Session 2010/2011

Third Report

Committee for Finance and Personnel

Report on the Executive's Draft Budget 2011-15

Volume 1

Together with the Minutes of Proceedings of the Committee
Relating to the Report and the Minutes of Evidence

Ordered by The Committee for Finance and Personnel to be printed 16 February 2011
Committee for Finance and Personnel

Report: NIA 44/09/10R

Membership and Powers

Powers

The Committee for Finance and Personnel is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the Northern Ireland Act 1998 and under Assembly Standing Order 48. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and Personnel and has a role in the initiation of legislation.

The Committee has the power to;

- consider and advise on Departmental budgets and annual plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of primary legislation;
- call for persons and papers;
- initiate inquiries and make reports; and
- consider and advise on matters brought to the Committee by the Minister of Finance and Personnel.

Membership

The Committee has eleven members, including a Chairperson and Deputy Chairperson, with a quorum of five members. The membership of the Committee during the current mandate has been as follows:

- Mr Daithí McKay (Chairperson)1
- Mr David McNarry (Deputy Chairperson)2

- Dr Stephen Farry
- Mr Paul Frew3
- Mr Paul Girvan4
- Mr Simon Hamilton
- Ms Jennifer McCann
- Mr Mitchel McLaughlin
- Mr Adrian McQuillan
- Mr Declan O'Loan
- Ms Dawn Purvis

1. Mr Daithí McKay replaced Ms Jennifer McCann as Chairperson on 19 January 2011, having replaced Mr Fra McCann on the Committee on 13 September 2010. Ms McCann replaced Mr Mitchel McLaughlin as Chairperson on 9 September 2009.

2. Mr David McNarry was appointed Deputy Chairperson on 12 April 2010 having replaced Mr Roy Beggs on the Committee on 29 September 2008.

3. Mr Paul Frew joined the Committee on 13 September 2010; Mr Ian Paisley Jr left the Committee on 21 June 2010 having replaced Mr Mervyn Storey on 30 June 2008.

4. Mr Paul Girvan replaced Mr Jonathan Craig on 13 September 2010; Mr Jonathan Craig had been appointed as a member of the Committee on 13 April 2010. Mr Peter Weir left the Committee on 12 April 2010. Mr Peter Weir had replaced Mr Simon Hamilton as Deputy Chairperson on 4 July 2009. Mr Simon Hamilton replaced Mr Mervyn Storey as Deputy Chairperson on 10 June 2008.

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List of Abbreviations and Acronyms used in the Report

ACNI Arts Council Northern Ireland

A&E Accident and Emergency

ALB Arm's Length Body

AME Annually Managed Expenditure

AMU Assets Management Unit

ASB Aggregated Schools Budget

BBA British Bankers' Association

CART Capital Assets Realisation Taskforce

CBI Confederation of British Industry Northern Ireland

CDO Collateralised Debt Obligations

CEF Construction Employers Federation

CFG Central Finance Group

CFP Committee for Finance and Personnel

CIF Construction Industry Forum

CSR Comprehensive Spending Review

DARD Department of Agriculture and Rural Development

DCAL Department of Culture, Arts and Leisure

DE Department of Education

DEL Departmental Expenditure Limits

DEL Department for Employment and Learning

DETI Department of Enterprise, Trade and Investment

DFP Department of Finance and Personnel

DHSSPS Department of Health, Social Services and Public Safety

DLA Disability Living Allowance

DoE Department of the Environment

DoJ Department of Justice

DRD Department for Regional Development

DSD Department for Social Development

DWP Department of Work and Pensions

EDP Efficiency Delivery Plan

EIB European Investment Bank

E&LB Education and Library Board

EQIA Equality Impact Assessments

ERINI Economic Research Institute of Northern Ireland

ESRI Economic and Social Research Institute

ESS Enterprise Shared Services

ETI Enterprise, Trade and Investment

EU European Union

EYF End of Year Flexibility

FDI Foreign Direct Investment

FSB Federation of Small Businesses

FSME Free School Meal Entitlement

FTE Full time equivalent

GB Great Britain

GP General Practitioner

GDP Gross Domestic Product

GVA Gross Value Added

HE Higher Education

HLIA High Level Impact Assessment

HM Her Majesty's

HMT Her Majesty's Treasury

HR Human Resources

ICT Information Communication Technology

ICTU Irish Congress of Trade Unions

IFS Institute for Fiscal Studies

IMF International Monetary Fund

IoD Institute of Directors

ISNI Investment Strategy for Northern Ireland

LPS Land and Property Services

JESSICA Joint European Support for Sustainable Investment in City Area

MAC Metropolitan Arts Centre

MLA Member of the Legislative Assembly

NAMA National Assets Management Agency

NGO Non-Governmental Organisation

NI Northern Ireland

NIAO Northern Ireland Audit Office

NICMA Northern Ireland Childminding Association

NICS Northern Ireland Civil Service

NICVA Northern Ireland Council for Voluntary Action

NIFHA Northern Ireland Federation of Housing Associations

NIHE Northern Ireland Housing Executive

NILGA Northern Ireland Local Government Association

NIMFG Northern Ireland Manufacturing Focus Group

NIPSA Northern Ireland Public Service Alliance

NITA Northern Ireland Theatre Association

NIW Northern Ireland Water

OCA Office Cost Allowance

OFMDFM Office of the First Minister and deputy First Minister

PAC Public Accounts Committee

PEDU Performance and Efficiency Delivery Unit

PfG Programme for Government

PFI Private Finance Initiative

PMS Presbyterian Mutual Society

PPP Public Private Partnerships

PRONI Public Record Office of Northern Ireland

PSA Public Service Agreement

PSE UK Poverty and Social Exclusion in the UK Project

PSNI Police Service of Northern Ireland

PSO Public Service Obligations

PwC PricewaterhouseCoopers

QUB Queen's University, Belfast

RoI Republic of Ireland

RRI Reinvestment and Reform Initiative

SCS Senior Civil Service

SEN Special Educational Needs

SHDP Social Housing Development Programme

SIB Strategic Investment Board

SME Small and Medium-sized Enterprises

SOU Special Olympics Ulster

SROI Social Return on Investment

SSRB Senior Salaries Review Body

STAR Skills, Training and Reinvestment

UK United Kingdom

USA United States of America

Executive Summary

The Northern Ireland Executive's draft Budget 2011-15 is distinctive in that it establishes the spending plans for government departments for the next four years, within a wider fiscal and economic context which is unparalleled in recent years. The Executive has been faced with the unenviable challenge of having to develop its budget, not only against the backdrop of an international financial crisis affecting public finances and economies across the globe, but, more particularly, on the foundation of swingeing public spending cuts arising from the UK Spending Review, announced in October 2010, which apply to the local Block Grant without any assessment of relative need. This challenge has been made all the more difficult because of the disproportionate impact of the cuts on Northern Ireland due to fundamental weaknesses in the local economy, including, for example, greater reliance on the public sector, higher rates of economic inactivity, relatively low income levels and high rates of poverty, and a legacy of capital underinvestment.

In facing up to the challenge, the Executive has indicated an intention to remain focused on the strategic priorities of growing the economy and protecting the most disadvantaged in society, whilst balancing its budget through a mix of savings, efficiencies, asset realisation, borrowing and revenue-raising measures. The success or otherwise of this approach will depend on the application and outworking of these measures across the twelve executive departments and other public bodies, combined with the ramifications for the private and third sectors. This provides the locus, therefore, for this formal response to the Executive's draft Budget 2011-15.

In presenting this Report, the Committee for Finance and Personnel is fulfilling its unique role in co-ordinating the views of all the relevant Assembly committees on the Executive's budgetary proposals. To inform the Report findings and recommendations, the Committee has canvassed the views of each scrutiny committee in addition to receiving written and oral evidence from a wide range of leading economists, academics and representatives from the business and voluntary sectors and the trade unions. In addition, in order to provide all Assembly Members with an opportunity for input, the Committee led a "take note" debate on the draft Budget in the Assembly on 31 January 2011.

While working to an extremely tight timeframe, the Committee has sought to establish a sound evidence base upon which to make a critical but constructive response to the draft Budget 2011-15, which will inform the Minister of Finance and Personnel and the wider Executive in preparing a final draft Budget. The Report contains some forty-five key conclusions and recommendations, in addition to numerous supplementary observations and proposals, both at a strategic and a departmental level. These include: criticisms of the budget process and presentation; concerns around particular savings and spending proposals; suggestions for improving financial management practices, transparency and the longer-term efficiency of public spending going forward; propositions on levers for supporting wider economic development; and recommendations for new measures and additional considerations to be factored into the revised draft Budget. The Committee looks forward to hearing the Executive's response to the Report when the Finance Minster presents the revised draft Budget 2011-15 for debate and approval by the Assembly in March 2011.

Key Conclusions and Recommendations

Global Context

1. The Committee believes that the NI Executive's draft Budget 2011-15 should not be considered in isolation from the wider international financial crisis which has unfolded in recent years and the negative impact which this is having for public expenditure and economies at the national and regional level around the world. (Paragraph 12)

2. In the view of the Committee, it is important that there is a clear recognition of the disproportionate consequences for NI of the Westminster Government's approach to tackling the budget deficit. In particular, as a result of the use of the Barnett formula to consequentially determine NI's allocation, based on spending decisions for England, the Executive's Departmental Expenditure Limit (DEL) budget has been subject to a £4bn reduction in real terms over four years, without any account being taken of relative need in NI. Additionally, due to the Westminster Government's plans to make cuts to Annually Managed Expenditure (AME), it is predicted that a further £500m will be withdrawn from the NI economy. As outlined later in the report, members have noted that, because of the relatively high rate of "families with children", higher rates of economic inactivity, greater reliance on the public sector and higher rates of disability compared to GB, these cuts to AME are also likely to have a disproportionate impact in NI. (Paragraph 19)

3. The Committee is mindful that the Executive has been faced with the unenviable challenge of managing the cuts as determined by the UK Spending Review. However, members welcome that the draft Budget 2011-15 document, published on 15 December 2010, in addition to indicating each department's budget allocation for the next four years, suggests a determination on the part of the Executive to minimise the impact of the budgetary cuts by finding new sources of revenue, with the strategic aim of protecting "the more vulnerable in society" and giving priority "to promoting the growth of a dynamic, innovative economy". (Paragraph 21)

Budget Process and Presentation

4. Given that departments had ample opportunity to prepare spending and savings plans, and to examine additional revenue-raising options, since June 2010, the Committee considers that the Executive should have been in a position to agree and publish the draft Budget 2011-15 sooner, following the UK Spending Review announcement on 20 October 2010. (Paragraph 24)

5. The Committee is extremely disappointed to note the repeated failure of a majority of departments to engage properly with their Assembly committees and the wider public on budget proposals. This is particularly unacceptable given that this Budget will determine spending allocations for key public services at a time of exceptional financial constraint and for the whole of the next Assembly mandate. In this regard, the Committee would point out that, in fulfilling their advice and scrutiny functions, the Assembly statutory committees assist in overseeing the effective and efficient delivery of the Executive's strategic priorities. (Paragraph 30)

6. In terms of ensuring transparency, and given the assurances provided by the Department of Finance and Personnel (DFP), the Committee expects that the revised draft Budget 2011-15, to be debated and voted upon in the Assembly in March, will set out the individual departmental

expenditure proposals, disaggregated to unit of service level. Moreover, to avoid a recurrence of the delays in the publication of individual departmental budgetary plans and the associated impact that this has for proper consultation, the Committee calls on DFP to ensure that the full departmental-level information is included within the Executive's draft budget documents in all future budget processes. (Paragraph 32)

Strategic Concerns

7. The Committee is dismayed that, in terms of transparency, the draft Budget 2011-2015 document fails to explain clearly the rationale and guiding principles behind the proposed departmental allocations, how these have been applied consistently, and the projected implications of the budgetary reductions at a strategic level. Also, on the basis of the information available, members have found no evidence of a proper zero-based review of resource baselines to assess the true cost-benefit of programmes and how they contribute to strategic priorities. The Committee considers that this would represent a missed opportunity to find new ways of optimising resource allocations across the public sector. (Paragraph 41)

8. The Committee believes that the draft Budget 2011-2015 should have been accompanied with a draft Programme for Government 2011-15 and an updated Investment Strategy, as this would have allowed the Executive to demonstrate clearly how strategic policy priorities are driving financial allocations as opposed to financial considerations driving policy direction. While it has been stated that the "draft Budget has been drafted in a manner that ensures consistency with the emerging draft Programme for Government", the Committee awaits evidence of how the proposed budget allocations align with the Executive's strategic priorities over the next four years. (Paragraph 47)

9. The Committee believes that the proposed abolition of the programme of administrative cost controls and the delegation of responsibility in this area from DFP centrally to individual departments would reduce the level of transparency and safeguards available for protecting expenditure on frontline services. As such, the Committee suggests that, if the proposed new approach is taken, each Assembly statutory committee should place a focus on departmental administration expenditure during the budget period. (Paragraph 54)

10. The Committee recommends that DFP seeks Executive agreement on a standard definition of "inescapable" expenditure to be applied consistently and substantiated across departmental spending plans. The Committee further calls on DFP centrally to ensure that expenditure classified as "inescapable" by departments is objectively assessed in terms of its value for money, alignment with strategic objectives and effectiveness in producing outcomes. The Committee advises that each statutory committee also monitors this area of departmental spending carefully. (Paragraph 58)

11. The Committee welcomes the joint declaration of 2 February 2011 by the NI Executive, the Scottish Government and the Welsh Assembly which, among other things, called for the Westminster Government to reverse its decision to write off the accumulated End Year Flexibility (EYF) stocks. Moreover, the Committee believes that any decision to remove the EYF facility should only have been taken in the context of an agreed replacement scheme and members concur with the view that decisions, such as this, which fundamentally affect the financial management of the devolved Administrations should only be taken collectively by the parties involved and not unilaterally by Her Majesty's Treasury (HMT). (Paragraph 62)

12. In light of the ending of the EYF scheme for the devolved Administrations and the lack of certainty around any suitable replacement scheme, the Committee calls on DFP to examine the scope for the Executive to devise its own system for ensuring that departments and other public bodies, which demonstrate sound financial forecasting and monitoring in-year, have the flexibility

to make prudent decisions for carrying over end-year monies without being penalised. (Paragraph 66)

13. Members are concerned that, similar to its unilateral decision to end the EYF scheme, the Westminster Government could renege on the amount of over £4bn in capital funding which remains to be paid in the final two years of the Investment Strategy up to 2017, in line with previous government commitments. The Committee would encourage the Executive to continue to press for a renewed commitment from the Westminster Government in this regard. (Paragraph 70)

14. The Committee notes the increasing cost of Reinvestment and Reform Initiative (RRI) repayments with concern. However, in view of the severe cuts to the capital budget, the Committee accepts that it will be necessary to make full use of the funding available to the Executive via RRI through the course of the Budget period. (Paragraph 72)

15. The Committee believes that it is incumbent on the Executive to ensure that the use of public money to assist the Presbyterian Mutual Society (PMS) will see a just and fair resolution for all, particularly smaller savers, with whom the Committee has much sympathy. However, to ensure transparency around the proposed plans, the Committee calls for clarity on the following points: how smaller savers could be prioritised within the scheme; projected principal and interest repayments on the £175 million loan; whether consideration should be given to charging interest on the £25 million contributions from HMT and the Executive, which would provide a return on the use of public money; the level of risk to the Executive; the size of the contribution by the Presbyterian Church; and the estimated administrator fees over the course of the working out period. Members also request that full details of the scheme, the administrator's business plan and the due diligence/risk assessment completed on that plan are made available as a matter of urgency, to enable the Assembly to make an informed decision on this issue. (Paragraph 75)

16. Given both the disproportionate impact of the recession on the local construction industry and the relatively high regional multiplier from capital expenditure in this area, the Committee cautiously supports the Executive's proposal to transfer money from current expenditure to capital investment within the budget period, bearing in mind the potential impact that this may have on other spending areas. Members also note that, as individual departments seek to reverse this trend, the impact of this approach may ultimately be limited. Consequently, members are keen to see evidence that the additional capital investment is targeted and prioritised strategically to ensure that best value for money is achieved. (Paragraph 84)

17. The Committee has concerns that a higher than anticipated rate of inflation will have an adverse impact on the real allocations of departments and on the spending power of consumers in the economy.[1] Members are therefore disappointed that the draft Budget fails to outline a cross-departmental strategy to control inflation and would call for this to be addressed in the revised draft Budget. (Paragraph 90)

18. The Committee wishes to reiterate the serious concerns that have been raised already regarding the basis for the excessive cuts which the draft Budget proposes in the resource allocations for the NI Assembly and NI Audit Office (NIAO) and the potential for this to impair the effectiveness of both of these independent scrutiny bodies. Given that lean times require stronger not weaker scrutiny, the Committee expects to see this issue resolved in the final draft Budget. (Paragraph 98)

19. In view of the limitations to the in-year monitoring process, the Committee reiterates its call for the establishment of a regularised annual budgetary review mechanism, set to a pre-

determined timetable, which it considers will aid transparency and better enable the Executive to adapt its plans to deal with changing circumstances and unforeseen pressures. (Paragraph 101)

Budgetary Savings

20. The Committee considers that the process in respect of the planning and delivery of departmental savings plans must be further developed and refined, and that clarification is needed on a number of issues, including: when it is expected the plans will be finalised; how will they be monitored; what assessment has been made to ensure there will be no net cost to the Executive in the longer term; and what contingency plans are in place should the anticipated savings not be realised. (Paragraph 107)

21. Mindful of the plans to impose pay restraint for some NI Civil Service (NICS) grades, as contained in the draft Budget, members would urge the Finance Minister to conclude his deliberations on the review of Senior Civil Service pay arrangements, having regard to the Committee's previously expressed views, and, as part of the current budget process, to set out proposed new arrangements which are "fit for purpose", cost-effective and tailored to local economic conditions. (Paragraph 112)

Longer-term Efficiencies

22. Given DFP's role in ensuring "public expenditure is managed effectively to deliver best value for the people of Northern Ireland" , the Committee calls on the Department to fulfil a role in the central monitoring and strategic coordination of budgetary savings and efficiency gains; in particular to ensure that the savings by one department do not result in a cost or adverse impact for another and that the present focus on short-term budgetary savings does not result in departments losing sight of the need to improve efficiency and effectiveness in service delivery in the medium to long term. (Paragraph 119)

23. Given the progress that has been made to date in reducing sick absence levels in NICS towards the existing overall target of 9.5 days, the Committee recommends that the Finance Minister and his Executive colleagues continue to work actively towards further reducing the existing rate of NICS absenteeism and that there is no relaxation of targets in this regard. (Paragraph 123)

24. The Committee commends the work that has been done to date to identify £2m per annum savings over the next three years through better management of the government estate. However, members remain concerned both that the reduced maintenance budget will hinder NICS from adequately addressing accommodation classed as "poor" or "very poor" and that the maintenance costs may increase in the medium to long term. (Paragraph 127)

25. The Committee is disappointed at the continued delay in the implementation of the NICS Homeworking policy and is concerned that this might be further delayed due to cost implications related to making the necessary changes to the HR Connect system. Given the potential for efficiency gains from carefully managed homeworking/remote working schemes, the Committee calls on the Finance Minister and the Executive to expedite the implementation of this new policy. (Paragraph 134)

26. The Committee recommends that, going forward, DFP establishes clear baselines for the future realisation of efficiency savings and benefits from Shared Services, so that there can be transparency around what is being achieved. The Committee also considers that DFP and the wider Executive should explore the potential to maximise savings to the wider public sector by rolling-out Shared Services beyond departments to other public bodies. (Paragraph 141)

27. The Committee reiterates its call for targets to be set for achieving further efficiencies from public procurement, to include a monetary value and baseline for such savings, with an associated implementation plan. The Committee intends to pursue this matter with the Procurement Board before the end of the Assembly mandate. (Paragraph 143)

28. While commending the work that is being undertaken within DFP in terms of reassessing its complement of senior officials, the Committee calls on the Executive to undertake a strategic review of the senior staff complements across all departments and arm's-length bodies, which should be independent and informed by benchmarking data from other jurisdictions, with the aim of ensuring that management structures across the public sector are streamlined and efficient in the context of the upcoming budget. (Paragraph 147)

29. Whilst acknowledging that some stakeholders consider that there are savings to be made through greater outsourcing of public service delivery to the voluntary and private sectors, the Committee is of the view that, though this option deserves careful consideration, all decisions on outsourcing need to be taken on a case-by-case basis and informed by robust business cases. (Paragraph 152)

30. In reiterating its previous call for DFP to put forward options to the Executive for ensuring that the Performance and Efficiency Delivery Unit functions are exercised effectively across all departments, the Committee believes that the final Budget proposals should include both an indicative work programme for the Unit and provision for enhancing its capability to undertake larger-scale reviews, with the aim of supporting tangible improvements in public service efficiency and effectiveness during the Budget period. (Paragraph 156)

Revenue Raising Options

31. The Committee is mindful that cuts in public services are regressive and will have the biggest impact on the least well off, who rely the most on these services.[2] As such, the Committee welcomes the proposal in the draft Budget to identify alternative means of raising additional revenue, which will help to reduce the impact of the UK Spending Review on public services in NI. (Paragraph 160)

32. The Committee recommends that the rating system should be kept under review, including: in terms of non-domestic rates, to explore the options for applying differential rates or surcharges on specified sectors to raise additional revenue or incentivise desired behaviour; and, for the domestic sector, to ensure that the burden of any future rate increases is shared equitably and based on ability to pay, which is especially pertinent in the context of the current downturn in the economy. (Paragraph 166)

33. Whilst recognising that further investigation is required into the proposed additional rating of mobile phone masts, including the legal considerations, the likely impact on the NI telecommunications market and the groups in the population who are the most likely to be affected[3], the Committee encourages the Executive in exploring such novel approaches to raising new revenue to support public service delivery. (Paragraph 178)

34. The Committee calls on the Executive ministers to ensure that their departments expedite attempts to identify and investigate all the possible options for raising further revenue. The Committee further recommends that this investigation includes a full and proper consultation with the respective Assembly committees and the wider public. (Paragraph 186)

Capital Asset Realisation

35. While accepting the constraints on providing commercially sensitive data, the Committee is disappointed at the dearth of information on the capital asset realisation proposals contained in the draft Budget, as this hinders informed debate and scrutiny at a strategic level. Aside from the identification of surplus assets, the Committee calls for increased focus on more efficient use of existing public assets. In this regard, while it has been pressing for a central database of all public sector assets for some considerable time, the Committee welcomes news of the Asset Management Unit's pilot project and calls for the lessons and outputs from this to be implemented across all departments and arm's-length-bodies without further delay. (Paragraph 198)

Alternative Sources of Finance

36. The Committee calls on DFP and the wider Executive to explore fully the various approaches to finding alternative sources for financing debt and capital investment, as identified by the stakeholders who provided evidence for this Report. These include, for example: utilising the borrowing capabilities of local government to engage in capital investment; further investigation of European funds; the potential to leverage the assets of the NI Housing Executive; and alternatives/reforms to Public Private Partnerships/Private Finance Initiatives for incorporating private financing in public sector projects. (Paragraph 208)

Preventative Spending

37. The Committee considers that there is a strong argument that current public spending patterns are inefficient over medium-to-long-term timeframes. Whilst acknowledging that there are indisputable barriers to a "preventative spending" approach, members believe that, with strong leadership and steadfast vision, such barriers can be overcome. As such, the Committee recommends that the Executive signals its intention in the final draft Budget 2011-15 to establish a cross-departmental taskforce which will:

- evaluate existing preventative spending initiatives across the public and voluntary sectors in NI, including their budgetary positions;
- develop proposals for strategic preventative spending programmes, that are informed by international lessons, and which could be introduced during the period covered by the Budget; and
- identify possible means of financing the proposed programmes as necessary (including, for example, through the additional revenue-raising measures being considered, social impact bonds, additional efficiency gains from relevant departmental budgets, development of pooled budgets, prioritisation in monitoring round allocations, etc). (Paragraph 234)

Economic Levers

38. Like most commentators, the Committee recognises that a competitive rate of corporation tax, on its own, would not provide the "silver bullet" for the local economy and members would support the Executive in taking a multi-faceted approach to economic growth and, in particular, to increasing opportunities for Foreign Direct Investment (FDI). However, the Committee encourages the ongoing collaborative efforts to verify the costs and address the barriers associated with introducing a competitive rate of corporation tax in NI, which would undoubtedly provide an important tool for incentivising FDI investment. Moreover, the Committee believes that the Finance Minister and his Executive colleagues should do all within their power to avail of the present opportunity to finally resolve this issue; especially given:

- the apparent receptiveness on the part of the new Westminster Government on the matter, in terms of its proposals to rebalance the economy;
- the fact that the devolution of the power could, in itself, act as an incentive to potential FDI companies; and
- that a phased approach could be taken to the Executive's subsequent exercise of the power and to incurring the associated costs, which would not necessarily take place during the upcoming budget period. (Paragraph 252)

39. The Committee recommends that, whilst departments and their arm's-length bodies should continue to strive to meet the 10-day prompt payment target, particular focus should be placed on achieving payment within the 30-day statutory payment period. In terms of meeting the statutory payment period, the Committee seeks further assurance that the risk of potential unforeseen costs of late payments is being minimised. Members continue to be concerned that the benefits of any success by public bodies in meeting prompt payment targets is not filtering down to local small and medium enterprises, particularly those in the construction industry, placed further down the public procurement supply chain. In this regard, the Committee welcomes the introduction of the Fair Payment Charter and recommends that DFP evaluates the scheme on a six-monthly basis to establish its effectiveness and identify any areas for improvement, and to report the outcome of this evaluation to the Committee. (Paragraph 261)

40. The Committee recognises that a restoration of bank lending to sensible levels is a necessary pre-requisite for economic recovery. Members support the Finance Minister and his Executive colleagues in encouraging the take-up of Government sponsored finance schemes. The Committee also welcomes the continued engagement by the Finance Minister and his officials with the British Bankers' Association (BBA), the Institute of Directors and local banking representatives on the implementation of the BBA Taskforce recommendations. The Committee recommends that the Department continues to actively monitor the relationship between the local banking sector and small businesses and welcomes the agreement that BBA will report quarterly on local lending figures. Members also support the Minister in engaging with the Whitehall Minister for Business, Industry and Skills on the development of a transparent appeals process. In addition, the Committee will be identifying these banking issues in its legacy report for the successor committee to pursue in the next mandate. (Paragraph 271)

41. The Committee welcomes the establishment of the National Assets Management Agency NI Advisory Committee and supports the Finance Minister in his ongoing engagement with his Irish Government counterpart on this issue. Members caution against a "fire sale" by NAMA of its assets in NI and seek assurance that the Finance Minister will do all in his power to prevent this from happening. (Paragraph 274)

42. The Committee considers that there is a case for reinvesting the savings gained by manufacturing businesses through industrial derating, as far as would be permissible within EU State Aid rules. As such, the Committee renews its request that DFP undertakes further detailed work in relation to the proposed "STAR scheme", in conjunction with the Department for Employment and Learning and the Department of Enterprise, Trade and Investment as appropriate. Members would wish to see any potential outcome from this type of scheme begun to be realised in the period covered by the draft Budget. (Paragraph 278)

43. In view of the benefits to the economy, the potential for boosting employment and the longer-term benefits in respect of improved housing stock and energy conservation, members welcome the Executive's agreement "in principle" to engage in the Green New Deal initiative. The Committee considers, however, that details of how funding will be increased throughout the Budget period must be set out as soon as possible. (Paragraph 285)

44. The Committee is disappointed at the seemingly ad hoc arrangements for engagement between economists in the public sector and those in the private and academic sectors in NI. Members are keen that measures are put in place to counteract a silo mentality towards budgetary/economic issues and policy making, and to ensure a healthy exchange between politicians, civil servants, academics and private sector parties. As such, the Committee calls on the Finance Minister to work with his Executive colleagues to bring forward options on establishing a formal mechanism for facilitating engagement between local economists, that would harness the talents of the various sectors, and which could also offer a central source of independent/external economic advice to the Executive. (Paragraph 289)

Committee Responses to Departmental Positions

45. In terms of the proposed budgetary allocations between departments, the Committee for Finance and Personnel recommends that, in finalising the draft Budget 2011-15, the Finance Minister and the wider Executive take on board the conclusions and recommendations contained in the separate submissions from each of the Assembly committees, which have been included in this Report. The Committee expects that the Finance Minister will take responsibility for ensuring that this Report is therefore brought to the Executive's attention before the draft Budget 2011-15 is finalised and considered by the Assembly. Members would also expect that the Finance Minister will outline the Executive's response to the Report when presenting the revised draft Budget 2011-15 to the Assembly. (Paragraph 292)

Introduction

Background

1. The NI Executive's draft Budget 2011-15 has been developed in the context of the UK-wide 2010 Spending Review, which was announced by the Chancellor of the Exchequer on 20 October 2010. This determined the allocation of Departmental Expenditure Limits (DEL) to Whitehall departments and, through the Barnett formula, to each of the devolved administrations. As part of the Westminster Government's plans to reduce the budget deficit, the Spending Review included a raft of spending cuts by 2014-15. As a result, while in cash terms current expenditure will increase marginally, in real terms NI was faced with cuts of 8% in current expenditure and some 40% in capital investment by 2014-15.

