Northern Ireland Assembly

COMMITTEE
FOR EMPLOYMENT
AND LEARNING

OFFICIAL REPORT
(Hansard)

Budget Issues

19 October 2011

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR EMPLOYMENT AND LEARNING

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Members present for all or part of the proceedings:
Mr Basil McCrea (Chairperson)
Mr Thomas Buchanan (Deputy Chairperson)
Mr Jim Allister
Mr Sammy Douglas
Ms Michelle Gildernew
Mr Chris Lyttle
Mr Barry McElduff
Mr David McIlveen
Mrs Sandra Overend
Mr Alastair Ross

Witnesses:

Mr Andrew Hamilton	)	Department for Employment and Learning
Mr John Smith	)	

The Chairperson:

Andrew, it is good to see you again.

Mr Andrew Hamilton (Department for Employment and Learning):

Indeed. Thank you.

The Chairperson:

Andrew and I had a good chat yesterday, which I informed the Committee about. I will hand over to you, and you can tell us how you want to proceed.

Mr A Hamilton:

We have two papers, which we propose to take you through. We will start with the paper that outlines the Department's mid-year position. I hope that it provides additional information on the Department's financial position. I know that we had a discussion with the Committee a couple of weeks ago, and we were not meeting your expectations on the financial information. This is a genuine attempt to provide that in a strategic way so you can make sense of it. I hope it meets your expectations and needs. I will ask John to take us through the paper. He will give an overview, and then we will take any questions if that suits.

Mr John Smith (Department for Employment and Learning):

The first paper is an exposition of the October monitoring position. It sets the overall position in the wider economic context. You will see in the annexes that we have given details of spend to date for each service area and the forecast out-turn for the whole year. This is the latest Executive Budget.

The Department for Employment and Learning (DEL) is outward-facing and customer-orientated. Much of what we do is based on a statutory requirement and there are some significant areas where the demand for services, and, therefore, the expenditure, is not totally in the Department's control, for example, the Steps to Work programme.

At the moment, the budget for current expenditure is around £796 million, of which around £27 million, or less than 4%, is spent on administration. Nearly half the budget — around £370 million — is spent in the form of recurrent grants to the further education (FE) colleges and the higher education (HE) sector. There is around £80 million in expenditure on skills and industry, which typically involves externally delivered training programmes, such as ApprenticeshipsNI.

The Chairperson:

Is there any tie-up between those figures and the papers or is this still just an overview?

Mr Smith:

The figures are taken from the papers that you are looking at.

The Chairperson:

I am just trying to get people on the right page. Is there a page I should be pointing people to in the paper?

Mr Smith:

I am on annex 1 at the moment.

The Chairperson:

OK, so that is the chart. You mentioned the amount of money given out to further and higher education.

Mr Smith:

Yes. Half way down the page in the second column from the right, which is entitled "BUDGET", is the budget as of June monitoring. If you add figures in the grants to universities line to the recurrent grant line above it, which is for £169 million, it gives you total expenditure of about £370 million in the FE and HE sector. That is where I was coming from.

The Chairperson:

OK. That helps us to keep track of the numbers.

Mr Smith:

I will signpost you as I go through.

Around £81 million is spent in the business area of skills and industry. Typically, that is spent on externally delivered training programmes. ApprenticeshipsNI and Training for Success are prominent in that regard. Those programmes are mainly demand-led, which means that we cannot totally control the level of expenditure that we incur in the year.

Over £92 million has been budgeted for this year’s employment services budget. That is for such services as Steps to Work and our other employment programmes, which are aimed at getting people off benefits and back to work.

Student support accounts for around £180 million, of which around £65 million is for HE maintenance grants. Education maintenance allowance accounts for £27 million and there is £64 million of notional loan subsidies. That is the student support budget broken down.

Finally, there are relatively small budgets for the strategy, European and employment rights divisions, and the corporate services. In our paper, we have included the administration costs of DEL, most of which are for staff salaries.

That budget position is set in the context of rising unemployment, falling employment and higher than average levels of economic activity.

The Chairperson:
Are you back to the start of the paper?

Mr Smith:
I am back into the narrative. Clearly, those issues have implications, particularly for employment services, where the majority of programmes are demand-led.

I am now going to take you through an exposition of the October monitoring position. The numbers that I will quote are an overall overview of what you see in annex 1. In gross terms, we forecast total pressures of around £23·4 million. If you were to add all the individual lines in annex 1 where there is a bracket around the numbers in the variance column —

The Chairperson:
Are you talking about the full year?

