Northern Ireland Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Outcome of 2009 December Monitoring Round

13 January 2009

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR FINANCE AND PERSONNEL

Outcome of 2009 December Monitoring Round

13 January 2009

Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Mr Ian Paisley Jnr
Ms Dawn Purvis

Witnesses:
Mr Michael Daly)
Ms Joanne McBurney) Department of Finance and Personnel
Ms Deborah McNeilly)

The Chairperson (Ms J McCann):

I welcome Michael Daly, head of central expenditure division in central finance group, Joanne McBurney from central expenditure division, and Deborah McNeilly, DFP finance director. There was a debate on this subject on Monday; therefore, rather than going over the paper, we would like to go straight into questions. Is that OK, Michael?

Mr Michael Daly (Department of Finance and Personnel):

Yes.

The Chairperson:

Are members content with that?

Members indicated assent.

The Chairperson:

Members should indicate to me whether they have any questions. I would like to ask a question about financial management, which the Minister partly answered in the Assembly on Monday. To what extent is the welcome improvement in spending performance due to improved financial forecasting and monitoring by Departments, or is it more to do with the increase in unforeseen budgetary pressures that are now playing out?

Mr Daly:

It is difficult to give a definitive answer. However, if I were to come down on one side, it would be on the side of improved forecasting and financial management. Over the past year or so, there has been a lot of increased scrutiny from Assembly Committees, particularly this Committee, and DFP has put pressure on Departments constantly to make better forecasts, and that is what we have seen.

As the Minister pointed out on Monday, the out-turn against planned total expenditure at the end of last year was 99·7%. We believe that we are seeing a continuation of that now, with much less reduced requirements. Comparing the December monitoring reduced requirements this year with those of last year, less than 60% was surrendered this year compared to last year. We must give some credit to Departments for improving their performance in that area. I do not have the figures with me, but the Minister may have mentioned that end-year underspends would have been measured in hundreds of millions of pounds a number of years ago. I think that there has been genuine improvement.

The Chairperson:

So, it is not because there are more pressures on Departments.

Mr Daly:

Obviously, there will be pressures in that the budgets are starting to bite with respect to the increased efficiencies that Departments have to deliver, which is not an easy thing. It is probably due to a combination of the two aspects, but we would be doing the Departments a disservice by saying that it is just because they have got tight budgets: they are working much harder to manage the situation.

Mr O'Loan:

The bids were quite modest this time around. I am surprised at that, given the climate that we are in. Does that indicate that there was some sort of pre-discussion with Departments to indicate that there was not much on offer? How did that come about?

Mr Daly:

We have regular meetings with finance directors, who are made aware, on an ongoing basis, that the situation is becoming tighter. However, if Departments genuinely have pressures that they feel they cannot accommodate, they have never been shy about submitting appropriate bids.

One finds that Departments tend not to bid for things on a whim, and they do not bid for things that they do not necessarily need, as that would take away from the overall package of bids they are submitting. When I was a finance director a number of years ago, I thought that for the package of bids submitted to be credible, it should focus on the key issues that needed to be addressed, rather than be a wish list.

Mr O'Loan:

Notwithstanding the low level of bids in this round, we know that there are colossal pressures in the system. The mechanism of relying on monitoring rounds seems to be running out of steam.

Mr Daly:

Do you mean the actual process of monitoring rounds?

Mr O'Loan:

Yes; the use of monitoring rounds to deal with the pressures that arise. What does the Department think about getting a more workable method of dealing with those pressures? I will elaborate slightly. As I have said a number of times in the Assembly, and it can easily be forgotten, we are in a three-year round in which the money was not cut — the overall money was slightly increased and reaffirmed — and yet, the language, and the reality, is of cuts all the time. The Assembly is presenting to the public that it is delivering, but we have got ourselves into an appalling state, which needs to be tackled in a very serious way. What new ideas are on offer here?

Mr Daly:

We are coming before the Committee next week to speak specifically about the usefulness of monitoring rounds. The Minister gave a heads-up on the kind of issues that we are facing in response to a question on Monday. If we have monitoring rounds, those provide flexibility to deal with pressures as they emerge during the year. If we do not have monitoring rounds, then there are only two ways of dealing with emerging pressures. One is to cut money from Departments. That has been done in the past: Departments contributed money to help cope with the animal feed contamination last year. However, it gets very difficult to do that towards the end of the financial year.