2. The Executive's draft Budget was announced by the Minister of Finance and Personnel on 15 December 2010. Setting out the proposed allocations for Executive departments and non-ministerial departments, the draft Budget document states that it "continues to prioritise the economy, provides a degree of protection to the health service and seeks to assist the most disadvantaged in our society".[4] The Minister's announcement launched the consultation on the draft Budget. In line with previous practice, the Committee for Finance and Personnel (CFP)has assumed the role of co-ordinating the Assembly's response to the consultation.

3. The Committee's role in co-ordinating budget scrutiny by the Assembly has resulted in a number of co-ordinated reports on behalf of Assembly statutory committees over the course of this mandate. These include the Report on the Executive's Draft Budget 2008-11, the Submission to the Executive's Strategic Stocktake of the Budget Position for 2009/10 and 2010/11, and the Report on the Review of the 2010-11 Spending Plans for NI Departments.[5] The co-ordination and cross-cutting role of the Committee also includes scrutiny of quarterly monitoring rounds, Budget Bills and Estimates, as well as a range of strategic public finance issues, including efficiency savings and public procurement. In addition, the Committee is engaged in a three-stage Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and

Expenditure. The Committee has, therefore, drawn on its previous extensive scrutiny of budgets and financial matters in preparing this Report.

The Committee's Approach

4. In anticipation of the 2010 UK Spending Review announcement and the Executive's draft Budget, the Committee agreed, in early October 2010, to adopt a pro-active approach to exploring strategic and cross-cutting public finance issues. The Committee identified a number of key issues for consideration, including:

- Methods to safeguard long-term goals and priorities, whilst managing immediate budget cuts;
- Potential areas for achieving longer-term efficiency savings;
- Possibilities for capital assets realisation;
- Potential areas for new or increased revenue generation;
- Alternative sources of debt/capital finance; and
- Other strategic issues, such as preventative spending and the equality impact of budgetary cuts.

5. In this respect, a wide range of witnesses, including representatives of the business and voluntary sectors, economists, academics and trade unions, were invited to give evidence to the Committee. The following gave oral evidence to the Committee:

- Construction Employers' Federation (CEF);
- Professor David Heald, University of Aberdeen;
- Confederation of British Industry NI (CBI);
- NI Council for Voluntary Action (NICVA);
- Irish Congress of Trade Unions (ICTU);
- Neil Gibson, Oxford Economics;
- Mike Smyth, University of Ulster;
- Dr Esmond Birnie, PricewaterhouseCoopers;
- Dr Graham Brownlow, Queen's University, Belfast (QUB)
- Colm McCarthy, University College, Dublin;
- Victor Hewitt, Economic Research Institute of NI (ERINI); and
- John Simpson, Economist.

The Official Reports (Hansard) of the evidence sessions are provided at Appendix 2.

6. A number of those witnesses listed above also provided written submissions, which are provided at Appendix 6. Additional written submissions were received from the following:

- Action for Children NI;
- Professor Alan Barrett, Economic and Social Research Institute, Dublin;
- Lord Skidelsky and Felix Martin, Economists;

- NICMA – The Childminding Association; and
- Poverty and Social Exclusion in the UK Project, QUB.

7. In addition to the regular quarterly monitoring round briefings, the Committee also held a series of evidence sessions with senior DFP officials during which a range of strategic and cross-cutting issues were discussed, including: the implications of the 2010 UK Spending Review for NI; public sector efficiencies; shared services across the NICS, including HR Connect, Account NI and NI Direct; industrial derating; and the PMS assistance package.

8. In contrast to previous occasions, the Committee was not formally requested by the Finance Minister to co-ordinate the Assembly's response to the draft Budget 2011-15. Members considered, however, that without the Committee's co-ordinated report, there would be a lack of scrutiny at a strategic level and the Assembly's response could be somewhat disjointed. It was therefore agreed that, despite the tight consultation timeframe, the Committee should follow convention and publish a co-ordinated report on the draft Budget 2011-15 on behalf of all Assembly statutory committees. The full submission from each statutory committee is provided at Part 2 of the Report; these responses are drawn on as appropriate throughout the strategic and cross-cutting issues examined by the Committee.

9. The proposed draft Budget allocations for the NI Audit Office (NIAO) and the NI Assembly gave rise to some concern for members, in that the ability of both bodies to carry out their vital roles in scrutinising the work of departments and holding the Executive to account could be compromised, given the scale of the proposed budgetary cuts. The Committee therefore invited written submissions from both the Audit Committee and the Assembly Commission, which are provided at Part 2 of this report. A representative of the Assembly Commission also gave oral evidence to the Committee on 26 January 2011. The Hansard of the evidence session is provided at Appendix 2.

10. To further inform its report, the Committee led a "take note" debate on 31 January 2011, which gave all Members, both as representatives of Assembly committees and as individuals, an opportunity to debate the proposals set out in the draft Budget. A number of key themes and concerns were raised, which are examined in more detail later in this Report, including:

- the consultation on the draft Budget, delays in the publication of a number of departmental plans and the level of detail included therein;
- the apparent lack of a strategic approach to the draft Budget, and concern that it has been developed in the absence of a new Programme for Government (PfG) or Investment Strategy;
- the reliability of the additional funding that has already been built into the draft Budget, and the delivery of additional revenue within the budget period;
- capital assets disposal;
- the need for a budget review mechanism; and
- the scale of the proposed cuts to the budgets of the NI Assembly Commission and its independent scrutineer, the NIAO.

Additional points were also raised in terms of departmental allocations and department-specific spending proposals, such as: funding for the health service; student fees and third level education; and the education budget.

11. Finally, in terms of evidence gathering, the Committee received a high-level briefing from the Minister of Finance and Personnel and a senior departmental official at its meeting on 9 February

2011. During this session, a wide range of strategic and cross-cutting issues were discussed in detail, including many of those raised during the "take note" debate. In addition, members took the opportunity to raise the following:

- the potential impact of changes to inflation;
- transfer of funding from current expenditure to capital investment;
- concern as to whether the economy is a priority within the draft Budget, and related issues such as job creation and corporation tax;
- possible recourse to HMT's decision to remove the EYF scheme; and
- the need for flexibility to review the Budget within the four-year period.

The Hansard of the Ministerial briefing is provided at Appendix 2

Part 1 – Strategic and Cross-Cutting Issues

Global Context

12. The Committee believes that the NI Executive's draft Budget 2011-15 should not be considered in isolation from the wider international financial crisis which has unfolded in recent years and the negative impact which this is having for public expenditure and economies at the national and regional level around the world.

13. In terms of the global context, members are mindful that, at the start of the century, financial de-regulation coupled with bullish speculation unlocked the access to credit to millions of US households, many of whom belonged to what were known as the "sub-prime" category. Problematically however, these sub-prime households could ill-afford to maintain the monthly mortgage payments and began to default. This caused growth in US real estate market to come to an abrupt halt at the beginning of 2006.[6] As a result of the globalisation of the financial services, banks and investors across the world had indirectly provided credit for these households with Collateralised Debt Obligations (CDO). Sub-prime and prime mortgages were bundled and re-bundled in these CDOs in an attempt to distribute the risk of defaults across the system, but in doing so made it almost impossible to assess their degree of "toxic debt."

14. As banks began to record significant losses as a consequence of these events, governments intervened through the bail out and nationalisation of banks, with the view that the collapse of a large bank could spell disaster in the real economy. Nevertheless, the extent of the exposure of each institution remained unknown and this shattered the market's confidence to engage in lending. What began as a contraction in inter-bank lending soon led to a contraction in bank lending to business and therein triggered a recession.

15. As a consequence of the banking crisis, governments across the world were faced with the cost of the bail outs and a reduction in tax revenue as the result of the recession. Countries within the Eurozone fared particularly badly: a lack of control over their own currency meant that central banks had no control over interest rates or measures such as quantitative easing. The small size of the economies of Greece and the Republic of Ireland (RoI), coupled with the foreign ownership of much of their government debt, meant that both were forced into accepting an International Monetary Fund (IMF) bailout. In the USA, the victory of the Democrats in the 2008 presidential election resulted in the adoption of a package of expansionary fiscal measures, designed to stimulate economic growth, but which added to the overall level of government debt.

16. The City of London's position as a global financial centre also meant that the UK was particularly exposed to the crisis. In response to the downturn and the large government deficit that had emerged as a result, the Labour government began initiating public spending cuts in 2009. However, following the election of the Coalition Government in 2010, a much larger and more controversial fiscal retrenchment was initiated.

17. The Committee is mindful that, in December 2009, the then Shadow Chancellor George Osborne made claims that failure to tackle the fiscal deficit would result in a "Greek-style crisis" and this firmly established the narrative for the new Westminster administration.[7] Nevertheless, this was not a view shared by all and some academics and economists disagreed with George Osborne's assessment, including Emeritus Professor, Lord Skidelsky, who has provided a written submission to the Committee. Opponents, such as Lord Skidelsky, accused the new Westminster Government of a politically driven deficit reduction policy, which would be detrimental to an economic recovery.[8] The Committee is conscious that it remains to be seen if the unexpected and worrying contraction in the UK economy's GDP by -0.5% in the last quarter of 2010 is the beginning of a second recession.[9]

18. The UK Spending Review document, published on 20 October 2010, revealed the plans of the new Westminster Government to significantly reduce government spending in order to tackle the deficit and, in so doing, also detailed the reduction in the NI budget to £10789.2m by 2014-15. In the immediate days following, there was significant confusion as HMT claimed that this figure amounted to a 6.9% real-terms reduction over 4 years while DFP claimed it amounted to an 8.1% real-terms reduction.[10]

19. In the view of the Committee, it is important that there is a clear recognition of the disproportionate consequences for NI of the Westminster Government's approach to tackling the budget deficit. In particular, as a result of the use of the Barnett formula to consequentially determine NI's allocation, based on spending decisions for England, the Executive's DEL budget has been subject to a £4bn reduction in real terms over four years, without any account being taken of relative need in NI. Additionally, due to the Westminster Government's plans to make cuts to Annually Managed Expenditure (AME), it is predicted that a further £500 million will be withdrawn from the NI economy. As outlined later in the report, members have noted that, because of the relatively high rate of "families with children", higher rates of economic inactivity, greater reliance on the public sector and higher rates of disability compared to GB, these cuts to AME are also likely to have a disproportionate impact in NI.

20. Members noted the conclusion of Victor Hewitt, in his written evidence to the Committee, in which he outlined how detrimental the impacts of the impending cuts are likely to be by stating that "the engine of growth upon which we have relied for decades has gone into reverse in the middle of a recession. No one should underestimate the impact of this change." The Committee is also aware that conditions in the labour market are forecast to remain challenging due to the depressed economic climate. PricewaterhouseCoopers estimate that NI will lose 5.2% of public and private sector jobs, the largest such decrease of any region in the UK.[11]

21. The Committee is mindful that the Executive has been faced with the unenviable challenge of managing the cuts as determined by the UK Spending Review. However, members welcome that the draft Budget 2011-15 document, published on 15 December 2010, in addition to indicating each department's budget allocation for the next four years, suggests a determination on the part of the Executive to minimise the impact of the budgetary cuts by finding new sources of revenue, with the strategic aim of protecting "the more vulnerable in society" and giving priority "to promoting the growth of a dynamic, innovative economy".

Budget Process and Presentation

22. The Committee is mindful of the level of disquiet from Members, committees, stakeholders and the general public about the delay by the Executive in agreeing and publishing the draft Budget 2011-15. At the outset, it has to be acknowledged that the lateness of the Westminster Government's Spending Review contributed significantly to this delay, given that it was not announced until 20 October 2010, by which time the draft budget proposals from the Executive would normally have been announced already. Furthermore, it is also recognised that the system of government in NI is more complex than in other places, requiring more intensive political negotiation which can require additional time.

23. Nevertheless, the Committee would point out that, in expectation of a real-terms reduction in public expenditure, Executive departments were initially tasked with developing both spending proposals and savings plans for the period from 2011-12 to 2014-15 as far back as June 2010. DFP officials advised the Committee on 30 June 2010 that "the working assumption is that they [departments] should plan on the basis of 5% cut to current expenditure". In addition, the Executive agreed on 6 July 2010 to establish a Budget Review Group to "oversee the development of our response to the very significant budgetary issues we face".[12]

24. Following the publication of the UK Spending Review, DFP officials told the Committee, on 3 November 2010, that "the spending review outcome was almost exactly as the Department of Finance and Personnel had been forecasting for the past five or six months". Given that departments had ample opportunity to prepare spending and savings plans, and to examine additional revenue-raising options, since June 2010, the Committee considers that the Executive should have been in a position to agree and publish the draft Budget 2011-15 sooner, following the UK Spending Review announcement on 20 October 2010. The draft budgets for both Wales and Scotland were published on 17 November 2010, four weeks after the Spending Review was announced[13]; however, the draft Scottish budget was for one year, while the draft Welsh budget was a three-year plan[14]. The Committee accepts that the Executive has succeeded in bringing forward a 4-year budget, which allows for longer-term strategic planning across the public, private and voluntary sectors in NI.

25. The Committee notes that the delay in bringing forward the draft Budget 2011-15, and the statutory requirement to have the final Budget proposals laid in the Assembly before the start of the 2011-12 financial year, meant that the consultation on the draft Budget was initially restricted to eight weeks. Assembly research has shown that good practice suggests formal consultation should take place over a 12-week period, and that eight weeks is the absolute minimum. Furthermore, the consultation period spanned the Christmas and New Year holiday period, which restricted the time available to Assembly committees to scrutinise the budget proposals for their respective departments. Similar issues are likely to have been faced by the wider public.

26. The difficulties faced by Assembly committees and the wider public in responding to the consultation within a short timeframe have been exacerbated by the lack of detailed information available. During evidence sessions with DFP officials, members raised a number of concerns with regard to the level of detail included in the draft Budget document itself. As discussed later in this Report, no information is provided with regard to the rationale and methodology underpinning the departmental allocations; full details of the additional revenue that has been factored into the budget is not provided; and, while the document states that the "draft Budget has been drafted in a manner that ensures consistency with the emerging draft Programme for Government", no evidence of a draft PfG is available to confirm that this is indeed the case. Additionally, detailed spending plans for departments below the departmental allocations were not included in the draft Budget document.

27. The Executive adopted a "twin track" approach to the consultation on the draft Budget, whereby DFP has undertaken a consultation on the strategic aspects of the Budget proposals,

while responsibility was delegated to the individual ministers for substantiating the high-level allocations by subsequently publishing and consulting upon spending and savings plans for their respective departments. In response to an Assembly Question, the Minister of Finance and Personnel stated that:

"A very clear directive was also given when the Budget was announced on 15 December that details of departments' budgets should be published on their respective websites within a week of the Budget announcement".[15]

28. However, Assembly Research noted that, by 6 January 2011, only four departments had published their plans, and that the longer the delay in publishing the plans then the less likely it was that the consultation would comply with good practice guidelines. The Committee has previously noted judicial review decisions regarding proper consultation. One judgement, in particular, outlined the four requirements of consultation:

"to be proper, consultation must be undertaken at a time when proposals are still at a formative stage; it must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response; adequate time taken must be given for this purpose; and the product of consultation must be conscientiously taken into account when the ultimate decision is taken".

29. In their responses to this Committee, seven out of the other eleven Assembly statutory committees, in addition to the Chairperson' Liaison Group, have reported some degree of dissatisfaction with the timescale for the consultation, or have been critical of the lack of information contained in the departmental spending and savings plans, which has prohibited effective scrutiny of the budget proposals. Indeed, four of those committees have indicated that they could provide "interim" responses only to this co-ordinated Report, and that more detailed scrutiny will be undertaken in respect of their departments' plans when more information becomes available[16].

30. The Committee is mindful that, in its Report on the Review of 2010-11 Spending Plans for NI Departments[17], it was strongly critical of the failure of the majority of departments to engage properly with their respective committees on their spending proposals on that occasion. As such, the Committee is extremely disappointed to note the repeated failure of a majority of departments to engage properly with their Assembly committees and the wider public on budget proposals. This is particularly unacceptable given that this Budget will determine spending allocations for key public services at a time of exceptional financial constraint and for the whole of the next Assembly mandate. In this regard, the Committee would point out that, in fulfilling their advice and scrutiny functions, the Assembly statutory committees assist in overseeing the effective and efficient delivery of the Executive's strategic priorities.

31. The Committee notes that the approach taken in respect of consultation on the draft Budget 2011-15 differs markedly to that undertaken on the draft Budget 2008-11, when disaggregated expenditure proposals for individual departments were included in the draft Budget documentation. The Committee considers that the "twin track" approach to the consultation process, both on this occasion and previously in respect of the Review of 2010-11 Spending Plans for NI Departments, has contributed significantly to the difficulties encountered by Assembly committees, stakeholders and the wider public. During the evidence session with DFP officials on 2 February, members sought to determine the level of detail that will be included in the final budget proposals to be considered by the Assembly, and whether departmental plans will be included or again published separately. The departmental officials advised that "DFP's working assumption is that the final Budget document that is brought to the Assembly will include that disaggregated information under spending area and unit of business".

32. In terms of ensuring transparency, and given the assurances provided by the Department, the Committee expects that the revised draft Budget 2011-15, to be debated and voted upon in the Assembly in March, will set out the individual departmental expenditure proposals, disaggregated to unit of service level. Moreover, to avoid a recurrence of the delays in the publication of individual departmental budgetary plans and the associated impact that this has for proper consultation, the Committee calls on DFP to ensure that the full departmental-level information is included within the Executive's draft budget documents in all future budget processes.

Strategic Concerns

Basis for proposed allocations

33. The draft Budget 2011-15 sets out the allocations for Executive departments and other public bodies as show in Tables 1 and 2 below:

Table 1: Current Expenditure (£m)

	2010-11	2011-12		2012-13		2013-14		2014-15	
Agriculture and Rural Development	224.9	224.9	0.0%	236.0	4.9%	222.6	-5.7%	219.0	-1.6%
Culture, Arts and Leisure	113.3	112.5	-0.7%	113.2	0.6%	110.0	-2.9%	103.0	-6.3%
Education	1,914.8	1,852.2	-3.3%	1,857.3	0.3%	1,861.6	0.2%	1,847.7	-0.7%
Employment and Learning	798.9	775.4	-2.9%	767.4	-1.0%	785.6	2.4%	813.8	3.6%
Enterprise, Trade and Investment	199.5	204.9	2.7%	211.6	3.2%	203.5	-3.8%	205.5	1.0%
Finance and Personnel	182.9	190.5	4.2%	187.1	-1.8%	179.9	-3.9%	180.9	0.5%
Health, Social Services and Public Safety	4,302.9	4,348.1	1.0%	4,427.7	1.8%	4,543.2	2.6%	4,629.2	1.9%
Environment	129.6	121.8	-6.0%	123.6	1.4%	121.0	-2.1%	121.5	0.4%
Justice	1,223.7	1,213.1	-0.9%	1,189.0	-2.0%	1,166.7	-1.9%	1,176.4	0.8%
Regional Development	517.3	500.3	-3.3%	487.2	-2.6%	459.6	-5.7%	454.0	-1.2%
Social Development	521.1	516.7	-0.8%	532.0	3.0%	543.0	2.1%	523.4	-3.6%
Office of the First Minister and Deputy First Minister	80.2	79.0	-1.4%	80.2	1.6%	77.0	-4.1%	73.7	-4.3%
Non Ministerial Departments									
Assembly Ombudsman / Commissioner for Complaints	1.6	1.6	-1.0%	1.6	-1.0%	1.6	-1.0%	1.5	-1.0%

	2010-11	2011-12		2012-13		2013-14		2014-15	
Food Standards Agency	9.6	9.4	-1.3%	9.3	-1.0%	9.2	-1.0%	9.2	-1.0%
NI Assembly	48.4	46.0	-5.0%	43.7	-5.0%	41.5	-5.0%	39.4	-5.0%
NI Audit Office	9.5	9.0	-5.0%	8.6	-5.0%	8.2	-5.0%	7.8	-5.0%
NI Authority for Utility Regulation	0.5	0.5	-1.0%	0.5	-1.0%	0.5	-1.0%	0.5	-1.0%
Public Prosecution Service	37.4	37.0	-1.0%	36.0	-2.6%	35.2	-2.3%	33.9	-3.6%
Total Planned Spend1	10,316.1	10,242.9	-0.7%	10,311.9	0.7%	10,369.6	0.6%	10,440.4	0.7%

1 Totals may not add due to roundings

Table 2: Capital Investment (Net of Receipts)1 (£m)

	2010-11	2011-12	2012-13	2013-14	2014-15
Agriculture and Rural Development	-173.5	16.4	13.9	20.0	29.3
Culture, Arts and Leisure	59.9	11.8	21.9	22.2	85.8
Education	169.3	127.4	100.4	101.5	139.4
Employment and Learning	37.6	41.2	32.3	18.5	28.3
Enterprise, Trade and Investment	73.5	71.7	44.9	16.0	28.8
Finance and Personnel	15.2	16.5	12.1	10.6	28.4
Health, Social Services and Public Safety	201.7	214.8	278.8	184.9	163.3
Environment	182.4	6.1	5.9	4.0	7.6
Justice	80.0	78.3	64.5	51.8	82.0
Regional Development	556.2	438.3	425.3	540.9	558.8
Social Development	269.6	150.3	120.6	99.0	190.3
Office of the First Minister and Deputy First Minister	12.0	9.1	3.8	8.8	25.6
Non Ministerial Departments					
Assembly Ombudsman / Commissioner for Complaints	0.0	0.1	-	-	-
Food Standards Agency	0.1	-	-	-	0.1
Northern Ireland Assembly	3.6	1.2	-	-	5.7
NI Audit Office	0.3	0.4	0.2	0.4	0.2
NI Authority for Utility Regulation	0.0	0.0	0.0	0.0	0.0
Public Prosecution Service	0.3	0.2	0.2	0.2	0.2
Total Net Capital [2]	1,488.1	1,183.9	1,124.9	1,078.6	1,373.8

1 Figures for Gross Capital investment and Capital receipts are set out in Annex B to the Draft Budget document.

2 Totals may not add due to roundings

34. The Committee notes that these figures were not presented in real terms, whereas the headline information from DFP on the budgetary cuts immediately following the Spending Review was presented in real terms. Whilst mindful that such real-terms figures vary with changes in projected inflation, the Committee, nonetheless, found it helpful in its deliberations to examine the allocations across departments in real terms, as presented in Tables 3 and 4 below from Assembly research:

Table 3: Draft allocations to Executive departments for current expenditure, in real terms (10/11 prices) (£m)

£m	10/11	11/12 real	12/13 real	13/14 real	14/15 real	total real change 10/11 to 14/15 £m	total real 10/11 to 14/15 % change
DARD	224.9	219.4	225.3	206.9	198.2	-26.7	-11.9
DCAL	113.3	109.8	108.1	102.2	93.2	-20.1	-17.7
DE	1914.8	1807.0	1773.0	1730.4	1672.3	-242.5	-12.7
DEL	798.9	756.5	732.6	730.2	736.5	-62.4	-7.8
DETI	199.5	199.9	202.0	189.2	186.0	-13.5	-6.8
DFP	182.9	185.9	178.6	167.2	163.7	-19.2	-10.5
DHSSPS	4302.9	4242.0	4226.7	4223.0	4189.8	-113.1	-2.6
DoE	129.6	118.8	118.0	112.5	110.0	-19.6	-15.1
DoJ	1223.7	1183.5	1135.0	1084.5	1064.7	-159.0	-13.0
DRD	517.3	488.1	465.1	427.2	410.9	-106.4	-20.6
DSD	521.1	504.1	507.9	504.7	473.7	-47.4	-9.1
OFMDFM	80.2	77.1	76.6	71.6	66.7	-13.5	-16.8

Source: Assembly Research calculations based on Draft Budget 2011-15

Table 4: Draft allocations to Executive departments for capital expenditure, in real terms (10/11 prices), net of capital receipts (£m)

£m	10/11	11/12 real	12/13 real	13/14 real	14/15 real	total real change 10/11 to 14/15 £m	total real 10/11 to 14/15 % change#
DARD	-173.5	16.0	13.3	18.6	26.5	200.0	*
DCAL	59.9	11.5	20.9	20.6	77.7	17.8	29.6
DE	169.3	124.3	95.8	94.3	126.2	-43.1	-25.5
DEL	37.6	40.2	30.8	17.2	25.6	-12.0	-31.9
DETI	73.5	70.0	42.9	14.9	26.1	-47.4	-64.5
DFP	15.2	16.1	11.6	9.9	25.7	10.5	69.1
DHSSPS	201.7	209.6	266.1	171.9	147.8	-53.9	-26.7
DoE	182.4	6.0	5.6	3.7	6.9	-175.5	-96.2
DoJ	80	76.4	61.6	48.1	74.2	-5.8	-7.2
DRD	556.2	427.6	406.0	502.8	505.8	-50.4	-9.1
DSD	269.6	146.6	115.1	92.0	172.2	-97.4	-36.1
OFMDFM	12	8.9	3.6	8.2	23.2	11.2	93.1

Source: Assembly Research calculations based on Draft Budget 2011-15

35. Arising from their examination of the departmental allocations proposed in the draft Budget document, members have expressed concern about the lack of transparency around the process for determining the proposals and about the lack of detail to explain both the basis behind the proposed allocations for current and capital expenditure over each of the four years and the projected implications of the cuts strategically; for example, in terms of the estimated quantum of job losses in the public, private and voluntary sectors. This makes it extremely difficult for the Assembly and the wider public to properly scrutinise the budgetary priorities at a strategic level.

36. In its Report on the Review of 2010-11 Spending Plans for NI Departments the Committee concluded that the consultation document should have "included supporting information to explain the rationale behind the targeted percentage savings for each department, as this would have added transparency to the process". The Committee is disappointed that this concern has not been taken on board as regards the draft Budget 2011-2015 and that no rationale has been presented to explain why one department may have a greater reduction than another.

37. When questioned on the methodology behind the proposed allocations during an evidence session on 12 January 2010, DFP officials advised that the starting point in the allocation process was the envelope of available funds, followed by the requirement to protect the Health budget. The departmental officials also advised that the Finance Minister considered "inescapable" pressures on departments and that resources were then allocated accordingly. Subsequently, during an evidence session on 2 February, DFP officials observed that "the information provided by other Departments provides virtually no insight into the demand pressures that force them to construct the bids that went to the Executive". The Committee believes that this points to a weakness in the process for gathering information from departments and calls on DFP to review this going forward, to ensure the elicitation of more insightful information on departments' bids in future budget processes. During the same evidence session, the departmental officials agreed to provide a breakdown of the "inescapable" pressures relating to the capital budget and the Committee looks forward to receiving that information in due course.

