Northern Ireland
Assembly

COMMITTEE FOR
FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Outcome of February Monitoring Round

16 February 2011

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

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

The Chairperson (Mr McKay):
We move to the session on the outcome of the February monitoring round. I refer members to the Minister's statement on the monitoring round and remind them that the purpose of this session is to give members an opportunity to probe any points of detail arising from Monday's statement with the Department of Finance and Personnel (DFP) officials.

I welcome Michael Brennan, Peter Jakobsen and Deborah McNeilly once again. We will go straight to questions.

What is the Minister or the Department's considered assessment of the underlying reasons for the relatively high level of reduced requirements at this late stage in the year? There has been a lot of concern about that.

Mr Michael Brennan (Department of Finance and Personnel):
The single biggest contributing factor was the move to international financial reporting standards (IFRS) and the fact that Departments had to embrace those new standards in their accounts. The Department for Social Development (DSD) and Northern Ireland Water have been struggling with their auditors to move to the new standards. That was the single biggest contributing factor. In his statement to the Assembly on Monday, the Minister expressed some concern that the adjustment was made at such a late stage in the financial year.

The Chairperson:
Is that something that will be rectified?

Mr Brennan:
Once Departments have moved across to that standard, the matter is addressed.

The Department for Regional Development (DRD) and Northern Ireland Water had another justifiable reason for their underspend on the capital side in that they had to suspend large elements of their routine capital investment work during the prolonged cold spell in December. That was why they could not make inroads into that money.

The Chairperson:
I also raised with the Minister on Monday the systems error that resulted in an additional £900,000 needing to be found to cover interest payments for ratepayers who are due a refund of their rates. We originally heard about that during the briefing on DFP's monitoring position. Can you give us any further detail on that situation? Was the supplier at fault for that particular systems issue? If so, can any of the additional £0·9 million be recouped from the supplier? What further costs might be incurred by Land and Property Services (LPS) in regard to that?

Mr Brennan:
That is a departmental issue, so I will let Deborah address it.

Ms Deborah McNeilly (Department of Finance and Personnel):
Our latest information from LPS is that it will cost about £50,000 to fix the system. That will mean a prioritisation of current staff resources, so there will not be any additional staffing costs. LPS has indicated that the error was due to a specification issue with how the system picked up the interest rates.

The Chairperson:
What does that mean exactly? Who is responsible?

Ms McNeilly:
The specification of the system has not been tight enough in picking up the interest rate. There has been some issue with the system. I do not purport to understand how all the nuts and bolts inside the system work, but LPS has explained to me that there was a specification issue with the system and that it will cost it £50,000 to get it fixed to enable it to calculate on the system the amount of interest due to pick up on this problem. If LPS was to manually calculate the interest due, it would probably take about two days for each rate account. So, LPS has indicated that it is proceeding at the highest possible speed to get the system running.

The Chairperson:
Was the fault due to an oversight on someone's behalf?

Ms McNeilly:
No, it was not. LPS has indicated that, due to timing issues caused by pressures around putting the system in place, it had reviewed the issue when the system was first implemented. At that time, it considered that it was a risk that it was willing to take because of the stability in interest rates. Interest rates were stable then, whereas they have really dropped now. They figured that the risk was manageable, in order to move forward and get a level of stability in the system in the timescales that they had. Now, they have to put an extra £50,000 in.

The Chairperson:
When they were assessing the risk, was there a cost associated with it, such as the £0·9 million?

Ms McNeilly:
The £0·9 million cost has been incurred because ratepayers have challenged their valuations. It is

not a cost that has been incurred directly because of an issue with the system. It is just that it has been identified that the interest has been calculated incorrectly, which has meant that the interest costs are higher than had previously been thought. Therefore, it is not as if the error in the system has resulted in additional costs. The error in the system has been under-calculating something that was always due to be paid.

The Chairperson:
So, the £0·9 million was going to be spent anyway.

Ms McNeilly:
Yes.

Mr Hamilton:
I have a question on the process. As was said previously, there was an unusually high amount of surrender in the February monitoring round. Bids were put in for £19·9 million from current and £19·4 million from capital, and they were able to be met because of that unusually high surrender. Obviously, it is not a case of saying that we will cover a bid if we can, but is the same rigour applied to those bids? I am not passing any comment on anyone's bids. I am not in a place to do that. But everyone has hit the jackpot this time. We all sit on other Committees, and we see bids being submitted that we know are just a hit-and-hope exercise. Maybe someone has done that and achieved their aim.

In the September monitoring round, Departments put in bids at that halfway position in the financial year and might be able to do big projects but cannot do so without the money. That is one of the imperfections in the system. The money is available close to year end, but it might have been better to have provided it for a better project that fell in the middle of the year. The same process is undertaken with those bids for £19·9 million and £19·4 million in February as would be the case in December, June or September. Is that correct?