Mr Smith:
This is the full year forecast to the end of the year. In overall terms, we have pressures of £23·4 million, but, on the other side of the scales, we have easements totalling around £14 million, which, when netted off against the other, gives an overall net pressure of £9·4 million. That is the overall net pressure. The biggest single item there is the Steps to Work pressure, which comes under employment services. We are forecasting a pressure of £9·2 million there, and we described the reasons and context for that when we gave evidence to you on 5 October. Indeed,

that is the prime bid that we submitted to the Executive in October monitoring.

I will now take you through some of the more prominent issues on a service-by-service basis. I will start with skills in industry. We have a demand-led pressure on ApprenticeshipsNI of £7·7 million. The variance column shows where the full year pressure, or easements, is.

The Chairperson:
It helps if you are precise on this. That is the figure of £7·659 million in the paper.

Mr Smith:
Yes, I rounded it up. That pressure is largely offset by around £1 million of easements, which is the figure of £1·036 million for Training for Success. There are several other programmes under the infrastructure and development line, where demand has fallen short of our original expectations on spend. That results in an overall easement of £5·55 million this year, which is available for us to use to offset the ApprenticeshipsNI pressure. Overall, as we exit October monitoring, there is a £ 1·092 million net pressure on the main service area of skills and industry after the pressures have been netted off with easements.

The next big area is employment services. As we said, the number of participants on Steps to Work, which is our main adult return to work programme, rose by some 3,000 to 16,000 in the first quarter of this financial year. That demand for Steps to Work is linked directly to the numbers of people who are on the jobseeker's allowance register, and that has resulted in a forecast pressure of £9·2 million by the end of this financial year. There is a small pressure on the staffing budget of £600,000, which we will seek to manage within available resources. Overall, there is a net pressure on employment services of just under £9·7 million in this financial year.

I will move on to the FE sector. The colleges are delivering along the lines of their agreed development plans. The bulk of the spend in the FE sector is the £169 million recurrent budget, which is the grant that goes to the FE colleges, and those funds will be paid out broadly in line with the budget. There is a small pressure of £700,000 in that area, which is partly to do with the unitary charge payments to the FE sector when their PPP contracts have been indexed as part of the contract. Overall, there is a small pressure of £300,000 on the FE budget this year, which we will seek to manage.

I will turn to the higher education sector. The universities receive grants of £201 million, and those are showing a small pressure. However, that is less than half of 1% of the overall budget line, which is within acceptable tolerances and we will seek to manage that. Student support, through which we give help to higher education students through grants and loans, is showing an overall pressure of £4·2 million. However, there is room to manoeuvre on the demand-led services line, in which we have retained a modest baseline to cover unforeseen events. We will now seek to use that to meet the student support pressure. Overall, that will leave us with some £1·388 million of available HE resources, which we will use to offset other pressures across the Department.

There are a number of smaller offsetting pressures and easements in the blocks that cover strategy, European and employment rights, and HR, corporate services and finance. Some of the more prominent items include the European social fund (ESF), which is in the strategy, European and employment rights block. There is a small easement of £250,000 in that area, which is due to the second call of the ESF projects starting a little slower than we had anticipated. Within HR, corporate services and finance, you will see the depreciation line, which shows a £156,000 underspend, and that reflects the predicted timing of capital expenditure in the Department during the year.

That is a fairly detailed run-through of our current expenditure position. Annex 2 gives a similar exposition of our capital investment programme.

Mr A Hamilton:

Do you want to stop and ask any questions about the revenue position before we move on to talk about the capital expenditure?

The Chairperson:

I am trying to see whether there is much to discuss on the capital side. We will leave capital and talk about current expenditure first. Thank you for your work. Every time that we look at an issue, we want more underneath. We will deal with what we have first. For the Committee's benefit, we have agreed that we will deal with each of the five headings at a Committee meeting in turn. Those are skills and industry; employment services; further education; higher education; and strategy, European and employment rights. At those meetings, we will look at the finances in more detail with the budget holders. At today's meeting, we are hearing your overarching view. I open the floor to questions from members.

Mrs Overend:

Thank you for the presentation. It might be better that I ask my questions at the next stage.

The Chairperson:

No. I am simply saying that there will be more to come. Let us get a flavour of what we want to find out.

Mrs Overend:

Under the category of skills and industry, there are figures for infrastructure and development. When I compared the variance of £1 million in August year to date with the £5 million that is forecast for 2011-12, my initial thought was about whether those are savings that must be made to try to balance the accounts. You said that demand has fallen short. What exactly is that, or can you explain that better?

Mr A Hamilton:

The one area where a proactive decision has been taken is the reduction of support for adult apprenticeships to 50%. That is to start around now. A saving will come through from that for the last six months of the year.

In some of the other areas, there will be some reductions in the infrastructure costs, for example, those that are associated with skills advisers, workforce skills forums, and so on. A lot of it is associated with programmes where the demand is not is as high as we originally expected. That is related to the economic downturn as much as anything else. That is producing an overall position where expenditure on that line is less than planned, and that is available to meet the pressure on ApprenticeshipsNI.

