



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

Review of Budget Process 2008-2011

12 May 2010

NORTHERN IRELAND ASSEMBLY

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FINANCE AND PERSONNEL**

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Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan

Witnesses:

Mr Michael Brennan)
Mrs Julie McIlhatton) Department of Finance and Personnel
Mr Richard Pengelly)

The Chairperson (Ms J McCann):

I welcome Richard Pengelly, budget director of the central finance group, Michael Brennan, head of central expenditure division, and Julie McIlhatton from central expenditure division. You are very welcome. We have already received a detailed paper from you, so I invite you to make some opening remarks, after which members will have an opportunity to ask questions.

Mr Richard Pengelly (Department of Finance and Personnel):

The Committee received a detailed paper in the past couple of days, which the Minister has cleared. The best that I can do today is to try to contextualise the review of the Northern Ireland Executive Budget process 2008-11. The origins of the review date back to the restoration of

devolution in May 2007. Although the Executive and the Assembly adopted the Budget process at that stage, it was one that had started many months before, under direct rule, and it was difficult to make a substantive change in direction in those circumstances. However, when that process came to an end, we felt that it was important to take stock and review it to ensure that it met the needs of the Assembly. The Executive endorsed that view in March 2008, and we started the review.

Unfortunately, the difficulty from March 2008 to now has been that, while we began data collection and a series of interviews and meetings with all stakeholders — and there was a useful contribution from the Committee — the last Budget process, which was initially due to conclude with a draft position being outlined in September, ran on. Indeed, it was fully adopted by the Executive and Assembly only recently. That was the main reason for the delay.

Overall, there is a strong alliance between the recommendations in the report and the points that the Committee made. One recommendation focuses on the need for more transparency around PFI deals and borrowing. That is purely a logistical issue. At the time when the Budget is concluded, we do not have that information available; it only becomes available later. When an allocation is made, it is not subject to a certain procurement methodology. Our view has always been that that would be too dogmatic. Once an allocation is in place and a project can move forward, a detailed business case is assessed by the relevant Department. Information on that is currently published as part of the Estimates; so it is available.

That is a quick overview. Committee members have the report, so, rather than listen to me ramble on, members may want to ask questions.

Mr McNarry:

The review and the report are extensive, and they are all the better for that. It is interesting that there is a section entitled, “Next Steps”. I am glad to know that you are thinking about the next steps. That section mentions the expected reduction in the level of resources available for allocation in the coming years. We must bear in mind that the forthcoming process for the Executive’s 2010 Budget will cover the period 2011 to 2014, which, in itself, may be significant. It is different to the standard approach. What are the bones of that paragraph? What might it mean in practice?

Mr Pengelly:

In practice, it differentiates between what we call the Budget 2010 process, which we are now starting, and a standard Budget process. The review focused very much on what a devolved generic Budget process should be like in a steady-state environment. Obviously, any local process is heavily influenced by the position at national level. Let me outline what would typically happen at national level with a national spending review that is to conclude in 2010. Work on the spending review would probably have started in the autumn of 2009, and significant work on the forecast position would have been carried out; it would be well-advanced. There would be a national announcement in July 2010, and the local process would really gain momentum because there would be a definitive quantification of the position. We are way behind in the 2010 Budget process because of the election and other issues. What that means in practice for this year is that, in the next couple of days, we will be starting discussions with the Minister of Finance and Personnel on how to take matters forward. We will bring something forward quickly both to the Executive and the Committee.

Mr McNarry:

I understand why you will be talking to the Minister in the next couple of days. However, in the context of the review, are you implying that it is not your intention or plan to have an annual Budget process during the three years? Is that part of your forward planning?

Mr Pengelly:

Again, it will depend on what happens at national level. There is normally a three-year position at national level. Last time, the Executive's conclusion was to put in place a three-year Budget. This takes one into the conceptual debate about whether long-term budgeting is better than short-term budgeting. The view at that time was that a three-year set of plans was better than an annual plan. The actual decision about what happens for 2011-12 to 2013-14 will be determined, but if there is only a one-year outcome at national level, there will be only a one-year position here.

Mr McNarry:

This may not be your fault; it may be as a result of circumstances dictated by the national electorate. However, we have a new Government — I do not know for how long — that are going to stick to a fixed period. They might operate differently.

Mr Pengelly:

Yes; very much so.

Mr McNarry:

How influential will that be when it comes to your response? If your mindset had been that with the Labour Government there was a three-year Budget; that might change now. Therefore, do you perceive any difficulties? Will you be able to respond in time to shorter periods?

Mr Pengelly:

Yes. The process that we have set out will be a Budget process. Whether it covers the next year or next three years; that process will stand. It simply means that if a new Government go to one-year budgeting, we will have to run that process every year.

Mr McNarry:

Do you think that it would be better for the system here if we go to one-year budgeting?

Mr Pengelly:

Ultimately, it is a view for the Executive. As far as the technical aspects are concerned, assuming that the process runs and we get a conclusion in December 2010, the 11 or 12 Departments would much prefer to know their resource position for the next three years for planning, continuity of services and knowing how they can deliver those services, rather than one year and having to make sense of what is in place for years two and three.

Mr McNarry:

Would it put pressure on the Departments if they had to go annually?

Mr Pengelly:

It might put negative pressure on the Departments, because they would start to think short term rather than long term. Experience suggests that longer term planning delivers more stability, more efficiency and better provided resources. The caveat with the three-year position would be that one would not want to categorically lock out the option of review in years two and three. The issue is that a review could conclude years two and three as originally set without adjustment, or there might be a need for adjustment.

Mr McNarry:

I understand that. I am interested in how the Departments would cope with the pressure. If there is a mindset of having a three-year Budget period and working to that period, is there a professional attitude that if it has to be done in a year, then it will be done in a year? I want a positive answer on that. Can we mirror the rest of the rest of the United Kingdom and have no casualties in respect of how the policies are driven. The public want to hear what our delivery is. Are the Departments up to adjusting to what they may be asked to do? I realise that this is a hypothetical question. However, if the new Government produce a Budget in 50 days, and I think that they will do so, are we already thinking about what might be included? We may have to adjust in 50 days rather than in a year or whatever.

