Northern Ireland
Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Strategic Financial Pressures

13 January 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan
Mr Ian Paisley Jnr
Ms Dawn Purvis

Witnesses:
Mr Richard Pengelly) Department of Finance and Personnel
Mr Paul Montgomery)

The Chairperson (Ms J McCann):

I welcome Department of Finance and Personnel (DFP) officials Richard Pengelly from the public spending directorate central finance group, Paul Montgomery from the central expenditure division and Adrian Arbuthnot from supply division. I invite you to make some brief comments, after which members will ask questions.

Mr Richard Pengelly (Department of Finance and Personnel):

I will be brief, because I am sure that members are keen to ask questions. The Minister's statement yesterday outlined most of the detail on this issue. Since the Executive and the Assembly endorsed the three-year Budget in January 2008, there have been some changes to the overall position, most notably the subsequent deferral of the introduction of water charges and the wider change in Departments' spending performance, which has been the focus of much attention from this Committee. That has helped to improve performance across Departments. Moreover, the equal pay issue has had an impact. Those are the three big issues.

Our Minister concluded that the issues were sufficiently material that, rather than let them fall to be addressed as part of the in-year process, some proactive steps needed to be taken in advance of the year. That has resulted in an overall adjustment of £370 million. A lot of that involves moving money about among Departments. The overall adjustment is 0·1% of the block in current expenditure and 1% in capital. The important point is that in 2010-11, public expenditure — the money that flows on to the streets of Northern Ireland — is planned to grow by 2·8% on the figure for this financial year. Therefore, public expenditure is still growing despite the difficult times. That will hopefully pay dividends by delivering high-quality public services and driving economic growth, which is the key priority of the Executive.

Mr Weir:

One of the innovative measures in yesterday's statement was the invest to save fund. Will you flesh that out? There is not a great deal of flesh on the bones at this stage. How is that intended to work? Obviously, there will be a central pot of money. However, will it then be a question of Departments making bids and saying that if they get £2 million here they could actually unlock £15 million through a different route? Will you give us a bit more detail?

Mr Pengelly:

The definitive detail will be subject to Executive agreement. However, I can talk about our Minister's thinking on the proposals. As we head into a constrained public expenditure position, we need to take some additional costs out of the system. The reality is that taking costs out sometimes requires an upfront investment, particularly if we are to reduce the size of some organisations, leading to redundancy costs. Redundancy costs typically have a three-year pay-off. However, an upfront payment to reduce the number of staff will bring annual payroll savings. In the Chamber yesterday, the Minister quoted the example of agriculture and said that a couple of million pounds of investment could head off the possibility of a £30 million problem in terms of any new adjustment.

The Minister is inclined to write to his Executive colleagues asking Departments to table bids against the £26 million fund, but any bid must clearly articulate its payback. It is intended that the fund will be sustained over a period of time. For every pound that a Department takes out, it must clearly indicate how it will repay that to the fund. That repayment can take place over more than one year, because it may take a few years for Departments to repay the upfront investment. The invest to save fund will continue over time, and it may be enhanced during the next Budget period if there is good uptake of it during the first wave and if it drives real value by reducing costs.

Mr Weir:

The fund has a limited pot of money. Will Departments be in a position to act as middlemen? Could the invest to save fund have broader criteria so that it could be used, for example, in the reform of local government? We are talking about big amounts of money for that. It has been said that there will be a range of upfront costs for redundancy packages for chief executives. However, reducing the number of people in those posts will mean that the councils will start to recoup money. Some decisions will be taken outside local government level. Is there openness? Can a Department become a facilitator for the invest to save fund, as well as being directly involved itself?

Mr Pengelly:

Absolutely. There has not been specific thought about what should be ruled in or out, but that mechanism could work. In many ways an invest to save fund is like a bank making money available through a normal banking facility. A private sector organisation that is thinking of restructuring its normal course of business can secure a short-term loan or overdraft facility from its bank to cover the upfront costs on the basis that the organisation will deliver cash savings to allow it to repay its debt in the future. Departments and public sector bodies do not have the ability to go to the bank, so the invest to save fund puts that facility in place. The one caveat is that district councils do have the ability to secure loans from banks. Unlike central government Departments, councils can borrow from the market for restructuring costs.

Mr Weir:

I though that a lot of the issues with borrowing powers were tied in with getting sanction from central government and, consequently, were tied in with central government.

Mr Pengelly:

The borrowing powers are subject to central government approval. However, a government Department that borrowed would score directly against the Executive's spending power. If a district council borrowed, there would not be an impact on central government spending power. There is just an oversight role. I am not suggesting that that situation would not happen; it is just another consideration.

Mr Weir:

I appreciate that. You said that the issue at this stage is the Minister's thoughts on the invest to save fund; the idea still has to go to the Executive. What sort of timescale do you see for the establishment of the fund?

Mr Pengelly:

We need to speak to the Minister on the back of his announcement yesterday. Our advice will be to contact Departments very quickly so as to commission bids and bring them back to the Executive.

Mr Weir:

To see what the level of potential interest is.

Mr Pengelly:

The fund is intended to help deliver savings in 2010-11, so it is important that Departments are clear on what money is available and how they can use it as soon as possible.

Mr O’Loan:

I support the invest to save concept, and it is very good that we are doing that during a difficult time for spending. I asked the Minister yesterday whether the proposed fund is just for presentational and how real it is, but I did not receive clarification. It is extremely important that there is absolute clarity on the meaning of the figures.

Spending pressures are £367 million in total, and, once the £26 million for the invest to save fund is added, are equivalent to 2·6% of planned current expenditure and 10·2% of capital investment. I understand that to mean that the total money available to Departments is being reduced next year by £367 million.

In ‘The Irish News’ today, there is a table entitled “Departmental Cuts in Government in Stormont Spending”, which details the cuts in current expenditure and capital investment. The table shows that the cut to the Health Department’s current expenditure will be £92 million and that the capital cut will be £21·5 million. I cannot find that table in your ‘Review of 2010-11

Spending Plans'.

Your document quotes quite different and lower percentages. It says that the actual effect will be a reduction of only 0·1% in current expenditure to £9 billion and of only 1% in capital investment. The only departmental table that is provided in your document tells us that the current expenditure budget for the Health Department has increased from £4,273 million to £4,298 million — an actual increase. A small reduction in the capital spend is mentioned. Explain in layman's language whether we are right to think that the total amount of departmental spending is being reduced by £370 million. What other talk is going on in the document?

Mr Pengelly:

I will do my best to answer that, but the issue can be quite complex.

Mr O'Loan:

It ought not to me; it should be very clear.

Mr Pengelly:

From our perspective, there is some advantage in the issue being complex.

The easiest illustration of the point is to take the position with water charges. The overall pressure due to deferred water charges is £213 million; about £120 million in current expenditure and £93 million in capital investment. That means that the Department for Regional Development faces an additional pressure of £213 million. Therefore, £213 million has to be taken off other planned spending to address that pressure. In overall terms, that has a zero impact, because, if it was funded just through reductions in other Departments, the spend of other Departments would be reduced by £213 million and the spend of the Department for Regional Development would increase by £213 million, because the pressure was supposed to be funded externally. In overall departmental expenditure terms, that has a net zero impact.

