Northern Ireland
Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT (Hansard)

October Monitoring Round Outcome

26 October 2011

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR
FINANCE AND PERSONNEL

October Monitoring Round Outcome

26 October 2011

Members present for all or part of the proceedings:
Mr Conor Murphy (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Mr David Hilditch
Mr William Humphrey
Mr Ross Hussey
Mr Mitchel McLaughlin
Mr Paul Maskey

Witnesses:

Mr Michael Brennan	)	
Mr Peter Jakobsen	)	Department of Finance and Personnel
Ms Brigitte Worth	)	

The Chairperson:

On Monday afternoon, the Finance Minister made a statement in the Chamber on the October monitoring round. Members had an opportunity to ask questions, and, today they have a further opportunity for a briefing on that. The Minister's statement is contained in members' packs. If members wish to interrogate further some of the issues that arose from it, they can do so. I welcome Michael Brennan, who is the head of the central expenditure division and central finance group; Peter Jakobsen, who is the principal economist in the central expenditure division; and Brigitte Worth, who is the acting finance director of the finance division of the corporate services group in the Department of Finance and Personnel (DFP). Most members had the opportunity to ask questions of the Minister on his statement to the House, but I am sure that there are other issues that we might get down to in more detail.

Mr Michael Brennan (Department of Finance and Personnel): I will run through the high-level figures on the October monitoring position, and then I will take questions. As the Committee will know, the Executive left June monitoring with a remaining overcommitment of £45 million on the resource side and £21 million on the capital side. In October monitoring, there were some £49 million of reduced requirements on the resource side and £25 million of reduced requirements on the capital side. In addition, a Barnett consequential of £22·6 million came across from the Treasury. That was driven by the fact that the UK Government increased the grant to local authorities in England to keep council tax at the existing level.

Some reclassifications were undertaken in October monitoring. As the loan to the administrator of the Presbyterian Mutual Society (PMS) is scored in the accounts on the capital side of the budget, the Department of Enterprise, Trade and Investment (DETI) needed to do a reclassification, which moved £50 million from resource to capital. It is important to stress that that does not mean that there is a loss of money on the resource side, because we have had confirmation from the Treasury that it will change the control total so that we do not lose money on the resource side of the budget. It simply involves moving it from one side to the other.

That meant that the Executive had, in total, £34 million available on the resource side and £1·7 million available on the capital side to allocate to Departments. However, £90 million of resource bids and just over £50 million of capital bids were submitted by Departments. The Executive allocated a significant amount of resources, and I will highlight the major allocations: £25 million went to the Department of Health, Social Services and Public Safety (DHSSPS); £13 million to the Department for Regional Development (DRD); £12 million to the Department for Social Development (DSD); £11 million to the Department of Education (DE); and £5 million to the Department for Employment and Learning (DEL). Those are the major allocations that were made in the October monitoring round.

At the end of the October monitoring round, there is a residual overcommitment on the resource side of £11 million and of just over £23 million on the capital side. Those two figures will be important when the Executive move to the January monitoring round, because that is when they will have to form a view on the level of resources that can be carried forward into the next financial year under the new Budget exchange scheme that was agreed with the Chief Secretary to the Treasury last July. It is our anticipation that the Executive will try to maximise as much as possible the £50 million resource cap and the £12 million capital cap that we can carry across into next year.

The Chairperson:
Before the Minister's statement, I went over a figure with you, and I am still not entirely sure about it. You identified that £50 million can be carried over on the resource side and that £12 million can be carried over on the capital side. The figure that the Treasury announced after the agreement on the Budget flexibility scheme was £59 million on resource and £14 million on capital. You ascribe that to the Department of Justice (DOJ) element. However, previous evidence correspondence from DFP said that caps will apply to non-DOJ underspends only. Therefore, it seems that there is still an anomaly between the two figures. I am not sure that it can be ascribed to DOJ as you have told us. Certainly, in previous correspondence, the Committee has been told that it is non-DOJ underspend. Is it £50 million and £12 million or £59 million and £14 million?

Mr Brennan:
Peter will go into the detail. Clarification was needed from Treasury on whether the DOJ score. There was also an issue about ring-fenced elements.

Mr Peter Jakobsen (Department of Finance and Personnel):
The £59 million that is mentioned by Treasury includes DOJ and the ring-fenced element. For simplicity, Treasury took the total departmental expenditure limit for the three devolved Administrations. Scotland and Wales do not have the problem of a ring-fenced DOJ budget. Treasury produced three figures for the total departmental expenditure limit for the three Administrations. That is why it included DOJ. Afterwards, we sought clarification from Treasury that the existing scheme for DOJ was still in place and had not been replaced with the other one. The DOJ scheme is more advantageous to us. At the same time, we got confirmation that the cap for Northern Ireland logically excludes DOJ, of course. That is why we came up with a figure of around £50 million for current. The number will be finalised at Treasury's Supplementary Estimates stage, which is, probably, next month. We will sit down with Treasury

and work it out. It will be based on that position. Therefore, £50 million is a rough guess. We think that it will, perhaps, be slightly short of that — something like £48 million or £49 million.

The Chairperson:

OK. In your view, is that cap sufficient given that there was an £80 million underspend last year?

Mr Jakobsen:

I think it is, yes.

The Chairperson:

And that excludes DOJ?

Mr Jakobsen:

Exactly. The bulk of the underspend last year was actually the ring-fenced element. DOJ is excluded from this. Therefore, the £50 million is the non-ring-fenced spend only. On that basis, we believe that it is sufficient.

Mr Brennan:

Our underspend, excluding the DOJ ring-fenced element last year, was in the order of £1·5 million on the current side and around £5·6 million on the capital side. Therefore, having something in the order of £50 million and £12 million definitely gives us a significant degree of comfort.