Mr Pengelly:

There are two parts to that question. First, I think that the Departments are up for it: I think we can do it. At the start, I mentioned the uncertainty and the national political decision.

Mr McNarry:

You have sat here with respect to PEDU issues, and I have been fairly supportive of your frustrations. That is why I am asking you whether the Departments are up for it. I am not criticising the abilities of Departments, but it seems to me that they have not been forthcoming in seeking guidance and help. There has to be teamwork.

Mr Pengelly:

We had a very good session on PEDU recently. However, the main issue with PEDU is partly the fear factor and the reluctance, primarily at ministerial level, to engage with PEDU as a concept.

Mr McNarry:

Do not talk to me about the fear factor when we are going into the unknown and a Budget in 50 days that has people scared out of their wits.

Mr Pengelly:

It is the fear of what PEDU might do. Understandably, Departments look to the Audit Office. However, I differentiate between a slight reluctance to engage with PEDU and the Departments' ability and capacity to engage once they get past that. I do not doubt that the ability, capacity, mindset and professionalism are there.

You referred to the Budget in 50 days, which was confirmed this morning. Obviously, the Treasury was very quiet on that matter throughout the election period. However, the latest forecast is for £6 billion of reductions. Clearly, it will depend on how that amount is applied, and there are issues around protection for the health budget, although that protection is fairly poorly defined. We estimate that it would mean reductions of between approximately £100 million and £200 million to the Executive's Budget in the current financial year. I would avoid dismissing that sum as being a small percentage of £8 billion and therefore doable. A reduction of £100 million to £200 million is a significant amount of public services.

Mr McNarry:

I would prefer it to be between £60 million and £100 million, because there is a considerable gap between having to absorb reductions of £100 million and reductions of £200 million. Absorbing the latter is going to hurt.

Mr Pengelly:

That would be the worst-case scenario, and we hope that the figure will be considerably smaller than that. Several months ago, our Minister wrote to his Executive colleagues in light of the emerging forecasts. Although no work has been commissioned, and in the absence of knowing the specifics, the Departments have been given notice at ministerial and official level that they need to start thinking and be ready to move very rapidly with proposals on how we will achieve this.

Mr McNarry:

In light of what you said, and given what we do not know and the speculation around what might happen, do you think that it is worthwhile entertaining at least the argument that this upcoming period of public expenditure constraints will necessitate regular Budget reviews to see us through the next two years?

Mr Pengelly:

I understand your point. However, there is an equal argument that, when facing a period of constrained public expenditure, longer-term planning becomes all the more important. When resources are constrained, there is not enough money at departmental level to do all the things that one wants to do. Therefore, phasing becomes all the more important. To be able to say that

we may not be able to do all the things that we want in year 1, but that we have been able to phase them in through firm plans for years 2 and 3, offers coherent government and public services.

Mr McNarry:

Mr Pengelly, I am now hearing you recite the same opinions that you gave when we talked about cuts, and this is nothing to do with what has happened nationally. We were talking about cuts and holes in the Executive's Budget, which you dismissed as not being there. Last week, it was pressures; now you are talking about phasing. I, along with many others, have talked consistently about reprioritising. With what we are now facing, and with the responsibilities we have as elected representatives, we are, to use your terminology, the fear factor among the public concerning the impact on jobs, particularly public sector jobs. When I was knocking on doors, I met many people who could be described as junior civil servants. They have that fear factor and are facing the unknown.

I would like the Department to plan the steps that we need to take. The fear factor must be addressed for people who are worried about their jobs and all the things that go with that, such as family, mortgage, etc. We need to be more specific in getting that message out.

We do not know what will be in the Budget in 50 days, although we have a fair idea, and we are not sure if we will have the luxury of planning the Budget three years in advance or whether we will have to have an annual one. Nevertheless, we know what the problems are; so I am merely wondering whether they can be addressed over one or three years — within 12, 24 or 36 months. The political establishment should translate and send a message to Mr and Mrs Public, who are anxious, to potential investors, and, indeed, to everybody that this is what we are in for and that we all have to work together to pull out of the recession,. Do you anticipate that sufficient information will flow out in good time to enable us to make a quick assessment of where we will be hit?

Mr Pengelly:

As I said, we have commissioned Departments, individually and at business-area level, to look at likely implications, and we have tried to create some scenarios. Departments have been working on the information, and it will flow quickly. It is one thing to have the information, but it is another to brigade it across the block grant and consider the priorities and tough choices that will have to be made. The example that you gave is stark but good with respect to one year versus

three years and with respect to the employment stability of junior staff, which is obviously —

Mr McNarry:

I was talking about nurses; I was talking about how it will affect everyone really.

Mr Pengelly:

I was saying that it is fundamentally important, particularly in these difficult times, to keep an eye on the longer term. We can deal with the issues for 2010-11, but if we now look at the employment position for 2011-12, 2012-13 and 2013-14, we can say, because we will have done the hard work and analysis for those years, that they will be difficult times, and that the way to deal with that is to rely on natural wastage and reduce recruitment and promotion targets. Taking such steps now will be much less painful than it will be if we just deal with the short term now and do not look at those years. Then, the only way to take costs out of the system will be rapid and uncomfortable downsizing through redundancy schemes. Longer-term planning allows one to see and plan for future issues.

Mr McNarry:

I return the final paragraph? Under the heading “Next Steps”, the review refers to delay and uncertainty around this year’s spending review, which is what we have been talking about, and the implications for the timing of the implementation of some of the recommendations that you are making. Although you have made recommendations, which I welcome, you need to point out the ones that you expect to be delayed. You have said that that will happen: will you tell us which recommendations we need to score out because they will be delayed?

