



**Northern Ireland
Assembly**

**COMMITTEE
FOR EDUCATION**

OFFICIAL REPORT
(Hansard)

Education Budget 2010

8 September 2010

NORTHERN IRELAND ASSEMBLY

**COMMITTEE
FOR EDUCATION**

Education Budget 2010

8 September 2010

Members present for all or part of the proceedings:

Mr Mervyn Storey (Chairperson)
Mrs Mary Bradley
Mr Trevor Lunn
Mr John McCallister
Mr Basil McCrea
Miss Michelle McIlveen
Mr John O'Dowd
Mrs Michelle O'Neill
Mr Alastair Ross

Witnesses:

Mr John McGrath)	
Mr Mark McNaughton)	Department of Education
Ms Gillian Uprichard)	

The Chairperson (Mr Storey):

Before we go into the issues about the budget of the Department of Education (DE), I want to read into the record a few things about today's proceedings. Following last week's meeting, and in the absence of the Department's savings delivery plan, I asked the Committee Clerk to request that officials brief us in some more detail this week on a number of issues that members raised during last week's meeting. Officials accepted that the baseline figures that were provided to the Committee in April for 2010-11 could not be easily correlated with the additional resource

expenditure pressures that were provided last week.

One other difficulty was with the expenditure of the education and library boards (ELBs) in their resource allocation plans (RAPs), because the April 2010-11 baseline figures that were provided to the Committee had no such breakdown. Furthermore, it was not clear whether the Department's additional resource spending proposals that were spelt out last week were premised on a flat rate 2010-11 baseline for each of the succeeding four years. For example, are the additional resource spending proposals for 2011-12 based on the 2010-11 baseline minus the 5%?

John, perhaps you could begin by clarifying that last point and explaining the position for the other three years of the Budget 2010 period and the opportunity for the Department to bid back some of this under genuine pressures and new policy initiatives. For example, could the Department get back up to 2.3% of the 5% reductions, recognising that it is an options scenario from the Department of Finance and Personnel (DFP)?

Mr John McGrath (Department of Education):

I am not quite sure that I recognise the figure of 2.3%. There is a general parlance at the minute of expectations of 5% per annum. However, they are not exactly the figures that we worked on. There has been no disaggregation of that 5%. Therefore, I am not clear where that comes from.

The Committee Clerk:

The guidance from DFP gave the steer that there would be genuine cost pressures to be identified and new policy initiatives. The implication was that that was an opportunity for Departments to make bids to get back some of the 5% cuts compounded over the four years on a flat baseline of 2010-11. That is the issue that the Chairperson wants clarification on.

Mr McGrath:

We have been asked to submit spending proposals, the details of which the Committee has. We have included those that we judge to be essential, as opposed to using some benchmark. DFP's approach to priority developments includes a view that the Executive collectively, even in tight times, may wish to set aside funds for priority developments. Such funds might be held at the centre. The savings plans will then, in a sense, come along behind that. Therefore, we are not

working on a disaggregation of 5% between one or the other. The spending proposals that we are going to talk about reflect what the Minister genuinely believes she needs to maintain services and make progress in a small number of development areas, the scale of which is significant. At the end of the Budget process and when we get the net savings requirements, we will work out the balance. Depending on the outcome and whether savings have to be made, the Minister will want to judge whether the developments that she wants to proceed with are more important than the savings that she needs to make.

The Chairperson:

Is the 2011-12 spending proposal based on the 2010-11 figures minus the 5%?

Mr McGrath:

No, it is based on the 2010-11 existing baseline. I did say last week that it is a bit difficult because of the way in which DFP has done this in that the spending proposals come before the savings plans. However, that is the way I have been asked to do it.

The Chairperson:

OK, John, please proceed with today's presentation.

Mr McGrath:

We are grateful for the further opportunity to get into the detail of any issues around the Department's budget. Clarity was sought on issues that members raised at last week's meeting, which we felt was a useful session. A paper was issued yesterday to Committee members with information that was requested in the Committee Clerk's letter. I am sure you appreciate, Chairperson, that a lot of effort has gone into gathering the information within such a short timescale, especially given the other pressures that we face. That reflects the Minister's desire to have a meaningful engagement with the Committee on what is going to be a difficult budget process that will almost certainly have significant implications for the education sector. We provided a voluminous amount of information; we will take whatever questions that you or members have.

The Chairperson:

Members received some information by email and the rest in hard copy, because there was such a huge amount of it. I will list what was included: an update on detailed budget baselines to align with the pressures identified in last week's briefing paper; a briefing paper on future pay settlements affecting teachers, non-teaching staff and DE administration impacting on the Budget 2010 period, including details of the redundancy costs envisaged and the additional costs under the aggregated schools budget (ASB); information on the extension of free school meals eligibility criteria, including the position in the rest of the United Kingdom; copies of the education and library boards' agreed resource allocation plans; the position of the education and library boards' earmarked budgets, including their numeracy and literacy budgets; the approach of financial management of a severely reduced major and minor works budget; and, finally, an updated position on the building costs of the Middletown autism centre.

It would be only right to thank your staff, John. It is frustrating for officials when they come to Committees that members are always asking for more information. The Committee appreciates the amount of effort that has gone into presenting this information to us in such a short period.

I wish to have clarification on two points. Have we received the full submission to DFP on the Department of Education's spending proposals?

Mr McGrath:

You have received the information that sets out the bids that we made. We sent pro formas to DFP that consist of a couple of hundred pages of fine details. We have given you a summary to try to reduce the volume of paper that is used.

The Chairperson:

Last week, you mentioned an awayday for the Executive. Has that been approved?

Mr McGrath:

I was referring to one that took place on 6 July.

The Chairperson:

So, the one that you mentioned has taken place.

Mr McGrath:

Yes.

The Chairperson:

Did you refer to a future awayday to discuss savings delivery plans?

Mr McGrath:

No.

