Northern Ireland Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

September Monitoring Round

14 October 2009

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:
Mr Richard Pengelly)
Ms Joanne McBurney) Department of Finance and Personnel
Ms Deborah McNeilly)

The Chairperson (Ms J McCann):
I welcome Mr Richard Pengelly, director of public spending in the central finance group, Ms Joanne McBurney, from the central expenditure division of the central finance group, and Ms Deborah McNeilly, head of finance branch. I remind everyone that mobile phones must be turned off because the meeting is being reported by Hansard.

The outcome of the September monitoring round was debated in the House yesterday, Tuesday 13 October 2009. If members are happy to move straight to questions, we will proceed.

Ms Purvis:

In his statement yesterday, the Minister highlighted the fact that the Treasury were seeking an additional efficiency reduction of £122·8 million. In a previous meeting, the Committee discussed the options available to the Executive to meet that request. The Minister said that that reduction:

> "will be addressed as part of wider work on the 2010-11 position." — *[Official Report, Vol 44, No 4, p132, col 1].*

There are some obvious concerns about the overcommitment and how it will be met. Will you elaborate on the options?

Mr Richard Pengelly (Department of Finance and Personnel):

On 8 April 2009, the Chancellor announced that Northern Ireland's share of the £5 billion UK efficiencies for 2010-11 was approximately £122·8 million. To offset that, we obtained additional allocations of approximately £116 million, which were spread across the two years. At the time, the Executive agreed that we should try to manage that on a net basis, so there was a net pressure of £7 million rather than money in and money out. That was the agreed approach until the decision was made to use some of that allocation this year.

The consequence of using that money now is that instead of having a net position of about £7 million, there is an overall net position of approximately £32 million. That will not make the position for 2010-2011 any more difficult, because we had factored in the minus £122 million in advance of working with Departments to reposition the money that was allocated this year to next year, and that would help us. We have sacrificed some easing in the position in 2010-2011, as opposed to making the 2010-2011 more difficult.

Ms Purvis:

Thank you. Central Procurement Directorate (CPD) made a bid for £600,000. We have been talking about procurement in the earlier evidence session today. It has been said that if that bid could not be met, CPD could not proceed with an appeal against a court action on a procurement case. If that is so, and that bid has not been met, how will the appeal be taken forward?

Ms Deborah McNeilly (Department of Finance and Personnel):

After submitting our September monitoring round position, we continued to examine how we could manage those pressures, because we were not hopeful that we would get any money.

Therefore, the business area has reconsidered all of its funding and the provisions that it had set aside in past years for the legal action. It is working on the basis that, for example, it will not fill some key posts. It will manage it in that way. Existing pressures have been reduced to under £100,000. Actions have been taken with respect to managing posts and looking closely at provisions and income assumptions.

Mr O'Loan:
Over the past two financial years, the total amount of reduced requirements has dropped by more than 50%. I notice that, in the Minister's statement yesterday, he said that requirements dropped by only 57·7% of the amount declared to the same stage last year. I will start with an easy question. Do Departments declare their reduced requirements early enough in the year? Are you seeing a significant advance in what is being declared?

Mr Pengelly:
It is hard to be precise about this, because of our relationship with Departments. Perhaps Deborah will say something afterwards from DFP's perspective, as it is an exemplar of good practice.

Mr McLaughlin:
Did you say "exemplars"?

Mr Pengelly:
They are. Deborah will kick me if I do not say that.

Our sense is that, as a consequence of the 3% efficiency agenda that the Executive agreed, and the decision not to introduce water charges, Departments are under some pressure. That means that within Departments, there is hard work going on to maximise the use of all money available. In the past, there was more of a buffer. Departments are working hard to identify any and all flexibility at an early stage. Where reduced requirement, as distinct from flexibility, can be identified, Departments are offering it to the Executive for reallocation. Is that your view, Deborah?

Ms McNeilly:
I agree that the buffer, which existed three or four years ago, is no longer there. That is reflected

in the fact that the underspend was much smaller last year. There is a lot less money about, and DFP is trying to see how much flexibility it can manage through its budget so that it can manage pressures on the Department. We try to redirect the money that we find using the budgeting guidance. For example, we are trying to get money into Land and Property Services (LPS). The buffer for Departments is much smaller, and DFP is trying to identify small amounts of flexibility and get money into LPS because no reduced requirements are coming through from the business areas.