Mr Michael Brennan (Department of Finance and Personnel):

One key issue in the report, for example, is early engagement and consultation with the Committees on constructing a future Programme for Government —

Mr McNarry:

Let us just deal with the question. You put down recommendations and you pointed out that some of them will be delayed. Which ones will be delayed?

Mr Pengelly:

I will go through each recommendation quickly and say whether it is something that we can do.

Mr McNarry:

I hope you are not going to delay all 14. If you tell me which ones will be delayed then I will know which ones will not.

Mr Brennan:

The point I was going to make was that there is a recommendation about early consultation and engagement with the Committees. A key issue is whether we are going to have a one-year or three-year Budget process. We are awaiting clarification from the new UK Government as to what is going to happen. Hopefully, when the new Budget is produced in 50 days there will be some indication within that Budget of what lies ahead in relation to the new spending review.

Mr McNarry:

Michael, I know all of that, and I know the process, etc. However, when people write a report — and it is a good, extensive, useful and helpful report — and it states that it expects that some of the recommendations will be delayed, that means that people had a reason for writing that even before the election results were known, and before the 50-day stuff etc. Can you tell us what are the —

Mr Pengelly:

As regards recommendation 1, which is about the exercise at the start of the process; we are doing that. It may be delayed, because ideally we would do it at the start of the calendar year. It is now May. At this stage, I would include that as being highly desirable. If the reality now is trying to work out how Departments deal with something —

Mr McNarry:

We are talking about re-prioritising those recommendations.

Mr Pengelly:

Therefore, there is a question mark against recommendation 1. As regards recommendation 2, the Programme for Government is ultimately the function of OFMDFM. Therefore, the recommendation will need to be considered by Ministers in OFMDFM, so we can offer no concrete guarantees about how they will respond to that. On recommendation 3, we will clearly set out a timetable as soon as our Minister has taken it to the Executive. In an ideal situation it

would be earlier than May or June.

Mr McNarry:

Perhaps I will rephrase the question, and I do not intend to bounce you on it. On reflection, will you write to the Chairperson of the Committee, if members agree; and could we have that correspondence in time for the next Committee meeting detailing the suspect recommendations that could be delayed? You have already said that some will be delayed.

Mr Brennan:

What you might find helpful are the action plans on each of the 14 recommendations that we are just finishing off. They give progress reports and reasons for delay, and will directly address your concerns on each of the 14 recommendations and give you detail on where we are.

Mr McNarry:

Could we have that for next Wednesday?

Mr Brennan:

We have to clear it with our Minister; it is subject to his approval.

Mr Pengelly:

We will convey your request for it to the Minister and get it to you as soon as possible.

Mr McNarry:

It would be very useful to enable us to work with you. We are going to be facing very difficult times, and we need to pull together.

Mr Brennan:

The action plans will include considerable detail on each of the 14 recommendations, so that you can see exactly where we are.

Mr McNarry;

Thank you.

Mr F McCann:

Recommendation 1 on page six states that:

“An exercise should be conducted at the start of the next Budget process to seek to determine the level of public expenditure underpinning actions to deliver each Public Service Agreement in the Programme for Government (PfG)... This information would provide a baseline position against which spending proposals could be compared. Ideally this should go further in terms of the funding allocated for the objectives within each PSA.”

What will that mean in practice, and how will it differ from the process heretofore? Does it mean that the PSA objectives are not formally costed in advance under the existing approach? Is it not important that the funding allocations for the objectives in each PSA are set out to enable effective performance monitoring in relation to inputs and outcomes?

Mr Brennan:

The key issue to flag up is that DFP, jointly with OFMDFM, commissioned an exercise on 28 April asking Departments to quantify expenditure against the PSAs so that we can track direct linkages to the PSA delivery against actual resource allocation. That is due to be completed by the end of May.

The Chairperson:

There has been a lot of criticism about the link between the Programme for Government and the Budget in the past. Are you basically saying that we are going to get much of the same in the next process as we did in the last one?

Mr Pengelly:

Michael will come in on this in a minute. The big issue, as far as the Department is concerned, is timing. There is the important scrutiny work of Committees and the Assembly to consider. The Budget exists to underpin the delivery of the Programme for Government. However, essentially, Committees and the Assembly are asked to look at both in parallel. A much more informed view of the Budget would be achieved if Committees and the Assembly had the time and opportunity to look at the Programme for Government and understand exactly the Executive’s priorities. That is what recommendation 2 is trying to address.

Another recommendation is trying to draw out more transparently the linkages between the Budget and the investment strategy and how they underpin delivery of the Programme for Government.

If the question is, “will it ever be perfect?” the answer is no. The Programme for Government contains the Executive’s strategic priorities, and developments are not necessarily articulated in the strategic priorities, because they tend to arise from changes in direction and are focused on where support is needed. Also, lots of steady-state public services are provided. Therefore, there will never be a perfect alignment. Fundamentally, this is about allowing Committees and the Assembly to ask whether the Budget enables and facilitates Departments to deliver the key strategic priorities. That is the crucial point that we want to draw out in respect of timings and substance.

Mr Brennan:

I would add to that only that timing is critical here. There is a very narrow window during which to advise the Committees and the Executive on Budget resources that are likely to be available. The concern is to make sure that the relevant Committees know exactly what the resource environment is likely to be. The worry is that the Programme for Government is constructed and shaped somewhere in splendid isolation, without due regard to what resources are likely to be available.

In an ideal world, the Programme for Government should be laid slightly in advance of the construction of the Budget. However the financial environment has to be taken forward, and the Assembly, the Executive and the Committees have to know exactly what that environment is.

The Chairperson:

On the back of Fra McCann’s question: do you feel that the existing process can monitor whether outcomes are being delivered? To go back to an example raised in the previous session, fuel poverty targets for 2010 were not met. Does the current process remain appropriate when it comes to ensuring that outcomes are met?