Mr Brennan:
The process is the same, but, as the Minister made clear on Monday, this February monitoring round was unique because it took place in the context that we are not able to carry any underspend into next year as end-year flexibility (EYF). It would be lost to the Treasury. Every bid that could be covered was met, because otherwise the money would have gone back to

Westminster. The Minister said that some bids were met that, in the normal course of a monitoring round, would have been looked at in greater detail and scrutinised, but they have gone through because the money is retained in Northern Ireland and spent on public services in Northern Ireland. That was the Executive's overriding concern.

We are still left with a residual balance, and the Executive have encouraged Ministers to try to find ways of reducing that residual balance over the remaining six weeks of this year. The process was similar to other monitoring rounds, but there was a perfect storm with the EYF regime changing. We made our declaration in the December monitoring round so that the Treasury could write its spring Supplementary Estimates (SSEs) to that position.

Mr Hamilton:

I thought that. I am not passing any comment on the bids, but bids were met that we know from experience would never have been met previously. Did all Departments know that that was the case so that no one was kicking themselves because they should have put a bid in?

Mr Brennan:

We have told Departments repeatedly over recent weeks to put a bid in on anything that they can spend. In fact, we are still going out to Departments to ask whether they are sure that they cannot spend it. The difficulty was that Departments are reluctant to breach their spring Supplementary Estimates control totals, so we are trying to identify any headroom in the block and to ask Departments whether they can spend up to that. For example, in recent days, the Minister of Education has come in with £2·2 million that she can spend on school works. We are trying to identify areas from which the residual balance can be eliminated.

Mr Hamilton:

You might want to write to Assembly Members. You would probably have it spent in about 20 seconds.

Mr McLaughlin:

That would be a one-off year-end splurge.

Mr Brennan:

The vast majority of bids had considerable merit. Things need to be done in, for example, the

Housing Executive and NI Water as a consequence of the cold spell.

Ms Purvis:

We need a pedestrian crossing at Connswater.

Mr McLaughlin:

Or a new fleet of ministerial cars.

Mr Hamilton:

I think that it is all gone now.

Mr O'Loan:

I think that £10 million in capital remains, and it is very sad to see that lost. You referred to the IFRS changes, and the Minister's statement referred to those, which have been known about for many months. Am I right in saying that, had those been declared in December, it would have been possible to carry EYF into next year, which was offered? It is particularly regrettable because, if we could not have spent it in December, we could have increased the amount that we carried over into the next year under the interim rules that had been offered. That is very bad. Of that £10 million, you said that the Department of Education may be able to use the £2·2 million that it asked for. Is it likely to do that?

Mr Brennan:

That was one specific example that I quoted. The Department of Agriculture and Rural Development (DARD) and other Departments are pursuing other issues so that they can hopefully make a call on that £10 million.

Mr O'Loan:

Is it even conceivable to bring local government into that frame and make some offering there?

Mr Brennan:

One of the bids from the Department of the Environment (DOE) that was met was for emergency reliefs for local councils. DOE was asked to go to local authorities and ask what cover they needed.

Mr O’Loan:

There are all sorts of different difficulties around proper spending, but one would have thought that local government would be well pleased with fairly rapid capital spend. Other than that, we had the same situation last year. I remember capital being on offer in February of last year that no Department was willing to bid for. I do not know what the eventual outcome of that was, but that was certainly the situation when it was reported in the Assembly. Is there no way in which we could enhance the contingency arrangements around that? I can see how people have difficulties in bidding for money that may not be available; there is even cost in time and energy that goes into that. Is there not some possibility for just enhancing that so that some projects are sitting and ready to go if money came through?

Mr Brennan:

The difficulty for Departments is that, with six weeks left, it is very difficult to get approvals, bring projects on to their balance sheets and draw down the capital.

Mr O’Loan:

We often think of getting more money into roads maintenance and that sort of thing. Even that needs preparation and so on. Last year, it could not use it, or so it said. Is there not some way of creating a backlist of things that have gone through some degree of due process and could be sitting in the wings ready to go?

Mr Brennan:

In previous years, the Executive have always, in many ways, relied on DRD’s Roads Service. It was the safety valve that we always had in the February monitoring. Roads Service has a very good track record of spending on structural maintenance right up to the very last day of the financial year. That is why we supported structural maintenance. We pressed on that, but that is as much as it could take.

Dr Farry:

I remember fondly one February about two years ago when every single road out of Bangor was having roadworks.

Mr Hamilton:

That was to try to keep you all in.