There are other issues with regard to health that I will come to in a moment. The table on page 26 of the spending plans review document shows that the total additional savings were £243 million. Against that, there were allocations, primarily to the Department for Regional Development, but also to the creation of the invest to save fund, which come to £157 million. There is some churn within the £370 million gross adjustment, but some of that is being allocated to other Departments. The net effect of that is the very small reduction in overall terms.

The other component which is particularly significant for health relates to technical changes and is also shown on in the table on page 26 of the review document. Health has benefited from a technical change of £116 million. We can write to the Committee to explain the situation in more detail, but it relates primarily to a change in the treatment of pension costs. That means that the Treasury is giving us additional spending power to deal with that issue. That is why health expenditure seems to increase over the period in current expenditure terms. It is due to that technical change. In a sense, however, it is still more public expenditure scoring against Departments, and that is why there is an anomaly whereby there is a gross reduction of £370 million — 2·4% current and approximately 10·4% capital — is only 0·1% current and 1% capital in overall terms.

Mr O’Loan:

I am just using health as an example. The Minister is faced with a situation in which he has something like £100 million less to spend. It is as simple as that.

Mr Pengelly:

The Health Minister?

Mr O’Loan:

Yes.

Mr Pengelly:

Yes. That is a fair summary of the situation with regard to the Health Department.

Mr O’Loan:

I do find that strange.

Mr Paul Montgomery (Department of Finance and Personnel):

He has to make savings of £100 million. His budget, because of the additional budget cover provided for technical changes, has actually increased. There is a subtlety there.

Mr O'Loan:

Is the table presented in your document a more truthful reflection of things? Does the Health Minister have more money to spend?

Mr Montgomery:

His budget has increased, compared with what is set out in the previous budget document.

Mr Pengelly:

It depends on how we focus on the measurement. Simply put, the figure is bigger because of technical changes. To be absolutely fair, the technical change reflects that a certain activity that was recorded at a certain value will have to be recorded in future at a bigger value. Although the number is bigger, it does not put any more money into the Health Service for the delivery of healthcare.

Mr O'Loan:

The question, across all Departments, is what money is available to allow Ministers to do their job and deliver their departmental targets.

Mr Pengelly:

In those terms, the reduction is £92 million and £21 million.

Mr O'Loan:

That is the reality.

Mr Pengelly:

Yes, but the reality of the Minister's view is that, in the context of a budget of over £4 billion, there is scope for additional efficiency savings. That means that although the amount of money that is spent will be reduced, it will not necessarily have a one-for-one impact on the provision of healthcare.

Mr O'Loan:

How he responds to that becomes a matter of management. There has already been a succession of efficiency savings, and we are saying that the response to that may be that there will be others. We have bottomed this out to some degree. I still find the presentation of the table in your document to be strange, but the reality is that there are departmental cuts of the order of £370 million.

Mr Pengelly:

They are reductions.

Mr O'Loan:

They are reductions in the money available to the Departments, which is a cut in their budgets, of the order of £370 million.

The £100 million for the Civil Service equal pay claim is mentioned on page 19 of your spending review document. It is worded as follows:

"This is offset by the £100 million in additional current expenditure which was negotiated with the UK Government in late 2008."

My recollection of how that £100 million was talked about was that £100 million had been made available to deal with a number of pressures, not just equal pay. Part of it was extra borrowing, and part of it came from money that was brought forward. I do not see how money can be brought forward any more, because this is the final year of a three-year round. I might be wrong, but I thought that we had already availed ourselves of some of that facility. An extra £100 million was certainly not put into the Northern Ireland block to deal with the equal pay issue. Is it a question of seeking permission to borrow a total of £100 million and using that entirely to address equal pay?

Mr Pengelly:

The agreement, which was made in November 2008, referred to bringing forward capital expenditure from 2010-11 to 2009-2010. At that time, it was anticipated that the equal pay issue would crystallise in the current financial year. The likelihood and expectation now is that it will crystallise in 2010-11, so the £100 million facility will amount to using some money that was allocated for capital in 2010-11 to address the current expenditure pressure of equal pay.

The consequences of that for capital expenditure have been built in to the adjustments for 2010-11. Of an overall forecast cost of equal pay in the region of £160 million, £100 million has already been provided for, so the adjustment that will be needed in 2010-11 is the residual amount of £60 million. None of that package has been used to date.

Mr O'Loan:

None of the £100 million has been used? What form does the £100 million now take? Is it increased borrowing?

Mr Montgomery:

There is £71 million comes from reinvestment and reform initiative (RRI) borrowing and £29 million from the use of capital.

Mr O'Loan:

To achieve the savings that have been talked about, are we into an arena of having an embargo on promotion and recruitment and measures such as pay freezes? The document does not seem to refer to that, but I hear elsewhere that that is part of the thinking.

Mr Pengelly:

We have commissioned inputs from Departments on that, because pay costs are clearly a significant component of overall public expenditure. Something in excess of 50% of total current expenditure ultimately manifests itself as public sector pay through the health and education sectors. Therefore, we are looking at the scope for containing that expenditure, and that will include looking at pay, recruitment and promotion embargoes, but no decisions have been taken on that yet. We are looking at the numbers that would be associated with that, and, more importantly, what the implications would be. Although a promotion freeze would save money, it could make delivery of the core public services impossible; certain vacancies must be filled. We are looking at that issue in detail, but we must proceed with caution.

Mr O'Loan:

One Department could not do its own thing on that; a joint response would be required.

Mr Pengelly:

The Executive have asked for more information, and an Executive discussion will take place on that specific issue.

Mr O'Loan:

Is the thinking from DFP that that is a significant element of dealing with the pressures for next year?

Mr Pengelly:

That thinking is prevalent across the Executive; all Executive members recognise that pay is a significant component.

Mr O'Loan:

Are we talking about a public sector pay freeze for next year?

Mr Pengelly:

No decisions have been taken. We are trying to understand the position and what the implications of any approach would be. It will be for the Executive to reach a conclusion on that, but no conclusions have been reached.

Mr O'Loan:

Are you having discussions with Departments along those lines?

Mr Pengelly:

We are not having discussions with Departments. We are analysing the position, which will be brought to the Executive for them to take a view on how they wish to proceed.

Mr McQuillan:

Is there an audit trail between the Departments' budget lines that provides evidence that the efficiencies saved in the 2008-2011 Budget are being reinvested in front line services?

Mr Pengelly:

The main audit trail for that is that the efficiencies that Departments were charged with delivering in the 2008-2011 period were removed from them and the Executive allocated that money to other Departments. The money has already been removed and allocated and is being spent by other Departments. We are not asking Departments to deliver savings and reinvest them. The money was taken from Departments, and that is the clearest demonstration that that has happened.

Mr McQuillan:

There is still no guarantee that the money has been reinvested in front line services. Departments could use that money, when it is reallocated, for anything.

Mr Pengelly:

In late 2007 and early 2008, the total efficiencies across the three-year period were removed from departmental baselines and were looked at by the Executive, in conjunction with the money that came out through the national spending review and through the Barnett consequentials. That formed an overall pot of money, which the Executive then allocated to Departments, based on the bids presented. However, it was not kept in two discrete areas, through which some bids were financed through efficiency savings and others through Barnett consequentials. The money was removed and it was allocated to front line service improvements. It is very difficult to get an absolutely clear linkage, but, at the macro level, we could clearly demonstrate that allocations were funded by that.