38. It is apparent to the Committee that the methodology behind the proposed allocations also fails to take account of the conclusions of its Preliminary Inquiry into Public Sector Efficiencies[18], which recommended a "thorough going reassessment of spending programmes to identify those which have achieved or are no longer fulfilling their intended purpose and which are lowest priority and therefore offer scope for allocative savings". Such an approach was also advocated by witnesses who gave evidence to the Committee prior to the publication of the draft Budget. Victor Hewitt recommended a "proper zero based review of all programmes to assess their true value against the cost or providing them". He went on to explain that "this is both a technical and political exercise, but a thorough and dispassionate analysis must come first before it is finally shaped by political judgement... politicians will make the final decisions, but they need to have unbiased information to help them do so". Similarly, Neil Gibson cautioned against an "ad-hoc" approach to the budget process. He suggested that the upcoming budgetary challenges should be seen as an opportunity for reform.

39. The Committee also received evidence from Colm McCarthy on his experience of identifying public sector budgetary savings in RoI, as part of this work with An Bord Snip Nua. It was notable that during that process no areas of spending were "red-lined". Indeed, Colm McCarthy cautioned against ring-fencing areas of expenditure like health, stating "politicians always regret red-lining and end up trying to wriggle out of it". Victor Hewitt later echoed these sentiments saying "drawing a red line on a huge budget programme will paint you into a corner when anything goes wrong over the next four years". In particular, the potential consequences of inflationary pressures on those ring-fenced areas was discussed, and the fact that inflation on health expenditure can often be higher than other areas.

40. In his evidence, John Simpson highlighted the work of the Campbell Commission in Scotland which has been established by First Minister, Alex Salmond, to examine how, against a background of unprecedented budgetary pressures, public services there can be delivered to secure positive outcomes for citizens. The Commission is due to report at the end of June 2011[19]. Members also noted that the Finance Minister was holding bi-lateral discussions with Ministerial colleagues on the expected implications of the Spending Review as far back as August 2010, and believe that this would have been an ideal time for departments to undertake a more radical review their existing budget baselines and priorities.

41. The Committee is dismayed that, in terms of transparency, the draft Budget 2011-2015 document fails to explain clearly the rationale and guiding principles behind the proposed departmental allocations, how these have been applied consistently, and the projected implications of the budgetary reductions at a strategic level. Also, on the basis of the information available, members have found no evidence of a proper zero-based review of resource baselines to assess the true cost-benefit of programmes and how they contribute to strategic priorities. The Committee considers that this would represent a missed opportunity to find new ways of optimising resource allocations across the public sector.

42. Whilst noting the arguments for protecting expenditure in particular spending areas, the Committee is also aware of the pressures that can then result in other areas. It therefore expects that the Executive will remain sensitive to this when allocating expenditure during monitoring rounds, especially if further funding becomes available during the budgetary period.

Absence of Programme for Government

43. The apparent lack of a formal and consistently applied rationale informing the decisions on budget allocations is compounded by the need for a Programme for Government (PfG) and Public Service Agreements (PSAs) aligning with the forthcoming budgetary period. The Committee considers that this is a serious shortcoming within the current budgetary process; a point which was emphasised by Members during the Committee's "take note" debate on 31 January 2011. During the debate one Member suggested that "the policy should inform the finance rather than the finance informing the policy", while another remarked "I do not know what the Budget is about. Is it just about getting through the next four years, or does the Assembly have any strategic vision?".

44. During an evidence session on 12 January, a DFP official also highlighted a further difficulty caused by the absence of a new PfG; when responding to a query around when members would have sight of the strategic level equality impact assessment on the draft Budget, the departmental official replied:

"The critical issue is that we do not have the equality impact assessments from Departments, nor do we have the Programme for Government, which is supposed to set the framework for the construction of strategic priorities and areas of impact assessment".

45. The current PfG, due to expire at the end of March 2011, states that the Executive's overarching priority is "Growing the Economy". However, during evidence sessions, members heard concerns from witnesses that this was not subsequently borne out in the decisions taken by the Executive. Victor Hewitt went so far as to say:

"The stated priority of the administration is the economy. That is a bit of fiction. The real priority will come to be seen as maintaining health, because that is what people on the doorstep want... it would be useful to have clarity on what exactly the true priorities are to get a sense of what give you the best value for money".

46. These sentiments were echoed by John Simpson, who observed that "the Northern Ireland Executive have chosen to protect social, not economic issues, and they are allowed to do so." Alongside this, members note that an updated Investment Strategy to complement the draft Budget 2011-2015 has also not yet been published.

47. The Committee believes that the draft Budget 2011-2015 should have been accompanied with a draft PfG 2011-15 and an updated Investment Strategy, as this would have allowed the Executive to demonstrate clearly how strategic policy priorities are driving financial allocations as opposed to financial considerations driving policy direction. While it has been stated that the "draft Budget has been drafted in a manner that ensures consistency with the emerging draft Programme for Government" , the Committee awaits evidence of how the proposed budget allocations align with the Executive's strategic priorities over the next four years.

Determining "Frontline"

48. There is a general consensus that, when faced with budget cuts, frontline public services ought to be prioritised. Indeed, protecting frontline services was cited as one of the Executive's priorities by the Minister of Finance and Personnel.[20]

49. Nevertheless, a number of other statutory committees have indicated that, if the draft Budget's allocations are adhered to, their departments intend to cut what they would define as frontline services. For example, the Committee for Culture, Arts and Leisure has expressed concern that the Department of Culture, Arts and Leisure (DCAL) intends to close 10 libraries and make significant cuts to both Sport NI and the Arts Council for Northern Ireland. The Environment Committee has also expressed concerns that programmes linked to the Department of the Environment's (DOE) work to avoid European infraction proceedings are under threat. The Committee accepts that this is particularly worrying because, not only are such programmes a frontline service for the entire community in terms of safeguarding the environment, but, as is clear from recent cases, their absence could lead to the Executive facing fines that are higher than initial cost of the service provision. In addition, it was revealed in the Department for Employment and Learning's spending plans (which were provided to CFP by the Committee for Employment and Learning) that the budget allocations will severely restrict that Department's implementation of its proposed skills strategy, and that the Further Education sector will struggle to sustain the same level of capacity. Members are also mindful that other statutory committees, such as Justice and Agriculture & Rural Development have expressed frustration that there has been insufficient information provided to them by their departments to enable them to assess the extent the allocations proposed will impact frontline services.

50. The Committee recognises that the exact definition of what constitutes a frontline service has been open to debate. This was highlighted during an evidence session with DFP officials on 3 October 2010 when members were told that "there is no definition" of "frontline". The ambiguity in defining frontline was further highlighted in an Assembly research paper entitled, Resource DEL: administrative cost controls, which cited a departmental official's advice that:

"Some people say that medical secretaries, for example, are not front line. However, without the medical secretaries, how do we get the appointment letters out? How do we make sure that case notes get out to the right out-patient clinic, and so on?"

51. The Assembly research paper attempts to make a more precise definition of frontline based on HMT's operation of administration cost controls. Due to the use of administration cost controls, Resource DEL is further sub-divided into programme and administrative expenditure. Subsequently it must therefore be the case that any expenditure drawn from the administration budget cannot be counted as frontline.[21]

52. It has been highlighted that the draft Budget 2011-15 sets out the Executive's plans to abolish the programme of administrative cost controls. During evidence, DFP officials outlined the reasoning behind this decision by stating that:

"We feel that it has gone as far as it can. We have borne down on administrative costs, and the feedback that our Minister is getting from other Ministers is that it is taking up more ministerial and officials' time than any benefit gained merited."

53. Concern has been expressed within the Committee that if administrative cost controls are abolished, there will be no central mechanism to ensure frontline services are protected. Other concerns have highlighted that a false economy could emerge if administration continued to be hollowed out of public services. To illustrate this point, a DFP official pointed to the work of the Public Accounts Committee (PAC), which has highlighted cases where insufficient administrative safeguards have resulted in a lower level of accountability on millions of pounds of public money.

54. As alluded to already, the Committee is concerned that neither the draft Budget nor individual departmental spending and savings plans provide sufficient detail regarding the assessment used to prioritise programme spending. Moreover, the Committee believes that the proposed abolition of the programme of administrative cost controls and the delegation of responsibility in this area from DFP centrally to individual departments would reduce the level of transparency and safeguards available for protecting expenditure on frontline services. As such, the Committee suggests that, if the proposed new approach is taken, each Assembly statutory committee should place a focus on departmental administration expenditure during the budget period.

Defining "Inescapable" Expenditure

55. In the brief narrative on the "Allocation of Resources" in the draft Budget document, it states that "all existing programmes have been closely examined to ensure that they produce the desired outcomes and represent value for money". Also, the Committee has been informed that departments have reported a wide range of "inescapable" spending commitments in their spending plans, including, for example, depreciation costs, contractual wages and rent.

56. As outlined elsewhere in this Report, the Committee has expressed particular interest in interrogating the classification of depreciation as an inescapable cost and has questioned DFP officials about the possibility of lowering the costs associated with depreciation in DFP. The Department subsequently advised that there is a standard approach to account for asset lives, revaluation and indexation across the NICS, and that business areas could not circumvent the calculations of depreciations to try and make the figures something different. However, during evidence from Neil Gibson, it was revealed that steps had been taken in RoI to examine lines of expenditure to identify alternative ways to account for things differently. Indeed, members concur with the view of Neil Gibson that all expenditure should be critiqued and that one of the challenges today is to learn how to "work the system differently". The Committee would continue to query whether there may be a method whereby the standard NICS depreciation accounting approach could be altered in order to lower depreciation costs in the upcoming budget period.

57. The Committee is anxious that there is no across-the-board definition of "inescapable" expenditure and that this leaves the concept open to interpretation by departments. The Committee is particularly concerned about this issue because it was highlighted to members in a CBI report that some departments have budgeted for inescapable expenditure in their spending plans but have failed to provide any further details of what these pressures are. Members were informed by DFP officials that budget allocations were decided after inescapable expenditure had been accounted for. For this reason, members strongly believe that the detail of this expenditure

ought to be provided in order to facilitate adequate budget scrutiny and ensure transparency.[22]

58. The Committee recommends that DFP seeks Executive agreement on a standard definition of "inescapable" expenditure to be applied consistently and substantiated across departmental spending plans. The Committee further calls on DFP centrally to ensure that expenditure classified as "inescapable" by departments is objectively assessed in terms of its value for money, alignment with strategic objectives and effectiveness in producing outcomes. The Committee advises that each statutory committee also monitors this area of departmental spending carefully.

End Year Flexibility and Access to the Reserve

59. While highlighting the limitations of the in-year monitoring process as a system for reviewing budgetary allocations going forward, the Committee, nonetheless, believes that the monitoring rounds will take on greater significance in terms of minimising underspend in light of the Westminster Government's unilateral decision in the Spending Review to remove the EYF system, which had enabled Whitehall departments and the Devolved Administrations to carry forward unspent resources for use in future years. In his evidence to the Committee, Professor David Heald contended that the scheme encouraged "sensible spending", cushioned pressures and prevented the waste of money by departments spending unnecessarily at year end. Victor Hewitt noted that, in multi-year budgets, such "smoothing mechanisms" are necessary to carry money forward from one period to another.

60. The 2007 Comprehensive Spending Review (CSR) had enabled the Executive to draw down EYF of £190m current expenditure and £250m capital investment over the CSR period, as shown at Table 5 below.

Table 5: Access to End Year Flexibility 2008-11 (£m)

	Current Expenditure	Capital Investment
2008-08	125	100
2009-10	35	100
2010-11	30	50
Total	190	250

61. As a result of the 2010 Spending Review decision to end EYF from the end of the 2010/11 financial year, however, the Executive has lost £316m of stock, which had accumulated since 2007/08.[23] While DFP has advised that a replacement scheme from 2011/12 is expected to be brought forward by HMT at the time of the UK Budget, it is not yet known how the new scheme will operate. Though the Executive was already limited in the amount of EYF that could be drawn down annually, members noted Victor Hewitt's view that "whatever replaces EYF will be a good deal tougher".

62. The decision to end EYF and the lack of information on the scheme's replacement has given rise to a great deal of concern. In his evidence to the Committee, Professor David Heald was critical of the ability of HMT to "unilaterally take decisions on issues that fundamentally affect the financial management of the devolved Administrations". In this regard, the Committee welcomes the joint declaration of 2 February 2011 by the NI Executive, the Scottish Government and the Welsh Assembly which, among other things, called for the Westminster Government to reverse its decision to write off the accumulated EYF stocks. Moreover, the Committee believes that any decision to remove the EYF facility should only have been taken in the context of an agreed

replacement scheme and members concur with the view that decisions, such as this, which fundamentally affect the financial management of the devolved Administrations should only be taken collectively by the parties involved and not unilaterally by HMT.

63. Specific concerns were also raised by members with regard to the loss of EYF stocks at individual departmental level, particularly in respect of the Education and Justice departments. As regards the Department of Education, arrangements had been in place which enabled schools and Education and Library Boards to have automatic access to any surpluses they accumulated. The Committee notes the commitment from the Finance and Education Ministers that schools will continue to have this automatic access to their surplus stocks. The Committee for Education has welcomed this guarantee and advised that "they would wish to see precisely what these arrangements will be". During the "take note" debate on 31 January 2011, the Finance Minister advised that [to facilitate this] the Assembly will operate its own scheme akin to end-year flexibility, which "should be almost self-financing…In years when there is a difference, of course, additional money will have to be found".

64. In discussions with DFP officials, members sought clarification on the position with regard to EYF for the Department of Justice (DoJ), and also in respect of that Department's access to the Reserve. The DFP officials confirmed that DoJ would be able to carry forward any of the current and capital expenditure that it had planned to draw down in 2010/11 but did not spend; additionally, the planned capital EYF draw down for 2011/12 would be honoured. The Committee notes that, in its submission to this Report, the Committee for Justice has welcomed DoJ's guaranteed access to underspends generated in 2010-11 and throughout the Budget period. In respect of DoJ's access to the Reserve, DFP advised that it was expected that access will be permitted for exceptional security pressures as envisaged by the Hillsborough Agreement. The Committee for Justice notes that a bid of £200m to fund exceptional security pressures has been with HMT "for some time", and states that it "believes the implications to the Department's budget if the bid was to be unsuccessful or only partially successful are such that it will not be possible to agree the Department of Justice budget until confirmation regarding the granting of the bid is received".

65. The Committee also notes that, in its submission to this Report, the Committee for Enterprise, Trade and Investment (CETI) called for a mechanism which would provide EYF for Invest NI's budget, similar to that agreed for the Department of Education. CETI points out that the Report on the Independent Review of Economic Policy recommended that Invest NI should have more autonomy to manage its budgets, including EYF, and that this report was endorsed by the Assembly and the Executive.

66. In light of the ending of the EYF scheme for the devolved Administrations and the lack of certainty around any suitable replacement scheme, the Committee calls on DFP to examine the scope for the Executive to devise its own system for ensuring that departments and other public bodies, which demonstrate sound financial forecasting and monitoring in-year, have the flexibility to make prudent decisions for carrying over end-year monies without being penalised.

£18bn Capital Investment Programme

67. During the Committee's first evidence session with DFP officials on the implications of the Spending Review 2011-15, members sought clarification on the consequences for the £18bn capital investment programme, which was a package introduced by HMT in 2002 as a vehicle to provide the funds necessary to improve and develop the existing infrastructure in NI. The DFP officials advised that, by the end of March 2011, some £9bn will have been spent on capital investment. They further told the Committee that, following the Spending Review settlement and taking into account other factors like capital receipts from departments, over the next four years the Executive is due to spend a further £4.57bn, taking the total capital investment programme

spend to £13.6bn up to March 2015. This would leave a further £4.4bn to be made available during the final two years of the Investment Strategy up to 2017. However, the DFP officials noted that "on the presumption that that will even out at more than £2bn a year, it would require some heroic assumptions about what we may get in capital in the next spending review".

68. Of particular concern to the Committee is the question of whether, as a consequence of the Spending Review and the settlement for the Department of Justice, this £18bn capital investment commitment has been breached. DFP officials advised that it was impossible to say definitively if there has been a breach of this commitment as the Investment Strategy extends for two years beyond the Spending Review period. They also informed the Committee that HMT has set a capital DEL of less than £1bn for the next four years and, as such, it would be a difficult jump for the Executive to commit to spending over £2bn per year in the final years of the Investment Strategy.

69. In follow-up information to the Committee, DFP highlighted the statement from the Chancellor of the Exchequer on 8 May 2007, which confirmed an "£18bn long term investment strategy from 2005 to 2017". Table 6 below provides a breakdown of the £9.1bn planned capital investment to the end of 2010-11 and forecasts for 2011-12 to 2014-15 based on the recent Spending Review outcome for information.

70. The Committee sought further confirmation from DFP on whether a commitment is being sought from the Westminster Government in respect of the remaining amount of over £4bn capital investment in the two years following the Spending Review. In response, the Department confirmed that the matter was being raised by the First Minister and deputy First Minister in correspondence with the Prime Minister. Members are concerned that, similar to its unilateral decision to end the EYF scheme, the Westminster Government could renege on the amount of over £4bn in capital funding which remains to be paid in the final two years of the Investment Strategy up to 2017, in line with previous government commitments. The Committee would encourage the Executive to continue to press for a renewed commitment from the Westminster Government in this regard.

Table 6: Gross Capital Investment - Outturn and Forecast

£m	Final Outturn				Provisional Outturn	Planned - Sept Mon	Total	SR2010 Outcome (exc DOJ)				Total
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2005-2011	2011-12	2012-13	2013-14	2014-15	2005-2015
HMT DEL	848.1	801.7	1,019.8	1,228.6	1,205.2	1,259.1	6,362.5	845.0	804.2	728.7	748.7	9,489.0
RRI Borrowing	166.4	206.4	104.6	260.0	246.0	200.0	1,183.4	200.0	200.0	200.0	200.0	1,983.4
Capital Receipts	273.8	384.1	265.8	183.7	221.5	210.2	1,539.1	119.8	111.1	101.7	96.0	1,967.7
CART Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Innovation Funding	0.0	0.0	0.0	0.0	8.0	0.0	8.0	0.0	0.0	0.0	0.0	8.0

£m	Final Outturn				Provisional Outturn	Planned - Sept Mon	Total	SR2010 Outcome (exc DOJ)				Total
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2005-2011	2011-12	2012-13	2013-14	2014-15	2005-2015
ROI Funding A5								14.0	0.0	10.0	250.0	274.0
Gross Capital Expenditure	1,288.3	1,392.2	1,390.2	1,672.3	1,680.6	1,669.4	9,093.0	1,178.7	1,115.4	1,040.3	1,294.6	13,722.0

Reinvestment and Reform Initiative (RRI)

71. Members are aware that the full £200m available to the Executive per annum under RRI has been factored into the draft Budget 2011-15. It is noted that, in previous years, the full amount of borrowing available through this facility has not been drawn down, as shown in Table 7 below[24].

Table 7: Draw down of RRI borrowing 2003/04 to 2009/10

Year	Borrowing drawn down
2003/04	£79.4m
2004/05	£168.7m
2005/06	£162.9m
2006/07	£214.6m
2007/08	£97.6m
2008/09	£16.6m (plus £243.4m of borrowing power used to offset on balance sheet PFI projects)
2009/10	£185.3m (plus £60.7m of borrowing power used to offset on balance sheet PFI projects)

72. In his evidence to the Committee, Mike Smyth suggested that the rationale for the RRI initiative is now stronger than it was, and as such "the Executive should seek to increase that ability to borrow". It is worth noting, however, that the Spending Review increased the cost of RRI borrowing from the Public Works Loans Board (PWLB), from 0.5% above the rate at which HMT borrows to 1% above that rate. As pointed out by Assembly research, the cost of RRI borrowing has risen at a time when the Executive plans to make more use of it. As a result, "RRI repayments are to rise from £44.9m in 2011/12 to £63.4m in 2014/15 in cash terms – an increase over the budget period of 41.2%". The Committee notes the increasing cost of RRI repayments with concern. However, in view of the severe cuts to the capital budget, the Committee accepts that it will be necessary to make full use of the funding available to the Executive via RRI through the course of the Budget period.

Presbyterian Mutual Society

73. Additionally, members note that a further £175m[25] will be borrowed under RRI in 2011-12 as part of an assistance package for PMS savers which will be supplemented by equal

contributions to a mutual access fund of £25m by both HMT and the Executive[26], and a minimum of £1m from the Presbyterian Church.

74. In evidence to the Committee, DFP officials advised that the broad outline of the scheme provides for a loan of £175m to be made to the PMS Administrator (subject to EU State Aid approval), which will be used to pay creditors of the PMS. The Administrator will be responsible for the repayment of the principal loan and interest; as such, the additional drawdown of £175m from RRI in 2011-12 should be at no cost to the NI block grant. The funding provided for the mutual access fund will be used to enable smaller savers to get early access to their funds. It is anticipated that there will be a 10-year "working out period" in which the £175m loan will be repaid in full, and that the assets will have recovered sufficiently to also enable the £25m contributions from HMT and the Executive both to be repaid.

75. The Committee believes that it is incumbent on the Executive to ensure that the use of public money to assist PMS will see a just and fair resolution for all, particularly smaller savers, with whom the Committee has much sympathy. However, to ensure transparency around the proposed plans, the Committee calls for clarity on the following points: how smaller savers could be prioritised within the scheme; projected principal and interest repayments on the £175 million loan; whether consideration should be given to charging interest on the £25 million contributions from HMT and the Executive, which would provide a return on the use of public money; the level of risk to the Executive; the size of the contribution by the Presbyterian Church; and the estimated administrator fees over the course of the working out period. Members also request that full details of the scheme, the administrator's business plan and the due diligence/risk assessment completed on that plan are made available as a matter of urgency, to enable the Assembly to make an informed decision on this issue.

Transfer from Current Expenditure to Capital Investment

76. The Committee was aware at an early stage of the concerns relating to anticipated cuts to the Executive's capital budget. This was highlighted in the evidence received from the Construction Employers' Federation (CEF) in October 2010, which pointed out that, over the previous thirty months, 21,000 jobs had been lost in the construction sector, with the industry itself contracting by 25%. Despite this, CEF told the Committee that, for every £1 invested in construction, a further £2.84 is generated in economic activity. Highlighting that a number of key projects which had been considered as "ready to go" were now shelved, CEF recommended that the Executive should consider switching current expenditure to capital investment to help kickstart the construction industry. CEF also suggested that such an approach would have both economic and social benefits, not least through opportunities for employment and training through apprenticeships. This potential has already been recognised by the Committee following its inquiry into public procurement.

77. In his evidence, Professor David Heald also advocated switching current to capital expenditure when he stated that:

"It is very important to protect capital expenditure as much as possible. Obviously one does not want bad capital projects – the quality of capital projects is important – but Northern Ireland is heavily dependent on the public sector and the construction sector. My understanding is that the construction sector is quite localised, so the regional multipliers in Northern Ireland will be quite high from capital spending. Therefore, one ought to think about the question of whether room can be found to move money from resource to capital."

78. The Committee also heard from Colm McCarthy that a significant squeeze on capital expenditure by the Irish Government in the late 1980s had been "a mistake in retrospect". Members discussed how such an approach could lead to short-termism, but Colm McCarthy also

advised against being over-ambitious with respect to capital projects and the need to ensure that they are not "overspecified".

79. Other economists presenting evidence to the Committee urged caution over transferring money from resource to capital. For example, Victor Hewitt said:

"Be cautious on transfer – there are no free lunches in economics. You may transfer money from current to capital to preserve construction jobs, for example. However, you should not fool yourselves that removing current expenditure to help the construction industry will not have job implications."

80. He also reminded the Committee that some construction is specialised and may require importing labour from outside NI, if the skills are not available here.

81. On a related issue, John Simpson apprised the Committee of the work of Scottish Futures Trust[27], established by the Scottish Government in a bid to avoid the unlimited expansion of Public Private Partnerships (PPP), given the commitments subsequently placed on future generations. He suggested that the Strategic Investment Board (SIB) might have a role in this regard. However, as will be discussed later in the Report, the Committee has had difficulty in extracting information from SIB on the current Investment Strategy, and indeed on projected capital receipts during the forthcoming Budget period.

82. The Committee notes the intention of the Executive, as outlined in paragraph 3.49 of the draft Budget document, to "transfer resources from current expenditure into capital investment" to "help counteract the impact in the reduction in the capital DEL". Members understand that this transfer arises from a straight switch from current to capital expenditure, and also from current expenditure released through "invest to save" initiatives being redirected into capital expenditure as illustrated in the Table below.[28]

Table 8: Extract from Table One: Reconciliation of Planned Spend to HM Treasury Control Totals – Current Expenditure (£ million)

	2011-12	2012-13	2013-14	2014-2015
Current to Captial Switch	7.0	40.0	40.0	40.0
Current to Capital Switch: Invest to Save	31.5	21.0	33.0	40.0
Total	38.5	61.0	73.0	80.0

83. The Committee explored this further with departmental officials during an evidence session on 2 February 2011, and also when questioning the Minister on 9 February 2011. Members learnt that, in looking at the pressures which exist in respect of the budgets of individual departments for 2011-12, some Ministers have been considering the possibility of switching from capital back to current. The Education Minister, for example, has identified £41m that she wishes to move from capital to current. DFP officials advised the Committee that HMT controls, as established in the draft Budget document, cannot be exceeded and that, if there is to be a switch back from capital to current, this too cannot exceed the existing calculations. In real terms this means that in year one, as £38.5m has been allocated to switch from current to capital, this amount cannot be exceeded should Ministers wish to reverse this decision. Members were also advised that the Health Minister has been given discretion to switch between his current and capital budgets during the four-year period, without recourse to the Executive. Members note the submission from the Committee for Health, Social Services and Public Safety which, while acknowledging this option, emphasised that it is more important for the Department to continue to look for efficiencies in order to maximise its draft Budget.

84. Given both the disproportionate impact of the recession on the local construction industry and the relatively high regional multiplier from capital expenditure in this area, the Committee cautiously supports the Executive's proposal to transfer money from current expenditure to capital investment within the budget period, bearing in mind the potential impact that this may have on other spending areas. Members also note that, as individual departments seek to reverse this trend, the impact of this approach may ultimately be limited. Consequently, members are keen to see evidence that the additional capital investment is targeted and prioritised strategically to ensure that best value for money is achieved.

Inflation

85. In his evidence to the Committee, Victor Hewitt advised that "a little bit of inflation when a country is hugely in debt is no bad thing." He also explained that the Westminster Government would pay less interest on its debt and possibly even less debt overall if inflation were sufficiently high. Nonetheless, the Committee is aware that, whilst this may prove positive for central government, a higher rate of inflation will lead to a smaller budget in real terms for NI.

86. The Committee noted the comments by Neil Gibson who stated that "if inflation can be kept at 1% rather than 3% the challenge of the cuts ahead will be much more modest." He pointed out to the Committee that wages make up a significant portion of the public sector's expense and that, in NI, a 1% increase would equate to approximately £40m. It was also the view of Neil Gibson that there is scope to lower overall inflation by cutting the amount paid by the public sector in procurement. Moreover, he challenged the wage bill for unskilled workers in the public service and argued that, compared to the private sector, the public sector paid up to 50% more for unskilled workers. Nonetheless, Neil Gibson cautioned that some elements, such as the rising cost of food and the cost of drugs in the Health Service, are beyond the control of the Executive.

87. The Committee is conscious that NI's four-year budget package has been determined based on current prices. Members were informed by the Minister that a GDP deflator built into the budget position for the 2011-12 year was 1.9% when the draft Budget was agreed by the Executive, but that the GDP deflator has since increased to 2.5%.