The Chairperson:

The awayday that you referred to was held on 6 July in Enniskillen, by the lakes of Fermanagh.

Mr McGrath:

It was held at Greenmount College.

Mr McCallister:

You were not very good at geography.

The Chairperson:

I was never very good at geography in school.

Do members have questions about the information that they have received to date? I always start asking the questions and then people say that I ask too many. I would like to go through a number of areas in a logical way.

Mr O'Dowd:

I want to pick up on a point that I made towards the end of last week's meeting about the cost of school transport. I think that the figure is somewhere in the region of £70 million.

Mr McGrath:

It is about £74 million overall.

Mr O'Dowd:

How are those figures broken down in relation to eligibility for provision of school transport?

Have those figures ever been tested against equality legislation, etc?

Mr McGrath:

The actual figure was £73 million. I am not sure of the detailed breakdown. That figure would include what we spend on running our own fleet and what we buy in from Translink. That is our total spend. There is the in-house cost, and the rest is what we paid Translink to do.

The Chairperson:

Basically, that means bus passes.

Mr McGrath:

And special buses.

Mr O'Dowd:

Does the in-house figure include transport provision by the board as well; for example, yellow buses?

Mr McGrath:

Yes, yellow buses.

The Chairperson:

Will the Committee get sight of the savings delivery plan, which was to have been submitted to the Department — I assume that it has been — by 26 August?

Mr McGrath:

At that stage, the DFP request was that we submit, by 26 August, details of the areas in which we envisaged savings and that savings delivery plans should be available by a date in September.

Ms Gillian Uprichard (Department of Education):

By the end of September.

Mr McGrath:

The view was that those plans would be published as part of a draft Budget. I said last week that my Minister's position is that work on the Programme for Government that is flowing from the Executive's awayday is more important than getting into details on savings. Therefore, nothing on that area has yet been submitted to DFP.

The Chairperson:

Are you saying, John, that partial information has been given to DFP but that more detailed decisions about the content of a savings delivery plan are to be submitted sometime in September?

Mr McGrath:

No, Chairperson, nothing on savings has gone to DFP.

The Chairperson:

So no savings delivery plan been delivered by the Department to DFP.

Mr McGrath:

No. As I said, there is no savings delivery plan at the minute. At the moment, there is a reflection that, leaving a number of other matters to the side, it might have been a little optimistic to expect Departments to have savings delivery plans with hard numbers when there is still uncertainty about a number of areas.

The Chairperson:

I suppose that that uncertainty is not lessened any by the fact that, come October, we will have further information that will impact on that whole process.

Mr McGrath:

There could well be a view that it is only in October that we will see the bottom line and that beginning to grapple with plans that may have significant implications would, therefore, be best

left until the scale of the problem is seen and confirmed.

The Chairperson:

This question may be unfair given that you have responsibility for only the Department of Education's plans, but, at this stage, have we any idea of what other Departments have done about their savings delivery plans? There may be an issue around the Department of Health, Social Services and Public Safety not having submitted its plans.

Miss McIlveen:

The Department for Regional Development has not submitted its plans.

Mr McGrath:

Today's newspapers reported that some of our colleagues in the Department of Agriculture and Rural Development gave that same message at yesterday's meeting of the Agriculture Committee, so they have not submitted anything. They talked in generalities about cuts of the scale of x leading to consequence y , but there was no plan. I do not think that too many Departments have set their plans in stone. As I said, the first request was simply to give an indication of the areas where savings could be made; it could almost be a list. A savings delivery plan with far more detail was not even expected until September, and I now think that that time frame is optimistic.

The Chairperson:

Although not a lot of information on a savings delivery plan has passed between the Department of Education and DFP, there certainly seems to have been some toing and froing between them since last week's meeting. To set the context, I will read from a paper in the members' pack on budget proposals for pay and aggregated schools:

"The 3 pay spending proposals (i.e. for teaching, non teaching and Departmental staff) shown at Appendix B of 25 August paper issued to the Education Committee have been amended to take account of revised pay assumptions as discussed with DFP."

Therefore, there were discussions between DFP and the Department of Education. John McCallister said earlier that I was not very good at geography, and I will probably be worse at maths, but, if I am right, those discussions ended up with there being £94 million more in this week's figures than appeared in last week's figures.

Mr McGrath:

That is a fair reflection.

The Chairperson:

Let us agree not to fall out over a million pounds here or there, but I want members to be clear as to what I am getting at.

In last week's paper, we had no baseline. This week, we have the baseline, which is very much appreciated, and we know exactly where we are going. We will look at the figures from 2011 to 2015. I will be the schoolteacher now and ask members to look at the top row of figures, which show teachers' pay. In this week's paper, the figure for 2011-12 is £23.5 million; last week, it was £9.9 million. This week, the figure for 2012-13 is £24.6 million; last week, it was £10.8 million. I dread to think what it might be next week. This week, the figure for 2013-14 is £40.2 million; last week, it was £26.4 million. Finally, this week, the figure for 2014-15 is £61.4 million; last week, it was £47.3 million. Taken together, that is roughly £94 million more. John gave us a breakdown of how those figures were arrived at. There are certain inescapables, such as the 1% increase in employer national insurance contributions and the 0.4% projected increase in employers' superannuation contributions. You have taken into account a possible two-year pay freeze for teachers that would last from 2011 to 2013. Taking all that into account, how can this week's figures have a £94 million increase on last week's figures?

Mr McGrath:

We routinely liaise with colleagues in DFP on many issues on a daily basis. Colleagues in DFP gave us a steer that some of our bids did not reflect assumptions made by other Departments. They suggested that we should reflect greater commonality on that. We factored in that steer, and it produced higher figures. We submitted the revised spending proposals on 2 May. In essence, DFP told us that we were not adopting a common approach on two or three issues. Gillian or Mark can provide details.