Mrs Overend:

In the category of management and administration, there is a variance in the August year to date column of £1 million. Why is there such a big change to being £148,000 over?

Mr Smith:

The bulk of that line refers to staff costs. The August year to date position is that expenditure is running slightly behind what we planned to spend. That is probably reflective of the ebb and flow of staff numbers as people start and leave. There may be over-optimistic expectations about how quickly we will be able to recruit. Towards the year end, it is tightened up, which reflects that people will be expecting to have filled their vacancies in the second half of the year.

Mr Allister:

Huge pressures of £7·5 million and £9 million are facing ApprenticeshipsNI and Steps to Work respectively. I am puzzled that, given that the budget was drafted at a time of recession, only £12 million was allocated to ApprenticeshipsNI, when there are demands of almost £20 million. Steps to Work is in a similar position. Did we miscalculate the demands? It should not have come as a surprise to any of us that, in recessionary times, there would be huge pressures. How did we get what we were putting our budget so wrong?

Mr A Hamilton:

That is a good question. Much as we would like to be, we are not in control of the final budget determination. As part of the comprehensive spending review (CSR) process, we would have made a bid that reflected our view of the forecast demands on the service. For example, we would have particularly identified a significant need for additional resources in the employment service.

Mr Allister:

What, for example, would you have bid for in those two?

Mr A Hamilton:

I do not have those figures with me, but we would —

Mr Allister:

Would they have been adequate to meet what the demand turned out to be?

Mr A Hamilton:

They would have been significant. We would have shared that information; the Committee would have access to all of those figures. A detailed paper was produced at the time. Unfortunately —

The Chairperson:

I do want to impinge, but Jim is making the point that it would be useful for us to know, if you put a bid in, whether it was turned down or reduced and subsequently we have a pressure. We could do with that information.

Mr A Hamilton:

The bids were significant.

Mr Allister:

What you are really saying is that the Department of Finance and Personnel (DFP) got it wrong.

Mr A Hamilton:

I am saying that the Executive have to reach a position across all the programmes, which is reflected in the final Budget that is agreed by the Assembly.

Mr Allister:

It must have been entirely predictable that, during a recession, there was going to be higher than ever demand on those types of programmes.

Mr A Hamilton:

That was the basis of the case that we made for additional resources at the time.

The Chairperson:

Let me move us forward. Jim has made the point, and we would like to investigate what bids were made and how that happened. Perhaps we will write to you and you will provide that information.

Mr A Hamilton:

We can provide that information.

Mr Allister:

I have one more question. Under the skills and industry heading, you have £13 million left in your budget for infrastructure and development, of which you are going to spend £7·5 million. Will you explain what sort of expenditure that is, how you can afford to have so much slack there and how that arose?

Mr A Hamilton:

The savings that will come through in the reduction in the contribution to employers' costs for adult apprenticeships is one aspect of that.

Mr Allister:

So, is that the 50%?

Mr A Hamilton:

Yes. For example, there is lower demand for the management development programme than we originally anticipated. There is lower demand than we anticipated at the beginning of the year for various programmes, which affects some of the resources that we set aside for bespoke training for companies. They include things like Investors in People and assured skills initiatives, which depend on companies coming forward with proposals, and which will incur expenditure in this financial year. That is where the easements are coming through that enable us to set the resources against the —

Mr Allister:

Some of the easements are generated by policy change, such as the 50% reduction.

Mr A Hamilton:

Yes.

Mr Allister:

So, when you set this budget, you did not anticipate reducing ApprenticeshipsNI by 50%?

Mr A Hamilton:

When it was set, the budget assumption — subject to final decisions — was that 100% of the funding for adult apprenticeships would be withdrawn. However, the Minister's position is that

that should be limited to 50%.

Mr Allister:

Then why did we ever have £13 million in our budget for that?

Mr A Hamilton:

There was an assumption that a saving would come through in the savings plan.

The Chairperson:

Do you get the point? If you were not going to do it, why is there a budget line for it? You say that it is a saving line coming through, but we are not clear on how you got that figure.

Mr A Hamilton:

If you lodge those points —

The Chairperson:

We have raised the issue. You asked me yesterday how much detail you needed to have with you. It is not that you need to go to the absolute level of detail, but your figures have highlighted certain issues. I would like you to reflect on how you could set those figures out in writing for us to explain the various easements and the points that have been raised, and we will deal with it at the next meeting. Is that all right, Jim?

Mr Allister:

Yes, thanks.