The other alternative is to create a contingency fund in anticipation of emerging pressures. However, the question is how big a contingency fund should be held back. Should it be left until very late in the financial year, or do we try to reduce it in the same way as we try to reduce over-commitment? In other words, do we reduce the under-commitment? It is something that the Department has been examining, and we will be coming before the Committee next week to talk about that, and we would welcome your views.

Mr O'Loan:

Finally, what are your indications for the February monitoring round; the final round of the financial year? What are the volume and demands likely to be?

Mr Daly:

Based on the previous and current rounds, we anticipate that little additional flexibility will emerge. However, who knows what it will be? We commissioned that yesterday.

Ms Joanne McBurney (Department of Finance and Personnel):

We commissioned it yesterday, and the returns are due on 4 February 2010. We expect some reduced requirements, although not a great amount. Similarly, there should not be a high level of bids from Departments. Given that Departments will be constrained by their spring Supplementary Estimates position, they should have taken action already to deal with any pressure of which they are aware.

Dr Farry:

I want to follow up on Declan's point about the context of monitoring rounds. Is it fair to say that the December monitoring round is the most critical monitoring round in the calendar year?

Ms McBurney:

Yes. As regards setting the position for the spring Supplementary Estimates, it is the most critical.

Dr Farry:

With respect to the volume of money that becomes available, is this the time that Departments should be surrendering funds, rather than in February, which is late in the financial year?

Ms McBurney:

Yes. We advise Departments that money should be surrendered as early as possible; certainly by the December monitoring round.

Dr Farry:

In the context of budgets becoming much tighter and Departments being much more focused on ensuring that there is expenditure, does that create a necessity to revisit some of the baselines during the next Budget process? It strikes me that a number of areas traditionally receive money in monitoring rounds: road maintenance is one that people always cite. There is always a rush of roadworks each January, because DRD gets an upsurge of funding through monitoring rounds. If budgets become tighter in future years, will there be a need to refocus in order to reflect the changing patterns of money that will become available in monitoring rounds?

Mr Daly:

That is always a consideration. Most Ministers would say that their budgets need to be looked at. You mentioned the structural maintenance budget. The Minister for Regional Development has always maintained that his baseline was deficient. It is an option for the Executive. However, to realign baselines as you suggest means that money must come from somewhere else. Therefore, a decision has to be made in that regard.

Dr Farry:

Will Departments be encouraged, during the next full Budget process, to analyse the bids they have made during monitoring rounds? For example, DFP has the situation in which Land and Property Services (LPS) has made a bid for significant funds every quarter, which suggests that there is an underlying problem that consequently puts more and more work on LPS with regard to rating reform. Is there a process that will pick up those patterns in order to avoid having to address these matters in the future through monitoring rounds?

Mr Daly:

Certainly, when we move into the next spending review, as with bidding and monitoring rounds, I do not envisage that Departments will be shy about coming forward to have their baselines restated in order to address what they believe to be deficiencies. Departments would not need to be told to do that. I expect that that is what they will do.

Dr Farry:

I stand to be corrected. However, my impression is that this time, a greater level of internal departmental reallocations seems to be highlighted than previously.

Ms McBurney:

Yes: that is representative of Departments taking action to meet their own pressures.

Dr Farry:

With regard to budgetary authority, can Departments take those decisions on a freestanding basis or are they decisions for the Executive to take? If it is the latter, are those decisions on internal reallocations considered in the same mix as interdepartmental reallocations?

Ms McBurney:

Departments are allowed to move £500,000 or less between spending areas at their own discretion and with the approval of DFP. For any amount above that, the decision goes to the Executive and is considered at the same time as bids on reduced requirements.

Dr Farry:

Therefore, it was potentially open to the Executive to say that they would not support an internal reallocation over a certain limit in a particular Department, and that it should be reprioritised?

Ms McBurney:

Yes. It all goes forward to the Executive at the same time, so that they can consider the overall picture.