Mr Mark McNaughton (Department of Education):

I am happy to add some detail to that. In our view, the guidance was not as clear as it could have

been. People took different views on the guidance and submitted bids on different bases. When DFP compared those bids in the centre, it tried to put them all on an equal footing. As John said, there were a number of elements that we had not included in our projections that others had included. In order that they should all be on an equal basis, we have now included them. In particular, those elements included the increase in employer national insurance contributions, costs related to the equal pay uplift and the increase in the accruing superannuation liability charges (ASLC) rate. Those are three areas where Departments took different approaches to projections. The aim was to get them all onto the same basis. It means that our bid has been inflated, but it is now comparable to the bids of other Departments.

The Chairperson:

Are you saying that the assumptions made by the Department are now the same as those made by DFP?

Mr McNaughton:

Yes. They are the same as those made by DFP and other Departments.

The Chairperson:

There is a commonality of assumptions.

Mr McGrath:

Yes.

The Chairperson:

That issue will cause considerable concern when it goes into the public domain. Last week, the Committee got its head reasonably well around the fact that we are coming to the end of the third year of a national agreement on pay awards for teachers. I appreciate that you have set out clearly the proposals for teaching staff and the inescapable pressures, such as employer national insurance contributions. According to your paper, there is an assumption that a pay freeze will commence on September 2011 and end in August 2013. I assume that that is just an assumption between DFP and DE and that it has not been agreed with anybody else, namely teachers or their representatives. I also assume that that is following on from the Civil Service pay freeze that is in place for the next two years. Is the system assuming that it would be desirable to achieve that between 2011 and 2013 and, in fact, up to 2014?

Mr McNaughton:

The planning assumption is that the two-year pay freeze will come in as soon as possible. The legal advice is that that time frame is about a year down the line in some cases. It is only an assumption.

The Chairperson:

Am I right in saying that a pay freeze cannot be imposed across the board on other elements such as someone's pay scale or national insurance contributions because those are automatically included in someone's salary?

Mr McNaughton:

Yes, those costs are additional. The issue is more about national agreements and the arrangements that were in place previously.

The Chairperson:

Do any other members wish to ask a question? Rather than jumping backwards and forwards, we should stay on the issue of pay awards.

Mr Lunn:

Surely the increase in employer national insurance contributions was not just an assumption; that must have been programmed in already. Are you assuming that the coalition Government will do away with it?

Mr McNaughton:

No. There were different assumptions about whether that cost needed to be subsumed going forward or whether it could be included in the bid. Different Departments' approaches had to be brought into line to ensure that everyone was bidding on the same basis for the same items.

Mr O'Dowd:

Somewhere in last week's figures there was an indication that there was money to cover that.

Mr McNaughton:

No, we had not included the full increase in the employer national insurance contribution in the bid. Our thinking was that the bid would not be accepted and that all Departments would be expected to subsume that pressure because people were already aware of it and it was, therefore, not a new item.

The Chairperson:

In the papers, assumptions are made about additional spending on the aggregated schools budget. Obviously, DFP has seen that information. However, is it DFP or DE that sees that as an inescapable pressure? This is where we get caught up in a row between the pragmatists in the Department of Education, whose focus is obviously on how to deliver for the Department, and the economists, accountants and all the other people in DFP who deal with those figures. How does DFP quantify increased needs for TSN-related funding due to the economic downturn? Does that resonate with DFP? Can you give us some insight into that? There is a huge amount of mist in that area.

Mr McGrath:

Yes, there is a huge amount of mist. In a perfectly rational way, we are sizing up the pressures that we see, including those that we regard as inescapable. The real definition of an inescapable pressure is a pressure that has to be met whether one gets the money or not. Pay and non-pay inflation bids are essentially inescapable, and we also regard demographic and TSN factors that impact on the schools budget as inescapable, too. In any bidding process, bidders always have a more positive or, perhaps, more gloomy view of what is necessary than the Department at the centre. We have no sense of how DFP will look at some of those bids now. We expect it to consider them on a common basis. It may accept certain bids from some Departments for certain issues, but we expect it to exercise some commonality in its approach. At the end of the day, fairly pragmatic decisions are made about what is affordable.

The Chairperson:

Under the heading ‘Aggregated Schools Budget’, your submission states:

“This spending proposal does not include increases for pay and non-pay pressures which are separately identified in the spending proposals.”

What does that mean in real terms? What does it relate to? I understand the issue around TSN-related funding, and you identified where that applies, such as with respect to newcomer pupils and VAT increases, but what does that line refer to?

Mr McGrath:

The aggregated schools budget is £1.2 billion. Most of our staff costs are in schools, but we have already taken out a bid for the pay of all staff, including teachers and non-teachers. They are already covered; our bid for ASB staff costs is on another line, otherwise there would be duplication. It is as simple as that.

The Chairperson:

We shall move on to redundancy costs, which are dealt with under the heading ‘Up-front Costs for Delivery of Savings (Redundancy Costs) – admin and resource’. Significant additional costs are clearly being built in here. The issue is with how good the assumptions are. From what you have been advised by employing authorities, the current position seems to be that there will be 188 teacher redundancies during 2010-11. According to previous presentations to us from union representatives, the figure could be around 120 a year, so there could be 100-plus redundancies in the system at any given time. However, according to my simple maths, when an allocation for redundancies was made under the proposals for the education and skills authority (ESA), £50 million was set aside to cover those costs. If I am right, it was envisaged that that would involve around 450 staff. If you carry out a rough calculation based on the redundancy costs outlined in the paper before us today — I know that equating £50 million to 450 staff is as rough as you could be — you will end up with a figure of between 1,800 to 2,000 redundancies for that period. Is that the sort of assumption that the Department is making? Obviously, that figure is higher than the current one of 100-plus. It is not easy given that we are dealing with assumptions, but the stated position of 100-plus redundancies a year would amount to only 400 over the period. Even if you allow for 500, you have assumed that there will be almost three times that amount. Why have you made such a high presumption?