Mr Pengelly:

Two slightly different processes apply. The Executive delivery report, which we have talked about, is the main piece of work to ensure that targets, outputs and outcomes are delivered. For each target there is an assessment, initially by the Departments, which is challenged by a central team comprising our staff and those from OFMDFM. That work is further underpinned by accountability meetings in which the First Minister and deputy First Minister formally put the

relevant spending Minister under some pressure about any difficulties in delivery there may be.

The recommendation being discussed specifically arises at an earlier stage than that. It means that if something is important enough to be a PSA target or a Programme for Government commitment, then we should state how much money we intend to spend on it; whether that money is sufficient, and whether there other ways of doing it. Unfortunately, that piece of work can become difficult conceptually because there are few targets on which it is a case of spending an amount of money and that is that. Departments carry out lots of activities that contribute to a range of targets; for instance, funding the Health Service cuts across many PSA targets and commitments. Therefore, it can be difficult to do this. We can map it over time and see whether the trend in the expenditure line is increasing or decreasing in those areas in which there is difficulty in delivering outcomes and outputs. If the expenditure line is increasing, but there is no increase in output or outcome, we move into the efficiency debate.

The Chairperson:

Let me put this another way: do you think that there is room for an external or independent body to provide advice? Obviously, there have been problems in the past, and, rather than repeat those in the next process, is there room for external or independent advice?

Mr Pengelly:

To advise on what?

The Chairperson:

To advise on how those targets are best met.

Mr Pengelly:

The Executive have concluded that Departments are delivery vehicles. Targets have been put in place and Departments are endeavouring to meet them, led by Ministers who constitute external scrutiny.

The other form of external scrutiny is through the Committee structure, the Assembly and the Northern Ireland Audit Office. Obviously, if there are particular difficulties, individual Ministers can seek external advice. However, I am not sure, particularly in the very constrained times that we face, whether the most sensible use of resources is to commission advice on something that is

a work in progress and subject to many layers of scrutiny and challenge at the moment.

The Chairperson:

It just strikes me that we are getting the same as before.

Mr McQuillan:

My question follows on from what the Chairperson was saying and is about the evaluation process in the Budget cycle. What did the review think about that? Did it think that evaluation of the previous year would be useful before the next Budget cycle stepped in?

Mr Pengelly:

The review looked very much at the process. Outcomes are dealt with through delivery reports and other forums and were absolutely implicit in everything that we did. There was a group of stakeholders, and the starting point for all those discussions was to reflect on the experiences of the immediate Budget process and the one before that. Part of the review drew on the experience —

Mr McQuillan:

Would part of the review not be to see what failed the year before so that the Budget could be put into place better next time?

Mr Brennan:

There are some obvious lessons to be learned from the paper, and we will take those forward in the 2010 Budget process. For example, there will be early consultation with external stakeholders explaining the likely financial environment so that there is greater awareness of the context in which the Budget is taken forward. Lessons set out in the review, such as those, will definitely be taken forward into the Budget process that we are now kicking off with the Minister.

Mr McQuillan:

I am glad to see that the penny has finally dropped with David about the consequences that the Tory Government will have in this part of the UK.

Mr McNarry:

I do not know what point you are making. Chelsea won the Cup and the League —

Mr McQuillan:

They have not won the Cup yet.

Mr McNarry:

That is just as irrelevant. However, if you must make the point, Adrian, you must make it, and I hope that you will not be making it this time next year, and the year after, and the year after.

Mr McLaughlin:

This is a good report, and I see some of the Committee's concerns reflected in it. I am not certain that they were fully addressed, but they were acknowledged.

The report is a review of the approach taken to the Budget 2008-2011. If there is to be an emergency Budget, then, probably, the review has only a passing benefit in that regard. We will have to respond, and it will be the usual short-order notice and, I suppose, squabble to see how we will cope and distribute the impacts.

In other circumstances, in which there was not a change of Administration, an emergency Budget and volatility in the international economy, we would be beginning the process of discussing the 2011-12 Budget cycle. The decision is still outstanding as to whether there will be a one-year or three-year process, and making that decision is an absolute priority. We need certainty on that so that we can begin to address the issues of timeliness and accessibility. The report acknowledges the need for information that is comprehensible by Committees and stakeholders. Performance reviews are also a key proposition, and we should return to some variation of that system.

Irrespective of the fact that we are going to have a Budget in 50 days, the Executive, at some point in the near future, will need to plan what they want to do on the basis of the information available. Therefore, the recommendation on milestones is also a positive proposition. Is that meant to be a standard pro forma across all Departments to enable Committees to operate on a level playing field when assessing proposals? If that is the case, how many milestones are we talking about? Can you give us a description of the performing targets and how those will be defined for Departments?

Mr Brennan:

The Budget in 50 days will be for the 2010-11 period, but, ideally, we would like to see some indication of how the new Government will address the year 2011-12 and beyond, and whether there will be one-year or three-year Budget. That will, effectively, shape the milestones for us in taking forward our Budget.

Mr McLaughlin:

Are you talking about the three-year comprehensive spending review period?

Mr Brennan:

Yes.

Mr McLaughlin:

Neither you nor I know whether that is going to change; but are you saying that we need to know whether the three-year comprehensive spending review process will be continued by the new Administration before we can make a decision about having a three-year or one-year Budget?

Mr Brennan:

It will shape the context in which we shape the Budget. Our Minister has set out his expectations if there were a three-year settlement, based on the figure work that the Treasury provided in the March Budget, which was effectively flat cash on current expenditure and a 9% per annum reduction on the capital side for three years. If that changes considerably, it will change the environment; therefore, it will change our milestones for taking the Budget process forward.

Members will be aware that our Minister has concerns about lack of engagement with Committees. It is a key issue for progressing the Budget smoothly over the next six to nine months. Milestones such as Departments engaging early with their Committees and setting out their capital and current investment plans are all key issues. Early engagement is the critical issue in this report, and that will filter through to the milestones and to delivering the Budget.