Mr Lyttle:

Thank you for your presentation. You have made bids of £9·2 million for over-demand for the Steps to Work employment programme and £3 million for Step Ahead. What would be the implications of non-award of those bids for Steps to Work? Will you tell us a bit more about the Step Ahead programme?

Mr Smith:

We have bid for £3 million for Step Ahead in the October monitoring round. It is another statutory duty to provide employment services to people who are in receipt of certain workingage benefits. We want to aim the programme specifically at young people, lone parents and those who are migrating to jobseeker's allowance from incapacity benefit and the employment and support allowance (ESA). We want to take an initial cohort of 500 of those people and give them work experience, and possibly training, to help improve their job prospects and give their CV some recent experience.

It is probably a bit premature to speculate on what we may need to do if the bid is not met in full or in part in the October monitoring round. We will wait until we learn the result to examine our baselines again in detail to see whether there are any lower-priority areas in which we can scale back. We will have had an extra couple of months of the financial year by then, so more easements may come out of business areas. That is what we need to do over the next few weeks, depending on what the Executive decide in the October monitoring round.

Mr A Hamilton:

For Step Ahead 4-2 and the Individual Place and Train, we have also logged a bid against the social protection fund. If it does not come through in October monitoring, there is always the possibility that it will come through in the social protection fund.

Mr Lyttle:

Is it fair to say that Steps to Work is one of the most important programmes on your books to get people into employment and that it is crucial that you get the funds that you need to meet that demand?

Mr A Hamilton:

Indeed.

Mr D McIlveen:

Thank you, gentlemen. I have a very simple question. In the column for European unemployment rights, there is a section marked "LRA". May I clarify what that refers to?

Mr A Hamilton:

The Labour Relations Agency.

Mr D McIlveen:

That is what I thought. Actual spend on the LRA was zero, but the budget for it was £1·5 million. How did it come about that that was zero? Was it just good luck? Did no one bring a dispute in that period?

Mr A Hamilton:

That is a very good question.

Mr D McIlveen:

Had that budget been realised in spend, it would basically have eliminated every easement that you have.

Mr Smith:

Bear in mind that that is the August year-to-date position. If you turn to the full-year forecast, we expect the LRA to have expended the £3·5 million budget that is available to it. The LRA is a non-departmental public body (NDPB), so it could be a matter of recording that it had not reported to the Department what we call resource consumption — its expenditure — at the end of August, which is why it is showing as zero. We need to look at that to ensure that we are getting timely information from the LRA. However, I would not like to comment any further, because I do not know the precise detail.

The Chairperson:

DFP gave a presentation in the Long Gallery at Stormont yesterday afternoon. The officials talked to us about the requirements for reforming the openness and transparency that Westminster requires in budget lines. A lot of work is ongoing with that. The officials also mentioned the potential to bring NDPBs into the budgetary process. We would be supportive of all that and would like to have a look at the detail.

I do not propose to go on too much. When you give an overview, the danger is that people can pick up on every single issue and want to drive down into each one. However, your overview has been useful, and I think that Committee members are content that we are getting some information on which we can ask salient questions. However, we do need to get another layer of detail, Andrew. For example, what does “Infrastructure and Development” in annex 1 mean?

There are a few things that you need to do when outlining the information. It has been quite difficult for us to work out what numbers you are talking about, so the charts should have lines and be alphabetical across the top so that we can refer to the cell number and be clear about what figure you are talking. You also need to make sure that we look at easements so that, if you give a figure in your presentation, it should be easy for us to follow how you made the calculation, rather than just being a mathematician and saying, “If you add up those numbers, you will get to that figure.” Do you understand what I am saying?

Mr A Hamilton:
Yes.

The Chairperson:
I know that it is obvious when you know what it is, but it is not obvious when we are just trying to read through the papers. It is to help us to follow the argument that you are making: this number with this number gets you to that number, for example. It is about how it is put across.

My final point is on demand-led services in higher education. The variance figure given is for £6·005 million. Is that essentially a contingency reserve that was put in the budget that is now being utilised?

Mr A Hamilton:
In effect, yes. Those are demand-led services. Rather than allocate them based on our assumptions at the beginning of the year, we allocate the reserve as the demand pressures emerge. That means that we can target appropriately.

The Chairperson:
OK. Euphemistically, you have put in “Demand-led services” but it is almost as if the words “contingency reserve” should appear after that in brackets. I suppose that I now know what it is, so why would you bother doing that?

Mr A Hamilton:
Everyone in the world knows that we have a reserve now.

The Chairperson:

That is part of what we are trying to ascertain from you. You have a couple of wee reserves in there that we noticed, but we will get to those later, and then we will get to the ones that you have not told us about, because I am sure that you have a few.

Let us move to capital. We do not need to spend as much time on that, so just give us the headlines, John.