Mr McQuillan:

This paper went through the Executive, and all the Ministers agreed to it. However, yesterday, after the paper was introduced to the Assembly, I found it very strange that it seemed as though the Minister of Health did not know anything about it. He seemed to be very shocked about losing £100 million of spending.

Mr Pengelly:

As regards the discussion that took place at the Executive; obviously, I was not present at that meeting, so I am not privy to the discussion or the points that were made. However, our Minister is clear that he has published a set of proposals that he took to the Executive, and he has Executive agreement to publish those proposals and to consult on that basis.

Mr McLaughlin:

My question on end-year flexibility came a bit left of field to the Minister yesterday, but it was not my intention to ambush him. I know that he had to engage in some rapid consultation. Did he get the figures right?

Mr Pengelly:

Clearly, I am reluctant to criticise him.

Mr McLaughlin:

It is not a criticism. He did not have his notes with him, and, in fairness, he indicated that he would come back to us on the matter.

Mr Pengelly:

As members will appreciate, the problem with end-year flexibility is that it can be quite complex, because there are many different ways that we can analyse the end-year flexibility and come up with different figures. I think your question was about how much end-year flexibility is available at the moment. That is a difficult question for me to answer without putting some supplementary questions to you. With respect to previous underspends by Departments, there is a pot of money that sits in Treasury that is marked against the Northern Ireland Executive. The separate question is how much of that money has Treasury agreed that we can draw down annually. Then, as we move forward, that gets topped up by subsequent underspends.

We talked briefly to the Minister yesterday, and we are in the process of putting together a comprehensive analysis of the EYF position. He is planning to write to you with that information in the next few days to give you full clarity. You will then be able to see all the different components and how it is made up. You can get back to us if you want further clarity on that.

Mr McLaughlin:

It would be prudent to wait on that analysis, so I will not press that issue any further. In respect of the asset management capital realisation, when will the central asset register be available? It has been recommended for some time now.

Mr Pengelly:

There is a national asset register, which was produced a number of years ago, and it has been through two or three iterations. I cannot remember when the last register was produced, but it was a UK-wide publication that covered all the devolved Administrations.

Mr McLaughlin:

The task force was asking for that, and it was doing so in respect of how the register was built into the Programme for Government and receipts being projected into the expenditure programme.

Mr Pengelly:

The initial work that Ed Vernon led in respect of the realisation task force was reported in late 2008. The First Minister and deputy First Minister invited Ed back to provide an update report, and my understanding is that he presented it to the First Minister and deputy First Minister a month ago. They are currently considering how to roll that forward in the light of the changed circumstances since November/December 2008. He has made some subtle tweaks to the report, but there is no fundamental change in respect of the original approach. However, we hope to engage with colleagues in OFMDFM on the issue fairly soon. We see that as a significant component. We are dealing today with marginal adjustments to the 2010-11 position. The next big strategic exercise that we face concerns spending plans for 2011-12 and beyond.

Mr McLaughlin:

Exactly, and that is what I am leaning towards.

Mr Pengelly:

We have a real sense of urgency that that needs to be fundamentally embedded into the process. We must look at how we manage our capital base, make best use of it and dispose of, or recycle, the bits that we do not need.

Mr McLaughlin:

There are two issues arising, one of which is the loss in receipts. Even though market conditions have changed so dramatically and detrimentally, is any ongoing consideration being given to releasing some of the assets to the market in a graduated way in order to generate revenues?

Mr Pengelly:

The assets —

Mr McLaughlin:

In his statement yesterday, the Minister seemed to indicate that no consideration had been given to that in the past two years and that there will not be any consideration given to it next year. To me, that seems to indicate that there is no proactivity.

Mr Pengelly:

There are two different levels to the issue, and you are focusing on what I see as the more important and strategic approach. At the moment, all assets belong to individual Departments of some shape, size or description. Therefore, they can be looking at assets that are under-utilised, or unutilised, and think about disposing of them. In some cases, Departments may think that the market is at such a low point that it is better to let assets sit for a period of time. In other cases, they may conclude that it is better to sell assets and take the money now rather than waiting for two or three years only to see a relatively small increase in their value.

Mr McLaughlin:

It is that calculation that I want to look at now. Is the cost of retaining the assets factored in, and, if so, who factors it in? For instance, how does the Executive take a strategic decision that strikes a balance between the potential to realise revenues now and the cost of waiting until the market improves?

Mr Pengelly:

At the moment, decisions with respect to value for money are for individual Ministers.

Mr McLaughlin:

Is there any strategic Executive approach to the issue?

Mr Pengelly:

Not on a case-by case basis. Moving forward, the intention, which came through in the report, is that we need to take a more holistic view, not so much about what we do with individual assets, but, more importantly, that we should consider bundling together assets, from different Departments, that border one other. There is also an issue about whether the Executive needs to secure planning permission before assets are disposed of to the market. We also need to make sure that Department A does not sell an asset in year 1, only for Department B to seek to buy it back in year 3 or year 4 because it needs it for a particular piece of business: that would merely allow a property developer to make money in the interim. We want to embed that key point into the process.

Mr McLaughlin:

Is that an argument for having a centralised approach?

Mr Pengelly:

It is, and that is the work that we are doing at the moment. We hope to have it firmly in place as we move forward with developing plans for 2011-12 and beyond.

Mr McLaughlin:

Does that mean that there is an ongoing exercise to identify, and keep an up-to-date register of, surplus property that is owned by the Departments across the spectrum? Is there some kind of independent mechanism that will inform Ministers or departmental officials?

Mr Pengelly:

As part of the review, considerable work done was done to identify those assets. It was not done across Departments; it focused primarily on Departments with big asset bases. Moving forward, we want to do that on a comprehensive basis across all Departments and to update the record regularly. The value of such an approach is not so much in individual Departments knowing what they have as in the entire block knowing exactly what is there and providing greater management of it.

It is very much a work in progress. The report is with the two Ministers, and there are recommendations to put infrastructure in place underneath that will take responsibility for the management of that programme of work. That will help to ensure that it is done properly and with the full engagement of Ministers in the Office of the First Minister and deputy First Minister and the Executive.

Mr McLaughlin:

Does that indicate that, for a combination of reasons, there may not be any investors who are prepared to take the assets on at this point in time? Is it safe to assume that that is not a factor in calculating how to respond to pressures; in other words, that the Executive or individual Departments will not try to offload some of the surplus assets?

Mr Pengelly:

It has not been a significant factor in the present consideration for 2010-11. Some of the issues with respect to 2010-11 have arisen because the disposal of assets has not taken place at the pace anticipated when the plans were set. The Executive are obviously reluctant to try to address the problem —

Mr McLaughlin:

The baseline calculations are now totally awry.

Mr Pengelly:

Yes; however, against that, there are some signs of recovery in the property market. It is very early to be getting too optimistic about that, but, as we move into 2010-11, although there are no coherent plans based on figures, the Executive have left some capacity on the property management side, on which we will keep a strong focus.