88. The Committee is conscious that the draft Budget outlines the Executive plans to protect the Health budget based on an inflation rate of 1.9% over the four-year period. Nonetheless, it has not been made clear if the Health budget will still be protected in real terms in the actual budget, when higher GDP deflators are used and if inflation exceeds the anticipated rate over the four years. Members assume that, if the decision is made to protect Health in real terms and inflation does exceed the anticipated rate, that additional funding for the Health budget will be required.

89. The Committee notes that no account has been made for inflation in the draft Budget allocation of the Social Investment Fund. In addition, members note that the draft Budget sets out the Executive's plan to increase the non-domestic regional rate by up to 2.7% per year, with the claim that this means no real-terms increase in the rates over the four year budget. The Committee is therefore alert to the fact that the draft Budget sets out two different inflation assumptions: 1.9% and 2.7%.

90. The Committee has concerns that a higher than anticipated rate of inflation will have an adverse impact on the real allocations of departments and on the spending power of consumers in the economy.[29] Members are therefore disappointed that the draft Budget fails to outline a cross-departmental strategy to control inflation and would call for this to be addressed in the revised draft Budget.

Proposed Assembly and Audit Office Allocations

91. The Executive's draft Budget document proposes year-on-year cuts of 5% in cash terms to current expenditure allocations for both the NI Assembly Commission and the NIAO. Assembly research has shown that this represents real-terms cuts of 26.3% and 25.7% for the Assembly and NIAO respectively, which is considerably higher than the cuts being proposed to any Executive department and also higher than the comparable institutions in Scotland and Wales. Evidence presented to the Committee by the Assembly Commission and Audit Committee indicated that this posed a real threat to the future effectiveness of the Assembly and its independent scrutineer, the NIAO. Such concern, in terms of the impact on NIAO, was also highlighted in correspondence received from the PAC.

92. The Committee is agreed that, given the challenges surrounding the forthcoming budgetary period, all public bodies should endeavour to maximise efficiencies and that the Assembly, as an institution, should be no exception. That said, the Committee is clear that the Assembly Commission is not wishing to shirk its responsibilities. Indeed, on 8 November 2010, a Private Members' Motion was passed by the Assembly calling on the Commission "to reduce its running costs in line with the level of reduction faced by Executive Departments" and the Commission has, in fact, successfully identified savings at a level above the average for Executive departments. In its evidence to the Committee, however, the Assembly Commission referred to the budget process guidance which was agreed by the Executive and issued to all departments by DFP in June 2010. This stated that:

"In line with previous arrangements, the NI Assembly and the NI Audit Office will be provided with the level of funding required by each organisation (both current expenditure and capital investment) in order to carry out their respective functions, as agreed by the Assembly Commission and the Public Accounts Committee (sic) respectively." [30]

93. Members were concerned to find, however, that these well-established arrangements do not appear to have been followed in determining the proposed allocations for both of the independent bodies concerned and that, in the case of the Assembly Commission, the draft budget allocation also appears at odds with the expressed will of the House, as agreed on 8 November 2010. The Committee consequently wrote to the Minister to highlight the importance of ensuring that the capacity of the Assembly to fulfil its functions is not adversely affected as a result of the final budget allocation.

94. The Speaker subsequently wrote to the Committee on 8 February 2011 confirming that a revised Budget position had been agreed by the Assembly Commission on 7 February 2011 and that this was communicated to the Finance Minister. The Speaker advised members that "the revised budget anticipates the savings expected from the planned efficiency reviews to give a real cut of 17% over the CSR period". A reply from DFP to the Assembly Commission was awaited.

95. In its submission to the Report, the Audit Committee recognised the significant reduction in the levels of funding available from within the NI Block Grant and indicated the importance of demonstrating that "the NIAO is willing and ready to bear its fair share of the savings that must be made." However, the Audit Committee has also advised that, although the draft Budget document contains an allocation for NIAO, "further to Section 66 of the Northern Ireland Act 1998, it is for the Audit Committee (in place of the Department of Finance and Personnel) to agree the estimates of the NIAO and lay those estimates before the Assembly". Given the distinctive legislative position outlined, members question whether it is appropriate that the Executive's draft Budget 2011-15 should set out a proposed budget for NIAO that has not been agreed by the Audit Committee.

96. Coincidentally, members also note that, during his evidence session on 3 November 2010, Professor David Heald advised that "the protection of audit and the protection of the budget of

the Northern Ireland Audit Office are very important, because scrutiny and value for money audit should attract more attention during periods of financial difficulty". This point was reflected during the Committee's "take note" debate on 31 January 2011, when it was pointed out that there is a strong argument that lean times require stronger not weaker scrutiny and that it would be false economy otherwise.

97. It was with some alarm, therefore, that the Committee considered the response from DFP which, when questioned about how any additional pressures faced by the Assembly and NIAO might be dealt with, advised that "the in-year monitoring process would always provide a mechanism to ensure the bodies had access to whatever funding was necessary. No bids previously made have been left uncovered". Leaving aside the practical reality that no guarantees can be provided, given the diminishing level of reduced requirements being declared by departments during the in-year monitoring process, the Committee fears that DFP has lost sight of the need to maintain the operational independence of both the Assembly and NIAO. Going forward, the Committee, as part of its ongoing budget scrutiny inquiry, intends to examine the future arrangements for setting the Assembly's budget, in the context of international best practice in ensuring the independence of the legislature.

98. The Committee wishes to reiterate the serious concerns that have been raised already regarding the basis for the excessive cuts which the draft Budget proposes in the resource allocations for the Assembly and NIAO and the potential for this to impair the effectiveness of both of these independent scrutiny bodies. Given that lean times require stronger not weaker scrutiny, the Committee expects to see this issue resolved in the final draft Budget.

Budget Review Mechanism

99. In its Second Report on the Inquiry into the Role of the NI Assembly in Scrutinising the Executive's Budget and Expenditure[31], the Committee considered Assembly research which found that good practice indicated that a regularised annual process is adhered to in respect of setting budgets. In noting that it was expected the Budget 2010 process would set the spending departmental spending plans for four years from 2011-15, the Committee recommended that:

"A regularised annual budgetary review process is established...with a pre-determined timetable, to enable the Executive and Assembly to make interim reappraisals of departmental allocations against progress in delivering PfG priorities and savings".

100. In response to this recommendation, DFP advised that such a mechanism already exists in the form of in-year monitoring, undertaken on a quarterly basis to a pre-determined timetable; this position has been reiterated by the Minister, and also by departmental officials in both oral evidence and in written correspondence to the Committee.

101. The Committee accepts that in-year monitoring is a valuable process, which has allowed for the reallocation of substantial amounts of money during the Budget 2008-11 period. Members are mindful, however, that it was necessary for the Executive to undertake a review of the 2010-11 departmental spending plans, which was essentially a "mini budget", as the range of emerging spending pressures could not be managed effectively through the in-year process. This highlights the fact that the diminishing level of reduced requirements being declared in-year, means that the monitoring round process is now a less effective mechanism for dealing with new or unforeseen pressures. Furthermore, the monitoring round system is, by definition, concerned with in-year allocations, lacks the capacity to plan for future years and does not provide a transparent assessment of progress against strategic priorities. In view of the limitations to the in-year monitoring process, the Committee reiterates its call for the establishment of a regularised annual budgetary review mechanism, set to a pre-determined timetable, which it

considers will aid transparency and better enable the Executive to adapt its plans to deal with changing circumstances and unforeseen pressures.

Budgetary Savings

Savings Delivery Plans

102. The Committee was aware that guidance on the development of savings delivery plans was issued by DFP to all Executive departments in June 2010, together with indicative figures for the level of savings that they might be required to achieve. The guidance set out classifications for a range of activities that could be adopted or expanded in order to deliver savings, including: procurement, corporate services, administration/policy, funding and regulation; and maximising revenue. It noted that the scale of the savings required might mean that options other than the reduction in administration and improvements in efficiency would need to be considered, and stated that "the overriding principle is that savings should be cash releasing and not result in a diminution in the provision of priority frontline public services".

103. Some of the oral evidence received by the Committee in respect of savings delivery plans and the related guidance appears to be contradictory. The guidance emphasised that individual departments will retain ownership of the planning and delivery of savings, "subject to the normal engagement on public expenditure matters with DFP officials", and that "the underpinning evidence [for each savings measure] should be subject to rigorous scrutiny within the department and by DFP, supported by expert analysis where possible".

104. The Committee heard on 30 June 2010 that departments had been initially asked to complete the savings delivery plans by the end of July. In their evidence to the Committee on 6 October, however, DFP officials advised that no plans had been produced and the guidance was that they should be produced and published within two weeks of the publication of the draft Budget. Members were also subsequently told on 3 November that "Departments were not asked to submit their savings delivery plans to DFP but to publish them alongside the draft Budget. Therefore, we have not been expecting to see those savings delivery plans yet". While the Committee accepts that DFP is not responsible for the planning and delivery of savings for the other Executive departments, it would question the ability of DFP to effectively exercise its challenge function without sight of the developing plans. The Committee considers that the involvement of DFP in scrutinising the plans "as part of the process of moving from draft to final Budget"[32] comes too late in this process.

105. The guidance indicated an expectation that departmental savings plans would be published "at the same time as, or shortly after (at most two weeks) the draft Budget document is published for consultation". This is reiterated in the draft Budget document, which states that "as part of the consultation process departments will now publish draft Savings Delivery Plans that include details of departmental savings measures and their anticipated impact". The Committee notes that the draft Budget document goes on to say that "the scale of the savings required is such that it may not be possible to achieve it solely through reductions in bureaucracy and improvements in efficiency. Therefore, all departments must undertake a thorough assessment of core functions". The Committee considers that such an assessment of core functions should have been an integral part of the development of savings plans for departments, and would have reservations about the integrity of any plans developed to date should this not have been the case.

106. Concerns have been raised by some Assembly committees with regard to the savings delivery plans for their respective departments. The Committee for Education noted that some of its members considered that much more information was needed in respect of both how the

savings would be achieved, and the impact that they will have. Similarly, the Justice Committee expressed its wish for detailed impact assessments for each proposed savings measure. CETI noted its concern that "the Department's four-year spending and savings proposals exist in the absence of a strategy for economic development or an investment strategy". The Committee for Agriculture and Rural Development considered that a number of "aspirational savings" are included in that Department's plans. It contends that if estimated savings are not delivered then other measures may have to be considered, which could potentially have a greater impact on the delivery of frontline services. A similar issue has been raised by this Committee in respect of DFP's plans to allocate £5m in 2013-14 and 2014-15 to Land and Property Services from savings that the Department expects to deliver in those years.

107. The Committee considers that the process in respect of the planning and delivery of departmental savings plans must be further developed and refined, and that clarification is needed on a number of issues, including: when it is expected the plans will be finalised; how will they be monitored; what assessment has been made to ensure there will be no net cost to the Executive in the longer term; and what contingency plans are in place should the anticipated savings not be realised.

Public Sector Pay

108. The issue of public sector pay was raised by a number of witnesses, in both oral and written evidence to the Committee. Dr Brownlow notes that more than half the UK government final consumption expenditure is accounted for by public sector pay; this is likely to be higher in NI, given that the public sector is proportionately larger than other regions. Neil Gibson told the Committee that pay for some unskilled administrative officers in the public sector can be up to 50% more than what some businesses in the private professional services sector pay graduate staff. An opposing view was offered by representatives from the ICTU, who questioned the reported level of reductions in private sector wages and told the Committee that "we have produced a booklet…that demonstrates that pay increases for civil servants since 2003 have fallen drastically behind the retail price index inflation measure and our colleagues in the Health Service and local government". Similarly, NIPSA would not be in favour of volunteering a wage freeze or cut, and asserts that civil servants must be treated fairly in comparison to other public servants.

109. In terms of pay restraint, CBI estimated that £340m per annum by 2014-15 could be saved by measures such as freezing the pay bill, reducing overtime and increasing employee pension contributions, while John Simpson estimated that the imposition of the same pay regime as the Westminster Government will realise 40% of the cuts needed. Others noted that there was a clear trade off between freezing public sector pay and cutting jobs, while Professor Heald stated that "the more you can contain pay costs, the less real service provision will have to be cut."

110. The Committee is aware that the pay of civil servants in NI is made up of two elements: an inflation uplift and step progression on a defined pay scale. The Executive proposes to mirror the pay regime set by the Westminster Government for the NICS; that is, a pay freeze for all staff earning over £21,000, with a small increase of £250 for those below that level. The Committee understands that the £21,000 threshold was set by the Westminster Government as a wider reflection of the average earnings in the UK. DFP has advised that, "locally, the pay freeze will apply immediately to any public sector workforces that have not yet agreed a 2010-11 pay award, unless there is a legally enforceable agreement in place". It should be noted that the scale progression element will be met where there are existing pre-contractual entitlements, and it is estimated that this will result in an increase of 2% to the pay bill.

111. The pay arrangements for the Senior Civil Service (SCS) have been examined in detail by this Committee, which pressed for the independent review subsequently undertaken by the

Senior Salaries Review Body (SSRB). The Committee understands that the Finance Minister is still considering the SSRB report and recommendations, which was completed in July 2010. While welcoming a number of the recommendations, in its response to the SSRB Report, which was provided to the Finance Minister in October 2010[33], the Committee also raised a number of concerns, including:

- the lack of clear advice or methodology for aligning SCS pay to the local labour market or economic circumstances moving forward;
- proposed increases in pay for those above the maximum of the pay scale in line with the percentage revalorisation of that pay scale;
- the introduction of non-consolidated bonuses of up to 5% of salary for 25% of the best performers at the top or above the top of the pay scales; and
- the need to ensure that pay on promotion policies do not give rise to equality or equal pay issues.

112. The Committee was particularly concerned that, despite the difficulty in establishing suitable public-private sector wage comparisons and also the conclusion that there was no evidence of problems with recruitment or retention, the proposed pay scales included in the SSRB Report were likely to result in incremental pay increases for a range of senior civil servants. Mindful of the plans to impose pay restraint for some NICS grades, as contained in the draft Budget, members would urge the Finance Minister to conclude his deliberations on the review of SCS pay arrangements, having regard to the Committee's previously expressed views, and, as part of the current budget process, to set out proposed new arrangements which are "fit for purpose", cost-effective and tailored to local economic conditions.

Longer-term Efficiencies

113. The Committee is mindful that the NICS has been working hard to achieve cumulative efficiencies of between 2% to 3% over the past six years. It also concurs with Neil Gibson who told the Committee that the "low hanging fruit has already been picked so this will only get harder". This reflects the views of ICTU who told the Committee that:

"we are certainly prepared to consider where efficiency savings could be made in the public sector, although that process has been ongoing for the past few years anyway. Given that we have already taken out £700 million it will be difficult to find those efficiency savings".

However, although the Committee recognises that the task ahead regarding efficiency savings is now more difficult, it also notes that Victor Hewitt reflected the views of a number of stakeholders when he told members that: "before turning to exotic revenue-raising measures, you really should check whether you are using the money that you have to the best possible advantage."

114. It was in anticipation of the expected future budgetary constraints that the Committee completed its Preliminary Inquiry into Public Sector Efficiencies in June 2010. The key themes emerging from the inquiry findings remain pertinent for the consideration of the draft Budget 2011-15. Indeed this is acknowledged by DFP in its guidance to departments on savings delivery plans, issued in June 2010, which advises that:

"departments should have due regard to the recommendations set out in the report recently published by the Committee for Finance and Personnel on the Preliminary Inquiry into Public Sector Efficiency".

115. One of the key recommendations from the Committee was that the Executive should set out clearly the essential services and strategic policies which should be prioritised. The Committee specifically stated that:

"This should include identifying those which have achieved or are no longer fulfilling their intended purpose and those which are the lowest priority and therefore offer scope for allocative savings".

It is not clear that such an approach has been adopted by the Executive on this occasion, as has been highlighted earlier in terms of the Committee's disquiet at the lack of publicly available rationale for the budget allocations between departments.

116. The Committee's report on Public Sector Efficiencies also recommended that the Executive take a co-ordinated approach to efficiency savings to ensure that the plans of one department do not have an adverse impact on another. Again it is not clear to members that there has been collaboration with respect to considering how the actions of one department might adversely impact on another, nor indeed any attempt to tackle common issues by presenting spending proposals across departments.

117. DFP's guidance also recommended that departmental savings delivery plans include "a short review of the department's performance in achieving efficiency savings in the current Budget 2008-2011 period". A cursory reading of departmental savings plans demonstrates that, in the majority of cases, this advice has not been taken on board.

118. The Committee notes a further statement in the guidance that "the scale of the savings required is such that it may not be possible to achieve it solely through reductions in bureaucracy and improvements in efficiency"; and the cautionary tone from the CBI which advised that the "scale of the problem is such that efficiency savings alone will not bridge the funding gap". However, the Committee is of the view that the need to make significant budgetary savings should not distract departments from their task to ensure that government is run as efficiently and effectively as possible. As Neil Gibson explained, "we must keep our foot to the efficiency pedal". Members were therefore dismayed to hear from a DFP official during an evidence session on 6 October 2010 that, in the forthcoming budgetary period, the Department will not be monitoring efficiency delivery but rather collating information on savings delivery plans.

119. Given DFP's role in ensuring "public expenditure is managed effectively to deliver best value for the people of Northern Ireland", the Committee calls on the Department to fulfil a role in the central monitoring and strategic coordination of budgetary savings and efficiency gains; in particular to ensure that the savings by one department do not result in a cost or adverse impact for another and that the present focus on short-term budgetary savings does not result in departments losing sight of the need to improve efficiency and effectiveness in service delivery in the medium to long term.

Sick Absence

120. Throughout this mandate the Committee has actively monitored rates of sickness absence across the NICS, receiving and scrutinising bi-annual reports from DFP. Members have noted the latest report that shows the level of absenteeism has reduced from 15.5 days in 2003-04 to 11 days in 2009-10 – a reduction of 29% over the period. DFP's own assessment is that "good progress" has been made across departments, and this was recognised in the evidence from Neil Gibson, who observed that sickness rates had come down "significantly" and that this represented a "genuine saving". In a written response to questions from the Committee, DFP

advised that the NICS figure is lower than that of local councils for the same period (12.39 days) and the NI Housing Executive (13.6 days). Departmental officials have advised that the focus on reducing sickness absence for the next period up to March 2015 will centre on the frequency and duration of long-term sickness absence cases, where a relatively small proportion of staff account for the vast majority of working days lost.

121. While the Committee acknowledges the progress that has been made to date, it is disappointed that the level of sickness absence has remained static for the previous two years, and falls short of the PfG target of 9.5 days. The Committee also heard from CBI that more effective management of absenteeism could result in annual savings of £45m per annum. In response to this claim DFP officials have confirmed that "many of the examples of good practice cited by CBI are already in place within the NICS and have been for many years". They also observed that:

"while reducing sickness absence will improve efficiency and productivity across the service, it will not necessarily create direct cash releasing savings. Therefore any claim that reducing sickness absence levels will automatically generate cash savings needs to be treated with caution".

122. In response to questioning by the Committee, DFP officials advised that the direct paybill equivalent cost of absence in the NICS for 2009-10 was £22.9m, down from £26.1m in 2003-04. The Committee welcomes this direct saving but expresses its concern that the 9.5 days target is not being carried forward to the forthcoming budget period. An evidence session with DFP officials on the Department's proposed business plan and targets for 2011-12 revealed a new target to achieve overall NICS sickness absence of 10 days by March 2012.

123. Given the progress that has been made to date in reducing sick absence levels in NICS towards the existing overall target of 9.5 days, the Committee recommends that the Finance Minister and his Executive colleagues continue to work actively towards further reducing the existing rate of NICS absenteeism and that there is no relaxation of targets in this regard.

Accommodation Efficiencies

124. Like sickness absence, the Committee has closely monitored the Executive's accommodation strategy throughout this mandate, and in particular the implementation of Workplace 2010 principles. Members were therefore interested to hear ideas from CBI on how better management of the government estate had the potential to generate further efficiency savings. The suggestions included increasing opportunities for sharing across the public sector, reducing the number of offices required and consequently reducing general overheads, maintenance and energy costs. During their evidence session, Neil Gibson and Mike Smyth questioned how the Department calculated depreciation costs and what scope there might be to reduce charges for rent and rates.

125. In response to questioning from the Committee, DFP officials identified a number of steps that have been taken to reduce the costs associated with renting accommodation, including seeking to accommodate staff at a higher density in order to reduce the amount of accommodation required; and initiating negotiations with landlords to re-gear leases. It is expected that savings of £2m per annum will be achieved over the next three years and the Committee welcomes this development. In response to questions about DFP's Business Plan for 2011-12, departmental officials have advised that these savings will be realised due to vacating space relating to leases which are set to expire.

126. Regarding depreciation, departmental officials have advised that professional revaluations of owned land and buildings are undertaken every five years, with an interim valuation performed in the third year of every five year cycle. The Committee has also been told that the most recent professional revaluation of owned buildings within the NICS Estate was completed in November 2010.

127. In March 2010 the Committee was told that up to 30% of existing NICS accommodation is in "poor" or "very poor" condition with substantial investment required or a replacement building sought within the next five years. Noting that, in the DFP spending and savings plans for 2011-2015, there is a bias towards increased capital spend in the latter years of this budget cycle, the Committee wrote to the Department in January 2011 to ask if this target remains viable. In response, the Department stated that the limited amount of capital available to Properties Division over the Budget period means that it will not be possible to deal with all of the estate's "poor" and "very poor" accommodation during this period. However, there was also a commitment that Properties Division will continue to prioritise resources to ensure that all Health and Safety and statutory duties associated with maintaining buildings is undertaken. The Committee commends the work that has been done to date to identify £2m per annum savings over the next three years through better management of the government estate. However, members remain concerned both that the reduced maintenance budget will hinder NICS from adequately addressing accommodation classed as "poor" or "very poor" and that the maintenance costs may increase in the medium to long term.

128. In its follow-up submission to the Committee on the draft Budget, CBI has expressed its surprise that there is little reference to better management of the government estate, "despite a number of departments recognising the need to downsize". CBI also expresses concern that there are no plans for sharing offices between departments.

129. Departmental officials also advised that the Committee that Properties Division has been working with the SIB to explore alternative funding mechanisms and specific projects that could be implemented without the need for conventional capital costs. However, they cautioned that some of these options, like sale and leaseback for example, carry cost consequences in the medium to long term.

130. The Committee welcomes the assurance that the NICS remains committed to the implementation of Workplace NI principles and the commitment in DFP's Business Plan 2011-2015 to increase the number of workstations in modern space efficient accommodation by 400 by March 2012. However, members continue to be concerned that the budgetary constraints might delay the roll-out of this initiative which should lead to better and more efficient work practices.

131. Members have noted the view expressed by Neil Gibson that the proposals for the relocation of public sector jobs should be revisited as a way to stimulate the economies of local towns. In this regard, when considering the responses from the other statutory committees, members also noted a proposal from the Minister for Agriculture and Rural Development to relocate her Department's headquarters outside of Belfast. Whilst the Committee for Agriculture and Rural Development does not disagree with the principle of dispersing civil service offices outside of Greater Belfast, it expressed concern about the timing and the costs of the proposed relocation of DARD's headquarters.

132. In terms of progressing the recommendations from the Review of Policy on Location of Public Sector Jobs, led by Professor Sir George Bain, DFP has advised that, while individual departments that wish to consider this option can put a business case to DFP, the Finance Minister has cited a cost of £40m, which he considers to be prohibitive in the current economic environment.

133. Also arising from the Bain Review, the Committee has pursued the issue the development of an NICS wide homeworking, or remote working policy, aimed at realising further efficiencies from accommodation expenditure. In its Report on the Preliminary Inquiry into Public Sector Efficiencies, the Committee called on DFP to establish this policy promptly, including in terms of implementation targets. While an NICS Homeworking Policy has subsequently been developed, in recent evidence, the Committee was advised that, although the policy has now been agreed by Central Trade Union Side, it is currently the subject of a scoping and costing exercise prior to implementation on the HRConnect system. The Committee has been told that, as yet, no targets have been set and no staff have taken up this way of working.

134. The Committee is disappointed at the continued delay in the implementation of the NICS Homeworking policy and is concerned that this might be further delayed due to cost implications related to making the necessary changes to the HR Connect system. Given the potential for efficiency gains from carefully managed homeworking/remote working schemes, the Committee calls on the Finance Minister and the Executive to expedite the implementation of this new policy.

Shared Services

135. Through its Preliminary Inquiry into Public Sector Efficiencies the Committee pointed to "shared services as offering significant potential for realising true efficiencies in the medium to long term". In January 2010, the Committee heard oral evidence from officials tasked with the implementation of shared services through the Enterprise Shared Services (ESS) Organisation. They advised the Committee that the initial focus was on the effectiveness of the Shared Services and that efficiencies would be considered further down the line.

136. Members agreed to probe further into each Shared Service later in the year and subsequently held evidence sessions with the responsible officials in October 2010 on:

- IT Assist (including Network NI & Records NI);
- HRConnect (including the Centre for Applied Learning (CAL); and
- Account NI (including a focus on the prompt payment of invoices).

137. The Committee has noted that a lack of baseline information has made it difficult to measure the benefits realised through this initiative. This was also noted by the CBI which, in a report submitted to the Committee, observed that it was difficult to make an accurate assessment on the savings that have been achieved in this area. However, CBI, in its Time for Action report, suggested that despite this lack of information there remained potential for increasing the use of shared services as a way to reduce duplication of services and to cut costs. In a follow-up submission following the publication of the draft Budget 2011-15, CBI has expressed its disappointment that this matter is not given as much prominence as it had expected.

138. In follow-up information, the Department has advised that savings have accrued in each of the shared service areas. These include: the ratio of HR staff to employees improved from a baseline of 32 employees per HR staff member to 64 employees per HR staff member; a reduction in the unit cost of ICT provision per person from £1572 to £1200 through ITAssist; and a reduction in the cost per megabyte per year from £396 to £218 through Network NI. Matters relating to AccountNI and issues regarding prompt payment of government invoices are discussed elsewhere in this report.

139. In a written response to the Committee in November 2010, DFP advised that a capital cost of £4.5m remained due to be paid on completion of the remaining programme deliverables in

relation to HRConnect, and that no further costs had been identified. However, the Committee notes in DFP's own spending/savings plan proposals, published less than two months later, that £21.5m capital has been allocated to ESS in anticipation of expected policy and legislative changes over the budget period. A response clarifying the nature of this extra expenditure is still awaited from DFP.

140. The Committee considers that there is merit in rolling out the shared services model to local councils and departmental arm's-length bodies (ALB) as a means of realising savings across the public sector. While DFP has advised that there are a number of factors which need to be taken into consideration, including individual governance arrangements, contractual frameworks and accounting regimes, the Committee is of the view that such concerns should not be prohibitive to a full and formal investigation into the feasibility of extending these services.

141. The Committee recommends that, going forward, DFP establishes clear baselines for the future realisation of efficiency savings and benefits from Shared Services, so that there can be transparency around what is being achieved. The Committee also considers that DFP and the wider Executive should explore the potential to maximise savings to the wider public sector by rolling-out Shared Services beyond departments to other public bodies.

Public Procurement

142. In February 2010 the Committee reported on its extensive inquiry into public procurement in NI. Whilst the main focus of the Inquiry was on how to improve access to procurement opportunities for local small and medium-sized enterprises (SMEs), the Committee also briefly considered the scope for realising efficiency gains in this area. Key to the Committee's recommendations on this matter was the need for a "more strategic co-ordination of the public procurement landscape... not only between central and local government but also in terms of arm's-length bodies". Co-ordination at a strategic level would also, in the view of the Committee, "avoid counterproductive localised efficiencies being pursued which have an adverse effect on the efficiency of the wider public sector and/or detrimental to the local economy". The Committee elaborated on this further in its report on public sector efficiencies, highlighting the scope for better e-procurement processes and collaborative purchasing between the different levels of government.

143. The Committee reiterates its call for targets to be set for achieving further efficiencies from public procurement, to include a monetary value and baselines for such savings, with an associated implementation plan. The Committee intends to pursue this matter with the Procurement Board before the end of the Assembly mandate.