Mr Smith:

Annex 2 is the capital expenditure table. It follows the same format as annex 1; namely, the August year-to-date spend is set against the part-year budget to that date. The variance column gives the difference between what we expected to spend and what we have spent. The far-right columns show the overall forecast to the year's end of total expenditure to 31 March, which is in the forecast column, against the full-year budget that we have. Again, the variance is there. The sign convention is the same: figures in brackets denote a pressure in the variance column, and figures without brackets denote an easement.

The Chairperson:

There are two obvious issues that you need to talk about. Under "University College Capital", you have £3 million of an underspend or money not spent. What does that mean?

Mr Smith:

That is a £300,000, not a £3 million, pressure.

The Chairperson:

Sorry, I got my zeros wrong, so you are quite right.

Mr Smith:

That is a small easement in minor works allocations that the university colleges have and are not going to spend. That figure is, therefore, available to redistribute against "Minor Capital", where there is a small pressure of £293,000 in the universities. We will offset one against the other.

The Chairperson:

OK. Therefore, the capital is what it is, and there is nothing terribly exciting to talk about.

Mr Smith:

That is right. The bulk of the capital — some £36 million this year — is in the FE sector, and the vast majority of that is contractually committed as public-private partnership (PPP) payments to contractors for the South Eastern Regional College (SERC) and Belfast Metropolitan College (BMC).

The Chairperson:

Are there any brief questions on that?

Mr McElduff:

In a previous Committee meeting, Michelle Gildernew asked about the new campus for the FE college in Enniskillen. Following on from her question, what degree of prioritisation has that college been afforded in the Department's capital priorities?

Mr A Hamilton:

It is not funded in the capital programme at the moment. We know about the issues, but, at present, the capital resources are very constrained. They are mostly devoted to capital commitments, with small amounts for minor capital works. We are very much aware of the pressures, and, if the resources were to become available, we would want to take forward a number of schemes. We will continue to monitor that situation.

Ms Gildernew:

On the back of that, I am not really filled with confidence. It is really important for the viability of the college that that capital money be identified. It is interesting that reserves have been identified, and they need to be moved across to help the South West College. That is the sort of scheme that we need to see or else there will be a big impact on FE provision in the west.

The Chairperson:

Can we take it that the point has been raised? The benefit of this analysis is that we now see that capital expenditure is available for the Lisburn and east Down campuses of the South Eastern Regional College. However, you probably need to break down for us how much of that is contractually committed through PPPs, or explain how that is done. Simply explaining to us once that there is a figure that cannot really be touched does not show us what the free capital is. If we know, we can then attempt to identify pressures from other areas.

Mr Douglas:

May I make a general point? First, thank you for your presentation. It is important that we are having these regular briefings, because, right up until 2014-15, the departmental budget just gets worse. I think that the cuts will be three or four times the current level by then.

This may have come up before, but there is nothing in the document about income. I know that these briefings are all about the reconfiguration of budgets, but are we sure that we are doing all that we can to generate money from Europe, for example? Some of the other programmes, such as Step Ahead, have got the private sector involved. Can any income be generated to offset some of the deficit?

Mr A Hamilton:

The European social fund is 40% funded by Europe —

Mr Douglas:

Sorry Andrew, is it correct that we are not doing as well from Europe as other regions or countries in the EU?

Mr A Hamilton:

The Chairperson previously mentioned the Welsh comparison, and, to be honest, we are still looking into that. It could be to do with their objective 1 status, but we are not sure. We will continue to look into that. We know the position with the seventh framework programme (FP7), and those moneys do not flow through the Department but to the organisations that do the bidding for them. Therefore, if they are the lead partners, those moneys will go straight to the universities.

Our position is better than it was. Our target for this period is £50 million compared with around £35 million previously, and the universities are making good progress. As we said before, we recognise that more can be done, and we briefed the Committee on what we are doing in those areas.

I think that the Executive will agree to increase the target for the competitive funds that are available to Northern Ireland by 20% by 2014-15. Everyone recognises that more can be done in that area.

The Chairperson:

Sammy's points are well made, but I want to move the discussion on a wee bit. The figure of £50 million still seems relatively modest, and the problem is that those moneys show up in the university's funding but not in the figures before us. Sammy is quite right in saying that we think that the Department should be looking at ways in which to down more money and asking what we can do about that. There must be some way of reflecting, at some stage, your success or failure in that regard.

Mr Douglas:

We talked earlier about a Committee visit to Europe. Those are the sort of angles that we need to look at.

The Chairperson:

I am absolutely with you on that. Andrew and his team have gone to quite some effort to prepare the documentation. I am trying to give them guidance on the sorts of issues that are of interest to Committee members, and he can then advise us on how best he can provide information that helps the Committee. He is probably not in a position to do that now, but your point is well made, Sammy. Andrew, if you could take that on board, it would be great.

