



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

February Monitoring Round

2 February 2011

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Ms Deborah McNeilly)
Ms Brigitte Worth) Department of Finance and Personnel

The Chairperson (Mr McKay):

I welcome back to the Committee Ms Deborah McNeilly, the finance director of the corporate services group, and Ms Brigitte Worth, from the finance division. I invite you to make a brief opening statement.

Ms Deborah McNeilly (Department of Finance and Personnel):

As you know, this session is to do with our February monitoring round position at departmental level. Obviously, the central finance group looks at that from the Northern Ireland block level, and a session on that is scheduled in two weeks.

On the February monitoring round, the Department's business areas have again reviewed their

current position on underlying income and expenditure information and on activity forecast until the end of the year. That has informed the outcome of the February monitoring for us. As members will have seen in the paper that we forwarded, interest payments due to ratepayers is the most significant issue that has emerged, requiring us to identify funding of £0.9 million to address the pressure that Land and Property Services (LPS) alerted us to.

The other key issue for us had been employee benefit accrual, which we have continued to review. I will come back to that in a minute. As I said, we have been able to identify sufficient funds to address the LPS issue, which was a key priority for us. Those funds came from a range of business areas across the Department, all of which adjusted their salary and general administrative expenditure (GAE) forecasts. Consequently, we have been able to address the LPS pressure.

The overall reduced requirement is expected to be in the region of £1 million in current expenditure and £0.8 million in capital expenditure. That represents a change in the current expenditure position from the one reported in the paper, because, having resolved our employee benefit accrual position, we now do not need that £500,000 of funding. That position has been finalised.

I am happy to take questions on any of the key issues, and I will do my best to answer them.

The Chairperson:

On the LPS issue, I was looking over papers the other night, and I noticed that an additional £0.9 million is required as a result of a systems error. That seems to have been a very expensive error. Who is responsible for that? Did it come from the system's supplier and, if so, were those associated costs not covered by whatever contract was in place?

Ms McNeilly:

It is not an error in the sense that an additional expense was incurred. The shortfall was due to the fact that the system applied a 0% rate of interest to payments due in previous years. It should have applied the rate of interest that was applicable during the period in which the payments attracted interest.

I will explain what those interest charges relate to. If those who successfully challenged their

property valuations and had their rateable income charge reduced had made payments at the higher value, they would be entitled a refund of what they paid and interest on those payments. Some of the cases go back several years, and the system should have calculated the interest rate at the applicable rate in the past, rather than today's rate. However, after reviewing the process, LPS discovered that the system used an interest rate of zero when it should have been higher and that it was only paying the interest that was calculated for the year in place whenever —

The Chairperson:

Why was that not in place?

Ms McNeilly:

It was a system error. LPS advised us that —

Mr McLaughlin:

It is a new system. Was it a system error or an error with the system specification?

Ms McNeilly:

The system is an underlying system that was put in place to deal with all of the reforms LPS has put in place since 2007. I am unsure whether the error was a result of the system's specification or an emerging issue, but it resulted in the increased interest. LPS had already paid or identified the interest payments that were due this year of some £500,000, and the additional funding is required to address the issues from previous years.

The key clients of LPS who are affected by this issue tend to be public sector organisations with large properties that had the value of properties changed and the owners of some non-domestic properties who went through a challenge process to have the valuation of their properties changed. In both cases, changes were made to the valuations of the properties and refunds of payments and interest are due.

The Chairperson:

Will any further costs be incurred to put it right?

Ms McNeilly:

We do not currently have any detail on that, and dialogue is ongoing with the supplier. The scale

of the problem is such that LPS has identified 3,000 cases, and between 10 and 100 transactions need to be calculated in each case to reach a final figure. It is a very complex issue, and LPS has had to review its technical specification and the legislation and policy aspects. The problem came to light when LPS reviewed and audited the year-end rate account last autumn.

The Chairperson:

When was the system put in place?

Ms McNeilly:

I am not entirely sure of the dates. The reforms began in 2007, and the system would have been in place from the start of 2007 to deal with them. Change controls have been in place to respond to new reforms as they have come along. The Committee and the Department have subjected that to much review in the past. So, the system would have been in place probably from 2006 to deal with reforms and revisions such as new rates reliefs.

The Chairperson:

Will you provide the Committee with further information on that? I have a number of concerns about it, particularly about whether it is the Department or the system suppliers that are accepting responsibility?

Ms McNeilly:

OK.

Mr O'Loan:

Your submission to the Committee states:

“During this financial year, it came to light”.

How did it come to light? Was it as the result of challenges from those who were affected or some other method?

Ms McNeilly:

The audit for the 2009-2010 rate levy account takes place in autumn. The issue came to light as the result of the work that took place in and around the preparation or finalisation of that and the audit process.

Mr O’Loan:

Was it noted internally?

Ms McNeilly:

As I understand it, it was picked internally up by LPS through its internal review, but the audit was ongoing at the same time.

Mr O’Loan:

I want to amplify the point that the Chairperson made about seeking further information. We should ask LPS officials to come before the Committee to discuss this issue. There are other issues that we need to discuss with them, as councillors from Belfast City Council have said that errors have been made in the estimates LPS gave them for their rates. That has caused the council serious financial embarrassment, and it could also have happened with other councils.

Significant media attention was also given to apparent very large rebates that were made to businesses. I have queried that point with Ballymena Borough Council, of which I declare I am member, but it did not seem to be alarmed about it. Nonetheless, the figures quoted were huge, and I would like clarification around that. It would also be useful if we could get LPS to address any other issues that Committee staff are aware of.

Mr McLaughlin:

We are all on the same topic. There may be value in scheduling an evidence session with the Society of Local Authority Chief Executives and Senior Managers (SOLACE), because a number of councils have been affected by this. As I understand it, there is a very strong current of views coming from councillor colleagues who are having unsatisfactory engagement to try to find out exactly happened and why they are picking up the tab, which is how they see it.

As regards the ongoing process of change, we may need further rating reform just to make sure that we, as a Committee, understand what happened. On the base of it, it appears to me that we are going to get some further information about the fact that there was a problem with the technical specification, and, given how complex that was, it would be surprising if that were not the case. I am being sensible about this. However, we just need to know and to respond appropriately when these little glitches, which can be very expensive, are discovered.

The Chairperson:

Paragraph 3 of your written submission refers to the reduced requirements identified by DFP. What business areas do those reduced requirements apply to, and how are those areas in a position to give up resources? Have additional efficiencies been realised or specific services not been provided? Why were those particular requirements not declared sooner to allow for a reallocation to Departments earlier in the financial year?

Ms McNeilly:

The majority of that relates to business areas not filling vacant posts in anticipation of the outcome of the final Budget. One of the key areas where reduced requirements will come from is Account NI. It has been able to reduce the number of agency staff and the amount of overtime because it has seen a bit of a dip in the number of payments coming through for processing at this stage. However, we will have to keep an eye on that to see whether it is sustained. Another area is the additional income that has come from our internal business consultancy service as it has taken on additional work and has refined its income projections to year end.

It is always an area in which business areas need to and should improve. The permanent secretary and I recognise how disappointing it is that some of this is only coming to light in the business areas at this stage, and we will certainly be addressing that at our departmental board meeting on Monday.

The Chairperson:

Thank you for answering our questions. The Committee is particularly concerned about the LPS issue, so please provide us with the information requested as soon as possible.