Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Public Expenditure Adjustments: 2012-13 October Monitoring and 2013-14/2014-15 Budget Realignment

14 November 2012

NORTHERN IRELAND ASSEMBLY

Committee for Finance and Personnel

Public Expenditure Adjustments: 2012-13 October Monitoring and 2013-14/2014-15 Budget Realignment

14 November 2012

Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Ms Megan Fearon
Mr Mitchel McLaughlin

Witnesses:

Mr Michael Brennan	Department of Finance and Personnel
Mr Peter Jakobsen	Department of Finance and Personnel
Mr Jeff McGuinness	Department of Finance and Personnel
Ms Brigitte Worth	Department of Finance and Personnel

The Chairperson: I welcome Michael Brennan, Peter Jakobsen and Jeff McGuinness. Brigitte, you are in for the long haul today.

Ms Brigitte Worth (Department of Finance and Personnel): I am indeed.

The Chairperson: Michael, do you want to make an opening statement or go straight into questions?

Mr Michael Brennan (Department of Finance and Personnel): I will make a brief statement, Chair.

As you know, the Minister of Finance and Personnel made a statement to the Assembly on Monday, which covered three separate areas of the public expenditure system. The first area was the outcome of the invest-to-save initiative that the Executive took forward; the second area was the outcome of the October monitoring round; and the third area was the realignment of budgets for the 2013-14 and 2014-15 financial years. I will outline some of the key aspects of each element.

On the invest-to-save initiative, in the June monitoring round, the Executive decided to set aside £30 million for projects that could be taken forward in this financial year and would generate significant savings. Thirty million pounds was set aside for that scheme. Unfortunately, just over £23 million worth of bids were deemed successful, the largest of which was £19 million to the Department of Health, Social Services and Public Safety (DHSSPS) to progress Transforming Your Care. That expenditure of £23·6 million will generate per annum savings of just over £27 million for the Assembly, so significant savings will accrue from that.

In relation to the October monitoring round, again there was a trend of significant reduced requirements from the Departments. Some £44 million of resource departmental expenditure limit

(DEL) and just over £7 million of capital DEL was returned to the centre. In light of that, and keen to assist industries such as the construction sector, the Executive decided to reallocate some £20 million from resource DEL into capital DEL. That allowed the Executive to announce allocations of some £66 million to the Departments and a further £10 million to the Executive's economy and jobs initiative.

The Budget realignment was required because of the Executive's decision to progress the A5 road project and the need to restructure completely, particularly the capital DEL side, in those two financial years. Another reason for the realignment was that the Finance Minister was becoming a little unsettled at the quantum of reduced requirements from the Departments as part of the monitoring process. As I said, over £50 million came back in this monitoring round, and that trend has been going on for the best part of two years. The Minister wanted an analysis to find out the key drivers of those reduced requirements and whether the trend would continue in the future and, if so, make some budgetary adjustments to those Departments.

Another element of the Budget realignment exercise was to carve out some funding for the Executive to progress the economy and jobs initiative. Some £70 million was carved out and allocated to the projects that were announced the previous Thursday by the First Minister and deputy First Minister.

The Chairperson: In relation to the Barnett consequentials, £179 million was mentioned, but there is no information on how that is broken down. Notwithstanding the fact that the consequentials are unhypothecated and that the Executive will decide their own priorities, will you clarify the basis for the allocations and the years to which the consequentials will apply?

Mr Brennan: Those Barnett consequentials have arisen because of allocations in the past two autumn statements and the March 2012 UK Budget allocations to Whitehall Departments for this year and for the next two years. For 2012-13, there was £33·1 million of current and £15·1 million of capital. For 2013-14, there was £12·5 million of current and £47·3 million of capital. In 2014-15, there was £12·3 million of current and £59 million of capital. Those all add up to the £179 million of Barnett consequentials.

The consequentials came from allocations to a wide range of Whitehall Departments. The Department for Work and Pensions and the Department for Communities and Local Government were the two main ones, along with the Department of Health.

The Chairperson: Given that a number of members are not present, it would be useful to have a departmental paper detailing the Barnett consequentials and the rationale for each allocation.

Mr Brennan: OK.

Mr D Bradley: A certain level of overcommitment is built into the Budget, presumably to protect against underspends. There is also an end-year flexibility allowance, although it is not as high as it has been previously. If we consider all that and look back to October last year, the reduced requirements now are around half the size of last year's. That causes me some anxiety, because it may indicate that not all Departments have declared their requirements. If that is the case, and Departments declare them in the January monitoring round, there may be difficulties in spending the money by the end of the financial year. There is then a danger of the money being returned to the Treasury. What is your analysis of that possibility?

Mr Brennan: You are quite right to flag up the fact that we have a critical concern about how Departments bring reduced requirements to the Executive for allocation, particularly now that the Treasury has imposed the Budget exchange scheme, which means that the Executive can carry only some £50 million of resource DEL and £11 million of capital DEL into next year. Anything over and above that is lost to Northern Ireland. It is absolutely and utterly imperative that Departments bring their reduced requirements to the table as early in the monitoring process as they can.