Dr Farry:

I will pick up from Declan's point about the money that could potentially be lost and, on the other hand, the processes that you have to go through. Is there a need to think through some sort of mechanism to fast-track the approval process through DFP for such projects? The argument can be made that the public interest is better served by the money being spent rather than simply going through all due diligence and reaching a stage at which we know exactly how to spend the money but the money is not there. In some respects, the classic example of that on a very grand scale is the whole review of education. A lot of projects were put on hold in the context in which the money was there and then, all of a sudden, the situation changed. The projects were approved but the money was not there down the line. The Audit Office drew particular attention to that in a report. I appreciate that a lot of that pre-dated devolution, but it was an example on a grand scale. Is there a need to think through how we handle that type of situation procedurally?

Mr Brennan:

As I said earlier, this year was unique in many ways because we got bounced by Treasury changing rules. There are two issues to flag. First, we cannot say with certainty that £10 million or an element of it is lost. We will not know that until the provisional out-turn in May. There could be an overspend, and so that would have to be used to offset where we are with the surplus resources that we have now.

Secondly, we are discussing with our Minister the feasibility of bringing forward the February monitoring round by a week or so next year, so that the Executive take the February monitoring round through before they set an SSE (spring Supplementary Estimates) position with the Assembly. That would mean that, when we know what resources we have in February monitoring, we could say to the appropriate Departments that their SSE position is higher, so that there is no underspend generated. Departments would have enough headroom to draw down all the spend that is available in February monitoring. That should resolve the issue next year.

Mr Peter Jakobsen (Department of Finance and Personnel):

We will know the new EYF arrangements, and we might be able to tie in to them. They will determine our timescale, especially if the Treasury comes back and says that we need to report anything back by February again next year. Maybe it will work in with that.

Mr Brennan:

Those new EYF rules will be announced by the Treasury on 23 March; we look forward to that.

Mr McLaughlin:

Are the EYF arrangements just going to be the same scheme with a different name?

Mr Brennan:

I suspect so from discussions on the issue with Treasury.

Mr McLaughlin:

Having taken the money and run.

Mr Brennan:

It has taken the money and run. The question is whether it will bring in a scheme that allows us to legitimately hold on to the money that we generate in the years going forward. I suspect that the scheme will be very similar to the one it has enforced this year, whereby, at the end of December, not just the devolved Administrations but the Whitehall Departments will have to make a declaration of what they want to carry into the next year. After our December monitoring round, we declared to Treasury that we wanted to carry £23 million of capital into next year. I suspect that, come the end of December next year, the Executive will be asked what they want to carry forward into the following financial year. I think that that is the way it will work.

Mr McLaughlin:

The other issue is one that I have spoken to you about before, Michael, and I raised it again the other day. In my view, there is a need and an opportunity to take a look at the quarterly monitoring process. I am not sure that we need quarterly reviews. You could make it more of an imperative for Departments to face up, in a timely fashion, to their projections against their performance and releasing resources that they would effectively deny. There would be a particular focus when the EYF is wiped out, and I am a bit worried that we will just sit that one out until the new scheme is introduced.

I think that there is the possibility of considering whether two monitoring rounds would meet our needs — I suspect that they would — and whether that would give space for the introduction of an annual Budget review, which I think would also be helpful. In effect, that would be a strategic stocktake over the four-year budgetary period. Is anyone going to take a look at that while we have the space to do it, and perhaps to bring it back for consideration?

Mr Brennan:
You have touched on three or four important issues. The first one is that, as the Committee is aware, DFP has had a paper with the Executive for at least six months on taking forward the review of the whole financial process. That was ratified by the Executive last week, so there will now be a formal review of the whole financial process. Obviously, monitoring rounds will be an intrinsic part of that review.

Mr McLaughlin:
That is very important.

Mr Brennan:
Some of us in DFP take the view that having four monitoring rounds is too cumbersome and bureaucratic. I personally take the view that the September monitoring round is completely irrelevant and redundant. I can see a point in the June monitoring round, because that is when you allocate the resources carried forward from the previous year. December will be important going forward, because that is where you will make your —

Mr McLaughlin:
February is the same.

Mr Brennan:
It depends. The February monitoring round will have an importance depending on what EYF regime Treasury brings on board. It will be important if it is the one in which you determine how you write your SSE position for the year. Certainly, we could question why we have the September monitoring round.

On the point about the annual review of the Budget process: depending on the framework of the EYF regime that Treasury will bring in next month, if we are declaring significant resources in December that are carried into the next year, we will probably be carrying a material amount of money into the following June monitoring round. There is a question there; if you are bringing forward a large enough pot of money, you are effectively changing —

Mr McLaughlin:

You are remodelling it.

Mr Brennan:

Exactly. It is your point about the Budget's being a living document. Effectively, you are bringing large chunks of money into the start of the next financial year.

The Chairperson:

Thank you for answering members' questions.