underspend of 3·4% with a lower budget than many other Departments. What is the reason for that, and how will that be improved?

Mr Brennan:
It is really for my colleagues on the finance side of DFP to answer your second point, but I understand that almost half of the pressures to do with DFP's underspend were in the non-cash area. That goes to the point that I made earlier about predicting provisions and depreciations, for example, valuing land and buildings. That was a significant element. I do not have information to hand on underspend performance in other regions, but we can provide that.

Mr McKay:
Having information to establish how other areas are doing would be worthwhile so that we could have a better comparator.

Mr O'Loan:
I notice that the press release that was forwarded to the Committee states that there was an 8·6% increase in the Executive spend last year. It states:

> "equating to over £863 million additional investment."

It goes on:

> "The figures confirmed total investment in public services of almost £11 billion in 2009-10."

Is it really appropriate to apply the word "investment" to current expenditure? I thought that that word had a strict definition that applies to capital spending.

Mr McNarry:

That has been written by spin doctors.

Mr Brennan:

The vast majority of spend on the current side is pay and salaries. You could say that it is an investment in skills and people.

Mr O'Loan:

It is quite questionable. I question the use of the word "investment" there.

The Chairperson:

Thank you, Joanne and Michael.