As you say, any big windfalls that are generated and brought out in the January monitoring round pose significant difficulties, because we have to try to manage that down below the £50 million resource and the £11 million capital cap. It is important where we position ourselves when it comes to an overcommitment. Ideally, you want an overcommitment to be so high that you can embrace any unforeseen reduced requirements in January, but at the same time you do not want to leave yourself in a position in which you cannot maximise the flexibilities that you have under the Budget exchange scheme. At present, as we leave the October monitoring round, we are £25 million or £26 million overcommitted, which is quite a prudent place to be.

We have regular conversations with our Departments and their finance directors. They are aware of the consequences of breaching the Budget exchange scheme limit and, to be blunt, the embarrassment for all concerned if money is surrendered to the Treasury, particularly for the accounting officer in the responsible Department. The key issue for finance directors and accounting officers, particularly when they move into their spring Supplementary Estimates stage, is to make sure that they know exactly where their spending trends are going and do not leave themselves exposed to any risk from a significant reduced requirement.

Mr Peter Jakobsen (Department of Finance and Personnel): More reduced requirements were surrendered in June this year than last year. My take on it is that some of the Departments might have surrendered reduced requirements earlier than they did last year, which is somewhat reassuring.

We also monitor Departments monthly on their forecast out-turns, which should give us an idea of where they might be going. We will look at those every month to see where Departments might flag up further reduced requirements.

Mr D Bradley: How much money is being held at the centre, and how is it made up?

Mr Brennan: There are a range of minor pressures at the centre. Jeff, you have some details on that.

Mr Jeff McGuinness (Department of Finance and Personnel): As we look forward to 2013-14 and 2014-15, money is held at the centre for the social investment fund — approximately £26 million every year — and £3 million per annum is held for the childcare strategy. The pot for the economy and jobs initiative is held at the centre, but we will allocate that to specific projects over the next couple of months.

There is, obviously, rates financing and return-on-investment borrowing financing. We are holding the student fees pressure at the centre as well as the planned overcommitment. We have a few million pounds of unallocated asset sales that need to be attributed, but the asset management unit will look after that and will, we hope, get rid of that in the next while.

Mr Brennan: That covers a wide range of issues, but most of the money is pre-committed. The £70 million for the economy and jobs initiative, for example, has been allocated to specific discrete projects. As Jeff said, over the next few months, that will be transferred to the specific Departments.

Mr D Bradley: What is the total for the childcare strategy? Was £12 million the starting point?

Mr Brennan: The starting point was £3 million per annum over the four years.

Mr D Bradley: Is it right that £9 million has already been allocated?

Mr J McGuinness: We are holding that at the centre in each of the years for the Office of the First Minister and deputy First Minister (OFMDFM).

Mr D Bradley: So it has not been completed and rolled out.

Mr J McGuinness: The idea of holding it at the centre is that, once OFMDFM makes policy decisions on allocations, we have the money available.

Mr D Bradley: So the £3 million is just this year's allocation.

Mr J McGuinness: Yes, the £3 million is per annum.

Mr D Bradley: I had another question in my head, but it seems to have gone. If it comes back, perhaps the Chair will let me in.

The Chairperson: Michael, I refer you to table H, which details administration costs. The Executive's formal administrative cost control regime was dispensed with for the Budget period. Four Departments — the Department of Culture, Arts and Leisure, the Department of Education, the Department of the Environment (DOE) and OFMDFM — have seen increases in their administration costs, the most serious being DOE with a 17·9% increase to £9·1 million. Can we get further information on the reasons for that increased demand for administration and, perhaps more importantly, on the impact that it is having on front line services? Where is the money coming from to pay for the extra administration?

Mr Brennan: That table masks a wide range of issues in each of the Departments. Some of the percentages reflect reclassification changes. The figures for the Department of Enterprise, Trade and Investment (DETI), for example, mask movements in the statistics branches from DETI into the Northern Ireland Statistics and Research Agency. There are similar trends and movements in other bodies. The OFMDFM figures, for example, mask the reclassification of expenditure by the Attorney General's office. The DOE figures are distorted because of the fall in income from planning fees.

It would probably be more insightful for us to give you a written summary beneath the table explaining, Department by Department, where the significant outliers are. As you say, there are four or five Departments in which there are significant changes, but there is no common factor driving that. Each of those four or five outliers has unique circumstances, and we can give you a brief note on what is driving them.

Mr Cree: I want to go back to the £179 million of Barnett consequentials. You told us where the money is coming from in the short term. Some of it is being held in the centre, but when will those sorts of moneys be likely to go to a Department for those three years?

Mr Brennan: After the Executive's Budget realignment agreement last week, in the course of preparing for the January monitoring position, we will notify Departments of all the adjustments to their baselines so that the money that the Executive have handed out to them for a range of initiatives, including the economy and jobs initiative, are all built into the departmental baselines.

Mr Cree: Will they actually have that money from the Treasury?

Mr Brennan: That money has already come across from the Treasury to the Department of Finance and Personnel.

Mr Cree: For the three years?

Mr Brennan: Yes.

The Chairperson: Can we get an update on the statements on moneys held at the centre?

Mr Brennan: Jeff went through that.

The Chairperson: In writing.

Mr Brennan: Sorry, yes.

The Chairperson: Thanks very much.