Mr McLaughlin:

Acknowledging that the Budget in 50 days may create delays, and you have already touched on that in your response to David's question, what you are putting down is a template for the normal budgetary cycle. It would begin to address the issues of timeliness, accessibility and

transparency. Therefore, there will be a standardised format. Will that apply to all Departments or to specific Departments?

Mr Pengelly:

We want to put certain minimum requirements in place. Obviously, it is for individual Committees to decide what they do, but we want to say to Departments that there are certain pieces of information, which are the bare minimum, that must be available commonly at a certain point in time to Assembly Committees to allow for proper scrutiny.

We would never want to rule out Committees seeking more information. The minimum information should be at a level that facilitates good scrutiny, but individual Committees may want to go further. I think that it would be helpful to have some discussions about that, perhaps by this Committee doing work with other Committees. Our Minister is content for us to continue to work through the Finance Committee with other Committees to set out what we think this offers in terms of a basis for scrutiny, and responding to Committee requests about other aspects of information would be helpful in that. We would be prescribing minimum standards across the board.

Mr McLaughlin:

We all recognise that if the last budgetary cycle and the next one were bookends, there would be four Budget statements in a 12-month period, which would knock all sorts of preparations askew. The Committee has been drilling into this matter in a very consistent way. One cannot anticipate having emergency Budgets or the need to respond to international conditions. However, when it comes to the process itself, there may be the view that the recommendations do not add up to a lot of change. I am not sure whether that is my position. I think that you are beginning to put down the markers that will allow people to engage much earlier in the process and in a more effective way.

Mr Pengelly:

Another point may not come out as starkly, but recommendation 14 is of fundamental importance.

Currently, there is a degree of engagement, scrutiny and dialogue, and there are formal Assembly processes about the Budget process. There are separate and parallel Estimates

processes, which require detailed Assembly scrutiny, engagement and dialogue.

Recommendation 14 is about trying to find a way to merge those two processes. Our view is that this is not about offering less opportunity for Assembly scrutiny; it is about ensuring that, when scrutiny happens, time is available for it to happen properly, and when other parallel issues are not in and around the same space. Fundamentally, this recommendation will increase the time available to Committees, because they will not have to consider separate processes, budgets and various Estimates. It is about scrutinising what Departments plan to spend money on, and if it is to be carried out properly once, then this is about trying to create a much more transparent and coherent basis for that.

Mr McLaughlin:

You will have your own views, and there will be a departmental view, but is there a presumption that the Budget will be set on a three-year cycle rather than a one-year cycle? Recommendation 14 does not cover that.

Mr Pengelly:

The point was made earlier to Mr McNarry that action to deal with issues in years 2 and 3 can be taken now, but that can happen only if we are looking at years 2 and 3. The Department's official view is that, if we get a three-year outcome at national level, we will keep a focus on a three-year cycle. That does not rule out the option of wanting to refresh the plans for year 2 at the end of year 1, but the three-year cycle would be used as opposed to starting with a blank piece of paper for the new year. That is an issue for our Minister and the Executive.

Mr McLaughlin:

Will you expand on recommendation 5, which is about engagement with stakeholder groups? Clearly, that is an issue, and it is causing political, as well as financial, issues.

Mr Brennan:

We envisage much earlier external consultation on the Budget and making key stakeholders much more aware of the Budget process and the financial environment in which the Budget will be progressed.

Mr McLaughlin:

How inclusive will that process be? There are many stakeholder groups.

Mr Pengelly:

The key point in that recommendation — and we would say this — is that the process involves more than just Departments. Centrally, DFP had the sense that the previous Budget process was inherited by the Executive, and, at an early stage in that process, the Department undertook a significant pre-process consultation with organisations such as the Northern Ireland Council for Voluntary Action (NICVA), the Northern Ireland Committee, Irish Congress of Trade Unions (NICICTU) and many umbrella organisations.

The recommendation goes towards forcing Departments to engage with stakeholders. When we met NICVA at a round-table event, individual constituents said that, although it was great to talk to DFP, they wanted to talk to the Department of Education and that that Department would not speak to them. This recommendation is about getting Departments to do that.

Included in the recommendation is that Departments should state clearly which stakeholder groups should be involved. We will tell our Minister that, if Departments are putting forward spending proposals for him to consider responding to with a recommendation and allocation, it should be a bare minimum requirement that they should set out the views of the relevant stakeholder groups. It is a matter of trying to push that engagement down to the front line.

Mr McLaughlin:

I understand that the outreach will be done through the relevant Departments. Will that be regarded as a direction to Departments, or will it operate in a similar way to PEDU, which Departments decide whether or not to buy into?

Mr Pengelly:

The Finance Minister has sent this report to Executive colleagues and to the Committee: this is his firm view. It is up to the Executive to decide whether they want to turn that into a prescriptive requirement on individual Ministers. It is currently a recommendation, and the rubber will hit the road when we develop the detailed guidance that will go out from our Minister. Given that the recommendation is in the air, I have a strong sense that the Minister will say that if Departments ask for money, they will need to say how they have engaged with stakeholders.

Mr McLaughlin:

That is what I am getting at. Is it your view that the Minister recognises or accepts the need to get endorsement from his Executive colleagues?

Mr Pengelly:

He certainly does. For the same reasons that the Minister is keen on full and proper engagement between departmental officials and the Committee for Finance and Personnel, he is equally of the view that engagement with wider stakeholders and Assembly Committees is fundamentally important in shaping good spending proposals, particularly in the times that we face.

Mr McLaughlin:

OK. As an aside, because David opened up an interesting discussion on PEDU, would the Minister consider taking a similar approach to the Executive in relation to the benefits of using PEDU, so that PEDU gets collective Executive endorsement? It seems to me that, given the pressures that there are going to be on us all, PEDU has an absolutely vital role to play.

Mr Pengelly:

I think he might. I am not sure that I should go as far as to say this, but part of the frustrations involve engagement at ministerial level.

