Northern Ireland
Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Budget Issues

30 June 2010

NORTHERN IRELAND ASSEMBLY

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

Witnesses:

Mr Michael Brennan	)	
Ms Joanne McBurney	)	Department of Finance and Personnel
Ms Deborah McNeilly	)	

The Chairperson (Ms J McCann):
I welcome Michael Brennan, Joanne McBurney and Deborah McNeilly. If you make a few opening remarks, we will then go into questions. I am conscious that members are floating back and forward and that we might lose the quorum.

Mr Michael Brennan (Department of Finance and Personnel):
I will begin by making a few opening comments on the provisional out-turn, the UK Budget of 22 June and the Northern Ireland 2010 Budget position. I will be very brief.

In relation to provisional out-turn, the underspend position performance this year was actually quite good. For the Northern Ireland Departments, the underspend was 0·7% on the current side and 0·5% on the capital side. The current performance for 2009-2010 was slightly worse than in 2008-09, when it was scored at 0·5%. There was considerable variation between Departments. For example, on the current side, the two extremes were 0·1% underspend for the Department of Health, Social Services and Public Safety (DHSSPS) and 3·4% for the Department of Finance and Personnel (DFP). On the capital side, the Department for Regional Development (DRD) was right on the mark at 0%, whereas the Office of the First Minister and deputy First Minister (OFMDFM) had an underspend of 9·1%.

There were three departmental overspends: OFMDFM overspent by £1·1 million on its admin control; the Department of Agriculture and Rural Development (DARD) overspent by £1·2 million on non-cash areas; and DHSSPS had two overspends, 0·5% on capital and £25·9 million on near cash. That is a quick summary of the provisional out-turn.

I will move on to the UK Budget that was announced on 22 June. The Chancellor's announcement will result in a fall in public sector net borrowing from 10·1% of GDP in 2010-11 to 1·1% in 2015-16. The Budget made clear that the vast majority of reductions will be made through public spending cuts — 77% will be made through spending cuts and 23% through tax increases, the most obvious of which is the increase in VAT by 2·5%.

The Chancellor also confirmed that the spending review announcement, which we are all awaiting, will be made on 20 October. The 22 June Budget also contained revised forecasts for public expenditure and showed that, on the current expenditure side, the departmental expenditure limit will fall by 0·4% in cash terms, and the capital departmental expenditure limit will fall by 6·9% in cash terms. That shows a considerable tightening over the previous Labour Government's March Budget position. For example, the new coalition Government will take an extra £15·5 billion out on the current expenditure side and an extra £1·6 billion on the capital side. However, there is a stated commitment to protect Health, Education and the Ministry of Defence.

The 22 June Budget also confirmed that the £6·2 billion cuts will be baseline cuts. Therefore, the Northern Ireland percentage, £127 million, to be addressed in 2010-11, will be a baseline cut going into the spending review.

To prepare for Northern Ireland's 2010 Budget, on 10 June we sent a paper to the Executive for consideration. Our aim is to have a draft Budget paper available for consultation by early September. In the interim, there is a lot of work to be done, as the Committee will appreciate. Our Minister has initiated a pre-consultation exercise on the Budget process with all key stakeholder groups. That will run over the next few weeks, and we will meet individually with all the key stakeholders, set out our forecasts for the Budget period and invite them to put forward their ideas on how the Budget process should progress and on what its key priorities should be. Those meetings will take place over the next two or three weeks.

We have also written to Departments to ask them to produce savings delivery plans, in which Departments must set out how they will deliver savings on the basis of our forecasts for current and capital expenditure over the next four-year period. We have asked them to complete that by the end of July. In recent days, we have issued Departments with revised baseline positions that they should use to plan for their budget positions. The working assumption is that they should plan on the basis of a 5% cut to current expenditure, and their returns must set out how they will meet that cut.

The capital position is of grave concern. As we know, it is very tight in 2010-11. However, the revised UK Budget showed a considerable tightening on the capital departmental expenditure limit position in 2011-12. Therefore, the capital resources that will be available to the Executive in 2011-12 will be tighter than we thought previously.

Ms Purvis:

I want to explore a couple of aspects of the Budget process with you. It is my understanding that Departments are now preparing their bids and linkages to public service agreements (PSAs) for the next Budget process. Have Assembly Committees been informed of that? Do Committees have a role in that? Does anyone else have a role in the Departments' preparation of bids?