As we move into 2010-11, greater signs of recovery will ease the position and provide greater scope for additional investment. Therefore, the issue has not been completely ignored, but we have recognised the risks of trying to quantify it too precisely at this early stage.

Mr McLaughlin:

In facing into the next Budget, as opposed to working out the existing one, is there an opportunity to recast the entire capital assets realisation process, which, I assume, will stay in place?

Mr Pengelly:

It will.

Mr McLaughlin:

Will the projected receipts reflect the real world costs? It will be seen whether property will ever return to the same level, so that exercise must be conducted.

Mr Pengelly:

Yes, all that will be revisited and that will be a substantive and early piece of work in the next process.

The Chairperson:

You mentioned a "more strategic approach" to that issue. In relation to the Minister's statement to the House, the booklet 'Review of 2010-11 Spending Plans for NI Departments' submitted to the Committee by the Department, refers to efficiency savings involving:

> "a reprioritisation of the spending allocations between departments"

being done on a more targeted basis. Who is setting those targets? Within them, how can we be assured that front line services or Programme for Government targets are not affected?

Mr Pengelly:

The key evidence base for the targeted savings was inputs by individual Ministers to our Minister. That was followed by a round of bilateral meetings with each member of the Executive to talk about the position from the individual Minister's perspective and what the issues were in his or her Department. That allowed our Minister to propose to the Executive how to target the reductions across Departments. That proposal was put to the Executive and agreed as the basis for this public consultation. Thus, there was inclusive dialogue; first, between the Finance Minister and each individual Minister, and then in a round-table discussion at the Executive.

The Chairperson:

Did other Ministers have an input into setting those targets?

Mr Pengelly:

Yes, absolutely; through both bilateral engagement and collective discussion.

The Chairperson:

Has some sort of evidence-based inquiry been carried out to show that targets will not affect front line services or the Programme for Government?

Mr Pengelly:

That is almost the next stage. The targeted reductions — for Health, 2·1%, and DETI, 2·2% — are based on the bilateral engagements, which very much dealt with strategic positions for Departments on some key issues. That was debated by the Executive.

The next stage is for individual Ministers to take the issue that is specific to their Department and consider how they will deliver on that issue in the context of that Department. As reflected in the booklet given to the Committee, our Minister has written to all his colleagues asking for detailed information on how savings will be delivered to be published on the departmental websites. We see that as the key evidence base for the consultation process, along with the dialogue with individual Assembly Committees and this Committee's overview of that process, which will come back to the Executive before a final decision is made.

Mr Farry:

To pick up on the latter point; did the Ministers suggest what was achievable in their Departments, or was that determined by the Finance Minister, based upon more informal soundings with the Ministers?

Mr Pengelly;

It started with the key question posed by the Finance Minister to all Departments asking how they would deliver savings of x% and y%. Some Departments answered by agreeing to deliver savings in certain areas but said that the only way to deliver more would be to stop particular services. That would be untenable for public service provision. So, it is about getting that information from all Ministers and, based on that, —

Dr Farry:

I note that you said x% and y%. I do not necessarily expect you to tell us what x and y were, but were they the same for each Department?

Mr Pengelly:

They were the same in all cases. We set the saving targets higher than the total that we would need, because that technique gives us a bit of wriggle room: taking less from one Department means taking more from others.

Dr Farry:

How do you factor in the fact that some Ministers will enter into the spirit of the process more generously by being upfront about what is achievable, while others may play games, hold back, and portray a more pessimistic position about what is achievable in their Departments?

Mr McLaughlin:

You assume that they will all play games.

Mr Pengelly:

I will deal with the question conceptually. Otherwise, it will be suggested that I am encouraging Ministers to act in such a way.

Dr Farry:

I am not pointing a finger at anyone.

Mr Pengelly:

In effect, that is where I and my colleagues from the Department of Finance and Personnel come in. Our day job is to have detailed interaction with Departments and understand them. For instance, Adrian Arbuthnot leads our health team. On a daily basis, he undertakes detailed dialogue with Health Department officials. He understands its programmes and policies and how it is delivering services, although I am not trying to say that it is Adrian’s fault.

Dr Farry:

We are glad to have him with us. He is a key person in government.

Mr Pengelly:

Our Minister had a bilateral meeting with each Minister to get his or her view, and, during internal discussions with our Minister, we factored in our sense of where the Department was on efficiencies, programmes and new policies. That allowed the Minister to form his view and to table a proposal for the Executive. Subsequently, in open discussions in the Executive, individual Ministers have an opportunity to rebut such proposals.

Dr Farry:

Will the revised spending plans be subject to a vote in the Assembly, or will they be picked up in the forthcoming Budget?

Mr Pengelly:

Ultimately, they will be subject to a cross-community vote in the Assembly.

Dr Farry:

The matter will therefore, in effect, be treated as a Budget revision.

Mr Pengelly:

Yes.

Dr Farry:

The difficulty with the figures on pages 26 and 27 of the 'Review of 2010-11 Spending Plans for NI Departments' lies in the difference between resource and cash accounting. A layman thinks in cash terms, whereas, as officials, you think in resource terms, so it is difficult to get a clear picture. In simplistic terms, the key comparison to make is between the published 2008-2011 figures and the savings. However, on a stand-alone basis, the draft revised spending plans do not give a true picture of the cash challenges that Departments face.

Mr Pengelly:

One would need to brigade the additional savings and allocations together. I think your point is that you could nearly set the technical changes to one side.

Dr Farry:

As regards allocations, that is almost exclusively water charges in both cases against the two DRD figures.

Mr Pengelly:

It is, but there are some additional allocations to the Assembly, the invest to save fund, DETI and DFP.

Dr Farry:

I missed the detail of your answer to Declan’s question about the source of the money for water charges. It will not come from any Department, and those two figures considerably distort the overall impression of where things are going. Will you clarify where the money will come from?

Mr Pengelly:

As regards water charges, the money is coming off all 11 Department and is going to the DRD. The money will still be spent; it will just be spent in a different place than was originally planned.

Dr Farry:

Where do you see the money coming from, with respect to savings?

Mr Pengelly:

In current expenditure terms, the saving of £243 million, one of the components of that figure is the impact of water charges. That comes off all Departments. In effect, it is being shifted into the DRD; although it will not reduce the overall spend by Departments.

Dr Farry:

When the Budget was first struck in 2007 for 2008-09 and, subsequently, when the decision was taken to continue funding water charges, it was understood that there would be current and capital investment in water services in 2010-11. The expectation was that that money would be raised through water charges.

Mr Pengelly:

As regards 2010-11, the assumption was that two thirds of that cost would be raised from charges; one third in this current year and two thirds in —

Dr Farry:

So, the goalposts have shifted in that sense, because a decision was taken, for political reasons, to defer water charges further, which means that that money has to be found elsewhere?

Mr Pengelly:

Yes.

Dr Farry:

That money, therefore, comes from Departments. If that distorting aspect is removed, particularly from the capital end, we are talking about a 10% decrease across the board. I could understand an argument about how those efficiencies could be made in current expenditure through administration costs. However, there comes a point at which one is talking about cuts in services, even at times when administration is part of the service; especially if it interacts with customers. With respect to capital, in particular, the decision, in essence, is that certain projects will not go ahead.