Mr F McCann:

My first question relates to the £600,000 non-cash costs for DSD's housing programme, which is outlined in table 1 of the Minister's statement. From where has that money come?

Ms McBurney:

DSD informed us that there is a reduction in housing programme capital charges due to falling loan balances as housing association loans are paid out. If a Department has an asset — which it would have if someone owed it money through a loan — it will incur a cost-to-capital charge on that, and if the loan balance falls below the level that the Department has planned for it will require less of that capital charge. That is what DSD is returning in this instance.

Mr F McCann:

One of the other issues relates to the Social Security Agency. If Departments hand money back, or have reduced requirements, do they question whether the money could be used in other particular areas. Over the past number of monitoring rounds, huge amounts of money have been handed back in capital. Does the Department question the impact that that has on running the service?

Mr Daly:

If a Department has a reduced requirement, it does not have discretion as to whether to hand that money back; it must surrender it. A reduced requirement means that a Department has been allocated money for a particular purpose and, for whatever reason, no longer requires it. That money is then returned to the centre.

If something is identified as a reduced requirement then it would not have an impact on the provision of a service. A reduced requirement means that a Department has perhaps been able to buy the service cheaper, or that its estimates had been too high for the provision of the service.

Mr F McCann:

In some monitoring rounds, upwards of £50 million was handed back in social security capital. Obviously, that would have to have had an impact on the service that the Department intended to supply. In every monitoring round so far, large amounts of money in reduced requirements have been taken from the Social Security Agency at a time when that agency seems to be under pressure.

Ms McBurney:

If a Department surrenders a reduced requirement, the implication is that it has received funding for something that it has not incurred expenditure on; therefore, it returns it. It is not a cut in the Department's planned expenditure; it simply means that it is not spending the money on that particular purpose, or that the costs relating to a planned project are lower than planned.

For capital projects, a common reason for a reduced requirement occurring is that that project has slipped and will not be going ahead in the financial year that the Department originally planned. If the Department cannot spend the money in the current year, the money is returned to the Executive, and they will make the decision about where to utilise those funds. The Department deals with the pressures in later years if they re-emerge.

Mr F McCann:

Once the money is handed back, will the Department automatically get it back again?

Ms McBurney:

No; not necessarily. If the Department cannot spend the money in the year for which it was allocated, it is up to the Executive to decide whether the Department will receive the funding in future years.

Mr F McCann:

The last page of the Minister's statement indicates that DSD submitted a bid of £5 million for the mortgage rescue scheme; a scheme that has featured in almost every monitoring round so far. That scheme is hugely important, and the Department has consistently made bids of approximately £5 million to kick-start it. Is the fact that that request has never been granted an indication that the Minister of Finance and Personnel does not see the importance of that scheme or that he feels that DSD could find the resources elsewhere to pay for it?

Ms McBurney:

The scheme was originally planned at the beginning of the year, and it was to be a pilot scheme which provided financial advice. DSD was to provide an evaluation of it, and, on the basis of that evaluation, a decision could be taken on whether to provide additional funding. To date, DSD has not provided that evaluation, and it was not felt to be appropriate to provide additional funding for a scheme on which DFP had received no further information.

Mr F McCann:

My understanding, and perhaps Simon Hamilton can help me out with this, is that £100,000 was provided to allow for advice to be given under the mortgage rescue scheme and not £5 million. The figure of £5 million has appeared in almost every monitoring round.

Mr F McCann:

Ms McBurney:

DSD has still not provided the evaluation of the original scheme. Until it does so, the decision on that funding cannot be taken.

The Chairperson:

Dr Farry said earlier that the Minister mentioned in his statement that the Executive should adopt a targeted approach rather than a simple pro rata cut across all Departments through efficiency savings. Who set those targets, and how were they measured by the Department? Was it DFP?

Mr Daly:

Sorry, do —

The Chairperson:

In his statement the Minister said that a targeted approach should be adopted, rather than a simple pro rata cut, to improve efficiency savings. Previously, efficiency savings were set at 3% for each Department, but the Minister has indicated that a more strategic, cross-departmental approach would be taken to those savings. Who sets those targets? How are they set?