Mr McGrath:

As I explained last week, we are in a position whereby we have to put in spending proposals. We are unsighted about what level of savings we may have to secure eventually, but if there are to be

significant savings and savings in general, they are likely to lead to job losses; perhaps for caretakers, administrators, bus drivers, etc. You cannot reduce the number of jobs without having upfront funding to encourage people to go. Therefore, as a contingency at this stage, we are putting in a bid that is more than a marker bid but which is not a detailed calculation. We do not want to get to the end of this process and discover that we have to let lots of people go without having factored in the need to have money to fuel those people going.

We have done some high-level calculations to work out how many jobs of whatever description would have to go if we are asked to find 5% savings per annum. As I said last week, this is happening at a very high level. This process is not the ESA process, which was tighter; it rationalised 450 jobs, and you could count almost exactly where they were coming from. This is not about the normal level of teacher redundancies. This is a high-level guesstimate, but one that factors in and points out to DFP and Ministers in general the fact that the Education Department is no different to any other major employing Department, such as the Health Department: if we have to make savings and job cuts, we must have the money to let people go. Therefore, we are marking that down on the bidding side, but there is a clear link to the level of savings that we would have to take out in due course.

The Chairperson:

Is that not predicated on the basis that you had prioritised how you were going to spend the reduced amount of money that you had? According to the papers and letters that we received from the Minister and the Department over the past months — and this has been repeated in even the resource allocation plans — the Minister says that no major decisions are to be taken by boards to cut front line services. If you are working on that premise —

Mr McGrath:

As far as possible.

The Chairperson:

If you are working on that premise, yes, you would highlight that that would be the inevitable consequence of ending up at that point. However, surely it would be only right and proper for a Department to say that, to achieve those savings, those areas where it is possible to make savings

that underpin, secure and protect front line services will be the areas where the savings will be made. Those figures will cause real concern, to say the least, to many of the people who deliver front line services. Basically, those figures are saying that there will not be enough money to pay for 20,000 teachers and that, in five years' time, the workforce will not be 20,000 but could be 15,000.

Mr McGrath:

I must point out that that line does not include teachers.

The Chairperson:

It includes non-teaching staff.

Mr McGrath:

You need to understand that the first paragraph talks about teacher redundancies. The generality of this is not about teachers. Very simply, if we were to be asked to make 5% savings per annum, the savings would total more than £350 million. Some 80% of our costs are staff costs.

The vast bulk of that £350 million would come from staff costs. My Minister would start as far away as possible from the classroom, the youth workers and the playgroups then move towards them. However, a lot of jobs would still have to be taken out. All we are doing at this stage is saying that, if we have significant savings levels as predicated, we need money to enable that to happen. If we do not, we are in a bind. We make savings by letting people go, but we do not have the money to let them go. That puts us in a difficult situation. This part of the bid will be linked to whatever the likely savings are going to be. We regard it as prudent to have this bid in now, and not to come along at the end of the process saying that we have given our budget numbers, we have indicated the net savings requirements but we do not have money to let people go. It would be imprudent of us not to flag up that issue.

The Chairperson:

Is that why, in the paper, where you deal with the issue of upfront costs for delivery of savings, it says:

“Any savings to be delivered by Departments across the Budget 2010 period will need to be agreed by the Executive and so it would be premature at this stage to provide any further underlying information on numbers, staff groups affected, date of

potential redundancies etc.”

Basically, is the Department saying that it is up to the Executive, and after they make the decision, the Department will decide where the axe will fall?

Mr McGrath:

The level of savings that we will have to make will be determined by the Executive’s decision on the Budget and the Programme for Government. DFP would like us to have savings delivery plans, but it is not going to vet those plans. It is up to each Department and each Minister to identify how they would make savings. The Executive are not collectively going to sign off a list of savings measures. They will sign off the numbers that get us to those measures. That is why we are saying that we are still at an early stage. In financial terms, in this part of the budget, we think that it is prudent to flag up the fact that, if we have to make savings, we must have money available to oil those savings in the early years. I would be surprised if the same factor was not being rehearsed in the bids by the Health Department or in some of the other people businesses.

Mr B McCrea:

There is a general point to be made as to whether this is a cost-effective route to go down. You are going to take a big hit in years one and two.

Mr McGrath:

Eighty per cent of our costs are staff costs and the rest comprises heat, light, power, catering, and so on. There is a limit to what we can squeeze on those items. If we, or any big Department that employs staff, have to make savings, most of those savings will have to come from staff.

Mr B McCrea:

Yes, but the other way to address the issue of the pay freeze is a pay cut. I do not have the details of the other half of the budget, which outlines the savings that are coming through, therefore, I am having difficulty balancing it. What is the actual cost of taking 188 people out of things? What have you provided for to make the redundancies?

Mr McGrath:

The figure of 188 is a slight distraction. That is a normal recurring level of teacher redundancy. There is a normal level of turnover of teachers every year. If we have to make significant savings, a significant number of posts will have to be suppressed. To allow that to happen, we need money up front, which is not provided for at the moment.

Mr B McCrea:

I understand your argument. I know that, in order to let people go, there must be provision because of contractual relationships or for national agreements with the unions or whatever it is that you have to do. I am not clear about how much the figure is likely to be over and above the norm.

Mr McGrath:

Which figure?

Mr B McCrea:

If you are going to have to make the reductions in staff to make the savings that you want, you will have to make an upfront payment to remove people. Therefore, given that your savings grew over a longer period, but your upfront costs will be a one-year hit, or potentially a two-year hit, it is a question of cash flow. You have to have the financial resources to allow that to happen. What is the quantum?

Mr McGrath:

Do you mean the quantum that we are guessing at this stage?

Mr B McCrea:

Yes.

Mr McGrath:

That bid is for the upfront cash for exactly that reason. That is our best guesstimate at this stage.

Mr B McCrea:

OK. Will the information about savings and the outworkings be put together in a different document?