Mr Pengelly:

We certainly do not accept that. I will use a pretty crude example: if, in January 2008, when the Executive agreed the plans, a person decided to build a house in 2010-11, they would have set aside a certain amount of money to build it. I suspect that if that person tries to build that house in June 2010, they would spend significantly less money than they had set aside. Construction prices have fallen fairly significantly since the plans were set. Inflation, generally, has fallen. Land acquisition costs have fallen materially. A very significant component of the Executive's planned capital investment is in those sorts of areas. Therefore, it is not beyond the realms of possibility that we will be able to deliver the same volume and quantity of projects that were planned, but that they will be delivered at a much lower cost. It is a change in how much will be spent; it is not necessarily a change in activity.

Dr Farry:

So, you are optimistic that there will be no loss of departmental projects because, on the capital side, you will be able to deliver the original plans? That is critical for the construction industry. I appreciate that not everything involves construction, but a key element of the plans do.

Mr Pengelly:

Obviously, I cannot give a complete guarantee that that will happen. As regards the figure that we have looked at, we are, by nature, optimists in the Department of Finance.

Dr Farry:

With respect to current expenditure, the Minister is making the point that administration costs can carry the burden of efficiencies. How long can we keep squeezing out more and more money from the administration pot without having an impact on front line services?

Mr Hamilton:

Until they squeak.

Mr Pengelly:

When we talk about efficiency, I am not sure that we restrict that to administrative efficiency. That is important. Perhaps I could ask Dr Farry a question: as a member of the Finance Committee and in your scrutiny of the Department of Finance, if we are looking at one or two percentage points in efficiency savings, would you be confident that I am operating at something in excess of 99% efficiency?

Dr Farry:

Personally? I think extremely highly of you.

Mr Pengelly:

In contextual points —

Mr McLaughlin:

Could your organisation improve on that figure?

Mr Pengelly:

Since the late 1990s, public expenditure has been through the most buoyant period of growth that I suspect that any of us will ever experience. However, when there are massive increases in public expenditure, organisational inefficiencies tend to become embedded. We have been at the efficiency game for three or four years now, and we have made some inroads. Organisations are becoming more and more efficient, and many deserve huge credit for the strides that they have taken.

Each additional pound of efficiency savings is becoming harder to generate. We are not there yet, and there is further to go. However, the first stages of efficiency tended to be a broad brush approach, such as everyone having to become 3% more efficient. We needed to become smart at that, hence the targeted approach. Some organisations have more scope for efficiency than others. More importantly, many programmes and policies that Departments are operating have been there for many years and are now in a completely different political and economic context. There are efficiencies to be had when we ask radical questions about whether a programme still fulfils a need and whether the money could be better used elsewhere in the context of a re-shaped policy.

Dr Farry:

I am certainly more comfortable with a review of policies, which would determine which are most relevant today, than base assumptions on what took place in the past.

I am concerned at the simplistic approach that some people take in thinking that more and more can be squeezed out of administration. Policy delivery requires management, and people require management. One might ask whether someone sitting at a reception desk in a hospital is part of administration or is providing a front line service. One might say that that person provides a front line service. Sometimes, the impression can be given that this task is easy and that it is all about squeezing administration harder and harder without touching public services. However, it is often a grey area.

My final question relates to invest to save. You spoke about the payback period stretching over a period of years. Is that within a three-year budget cycle, or can it span budget cycles?

Mr Pengelly:

No definitive decision has been taken. There is no reason, in view of the budgeting framework, why it could not extend beyond the budget period. A £26 million fund would be a valuable addition. Depending on the amounts involved, the payback period might be a key factor for the Executive. If the choice is between one Department borrowing from the fund and offering a two- or three-year payback and another Department offering a seven- or eight-year payback, the Executive will probably take the quick win. Payback time would influence what is allocated, but there is no reason why extending it beyond the budget period cannot happen.

Dr Farry:

It strikes me that one invest to save project is the RPA. I declare an interest as a councillor. Does the potential to deliver RPA feature within the 2010-11 framework, or is viewed as being a 2011-onwards issue to be addressed?

Mr Pengelly:

The change will fall in 2011 and beyond. It has not been ruled out; it is not specifically provided for in 2010-11, but we acknowledge that to deliver the changes in 2011 and beyond there may be some need for investment and spend in that period. I certainly would not rule out access to the fund on that basis.

Dr Farry:

I assume that it has not been covered in DOE budgets.

Mr Pengelly:

No.

Dr Farry:

So, it would have to be as the need arises.

Mr Pengelly:

Yes.

Mr F McCann:

Paragraph 3.22 in the consultation document ‘Review of 2010-11 Spending Plans for NI Departments’ refers to expected slippage in two major projects planned for 2010-11:

> “which are broadly equivalent in value to the anticipated shortfall in receipts”.

What projects are being referred to, and what is their estimated value?

Mr Pengelly:

The projects are: Royal Exchange, which is worth £110 million; and waste management, DOE, which is £180 million in total.

Mr F McCann:

What are the implications for those projects?

Mr Pengelly:

At the moment, the discussion around those projects at the Executive has been to clearly acknowledge that both are viewed as being of fundamental importance. The Royal Exchange project is a very significant development in a part of the city centre, which the Executive accepts, unanimously, is in dire need of redevelopment. The reason for slippage in the project is that the developers, site assembly and other aspects have been slow to progress. So, it physically cannot happen in 2010-11. The intention is that that project should, and will, go ahead in future years.

Similarly, as regards the DOE waste management treatment project, there are issues about advancing it. Therefore, I am differentiating clearly between a review of the need for the projects, as opposed to logistical issues with delivering them. Both are viewed as being important projects that will happen in future years.

In a more benign environment, in which the Treasury had not changed the rules on end-year flexibility, the easy thing to do would be to say that, if the projects do not happen in 2010-11, whatever money was allocated in 2010-11 will not be spent, but will automatically be carried forward into future years and spent as the projects roll out. Treasury end-year flexibility rules do not now allow that to happen.

If we underspend by almost £300 million — if that is simply not spent in 2010-11 — that money will be returned to the Treasury and will sit there until some time in the future when the Executive can negotiate access to it.

A better approach, as we have outlined, is that when money is available but cannot be spent on those projects, it should be spent on other things in the interim. That will relieve other pressures, thereby allowing us a way to restore money for those projects in future years. That is the best way of managing the issue in the context that the Treasury has determined for us.

Mr F McCann:

Has the Minister for Social Development asked for the money from the Royal Exchange project to be reallocated to other projects in her Department?

Mr Pengelly:

No.

Mr F McCann:

We heard earlier that money that is surrendered, or slippage, is used in the next financial year, and is not guaranteed in future years. What are the long-term implications for the Royal Exchange project?

Mr Pengelly:

During recent discussions around the Royal Exchange project, it was accepted that the project is of fundamental importance. There are no spending plans for 2011-12 and beyond, so it is difficult to say with certainty, in the normal run of events, that something that does not happen in one year will happen in another budget process.