Mr McLaughlin:

I thought it might clear the air.

Mr Pengelly:

As I said last time I was with the Committee — and, unfortunately, with the election things have not moved on — the Minister has been doing a lot of work with one ministerial colleague to try to get PEDU into that Department. He is of a mind that, if we do not get substantive movement on that quickly, he will need to look at an alternative approach. This is an issue that I will take back to him.

The Chairperson:

The report refers to an annual evaluation report in the Scottish Parliament that shows progress against targets. Will that be factored in here also? Should monthly monitoring also be included?

Monthly monitoring provides an opportunity to reallocate funding to suit changed circumstances. Have those aspects been factored in?

Mr Pengelly:

The Scottish evaluation report is about progress in achieving outputs and outcomes. It corresponds to the Executive's delivery report, which is made on a six-monthly basis. We do that twice a year, as opposed to an annual evaluation report. That is already in place.

Mr O'Loan:

What we have at the moment is a very opaque process that gives little real opportunity at political or Assembly level to properly scrutinise the Budget as it is created. For all the apparent activity of Committees, including this Committee, I do not think that it is a real scrutiny process. I wonder what consideration is being given to the creation of a Budget Committee.

Currently, the Budget comes as a draft Budget and goes to each Committee. Each Committee looks at it and can say little other than that it would like more resources for its Department. Each is very reluctant to say that it would like that money to be taken from any other Department. The function of this Committee is merely to collate those views, which are almost all essentially in note terms. For all the paperwork that is exchanged, there is little outcome. Richard, I recall that, when the three-year Budget was created, you told us that the difference between the draft Budget and the final Budget was minimal. It might have been of the order of a 0.25% movement of moneys. That leads me to the view that serious consideration should be given to the creation of a specific Budget Committee that could look at these matters in advance. It could look closely with a Department at what was being put forward. It could look at the draft Programme for Government and how that was being endorsed. It would have the opportunity to offer real comment on where resources might be allocated.

Was serious consideration given to that? Was the Minister involved in any such consideration and did he offer any view on it?

Mr Pengelly:

Your point is factually correct. Movements between draft and final Budgets tend to be minimal. The reasons for that are as follows. If one maps out the work process, the vast amount of substantive engagement and dialogue predates publication of the draft Budget, so the hard work

has been done by then. What happens between draft and final Budget, to use your own terminology, is that lots of people call for lots more money to be spent in every area. That makes it incredibly difficult for the Executive to respond, so there is little change between draft and final Budgets. Although 0.25% sounds like very little, it runs into many tens of millions of pounds. It is a lot of money.

The Minister has views on some of the reasons for that. If all the recommendations were followed through, the extent of change between draft and final Budget might, perversely, be further reduced, because consultation is the only thing that happens between draft and final Budget. This report is fundamentally about getting that consultation and engagement done earlier, so more of those views would be wrapped up in the draft Budget, which means that there would be less rationale for movement between draft and final Budget.

That links into the second point about a Budget Committee. We have not put that point to the Minister, nor has he thought about it. His view remains that Committees are the right place to carry out detailed scrutiny at policy and programme level. The recommendations in the report are fundamentally about ensuring that Departments engage robustly and early with Committees to allow that detailed scrutiny to take place. I am not sure what the role of a Budget Committee would be, where it would sit, or what it would add, if the other elements were done properly.

Mr O’Loan:

This will be more by way of comment than further question. I believe that it would add seriously to the scrutiny of the creation of the Budget, which is something for which we do not have an effective mechanism. I think that it needs serious consideration. At the moment, we have an opaque process that is not sufficiently informed politically. I do not see, coming out of the 14 recommendations, anything that will radically alter that status quo. I will leave that comment there.

Recommendation 6 is that DFP takes control of capital investment allocations for budget years from the Strategic Investment Board (SIB). What changes would that mean for the respective roles of DFP and SIB? I have some concerns about that. I am concerned that the “S” would be taken out of SIB and that it would no longer be a strategic body, but merely an implementation body that will not be thinking in terms of Programme for Government or even a longer-term alteration of our society, which is defined very much in strategic terms.

Mr Pengelly:

Our view is probably the opposite of that — it will allow for more focus on the strategic elements. Take, for instance, Budget 2010. If we are going to run a process for the first three years, it will be for 2011-12, 2012-13 and 2013-14. Those three years were already set out. Although they are years 1, 2 and 3 of this process, they were years 4, 5 and 6 in the previous investment strategy. Therefore the starting point for DFP in taking this work forward will be the strategic position that our colleagues in SIB put in place during the last iteration of the investment strategy.

The reality, particularly in 2011-12, is that a significant amount of capital expenditure will be spent in finishing off projects that have already started. The Executive are not in the business of leaving schools and hospitals half-built. There are not that many strategic decisions to be taken. This recommendation is saying that SIB will pass over to DFP the nuts and bolts of addressing the consequences of previous spending commitments and the amount of money that is left. There will continue to be very close dialogue between DFP and SIB. I have met SIB half a dozen or a dozen times on the working of the budget process, so there will be some engagement there.

Last time, we discovered that colleagues in SIB spent a lot of time dealing with operational issues related to trying to balance individual allocations to projects that were, possibly, already started, instead of focusing on the longer-term 10-year strategic horizon for capital investment for Northern Ireland. I do not want to suggest that there will not be ongoing dialogue between SIB and us as part of this, but this is about freeing up SIB to focus on the strategic issues.

Mr O’Loan:

I think that my question raises genuine concerns that we will need to look at. I would be interested in the SIB view, and it has proven difficult here to get a SIB view.

Recommendation 8 is that the draft Budget document should include details of the resources available to the Executive, how it is proposed that those will be allocated, and what would be achieved as a result. With specific reference to the Executive’s own revenue raising potential, will the information provided in the draft Budget relate to the fiscal sustainability of proposals? As we said earlier, spending decisions relate to PSA targets. Revenue raising decisions may also relate to those targets or have consequences for the economy, individuals or households. Will

there be an assessment of those in the draft Budget?