Workforce Restructuring

144. The Committee heard from CBI that further savings could be achieved through workforce restructuring. CBI advocates streamlining government and governance including reducing the number of government departments; cutting what it perceives to be "excessive management layers", whilst developing leadership; and achieving cultural change through performance management.

145. The matter of senior civil servants' pay and bonuses is discussed elsewhere in this report but it is, nevertheless, not amiss to again reiterate the Committee's view that there is an imperative to streamline the higher grades across the NICS. Evidence was received supporting this review when the Committee was preparing its response to the SSRB review of SCS pay arrangements. In particular, John Simpson suggested that the Committee might want to consider "whether some of the organisations can fully justify the number and proportion of their

senior staff that hold SCS appointments." In making this point, the Committee acknowledges the work that is being undertaken within DFP in terms of reassessing its complement of senior officials.

146. Members note that CBI's points regarding leadership and cultural change reflect views expressed by the Committee in its report on its Preliminary Inquiry into Public Sector Efficiencies when it recommended that "a culture of efficient delivery is embedded into the routine responsibilities of public sector managers". In its response to the Committee's report, DFP advised that "leadership and management skills, with a particular emphasis on financial management, have been identified as priority areas in both the Senior Civil Service Development Strategy 2008-11 and the NICS Corporate Learning and Development Strategy 2010-2013". This work is being taken forward by the Centre for Applied Learning within the ESS.

147. The Committee considers that the wider NICS should continue to realise the opportunities for reorganisation that exist in the forthcoming budgetary period and welcomes the work that is being done through the Centre for Applied Learning to increase leadership and management skills across the NICS. While commending the work that is being undertaken within DFP in terms of reassessing its complement of senior officials, the Committee calls on the Executive to undertake a strategic review of the senior staff complements across all departments and arm's-length bodies, which should be independent and informed by benchmarking data from other jurisdictions, with the aim of ensuring that management structures across the public sector are streamlined and efficient in the context of the upcoming budget.

Outsourcing

148. The Committee has heard arguments for and against increased outsourcing of public services. In the view of CBI, NI lags behind other regions in this respect, citing opportunities ranging from custody services, utility asset management, debt collection, printing and document design to health and social care. It is the opinion of CBI that the Executive should take a more positive and aggressive approach to outsourcing. John Simpson also considered that the Executive should test outsourcing with rate collection through Land and Property Services (LPS). This view was endorsed in CBI's submission on the draft Budget 2011-15 when it stated that an opportunity had been missed by various departments to consider outsourcing, specifically citing outsourced debt recovery of rates as one example.

149. During his evidence session, Neil Gibson pointed out that there tends not to be proper costing of the delivery of services by the public sector, and it is therefore difficult to assess their proper cost. He said:

"I have noticed, for example, that some Departments are not asking private-sector providers to carry out appraisals but do them in-house. That is absolutely fine if it is genuinely cost-effective. Yet, we find that, in some cases, Departments do not record the time that they spend on activities and cannot say how much an appraisal costs. Are we sure that savings are being made by not asking for those tasks to be done by private-sector providers".

150. Witnesses representing the voluntary sector expressed concern that departments would be less inclined to outsource service delivery to the third sector during a period focusing on budgetary savings, as the focus would instead be on saving posts internally.

151. During oral evidence, representatives from the Trade Unions told the Committee that "we do not see outsourcing – which is privatisation really – as something that we can support". The representatives went on to say that they view outsourcing as a "race to the bottom", and that transferring work away from the public sector to the voluntary or private sectors will result in

driving down terms and conditions of employment. They told members that, even if functions are transferred to the private or voluntary sectors, the public purse still has to pay for these activities.

152. Whilst acknowledging that some stakeholders consider that there are savings to be made through greater outsourcing of public service delivery to the voluntary and private sectors, the Committee is of the view that, though this option deserves careful consideration, all decisions on outsourcing need to be taken on a case-by-case basis and informed by robust business cases.

Performance and Efficiency Delivery Unit

153. In its Report on the Executive's Draft Budget 2008-11 the Committee welcomed the establishment of the Performance and Efficiency Delivery Unit (PEDU). At that time it was envisaged that PEDU would re-examine the scope for generating cash efficiencies and improving delivery and performance within departments and across the public sector.

154. Throughout the mandate the Committee has closely monitored the work of PEDU and how it has been utilised by other departments. Overall, the Committee has been disappointed at the low level of uptake of the services provided by PEDU, with only LPS within DFP and Planning Service within DoE availing of the opportunity to date. Indeed, the potential value which PEDU can add to the provision of existing services was recognised by representatives from the voluntary and community sector, who during an evidence session, called on PEDU to evaluate the services provided by the sector to ensure that they were being delivered in the most efficient and effective way possible.

155. The Committee understands that, following the June 2010 Monitoring Round, two other departments have engaged with PEDU, with a view to using the Unit to identify appropriate efficiency savings and more effective ways of working. However, again members are disappointed that the process of agreeing Terms of Reference appears to be lengthy and work that had the potential to influence the decisions and proposals of this budget process has not been realised. In this respect, members note the comments of the Health Committee, which stated in its submission on the spending and savings plans for DHSSPS that:

"The Committee was of the view that there was a lack of information presented by the Department in terms of potential efficiencies. In particular, little reference was made to the forthcoming PEDU review of the Department and what efficiencies it could be expected to yield. Indeed the Committee had expected PEDU to have completed its report before the draft Budget was published and were disappointed to learn that little progress has been made in terms of the exercise".

156. The Committee further expresses its frustration that the role of PEDU does not feature in the draft Budget document, given its potential to provide departments with the evidence base they need to identify not only areas where further efficiencies can be realised but also how they might improve the effectiveness of the public services being delivered. In reiterating its previous call for DFP to put forward options to the Executive for ensuring that PEDU functions are exercised effectively across all departments, the Committee believes that the final Budget proposals should include both an indicative work programme for the Unit and provision for enhancing its capability to undertake larger-scale reviews, with the aim of supporting tangible improvements in public service efficiency and effectiveness during the Budget period.

Revenue Raising Options

157. Paragraph 3.32 of the draft Budget document refers to the Executive's plan to raise additional revenue. The paragraph states that the Executive has factored in initial work into the preparation of the draft Budget position and that Ministers have been tasked with evaluating additional sources of revenue over the next number of weeks. However, the Committee is unclear exactly how much additional revenue the Executive hopes to raise. During an evidence session on 2 February 2011, DFP officials stated that ministers had identified a further £750m of revenue raising options that had not been factored into the draft Budget. On 9 February 2011, the Minister indicated to the Committee that the Executive's Budget Review Group was exploring the scope of an additional £800m in revenue raising options.

158. As outlined by Assembly research, the draft Budget document provides no further details about these additional revenue options, except for the introduction of a plastic bag levy. In the absence of this detail, the following sections of this Report explore the range of views of the economists who were invited to brief the Committee and of the other Assembly committees, in order to inform the Executive's assessment of the options.

159. The Committee recognises that scope exists for greater efficiency in the delivery of public services in NI and, as stated previously, the first priority should be to maximise the impact from existing resources. That said, members have also recognised that revenue-raising measures take on even greater significance in this time of exceptional budgetary constraint. The Committee is also aware of the wider macroeconomic concerns expressed by ICTU and others, who outlined that cuts in spending will withdraw demand from the economy, constraining the economic recovery in the absence of a private sector recovery. In their paper to the Committee, Professor Robert Skidelsky and Felix Martin also made the point that the planned fiscal retrenchment will hinder the economic recovery in the UK. In addition, the Committee notes the concerns raised in the evidence from Victor Hewitt, who stated that it will be, "barely possible" to make up the loss in the public sector with the current structure of the private sector in NI.[34]

160. In his evidence, Dr Esmond Birnie explained that cuts in government spending as a result of the Spending Review will have proportionally a larger negative impact on NI because of the proportion of economic activity reliant on the public sector and the higher number of people who claim benefits. The Committee also acknowledges the view of John Simpson who questioned the extent to which revenue had been maximised to enable the pattern of expenditure to match the PfG. The Committee is mindful that cuts in public services are regressive and will have the biggest impact on the least well off, who rely the most on these services.[35] As such, the Committee welcomes the proposal in the draft Budget to identify alternative means of raising additional revenue, which will help to reduce the impact of the UK Spending Review on public services in NI.

161. The Committee notes that the draft Budget outlines the Executive's plan to assess revenue raising options based on, "the merit of being deliverable." This was reiterated during evidence from DFP officials when it was stated that, if additional sources of revenue proved "genuinely deliverable", then they ought to be factored into the budget position. Yet, the Committee believes that judging the merit of additional revenue raising options based on the sole criteria of "being deliverable" is inadequate. The Committee is concerned that this remit does not address the efficiency and equality impacts that result from an increase in taxation or charges.[36] Indeed, the Committee acknowledges that Dr Graham Brownlow, in his written submission, described tax varying powers as a, "fruitful way to rethink how equity and efficiency can be reconciled in NI." Members also note from the submission by Professor Alan Barratt, that the same core principles were identified by the Commission on Taxation in RoI and have been influential in designing taxation policy. Given the importance of these principles, the Committee recommends that the Executive undertakes equity and efficiency assessments of any new revenue raising measure being proposed, which should be published to facilitate scrutiny by the Assembly.

Rates

162. The draft Budget sets out the Executive's plans to begin to initiate increases in domestic rates in line with inflation, and to maintain annual inflation-proofed increases in business rates up to 2.7% per year. This increase is likely to equate to no real increase in government revenue over the four-year period but an extra £146m in revenue when measured in current prices.

163. The Committee is mindful of the views of the local economists and others who provided evidence on this issue. Mike Smyth highlighted that domestic rates in NI are by far the lowest in the UK and argued that, faced with a choice between raising revenue and public service cuts, rates should not remain frozen. In his evidence, Victor Hewitt advised that a 1% increase in non-domestic rates would raise £3m per annum and that a 1% increase in domestic rates would raise an extra £2.8m per annum. According to the CBI, however, up to £350m per year could be raised if rates were increased to a similar level as exists in Scotland. The Committee notes the CBI's proposal to increase rates by 3% in real terms and to use this additional £18m per annum to finance the "shortfalls" in the budgets of Invest NI and DEL. In his evidence, John Simpson, was also of the opinion that freezing the regional rate in real terms was too modest a proposal and recommended that rates should rise in real terms by a "modest" 2%. Whilst ICTU also echoed the view that both domestic and non-domestic rates should rise, the Committee noted the caution by Peter Bunting that raising rates would reduce the disposable incomes of families which will have a detrimental impact on the service sector across the country.

164. In its Report on the Executive's Draft Budget 2008-11, the Committee welcomed the Executive's proposal not to increase domestic rates and members appreciate that any above inflation increase in rates will increase the tax burden on households and on business. Reflecting this, the Committee also acknowledges Mike Smyth's view that additional property taxes are, "at best proportionate and at worst regressive." During his evidence, Neil Gibson also asserted that the current structure of rates was, "regressive," and questioned the justification of a rates cap. ICTU similarly advocated the removal of the rates cap. However, when the Committee discussed the removal of the rates cap previously, in September 2008, members expressed concern that if it were to be removed it could have a detrimental impact on individuals, such a pensioners, who are asset rich and income poor.[37]

165. In his evidence, John Simpson pointed to the Scottish proposal to place higher rates on large out-of-town retail outlets.[38] The Committee also notes Neil Gibson's view that a more aggressive, structured and progressive property tax could raise additional revenue whilst having a low impact on spending power in the economy. Neil Gibson also highlighted how rates could be used more effectively to incentivise good behaviour. The example of Scandinavia was cited, where the property tax system is designed to ensure that it was more costly for owners to leave buildings vacant and in poor states of repair as opposed to opening them up for use by the community. In addition, Neil Gibson suggested that rates could be structured to create incentives in order to further the objectives of the Green New Deal. The Committee accepts the principles behind these suggestions and made similar recommendations to DFP in its Report on the Response to the 2007 Executive Review of the Domestic Rating System.[39] Moreover, the Committee has supported the Department's plans to foster similar incentives by collecting rates on vacant domestic properties by October 2011.

166. The Committee recommends that the rating system should be kept under review, including: in terms of non-domestic rates, to explore the options for applying differential rates or surcharges on specified sectors to raise additional revenue or incentivise desired behaviour; and, for the domestic sector, to ensure that the burden of any future rate increases is shared equitably and based on ability to pay, which is especially pertinent in the context of the current downturn in the economy.

Water Charges

167. The draft Budget sets out the Executive's plans to continue to defer the introduction of domestic water charges. The Committee heard evidence from a range of witnesses including, Victor Hewitt, John Simpson, Mike Smyth and Dr Graham Brownlow who all proposed that water charges be introduced as a means to raise additional revenue. In its evidence, CBI advised that up to £200m could be raise in additional revenue through the introduction of domestic water and sewage charges. This figure was repeated by Victor Hewitt, who reminded the Committee that, because of the privatisation of water in England, there are no consequential resources allocated to NI through the Barnett formula. The Committee also notes the view of John Simpson that, "there was a serious need to balance Northern Ireland's public finances so that the costs of water do not take away from other public services" and that a separate NI Water trading company should be established in order to allow it to borrow from the financial markets in order to make investments.

168. The Committee also notes that, in its evidence, ICTU opposed the introduction of water charges, arguing that people already paid for water through their rates; and that any additional charge for water would be unfair and would fail to recognise this reality. Additionally, ICTU further cautioned the Committee that such a policy could result in lower disposable household income and have a negative impact on small businesses.

169. The Committee notes the submission from the Committee for Regional Development which highlighted that, as a result of the budget allocations and the decision not to introduce water charges, water and sewage services will not be funded to the levels identified in PC10[40]. The Committee for Regional Development outlined that the decrease in investment in NI Water will impact on the levels of service and compliance currently provided by the company and that there will be no room for service performance improvements or development over the coming years. It also expressed concern regarding the impact that the lower levels of funding will have on NI Water's ability to deliver the planned investment infrastructure under PC10.

170. There is no consensus in the Committee for Finance and Personnel on the issue of water charging. Some members disagreed with the principle and expressed the view that individuals were already paying for their water, while others agreed with the concept and argued that water charges could be introduced as a progressive form of taxation. In any event, the Committee is mindful that this issue does not fall directly within the remit of DFP and did not, therefore, reach a collective decision on the matter.

Port of Belfast

171. In a question following the Minister's draft Budget statement, members were informed that the Executive aims to acquire additional revenue over the next four years from the Port of Belfast. The Minister outlined to the Assembly that the Executive hopes to obtain £30m from the Port near the end of the four-year budget period and that £5m has already been allocated from the Port towards the extension of the Paint Hall. The Committee was subsequently informed by the Finance Minster that the Minister for Regional Development had asserted that it would be possible to obtain £125m from the Port of Belfast but that this would require a change in legislation and that these figures, therefore, could not be factored into the draft Budget as they were not a guaranteed source of income. The Finance Minister also informed the Committee that the Executive hoped to obtain additional income by drawing on the Port of Belfast when the Executive incurs Port related expenditure, including in respect of the local infrastructure and investment in NI Screen.

172. The Committee notes that, in its evidence, ICTU argued that the Port of Belfast should be given full commercial powers in order to generate income and profit, which could then be at the disposal of the Executive. It is also noted from the submission by the Committee for Regional Development that there is no consensus on the issue of raising revenue from the Port. That Committee was informed that the Federation of Small Businesses (FSB) had concerns regarding the additional costs of importing and exporting that are likely to result, while CBI and Quality Products Association for NI both welcomed the proposals.

Plastic Bag Levy

173. The Committee notes the decision to introduce a levy on the sale of single use plastic bags, which, it is expected, will raise approximately £4m in revenue per year and will have outcomes which will bestow wider benefits for the environment. Members are mindful, however, that the Executive's plan to raise £4m will depend on the impact the charge will have on changing behaviour.

174. The Committee also notes that CBI has raised "serious reservations" regarding the plastic bag levy and has outlined that, if DoE fails to raise the anticipated revenue, a number of environmental programmes are likely to suffer. CBI sees the charge of 15p per bag as excessive, given that retailers sell bags for life for less than 10p. It has also asserted that there needs to be a clear and well planned implementation, with a good understanding of the issues which this charge will give rise to. Furthermore, CBI is unclear as to the type of bags that will be covered in this legislation, has concerns that the burden of the new levy will fall disproportionately on low income households, and believes that it is unlikely that the levy could be introduced before April 2012.

175. In its submission, the Environment Committee also expressed concerns regarding the plastic bag levy, particularly due to the absence of any procedures for the collection of the levy and with regard to the "crude estimation" of the anticipated amount the levy is likely to raise. The Environment Committee is particularly anxious regarding the revenue generation potential of the levy because DoE has already earmarked a number of programmes to be funded from this revenue. Moreover, the Environment Committee is concerned that the loss of some of these programmes would increase the risk of infraction proceedings and ultimately costly EU fines.

176. While supporting the principle behind the proposed plastic bag levy, the Committee for Finance and Personnel seeks assurance that the Executive will take into account the issues raised by the Environment Committee and other stakeholders, including CBI, and that the necessary legislation for the levy will be expedited to help ensure that the initial £4m allocated in the draft Budget is realised.

Text Tax / Mobile Phone Masts

177. The Committee was interested to note the novel proposal from Mike Smyth for the introduction of a tax on text messages, which he contended had the potential to raise approximately £24m per year in NI, if a 1p tax were to be levied on each message. The principle behind this proposal also received the endorsement of both Dr Graham Brownlow and ICTU. Whilst Mike Smyth believed that such a "text tax" would be within the power of the Assembly, "based on an interpretation of the Northern Ireland Act", in his evidence, Victor Hewitt considered that this form of direct tax would probably exceed the powers of the Executive. The Committee notes Victor Hewitt's alternative suggestion of super-rating mobile phone masts, which he considered an "attractive option", given the size of the tax base. Indeed, the Committee was informed by the Finance Minister on 9 February 2011 that the Executive is currently exploring the proposal of super-rating mobile phone masts. In this regard, the

Committee would advise that the Executive notes Victor Hewitt's caution that the telecoms companies may try to pass the cost of any tax onto consumers and examines how this might be addressed.

178. Whilst recognising that further investigation is required into the proposed additional rating of mobile phone masts, including the legal considerations, the likely impact on the NI telecommunications market and the groups in the population who are the most likely to be affected[41], the Committee encourages the Executive in exploring such novel approaches to raising new revenue to support public service delivery.

MOT Charges and Tolling

179. In its evidence, CBI called for an increase in the charge for MOT tests, which it estimates could raise an additional £10 - £15m per year. The charges, according to CBI, could be related to the size of a vehicle's engine and would therefore create an incentive for people to downsize their vehicles which would be beneficial for the environment. Mike Smyth advised that, in order to raise CBI's anticipated figure, the current charge of £40 would be increased to £60 and £100. The Committee is mindful, however, that additional charges for MOT tests would be regressive – as was acknowledged in the evidence from Victor Hewitt – and could lead to social exclusion of the most vulnerable.

180. The Committee notes CBI's suggestion to utilise congestion charging and tolling as another means to raise revenue. CBI suggested that the fundamental idea behind congestion charging would be to change behaviour, with the charge targeted at car transport rather than at freight in order to maintain economic competitiveness and limited to some of the main roads into Belfast. CBI also pointed out that the cost of designing congestion charges and tolls are significantly less than ten years ago. Whilst the Committee is aware that CBI's proposal involves reinvesting the additional revenue obtained from the additional charges into developing a more sustainable transport infrastructure, it believes that the options for charging road users require thorough assessment of impact. Members acknowledge the evidence from Professor Barrett on toll charging in RoI, including his caution that overly high charges can discourage use, which reduces the value to the economy of the initial investment. Moreover, the Committee has concerns that introduction of additional charges associated with road transport could damage small businesses and negatively affect economic activity.

Medical Charges

181. In its evidence, CBI also proposed that charges for medical services such as Accident and Emergency (A&E) services and out-of-hours General Practitioner (GP) services be introduced. Similar proposals were made by John Simpson and Mike Smyth, with the latter pointing to the fact that it was normal for patients in EU countries to make a small contribution towards the cost of a GP or A&E visit. In this regard, a €45 and €50 fee for a visit to the GP is currently charged in RoI and France respectively. In the view of Mike Smith, it was also time for a "rethink" on the policy of free medical prescriptions, pointing out that the original costs were estimated at £12-£13m per year but the actual costs had exceeded £20m. Mike Smyth also advised that demand had increased as a consequence of making prescriptions free. It can therefore be assumed that this has increased pressure on the DHSSPS budget as the provision of prescriptions is inescapable, with the implication being that the reintroduction of the charge might manage the demand. Further, the Committee notes from the evidence from Professor Barrett that a prescription charge had been recently introduced in RoI, with the objective of this charge being to curtail the demand for drugs rather than to raise a significant amount of revenue.

Car Parking Charges

182. The Committee notes the suggestion by Mike Smyth and John Simpson to introduce charges for the use of public sector car parks. In his evidence, Mike Smyth made the case that, across the UK charging for the use of workplace car parks was the norm rather than the exception, and that, because NI was more "car centric" than GB, this would be an appropriate charge. The Committee acknowledges that the proposed charge on public sector car parks has the potential to raise an extra £10 - £15m per annum, according to Mike Smyth's estimates.

183. Members note that introducing NICS staff car parking charges was listed in DFP's draft spending plans as a "high pain" savings option. DFP officials clarified to the Committee, on 10 November 2010, that car park charges only had the potential to raise £0.5m per year and stated that such charges were likely to be progressive and based on an individual's grade within the organisation. Nonetheless, some members expressed concern that the introduction of such charges would be unfair to civil service staff who were also being asked to take a pay freeze. The Committee notes that NICS car parking charges have not subsequently been introduced as part of the Executive's draft Budget package and do not feature in DFP's final spending plans.

184. In its submission, the Committee for Regional Development pointed out that DRD plans to introduce town centre parking charges in a number of new locations. It was noted that FSB has raised concerns that such charges would negatively impact on DSD town centre regeneration plans. The Regional Development Committee also notes that the Northern Ireland Local Government Association (NILGA) asserted that such plans would put people off shopping in town centres and encourage the use of out-of-town shopping outlets where parking is free.

Other Charges

185. A variety of other potential revenue raising options were discussed during the Committee's evidence gathering. In his evidence, Victor Hewitt presented suggestions to end senior citizen's free travel and introduce charges for museums and libraries, though it was recognised that the gains from such charges would be limited. For its part, CBI proposed charges for freedom of information requests and for accessing planning applications, in addition to increases in NI Housing Executive rents alongside a programme of thermal efficiency improvements. ICTU suggested that a Community Interest Levy be imposed on major planning applications and also suggested that outdoor public assets, such as forests and lakes, could be leased to private companies who would be interested in using the resources to undertake outdoor activities such as paintballing and orienteering.[42]

186. To conclude, the Committee calls on the Executive Ministers to ensure that their departments expedite attempts to identify and investigate all the possible options for raising further revenue. The Committee further recommends that this investigation includes a full and proper consultation with the respective Assembly committees and the wider public.

Capital Asset Realisation

187. The draft Budget sets out the Executive's plans to raise approximately £547m from capital receipts over the four-year budget period, based on the market valuation of these assets at today's prices. The Committee is conscious that the specific detail of some of the planned asset sales is confidential but remains disappointed that the draft Budget fails to provide any noteworthy information on these proposals. The Committee is of the opinion that such information is necessary in order to facilitate an adequate scrutiny process.

188. Members are mindful that, in its effort to off-set the negative consequences locally of the UK Spending Review, the Executive is faced with the challenge of finding additional revenue from capital assets during a depression in the property market. Indeed, the Committee was

informed of the scale of the depression in the market in a submission by the Methodist Church, which detailed that property values have decreased 40% from their peak value. Members note the fears that some stakeholders have around raising any revenue from capital asset sales during this time, as was highlighted in the evidence from John Simpson who stated, "I do not suggest that we sell now when the market is down."

189. The Committee notes that the Executive hopes to raise £100m over the four-year budget period from asset sales through the Central Assets Management Unit (AMU). As shown in Table 9 below, the Executive hopes to raise the majority of this revenue in the latter years of the Budget period:

Table 9

	2011-12	2012-13	2013-14	2014-15
Additional Capital Receipts – Central Asset Management Unit	£10.0m	£15.0m	£25.0m	£50.0

190. Whilst the Committee has reservations about selling assets when the market is depressed, it is sympathetic to the Executive's attempts to secure additional revenue and welcomes the prudent decision to realise the majority of this £100m towards the end of the four-year budget period.

191. Members did, however, express disappointment that they were unable to adequately scrutinise the case for the sale of these assets within the wider budgetary context due to the lack of detail provided in the draft Budget document. DFP officials subsequently advised the Committee that it is the responsibility of OFMDFM to provide further details as some of the planned asset sales are commercially confidential. Members hope that, as the Committee for OFMDFM investigates this area, further details will become available.

192. The draft Budget also proposes that departments be given the responsibility for selling approximately £447m of assets during the next four years, significantly more than the £100m under the auspice of the AMU. The Committee is once again disappointed that these assets have not been identified in the draft Budget document, making it difficult for adequate budget scrutiny at a strategic level to take place.

193. The Committee notes that £397m of the £447m planned revenue that the Executive will secure from capital receipts will come from the £4.1bn worth of assets held by DSD. In a response to the CBI's Time for Action Report, the Committee for Social Development requested an update on revenue generating activities and capital assets realisation from DSD. The Department provided further details to the Committee for Social Development as to the viability of its programme of capital assets realisation. In particular, DSD identified the Newtownlands holdings as surplus to requirements and is investigating potential to sell surplus land. DSD also explained that SIB is currently assessing the potential to sell some of the Department's excess commercial units. In addition, DSD provided justification behind the decision not to relinquish control of the NIHE Head Office.

194. Members note the call by John Simpson for OFMDFM to make available for assessment the unpublished report on capital assets realisation conducted by Ed Vernon. The Committee is aware, however, that SIB is incorporating the recommendations from Ed Vernon's work in its projects to improve assets management. Members were informed by the Finance Minister on 9 February 2011, that there is currently no comprehensive list for all the assets held by NICS. The Committee, therefore, welcomes the news that AMU constructed a pilot database with DFP and DARD to store this information, and that this pilot project included drafting a departmental asset

management strategy and identifying more specific opportunities to improve the efficiency of asset utilisation and realisation. Members are also pleased to note that the Executive has made the development of a region-wide corporate management strategy, individual departmental asset management plans and the use of e-PIMS asset management database mandatory across the public sector. The Committee is convinced that there are considerable opportunities to deliver asset management efficiencies over the medium-to-long-term and looks forward to the savings that will result following the future incorporation of all departments into this project.

195. The Committee also acknowledges the recommendation from John Simpson that the Executive ought to move beyond AMU and establish a more effective strategic investment body which could be based on the Scottish Futures Trust. Members were advised that the Scottish Futures Trust offers an alternative to PPP/PFI in terms of incorporating private financing in public sector projects, and that the organisation reportedly saved £111m in its first year of operation. The Committee, therefore, recommends that the Executive examines this model, including the potential for a similar approach in NI.

196. In their evidence to the Committee, Neil Gibson, John Simpson and Mike Smyth identified the opportunities to further increase the value harvested from existing business assets. More specifically, CBI questioned the need to build a new train maintenance facility rather than making more prolonged and better use of the existing facility. Members agree with the principle of "sweating assets", but the Committee cannot comment further as no details on this approach have been incorporated into the draft Budget.

197. The Committee also notes the suggestion from Mike Smyth that the Workplace 2010 initiative could be revisited. Although, members recognise that the market for the sale of capital assets remains depressed, DFP officials pointed out, during evidence on 26 January 2011, that it can be possible to end lease contracts and make real resource savings by consolidating the workforce into more space-efficient accommodation. The Committee believes that the Executive should continue to investigate the prospect for achieving savings from this approach.