The difference in this context is that a 10-year investment strategy has been signed off by the Executive. Both those projects were embedded and approved by the Executive within the investment strategy. I see the only issue as being one of timing rather than whether the projects happen. Other issues will have to be factored in as we progress the strategic budgeting process and the investment strategy for 2011-12 and beyond.

Mr F McCann:

There are no guarantees, in other words?

Mr Pengelly:

There cannot be guarantees until the Executive formally conclude. I certainly cannot give guarantees on behalf of the Executive, but they have clearly committed to the two projects as part of a 10-year investment strategy. I can see no reason why those projects should not proceed, albeit at a slightly slower pace than was originally envisaged.

Mr Hamilton:

I fear that I am becoming more like Fra, and viewing these sessions as an extension of the Social Development Committee.

How will the equal pay claim affect the Civil Service in general, specifically the Department for Social Development (DSD) and its various agencies? There is a section in the review document about the equal pay claim and its payment, but there are obvious ramifications in the longer term in terms of increased pay. How has that been factored into the review of expenditure plans? I know that this is only for one year and that the impact will go beyond that, but what work is being done for the incoming year and beyond?

Mr Pengelly:

The equal pay claim has two components. There is the back pay element, because there is six years' back pay, and then there is an adjustment to salary scales, which means that there will be a recurrent cost going forward. The element up to and including the end of the 2009-2010 financial year is being addressed as a central pressure. That component of £160 million has been factored in to the review.

The annual cost going forward is an issue for Departments. That is part of the normal cost of running a Department; it is just an increase in payroll costs. If departmental budgets for payroll costs were to be adjusted, it would be done on a pro rata approach within Departments. Money would be taken from Departments and returned to them on the same basis. It is seen as an issue for Departments.

Mr Hamilton:

I should have said that the reason I raise the point from a Social Development perspective is because of the higher numbers of those affected by the equal pay claim and subsequent adjustments. It probably has a more significant impact on that Department than it would on others. In the Social Security Agency, the workload of staff is also going up, and that is the context in which I raised that point.

There is also the issue of the pre-Budget report briefing. Have the Executive taken the decision that Barnett consequentials are being used generally to offset, or has any suggestion been made by any Minister that some of the Barnett consequentials be used for similar schemes to that which they were created for or from which they were derived on the mainland? I am thinking specifically of the boiler scrappage scheme. Has there been any proposal or thought on that at an Executive level, or, as in the past, has it been decided that those funds will go into a central pot and used to address pressures?

Mr Pengelly:

Just before I come to that, on the contextual point that you made about the impact of equal pay on DSD, I should record that the impact on DFP in proportionate terms is pretty similar. That is particularly the case with Land and Property Services, which has a very significant number of staff at those grades. I would have been shot when I got back to Rathgael House if I had not made that point.

Mr Hamilton:

You are allowed to go back now.

Mr Pengelly:

With respect to the pre-Budget report, the Barnett consequentials for 2010-11 were fairly limited — approximately £7·7 million in total. The process for considering the 2010-11 position had already started, and that was obviously dealing with a reduction. The view taken was that the £7·7 million should be used to slightly reduce the level of reduction being applied to Departments, rather than set aside as a separate fund. Therefore, replicating issues such as the boiler scrappage scheme will be left to individual Departments.

One of the key points of what the Executive are proposing for 2010-11 is the reduction of levels of overcommitment to zero. We will talk about the annual monitoring round later, but there has been a steady decline over several years, from a period of intense buoyancy, when a lot of money was being allocating in each round to deal with difficult pressures that had emerged in Departments, to the last couple of years when the main issue has been about managing the overcommitment. That is partly because departmental spending performance has improved; we are not in the territory of significant underspends. In that context, the Department feels that reducing overcommitment to zero will get us back to a more stable basis and allow us to create some greater flexibility in the course of the year to address pressures.

If DSD wants to think about introducing a boiler scrappage scheme, there will be an opportunity to table a bid for that in-year. The expectation for 2010-11 is that there will be more capacity for the Executive to respond to such issues than has been the case over the last couple of years. In overall terms, the amounts associated with such a scheme would be fairly marginal.

Mr McNarry:

You said earlier that you were not at the Executive meeting when those decisions were taken.

Which officials accompany the Minister to Executive meetings?

Mr Pengelly:

Executive meetings are just for Ministers.

Mr McNarry:

Are there no officials at the periphery of those meetings?

Mr Pengelly:

No.

Dr Farry:

The head of the Civil Service attends.

Mr Pengelly:

Yes, in his capacity as secretary to the Executive. At the specific Executive meeting when those proposals were concerned, there was no DFP official in the Executive room.

Mr McNarry:

Or outside the room?

Mr Pengelly:

I was there outside the meeting, but I was not in the room.

Mr Hamilton:

If they are not inside the room they must be outside the room, unless they are in some sort of twilight zone.

Mr F McCann:

Or in a bubble.

Mr McNarry:

What is your point?

Mr Weir:

By definition, if someone is not inside the room they must be outside it.

Mr McNarry:

I was trying to establish how far outside the room the officials were.

Mr Weir:

Perhaps they should bring a tape measure to Executive meetings.

The Chairperson:

Can we please give David the space to ask his questions?

Mr Hamilton:

I am going outside.

Mr McNarry:

It may actually hit someone one day why I was asking that question, but we will leave it where it is.

In response to Adrian’s reasonable question and your answer to it, is it factual that the Health Minister was ill on the day of that Executive meeting, and that he sent in a strong letter of resistance to the reduction of his use of money?

Mr Pengelly:

I am not sure whether I would want to comment on the state of an individual Minister's health. You asked me if is it factual that he was ill, and I am clearly not in a position to offer a factual opinion.

Mr McNarry:

Are you aware that he sent a letter in on the basis that he was ill? I am not asking you to give a medical opinion, but did he state that he was ill?

Mr Pengelly:

Sorry —

The Chairperson:

If I may intervene, David, that is a question for the Minister to answer, not the officials.

Mr McNarry:

The official responded to Adrian’s question, which was a good question. I am trying to bring an element of fact to the situation.

Dr Farry:

Was Reg Empey ill?

Mr Pengelly:

I am happy to record the facts as I know them. In advance of the Executive meeting, a letter came from the Department indicating that the Health Minister was unwell and unable to attend the Executive meeting. In that letter, he outlined his views on the Executive paper. From memory, I think that letter was sent to the Finance Minister and copied to all Executive colleagues. The letter was received in advance of the Executive meeting; as I said, I was not part of that meeting, so I do not know how the discussions took place during it. The records of the meeting show that agreement was reached on the proposals that were tabled by my Minister. That allowed the basis for the Minister’s statement to the Assembly yesterday.

Mr McNarry:

No vote took place.

Mr Pengelly:

I cannot comment on that.

Mr McNarry:

I was not there either, but that is my understanding.

The Health Minister says that he will raise the issue at the next Executive meeting. It is unfortunate that that was said yesterday following the Finance Minister's statement and that he and the Health Minister aired their differences in public, but the Health Minister said that he will raise the issue at the next Executive meeting, and that is an important issue. Is the Committee to take it that yesterday's statement is written in stone?