Mr Brennan:

In our guidance to Departments, we made it clear that our Minister's strong expectation is that they will engage with their respective Committees at the earliest opportunity. There will be a departmental finance directors' meeting on Friday morning, and one of the first issues that we have to press to the departmental finance directors is that there is a strong imperative for early engagement with Committees.

We in DFP are starting bilateral discussions with all the key stakeholders, including the trade unions, the business organisations and the Northern Ireland Council for Voluntary Action. However, it is in the interests of individual Departments, which know who the key stakeholders are within their departmental boundaries, to initiate a parallel consultation exercise from now forward.

Ms Purvis:
The outcome of the spending review will be in October.

Mr Brennan:
It will be on 20 October.

Ms Purvis:
And the Barnett consequentials will not be available to us until slightly after that?

Mr Brennan:
No. When the spending review is announced, we will get a spreadsheet from the Treasury that sets out our Barnett consequentials on the allocations to Whitehall Departments.

Ms Purvis:
What impact will the outcome have on the draft Budget that you are preparing to publish in September and on the process?

Mr Brennan:
We are constructing a draft Budget position based on our expectations and forecasts for current and capital. The forecast for current and capital that we produced in March turned out to be very accurate, based on the Office for Budget Responsibility report and as set out in the revised Treasury Budget documents on 22 June. We have given Departments what we think is a very realistic funding envelope to work within in shaping their bids, and that will be the basis for the September draft Budget. On 20 October, we will have the definitive funding envelope that has been set by the Treasury, and, obviously, we will then make revisions. My expectation at this point is that we are pretty close to the mark in terms of what will be available to us.

Ms Purvis:

OK. According to the Budget timetable, the Minister will revise the proposals in early December. How long do you envisage the public consultation running for?

Mr Brennan:

It will run from September until the beginning of December.

Ms Purvis:

We are looking at the Budget inquiry and your recommendations. How will the consultation be considered? Will it be considered by departmental officials as well as Committees? How do you envisage it working? One of the Department's recommendations was for Assembly Committees to conduct the consultation. How do you envisage this happening in the absence of an agreed method? How do you envisage the consultation being conducted?

Mr Brennan:

The onus is on individual Departments to engage directly with the relevant Committees to find out what the priorities are as regards Budget bids. That should feed directly into how each Minister shapes their Budget bid. That will then be relayed directly to the Finance Minister through the ministerial bilateral processes.

DFP will run a public consultation exercise. We will hold what are effectively roadshow events around Northern Ireland in which we set out how we envisage the Budget going forward. However, in many ways, the more important aspect of shaping Budgets is Departments taking the feedback from individual Committees in terms of what is important. The reason why I think that that is more important is that, when we get Executive sign-off on the final Budget stage, hopefully, every single Committee in the Assembly will have bought in and felt as though it participated in shaping that final Budget stage.

Ms Purvis:

Judging by past experience, particularly around the revised spending plans at the beginning of the year, the biggest complaint from Committees was the lack of information coming forward from Departments. I assume that the Minister is going to impress upon other Ministers that there is a need for early and appropriate information going to Committees?

Mr Brennan:

That was a key theme in the paper that the Minister presented to the Executive on 10 June. He stressed that to his Executive colleagues.

Mr O'Loan:

Am I right in thinking that the £128 billion that we have lost for this year has still not been allocated? There was talk of deferring some of that into next year, but I must say that that prospect say does not appeal to me, given that the pressures are going to be even greater for next year. Where are we in relation to allocating the pain of that £128 billion?

Mr Brennan:

The £128 million pressure that emerged from the —

Mr O'Loan:

Sorry, I said £128 billion; £128 million is big enough.

Mr Brennan:

Things are bad, but they are not that bad. *[Laughter.]*

We now have clarity from the Treasury on the £128 million pressure that emerged from the UK's £6·2 billion cut. The breakdown is £89 million current and £38 million capital. When our Minister presented his June monitoring paper to the Executive last week, one of the key issues was how to address that £128 million pressure. In his papers, the Minister pointed out the downside of deferring the issue to 2011-12. All that it is doing is building up the pain at the start of 2011-12. The Minister sought to address as much of that pressure as possible in the 2010-11 monitoring rounds. The Executive did not reach a definitive position in the June monitoring round, but our Minister put a paper to the Executive in the June monitoring round recommending addressing a lot, if not all, of the £128 million pressure through this year's in-year monitoring process.