Mr O'Loan:

May I develop my question? I thought that this monitoring round statement was unlike anything we have seen previously. We are into a whole new era of financial management. I described the present situation as having the hallmarks of crisis management. That is a valid comment.

When one heard the statement and the current commentary on public finances, one would not think that we are in a three-year period in which there has been an increase in public spending in real terms. Yet, that is the reality. This three-year spending round has given Northern Ireland a small increase in real terms, smaller than we have been used to in the past, but nevertheless an increase. Every day, we hear announcements of further pressures, cuts, and inability to meet essential demands that have arisen.

In yesterday's statement we heard that no funds are available for allocation against real pressures that have arisen. Real pressures, that are not anticipated, always arise over a three-year budget period. Two particular demands mentioned yesterday were the Bombardier issue, which for economic reasons was an inescapable and needed to be met, and the swine flu pressure, from which there is no escape. The figures involved in the swine flu provision are amazing, but I assume that they have been validated.

Only a few months ago, you came before us to answer questions about budget pressures. The answers we got from you, the senior officials, were that there were no real worries about this; you had seen this before; things drop out of departmental spending requirements; and that problems will look after themselves.

Now, you are saying, and the Minister's statement is saying, something totally different: spending is much tighter in Departments; things are not dropping out of departmental spending;

and, therefore, that when real pressures arise that need to be met, there is absolutely no contingency. Crisis management then becomes not simply an impression but reality.

The permanent secretary told the Committee that, on his first day in the Department, he was making decisions to suspend all promotions and stop all recruitment. That is the kind of message that we are getting time and again. As a result, the public is becoming very disillusioned about the Executive's ability to deliver financially. There is a real problem, and the method that officials have been offering to the Minister for managing it is simply not meeting the needs any more.

Mr Pengelly:

The member has raised a number of points.

First, as regards the reference to crisis management, one needs to be very clear about the context. The starting point for the lack of availability of funds is that the Executive have placed all Departments in a position in which they are delivering a much stronger performance than was ever the case under the direct rule Administration. In the past, there was a lot of flexibility in the monitoring rounds because Departments were not delivering the plans as established at the planning stage. The Programme for Government was established in January 2008. The track record for underspend last year, in respect of the delivery report that was published in June and the reduced requirement this year, clearly indicates that Departments are getting on and doing the things that the Executive are charging them to do. That is a very positive point, which is sometimes clouded by the tight financial position.

There are pressures. I suspect that if Departments are asked whether they have pressures, they will always provide a long list, even in the most benign of public expenditure positions. We have received that long list again this time. That is not to say that it does not include real pressures. I point to one fundamentally important piece of evidence. As Mr O'Loan articulated, CSeries and swine flu are two issues accepted by the Executive as being of strategic significance. The approach taken by each Minister in the Executive was that they must dig into their departmental budgets to find money to deal with those important issues. That somewhat goes against the notion of a crisis situation in which every penny is under pressure. Ministers would not be happy to do that if it meant fundamental difficulties for their front lines.

It is about trying to get a balance. I am not saying that there is not merit in what Mr O'Loan said, but it can be over-egged when we focus on a long list of pressures identified. A lot of it is speculative and is about Departments wanting to do new things, which is absolutely right in a context in which there is money sloshing about, but we are not in that position any more.

As regards the broader position, we are also in something of a transitional period. We should not forget that, despite the reduction in reduced requirements, about £48 million came back from Departments. We are in the transitional period because of the high levels of underspend prior to the Executive. There was an overcommitment approach to deal with that. That approach is still with us, but the underspend is not. The Executive is removing that approach from its system and there are plans to do that before the start of next year. I expect that, in the near future, we will be back in a more benign environment in which we have a monitoring round with flexibility to deal with the rough edges that inevitably appear in the course of a year.

Mr O'Loan:
I still see us sitting with a major problem, unless something significant changes in the medium term. In the House yesterday, I described it as a different way of managing the situation, and I felt that it got a good response from the Minister. He was very alive to the difficulties that exist.

One method used to deal with the inescapable issues yesterday was top-slicing from departmental spend. That is a very crude method. During a previous Committee meeting, Mr Pengelly talked about the cessation of lower priority projects. However, there has been no mechanism created to facilitate that. A sequence of Finance Ministers has been very resistant to revising the Budget in any significant way, and, presumably, that is coming from advice from departmental officials such as you.

