Northern Ireland Assembly

COMMITTEE FOR REGIONAL DEVELOPMENT

OFFICIAL REPORT
(Hansard)

Technical Issues Arising from the December Monitoring Round

12 January 2011

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Fred Cobain (Chairperson)
Miss Michelle McIlveen (Deputy Chairperson)
Mr Billy Armstrong
Mr Cathal Boylan
Mr Allan Bresland
Mr Billy Leonard
Ms Anna Lo
Mr Fra McCann
Mr Conall McDevitt
Mr George Robinson

Witnesses:

Mr Stewart Barnes	)	Department for Regional Development
Mr Roger Downey	)	

The Chairperson (Mr Cobain):

I welcome back Roger Downey, who is now joined by Stewart Barnes.

Mr Roger Downey (Department for Regional Development):

After we submitted our briefing on the December monitoring round, the Committee asked questions about some of the items that it included. We have provided responses to those questions. The Committee also asked us to attend a meeting to discuss some of the technical aspects of the briefing, one of which was to do with international financial reporting standards (IFRS) and how those impact on structural maintenance. There was also a question about provisions for Northern Ireland Water.

I thought that it might be useful to talk through a few examples by way of explanation, because I know that it is a difficult concept. Speaking as an accountant, I understand the accounting concepts, but when they are converted to the budgetary treatments that are laid down in Treasury guidance, I get confused. Therefore, I can appreciate the difficulties, but I hope that I can set out the process a little more clearly.

I will start with roads structural maintenance. In 2009-2010, international financial reporting standards were brought in across all of government. As a result, Roads Service had to classify the enhancement element of structural maintenance in capital, whereas that element, including resurfacing and pothole repair, had previously been assigned to resource. Pre-IFRS, the rough structural maintenance allocation of £70 million was all in current expenditure. There was nothing in capital or in annually managed expenditure (AME), and there was no depreciation on enhancement.

However, post-IFRS, structural maintenance was split between current and capital, current being the pothole element, which amounted to roughly £26 million, and capital being the enhancement element, which amounted to £44 million. For that part of the enhancement element where the structural maintenance is undertaken on the trunk network, we also needed a depreciation charge. As that constituted a change in government accounting and budgeting rules, we received extra money from the Treasury for reclassification. When a reclassification occurs, we are allowed only one shot at getting any extra departmental expenditure limit cover. Although, at that stage, we did not know whether the structural maintenance money would be spent on the trunk network or the non-trunk network, we thought that it would be better from a Treasury point of view to allocate all of it to the trunk network, and the Minister could make a decision at a later stage.

As we have gone through the current year, most structural maintenance has been on the non-trunk network. The depreciation, therefore, falls in AME, which is outside that. That is why there was a large depreciation surrender at December monitoring.

The next page of the document deals with provision and goes through the accounting concepts of setting them up. I will use a simple, worked example, with the old versus the new rules. Under the old rules, if, in 2009-2010, NIW had set up a provision for employer or public liability costs, but did not actually pay out on those until the following year, there would have been a departmental expenditure limit cost when the provision was first set up in 2009-2010 and a further departmental expenditure limit cost in 2010-11 when the cash was paid out. That would, however, have been offset by a departmental expenditure limit credit. Therefore, the net impact in the year in which it was paid out would have been nil. The departmental expenditure limit charge applied only in the year that the provision was actually set up.

Under the new budgeting rules, when that provision is set up, the charge falls into AME. Only the cash element, when it is paid out, falls into departmental expenditure limit. Although it is offset by a credit, that credit falls into AME. Therefore, we are exposed to a charge in the year in which it is paid out. That is why those charges in NIW are coming through. Under PC10 and normal regulatory accounts and accounting rules, charges are applied in the year in which the provision is set up. However, when that is converted into public expenditure, there is an additional charge when it is paid out. The charge has moved to that year. That is why we have had that provisions pressure as we have gone through the year.

Mr McDevitt:
Thank you. In the new rules on provisions, what is the logic of taking the credit in AME? What is the rationale for that, Roger?

Mr Downey:
I do not understand the rationale, because it goes against all accounting concepts. As I said, under normal accounting rules for regulatory accounts, the charge is applied when the provision is set up. Now, however, it moves from accrual accounting to cash-based accounting, because the cash scores in the departmental expenditure limit. That takes us back to the situation prior to the introduction of resource accounting and budgeting. Perhaps, the rules are in place because the Treasury wants to get a tighter hold on the cash that is paid out. However, there is a conflict

between the cash and the accounting concepts.

Mr Leonard:

Thank you. The example, which referred back to roads and structural maintenance, helped a great deal. I appreciate what you said about trunk roads and non-trunks roads. However, to disregard that for a second, in the earlier session, I asked about flexibility on the budget side, which morphs into budget implications. I understand that you are leaving the accountancy a bit behind on this one. However, surely, at a practical level, there should be flexibility under the principle of enhancement with regard to the idea of interplay between capital and resource in structural maintenance, which, as you heard, has been our big worry, Roger. Surely, enhancement provision allows the Department to maximise flexibility?

Mr Downey:

All enhancement is part of capital spend. The capital budget is not what we would have wished it to be, and large amounts of it have been ring-fenced. Therefore, although we tried to devote as much capital to structural maintenance as we could, we would have liked to have done more. We just were not in a position to do so.

Mr Leonard:

Could you apply capital and resource to the same project?

Mr Downey:

Resource is the potholing element. As a result of the recent weather, for example, many potholes need to be filled. That will come out of the current resource budget. However, if Roads Service were to decide to resurface a road completely because it had many potholes, the money would not come out of the resource budget; it would come out of the capital budget.

Mr Leonard:

Therefore, that flexibility exists, depending on the nature of the job.

Mr Downey:

Yes.

The Chairperson:
That was as clear as mud, Roger. *[Laughter.]*

Mr Downey:
Thank you. *[Laughter.]*

The Chairperson:
May we assume that the Treasury will not change its rules again?

On a serious note, it looks as though the Treasury wants a tighter grip on cash and expenditure, particularly over the next three or four years.

Mr Downey:
The changes came in during 2009-2010 as a consequence of the wider economic situation. The Treasury wanted to get a tighter handle on the cash funds.

Mr Boylan:
That is guaranteed.

The Chairperson:
Thank you very much.