Mr Pengelly:

I am trying to be careful not to cover areas that are outside my remit. The Finance Minister presented a paper to the Executive, and that paper was considered on 17 December 2009. Executive agreement was reached on that paper, and one of the points of agreement that the Minister was seeking was on the reductions as a basis for a statement to the Assembly on 12 January 2010, which would launch a period of public consultation. That was agreed and has happened. I cannot speculate, but the Executive may consider that the next time they meet and decide on an alternative. The Executive have primacy, but they have already taken the decision to launch the public consultation on that basis.

Mr McNarry:

That is why I asked whether the statement is written in stone. Correct me if I am wrong, because I am looking for some answers. The Department of Finance and Personnel is involved in bringing together Departments to the Executive, where the Ministers who were in attendance agreed to the paper and the Minister's statement. Did the Health Minister, or his Department, make a reasonable case to your Department to challenge the £100 million reduction? If so, did your Department decide to rebut that case, or was the decision taken by the Executive in his absence?

Mr Pengelly:

Any and all decisions about public expenditure allocations or reductions are matters that are solely for the Executive. That is the only body with decision-making powers. The role of my Minister is to make recommendations and proposals to the Executive for consideration and approval or rejection. My role is to provide advice to him. Based on our knowledge —

Mr McNarry:

Can I stop you there? Was your advice to deduct £100 million from the health budget? Did your Minister make that case to the Health Minister based on that advice?

Mr Pengelly:

It would not be fair if I were to talk in an open forum about my advice to the Minister or about the Minister’s advice to the Executive.

Mr McNarry:

What are you here for?

Mr Pengelly:

I am here to explain decisions that have been taken by the Executive.

Mr McNarry:

Are we not allowed to scrutinise your decisions and advice? I am only asking whether you advised the Minister to deduct £100 million from the health budget.

Mr Pengelly:

I am not sure that my advice has any value or meaning. The reality is that the Executive's decisions are what matters.

Mr McNarry:

You are paid well enough that your advice should have value, meaning and respect in the Committee.

Mr Weir:

Surely the advice that civil servants give to their Minister is, ultimately, confidential. It is not appropriate to query individual advice.

The Chairperson:

Members need to be careful with their line of questioning and comments. Members should have the space to question officials. However, they must decide whether that questioning is inappropriate or appropriate. If it is not appropriate — and I have been advised that it is not — I will have to say that. I want to give members as much space as possible to ask those questions

Mr Pengelly:

I have mentioned specific advice to the Minister. Is the question about the case that the

Department of Health makes about its position?

Mr McNarry:

At some point, a proposition was made to reduce the Health Department's budget by £100 million. That had to then be discussed with the Health Department. What feedback did you receive from that Department apart from the Minister's letter? You said that one of your jobs in the Department is to talk to your opposite numbers in other Departments. I am trying to determine at what stage the Department of Health made the case with you or your officials on the prospect of its budget being knocked back by £100 million. Obviously you accept that the Department is not going to roll over on that. What was the Department's case? It was either a fait accompli that the £100 million was written in a tablet of stone, or else the Department made a poor case.

Mr Pengelly:

Once a proposal is circulated in draft format to all Departments, they respond with their cases against it. It is difficult to say whether any Department made a more compelling case against the proposed reduction. In an isolated case-by-case analysis, virtually every Department, if not all of them, makes a strong case about the importance of what it does. At the end of the day, we are dealing with Departments that are in the business of delivering important public services. That is certainly true for the Department of Health. However, it is also true that all other Departments deliver valuable services to people, often vulnerable people who are in dire need of additional money. Although an individual Department's case may be compelling, it is not about considering them in isolation. The reality is that the Executive had to apply reductions to square a difficult position.

Mr McNarry:

I am trying to say that the reduction was £100 million at the beginning. It was not £80 million that went to £100 million, and it did not come down from £150 million to £100 million. I am trying to establish whether there were negotiations when the advice was given to the Minister to come up with those chops. Was that Department told to take it or leave it? There is no flexibility; this is what we are putting to you as one of a number of Departments. However, I will concentrate on the Department of Health. Was the £100 million negotiable?

Mr Pengelly:

Everything is, by definition, negotiable until the Executive take a final decision. We start by trying to quantify the extent of the problem at Executive level. It was approximately £367 million.

Mr McNarry:

I understand that somebody pointed the problem out to you a long time ago and that you did not believe it. I am not interested in the problem; I am interested in how we deal with it.

Mr Pengelly:

Once we quantified the overall problem we then began a process to deal with it, which included seeking inputs from Departments at official level, having substantive dialogue at official level, having ministerial bilateral meetings and exchanging ministerial correspondence. A draft Executive paper was then circulated, and Ministers had further opportunity both to comment in writing in advance of an Executive meeting and then in open discussion. There were quite a number of discussions about the issue at Executive meetings. The position was always fluid throughout that process, up until 17 December, when the Executive agreed the proposal as the basis for public consultation.

I emphasise that it is a proposal by the Executive for public consultation. In that sense, it remains fluid. The Executive will not take final decisions on it until March, when they will lock down the firm expenditure plans for Departments. The public consultation and the consultation with this and other Assembly Committees is still part of that fluid process.

Mr McNarry:

I am glad of that.

The Chairperson:

On what information do you base your analysis that that amount is what is needed?

Mr Pengelly:

In relation to one Department?

The Chairperson:

In relation to what you are expecting of any Department.

Mr Pengelly:

It is based on a number of factors, including the knowledge that we in DFP accumulate through our day-to-day business and specific dialogue with Departments. We also commissioned a specific input from each Department as to the position in the Department, how the Department would effect a series of reductions if applied to it, and how it says it would deal with an issue. That is supplemented by bilateral discussions between the Finance Minister and the relevant Minister. There are a number of components. It is not a mathematical formula enabling us to churn in some numbers into a machine and get a definitive answer. There is a heavy degree of subjectivity and analysis at both ministerial and official level.

Mr McNarry:

Do you take the point that we are here in this Committee — I realise that I cannot push you as much as I would like to — and you have said that all those efforts have been made to prevent what happened yesterday, but they did not prevent what happened yesterday. What happened was a public row between two Ministers of the Executive about the statement and the money. That is now going to run until 2 March, which is when the Minister wants a report back from us. That is why I am asking whether the proposal is written in tablets of stone. If the Minister is saying that he needs £400 million, are we saying that he is getting it? Are we going to be entertained with "McGimpsey had some concessions; he is giving up £60 million instead of £100 million, but whatever else is needed is being taken from the Departments of some other Ministers."

Mr Pengelly:

Both my Minister and the Executive see the value of the consultation process, which remains fluid. The concern that my Minister articulated yesterday is that when he goes into periods of external dialogue and consultation he tends to get a series of messages that he should not take so much from Department X or Department Y. That is understandable, but he would see it as a valuable input if he received a report back suggesting a different way of doing it, and that would be tabled by him for the Executive to consider. It remains fluid.

Mr McNarry:

Does he have alternatives?

Mr Pengelly:

This is the proposal that the Executive have endorsed. That is now progressing through the Assembly structures and the consultation.

Mr McNarry:

Then yesterday's row was about nothing.

The Chairperson:

Mr Pengelly is not here to answer questions about yesterday's row, but I can understand the point you are trying to make. What analysis and information is the proposal based on?