What is lacking is a mechanism to identify and thin out lower priority projects, leaving money for higher priority projects, including new projects that had not been thought of three years ago. Even if there were not a full-scale budgetary process, including consultation; a process within Assembly structures was absolutely necessary. Therefore, your advice to the Minister was not good.

Mr Pengelly:
I stand by my previous comments absolutely. In conceptual terms, an approach that focuses on

prioritisation and weeding out low priorities is the right approach.

Mr O'Loan:

What mechanism was created for doing that?

Mr Pengelly:

We must differentiate between the short and long terms. In a long-term planning approach, the focus should be on prioritisation. That is the kind of issue that my Minister has taken to the Executive, and they will be discussing such things concerning future years in the coming weeks.

By any measure, the adjustment to deal with swine flu was relatively small. It had to be done quickly, because swine flu is an issue for this year. Without additional assistance to the DHSSPS to deal with the swine flu issue, that Department would have had to deal with the matter internally, which would have meant going straight to the front line to try and skew resources.

On a longer term conceptual basis, a prioritised approach is much stronger, but the problem with which the Executive were faced yesterday was of a small amount of money and a rapid response. Based on their discussions yesterday, the Executive concluded that the best way to deal with the matter was for each Department to contribute a relatively small percentage of its existing budget to allow the Executive to move forward, and particularly to allow the Minister of Health, Social Services and Public Safety to move forward, with the certainty that the funding is in place to underpin that important health service.

The Chairperson:

Following on from that point on financial management, where did the money for the Bombardier CSeries project come from? The Minister's statement reads:

> "Prior to this, the Executive had intended to use this funding to offset the additional efficiency reduction of £122·8 million, which will apply next year."

There are already difficulties in trying to achieve those efficiencies. The Minister and the Departments are saying that efficiency savings are not affecting front line services. However, we are hearing something different time and again from constituents and MLAs. What robust systems are in place to ensure that this will not add even more difficulty to Departments' ability to find those efficiency savings and that this will not affect front line services?

Mr Pengelly:

To be clear, the efficiency targets with Departments at the moment are the 3% cumulative position targets. That is separate from the figure of £122·8 million, which was an additional efficiency for next year that was imposed on the Executive. To avoid the Executive having to go back one and a half years through a three-year spending period, and individual Ministers having to further embed efficiencies, the approach was to try to offset the sums received against the additional efficiency. That left the net problem of £7 million, which could be managed through a monitoring process.

The figure of £7 million is now £32 million, because £25 million of that sum has been used. That will not impact materially on any individual Department, because the figure of £32 million at block level is measured against a figure of £8 billion. I do not think that that will create an enhancement to the problem you articulated about delivering existing efficiencies.

As regards the robust systems that we have in place, the Executive agreed the efficiencies for each Department. Adjustments were made to the departmental positions, and Departments were asked to publish efficiency delivery plans, which set out, in considerable detail, how they planned to deliver those efficiencies. They are subject to views from the public. Each Department also probably had a session with its relative Committee. The Executive were clear that this is a responsibility at ministerial level, rather than one that the DFP is going to police.

We police the numerical outworking to make sure that the efficiencies are delivered, but it was left to individual Ministers to account, through their Assembly Committee and to the public, how they deliver the efficiencies.

Mr McLaughlin:

In previous monitoring rounds, the ministerial statement was always supported by a table setting out departmental bids: that transparency was absent on this occasion. Also, the opportunity to give Members an overview of the types of pressures that are affecting Departments was also lost. What was the rationale for not including the tables on this occasion?

Mr Pengelly:

The rationale was no more sophisticated than, in the normal run of events, there is an Executive meeting on a Thursday and a ministerial statement on the following Monday or Tuesday. In this case, we had an Executive meeting on Monday, so we were working through the night to get the statement ready. The bids should have been included, and the Minister, in response to a question from, I believe, Mr Kennedy —

Mr McLaughlin:

Yes, but the bids would not have changed. I know that the Executive had a look at it in the previous week.

Mr Pengelly:

To be honest, it was not an issue with the Minister; it was an issue with officials, and in the logistics of trying to pull the complete package together, a table of bids was, unfortunately, not included. The Minister has, therefore, asked that we send out details of the bids, and that will be done this afternoon.

Mr McLaughlin:

The Minister has, therefore, anticipated that, and it will happen.

Mr Pengelly:

After the session yesterday, he asked that we submit the details.

Mr McLaughlin:

Will the Committee, too, get a copy?

Mr Pengelly:

Yes.