Mr O'Loan:

When we hear the Education Minister talking about the money that is available for schools and pleading for support and more money out of the monitoring round, it is pie in the sky, is it not, if £38 million is being taken out of the capital rather than any attempt being made to find it by cutting various programmes in Departments. There is no prospect of any extra money coming out of monitoring rounds if £128 million is missing, and we already have a projected overspend for the year.

Mr Brennan:

Not for this year.

Mr O'Loan:

Has that been removed?

Mr Brennan:

That has gone. There was an overcommitment at the start of the year, but we took that out in the revised 2010-11 plan. As I said earlier, the capital position in 2010-11 is very bad, and the worry that we have now is that based on the 22 June UK Budget position, capital in 2011-12 for the UK is constrained at a much greater rate than we thought. Therefore, our latest assessment is that there is a shortfall of about £500 million in the 2011-12 capital from the ISNI 2 position. Therefore, capital is bad in 2010-11, but it gets worse in 2011-12.

Mr O'Loan:

I come now to the provisional out-turn and the underspend, which you said was 0·7% on the revenue side and 0·5% on the capital side. Can you put millions to those percentages?

Mr Brennan:

On the current side, it is £65 million, and, on the capital side, it is £8 million.

Mr O'Loan:

Those are very substantial sums that we are losing. Over the years, there has been considerable improvement in the way that this has been handled, but, nonetheless, those are considerable sums. Even in percentages, they are crawling up towards 1%. We should not be satisfied with that. Can you play one Department off against another in relation to that? If there is an overspend in one area, can you monitor that through the year and recognise that that could be protected by an underspend somewhere else?

Mr Brennan:

Every month, we monitor departmental performance against forecast. The figures that I gave you were on departmental performance, but we actually manage the overall block level as well. The Northern Ireland block level showed that the current underspend was lower — it was £61 million and on the current side it was £5·5 million. That was managing across Departments to get an overall block position.

Mr O'Loan:

I thought that the previous figures were the overall block position.

Ms Joanne McBurney (Department of Finance and Personnel):

That is the departmental position.

Mr Brennan:

That is departmental.

Ms McBurney:

It does not take account of any residual overcommitment, rates income or anything like that. If you look at the overall block position, you will see that it was slightly lower.

Mr O'Loan:

There were bad underspend figures from DFP, which is not a very good example to set for other Departments. That means that there was money that should have been offered up in the final monitoring round. I remember that, in the February monitoring round, on the capital side, money was sloshing around that pretty much no Department could take up. There needs to be tighter management. However, I will get back to my point about DFP. I know that the global figures in DFP are not huge. Nonetheless, when the percentages are bad, it is not good.

Ms Deborah McNeilly (Department of Finance and Personnel):

I appreciate that. In recent years, the Department has made improvements, but it has slipped back, with 2009-2010 proving particularly disappointing. My main concern is on the revenue side. We have had some significant issues with our non-cash this year, which accounted for just under half of the overall underspend. It is difficult to forecast non-cash and, in a couple of instances, there has been human error. I stress that that was not because a casual approach is taken to the monitoring of budgets. Budgets are monitored on a monthly basis at the departmental board and staff attend workshops and training to help them manage those budgets. However, overall, the position for DFP is very disappointing in the context of actions that we have taken and from which we still have not realised the gains that I would like to have seen. Obviously, we have more to do in those business areas in which we clearly fell below.

Mr O'Loan:

What about the 2010 Budget process and the outlook for the next four years. Can I assume that we are going to be working on a four-year plan?

Mr Brennan:

Yes. Normally, spending reviews are for three years. However, the 22 June position takes it out an extra year. We are expecting an announcement, on 20 October, that will have four-year data.

Mr O'Loan:

What about Northern Ireland?

Mr Brennan:

We are engaging with Departments.

Mr O'Loan:

Across four years.

Mr Brennan:

Yes.

Mr O'Loan:

I had been wondering how on earth you were going to do any work ahead of 20 October. However, you talked about asking Departments to provide a savings delivery plan based on forecasts. Therefore, the initial work will be based on forecasts.

