Northern Ireland
Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Outcome of September 2010 Monitoring Round

29 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 Adrian McQuillan
Mr Declan O'Loan

Witnesses:

Mr Michael Brennan	)	
Mr Peter Jakobsen	)	Department of Finance and Personnel
Ms Deborah McNeilly	)	

The Chairperson (Ms J McCann):
I welcome Michael Brennan, head of the central expenditure division, Peter Jakobsen, who is from the central expenditure division, and Deborah McNeilly, finance director with the corporate services group. I invite you to make some quick opening remarks, and we will then go to questions from members.

Mr Michael Brennan (Department of Finance and Personnel):
I will briefly run through the main issues as regards September monitoring. The Executive entered the September monitoring with an overcommitment of £10 million on the capital side and an overcommitment of £45 million on the current expenditure side. Unfortunately, during this

monitoring round, reduced requirements were far below what we would normally expect at this time of the year. We had only £7·7 million of reduced requirements in the current expenditure and only £18 million of reduced requirements in capital. Some additional room for manoeuvre was generated through, for example, a reprofiling of the reinvestment and reform initiative (RRI) interest payments on our debt, which generated an extra £2·8 million. Enhanced Land and Property Services (LPS) receipts generated £10·6 million, and some £7·3 million was generated from negotiations we had with the Treasury on reprofiling our end-year flexibility (EYF) start.

Having factored all those receipts in with the enhanced flexibility, the Executive decided not to make any additional allocations to the current side. That brought the current expenditure overcommitment down to £16·7 million. However, because we had an additional £18 million of capital, we were able to write off the overcommitment. That left a surplus of £8 million that we could allocate to Departments. The two biggest components of that were some £3·2 million that went to the Public Record Office of Northern Ireland (PRONI) and a bid of around £2 million that went to the Department for Employment and Learning for health and safety work on the further education estate. There were some other minor allocations to the Department of Finance and Personnel (DFP), the Department for Social Development, the Office of the First Minister and deputy First Minister, and the Department of the Environment.

As we leave September monitoring, the position is that the overcommitment is cleared on the capital side, and we still have a balance of just under £17 million of an overcommitment on the current side.

The Chairperson:
What would the implications be if the DFP bid for £1·3 million for the census were not met?

Ms Deborah McNeilly (Department of Finance and Personnel):
We have been working with the census team to see whether it can reduce the quantum of that. They are continuing to look at that. One of the areas that they are looking at is advertising to see whether there is another mechanism for advertising that would reduce the cost. They are working to try to reduce that to under £1 million.

Across the Department, our work on contingency plans involves looking to see whether there is any funding that we can secure for the census from reprofiling other work, for example, on the

IT side. We will be coming back at December monitoring to try to secure the funding, but we will have contingency plans in place behind that.

Mr McNarry:

I want to look at LPS. A further £10·6 million was made available as a result of the increase in the rates collection. What is direct relationship between the allocation in June monitoring and the increase in the projected rates collection? How can you verify that for us?

Ms McNeilly:

The direct relationship would be difficult to verify in pound-for-pound terms, but the agency has been putting together a new central investigation team to follow up on rate arrears in respect of matching addresses. Quite a lot of mail is sent to addressees who have moved away and so on, so extra resources have been put into that area. The agency has redeployed an extra 20 members of staff into collection activity. It is also working to increase the assessments on the valuation side, because there was a backlog, for example, in relation to change notices on different properties. Therefore, the agency has been doing a lot to drive up enhancements in the collection activity, but it would be very difficult to say pound for pound —

Mr McNarry:

I understand all that. The Assembly agreed an investment of £5·5 million. We would like to hear what value for money we got on the return for that. That is what I am trying to get at. Listening to the Minister talk about June monitoring in his statement, it is clear that the Department is saying that there was a significant return. As one of the critics of LPS, I welcome that. I am trying to see what return resulted from that injection.

When you say that it is difficult to tell me the direct relationship, it is difficult for me to get a grip of that, because I wanted to ask whether there are any other factors that would have contributed to the increase. If you cannot tell me the direct relationship, can you group the factors? If you cannot do it now, will you write to us? Will you tell us what factors — direct or indirect — contributed to that? We should all recognise that there has been a good shift — an uplift.

I want you to answer my question about value for money and the return on the investment of £5·5 million. I also want to know how long lasting you think the result of that investment might be in terms of the projections for the rest of the year.

Mr Brennan:

The investment of £5·5 million in June monitoring generated an additional £5 million in June monitoring. Therefore, £10 million gross came in. In the September monitoring round, a further £10·6 million came in. Therefore, we are better off by £15 million net as a result of that £5·5 million investment.

Mr McNarry:

I have to say that that is excellent. I now want you to tell me what you project from that. The Minister said that the level of debt had come down from £157 million to £121 million. That is still very high and is not acceptable. Will the impact continue? Are you projecting that, by the next monitoring round, we will have another £15 million?

Mr Brennan:

The decrease from £157 million to £121 million is the improvement in the stock of bad debt that was sitting with LPS. Its increased activity has brought that stock of bad debt down. As the Minister mentioned yesterday, unfortunately that does not increase the spending power of the Executive. It just brings down the stock of bad debt that has accrued in previous years. However, there is a benefit in that we have to set aside smaller provisions for bad debt in the future. The fact that bad debt as a liability is decreasing is a positive for the Executive going forward. The fact that LPS is increasing its assessment activity is also a benefit. We should expect to see higher levels of receipts than were planned for at the start of the 2010-11 year. However, we cannot see into the future.