198. Members recognise that the Executive's drive to realise receipts from surplus capital assets is aimed at helping to off-set the negative impact on public services in NI from the UK Spending Review. That said, while accepting the constraints on providing commercially sensitive data, the Committee is disappointed at the dearth of information on the capital asset realisation proposals contained in the draft Budget, as this hinders informed debate and scrutiny at a strategic level. Aside from the identification of surplus assets, the Committee calls for increased focus on more efficient use of existing public assets. In this regard, while it has been pressing for a central database of all public sector assets for some considerable time, the Committee welcomes news of AMU's pilot project and calls for the lessons and outputs from this to be implemented across all departments and arm's-length bodies without further delay.

Alternative Sources of Finance

199. During its evidence gathering, the Committee heard a range suggestions for alternative sources of finance for debt and capital projects. The Committee is aware that demand is deficient in the NI economy and believes that sourcing alternative finance of debt and capital investment could help to rectify this problem. Nevertheless, the Committee is aware that any finance obtained from additional borrowing will incur an interest charge, which will need to be repaid eventually.

200. In his evidence, Mike Smyth identified the potential to make use of the borrowing capabilities of local government to engage in capital investment. He informed the Committee that local government was not subject to the same borrowing constraints imposed on the NI government by HMT and suggested that there was the potential to develop an agreed strategy

based on regional need. It was also suggested that the district councils could borrow to engage in capital spending from the European Investment Bank (EIB). In his proposal, the EIB would provide 50% of the finance with the remainder provided by departments or from the private sector. The Committee was interested in this proposal and recommend that DFP further investigate its viability.

201. In evidence from DFP officials on 2 February 2011, members were advised that DFP continues to investigate alternative sources of European funding. The Committee is conscious that this suggestion arose in the evidence from both John Simpson and CBI. Members are aware that there is a range of European funding sources that could be explored, including the European Regional Development Fund and the European Social Fund; but note, in particular, John Simpson's suggestion to attempt to draw on the European JESSICA (Joint European Support for Sustainable Investment in City Area) funding. The Committee encourages DFP to continue to examine such opportunities rigorously, particularly given the difficult economic downturn.

202. As alluded to earlier, members are conscious that the construction industry is likely to face a difficult challenge in the period ahead, particularly due to cuts in public sector capital expenditure. For this reason, the Committee welcomes the submission from CEF, which has identified a range of ways to reform PPPs in order to address the problems with the operation of such schemes, that have resulted in PPPs being a less attractive option than they otherwise could be. The Committee acknowledges the CEF proposal for a revenue finance model for NI, in addition to the suggestions from CBI which include improving value for money in PPPs, issuing local authority bonds to fund specific projects and making greater use of franchising and mutualisation, and asks that the Department gives these submissions due consideration.

203. The Committee is also conscious that Terence Brannigan from CBI, Brian Campfield from NIPSA and Mike Smyth all identified the potential to leverage the assets of the NIHE in order to re-engineer financing of the organisation. It was pointed out however that any leveraging would require that the organisation registered as a social landlord in order to enable it to borrow privately and subsequently invest in the housing stock. Mike Smyth considered that such a change would not require legislation and asserted that the opportunity was particularly appealing given that NIHE's historic debt profile had decreased significantly in recent years. Brian Campfield claimed to the Committee that the implications of such a policy would allow NIHE "not only to meet social housing need but to provide much-needed employment in the construction industry." The Committee also notes Mike Smyth's claim that, without fiscal powers being devolved, leveraging these assets is one of the most effective ways of "creating space" in the NI budget. Although the Committee accepts the principles behind this proposal, members have expressed concern that any borrowing by NIHE could result in higher charges levied on occupants of social houses who are some of the least well off in society.

204. The Committee notes the DSD response to the CBI proposals regarding NIHE, provided through the Committee for Social Development, which noted that CBI has failed to quantify what it regards as modest rent increases for NIHE and acknowledges that such rents have historically increased at the rate of inflation on an annual basis. In addition, it has been noted that DSD has also advised that it is conducting research into rent setting policies with the potential to undertake a process of rent realignment. In its submission, the Committee for Social Development highlighted that DSD has only provided details of its plan to increase rents by 3.75% in 2011-12.

205. It was further outlined in this response by DSD that a review has been initiated into the appropriateness of the existing structure of NIHE and that a report is due to be published in March 2011. DSD explained, however, that NIHE currently has £750m of loans outstanding from the Consolidated Fund and that any future change to the structure of the organisation will have to take account of this debt. The Department also outlined that it has considered the importance

of maximising the level of public spending into the most disadvantaged areas, levering additional resources from private investment and developing a community finance infrastructure when examining alternative funding sources. DSD detailed that it is working to explore the feasibility of mechanisms that exploit community financing options, European financing options, tax based financing options and joint venture financing options; and has already secured significant funding through bonds with the European Investment Bank and the Housing Finance Corporation.

206. The Committee notes the ICTU recommendation that the Executive ought to "catch-up" with the Calman and Holtham reviews in Scotland and Wales and develop an ability to employ greater fiscal and borrowing powers. Members also note the ICTU's proposal to introduce Tax Increment Financing which could give councils the power to borrow against a business rate income.

207. The Committee notes the paper from the economists Lord Robert Skidelsky and Felix Martin which sets out proposals to obtain additional finance for business activity through the establishment of a National Investment Bank. This detailed how that the Bank would be capable of obtaining finance from the capital markets at a competitive rate under a government guarantee, and would then be tasked with lending to fund socially desirable and longer-term projects. The Committee also notes that NICVA has also proposed the establishment of a similar investment bank capable of leveraging European finance. While the Committee is interested in these proposals, it recognises that, under the NI Act 1998, financial services, including banking, is a reserved matter.

208. The Committee calls on DFP and the wider Executive to explore fully the various approaches to finding alternative sources for financing debt and capital investment, as identified by the stakeholders who provided evidence for this Report. These include, for example: utilising the borrowing capabilities of local government to engage in capital investment; further investigation of European funds; the potential to leverage the assets of NIHE; and alternatives/reforms to PPP/PFI for incorporating private financing in public sector projects.

Impact of AME cuts

209. In addition to the DEL funding via the Barnett formula, NI also receives funding through Annually Managed Expenditure (AME). This relates to spending that is demand-led, the largest single element of which is welfare expenditure. The Westminster Government announced a programme of welfare reform[43] which it anticipates will remove £18 billion from the welfare budget; it is estimated that NI's share of this will equate to £500m.

210. In examining this issue, Assembly research noted that the Institute for Fiscal Studies (IFS) has found that, in considering all the measures to be introduced between 2010-11 and 2014-15, NI is expected to undergo the most significant losses of all UK regions, after London. In considering the reasons for this, the Assembly research notes that the levels of economic activity in NI are particularly high, and that "much of the reform in respect of unemployment benefits appears to presume the availability of surplus employment"; however, this cannot be considered to be a safe assumption in the current economic climate. In the first instance, the NI economy is skewed towards the public sector, which will be significantly affected by the cuts to DEL. Members note that, unlike other regions in the UK, the economy in NI is not considered to be "in recovery", and it is unlikely that the relatively small private sector will be able to either provide sufficient employment opportunities for those who are currently economically inactive or compensate for public sector cuts and/or job losses.

211. As alluded to earlier in the Report, the Committee notes from the Assembly research that there are a number of other reasons why the reforms will have a particularly regressive effect for NI, including:

- the relatively high proportion of households with children;
- a lack of developed infrastructure for childcare, which is recognised as an impediment to work;
- the high rate of reliance on Disability Living Allowance.

212. In evidence to the Committee on 3 November 2010, DFP officials advised that the Executive had received a Barnett consequential to implement and deliver the welfare reform agenda, in terms of both current and capital expenditure. However, all the savings that will result from these reforms will be in respect of AME and of direct benefit to HMT. The Committee understands that discussions had been taking place with HMT as to whether any of the savings realised could be transferred to DEL for use by the NI Executive. At the time of this Report, there were no further developments in this regard.

213. A range of views were expressed by witnesses on the welfare reform agenda during oral evidence to the Committee. John Simpson told members that, while the cuts may be uncomfortable, it was his belief that parity on social security spending should be maintained. Professor David Heald considered that more demands are likely to be made on public services at a time when public expenditure will be more constrained. NICVA also anticipates that the reforms will "lead to major problems and further work for the advice sector". Mike Smyth noted that the welfare system in the UK is passive, and pointed to Scandinavian countries which operate active labour market policies of placing people in work, training or education, which have a positive impact on long-term unemployment. Neil Gibson stated that the cuts to AME and DEL present a significant challenge to NI; however, it offers opportunities and "we can use that [AME cuts] and the squeeze on public-sector money to help Northern Ireland to re-orientate its priorities towards a private sector-led economy". Dr Esmond Birnie told the Committee that welfare reform is one of the areas in which the public is "up for more radical, courageous choices than we might expect", when appraised of constraints facing the Government.

214. The Committee notes that the draft Budget proposes a Social Protection Fund, which it understands is aimed at addressing some of the negative outcomes for those worst hit by the welfare reforms. The proposals only include an allocation of £20m for the first year of the Budget period; funding from 2012-13 to 2014-15 will "come from the additional revenue streams identified by Ministers coming into operation and delivering new resources for deployment". In its submission, the Committee for OFMDFM has noted that details on the scheme are still under consideration by Ministers. The Committee for Social Development stated that it required further information "on the application by the Department to the Social Protection Fund for support for a scheme to help home owners facing repossession proceedings".

Preventative Spending

215. During its scrutiny of the draft Budget, the Committee heard evidence on the theme of Preventative Spending in which can be understood as:

"a clinical, social, behavioural, educational, environmental, fiscal or legislative intervention or broad partnership programme designed to reduce the risk of mental and physical illness, disability or premature death and/or to promote long-term physical, social, emotional and psychological well being."

216. The Committee is concerned that many of the proposed budgetary cuts are likely to have an adverse impact on preventative spending. An Assembly research paper, for example, detailed to the Committee that the Westminster Government's planned cuts in the AME budget will lead to the removal of the Sure Start maternity grant for a second child as well as the abolition of the Help in Pregnancy grant. The abolition of these schemes will reduce government expenditure targeted at the early years' age group and research suggests that the most vital intervention ought to occur during this time.

217. In their submissions to the Report, a number of other committees have expressed dissatisfaction regarding proposed departmental cuts to services that are, in effect, programmes of preventative spending. The Committee notes the Committee for Employment and Learning has raised concern over the damaging long-term impact that would result in ending the Adult Apprenticeship and Education Maintenance Allowance schemes. The Committee also notes the concerns of the Committee for Culture, Arts and Leisure who highlighted that the 12.6% real terms cut in Sport NI's budget will severely hamper the Sport Matters programme. It has been noted that such cuts are likely to negatively impact on participation rates in sport which will result in worse levels of fitness. There is also an awareness that fitness levels are directly correlated with costly diseases such as obesity and diabetes and is conscious that cuts in sport may cost society more in the long run. The Committee for Culture, Arts and Leisure also expressed anxiety that, as a result of budget cuts, an additional ten libraries are projected to close over the next four years and raised concerns that this would negatively impact on the poorest in society. On this point, there is a concern that libraries are an undervalued asset in society as the benefits of good literacy rates in society are widespread and accrued over the long run. The Environment Committee also expressed concern regarding the reduction on funding for road safety, despite the apparent success of this programme. Related to this theme of preventative spending, the Justice Committee has cautioned other departments that, unless a holistic and cross-departmental early intervention strategy is implemented, the knock-on effect will be an increase in the levels of offending and increased costs to the justice system.

218. CFP nonetheless welcomes the Executive's decision to establish a £20m per year Social Investment Fund and a £20m Social Protection Fund. As no further details have yet been released to the public regarding the nature of these funds, the Committee is unclear as to whether either programme will fully incorporate preventative spending schemes. The Committee does note, however, that the Committee for Social Development has revealed that DSD anticipates using the Social Protection Fund in order to support homeowners facing repossession. Members are aware that the Committee for Social Development has also called for more information from the Department regarding the details of the Social Protection Fund DSD scheme. Members also note that the Executive has not, as yet, set aside any additional funding for the Social Protection Fund after year one of the budget period.

219. In a detailed Assembly research paper on preventative spending (Appendix 7), the Committee was informed that the current reactive model of public service delivery prioritises cost-ineffective treatment over often cost-effective prevention. The Committee notes that the research detailed in this paper presents an evident link between a poor upbringing and some of the most costly negative social problems.

220. The Committee is anxious that the statistics detailed in the evidence indicate that NI compares relatively poorly to other European locations, particularly in terms of social mobility and child wellbeing. Members noted the following example from the Assembly research paper that highlights this point: "Daughters of teenage parents are three times more likely to become teenage mothers, and 65% of sons with a convicted father go on to offend themselves." Members also noted a wide range of statistics which outlined the resulting demand-led cost of current policy choices. One such cost was outlined in a briefing paper presented to the

Committee from Action for Children, who highlighted that estimates indicate that a single serial offender costs society over £1.1m to £1.9m over their lifetime.

221. From the research findings, the Committee also notes that forecasts estimate that the cost of social problems will continue to increase. Moreover, it is likely that any such costs will be further exacerbated due to the impact of the economic downturn.

222. The Committee is mindful that preventative spending is an investment in human capital, and human capital is unquestionably a key factor that determines Foreign Direct Investment (FDI) in today's global economy. In particular, there is strong evidence demonstrating that expenditure in the pre-school years delivered the highest rate of return on human capital investment. On this point, members note, for example, that in an early intervention programme delivered by Oxfam, up to £19 was saved for every £1 spent. The Committee also acknowledges the endorsement of early intervention programmes in the evidence from the economists Dr Esmond Birnie and Dr Graham Brownlow, with the latter explaining that such programmes are both equitable and efficient. For these reasons, concern was raised in the Committee about statistics which suggested that the Sure Start programme in NI was inadequately funded. The Committee notes that the figures detailed in the submission from the Northern Ireland Childminders Association (NICMA) show that only £80 per child was spent each year on children through the Sure Start programme in NI, compared to an average of £600 per child each year in England. The Committee was also made aware, that the delivery of effective children's services was reliant on the quality of staff. The Committee was therefore concerned to learn from the research that recruiting high quality staff was a general problem across the UK due to the absence of the study of social pedagogy in third level institutions.

223. Arising from the research, the Committee examined a wide range of preventative spending case studies and believes that many of these demonstrate that there is real potential to make significant savings with effective preventative spending. Indeed, the Committee is conscious of the compelling results from a joint university study in Australia, (which was cited as being the largest and most rigorous evaluation ever undertaken) which provided analysis on the cost-effectiveness of 150 different health prevention strategies. The Committee also notes that the Health Committee believes that the 1.6% of the health budget that is currently allocated to the public health agenda is insufficient.

224. The Committee acknowledges the analysis of CBI which calculated that if re-offending rates were reduced by 10%, £40m could be saved per annum. In a research paper presented to the Committee from the Economic and Social Research Institute (ESRI) in Dublin, the Committee was informed that the Irish Government had adopted an early intervention strategy for those most at risk of becoming long-term unemployed. This paper outlined that previously people who were on the unemployment register would have been referred to the Public Employment Service only once they had been unemployed for a period of time and, whilst this seemed like a good idea, referring those most at risk of falling into long-term unemployment at the earliest opportunity was even more effective. In a submission from the Citizens Advice Bureau, the Committee was also informed that, for every £1 spent on services to promote benefit take-up, £8.50 was recovered in entitled benefits (which also act as a fiscal stimulus into the local economy because benefits are a component of AME).

225. The Committee notes from the Assembly research paper that there is a much greater incorporation of preventative spending into public service delivery in other countries such as Scandinavia and the Netherlands. Moreover, the Committee is aware that a number of schemes are currently being trialled and appraised by various local authorities across Britain. Members believe, therefore, that there is scope to use existing evidence and learn from international best practice.

226. The Committee is anxious to ensure that resources are allocated in the most cost-effective fashion, particularly during a time of economic hardship. Members are also mindful that, as a result of proposed budget allocations, voluntary organisations such as Home Start (an organisation that provides family support services) could collapse; and that a costly increase in demand for social services and a requirement to place more children into care – at a cost of £2,500 per person – would result.[44] For these reasons the Committee believes that the Executive needs to be careful not to make "penny wise, pound foolish" budget allocations. The Committee agrees that similar questions to those identified by NICVA, in its submission to the Committee, need to be addressed before decisions are made to cut services.

227. From its examination of this subject, the Committee is aware that, as a result of disjointed government, departments do not engage sufficiently in preventative spending, and that this is partly because preventative spending by one department often leads to savings in another. With respect to this point, the Committee also recognises that it is difficult to attribute specific outcomes to an individual department's preventative spending programmes. These problems of "silo" budgeting were also raised during the evidence sessions with Dr Esmond Birnie and with CBI. Dr Birnie asserted that a holistic cross-departmental approach to governance was necessary and that, in terms of the budget, he believed that it was necessary to calculate collectively how much across departments was directed at tackling specific outcomes.

228. The Committee notes from the Assembly research paper that some organisations expressed discontent that the government's central macroeconomic aim was to achieve economic growth often at the expense of other more accurate measures of prosperity. The Committee is conscious that the powers which have been devolved to NI give the government the ability to promote positive social outcomes but limit the government's ability to directly stimulate economic growth.[45] The Committee therefore recommends that the Executive evaluates the value of targeting other or alternative macroeconomic measures of prosperity alongside GDP growth.

229. The Committee believes it necessary to adequately measure and record social outcomes if alternative measures of prosperity are to be employed. In addition, to overall prosperity, the Committee believes it necessary to take greater account of the impact of departmental budget allocations and spending plans on desired outcomes. The Committee notes, however, that many organisations regarded the current tools used for measuring social outcomes as deficient. This was explained by the organisation WAVE who stated that, "policy evaluation tools restrict investment decisions being considered beyond their financial return and this means public services are led more by cost efficiencies, not by public benefit." The Committee therefore recommends that the Executive considers proposals, as outlined in the recent Assembly research paper on preventative spending, for the development of new indicators, more use of the Social Return on Investment (SROI) indicator and to measure outcomes with a greater use of longitudinal research. The Committee made a similar recommendation in its Report on the Inquiry into Public Procurement in Northern Ireland, when it called on DFP to put in place a suitable model for systematically measuring, evaluating and incorporating wider social value considerations within economic appraisals and business cases.

230. Also in a previous report, the Committee recommends that the Executive establishes a much more transparent system of measuring relationships between resource inputs and outcomes.[46] According to the Centre for Social Justice, outcomes ought to be treated differently to outputs.[47] Outcomes, they state, are the change in society that are determined by outputs which the government has operational control over. The Committee notes the analysis of Dr Graham Brownlow who recognised this issue and warned that public services ought to be careful not to chase "output" targets (such as education attainment, for example) and subsequently fail to adequately deliver an adequate holistic service. The Centre for Social Justice, however, asserts that measuring outcomes enable the government to determine where public spending delivers results and where it does not and therefore ensure that society does not

continue to pay for ineffective and inefficient programmes. Moreover, the Centre for Social Justice contends that there is too great a focus on achieving efficiencies through spending cuts rather than through greater effectiveness.

231. The Committee believes that the delivery of public services must become more effective if efficiencies are to be realised. For this reason, the Committee is very concerned that there is little evidence of plans in the draft Budget to do, "more with less." Indeed, the Committee is aware from the Assembly research that Action for Children found a weak relationship between how much a country spends and the resulting social outcomes. In his evidence, Dr Brownlow also highlighted that there were many public sector outputs (such as educational attainment, for example) that were divorced from resource inputs. A number of costless preventative spending suggestions were also noted by Committee.

232. In its evidence to the Committee, Barnados called for a much greater "Systems Thinking" approach in the public sector in order to improve its effectiveness. This and previous evidence to the Committee suggests that, with the same resources, there will always be scope for the Executive to engage in greater preventative intervention. Members also note that many organisations have also reported experiencing problems due to bureaucracy and information sharing problems when delivering programmes of preventative spending; an issue that was also raised in the evidence from Advice NI and from NICVA. Other witnesses identified the need for the Executive to collectively decide on plans to facilitate the development of more effective public services.

233. Also from the Assembly research, the Committee notes some possible means of financing preventative spending. Members were particularly interested in potentials created by the use of social impact bonds, which are a method of obtaining upfront private sector money in order to finance long term preventative spending programmes. The bonds subsequently then pay a return to investors based on social return of the initial investment. The Committee considers that the potential use of social impact bonds merits further investigation by DFP.

234. The Committee considers that there is a strong argument that current public spending patterns are inefficient over medium-to-long-term timeframes. Whilst acknowledging that there are indisputable barriers to a "preventative spending" approach, members believe that, with strong leadership and steadfast vision, such barriers can be overcome. As such, the Committee recommends that the Executive signals its intention in the final draft Budget 2011-15 to establish a cross-departmental taskforce which will:

- evaluate existing preventative spending initiatives across the public and voluntary sectors in NI, including their budgetary positions;
- develop proposals for strategic preventative spending programmes, that are informed by international lessons, and which could be introduced during the period covered by the Budget; and
- identify possible means of financing the proposed programmes as necessary (including, for example, through the additional revenue-raising measures being considered, social impact bonds, additional efficiency gains from relevant departmental budgets, development of pooled budgets, prioritisation in monitoring round allocations).

235. From the Assembly research, the Committee notes that much of the evidence considered and resultant recommendations arising from the recent inquiry into preventative spending by the Scottish Parliament's Finance Committee are also applicable to NI. As such, the Committee suggests that the proposed cross-departmental taskforce also takes account of the work of the Scottish Parliament's Finance Committee into preventative spending, the recommendations from which highlight, for example, the need to:

- develop a clear definition of what counts as "Preventative Spending;"
- assess how to embed the concept of preventative spending much more widely within the public sector; and
- investigate how the mutual relationship between central government and local councils could be improved in terms of early intervention strategies.

Economic Levers

Rebalancing the Economy

236. The Committee is aware that the Executive's plans to employ a range of economic levers as part of a new Economic Strategy for NI. The Committee welcomes the publication of the consultation document by DETI on the Priorities for Sustainable Growth and Prosperity and looks forward to the publication of the Westminster Government's forthcoming report on rebalancing the NI economy.

237. It is widely understood that the NI economy is overly reliant on the public sector. This was highlighted in an Executive sub-committee presentation which detailed that:

- Public expenditure in NI accounts for 63% of output compared to 39% in GB;
- Public sector output in NI accounts for 26% of total output compared to 18% in GB; and
- Public sector jobs account for 36% of all jobs compared to 28% in GB.

As a result of such a large public sector, GVA per capita in NI has historically remained depressed at approximately 80% of the UK average. In this regard, the Committee notes the view of Victor Hewitt who asserted that the low cost economic model upon which NI has traditionally relied is increasingly becoming unfit for purpose. This point was reflected in the recent DETI consultation paper, which outlined the need to rebalance the economy towards higher value added private sector activity.

238. The Committee welcomes the Executive's plan to utilise a number of levers to promote broad based export-led economic activity. Members note the view of Victor Hewitt who stressed that there was a need to promote job growth using the tools available to Invest NI. More recently, a coalition of local businesses released a job creation manifesto which outlined the private sector's aspiration going forward to generate 94,000 new jobs. However, the Committee has also noted that concerns have been raised by both CBI and CETI that cuts to Invest NI's budget will seriously constrain its ability to harness new business activity and support otherwise worthwhile business projects. In its submission, the Committee for Employment and Learning asserted that reductions in that Department's budget will have, "a disproportionately negative impact on our economy's performance and capacity than reductions made to the budgets of the majority of other Departments." With respect to this, CBI has also questioned the wisdom of the proposed abolition of the over-25 apprenticeship programme and the proposed cuts to innovation and research (including PhDs).

239. During the course of the evidence gathering for this Report, the Committee considered are range of specific issues relevant to the drive to rebalance the local economy. Given the linkage of these issues to the wider budgetary considerations, the Committee has taken the opportunity to record its deliberations on these matters in the following sections.

Corporation Tax

240. The case for a reduced rate of corporation tax in NI has been on the mind of the Committee since the start of this mandate. In its submission to the Varney Review in July 2007, the Committee concluded both that "the case has already been well made and that compelling empirical evidence exists as to how a lower corporation tax would increase FDI and improve productivity in NI" and that "the issue now is whether the political will exists within the UK Government to recognise the unique circumstances in NI and acknowledge that its 'one size fits all' approach for the UK is inappropriate for the NI economy". However, the Varney Review of Tax Policy in NI (2007) subsequently concluded that "a clear and unambiguous case for a 12.5% rate of corporation tax cannot be made".

241. The Committee revisited the matter again in March 2010, following the publication of the NI Economic Reform Group report on The Case for a Reduced Rate of Corporation Tax in Northern Ireland. Representatives of the Group briefed the Committee, highlighting the recent Azores Judgement of the European Court of Justice, which allows member states to establish internal regional tax rates provided certain conditions are met, as removing one of the obstacles currently standing in the way of a reduced rate for NI.

242. The Economic Reform Group has advocated a number of potential benefits which would accrue from a reduction in the rate of corporation tax, including increased employment that would lead to increased revenues from income tax and national insurance contributions, alongside a reduction in the number of long-term unemployed. Following this representation, the Chairperson, on behalf of the Committee, wrote to the Minister of Finance and Personnel, proposing that the Executive, or an appropriate Executive sub-group, should meet urgently with the Economic Reform Group to discuss the proposals contained in its report. In his response, the Minister advised of his very real concerns about the reduction in the NI Block Grant which would be incurred to compensate for any loss in corporation tax revenue; and the potential any request for regional tax varying powers could trigger a comprehensive review of funding mechanisms for devolved administrations. He also advised that, as Finance Minister, he did not see merit in engaging further at that point in time.

243. Given the cross-cutting nature of the matter, the Committee also tabled the following joint motion with CETI: "that this Assembly notes the report from the Northern Ireland Economic Reform Group on the case for a reduced rate of corporation tax in NI". Debated in plenary in May 2010, there was unanimous support by those MLAs present. The debate was timely, as shortly afterwards the new Westminster Government launched its Programme for Government with a commitment to "producing a government paper examining potential mechanisms for changing the corporation tax rate in Northern Ireland".

244. Many of the witnesses appearing before the Committee, as it has gathered evidence to inform its views on the draft Budget, have addressed the matter of corporation tax. This has ranged from those who are overtly enthusiastic about the potential to reduce the rate to those who urge a more cautious approach.

245. During its evidence, CBI told the Committee that:

"instead of becoming a low-cost economy...we have to become an income-driven economy. There is no doubt that varying the rate of corporation tax can enable us to do that... There is no doubt in the mind of the Business Alliance that varying the rate of corporation tax is the single most important lever that we could put into the hands of government here to create real growth in real jobs to create real wealth for all the people in NI. You can argue about whether it is a silver bullet but I have no doubt whatsoever that varying the corporation tax rate is the single most significant tool that can be used to create growth".

The need to move away from promoting NI as a low-cost economy was echoed by Victor Hewitt, a long-standing advocate of a lower rate of corporation tax. He told the Committee that, rather than focusing on NI as a low-cost place to do business, the emphasis should shift to promoting NI as a business centre.

246. Those approaching the issue more cautiously, like John Simpson, acknowledged that reducing the rate of corporation tax was only a "game changer" if combined with other measures to help strengthen the economy. Dr Esmond Birnie similarly advised the Committee that the position of PwC is that:

"we do not believe that a reduction in the headline rate would be a panacea or silver bullet that would simply resolve everything overnight and result in the kind of performance in respect of Foreign Direct Investment that the Irish Republic enjoyed for many years".

247. However, a paper submitted to the Committee by PwC in January 2011 entitled Corporation Tax: Game Changer or Game Over?[48] suggested that the Executive should consider "whether the power of fiscal flexibility itself would be of greater value in rebalancing the economy than a simple cut in Corporation Tax where the likely benefit is unproven".