Mr Pengelly:

The recommendation is more about making what is ostensibly a very complex document more accessible. The points that you have made are valid and important, and the Department would want to reflect them as we start to draft the document. It is about getting the balance right, because the foreword could rapidly become a complex Budget document in its own right, rather than being an easily accessible foreword to the Budget document.

Mr O'Loan:

The consideration of the matters that I referred to is all the more argument for the creation of a Budget Committee, which, over a longer time, would be able to address revenue raising issues as well as the spending of money. That side of things needs such proper consideration.

Mr Brennan:

As Richard said, the Budget document is really about the spending of money. Other departmental pieces of work that deal with the revenue side are published separately. For example, the Department is looking at bringing in at an early stage the issues that were raised on the revenue side through the fiscal deficit report, whereby the summary sets out at a macro level the state of public finances in Northern Ireland on the expenditure side and the revenue side, the disjoint between them and the sources of revenue that are available to the Executive. Those sorts of issue could be set out at an early stage in the Budget document to set an overall context, and the Department can look at doing that.

Mr O'Loan:

That documentation does not really come before Assembly Members in a way that allows them to comment usefully does it?

Mr Brennan:

Are you referring to the fiscal deficit report?

Mr O'Loan:

Yes. You talked about documentation that deals with the revenue side as well as the expenditure side.

Mr Pengelly:

The revenue side is set out in the Budget document. We may try to distil that information into a shorter, snappier foreword, but it is already clearly articulated in the Budget document that comes before the Assembly.

Mr O’Loan:

We do not have the mechanisms for political scrutiny of revenue raising proposals to the degree that we need them.

Mr Hamilton:

On the issue of public consultation, recommendation 12 suggests that Assembly Committees should take the lead on the consultation on the Executive’s draft Budget. I can well imagine why the Department or the Executive might want to get rid of public consultation. Indeed, I have had the misfortune of being at Budget consultation events in the past, and to say that they were useless would be an understatement. As the report suggests, those events tend to be hijacked by certain interests, and you do not get useful dialogue. You simply get a situation, similar to the one that we have in the Chamber at times, in which people are demanding more money for certain areas of spending.

My more serious point is about whether the Executive is walking away from consultation with the public beyond key stakeholder groups. I am concerned that Assembly Committees, as currently constituted, may not have the time, resources, specialist knowledge or ability to do anything other than to act as a sounding board and conduit for information passed to them by the public or various groups. Effectively, there would be no ability to do anything with the information other than to parcel it up into a report and to give it to you.

Mr Pengelly:

I recognise that concern. It is important to read recommendation 12 along with recommendation 5. The historical situation, as you have articulated, is one in which public consultation means that people such as Mike and I attend public events throughout Northern Ireland. Those events, understandably, are held in the evenings. They are not that well attended by a cross-section of interests and tend to be hijacked by small groups. People who come with a specific interest tend to get shouted down because of the larger interest groups.

Although those large interest groups represent specific sectors and issues, we are present only as DFP officials; we do not have the detailed knowledge. We are trying to migrate to a situation where the detailed and comprehensive stakeholder engagement is undertaken by Departments at a very early stage. It brings the stakeholder view in early to be received by people who have a detailed and broad understanding of the subject area. That stakeholder engagement can then be put to the relevant Assembly Committee where it is subject to scrutiny and filtering. Putting the whole process together is about trying to get as many sensible views as possible from people who understand the core issues.

In parallel with that, we also intend, as we did last time, to make the document widely available, to take out some advertisements in the local press and to offer the public, at the draft stage, the opportunity to send individual views to us for collation. That process is not ruled out; we are trying to reposition that engagement to get more out of it. That type of stakeholder engagement and consultation is fundamentally important. To leave it until late in the process, as a dialogue with DFP that is subject to hijacking, diminishes its importance and value. Recommendations 5 and 12 must run in parallel.

Mr Brennan:

The difficulty with the current system is that, as DFP officials at those events, we have a high-level picture of what is going on, but when the vested interest groups engage in hijacking proceedings we cannot get into their level of detail. Under this proposal, if the Health Committee decided to host a consultation, for example, it would be more involved in the activities of DHSSPS, health officials and DFP officials and could, therefore, enter into a more detailed and comprehensive discussion with the people who came along with a vested interest.

Mr Hamilton:

So, we will be the people who will be hijacked by the vested interests.

Mr Pengelly:

That seems fair.

Mr Hamilton:

It sounds like a hospital pass.

Mr McLaughlin:

It sounds like devolution to me. Pass the buck, in other words.

Mr Hamilton:

As a Committee, we have taken an interest in this issue in relation to obtaining more specialist knowledge and resources for Committees. We have made recommendations and reports in the past about that. I do not think that such a recommendation would be as successful as it potentially could be unless it was backed up by those resources and that knowledge, which we could either develop in-house or bring in as and when required.

Mr McNarry:

I was looking at the last paragraph on page 44 of the review paper when I was reminded of something. I have raised the issue of a contingency fund many times in the Assembly. I have heard previously all your arguments about why we should not have one. I am pleased that the reference to resource allocation in paragraph 3.25 of the review paper highlights the Welsh approach of using what is essentially a contingency fund. It states that there may now be a case for considering such an approach in the longer term, in light of reduced surplus resources being declared by Departments. We have all welcomed the fact that Departments have been spending. Are you in a position to provide more detail on any consideration that has been given to that issue and how it might work in practice in Northern Ireland?

Mr Pengelly:

That paragraph highlights the fact that the Welsh hold something back. The report also highlights that Scotland adopts an approach of overcommitment. That underpins the essence of the debate, which is that there is not necessarily an easy or a correct answer to the issue. It is an issue of judgement, and different Administrations do different things.