On an earlier point that was made, how frequently are you producing the information at the top level? At one stage, you talked about it being produced quarterly, but, even at the top level, is it updated or updateable monthly?

Mr A Hamilton:

Everything is possible, but I am trying to give you a strategic view that is helpful to you. It would not suit either of us to get bogged down in the bureaucracy of detailed monthly reporting, because we would then have to spend quite a bit of time preparing our analysis for you, and we would have to deal with our budget holders for that. I thought that it would have been useful if we had done that quarterly. That would have given you the strategic context for our bids. I appreciate the point that you made last week that, when we were presenting our bids, they were popping out of the air to you. You then asked what we did not bid for. If we were to provide the information quarterly, it would enable you to see all of that. It would make sense. I want to avoid providing you with data. I want to give you some good, strategic information so that you have a good, clear understanding of the issues.

The Chairperson:

We will take some guidance, but we might put a little pressure on you. If you are producing the information internally anyway, and it is a matter of updating a spreadsheet, it would be useful to keep a weather eye on it. We do not have to have a huge discussion on the budget every month — we have other things to do — but having the information produced quarterly seems too infrequent, because we run into such things as recess.

This format is OK, and if producing a monthly update would be too onerous, you can come back and tell us why. I want you to reflect on Sammy's point. If there is a way of giving us the information in the form of a monthly update so that we check for variances and see where we are moving from the previous position, that would be useful. We would drill down properly on the detailed commentary on each issue; for example, skills and industry. That would mean that I would keep the Committee focused on the area on which you are prepared to answer. That is how we will manage your resources.

Mr A Hamilton:

We will have a look at that.

The Chairperson:

Thank you.

You have produced another paper on the overall DEL budget.

Mr A Hamilton:

Yes, the paper sets out the outcome for the budget from 2011-12 through to 2014-15.

The Chairperson:

Before you take us through the paper, what do you want us to take from it? Why have you prepared it for us?

Mr A Hamilton:

First, we want to highlight to you what the budget meant to our funding base when we take account of real-terms issues. There is an important point to be made on that. Secondly, we want to highlight the impact of the funding of student fees. I want to take you through that so that you understand the impact.

The Chairperson:

Have members got that? There will be a real cost because of inflation, and then we will talk about tuition fees.

Mr A Hamilton:

I will start with the budget out-turn in table 1, which is titled, “Original DEL Budget 2011-12 to 2014-15”.

The Chairperson:

Is everyone on the right page? OK, go ahead.

Mr A Hamilton:

Focusing on current expenditure, the opening position in 2010-11 was £798·9 million, going up to £826·7 million by the end of year 4, in 2014-15. A layperson would say that that was not too bad and that the budget, despite the very difficult position that the Executive are in, was increasing. However, there are two important points to bear in mind. The first is that those figures are in cash, which means that no account is taken of inflation. The Treasury inflation figures at 2010-11 were around 2% to 2·5% year on year, and we now know that that is increasing.

The second point is that the figures include a ring-fenced increase for the cost of student loans. That is the notional loan subsidy, and I will take a wee bit of time out to explain what that is. However, it is a ring-fenced amount going up to £36 million by 2014-15. We cannot use that money for any other purpose. If it is not used, it goes back to the Treasury. That increase is included in the £826·7 million.

For a like-for-like comparison with the position at 2010-11, which is in table 2, we need to adjust for inflation and take out that ring-fenced allocation. Therefore, the year-on-year like-for-like comparison shows a figure of £798·9 million for 2010-11, and the like-for-like comparison by 2014-15 is £726·3 million. That is about a 9% real-terms reduction compared with 2010-11. That illustrates the pressures that we are under.

The Chairperson:

Has everybody got that?

Mr A Hamilton:

Table 3 simply provides a breakdown across the Department's business areas. "Employment and Skills" includes the employment service, the skills and industry division and further education colleges. "Higher Education" covers the allocations to the higher education institutions. The figures there reduce over the four years. The budget was based on a planning assumption that we would increase fees, and as a result of the universities being able to increase fees, we could reduce their grant so that it had a neutral impact on the sector. That is why the run of figures is reducing there.

The figures for "Student Support and Postgraduate Awards" are increasing annually because the cost of the student loans subsidy increases over time as fees increase. That explains that trend.

The Chairperson:

To be clear, is that the one-third charge that you take?

Mr A Hamilton:

Yes, that includes that. Maintenance grants to students are also included.

Mr A Hamilton:

That is where we are.