Mr McGrath:

We do not have a firm savings target yet. That is a marker bid predicated on, at worst, a 5% per annum reduction. More than £350 million means that an awful lot of jobs would have to go. That is a best guess. That bid is as much about making the point that you just made, Basil, namely, that in this process, this cannot be predicated without the system putting money up front, whether in education, health or wherever. Some money is needed up front. That pays for itself over time, but, yes, we could end up with a cash flow situation.

Mr B McCrea:

That is exactly the point. I ask because I know that the PSNI has a problem. I have also seen companies going into liquidation because they did not have the money to make people redundant in order to make the savings that they needed to carry on. I hope that the Government is not in quite the same position. However, if all those hits are coming through, the spike in the cash demand will, collectively, be fairly significant.

Mr McGrath:

It could well be. The position that the Minister is registering, and which the Executive collectively would recognise as an enterprise system, is that to make savings across the block, we will have to put money up front across the block.

Mr B McCrea:

The money may not be there in the block. My worry is that every single Department will have to do this. You have much more on the detail. All I can say is that I fear there will be a problem.

You said that you thought that the Executive were not going to take the holistic viewpoint with regard to decision-making. Is that right?

Mr McGrath:

I said in my response to Mervyn's point that my understanding is that DFP will not vet people's savings plans.

Mr B McCrea:

I understand that about DFP, but I am talking about the Executive.

Mr McGrath:

I do not think it is the Executive's intention to sign off individual savings plans. It will be left for each Minister to determine his or her savings plans in the light of the financial settlement that they get from the Budget.

Mr B McCrea:

I know that the decisions to be made will be structurally difficult and may even be above all our respective pay grades. However, it seems to be a bit difficult. If huge cuts are to come across many Departments, surely the very function of the Executive is to sit and say that, in the round, we will have a bit more emphasis on that and a little less emphasis on this. That is the only way to make decisions, otherwise it is almost like a salami slice, with everyone taking a 10% cut or a 5% cut or whatever and you just do your best within that.

Mr McGrath:

It is for the Executive to decide how they wish to do that.

Mr B McCrea:

I agree, and I did say —

Mr McGrath:

It is a matter for the Executive whether decisions about money are eventually made on a pro rata basis, through "salami slicing" or through a differential approach to priorities. My sense at the minute is that the consequences from that in individual savings will be left for each Minister to connect with and determine on. Once the Executive decide, it will still be open to each Minister to decide whether they have some priorities that they still want to do something with and promote. If so, they will decide whether they need to garner further savings to finance those.

Mr B McCrea:

I do not understand the point.

The Chairperson:

If the Executive do not have a reasonable degree of information about what each Department is proposing to do about their respective service delivery plans, it will be difficult for them to come to that conclusion. The Executive are being asked to have a stab in the dark at agreeing a Budget. You can see what the Departments are at: they are trying to get collective responsibility. Obviously, that should be the nature of the Executive process, but, politics being as it is, each Minister, depending on which party they come from, will try to ensure that they get the best possible deal. That is right and proper, but, in these times, surely it would be advantageous for the Executive to have a broader, collective understanding based on service delivery plans. That might help them to get to the point at which, as Basil said, their focus will be on this, this and this, because they are priorities. I suppose that the issue is how that all relates to the Programme for Government. However, for the period in question, there is no Programme for Government.

Mr McGrath:

When you said service delivery plans, I presume that you meant savings delivery plans?

The Chairperson:

Yes, sorry.

Mr McGrath:

All that I can talk about is the process, which we serve rather than shape. Nevertheless, to pick up on your final point, I know that my Minister's view is that parallel work needs to be done on a new Programme for Government, which should give direction on Budget decisions and, hence, savings; not the other way round. That is a point that she has made.

Mr O'Dowd:

I do not see my party's position, as outlined by Mitchel McLaughlin this morning, as being in opposition to the Executive's. It is more about sending a message to the British Government that

the scale of the cuts that they are talking about is totally unacceptable and unworkable. Indeed, the Chairperson's party leader said yesterday evening that such cuts could slump the North into recession for many years to come. So, I do not think that our positions are that far askew; it is just about how to approach it. We would like to see a united front in discussions with the British Government, and I think that not only is that achievable but will be achieved.

For the four-year budgetary period that we are looking at, am I right to suggest that around £235 million has been set aside for redundancies, or is that a year-on-year figure?

The Chairperson:

Even my maths comes up with that figure.

Mr O'Dowd:

The Chairperson and I are in agreement.

The Chairperson:

For the first time. *[Laughter.]*

Mr O'Dowd:

Yes. So, the redundancy figure for education could be £235 million, which is startling in itself, given that we have been told that this is all about savings. Is that figure reflected in the wage bill projection of 5% year on year? How long will it take for the savings to come through?

Mr McNaughton:

The wages projection is based on a standstill projection. It does not anticipate any reduction. All those elements interact, so it is a marker bid that will need to be adjusted depending on the level of savings and, therefore, the level of jobs in any particular area. The two cannot be segregated.

Mr O'Dowd:

I do not know whether you have the figures to hand or whether you can give even a rough projection, but, based on £235 million of redundancy payments and assuming that that is the worst-case scenario, how long will it take for the Department of Education's wage bill to return

savings?

Mr McGrath:

This is predicated on us probably making more than £235 million.

Mr O'Dowd:

Making more than £235 million of savings?

Mr McGrath:

More annual savings.

Mr O'Dowd:

How long will they take to come through? Will you achieve them in the four years of the comprehensive spending review (CSR)?

Mr McGrath:

That is what that line is based on.

Mr O'Dowd:

OK, so you are suggesting that if, in the worst-case scenario, £235 million is spent on redundancies over the four-year period of the CSR, the same sum will be returned in your wage bill in the same period.

Mr McGrath:

Yes, on an ongoing basis.

The Chairperson:

Are they all one-offs?