The Chairperson:

OK.

Mr D Bradley:

After the Minister made his statement, I asked him about the social protection fund and the social investment fund. He had said that progress needed to be made in allocating those resources. I notice from the tables that you have provided that £7 million of the social investment fund has already been surrendered. What is the likelihood of £80 million being allocated between now and January? It seems that more of that investment fund may be surrendered in the next monitoring round. What is your view on that?

Mr Brennan:

The £80 million was allocated across the four years in total. Only £8 million was actually allocated in this financial year to the infrastructure fund. So, a reduced requirement of £7 million —

Mr D Bradley:

From the investment fund?

Mr Brennan:

Yes. Only £7 million was surrendered.

Mr D Bradley:

You mean that £7 million out of £8 million has been surrendered?

Mr Brennan:

Yes.

Mr D Bradley:

That almost makes things worse.

Mr Brennan:

No. Of the £8 million that was made available, £7 million has come back because, as you know, the scheme has been out to consultation. Obviously, there are lead-in times to get schemes established, consulted upon and operational. As I said, the £80 million is not to be spent in the 2011-12 financial year. Only £8 million was allocated.

Mr D Bradley:

Have you any indication of what progress has been made in allocating the funds?

Mr Brennan:

Do you mean for this specific year or across the four years?

Mr D Bradley:

This specific year.

Mr Brennan:

As I said, £8 million was allocated initially. The reduced requirement of £7 million has come back to the Department. That leaves £1 million. I presume that the Office of the First Minister and deputy First Minister (OFMDFM) takes the view that that £1 million has been spent or can be spent.

Mr McLaughlin:

I am a supporter of the performance and efficiency delivery unit (PEDU) process. I am very interested in it, and the reference to health intrigues me. We are talking about emerging findings. If there is some sensitivity, I would accept that in advance. However, it appears that the PEDU exercise was useful in demonstrating that additional savings could actually be secured and applied while avoiding the need for recourse to, for example, top-slice other Departments.

I welcome the fact that Ministers now seem to be more open to the idea of drawing assistance from PEDU. Do the emerging findings indicate in a convincing way to other Ministers that that tool is of benefit to them as it maximises the impact of the budgets that are applied?

Mr Brennan:

As I understand it, one of the major benefits of the PEDU work was that it complemented the work that was commissioned previously by the McKinsey analysis of where DHSSPS was at that time. The PEDU analysis since then has suggested that there were significant areas in which to drive out efficiencies. Some months ago, there was talk about significant financial deficits. I understand that the permanent secretary of that Department has indicated that, effectively, the books will balance in this financial year.

One of the major benefits of the PEDU analysis was that it showed where efficiencies could be driven out. For example, the £15 million that was allocated in October monitoring to DHSSPS is genuinely to drive out long-term efficiencies. It involves a voluntary redundancy package that will drive out efficiencies not just this year but every year thereafter. That is to the betterment of the entire Executive.

Mr McLaughlin:

Not according to Patricia McKeown this morning.

Mr Brennan:

As I said, I understand that the PEDU work has been very successful as it complements previous analysis. It gives comfort to the Finance Minister about the rationale for supporting that £15 million bid in October monitoring.

Mr McLaughlin:

The broader point is that there was some scepticism or resistance from different Ministers and Departments. Are we overcoming that chill factor?

Mr Brennan:

To be honest, I am not close enough to form a view of what other Ministries think are the pros and cons of PEDU.

Mr Cree:

You used the word “simplicity” at some stage. I do not think that any of this is simplistic. I think that part of the strategy is to make it very hard to follow.

Mr Brennan:

We honestly try to make it as simple as possible because it makes our life a lot easier.

The Chairperson:

It is a mushroom strategy.

Mr Cree:

You may not be able to answer this, but I was studying the bids and the allocations, and they work out at 50% for resource and 50% for capital. Is that just coincidence, or is that the amount of science that goes in to it?

Mr Brennan:

It was entirely coincidental. As I said, the number one driver for us when we make recommendations to the Minister and the Executive is how much of an overcommitment we think that the Executive can comfortably have going in to the January monitoring round. That is why there is an overcommitment of £11 million on the resource side, and £23 million capital is where we think that we can comfortably be for the anticipated reduced requirements in January. You then work back from that to ascertain the amount of resource and capital bids that we can recommend.

Mr Cree:

I was intrigued to see how you are handling the PMS moneys. Could you expand a little bit on that? It looks like you are getting a fairly good rate of return.

Mr Jakobsen:

The money that was provided for the fund, which was £25 million from Treasury and £25 million from the Executive, was provided as resource expenditure in the Budget. At that time, we and Treasury thought that it should score as resource. It is now a loan to the administrator as opposed to a scheme that DETI set up, so it will score in the capital budget. Therefore, we have to reclassify.

Mr Brennan:

If you are referring to the reduced requirement of £8 million that is coming in, that is basically an income stream that the administrator of the PMS is deriving. The PMS portfolio includes property and buildings, so rental income is generated. That income is being generated and received by the administrator, and, effectively, he is repatriating that income to the Assembly and Executive.

Mr Cree:

Is that £8 million for only half a year?

Mr Jakobsen:

No, that is for the full year.

Mr Cree:

Running from what period?

Mr Jakobsen:

That is the forecast for this year. Obviously, there is a repayment scheme in place for that loan, and that is what DETI says that it will get in this financial year.

The Chairperson:

You are in danger of sounding like a presidential candidate; you are talking about money transferring from one account to the other. Thank you very much for that. If other questions arise, I am sure that we will be back to you in due course.