248. Members are aware that the NI Affairs Committee at Westminster is currently undertaking its own Inquiry into a Reduced Rate of Corporation Tax for NI and await the outcome with interest. The Committee also notes that the Executive has now received a copy of the Westminster Government's draft paper on rebalancing the NI economy, which includes a consideration of the process by which the rate of corporation tax can be reduced locally and the potential implications.

249. Recent correspondence from the Minister (dated 8 February 2011) highlights his continued reticence in pursuing a reduced rate of corporation tax, suggesting that the "estimated costs are very high and perhaps prohibitive". The Committee commends the Minister for continuing to engage with this issue despite his reservations and agrees with his assessment that "this is one of the most important decisions we will have to take... it involves extending our devolved powers, it is fundamental for the economy and the potential impact on the block is enormous".

250. The potential cost of corporation tax has been emphasised to the Committee in a written submission from the Northern Ireland Research Team , Poverty and Social Exclusion in the UK Project (PSE UK), based at QUB. It argues that: "even if the EU hurdles can be overcome, a Corporation Tax rate of 12.5 per cent for N Ireland would appear to be a poor use of £280million per annum. In the short-term jobs would be lost and there is no certainty of job creation". PSE UK goes on to reiterate the point made by PwC that, should tax varying powers be devolved to NI, "better strategic use can be made of such a resource in growing the type of private sector activity which will be of long term benefit to N Ireland".

251. Regarding the potential costs, members were interested in hearing the comments made by the Minister during oral evidence on 9 February 2011. He explained that there was still work to be done in clarifying the potential costs to the block grant, and also emphasised the need to work collaboratively with the EU on what could be offset against those costs within the remit of the Azores judgement, the focus being on reducing to the absolute minimum the bill to NI. He also advised members that, even allowing for the devolution of the necessary powers to NI within the next year, it is unlikely that the initial costs of introducing a lower rate of corporation tax would begin to be incurred in the 2011-15 budget period, as FDI companies plan their investments on a minimum two-year horizon. Additionally, the Minister pointed out that, in the meantime, the devolution of the power could, in itself, act as an incentive to potential FDI companies.

252. Like most commentators, the Committee recognises that a competitive rate of corporation tax, on its own, would not provide the "silver bullet" for the local economy and members would support the Executive in taking a multi-faceted approach to economic growth and, in particular, to increasing opportunities for Foreign Direct Investment. However, the Committee encourages the ongoing collaborative efforts to verify the costs and address the barriers associated with introducing a competitive rate of corporation tax in NI, which would undoubtedly provide an important tool for incentivising FDI investment. Moreover, the Committee believes that the Finance Minister and his Executive colleagues should do all within their power to avail of the present opportunity to finally resolve this issue; especially given:

- the apparent receptiveness on the part of the new Westminster Government on the matter, in terms of its proposals to rebalance the economy;
- the fact that the devolution of the power could, in itself, act as an incentive to potential FDI companies; and
- that a phased approach could be taken to the Executive's subsequent exercise of the power and to incurring the associated costs, which would not necessarily take place during the upcoming budget period.

Prompt Payment of Government Invoices

253. The Committee has long been concerned about the opportunities available for local SMEs to do business with central and local government, as was evidenced by its recent inquiry into public procurement. Members therefore welcomed the introduction, in November 2008, of the 10-day payment target for government invoices, announced by then Finance Minister, Nigel Dodds; an initiative mirrored on developments in GB and designed to help local businesses through difficult times.

254. Correspondence from a member of the public drew the Committee's attention to the fact that Scottish Government departments have been outperforming the NICS on meeting the 10-day payment target. The Committee also noted that the Whitehall Department of Business, Innovation and Skills had introduced a 5-day prompt payment target.

255. The Committee has sought regular updates from DFP on the performance of government departments in meeting the 10-day prompt payment target for invoices paid through Account NI, the shared service introduced to improve financial management across the NICS. During questioning of departmental officials, members have learnt that extra investment has contributed to a significant improvement in the performance of departments in meeting the 10-day payment target (up from 57% to 82% since the last financial year). However, the Committee is concerned that this investment is not sustainable in the long-term given other budgetary pressures.

256. Through regular monitoring members have noted that it has been difficult for many departments to meet the 10-day payment target, and that it is particularly challenging for those departments operating mostly through ALBs. This is evident in the answer to a recent Assembly Question, when the Minister of Culture, Arts and Leisure indicated that the Ulster-Scots Agency has a target time of 30 days for the processing of invoices from suppliers relating to the payment of goods and services[49]. It echoes the comments of CEF which told the Committee:

"The Finance Minister requested that final bills be paid within 10 days. However, we have heard that is not happening across the board. Of course, as with all these things, it tends to get a bit muddy and a bit grey when it comes to the arm's-length bodies".

257. The Committee's attention was also drawn to the Late Payment of Commercial Debts (Interest) Act 1998 and the Late Payment of Commercial Debts Regulations 2002, which

stipulates the 30-day statutory payment period, and outlines the implications of failing to meet this target. Correspondence with DFP brought to light the fact that, out of ten departments that had responded to a request for information, seven had paid late interest charges during the previous three years. However, during that time, the number of late interest payment charges had decreased: 2007-08 – 94; 2008-09 – 73; and 2009-10 – 64. DFP advised that the total late payment charges incurred by the departments during that time was approximately £67k and that the majority of these late payment charges related to ALBs.

258. During evidence from DFP officials on 20 October 2010, members were informed that Account NI operating systems had originally been designed to meet the statutory 30-day target for supplier payment terms, and that it would not be economically viable to invest in Account NI to the extent that would allow the 10-day target to be met. Departmental officials also advised members that the ability to meet the 10-day target was to some extent reliant on the input of individual departments. Consequently, it has been indicated that the Department would be in favour of reverting back to the 30-day payment target. Such a scenario was discussed by DFP officials when they gave evidence to the Committee on the Department's own draft spending and savings plans on 26 January 2011. They advised that moving away from the 10-day prompt payment target was one of the actions considered when developing the Department's proposals.

259. The Committee is also aware of situations where main contractors are not passing on the benefits of prompt payment to their subcontractors. CETI wrote to the Committee to advise that "although contractors working on Department for Social Development contracts are paid within 10 days there is evidence that many contractors are not paying sub-contractors properly".

260. The Committee Stage of the Construction Contracts Bill provided members with the opportunity to question DFP officials on measures that are in place to ensure prompt payment of subcontractors. Members received assurances from DFP in this regard and welcomed measures that are being introduced with the Construction Industry Forum (CIF), through a revised code of practice for government construction clients and their supply chains, which includes a fair payment charter. The Committee hopes to have an opportunity to examine this matter further before the end of the mandate and will, in any event, wish to recommend that its successor committee continues to monitor this closely.

261. The Committee recommends that, whilst departments and their ALBs should continue to strive to meet the 10-day prompt payment target, particular focus should be placed on achieving payment within the 30-day statutory payment period. In terms of meeting the statutory payment period, the Committee seeks further assurance that the risk of potential unforeseen costs of late payments is being minimised. Members continue to be concerned that the benefits of any success by public bodies in meeting prompt payment targets is not filtering down to local SMEs, particularly those in the construction industry, placed further down the public procurement supply chain. In this regard, the Committee welcomes the introduction of the Fair Payment Charter and recommends that DFP evaluates the scheme on a six-monthly basis to establish its effectiveness and identify any areas for improvement, and to report the outcome of this evaluation to the Committee.

Banking Issues

262. Throughout the mandate the Committee has been concerned about the impact of the economic downturn on local businesses and consumers, particularly regarding the activities of the local banking sector. Whilst mindful that the regulation of banking and financial services is a reserved matter, members wanted to raise issues highlighted to them by the local business community with the banking sector. In 2009, the Committee held four separate evidence sessions with local banks and mortgage lenders to highlight the difficulties being faced by local

businesses in accessing credit and lending facilities; and by local consumers, particularly in relation to the housing market.

263. Members also heard from the Institute of Directors (IoD) which surveyed NI businesses on accessing finance from local banks. The IoD began its bank lending survey in April 2009 after it became apparent that there was no empirical evidence to back up anecdotal reports on how the economic downturn was affecting local businesses and to identify the issues that needed to be addressed.

264. The IoD repeated its survey on two more occasions, in September 2009 and March 2010, highlighting the difficulties small businesses were facing in accessing short-term liquidity. Repeatedly, the IoD found that, over the period in question, there was an increase in the number of business requests for finance being declined across all products, with extensions to existing facilities and requests for new facilities showing the highest rates of decline. Further frustrations identified centred on the length of time taken to get a decision; increased levels of bureaucracy; and a lack of local decision making. Also, 40% of respondents reported an increase in charges, while 27% had been asked to provide personal guarantees. Whilst recognising that the IoD survey had a relatively small sample size and there is a possibility of bias, in that businesses may have been more likely to respond if they had been declined credit, the Committee believes that the results reflect much of the anecdotal evidence relayed to members by their constituents.

265. The issue was highlighted again by the leaders of the four main churches in NI (Catholic Church, Church of Ireland, Methodist Church and Presbyterian Church) when, in June 2010, they issued a statement calling on local banks to adopt a more sympathetic and positive approach when dealing with businesses. Following consideration of the church leaders' statement, members agreed, at their meeting on 8 September 2010, to make a proposal to CETI to hold a concurrent meeting on banking issues.

266. The meeting of the two committees, which took place on 22 September 2010, included evidence sessions with the Church leaders; local banking representatives and there was also an opportunity to receive an update from the IoD on the outcome of its local business surveys. The Church leaders drew members' attention to a key change in local banking practice when they explained that:

"Unfortunately the culture of banking is that big decisions tend to be pushed further up the line to committees that nobody knows or meets. Banks have ceased to be part of the communities and small, provincial towns in which they function".

These evidence sessions also highlighted the slow up take of government supported financial assistance initiatives and that local business owners were increasingly being asked to put up personal guarantees against loans.

267. The two committees invited the British Bankers' Association (BBA) to give evidence at a further concurrent meeting, which took place on 17 November 2010. Members questioned BBA on the outcome of its recent Business Taskforce and how its proposals might be implemented in NI. Subsequent correspondence from the Finance Minister has confirmed that both he and BBA are actively pursuing a way forward. An agreement has also been reached with BBA to ensure that it will now provide NI specific lending data on SMEs and that this will be reported on a quarterly basis. The Executive also co-ordinates the Cross-Sector Advisory Forum's Banking Sub-Group, which has been established to ensure that the local banking sector meets the needs of businesses and consumers here.

268. In November 2010, the Archbishop of Armagh, the Most Reverend Alan Harper, wrote to CFP and to CETI to update members on the outcome of its ten-month consultation with businessmen, business organisations, trade unions and individual parishioners. The conclusions of the group included:

- supporting the creation of a Credit Review Office, similar in nature to that which exists in RoI. (Its objective is to determine if the Allied Irish Bank and Bank of Ireland in particular are achieving the objectives set for each of them to make €3bn of new lending over the next two years);
- within NI, such a Credit Review Office might report to the Assembly and have the legal power to select and examine lending cases from any bank operating here, with a view to reporting on whether declined borrowers can demonstrate that their business is viable as a going concern and has cash generation capability to service its debts; and
- new lending must work on the principle of sustaining and, further, achieving a new uplift in lending into the local SME private business sector. This would assist government in achieving its targets for private sector growth.

269. The Archbishop advised the Committee that, at the time of his correspondence, the group was still waiting to hear from three of the banks about the issues it had raised with them. He went to say that the group will continue to monitor and collate evidence and make that further information available to members.

270. The Committee subsequently wrote to DFP inviting views on these recommendations and the response from DETI on the same matter, which had been copied to CETI. DFP advised that, as banking regulation is a reserved matter, the Assembly does not have the power to call the banks to account in the manner suggested (i.e. through a Credit Review Office). However, it did note that one of the BBA Taskforce recommendations is to establish a transparent appeals process and DFP officials have discussed this with colleagues in HMT and the Whitehall Department of Business, Innovation and Skills. The Committee notes DFP's understanding that the need for such a process is recognised by all.

271. The Committee recognises that a restoration of bank lending to sensible levels is a necessary pre-requisite for economic recovery. Members support the Finance Minister and his Executive colleagues in encouraging the take-up of Government sponsored finance schemes. The Committee also welcomes the continued engagement by the Finance Minister and his officials with BBA, IoD and local banking representatives on the implementation of the BBA Taskforce recommendations. The Committee recommends that the Department continues to actively monitor the relationship between the local banking sector and small businesses and welcomes the agreement that BBA will report quarterly on local lending figures. Members also support the Minister in engaging with the Whitehall Minister for Business, Industry and Skills on the development of a transparent appeals process. In addition, the Committee will be identifying these banking issues in its legacy report for the successor committee to pursue in the next mandate.

National Assets Management Agency

272. Since its proposed creation, the Committee has kept a watching brief on developments relating to the National Assets Management Agency (NAMA) in RoI, particularly with regard to the potential implications for the NI economy given the quantum of NI assets held by the agency. In October 2009, the Chairperson wrote to the Finance Minister seeking assurance that there would be a NI representative on the NAMA Board. The Committee was therefore pleased to note the creation of a NAMA Northern Ireland Advisory Committee.

273. During an evidence session with DFP officials on 2 February 2011, members sought assurance that there will not be a "fire sale" of assets and also that there would be consultation before any action is taken. Arising from this evidence session, the Committee awaits a response from DFP on the level of engagement between the Minister and his RoI counterpart on this issue and on the likely timescales for the disposal of NI assets by NAMA.

274. The Committee welcomes the establishment of the NAMA NI Advisory Committee and supports the Finance Minister in his ongoing engagement with his Irish Government counterpart on this issue. Members caution against a "fire sale" by NAMA of its assets in NI and seek assurance that the Finance Minister will do all in his power to prevent this from happening.

Industrial Derating

275. The Committee examined the issue of industrial derating within the wider context of the draft Budget 2008-11. At that time, the Committee considered "that the policy is an outdated and blunt instrument in terms of promoting economic development and sustainability in the longer term". However, in recognising that any substantial modifications to the scheme would run the risk of contravening EU State Aid rules, the Committee supported the retention of manufacturing rates at 30% liability at that time. In doing so, however, it requested that consideration be given to whether modifications could be made to encourage activity that would lead to higher productivity (e.g. research and development, export marketing) or to the establishment of a concordat between industry and government as suggested in the Economic Research Institute of Northern Ireland's (ERINI) Review of Industrial Derating Policy[50].

276. As part of its evidence gathering in advance of the publication of the draft Budget 2011-15, the Committee first considered the Finance Minister's proposal to maintain industrial rates at 30% liability throughout the four-year budget period on 6 October 2010, with a subsequent evidence session being held on 3 November 2010. The Committee heard that the Minister was keen to retain the measure as he believed that, to do otherwise in the current economic climate, could have an adverse effect on the manufacturing sector.

277. The Committee maintains the view that this is a blunt instrument that does not encourage change in the sector, and is disappointed that a feasible alternative has not yet been brought forward despite the time that has passed since the Assembly agreed to extend the measure within the 2008-11 Budget. Members note that some work was undertaken by the Northern Ireland Manufacturing Focus Group (NIMFG), together with the trade union Amicus, on a proposed levy for Skills, Training and Reinvestment (STAR), whereby a proportion of the savings to manufacturing businesses through holding rates liability at 30% would be reinvested in skills, training and research for the sector, although this was abandoned in 2007.

278. While accepting that there is no capacity within existing legislation to place an onus on businesses to provide a return on industrial derating, nonetheless, the Committee considers that there is a case for reinvesting the savings gained by manufacturing businesses through industrial derating, as far as would be permissible within EU State Aid rules. As such, the Committee renews its request that DFP undertakes further detailed work in relation to the proposed "STAR scheme", in conjunction with DEL and DETI as appropriate. Members would wish to see any potential outcome from this type of scheme begun to be realised in the period covered by the draft Budget.

279. The Committee does not consider that industrial derating is the most effective measure for providing support to the manufacturing sector. Nonetheless, it agrees with the Minister that to remove the measure in the current economic climate may have a destabilising effect on the sector, and for that reason supports the proposal to maintain liability at 30%. However, the Committee would also recommend that DFP does not wait until the end of the four-year budget

period to consider an alternative to industrial derating, and indeed that the cap at 30% should also be evaluated and amended as appropriate within this period.

Green New Deal

280. The Green New Deal Group is comprised of members from the private, voluntary, public, trade union and charity sectors. Members note that the Green New Deal Housing Fund Business Plan Summary (Nov 2010) states that

"The proposal is a simple one: investing in an ambitious programme to cut consumption of fossil fuels can create thousands of new jobs; help secure our energy supply; and build a competitive low-carbon economy".[51]

It proposes that, of £253m required for investment in 100,000 homes, £72m will be sought from Government in terms of grant support for householders, and the remaining £181m will be leveraged in from the private sector.

281. The Green New Deal was viewed favourably by a number of witnesses as a stimulus for the economy. Mike Smyth told the Committee that "research shows that the most effective way of creating and maintaining employment at present is retro-fitting houses". CEF pointed out that there are in excess of 13,000 workers on the unemployment list , a "massive supply of skilled and unskilled people who are ready to go". Funding could be redirected quickly by the Construction Industry Training Board to train people as necessary, were the Green New Deal to be taken forward. As well as dealing with unemployment in the construction sector, Dr Birnie pointed out that it will improve the capital housing stock and help reduce fuel poverty and, as such, is should therefore be given serious consideration despite the challenge to be faced in finding the upfront costs. Similarly, Neil Gibson considered the scheme a good idea, but, as alluded to earlier, he went on to suggest that the tax system could also be used more aggressively to incentivise behaviour; for example, less rates would be payable as the energy efficiency of a house improved.

282. The Committee is aware that, on 5 October 2010, the Assembly agreed the following motion after a plenary debate on this issue:

That this Assembly notes the benefits that can be achieved through implementing the green new deal in Northern Ireland; supports the need for improved energy efficiency to reduce fuel use and meet European Union and United Kingdom carbon emission targets; believes there is a real opportunity to create 30,000 sustainable green collar jobs; and calls on the Executive to implement a cross-departmental strategy to ensure that the potential benefits of the green economy are realised for Northern Ireland.[52]

283. In the draft Budget 2011-15, the NI Executive states that it considers that "Green New Deal is an ambitious investment programme which will leverage in significant amounts of private sector funding to deliver energy efficiency measures creating several thousand jobs over a three year period", and as such has agreed to engage "in principle". In response to questions on the draft Budget on 15 December, the Minister advised that DFP is considering a business case outlining how funding will be used, potential jobs that will be created, estimated savings and private sector investment, and advised that "for every pound that we spend...about £2 or £3 will come in from the private sector. So, it is good value from that point of view".

284. It is proposed that £4m is allocated to the programme per annum, which will be supplemented by revenue generated over the budget period. In their overview of the draft Budget, NICVA stated that "it is worth stressing that the sums of money being committed from

the Executive (£4m annually) are very small indeed".[53] The Minister confirmed that it is expected £72m of public money will be used during the longer term.

285. During evidence to the Committee, DFP officials clarified that the Executive was not expected to provide its complete investment upfront, and that the initiative will be phased in over several years. The £4m allocated is to "establish the floor in order to take the initiative forward". In view of the benefits to the economy, the potential for boosting employment and the longer-term benefits in respect of improved housing stock and energy conservation, members welcome the Executive's agreement "in principle" to engage in the Green New Deal initiative. The Committee considers, however, that details of how funding will be increased throughout the Budget period must be set out as soon as possible.

Independent/External Economic Advice

286. In his oral evidence to the Committee, Dr Brownlow noted that a culture of engagement between economists in the public sector and those in the private and academic sectors, which is apparent in other jurisdictions, does not exist in NI. Similar concerns about the lack of a mechanism to give or receive advice were also raised by a number of other economists in their evidence.

287. In response to concerns raised, DFP conceded that there is no formal NICS mechanism or forum for engaging with independent or external economists. DFP contends, however, that departmental officials liaise with external economists in a number of ways, such as participation in the Invest NI Economic Forum, meetings with members of the NI Economic Reform Group, the establishment of an Economic Advisory Group by the ETI Minister, which included two independent economists, and engagement at various conferences. The Department also sounded a note of caution that many external economists are employed by consultancy firms or banks, and therefore cannot be considered to be fully independent. Additionally, costs associated with obtaining economic advice from such sources could be significant.

288. Both Dr Brownlow and John Simpson expressed their disappointment with DFP's response to the issues that had been raised regarding such engagement. Dr Brownlow reiterated his concern that no formal mechanism exists with academic economists at either of NI's universities. John Simpson noted that, despite his personal efforts, he has not had access to the various consultative functions mentioned by DFP. Members are also mindful of the recent decision to withdraw OFMDFM funding for ERINI, which will result in the Executive having no publicly funded central source of independent economic advice, similar to that which exists in other jurisdictions (e.g. Economic and Social Research Institute in Dublin).

289. The Committee is disappointed at the seemingly ad hoc arrangements for engagement between economists in the public sector and those in the private and academic sectors in NI. Members are keen that measures are put in place to counteract a silo mentality towards budgetary/economic issues and policy making, and to ensure a healthy exchange between politicians, civil servants, academics and private sector parties. As such, the Committee calls on the Finance Minister to work with his Executive colleagues to bring forward options on establishing a formal mechanism for facilitating engagement between local economists, that would harness the talents of the various sectors, and which could also offer a central source of independent/external economic advice to the Executive.

Part 2 – Committee Responses to Departmental Positions

290. Though not specifically requested by DFP in this instance, CFP has, despite the exceedingly tight timeframe available, followed the convention of co-ordinating the views of the other relevant Assembly committees on the proposed budget allocations for their respective departments. As alluded to earlier, seven of the other eleven statutory committees have reported some level of dissatisfaction with the time or information available to fulfil their scrutiny functions in this regard. Arising from this, four have indicated that their submissions should be regarded as interim and that they intend to continue to examine information as it is made available by their departments.

291. Submissions have also been received from the Audit Committee and from the Assembly Commission in respect of the allocations being proposed in the Executive's draft Budget 2011-15 for the NIAO and the NI Assembly respectively.

292. In terms of the proposed budgetary allocations between departments, the Committee for Finance and Personnel recommends that, in finalising the draft Budget 2010-11, the Finance Minister and the wider Executive take on board the conclusions and recommendations contained in the separate submissions from each of the Assembly committees, which have been included in this report. The Committee expects that the Finance Minister will take responsibility for ensuring that this Report is therefore brought to the Executive's attention before the draft Budget 2011-15 is finalised and considered by the Assembly. Members would also expect that the Finance Minister will outline the Executive's response to the Report when presenting the revised draft Budget 2011-15 to the Assembly.

Executive Departments

Agriculture and Rural Development

293. The Committee for Agriculture and Rural Development (the Committee) welcomes the opportunity to provide its comments to CFP in respect of its inquiry into the Budget Scrutiny process.

294. The Committee again noted the insufficient time available to it to undertake detailed scrutiny of the proposed budget, resulting in an inappropriate level of consultation with industry stakeholders. This has been an ongoing difficulty throughout this mandate and is an area the Committee would wish to see improvement on in the next mandate.

295. The Committee is disappointed that the savings will result in the loss of 80 posts within the Department and has received guarantees that this saving will be achieved without the need for redundancies. However, the Committee has requested additional information on the specific areas that these posts will be lost to ensure that frontline services are not depleted.

296. The Committee is disappointed at the absence of detail in the proposed plan. The Committee is concerned at the number of aspirational savings identified, such as reliance on the reduction of levels of animal diseases, particularly given the Department has not achieved its targets in respect of these areas within the current CSR. The Committee would be concerned, therefore, that other (as yet undeclared) savings would have to be brought into effect if the proposed reductions in animal diseases are not realised. This could, potentially, have a more serious impact on the delivery of frontline services to the industry and rural communities.

297. Whilst the Committee does not disagree with the principle of dispersing civil service offices outside of Greater Belfast, the Committee is concerned at the timing and the cost of the proposed relocation of the Department's headquarters. The Committee agreed that it was not appropriate given the fiscal constraints facing the economy and noted that the overall capital

cost of the relocation was estimated to be £26m which was to be split across the next two CSR periods. The Department has not been able to provide an economic appraisal indicating how this figure has been arrived at and what other ancillary costs are expected, such as the relocation costs of up to 1,000 officials.

298. The Committee believed that this was not the time to be testing "the viability of placing a departmental HQ at a location outside the Greater Belfast area", as indicated in the Minister's statement.

299. The Committee also sought assurances that the national contributions to the Northern Ireland Rural Development Programme, co-funded with the European Union, would be protected. The Committee has previously expressed grave concerns at the lack of progress of this programme, in particular with regards to Axis 3, and believes that it is imperative that these funds continue to be made available and dispersed within the rural community.

300. The Committee welcomes the Department's commitment towards the Countryside Management Scheme as this is an important and well-supported programme, but is disappointed that the Department will fall short of their PfG target of land covered by agri-environment agreements.

301. The Committee would again thank CFP for the opportunity to provide comments in respect of the budget and its processes.

Culture, Arts and Leisure

Background

302. The Committee for Culture, Arts and Leisure (the Committee) considered draft spending and saving proposals in September and October 2010. The Committee was briefed by DCAL officials on 2 September 2010 on a planning scenario, in which savings were broadly speaking, allocated across the Department and its arm's-length bodies (ALBs) on a pro rata basis. The Committee also took evidence from a number of ALBs and the Northern Ireland Council for Voluntary Action (NICVA) seeking views on how DCAL's planning scenario would impact on the strategic priorities and work of their respective ALBs. The following ALBs provided written and oral evidence:

- Arts Council for Northern Ireland (ACNI)
- Sport NI
- National Museums for Ireland
- Museums Council for Ireland
- Libraries NI

303. The Committee subsequently wrote to all of DCAL's ALBs seeking their views on the draft Budget 2011-15: Spending and Saving Proposals within the Department of Culture, Arts and Leisure. The submissions, from all nine ALBs were considered on 13 January 2011. The Committee was also briefed by DCAL officials on 13 January 2011.

304. The Savings Plans were subsequently published on the DCAL website on Friday 14 January 2011 and considered by members at the Committee meeting on 20 January 2011.

305. The Committee also took evidence on 20 January 2011 from the Northern Ireland Theatre Association (NITA) with regard to the impact of the proposed cuts to their members and from ICTU Northern Ireland Office in respect of the proposed cuts to the arts budget.

Summary of Key Findings

306. The Committee notes that the draft Budget provides DCAL with current expenditure baselines of £112.5m/£113m/£110m/£103m. However this includes Invest to Save of £1m/£7m/£5m in years 1, 2 and 3, which will be transferred to capital in due course. Therefore the real savings that DCAL state they must make are £1.8m/£7.1m/£8.3m/£10.3m.

307. The current expenditure baseline falls by 9% by 2014-15 and in real terms, i.e. taking account of anticipated levels of inflation, by almost 18%.

308. The Committee notes that the proposed allocations for capital investment over the four years amounts to a capital allocation of £141.72m but that this represents a small proportion of the Executive's overall capital budget. DCAL officials informed the Committee that major projects with capital commitments such as the 50 metre pool and the Metropolitan Arts Centre (MAC) are scheduled to be completed. The project of developing regional stadiums has been granted capital security and work can now proceed. Certain library projects already underway will be completed including the roll out of the electronic libraries for Northern Ireland operating system (ELFNI) and the refurbishment of four mobile libraries.

309. The Committee was informed that restrictions on the capital budget will mean that the 2012 Elite Facilities Programme (with the exception of the 50m pool) will not go ahead. The refurbishment of Belfast Central Library with the NI regional library will also not be completed and museum projects in Omagh and Cultra will not go ahead.

310. DCAL officials informed the Committee that the draft budget proposes a new allocation for current spend which includes an additional £24m towards the Department's bids. DCAL states that this additional allocation has made it possible to provide some measure of protection for payroll heavy ALBs such as libraries and museums. It is also a part contribution to some of DCAL's bids including the World Policy and Fire Games.