Mr McGrath:

Yes.

Mr O'Dowd:

Does that work through with respect to higher grades, pension contributions, and so on?

Mr McGrath:

It is a difficult calculus, John. In a worst-case scenario, if we had to take out 5% per annum, we would have to make approximately £90 million next year and the same in the following three years. Those are the one-off sums that we would have to put in to make those savings. They are one-off sums, so that is linked to us coming out at the end of that period with approximately £300 million worth of savings.

Mr O'Dowd:

If the worst-case scenario comes about in 2011-12, not only will you make £56 million through redundancies but you will take £56 million off the wage bill. Is that what you are saying?

Mr McGrath:

Yes, and possibly more. It is like all such things: money has to be put up front and it gears it. Based on that line of figures and, against that, in the first year, we will be saving approximately £90 million of recurring money and a further £90 in each of the subsequent three years, approximately £360 million worth of running costs will have been taken out by the end of the fourth year, for which four big one-off sums will have had to be put up, which will amount to more than £200 million.

Mr O'Dowd:

OK. Thank you.

Mr McGrath:

That highlights that an awful lot of money will have had to be put up to get recurring savings. It is an investment that will be realised beyond the four years.

Mr O'Dowd:

That is what I am trying to get at: it runs much further than the four years.

Mr McGrath:

Yes. Normally, we would be talking about a two or three year payback for individual levels, but this is because it is a force majeure. If we start off with a savings target, we have to take jobs out and we have no money to bring people out. Therefore, we are between a rock and a hard place. Then, there is death by one thousand cuts and silly things are done. If it had to be done as a deed, those are the numbers that would be involved. The measures to do it become a significant management challenge. As Mervyn said, that is particularly the case because any strategy round that would start off with squeezing bureaucracy, pushing for efficiency measures, having a moratorium on job vacancies and looking at energy costs. We would stay as far as possible away from classrooms or the front line, but, with those numbers, we would eventually get there, because that is where most of the money is.

The Chairperson:

As John was saying, taking the redundancy costs out would surely have an impact on the top line, which is specifically teachers' pay. Are you able, in that scenario, to reflect that?

Mr McGrath:

It is not that sophisticated at this stage. In reality, —

The Chairperson:

Right. That is based on the current complement of teachers.

Mr McGrath:

Yes. We would want, for example, to reduce the number of teachers by as little as possible. We would want to focus the savings as far away from the front line as possible. On the other hand, bluntly, the teachers are generally the most highly paid cohort of staff. Therefore, the more we go to different members of staff, the more we need of them. This is a budgetary bidding process. If we were into to the numbers that have to be taken out, we would need a much more sophisticated level of planning about how to get people out and how services would be reorganised to do with less.

The Chairperson:

On that theme, John, we have had a vacancy control policy in place since 2006. Is that right?

Mr McGrath:

Approximately.

The Chairperson:

That was imposed by the Department.

Mr McGrath:

It flows from the Public Service Commission and the guiding principles around how to deal with the review of public administration (RPA).

The Chairperson:

Right, but the Department is not the employer. In most cases, the employer is the boards, the Council for Catholic Maintained Schools (CCMS) or whatever. What has been happening in the system has been in practice since 2006. We know the difficulties that it has created around people working up and the related connotations. Have you any idea about what is happening about the 100, 130 or 188 redundancies on a yearly basis? What discussions have the Department and employers had about not filling those posts?

Mr McGrath:

Which 100 are we talking about?

The Chairperson:

Just redundancies. I assume that most of them are teachers.

Mr McGrath:

Those —

The Chairperson:

The figure of 188 relates to staff, which I assume is teaching and non-teaching staff.

Mr McGrath:

The figure of 188 refers to teaching staff. Those are normal redundancies that flow from schools maybe having to tighten their belts and letting some people go in order to reduce costs.

The Chairperson:

Ignoring other budgetary considerations, do we know how many of those lost in natural wastage are replaced?

Mr McGrath:

Very few would be replaced, because they are being made redundant to enable schools to balance their books. It is a microcosm. It is to reduce costs.

The Chairperson:

Yes, schools know that their budget next year will be x, y and z. On that basis, therefore, they unfortunately have to say that they will have only x number of teachers next year. Does the Department know from employers how many of the current staff complement are on permanent contracts?

Mr McGrath:

Do you mean teaching staff?

The Chairperson:

I am talking about a combination of teaching and non-teaching staff.

Mr McGrath:

We would certainly know in admin terms, because vacancy control applies only to management. With regard to schools, I do not know. We probably would have some of that detail, because we are paying for everyone eventually, whether they are permanent or temporary.

The Chairperson:

Maybe I am going off on a complete tangent, which is nothing new, and I am sure that the

Committee will not be surprised about that. Although it all comes out of the pot centrally, at the end of the day, it is taxpayers' money. There is a huge amount of money. The current structure, however, means that some of that money is paid to certain elements of the sectors by the Department and some by the boards. If sectors decide, on the basis of whatever the budget is, that there will be redundancies, is there, for example, a risk that the boards pick up a bigger percentage of that hit as opposed to other responsible organisations? At present, when a school closes, for example, the education and library boards pick up the redundancy costs, not the employer. Two schools in my constituency amalgamated, and the North Eastern Education and Library Board picked up the cost for that, but the employer, which was CCMS, did not. Some may say that that is a semantic point, because irrespective of who passes the cheque, it all comes from the central pot. However, does that skew matters and have an adverse effect on an organisation in delivering a service?

Mr McGrath:

I am not sure that it does. Most of the aggregated schools budget for their day-to-day money goes out through boards, particularly to the maintained sector. Therefore, the money is going through the board in the first place, and the financial consequence of an amalgamation or closure rightly falls to boards, because they are provided funding for it. The difference between the employing authority and the financing complicates the issue. If we get a gloomy scenario out of all this and have to take significant amounts of money out, we may have to look at issues around amalgamation and closures. However, that has to be done in a planned way that, as far as possible, delivers the education service that is still wanted, rather than in an ad hoc way.