I will move on to tuition fees. You know the history. The Executive agreed that we should not increase student fees, and, as a result, we have a funding gap of £15 million for 2012-13, £30 million for 2013-14 and £40 million for 2014-15. The Executive determined that the gap would be addressed by contributions from other Departments. A significant contribution will be made by DEL and the HE sector.

I will spend a little time explaining how we will meet that funding gap. As I said, by the end of 2014-15, the gap will be £40 million. The figures are in table 4. In addition to meeting the gap, the Executive agreed that they would provide us with a small increase in the allocation to allow for a modest increase in student places. That amounts to £3 million by the end of the period, and the total deficit was calculated at £16 million in 2012-13, £32 million in 2013-14 and £43 million in 2014-15. We get those figures by adding to the fees gap the money that the Executive agreed to make available for some additional places of £1 million in 2012-13, £2 million in 2013-14 and £3 million in 2014-15.

How is that being financed? There is an additional contribution from the HE sector, and that is funded largely from fees increases for GB students. Members will be familiar with the news that universities will be allowed to charge students from GB fees of up to but not exceeding £9,000.

There is an additional contribution from DEL internal savings of £2 million, £3 million and £5 million. When we were looking at our efficiency plans, we were originally tasked with finding 5% efficiencies year on year, which, by the end of the period, was equivalent to £145 million. That included the funds generated from fees. We knew that we were getting into a negotiation on that, so the Minister asked us to go to £150 million so that we could make a contribution beyond our pro rata share to the cost of introducing fees.

The Chairperson:

You lost me at that last bit. I was probably not paying enough attention. If we are going to talk in those details, we need to have them in black and white so that we can follow. For future reference, Andrew, it was all going swimmingly until you decided to give us a little extra information.

Mr Lyttle:

You asked for the information.

The Chairperson:

Is it just me? I will do my best. Try again, Andrew.

Mr A Hamilton:

We are delivering additional savings of £5 million that can be put into the pot.

The Chairperson:

From where are those additional savings coming?

Mr A Hamilton:

From a commitment to reduce and make more efficient our staffing costs.

The Chairperson:

Are those reflected in the paper that you discussed with us earlier?

Mr A Hamilton:

This starts in 2012-13, not 2011-12.

The Chairperson:

OK, that is useful.

Mr A Hamilton:

We then come to the redeployment of resources that are set aside from moneys that were previously earmarked for student loans and additional places. This is where it gets very complicated. I will talk about the notional loan subsidy. When the Government provide a loan to a student, it does not count as public expenditure, because it will be paid back.

What does count, and what scores against public expenditure, is if there is a subsidy to those loans, or if loans are not paid back. Under the current system, people only start to repay their student loans once they are earning more than £15,000 a year. Loans are paid back over 25 years, and if they are not paid back at the end of that period, they are written off. If people are not working or are off raising families, they do not have to pay their student loans back. A very complicated and complex model was devised to work all that out, the result of which is that we need to make provision for about 30% or one third of the cost of the actual loans.

We had a planning assumption that university fees would increase from about £3,500 to £4,500, and we then had to provide for additional loan subsidy costs. Treasury allocated £36 million to us by year 4 and we have a baseline of £64 million, resulting in a total of £100 million by year 4 to cover those costs. However, when we did our arithmetic, our expected cost of the loan subsidy came out at £112 million, and we made that amount available by the end of year 4. However, because the fees were maintained at £3,500, the cost of that subsidy is now £100 million, leaving us with £12 million, which went into the pot. Originally it was suggested that we should use £2 million of that to add to the £5 million of internal departmental savings and make a total contribution of £7 million to the £40 million deficit. That was almost double our pro rata share and we thought that that was a reasonable position to adopt.

We had wanted to use the £10 million balance of the loan subsidy saving to expand the number of available places to students in Northern Ireland. We take the view that, when you have a significant difference between the fees here and those in GB, a number of the students who would otherwise have wanted to go to university in GB will want to study in Northern Ireland. However, as part of the negotiation, the Executive took the view that that £10 million should be made available to contribute to the reduction of the £40 million deficit, rather than to expand student numbers. They allocated £3 million to the Department to allow for a modest increase in student numbers, and there was an acknowledgement that we need to look at student numbers when we have more and clearer information about the impact of future student flows.

That is the issue, and it explains why we have moved from making a contribution of £7 million to making a contribution of £22 million.

The Chairperson:

Andrew, I am under a wee bit of pressure for time. That is now on the record. People can look at it and we will pick it up later if we need to. Can you rattle through the rest of your paper, and we will see whether there is anything that members want to ask questions about?

Mr A Hamilton:

The other key issue is the savings plan. I am not sure whether you want us to go through that today. The overall savings plan over the four-year period is set out in the document and there are notes to explain the issues.

The Chairperson:

Having looked at the papers, does anyone have any particular burning questions on the points that are raised?