The current approach to monitoring, in which there is no contingency but an in-year monitoring process, was developed in the context of the current spending plans. The Minister's view is that it would be foolhardy to change that approach until the end of the current spending plan, which will take us up to the end of the current financial year.

Mr McNarry:

I thought that the Minister had said that it was foolhardy full stop. Certainly, he has been pretty concise about that in response to anything that I have asked him in the House.

Mr Pengelly:

I think that we are talking about slightly different things. The Minister agrees that we need to review our approach to monitoring, and he wants us to do that. However, he thinks that it should be done in the context of a new set of spending plans. The current approach was developed in the context of current spending plans, so there will be no change until the end of the current financial year.

The Minister has mandated us to carry out, once we reach Budget 2010, a quick and important review of what sort of monitoring process should be in place to underpin either one- or three-year spending plans. The key question is whether it will be the same as the current position of reliance on a monitoring round and no contingency fund, the creation of some form of contingency fund or the use of overcommitment. The Minister wants to look at that issue quickly, and it will obviously be influenced by the overall resource position.

Mr McNarry:

I am very glad to hear that, because that is progress. Perhaps the Minister does listen sometimes but pretends otherwise when he is on his feet in the House. I know that you could not possibly comment on that. Will you keep us sighted of developments? You have said, more or less, that once the Minister gets to a position, he would like to do it quickly. Perhaps you could advise us of any ongoing updates so that we are not caught unawares.

Mr Pengelly:

Yes; absolutely.

Dr Farry:

I apologise for missing most of the presentation. I look forward to reading the Official Report in due course.

I do not want to go over anything that has been asked already, but I will ask about the discrete issue of how we handle the Barnett consequentials and the transparency of that. I appreciate that

it will probably be a theoretical debate for the foreseeable future and that there will probably be negative consequentials in terms of reduced funding for Northern Ireland. Nevertheless, are there any ideas on how we can trace how the Barnett consequentials come into our process? How can we trace those through revised figures so that people can see where decisions to invest have been taken at a UK level? The public could then judge how the Executive made their decisions arising from the UK-level decisions.

Mr Pengelly:

Will you let us away with saying that we have answered that already?

Dr Farry:

I will if you did answer it earlier.

Mr Pengelly:

I am joking.

Michael will give the detailed answer to your question. All that I will say is that, at a macro level, Barnett consequentials are essentially moneys that accrue to the Northern Ireland Executive as a consequence of political decisions made by a different Administration in a different geographical area. The starting point for the Executive as regards the whole concept of devolution is that that money is available to them. The Executive will see what the policy choices are elsewhere, and they will have a view on whether those are good, bad or indifferent. I do not think that the Executive would ever want to get into a situation in which their homework is being marked on the basis of they did this and we did that. Michael has looked at the matter in more detail.

Mr Brennan:

There is a great degree of transparency in the mechanics and operation of the Barnett formula and the information that we get from the Treasury. However, to use a dreadful word, unhypothecated allocation applies. In other words, as Richard said, the Executive retain complete discretion on where resources go. Stakeholders frequently look at an allocation in Whitehall and determine what their allocation in Northern Ireland should be. However, the simple mathematics of the situation means that the Executive do not have the ability or the discretion to meet all those needs. The numbers are set out quite clearly. The Budget document lists figures for the Northern Ireland

departmental expenditure limit. There is a breakdown of where those figures come from, so that it can be seen that 90% of the Budget, for example, is Barnett determined. Discretion on where that money goes lies solely with the Executive. The simple reason for that is that one cannot meet 100% of the needs generated from Whitehall.

Mr Pengelly:

Let us take the abolition of prescription charges in Northern Ireland as an example to illustrate an interesting point. That is not something for which we have ever received Barnett consequentials, but it was proposed by the Health Minister and agreed by the Executive. Putting it in place has a resource cost. If we are not getting Barnett consequentials to meet that cost, it has to be funded by Barnett consequentials from elsewhere. That creates a very muddy picture.

Dr Farry:

There is an argument for some degree of transparency. I appreciate that, with devolution, we have full discretion over how we spend our resources according to local priorities, but what happens in other jurisdictions is relevant. Some of it may be good practice, but some of it is bad practice. There are legitimate questions. The boiler scrappage scheme is an example. I appreciate that there may be good reasons why we do not replicate what has been done elsewhere in the UK. However, in order to inform public debate on the issue, it is right that people ask why we should not consider implementing that scheme in Northern Ireland when it is being done in Great Britain. There may be perfectly reasonable answers, but asking those questions is part and parcel of a democratic process.

Mr Pengelly:

I could not agree more, but I am uncomfortable with the Barnett formula being the entry point. There are often headline announcements in England about funding, but the money for that could be a redeployment or reallocation of existing funding or some minor Barnett consequentials. The entry point to that important debate is about policy sharing or analysis. It should look at the policy of the boiler scrappage scheme rather than looking at the financial outworking through a pretty complex formula.

Dr Farry:

A particular problem for us as elected representatives arises from our media. We have the Northern Ireland media, which sometimes know the difference between devolved and non-

devolved matters and sometimes do not, as was apparent in coverage of the most recent Westminster election campaign. We also have the national media, and it is possible that people turn on the 10 o'clock news and see a scheme being announced by the Government without understanding that it applies only in England and Wales. There is sometimes an assumption that the scheme applies nationally. When an announcement was made about fuel efficiency schemes in September 2008, elected representatives had a lot of calls from people asking how they could access those schemes. We had to explain that Northern Ireland was doing its own thing on that. The confusion can easily arise.

Mr Brennan:

As Richard said, it works both ways. The abolition of prescription charges is one example; the derogation from the aggregates levy is another. We must take the rough with the smooth in the application of the Barnett formula. We cannot cherry-pick the elements that we want to highlight and the others that we want to ignore.

Dr Farry:

I am all for openness. I will take the rough and the smooth.

The Chairperson:

Thank you very much. We will forward any remaining issues that members have for a written response.