Mr Daly:

Are you referring to the Minister's statement yesterday on the 2010-11 spending plans?

The Chairperson:

Yes.

Mr Daly:

My colleagues will be dealing with that in the next evidence session.

The Chairperson:

Sorry; I have gone on ahead. That is OK.

Mr McLaughlin:

I addressed this point to the Minister, but I am not sure that I got enough detail in reply. We expect DFP to be the exemplar in many ways. The Minister made a point in his statement that I think is valid; I agree that there is now better financial management and projection, and that there is a much more focused approach than hitherto. Credit should be given for that. However, there appears to be an issue with IT Assist, in that there were more receipts than was anticipated. That raises questions, particularly in relation to the finance division. What is the explanation for that? Why did they get their sums wrong?

Ms Deborah McNeilly (Department of Finance and Personnel):

The sums were based on the situation in the early part of the year, because it relates back to the June monitoring round. There have been significant difficulties in negotiating transfers from other Departments. A prudent view was taken of what would be received from Departments, but the IT Assist service has continued to push Departments to get money from them, so there has been some improvement in the level of transfers over and above what was forecast.

Mr McLaughlin:

But it is not a movable feast. There is a responsibility on the Departments to transfer on a preagreed schedule.

Ms McNeilly:

They argue over the amount that they wish to transfer. Even if they gave an amount last year, they will debate the amount they want to give this year for the same service. Once a three-year budget is set we will arrange for those transfers to be done permanently, so that we will not have to go through that process every year. The reason we are going through the transfers at monitoring rounds is that we have not had the opportunity of a formal three-year budget. Once a transfer is made on that basis, it is permanent, so it does not have to be sought each year. Every year there is a debate about how much Departments are prepared to give for the service. As Departments are squeezed, they try to squeeze how much they are going to give to IT Assist or to other services.

The other aspect of IT Assist forecasts is that, with the move of all the Departments into the shared service centre for ICT services, there were asset transfers to be made, including other Departments' equipment and so on. Asset transfers were planned to be made this year, which would bring with them depreciation and cost-of-capital charges. Those planned asset transfers have not happened as hoped this year because of a range of issues. That has meant that the expenditure on IT Assist has also dropped. The two aspects of the issue are an increase in transfers in and a drop in non-cash costs because of asset transfers.

Mr McLaughlin:

That indicates that we should not be too complacent about the progress that is being made. If there is improved financial management, that implies that responsibilities are not only factored in but are delivered on, particularly within government. It is not the largest sum, so I will not dwell on the matter any further, but it was a clear indication to me that all is not as well as it should be, or could be, and might contradict the claim that we have arrived at a satisfactory level of confidence and capacity.

Ms McNeilly:

I recognise, and business areas recognise, that there is always room for improvement. I am sure that my colleagues recognise that, and there is a continued focus on it. Even up to the departmental board level there is a routine focus on financial management.

Mr O'Loan:

I want to ask a bit more about the departmental internal reallocations. The Minister's statement made quite a bit of that. You said that a figure of £500,000 was allowed subject to DFP approval. I want to be absolutely clear: were all those allocations at that level, or was something done differently this time? To be more specific, at about this time last year, there was a major fuss about Social Development funding. Its housing budget was short but it had surplus money in other areas. It wanted to reallocate funds but was not allowed to do so. Were any reallocations within that £500,000 level, or were bigger allocations allowed this time? Were the same rules — and the same interpretation of the rules — used as in the past?

Ms McBurney:

The same interpretation of the rules is used in every monitoring round. One key factor when allowing proposed internal reallocations is that they must have arisen as a result of proactive management decisions taken by the Department to stop spending in one area in order to fund a pressure in another. Therefore, it is not a case of reusing surpluses. Any surpluses that arise are a reduced requirement and must be surrendered to the Executive. These movements have happened when Departments have a pressure in an area and, in order to enable them to meet that pressure, they reduce funding — slow spend — in another area. They are asking the Executive's approval to do that.

Mr O'Loan:

OK, thanks.

The Chairperson:

Thanks very much for your presentation. A mobile phone is on at the moment. I remind members and people in the Public Gallery that it is interfering with the broadcast. Mobile phones that are on silent mode must be switched off.