To take Sammy's earlier point: you need to keep on top of this. You need to see what this means. We will come back and ask some more questions.

Mr Allister:

Chairman, are you asking about the annex?

The Chairperson:

Yes, or any bit, Jim. I am trying to get it to a close.

Mr Allister:

I wanted to go back to the inflation issue.

The Chairperson:

You do that. We are under a wee bit of pressure, but there is time for you to ask your question.

Mr Allister:

Table 2 is premised on inflation being at 2%. We heard yesterday that inflation is at 5%. Where does that leave us, or where might that leave us, by the end of this budgetary period?

Mr A Hamilton:

That impacts on the pressures that our stakeholders will be under, such as those associated with fuel, for example. That will be much more than 2%; indeed, more than 5%. Those costs will have to be absorbed by our further education colleges and the higher education institutions.

Mr Allister:

What does that do to your like-for-like comparisons?

Mr A Hamilton:

I am a bit constrained officially, because I am using the Treasury figures here, but, clearly, if inflation is running at double what is presented there, the real terms difference is doubled.

Mr Allister:

How could you handle that in this budget?

Mr A Hamilton:

That issue is not peculiar to this Department; it is something that all Departments and public bodies are struggling with.

Mr Allister:

We seem to have merrily made an assumption in the whole Budget process that inflation will be at 2%. In fact, it is presently 5%. It could settle at 4%; who knows? Where does that leave the budgetary planning?

Mr A Hamilton:

Not all the inflationary factors are outwith our control. For example, pay is controllable. We expect our stakeholders to exercise robust control over pay increases over the period in the same way that we are. Pay accounts for 60% to 70% of the organisations' total expenditure. However, you are right in that there is an unfunded pressure where inflation is running ahead of provision.

Mr Allister:

It is a heavily unfunded pressure, which may have to be met by those bearing the pressure the most through staff costs, namely those who work for you. They are having inflation heaped on them and you are then telling us that you will meet the pressures through how you deal with their salaries.

Mr A Hamilton:

This was an issue that we were at pains to point out. When we were negotiating on fees, for example, we were already asking the universities to find a cash releasing saving of some £28 million while making the point that, in addition, they would have to find savings to cover the costs of inflation. The real terms savings that our universities were being asked to find were significantly more than the cash saving that we were reducing their block grant by.

The Chairperson:

The point has been made. We will want to come back to it, but, for us, there is always the case of unfunded pressures that are not met through in-year monitoring. That means that something will just fall off the edge somewhere, and we are always keen to find out where that is.

Does anyone else want to ask a question? I do not want to encourage you too much, because we have other business to do and we will come back to this, but does anyone else have a burning question?

Mr Douglas:

I have a general point that links into this, Chairman. Andrew, you paper refers to a £40 million a year increase for the HE sector. Going on history, the Department will work with the HE sector. If we pass on the inflation worries to the HE sector, is there no sense that you may come back to us at some stage and say that the £40 million is not enough? I have another general question about —

The Chairperson:

Hold the second question, but you can ask it later. You made a good point, so you may as well hear the answer.

Mr A Hamilton:

It is important to say that, although the HE sector is getting £40 million, it is not additional money; it is money to keep it as it is currently. We would have reduced the block grant —

Mr Douglas:

The paper refers to an increase in funding. That is additional, in my library.

Mr A Hamilton:

We have to be sure that we understand that. As the budget is built on the assumption of increasing fees, we would have reduced the HE allocation by £40 million. That is now being made good by a contribution of £21 million —

The Chairperson:

The point is that there are inflationary pressures. Sammy is asking what will happen if stakeholders come to you and the Department makes a bid for more finance from the Executive. What is the likelihood of such a bid being successful?

Mr A Hamilton:

Stakeholders may well articulate the need for additional resources to deal with inflation, particularly as we go through the CSR period. We would make a bid for it. The likelihood of it being met is certainly less than 50%.

The Chairperson:

It is modest. What is your second question, Sammy?

Mr Douglas:

I have a quick question about interest rates and money from Europe. I know that the International Fund for Ireland will have got an allocation from Europe in euros. Interest rates go up and down, and I know that they are quite low at the moment. Are there any projections or assumptions in this? Is the money that comes from Europe in euros?

Mr A Hamilton:

We may need to clarify that in writing, but my understanding is that any changes in the value of the funds are dealt with at DFP level. We used to have it, but I think it has gone to DFP. I will confirm that.

The Chairperson:

OK. We will pick that up. There are no more questions? Thank you very much for attending the Committee meeting. We appreciate the work that you have done. There is still a little bit more to look at, but, as you can see, if we get into it in detail, it takes us all day. We have to think about how we manage our time, but I appreciate your effort.