The Chairperson:

If those assumptions are based on numbers, are there any assumptions that are based on the numbers and the amount of money available? There is a reduced pot of money and you said that the Department will need additional moneys over a certain period of time. However, none of those figures take into account the needs of the service and the calculation that for x thousand children, x thousand teachers are required.

The Northern Ireland Statistics and Research Agency (NISRA) figures show that, although there will be a slight decline in the school population over the next two years, there will be an

increase in the population for three successive years after that. Does the system take any account of that? The Department could end up putting the system under more pressure by making x number of staff redundant for financial reasons and then having to deal with an increased demand on the service.

Mr McGrath:

That is the reason for the aggregated schools budget bid. The demographics are reflected in that bid and it addresses the needs side of the equation.

The Chairperson:

OK. So, that is reflected.

Mr McGrath:

Yes. However, regardless of the outcome and whether it is achieved, some savings still have to be made, and that may not be able to be reflected properly. Need is important and it is the highest thing my Minister has regard to. However, if there are savings that are generated not on a needs basis but through exigency from the national spending review, one has to make difficult decisions about what the priorities are.

The Chairperson:

Are there any other questions from members on those points? The Committee has looked at pay assumptions, the aggregated schools budget and redundancy costs.

The education and library boards are in a difficult position, because approximately 75% of their earmarked budgets have been allocated, yet only approximately 40% has been allocated for numeracy and literacy. Why is there such a hold back in that area if it is such a priority?

Mr McGrath:

The Department is trying to agree specific delivery plans in those areas with the boards to trigger the release of those moneys. Like other areas, such as the entitlement framework, it is at the start of the school year when those things are tied up. Many of the bids are based on work undertaken with schools through boards and tend to be triggered by the school year. It is the start of

September when some sharpness is included to allow allocations to be finalised. That is not the way I would have done things in previous positions, but in education everything is dictated by the school year rather than the financial year.

The Chairperson:

I am not being facetious, but surely literacy and numeracy begins on the day children enter school and not in January or February of the next term. I cannot understand what is being asked of the boards by the Department on literacy and numeracy that is not currently there. Is there a problem or a policy issue? Work has been done on the review of the literacy and numeracy strategy. Indeed, I have some concerns about that and it is an issue the Committee will have to re-examine. We have not heard a great deal from the Department on that strategy. An update at some stage would be useful.

Literacy and numeracy are key elements of a school's existence and I cannot understand what the hold-up is. I understand that other elements of schools' delivery may not kick in until a certain point in the school calendar, but given the importance that we attach to literacy and numeracy, surely those two key elements of the educational curriculum should be in place from the first week in September.

Mr McGrath:

Literacy and numeracy are core elements of the curriculum. We are doing specific work to tackle the recurring problems that we have in those areas. Inasmuch as we have earmarked sums of money for work above and beyond the norm that education and library boards are funded for, we look to the boards each year to give us plans for what they are going to do. That funding is linked to the work in the RAPs, which will trigger the release of that money. We are saying that most of that funding should be out by the end of this month.

The Chairperson:

I noticed that the paper says that most of the funding would be paid out by the end of September.

Mr McGrath:

The vast bulk of it will be paid out. In previous years, some of it lingered on. Our discipline within the Department means that having it up until the end of September is just about acceptable, but once we get into late autumn we should not have money sitting around that might perhaps be used properly out on the front line.

The Chairperson:

A considerable amount of money — roughly £3.5 million — is still to be allocated. However, you are saying that it is going to be released by the end of September, which is the target for completion of allocations.

Mr McGrath:

Because of the financial discipline in the Department, we are keen not to have pots of money sitting unallocated, unless there are exceptional reasons for that.

Mr O'Dowd:

I want to talk about the ELBs and eligibility for free school meals, which is a different issue to the one that you have been concentrating on. We discussed this issue last week, and I just want to touch on it again. Has the demand for the new element of free school meals eligibility been greater than expected?

Mr McGrath:

It is not about demand. When the Minister took the decision to reflect the changes that had been made in England, her calculations suggested that they would have an impact on 20,000 children. NISRA refined those calculations and found that the number of children affected was closer to 30,000. We had not worked through the exact consequences of those changes; the number of beneficiaries has risen by 50%.

The Chairperson:

If that is the case, the cost will be additionally higher. The figures were based on 20,000 children, but the real figure is 30,000 children.

According to your paper, the English and the Welsh, it would seem, are saying no to the extension of that eligibility. The Scottish experience, which is explained by the Department in the documents provided to us, is that their eligibility threshold is a lot lower. I do not doubt the figures in the document, but if the Scottish situation is as it is, it means that they have specifically targeted low-income families for the extension of free school meals eligibility. Our threshold seems to have been set a lot higher. Is that a fair reflection of what is included in those papers?

Mr McGrath:

The Scottish approach was slightly different, and that is reflected in our submission. The Minister looked at that issue when she was deciding on the mechanism that she wanted to use. It is not unlike the Scots to do their own thing when it comes to policy issues; they do not take a parity approach. They extended their criteria last year. England had decided to do what the Minister has now decided to do, but that decision was overturned when the coalition Government came to power. One of Michael Gove's earliest decisions was to resile from that commitment. The Welsh are still where they were; they have no plans for change.

The Chairperson:

We move to discuss the capital spending proposals, which are outlined in the paper. What are the implications of the 9.1% reduction in capital expenditure in the Northern Ireland block grant?

Mr McGrath:

The implications are serious. By year four, the amount of capital spend will have been reduced by around 40%. In some of the Finance Minister's pronouncements, he has suggested that, based on the information that he has, 80% of the money that we are likely to receive in next year's block grant is already contractually committed. I do not know the breakdown.

The Chairperson:

Did you say that 80% is contractually committed?