Mr McNarry:

You should be able to see into the future. You were able to see into the future to see how the debt was accumulating, and you have addressed that. What we now want to see is how that debt can continue to be reduced.

Ms McNeilly:

The Department issued a paper to the Committee yesterday — it may not have made it into members' packs yet — on LPS and its rating progress as regards its in-year collection position and recovery actions. The paper details the activity that LPS has undertaken to address backlogs in its valuations and to improve its assessment of what the rates bills can generate. The paper also details the debt areas that LPS is focusing on; the role of the central investigation team that it has set up to follow up on information, for instance, if people have moved; and other work that is ongoing to drive through enhancements in the collection activity.

Mr McNarry:

I know that we are in a great hurry, and I do not like to rush things. To be fair to you, it is a bit unfair of me to spring a question on you about direct causes and relationships. Do you think that the paper, which I have not read, answers my question and gives me a breakdown of the direct relationship between the allocation and the increase that was brought about? I am also keen to know the other factors that contributed.

Ms McNeilly:

Those factors may well be covered in the paper that is on route to you.

Mr McNarry:

So, you are leaving it up to me to make that assessment. OK.

Ms McNeilly:

I think that —

Mr McNarry:

No; that is all right.

Mr O'Loan:

Why were your expectations about the amount of money that would be reduced in this round wrong? What are your expectations now for the December and February monitoring rounds?

Mr Brennan:

Do you mean for reduced requirements?

Mr O'Loan:

Yes.

Mr Brennan:

We did not say that our expectations were wrong. We said that the reduced requirements delivered were a lot lower than in previous years. The main reason for that was that, during 2010-11, we have effectively stripped a lot of money out of Departments. For example, in the revised plans, we took £390 million out of departmental baselines, and we also started to make inroads into the additional pressure of £128 million. Therefore, the flexibility of departmental budgets was reduced quite dramatically by having to make those cuts. There was less money moving around within departmental budgets in the first place.

The second issue is that the Department of Health, Social Services and Public Safety (DHSSPS), which accounts for 50% of the block grant, has discretion this year to move within its own departmental boundaries. As we knew that DHSSPS was under pressure, we were not expecting any reduced requirements from it. The scope for reduced requirements this year to mirror what happened last year and in previous years was always going to be lower.

Mr O'Loan:

Obviously, the Department has to be in touch with the other Departments in order to get a good end-of-year result. Therefore, I presume that you have some indication of what the situation will be in the December and February monitoring rounds. Even if Departments are not declaring, I presume that they are properly indicating to you whether there is a possibility of them declaring. What are the indications for December and February?

Mr Brennan:

Departments adopt a guarded position in their engagement with DFP on what they expect to happen. My take from the discussions that I have had with the various finance directors is that things are genuinely very tight in the Departments. I have no take that any Department is sitting on a reduced requirement of any significance that has not been declared at this stage or is likely to be declared in the remaining two monitoring rounds.

Mr O'Loan:

That is quite a significant answer.

The Chancellor is talking about more flexibility next year. What do you think that that actually means? Is the Department still planning on the basis of resource availability being reduced by more than £400 million and capital by £500 million?

Mr Brennan:

We have seen nothing from the Treasury to indicate that our forecast on the current and capital sides will change significantly. Our planning assumption is that, in real terms, the capital budget will reduce by a figure in the order of 40% and the current budget by possibly as much as 10% over the four-year period.

Mr O'Loan:

Are you saying that the reduction on the capital side will build up gradually over the four-year period to 40%?

Mr Brennan:

That 40% is a cumulative figure. It is roughly 9% in real terms per annum.

Mr O'Loan:

I heard a suggestion that the capital hit might be instantaneous in the first year. Are you now not expecting that?

Mr Brennan:

Our forecasts are built on what the Treasury presented in its emergency Budget of 22 June. In respect of the UK departmental expenditure limit on the capital side, while there is a significant fall over the four-year period of the spending review, the fall is most pronounced in 2011-12 and then smoothes out somewhat. Therefore, we are expecting the hit on the capital side to be proportionately bigger in 2011-12, and then it will start to smooth out over the remaining three years.

Mr O'Loan:

On the resource side, do you expect it to be more gradually cumulative?

Mr Brennan:

We have planned a flat cash outcome over the four years.

The Chairperson:

We were told previously that there was going to be a short review of the in-year arrangements for the underpinning of the Budget. Can you give us an update on that? In particular, will it consider the use of the in-year monitoring rounds, the establishment of the contingency fund, and the use of overcommitment? Can you give us a sense of where the review is sitting and what the Minister's view is on it?

Mr Brennan:

There are a number of issues in relation to monitoring rounds for 2011-12 that we want to build into the Budget 2010 paper that goes to the Executive and receives Executive endorsement. Those include raising the de minimis thresholds to £1 million and giving Departments greater flexibility in being able to reclassify expenditure within departmental boundaries, without having to come to DFP for approval. There are a range of issues, and we envisage taking them to the Executive as part of the formal endorsement of the Budget paper.

The Chairperson:

OK. That is it. Thank you very much for coming along.