Mr McNarry:

I appreciate your position, but I still think that you are being shielded.

The Chairperson:

I am conscious that Dawn has been waiting, Peter.

Mr Weir:

I just want to check a couple of factual points. I will not take Mr Pengelly into any difficult territory. For clarification, the position regarding health in this Budget, roughly speaking, £100 million out of the £370 million — which amounts to a little more than a quarter, about 26% or 27%, is that right?

Mr Pengelly:

Yes.

Mr Weir:

And is the overall share of the Budget given to the Department of Health above or below 50%?

Mr Pengelly:

It constitutes about 48% of current expenditure; in capital expenditure it is a bit lower. The best way that we can illustrate the degree of skewing is to split current and capital expenditure. If we took a straight, pro rata reduction off every Department, it would be 2·4%. The reduction for Health is 2·1%. The average for all other Departments, to compensate for that, is 2·6%. Therefore, our Minister's position is that some protection has clearly been afforded in recognition of Health.

Mr Weir:

If the £370 million reduction was pro rata, would something around £150 million or £170 million have come off Health?

Mr Montgomery:

The overall figure would have been about £140 million or £150 million.

Mr Weir:

No one wants to see any degree of cuts, so Health would, at least proportionately —

Mr McNarry:

You are codding. You are kidding.

Mr Weir:

Sorry, I am dealing with the facts, David, and the reality is that it is clear that Health has received less of a reduction, in percentage terms, than any other Department.

Mr McNarry:

Oh percentages, yes, percentages.

Mr Weir:

Health has a much bigger budget. Clearly, we are not in a position to cut £100 million out of some of the other Departments.

Mr McNarry:

You are doing very well. You did not take £150 million or £100 million off —

The Chairperson:

I cannot hear —

Mr Weir:

Hold on a second. Let me clarify the factual position. The Executive meeting has been mentioned, and I accept that the Minister of Health was ill that day. I am happy to take his word for that. He clearly was not there. Does the Department of Finance and Personnel have any indication of whether anybody else was missing during that meeting?

Mr Pengelly:

I am not aware of anyone else missing it.

Mr Weir:

I think that we are aware that the Minister for Employment and Leaning was at the meeting.

Mr McNarry:

The Ulster Unionist Minister; is that the point that you are trying to make? Leave the politics out of it, Peter.

The Chairperson:

I must intervene. It is not the officials' place to tell members what Ministers were at an Executive meeting and what —

Mr Weir:

With respect, I am simply asking a factual question.

The Chairperson:

We stopped it the last time, so —

Mr Weir:

All right, can I ask a slightly separate question then? The decision to support this Budget was taken by the Executive as a whole, leaving aside who was or was not there. Is that correct?

Mr Pengelly:

Yes, that is my understanding.

Mr Weir:

And I understand, because I think that there was some reference to a vote not being taken, that, for procedural purposes, a vote is taken in the Executive only when there is a division; is that also correct?

Mr Pengelly:

I must confess that I am not that familiar with the procedures.

Mr Weir:

However, the understanding is that the Budget, leaving aside the issue of who was missing or present, was agreed by the Executive as a whole, and we are not aware of anybody dissenting from that decision. Is that correct?

Mr Pengelly:

Yes.

Mr Weir:

OK.

Mr McNarry:

No one is disputing that.

The Chairperson:

Dawn Purvis has been waiting patiently, and I am going to bring her in now.

Ms Purvis:

Does the Department refer to efficiency delivery plans when it advises Ministers on making cuts to their budgets?

Mr Pengelly:

We do so as part of our supply role. It may be helpful for Adrian Arbuthnot to speak in a moment about our day-to-day engagement with Departments. However, the supply role is the real point of interface between the Department of Finance and other Departments. Departments publish efficiency delivery plans, and colleagues in supply will look at them on a regular basis. That informs the overall supply perspective on a Department's state of efficiency — how well it is performing on delivering previous efficiencies. That can be a double-edged sword for Departments. If they are delivering on targets easily, we will congratulate them on a solid performance, but there is a risk that we might think that delivery was a wee bit too easy.

Ms Purvis:

I want to draw that out a wee bit, because you did issue guidance to Departments on efficiency delivery plans. Did that guidance stipulate exactly which savings would be allowed as efficiencies?

Mr Pengelly:

I cannot remember. We issued that guidance a couple of years ago. I think that we tried to define, in broad terms, what we saw as efficiencies, but I am not sure that it was completely prescriptive.

Ms Purvis:

Do you think that that guidance needs to be reviewed?

Mr Pengelly:

I think that as we move into the next process in 2011-12 and beyond, we will certainly refresh all guidance. We intend to produce comprehensive guidance on all components.

Ms Purvis:

You made the point about when a Department does well in delivering efficiencies. The Committee raised concerns that some Departments may deliver efficiencies better than others. DFP undertook to do a review of the comparative impact of efficiency savings on different Departments. Have you carried out that review?

Mr Pengelly:

I was not aware that we had undertaken to do such a review.

Ms Purvis:

It is in the Committee's report on the Executive's draft Budget. The Department undertook to review the situation with respect to the comparative impact: in other words, that some Departments do well in delivering efficiencies and maybe others do not do so well. Have you looked at that overall?

Mr Pengelly:

We continue to monitor how well Departments are delivering efficiencies.

Ms Purvis:

Is that done centrally?

Mr Pengelly:

Yes, we do that twice a year. We collate information on Departments' target efficiencies, how those are being delivered, whether the efficiencies have been delivered or whether they are on track for delivery, and what the risks are.

Ms Purvis:

How do you validate whether efficiencies as opposed to cuts are being made? Do you depend on Departments' information to do that?

Mr Pengelly:

Yes. Ultimately, money is being taken off Departments, and they have set out their efficiency plans. In many ways, we look to the Committee structure to ensure that there is a healthy debate. We ask Departments to publish their efficiency delivery plans, so that their respective Committees will apply oversight and scrutiny on that point.

Ms Purvis:

Therefore, is your role to centrally monitor Departments' efficiencies by looking at figures as opposed to front line services?

Mr Pengelly:

Yes.

The Chairperson:

Are there any more questions?

Mr McNarry:

I have just one more question. The Minister said yesterday and previously — and I was glad to hear him say it — that he was encouraging the Committee and individuals to initiate a debate on what he was talking about yesterday.

Mr Hamilton:

Which we have done.

Mr McNarry:

Pardon?

Mr F McCann:

The Minister was talking about the Committees.

Mr McNarry:

He was talking about a debate, and I am certainly up for a wider debate, hopefully, in the House.

The Chairperson:

I am going to speak about whether the Committee should propose a motion for debate after we have finished talking to the officials.

Mr McNarry:

OK.

The Chairperson:

Richard, paragraph 3.24 of the 'Review of 2010-11 Spending Plans of NI Departments' states:

> "the net impact is that the Executive faces an overall public expenditure pressure of £367 million".

Will you provide the Committee with information about that in a table, because that statement does not really give us the detail that we could be given?

Mr Pengelly:

Yes.

The Chairperson:

Also, will you elaborate on what the technical changes mean? It will make it simpler for us when we are doing our report.

Mr Pengelly:

Yes.

The Chairperson:

Thank you, Richard.