Mr Brennan:

Yes.

Mr O'Loan:

Can you share those forecasts with us or give us any indication, even in global terms, as to how much you are anticipating will be taken out of the departmental expenditure limit over the next four years? Can you come back to us with the detail of what you are saying to the Departments about forecasts?

Mr Brennan:

As I have mentioned in previous Committee sessions, forecasts were constructed after the March Budget on the basis of flat cash growth on the current side — in other words, a real-terms 2·7% cut per annum over each of the four years — and, on the capital side, a 9% cut per annum. We reviewed those forecasts after the 22 June position and still think that they are accurate. Therefore, those are the forecasts that we are holding to.

Mr O'Loan:

Can you quantify that?

Mr Brennan:

In monetary terms, we will be looking, for example, to reduce the current Northern Ireland departmental expenditure limit by around £420 million.

Ms McBurney:

In flat cash, it will be reduced by £168 million.

Mr Brennan:

There are a number of other adjustments and pressures that bring it up to around £420 million.

Mr O'Loan:

When?

Mr Brennan:

In 2011-12.

Mr O'Loan:

So you expect the revenue side of our departmental spending in 2011-12 to be £420 million less than current spending?

Mr Brennan:

That is the parameter within which we have asked Departments to plan.

Mr O'Loan:

What about the capital cut of 9%?

Mr Brennan:

On the capital side, as you will appreciate, there are a number of underlying assumptions. However, there is a shortfall in capital of around £500 million.

Mr O'Loan:

OK. Am I right to present that in respect of our total investment on the capital side last year, which was about £1·6 million? I am not sure what the intended capital spend is for this year. Do you have that figure, even in rough terms?

Ms McBurney:

It was planned that the gross capital spend would be about £2 billion, but it will be slightly less than that because that did not take account of the shortfall in receipts from Crossnacreevy. We will not know the true figure until after the outcome of the first monitoring round, when Departments have had an opportunity to adjust their budgets.

Mr O'Loan:

We are talking about a £500 million drop.

Mr Brennan:

In 2011-12, based on a range of assumptions and what we expect in relation to receipt generation and things like that —

Mr O'Loan:

That is a massive drop; it is something like a quarter or a third of capital spend. As you said, capital is a grave concern. You said that we have freedom to distribute our Barnett consequentials. For absolute clarity, do current and capital come to us as two separate amounts?

Do we have the freedom to mix those?

Mr Brennan:

We have freedom to move from resource into capital.

Ms McBurney:

But we cannot move any money out of capital into current. It can only go one way.

Mr O'Loan:

OK. In some ways, there could be a tendency to make savings based on capital. That is perhaps what the Westminster Government are doing, but we need to be very clear that the implications of that are every bit as serious as the implications for cutting revenue. If revenue is cut, one thinks immediately about cutting programmes and losing jobs. However, if capital programmes are cut, there will be immediate consequences for employment, particularly in the construction sector. The implications of that statement are huge. We all need to be very fearful of what is coming up.

Mr McLaughlin:

The Department's pre-consultation briefing paper says that, effectively, there has been a 14·4% real-terms reduction, mainly as a result of inflation. No additional budgetary cover is provided for pay or price increases during that time. Has any impact from the recent equal pay settlement been factored into that figure? What is the anticipated impact on the Department's baseline going forward into the next Budget period?

Ms McNeilly:

From a departmental perspective, equal pay has not been factored into that 14·4%; it was just taking the average of the 2·4% RPI. It would be higher if the two pay awards, including the equal pay settlement, were factored in. In the current year and going forward, the recurrent costs of equal pay for the Department are somewhere in the region of £3 million. That is an increased pressure for us, and we are trying to manage it along with the rest of the inflationary pressures that we face.

Mr McLaughlin:

I understand why it was not taken into consideration once the settlement figure and the initial hit were factored in. Are you indicating that, going forward, it will still not be reflected in the baseline projections?

Ms McNeilly:

We will probably reflect it as a pressure or a cost in the paper that we put to the Minister when we develop further our Budget 2010 expenditure proposals. In the current climate, I am not sure that we will get any funding for that pressure.

Mr McLaughlin:

Assuming that there will be no change to the quantum of the settlement that is on the table, I should have thought that it would be possible, going into the new Budget period, to specify that as a recurring cost.