Mr McGrath:

Yes, that is the Finance Minister's take on it, which means that there is not an awful lot of free money for Departments to bid for beyond their contractual commitments.

The Chairperson:

When does the Department expect to get the Budget 2010 capital? Is it correct that the Department has to go through a process with the Executive, DFP and the Strategic Investment Board? There are three elements to making up what will be the final arbiter on that element of the budget.

Mr McGrath:

Yes, I suspect that the work on the earlier years of the third investment strategy for Northern Ireland (ISNI III), the Budget years, will be dictated largely by the numbers. That is the DFP dimension, and it will show where we are, what we have inherited and the room for manoeuvre. The strategic dimensions will kick in for the latter years, because, to a certain extent, if 80% of the block grant is contractually committed in year one, it could be 50% or 60% by year two. Most of the investment decisions for the first couple of years have already been taken, so nothing much can be done about ISNI III for 2011-12 beyond reflecting the decisions that have already been taken. On the previous occasion, one of the tensions was between trying to carry out a budgetary process and carry out ISNI.

The Chairperson:

Last week, Diarmuid provided the Committee with welcome clarification that the reason that 14 projects were selected was that they were able to move on site almost immediately, but I will ask again so that there is no confusion in our minds: in light of the information that is set out in the papers, is there any risk to any of those announcements?

Mr McGrath:

I hope not.

The Chairperson:

Are they at risk if they fall into another financial year?

Mr McGrath:

They do fall into another financial year. Any sizeable capital project tends to run into another financial year.

The Chairperson:

Yes, such projects would not be done and dusted in one financial year.

Mr McGrath:

That is the norm. There will always be contractual commitments going forward. In our view, even with those schemes, the Department's level of contractual commitment is quite low compared with others. I would be horrified to think that there would not be enough headroom to cope with even those commitments. That would be a serious position. Before long, the Minister of Education will want to identify her next tranche of schemes to start next year. We discussed that previously. It is a chicken-and-egg situation. To a certain extent, the more that is signed up, the more advantageous the position in the scenario of not much money being available. Contractual commitments, by definition, get first call because they are legal commitments.

The Chairperson:

Perhaps it is an unfair comparison, but if you have approval for a planning application and have commenced the site work, you are required to have only the footings put in, so you can let the site sit forever and a day because the project has commenced. Is there a cut-off point, such as the clearing of the site, for the work to be defined as having commenced? Does that mean that the project has commenced and that it is safe? Has the project commenced by entering into that legal obligation?

Mr McGrath:

Once you sign the contract, you are committed.

The Chairperson:

Irrespective of whether you do any work based upon it?

Mr McGrath:

Yes. If you sign any contract with a builder, you are committed.

The Chairperson:

Because if you do not honour the contract, the person with whom you signed it will take you for breach of contract, and that would have financial implications.

Mr McGrath:

Yes.

The Chairperson:

Do members have any further questions on the matter? We have covered capital expenditure a considerable number of times in the past.

Mr McGrath:

We have not faced the scenario of bids going down before, and that reflects some of the points that Basil made; it is going to make cash flow very difficult, and we are seriously concerned about securing enough capital to keep a degree of momentum in the capital build programme, rather than allowing it to stop/start. I know that the Minister is keen to get the Committee's support for that. At times, there may be disagreement about which school appears on the shopping list, but there is a need to keep investing. Last week, you referred to Bunscoil Bheann Mhadagáin. If there is to be reduced investment in infrastructure, the Minister hopes that the Committee will agree with her that schools should still be high on the list when the Executive have to make difficult decisions. In the early years, capital spending decisions may well be among the starkest.

The Chairperson:

I do not think that there is any disagreement in the Committee about the absolute need for continued investment in education capital projects. Although we have differences of emphasis or opinion about why x was chosen and not z, the issue is capital investment.

Mr McGrath:

My point is simply that if the money is not there in the first place, the second point becomes academic.

The Chairperson:

To come back to the Middletown project, last week, you said that there was a review, and that was mentioned in the paper. As I said, we appreciate the information that you have given to us. In the Republic, there was a pause, and subsequently, on 9 September, the Irish Government and the Department of Education agreed:

“to develop a ‘multi-annual plan for the future development of the Centre’ enabling ‘interim capital works’ to be started as soon as possible.”

However, in light of the present circumstances in Northern Ireland, it has become necessary to review our contribution to the project. What likely scenario does the Department envisage being played out here? Is it different from other capital projects? Because the project involves North/South agreement, there is a 50:50 split, but was it kept outside the capital review?

Mr McGrath:

Yes.

The Chairperson:

So, it was outside the capital review. Therefore, where will our 50% of the money come from? Will it come from the capital budget?

Mr McGrath:

Yes.

The Chairperson:

How do we determine the overall cost of the project? Is it a case of putting a price on what we are going to build, splitting that figure and bidding for that amount from the capital budget? That would have an adverse effect on the other projects listed in the investment delivery plan.

Mr McGrath:

In narrow terms, yes. My Minister is very committed to the Middletown centre. What will the two Governments do about the cost with regard to the business case? Financing the project is another demand against the Department’s capital budget, but it is one to which my Minister would accord priority.

The Chairperson:

We had to reduce the amount of money — £23 million — that was to be profiled over a number of years for special educational needs (SEN) because we knew that we were not going to hit the targets. That money was trimmed back and taken out. If there is an issue around the availability of money from the Republic, why are we not considering doing the same? It is not certain that the Republic will come up with 50%.

Mr McGrath:

That is what we will have to do.

The Chairperson:

Is that the purpose of the review?

Mr McGrath:

No. In financing terms, my Minister will provide for appropriate investment in Middletown. If it turns out that there are delays and that the money cannot be utilised for Middletown, it will be redirected and we will provide for it again in the next year in the same way that we have done with SEN funding.

The Chairperson:

Thank you very much, John, Mark and Gillian. We appreciate your time.