Mr McLaughlin:

OK. Thanks a lot. It is not clear from the Minister's statement why the Bombardier matter, which was a contractual issue, emerged as a pressure. Why was that not an anticipated expenditure item?

Mr Pengelly:

By "anticipated", do you mean why is not in the DETI budget as it is such a big project?

Mr McLaughlin:

Precisely.

Mr Pengelly:

That was because the budget was struck in January 2008. The agreement between DETI and Bombardier, through what was the Department for Business, Enterprise and Regulatory Reform (BERR), and is now the Department for Business, Innovation and Skills (BIS), happened some time after that. There was then an issue about securing state aids approval. The deal was not in place when the budget was struck, so was not factored in.

When the DETI Minister agreed the deal, which was about June 2008, her anticipation was that there was sufficient funding in her Department to cover its cost, notwithstanding that it had not been a specific item in her budget settlement. Since agreeing the deal, and with the economic position changing, there was material uncertainty as to whether the company would go ahead with the project in the original timescale. On that basis, DETI surrendered some of its money. If you think back to the strategic stocktake, which agreed by the Executive in December 2008 —

Mr McLaughlin:

That is exactly what I am thinking of.

Mr Pengelly:

Money was surrendered. I think that DETI was probably the only Department that surrendered money at the beginning of the June monitoring round. Therefore, although the money was not specifically there at the time of the budget; after the budget was agreed, the DETI Minister engaged with Bombardier and they put the project in place. At that stage, the Minister was content that she could cover it. There were then uncertainties, so she surrendered some of her budget. In a sense, I suspect that her line may well be that she was asking for her own money back, as opposed to asking for additional money on top of the budget settlement.

Mr McLaughlin:

I have some sympathy with that perspective. I am not sure that I understand why the Bombardier issue was not foreseen. We are talking about planes, but there was a train coming down the track as well: the Minister knew that it was there.

Mr Pengelly:

She knew that it was there, but when she was working to put the deal in place, she was confident that she had the budget cover to do so.

Mr McLaughlin:

OK. It is not clear why the DHSSPS was not included in the pro rata approach that was outlined by the Minister in his statement. Why were all Departments not included? The Minister spent some time, even though I did ask him about the subject, explaining why it was not a pain-free process for Departments, but surely he only added to the pain if one Department was left out of the process.

Mr Pengelly:

That was unfortunate with regard to some of the figures. The net figure received the attention, and the net figure for swine flu, where there is a pro rata reduction, is £29·7 million current and £10 million capital. The full cost of the swine flu scenario that the Minister tabled is £64·6 million. Against that, the DHSSPS is contributing about £31·7 million. Therefore, a 49% contribution is being made by the DHSSPS, which consumes 48% of the block. The balance was pro rata across the remaining 10 Departments on the basis that the Department of Health had already put in place a contribution which was marginally in excess of its straight pro rata contribution.

Mr McLaughlin:

OK. There may be details of that which are not available to me. However, I have the distinct impression — knowing how the Minister has approached the subject in the past — that when final costs are determined, he may well feel that he has the right to come back and look for that balance.

Mr Pengelly:

The cost of the swine-flu scenario is £64·6 million. The Health Minister worked out two scenarios; one that he thought was low cost, and one that he thought was high cost. The difference is that in the low-cost scenario, swine flu does not progress until after vaccines are in place: in the high-cost scenario, there is a big outbreak of swine flu before the vaccine can kick in.

Originally, he focused on a midpoint between the scenarios. However, in the context that a solution involves some pro rata reduction to Departments, he has agreed to go forward with what he is absolutely confident will be the absolute minimum cost of swine flu in 2009. He believes that £64·6 million is the minimum cost. He is happy to work on that basis. The Executive recognise that because that is the minimum cost, there is a possibility that they may need to revisit that later in the year if costs escalate.

The Executive also recognise that because it is a planning assumption, and even though the Health Minister has said that it is the minimum cost, there is the possibility that costs may not escalate to that degree.

Mr McLaughlin:
I am aware of that.

Mr Pengelly:
The Executive have agreed that if the cost is not as high as the assumed cost, the money that has been taken off Departments to fund it will be returned to them.

Mr McLaughlin:
You said that the overall budget for the swine-flu epidemic is made up of a significant contribution from the Health Department's own resources and a sum comprising the pro rata levy on other Departments. Does the Health Minister share that perspective on those costs, or are we to hear more about it?

Mr Pengelly:
He would absolutely share that perspective. He is making a significant contribution to the cost.