Ms McNeilly:

Yes. We have done some preliminary work to identify the impact of pay and prices, having had no inflation and adding in the equal pay settlement. We have to approach the Minister to see whether he will support that in respect of the departmental position in Budget proposals. Certainly, however, we will highlight those costs and pressures to him in our paper.

Mr McLaughlin:

Does that indicate any degree of uncertainty or flexibility over the quantum? There are a number of issues swirling around, and MLAs are getting lobbied all the time. Do you regard that as an issue on which you can move forward with some certainty or one that is subject to further variation?

Ms McNeilly:

Based on our information for the equal pay award and the recurrent implications for the EO2, AO and AA grades and the actions and the work that have already been completed, our figure is around £3 million a year for additional costs. Therefore, there is a relative degree of certainty around that. I do not have a figure for any wider review of equal pay issues.

Mr McLaughlin:

The Committee is more than aware of the difficulties that were faced by Land and Property Services (LPS) during 2008-2011, with the whole setup and a raft of rating reform measures that were introduced after the baseline for the agency had been put in place. Can you tell us what steps the Department is taking to put firm baselines in place for its various agencies and business areas to prevent similar difficulties?

Ms McNeilly:

As part of the development of our expenditure proposals we will be highlighting that again in our formal submission to the Minister and to colleagues in central finance group, and it will be part of the negotiations as they go through the consultation exercises on the Budget when we look at the whole Northern Ireland block position. We will be highlighting that; it is one of the key issues for the Department in trying to get a firm baseline for LPS. The new rating policy on empty homes, which is to go live next year, is estimated to cost another £0·5 million. That will be something else that we will have to reflect on in looking at the exact requirement for LPS going forward, and it will be a key issue for us to highlight in our paper to the Minister.

Mr McLaughlin:

Paragraph 7·10 of the briefing paper introduces an interesting scenario, which is the suggested possible cessation of “low priority services” that may be required to deliver further savings for the Department. Can you outline which of the Department’s services are considered low priority?

Ms McNeilly:

I would have difficulty with that. The departmental board had a workshop on 15 June. The board members had already been commissioned to look at the services that they were providing and identify areas where they could improve and areas where we could stop delivering, and there is not a lot. There are the statutory requirements, such a providing a statutory registry service; a range of other statutory duties, including rate collection and the reliefs, and the other requirements such as census; and the service delivery and Programme for Government. We have so many services now that we are delivering for other Departments. We cannot suddenly press a button and tell Departments that they are not getting their accounts serviced. It is very difficult for us to identify any large low-priority services that would deliver significant financial savings, but we are engaged in doing so. We had the first go at it on 15 June. The board has to come back to us, because it was challenged to go away and look again to see what else could be done. We would welcome any views from Committee members to help us out.

Mr McLaughlin:

I would have been surprised if you had given me a direct answer to that. I am taking a fairly sympathetic view, because I do not think that we will get though this by keeping our heads in the sand. All Departments will have to identify various categories of service and expenditure, the whole issue of inescapables and what exactly that means, and commitments. Projects on the ground are explainable, as are contract obligations, salaries, etc. However, we need to be prepared to look at the inescapables, the range of commitments and the prioritisation of services. There are very serious challenges in managing the existing budget lines and limited options for creating additional revenues.

Ms McNeilly:

With regard to the figures that were mentioned earlier, a 5% savings reduction would be around £10 million per annum for DFP. We would be hitting against an opening baseline of £182 million, and probably hitting somewhere near £40 million by the time we get to the fourth year.

Mr McLaughlin:

At one level it is nearly philosophical. However, MLAs are suffering from a lack of information on the range of inescapables and commitments, the prioritisation and the ability to engage in discussions, but also the ability to take a collective approach. This could either be a battleground between the MLAs taking different perspectives, or people working together to try to come up with the best solutions to maintain the level of services and improve it if possible. There is a key issue there. In a sense, the guidance is for the Department itself, but I would argue strongly that it goes across every Department, and we should attempt to produce those definitions and allow people to assume ownership and responsibility for managing them.

The Chairperson:

Thank you very much. We have no more questions. Is it OK if we write to you if any other issues come up?

Mr Brennan:

Yes.