Mr McLaughlin:
Are you content that LPS, with all of its problems, has sufficient resources to deliver the programme on rate relief, including the preparation for new reliefs from April 2010?

Ms McNeilly:
We bid for £5 million in the September monitoring round. Obviously, in anticipation of not

receiving any funding, we have been looking at where we could make savings in the Department. We have made significant progress. We had plans in place that could potentially have brought that pressure down to less than £2 million if we had maximum flexibility in our budget. However, as a result of the cut, pressure has increased to over £3 million. We will have to go back and look at other areas of the Department to see whether any other funding can be identified that can be directed to LPS.

Mr McLaughlin:

Does that have any implications for the backlog?

Ms McNeilly:

We are working to try to get that funding to LPS. If we take it from other parts of the Department, it is liable to have more impact on those areas than on LPS. The board has a commitment, if you like, to try to get that money for LPS. However, that will be at the expense of business in other parts of the Department.

Mr McLaughlin:

Of course, as an exemplar, there will be no fat found in the system — as Richard would say.

Ms McNeilly:

No. If I could find a pot of gold, that would be great.

Mr Hamilton:

I want to return to the matter of efficiencies. Will you remind the Committee of the monetary difference between the positions in 2007-08 and 2008-09? How much extra money was being spent by Departments, purely in monetary terms?

Mr Pengelly:

I am sorry. I cannot remember.

Mr Hamilton:

It was a significant amount of money.

Mr Pengelly:

Between 2007-08 and 2008-09, there was a healthy increase in the amount of money that was available. We also went from significant underspend in 2007-08 to minimum underspend in 2008-09. Therefore, two factors drove up efficiency levels. I can send the Committee the figures. There would be a difference of several percentage points in real terms.

Mr Hamilton:

That point that is sometimes missed. It is worth stressing is that better financial management is not just good in its own right, it means that tens of millions, if not hundreds of millions of pounds of additional money is being spent. In the context of facing future efficiencies in which Departments will spend almost 100% of what they have, it is always worth making that point.

The Budget allowed for the funding of shared services to be taken out of the in-year monitoring process. There is not a lot of money sloshing about to do that. How adequate is the funding for those shared-service projects?

Ms McNeilly:

Additional funding, secured as part of the commitment in the June monitoring round for shared services, has gone out to business areas. They are working on the basis that they must manage within their baselines to the end of the year. I do not anticipate that they will be in a position to come back for more funding, because they have received a strong steer from the Department and the board that that is it.

Mr Hamilton:

In projects, there is always an outlay at the start and in the first few years, with the expectation of savings down the line. When will we see those benefits coming through?

Ms McNeilly:

The projects have different profiles. I am not sure of some of the timescales but I think that some benefits will start to come through next year, although I am not sure which part of the year.

For example, I believe that Account NI's final wave went live in July. There will be a six-month stabilisation period during which the project team and other measures may still be required. However, once those elements disappear the costs will start to dip. Account NI also has a target to reduce staffing numbers in the shared-services centre, and that must be worked through as part of the business case that it has in place.

Mr Hamilton:
Given the challenging economic position, will it be hard to see that next year or the year after?

Ms McNeilly:
It will be possible to see the before and after situation of individual expenditure plans for each shared service.

Mr F McCann:
NISRA's baseline figure will increase by 37% to £11 million after 2010-2011. Is such a significant increase related to the 2011 census? If that is the case, why has it been considered necessary to bid for £500,000 in each of the past two monitoring rounds? DFP referred to painful reductions having to be made if its bid for NISRA was not met, and to the possibility of other penalties being incurred for failing to meet contractual obligations. Given that the NISRA bid has not been met, will you elaborate on the implications, including whether the penalties could be financial, which might result in even greater pressure?

Ms McNeilly:
The member is right; the increase in NISRA's baseline was for the census, and that was due to some of the awards that were made as part of the CSR that was announced in January 2008. In anticipation of not receiving funding in response to its census-linked bid in the September monitoring round, NISRA was tasked to look at its numbers again. It has identified how to reduce that pressure and is now working with a pressure of £150,000 to contain.

NISRA did that by a number of means, including looking again at its income profiles, at its vacancy management and at some of its deliverables — not proceeding with certain items to reduce what it could in the planning phase. Therefore, NISRA has been told to manage a pressure of £150,000, because there will be no funding for that either.

The Chairperson:
I thank the witnesses for coming along.