311. DCAL explained that allocations have been informed first by the Minister's priorities, secondly, the extent to which programmes could be reduced and ramped up again in the future and thirdly, the existence of what DCAL regard as inescapable pressures around pay and costs.

312. The following sections will analyse the impact of the proposed cuts on DCAL and its ALBs. This analysis is based on written and oral evidence received by the Committee.

DCAL

313. DCAL accounts for 20% of the DCAL expenditure. The remaining 80% is allocated to its ALBs. DCAL anticipates losing 6.6% of its budget over the four years. This is in addition to 5% cuts year-on-year in administration (over the current CSR). The reduction to current expenditure over the four years is 4.19% or 9.92% in real terms.

314. The Department has stated that it has experienced a reduction in the number of staff over the past three years and a further reduction is expected through natural wastage or through redeployment to the NICS.

315. The Savings plan for the Department states that it will accrue savings of £3.72m from its saving measures. It will seek to minimise the impact on the services to the public by focusing its efficiencies on administrative areas and protecting frontline services delivered by the Public Record Office of NI and Fisheries (294 full time equivalent (FTE) of which more than half are in PRONI and Fisheries). The Department has embarked on an organisational review to align its priorities and identify opportunities to achieve further efficiencies.

Sport

316. The budget for Sport NI will be reduced by approximately 7% which equates to 12.64% in real terms. The draft resource requirement over the four years represents 28% of the resource requirement for implementing the Northern Ireland Strategy for Sport and Physical Recreation 2009-19 (hereafter Sport Matters). The draft SNI capital budget is £133m (including £110, for three stadiums). As previously noted, there is insufficient capital to meet the other major facilities bid for five of the six elite facilities to go ahead. Funding for the 50 metre pool will be met from the proposed capital budget.

317. DCAL has proposed that lottery funding will assist Sport NI in a number of projects due to the expected increase in the Lottery funds. Those funds allocated to London 2012 will be redirected following 2012.

ARTS and the Creative Sector

318. ACNI will lose 7.7% over the four years of the Budget from their baseline. This equates to 13.43% in real terms. ACNI argue that this is a 30% reduction of the DCAL baseline and is therefore disproportionate.

319. DCAL has stated that Lottery funding will provide some relief over the four years. However it is understood that the overall drop will lead to a reduction in the number of funded programmes despite this potential source of funding.

320. ACNI has predicted that cuts will inevitably hit frontline services which will result in job losses (circa 100 jobs), closure of organisations and a reduction in performances, among other things. ACNI is concerned that DCAL is relying on lottery funds to compensate for the reductions. It points out that it is a breach of lottery directions to substitute lottery funds for core running costs of organisations. Comparatively ACNI states that it is being asked to take a disproportionate cut in funding when compared to other regions such as Scotland and RoI.

321. In terms of capital, ACNI states that despite the slight increase in year 1 for the Lyric and the MAC, there are insufficient resources to fund this level of capital investment.

322. NI Screen will lose approximately 9.4% from its baseline by 2014-15 which equates to 15.08% in real terms. This will impact on whole activities, particularly with regard to outreach programmes. The reductions will also impact negatively on the international reputation of the local film industry.

Libraries

323. Libraries NI will lose 2.46% from its baseline across the four years or 9.92% in real terms. Libraries NI have stated it will have to find savings of £13.61m over the 4 year period (this takes account of inflationary pressures).

324. Libraries NI has indicated that the cuts will inevitably lead to the closure of around 10 libraries over the four year period (subject to a strategic review), a 15% to 20% reduction in opening times and the purchase of book stock will be greatly affected.

325. The savings plan estimates that there will be no compulsory redundancies as a result of closures as staff will be transferred to busier libraries. It also states that the EQIA is likely to identify impacts in respect of some libraries, e.g. usage by elderly and disabled people; a greater impact on areas of high levels of social deprivation and rural isolation. It will impact on good relations as a result of removing the some libraries as neutral venues in the community. It is hoped that a mitigating measure will be the provision of mobile libraries.

Museums

326. National Museums Northern Ireland has stated that the reduction in funding will have a major impact on staffing levels of around 25% (from 310 FTE to 234) and opening hours. It will also impact negatively in its ability to operate as a strategic partner in tourism and learning in NI. The low level of capital allocation will mean that the Council will not be able to proceed with much needed investment programmes at the Ulster American Folk Park and the Ulster Folk and Transport Museum.

327. Northern Ireland Museums Council's current expenditure baseline will reduce by 5.18% or 10.91% in real terms. The proposals for meeting these reductions include: a reduction in staff hours; a reduction in the amount of grant assistance to be provided to museums; the abolition of proactive programmes and developing income generating schemes. It lists a number of Section 75 groups that will be impacted negatively on the grounds of age, race and persons with or without a disability. The reductions will also impact on individuals or groups or areas suffering from social disadvantage. Finally reduction on grants to local museums will have a direct adverse impact in these areas. The Council intends to use its reserves to mitigate against the budget cuts.

North/South Bodies

328. The budget of N/S Bodies requires agreement with the Department of Community, Equality and Gaeltacht Affairs. The Department's proposal will reflect a drop of 15% over the four years. In 2014-15 it will be down by around 9% from 2011.

Armagh Observatory and Armagh Planetarium

329. The Department has spared these organisations from any major cuts due to their size. However both organisations have informed the Committee, that even relatively small cuts will impact on the maintenance of equipment which is critical to the operations of both organisations. It will also impact on education programmes.

330. The following section details the Committee's consideration of the draft Budget based on the evidence detailed above.

Committee Response to the key issues raised in relation to the Draft DCAL Budget 2011-15

331. The Committee is of the view that that public spending on culture, arts and leisure equates to the underspend of other government departments. Any savings from cuts to this area will

make a negligible difference to the overall NI budget but will have a disproportionate effect on creative industries, job creation, sports, culture and tourism.

Draft Capital allocations

332. The Committee has serious concerns about the proposed reduction to the capital budget and would urge for a greater degree of innovation and creative thinking in the delivery of capital projects by the Executive.

333. The Committee notes that the department has secured £142m of capital over the four years and acknowledges that this represents a small proportion of the Executive's overall capital budget. However, the Committee welcomes the capital commitments to major capital projects such as MAC and the roll out of the electronic libraries for Northern Ireland operating system (ELFNI).

334. However, the Committee calls for assurances that the revenue consequences of capital bids have been fully considered and that capital bids are sustainable.

Frontline Services

335. The Committee notes the impact the proposed savings will have on jobs within DCAL and its sponsored bodies. The Committee urges that full consideration is given to protecting frontline jobs that have the potential to create further employment in the culture, arts and leisure sector. This should take account of potential savings that could be made in management and administrative functions within DCAL and its ALBs.

336. The Committee notes that 20% of the DCAL budget is attributed to DCAL departmental administration and covers the cost of administering ALBs. The Committee notes that departmental administration of the Arts business area (7.01%) and Sports (11.61%) is relatively higher than other business areas within DCAL. Given that SportNI and ACNI are facing higher cuts than other business areas, the Committee would request that the current expenditure allocations are revisited to ensure a fair and equitable allocation across all business areas.

The ARTS and the Creative Sector

337. The Committee had previously expressed concern over the impact of budget cuts on the creative industries sector. The Committee welcomes the draft allocation to the Arts of a further investment of £4m in creative industries.

338. However, overall, the Committee regards the cuts to the Arts as disproportionate and a retrograde step to the local economy. Any proposed cuts should be fair and proportionate to the cut in the overall block grant to NI.

339. Investment in arts and cultural activities can stimulate economic growth. The Committee is concerned that the level of cuts proposed for the arts will diminish the contribution that the creative industries can make to the economy and the impact this will have on community arts projects. For example, Audiences NI reported that despite the recession, the number of households attending an arts event rose by 7% in 2009 which generated £16m.

340. The Committee is also concerned that substantial cuts to the arts sector will result in it becoming a "no go" area for new talent. Some critiques have referred to a "tipping point" in funding reductions, beyond which irreparable and long-term damage will be done to the culture and arts infrastructure.

341. The Committee concurs with the view expressed by ICTU that the Arts and Creative Industry is a high tech, highly skilled industry with added value that generates £582m annually to the NI economy. It also employs some 33,000 people. Furthermore the benefits of investment in the arts are felt across society, with 56% of ACNI's main grant programmes being made within the most deprived areas of NI.

342. The Committee notes with concern that NI still has the lowest arts spend per capita in UK, when compared to other parts of the UK and faces a larger proportion of cuts to its budget.

343. The Committee is of the view that public funding is essential to the survival of the arts; the pool of businesses here that could provide sponsorship is small and private investment is in decline. The Committee concurs with the view expressed by NITA that "cuts in public spending will undoubtedly hamper the possibility for Arts sponsorship".

344. The Committee notes that DCAL intends to use Lottery funding to provide some relief over the four years in the arts and sport. The Committee is concerned that the Lottery should not be used as a substitution, given that HMT rules prohibit the use of Lottery funds for core funding of organisations. The Committee notes that these concerns are shared by ACNI and NITA.

345. The Committee notes that ACNI and government have invested heavily in providing a dedicated arts facility within 20 miles of every person in NI. The Committee concurs with the view expressed by ICTU that these facilities enhance the cultural tourism offering and act as powerful symbols of regeneration of our towns and cities. To capitalise on this investment, adequate funding should be made available for running and programming costs.

346. The Committee is concerned that NI Screen will lose approximately 9.4% from its current expenditure baseline by 2014. This equates to 15.8% in real terms and represents a disproportionate cut to a relatively small budget of just over £1m per annum. The Committee is concerned that the proposed cuts will result in the cessation of funding for whole activities which will impact considerably on third party organisations. NI Screen has indicated that a number of small organisations and projects will cease which will potentially result in job losses. Furthermore the complete loss of the UK Film Council funding in 2010-11 (£200k) means that the overall cuts will be very severely front loaded. The planned reductions, effecting regional/outreach work, are likely to have a negative impact on reaching rural communities.

347. The Committee is also extremely concerned at the long term damage the cuts will have on the international reputation of the local film industry which was beginning to flourish and bring substantial spin-off opportunities to local businesses involved in set production and the wider film industry. In view of this the Committee calls for serious consideration to revising the proposed reductions to NI Screen's current expenditure baseline.

Libraries

348. The Committee acknowledges that the public library service, through its emphasis on reading and literacy, learning, information, heritage and culture, contributes not only to specific DCAL PSA targets, but to the wider PfG, including Education, Health and Social Inclusion.

349. The Committee acknowledges that Libraries NI has already delivered significant efficiencies since its establishment on 1 April 2009 (£600k in year 1 and £1.8m this year). The Committee also notes that the size of the budget cuts currently being projected will result in significant reductions in frontline services and potentially necessitate the closure of viable and well-used libraries. The Committee is extremely concerned that it will make it more difficult to provide an equitable service across NI, particularly in rural areas.

350. The Committee notes that libraries are recognised as neutral venues and play a key role in promoting equality, diversity, social inclusion and a shared future. Furthermore they are often targeted at sections of the community who are socially disadvantaged. The Committee urges that Phase 2 and Phase 3 of the Strategic Review of Libraries is regarded within this context and that resources and services are prioritised, within this review, to enable libraries to continue to support this important role. It is also critical that sufficient resources are in place to effectively carry out this review in a fair and equitable manner.

Museums

351. The Committee continues to acknowledge the important role museums play in terms of promoting cultural tourism, supporting tolerance and social inclusion. The Committee is of the view that museums should be afforded some protection to mitigate against the effect that deep cuts will have on our cultural heritage.

352. Cultural tourism is growing at a faster rate than any other tourism sector. For example, in 2009 39% of tourists attended a cultural event. The Committee therefore urges the Minister and the Executive to take a more joined-up approach to supporting and resourcing cultural tourism.

Participation in physical activity and sport

353. The Committee welcomes the draft Sport NI capital budget of £133m which will enable important projects such as the 50 metre pool and regional stadium development to progress. This is good news for Sport and the Committee acknowledges the long term benefits this will bring to the development of sport in this region.

354. The Committee expressed its support for DCAL's bid to support the World, Police and Fire Games, the largest of its kind in the world. This major event represents an enormous opportunity in terms of boosting the local economy and promoting NI on the world stage. The Committee therefore welcomes the proposed allocation in support of this bid.

355. The Committee took evidence from Sport NI (September 2010) on how the proposed cuts would affect its ability to deliver key projects and programmes on the ground. The Committee expressed concerned that if the cuts to Sport NI's budget were realised, opportunities for young people and adults to participate in sport and physical activity would be lessened. The Committee continues to be concerned that the proposed reduction to the Sport NI budget will negatively impact on people living in socially deprived areas in terms of their ability to pursue sport and physical activity, which is key to improving health and well being.

356. The Committee is concerned that Sport NI's ability to implement the Northern Ireland Strategy and Recreation 2009-19 (Sport Matters) will be severely hampered by the shortfall of £81m to implement the strategy. The Committee welcomes efforts by DCAL and Sport NI to develop mechanisms to secure and buy in the commitment of key partners and stakeholders in an attempt to address this funding shortfall.

357. In relation to the Special Olympics Ulster (SOU), the Committee welcomes and supports the Minister's efforts to resolve the funding issues of SOU.

EQIA

358. The Committee calls for a full EQIA to be undertaken on the DCAL draft Budget for 2011-15. Through the savings plans DCAL's ALBs have referred to the potential negative impact the cuts will have on Section 75 groups For example, it is anticipated that closures in the museum

and libraries sector will impact on the elderly and disabled people and will impact negatively on people living in areas of high levels of social deprivation and rural isolation. In the case of libraries, it is understood that the loss of libraries will also impact on good relations as libraries are regarded as neutral venues in the community.

Education

359. The Committee for Education has provided an interim response on its scrutiny of the Department of Education (DE) Draft Budget 2011-15: Draft Allocation and Savings Proposals, published on 13 January 2011.[54]

Pre Draft DE Budget Publication Scrutiny

360. The Chairperson of the Committee for Education (the Committee) wrote to the Minister of Education on 8 July 2010 highlighting the Committee's need for timely and detailed information on the future Education Budget in the context of Budget 2010 as follows:

"The Committee, at its meeting of 30 June, stressed the importance of Department of Education copy papers to DFP over summer recess and responses to future requests for information on the Education Budget (in the context of Budget 2010) arriving with the Committee in good time so they can be given the Committee's full consideration. I would also emphasise that it is essential for the Committee to receive full and detailed information on the impact of your options for savings/cuts".

361. The Committee requested copies from DE of information on its savings proposals to be provided to DFP by 26 August 2010 and other detailed information through its letters on 1 and 7 July 2010 for its Committee meetings of 1 and 8 September 2010, which were dedicated sessions for scrutiny of DE draft Budget proposals. The Committee subsequently received briefing papers from DE on 25 August 2010 and 7 September 2010 on Budget 2010 – Spending proposals. The Chairperson of the Committee wrote to the Minister of Education on 2 September 2010 listing key issues raised by the Committee at its meeting of 1 September 2010 with senior departmental officials on the DE initial Spending Proposals. These included:

Resource Spending Proposals:

- Teachers pay and non teaching pay bill in the context of the Government's pay freeze and national pay agreements;
- Up-front redundancy costs to deliver savings;
- Cost of the extension of Free School Meals Eligibility criteria; and
- Public Private Partnership resource costs;

Capital Spending Proposals

- The approach to and relative merits of costs of different procurement options for funding major and minor works for schools – including the balance between major and minor works funding; and
- The Review of Middletown Centre for Autism building costs.

362. The Committee continued its scrutiny of DE initial Spending Proposals at meetings on 13 October 2010 with the Association of School and College Leaders and the National Association of

Head Teachers, on 17 November 2010 with representatives of Education and Library Boards (E&LB) Chief Executives, and on 1 and 8 December 2010 with senior departmental officials (examining ICT/C2K and School Transport policy in the Budget context). Departmental officials also provided briefing papers on 19 October 2010 on non-permanent teaching and non-teaching staff and actual retirees/leavers, and on 24 November 2010 provided an analysis of the Resources and Capital Spending Proposals for the Budget 2010 period.

363. Following the Executive's draft Budget publication on 15 December 2010, the Committee Chairperson wrote to the Minister of Education on 17 December 2010 stressing the Committee's need for timely and detailed information on the Minister's forthcoming draft DE budget 2011-15 as follows:

"With the Executive's agreed Draft Budget allocations now announced and with the public consultation on this closing on 9 February 2011, it is imperative that the Committee receives your revised Spending Proposals written to the Executive's Draft Budget education allocations as soon as possible please. You will appreciate that your Spending Proposals need to be at a detailed level to allow the Committee to properly scrutinise proposed allocations and formulate views to be put to you. It is important that the Committee receives the Saving Delivery Plan associated with your revised Spending Proposals. We also need clarity on your priorities reflected in your revised Spending Proposals and what the implications are of year-on-year reduced expenditure allocation proposals (where appropriate) – again at a sufficiently detailed level".

364. The Committee met on 1 December 2010 to continue its scrutiny of the forthcoming draft DE Budget and questioned senior departmental officials on whether or not the Department was undertaking options/scenario planning on draft Spending and Saving proposals, particularly to protect frontline school services. Some members expressed grave concerns that the senior official responded that:

"Our Department like any other Department works under the direction and control of the Minister...' '..beyond the high level figures at block level that are available I have no figures on which to commission any work nor do I have any authority to commission any work on scenarios..."

365. The Committee received a further DE briefing paper on Education Workforce issues on 11 January 2011, which included a breakdown of the 15,635 education service non-permanent staff.

Post Draft DE Budget Publication Scrutiny

366. The Minister of Education's Draft Budget 2011 -15: Draft Allocations and Savings Proposals were published on the evening of the 13 January 2011 and the Minister wrote to the Committee on 14 January 2011 saying that she was "keen to meet and engage with the Committee at the earliest opportunity to hear your view on my proposals".

367. The Minister attended the Committee's meeting on 18 January 2011 and the Committee continued its scrutiny of the DE Draft Budget with senior departmental officials at meetings on 25 and 26 January 2011, dedicated exclusively to scrutiny of the draft Budget. Following the meeting with the Minister of Education, the Committee agreed to formally request from the Department as a matter of urgency, a range of information through questions in seven specific areas (noted below).

368. The Committee raised a number of key issues with the Minister and these were set out in a list attached to the Committee's letter to the Department dated 19 January 2011, in the following terms:

(1) The Draft Resource Allocation section – paragraph 3.2 to 3.5 of pages 6-8

Paragraph 3.3 refers to "inescapable cost pressures associated with pay increases, price inflation, meeting statutory and contractual commitments and addressing demographic impacts". Table 2 refers to these "inescapable pressures" which are the key components of the resource spending "shortfall" or "gap" building to £303m in 2014-15. The Committee requests a detailed breakdown of these "inescapable pressures" for each year of the four years of this Budget period and the basis/rationale or underlying assumptions for each element of this.

(2) The Executive's Invest to Save Fund – paragraph 3.6, page 8

Paragraph 3.6, refers to £10m available from the Executive's Invest to Save Fund for Education for each of the years 2011-12 and 2012-13 to pay for severance/redundancies and "The Department will be seeking further provision for redundancies from the balance of the Executive's Invest to Save Fund". The Committee requests the Department's forecast estimates/planning assumptions at this stage of the savings generated from reducing posts over each of the four years of this Budget period. The Committee needs to understand the "shortfall" or "gap" in spending requirements set out in Table 2, as this "shortfall" determines the all-important savings proposals totals for each of the four years set out in Table 4.

(3) End Year Flexibility – paragraph 3.7 & 3.8, page 8

The Committee's position on EYF is that schools should not lose the £56m. However, the Committee requests what the likely pattern of draw down of this money would have been over the four year budget period – from previous annual draw downs – and what is the distribution of this money between primary, post-primary and the various school sectors. The Committee wishes to understand the problem this presents for schools and requests information on the options to mitigate the impact of loss being considered by the Department eg. phasing out options. The Committee would also ask for assurance that all schools affected by this EYF issue should be treated fairly under measures taken to mitigate the impact of the loss.

(4) Draft Capital Allocation – paragraphs 3.9 to 3.12, pages 8-10

Paragraph 3.12 refers to "44% and 35% of the draft Budget allocations in 2011-12 and 2012-13 is required to meet financial commitments (or inescapable pressures)". The Committee asks does this mean existing contractual commitments and whether the remaining percentage is for some "moderate" investment in minor works and maintenance particularly to meet statutory requirements. The Committee requests clarity on this, as the Minister is proposing to reclassify £41m in 2011-12 from capital to resource; this would leave £86.4m capital resource in 2011-12, and with £56m committed, this reduces to £30m. The Committee asks what risk does this present in terms of planned and unplanned statutory work which could arise in schools in 2011-12.

(5) Extension of Free School Meal Entitlement – paragraph 5.2, page 14

Section 5 provides the Minister's more specific priorities for protection in the Budget period, which includes the extension of eligibility of Free School Meals Entitlement (FSME) and the reference to "an additional £1million in 2011-12". However, resource spending proposals given to the Committee in September 2010 gave an extension of FSME requirement of £21.8m in 2011-12 with some £31m costs per annum for the other 3 years of this Budget period. The Committee requests specific clarification on this – to include the specific spending proposals for the extension of FSME over the four year Budget period.

(6) Proposed Savings – Table 4, page 16

The Committee needs a lot more information on the impact of the proposed savings in this table and requests in particular:

- What will be the impact of £5m per annum out of the "Home to School" budget?
- Can more effective procurement make these substantial savings in "ICT in Schools" and what is the impact of these savings?
- What will be the re-organisation and impact of the very substantial savings in "Professional Support for Schools"?
- How are savings going to be achieved in ALBs – in particular, the £15m in 2011-12 - and what will be the impact?

(7) Aggregated Schools Budget (ASB) – paragraph 5.24, page 22

The Committee has major concerns with these saving proposals on the "Aggregated Schools Budget" and the associated paragraph 5.24 commentary. This proposed saving amounts to £26.5m in Year 1 rising to £180m in Year 4, and in percentage terms this represents 18.5%, 45%, 49% and 58% of the total savings proposed by the Minister. The Minister has stressed in her recent letters to the Committee, etc that her key priority is "to protect front line services (schools) as far as possible". While noting the Minister's assessment that the Department of Education requires access to the additional "possible revenue sources" [£800m] identified in the Executive's draft Budget, some members of the Committee asked how does this sit with these substantial direct Schools' Budget Savings proposals? The final year proposed cut is nearly one-fifth of the Schools' Budget. Finally, paragraph 5.24 refers to putting "in place plans across the Education Sector to reshape the school provision through rationalisation and restructuring...'" This Committee requests what are the specific plans, including details of planned actions and timescales.

369. The Committee Chairperson emphasised that it was vital that the Department's Draft Spending Plans, based on the draft DE budget document are provided to the Committee as soon as possible – the Committee wrote to the Department to this effect on 20 January 2011.

370. The Committee received a response from DE on the evening of 24 January 2011 addressing the above information requests and questions and this (together with other key DE Budget 2010 papers and the Hansard record of the Minister's session before Committee on 18 January 2011) formed the focus of the Committee's discussion with senior departmental officials at the Committee's meetings of the 25 and 26 January 2011 (this response and other key DE papers and the Hansard record have been placed on the Committee's website).

371. The key points and concerns raised by the Committee, or some members of the Committee, during these discussions are set out below.

The Absence of Draft DE Spending Proposals

372. The DE response stated that Department's Draft Budget document highlights the "main spending proposals", but when the Chairperson asked senior officials to identify these, they referred members to the Minister's additional spending proposals which are included in the Department's Draft Budget proposals:

- extension to FSME of £1 m in 2011-12:
- £3 m in 2011-12 for the Early Years (0-6) Strategy.

373. Some members concluded that it was essential to receive a breakdown of the Minister's Draft Spending Proposals for the £1.9 bn draft Education Budget now and could not accept the Department's view that "to provide something at this stage could, in fact, be misleading for Committee Members". Also, some members questioned the wisdom of not setting out draft Spending Proposal Plans on the grounds that the "Minister is determined to increase the amount of funding available for education" and said that a "further £800 million is yet to be allocated". These members, while they would very much welcome additional money for education, pointed out that the Executive's draft Budget referred to "other possible revenue sources" and "If any...have merit..., they will be factored into the final Budget allocations". Other members stressed the need for the Executive to work together to secure additional funding for departments.

Invest to Save

374. The Committee received no information from DE on forecast estimates or planning assumptions at this stage of savings generated by reducing posts over the four years of the Budget period. Although some £25m is available in 2010-11 for a Voluntary Severance Programme, no definitive take-up figures or savings generated estimate was given – there was a suggestion that a £10m take-up might represent 200 post reductions. Some members were very concerned about the lack of information in this area as staff costs account for 80% of the education budget. The DE papers cited this as "clearly a critical area of work" and some members questioned the wisdom of not considering targeting potential savings from the 11,200 non-teaching non-permanent staff and the natural wastage from retirees and leavers, bearing in mind the total education service workforce is some 60,000 staff. Again, no information was available from DE officials on any consideration of this. Officials indicated that only when areas for savings had been confirmed could the potential for savings through reductions in non-permanent staff be assessed. The current Voluntary Severance Programme is focussed on "central management and administration and also professional development and support services". Some members saw the need to consider this area as a matter of urgency as clearly extensive job cuts would be necessary to deliver the magnitude of the savings proposed by the Minister in Table 4 of her Draft Budget, and in particular, with the proximity of the significant proposed savings commencing 1 April 2011.

Other

375. Members welcomed the protection of frontline services and jobs, particularly in Year 1 of the Draft DE Budget and called for additional funds from the possible additional £800m for Years 2-4.

End Year Flexibility

376. The Committee welcomed the Finance and Education Ministers' guarantee on 21 January 2011 to put in place arrangements to ensure that schools have access to the £56.7m surplus which they have accumulated, and both past and future savings will be honoured. Members agreed that they would wish to see precisely what these arrangements will be and that schools receive the necessary communication on this as soon as possible. Members also expressed concern at the number and level of school deficits (some 200 schools and £10.7m total deficit), particularly with the draft DE Budget proposal to significantly reduce the Aggregated Schools Budget.

Draft Capital Allocation

377. The Committee expressed concern at the overall level of the proposed capital available to DE for allocations over the four years budget period, particularly with the substantial maintenance backlog (estimated at £300m) and minor works backlog (estimated at £100m). Some members questioned and had concerns with the Minister's proposal to reclassify £41m in 2011-12 from capital to resource, for example, this would reduce the uncommitted element in 2011-12 to £30m and run the risk of not meeting statutory and Health and Safety requirements, while again other members agreed with the reasoning of the Minister in proposing the move to protect jobs and frontline services. Also, at an earlier meeting, some members questioned DE officials about whether more active consideration should be given to moving school capital projects forward by way of PPP or similar mechanisms.

Extension of FSME

378. Some Committee members questioned and expressed concern with the DE initial Spending Proposals on the extension of FSME which was estimated in total to cost £21.8m in 2011-12 and some £31m per annum for the other three years of the Budget period. The Committee requested clarification on this and received, in the 24 January 2011 DE paper, significantly reduced spending proposals of £4m/ £4.6m/ £4.7m/£4.8 m for the Budget period, based on a significantly reduced estimate of 10,000 additional take-up and the figures include £0.4m extension of primary school uniform grant. The Committee noted no additional funding has been identified to address the "knock-on" increase on the Aggregated Schools Budget through the Age Weighted Pupil Unit (AWPU). However, some members remained concerned that this extension of FSME has not been taken forward by the other parts of the UK and should demand exceed the 10,000 forecast, costs would increase – questioning if this extension is affordable in the context of the draft DE Budget allocations and whether the extension to Key Stage 2 pupils in September 2011 should be cancelled - while other members welcomed the extension of free school meals as a valuable asset to low income families.

Proposed Savings Areas

379. On the proposed savings listed in Table 4 of the Draft DE Budget, some members had serious concerns that a lot more information is needed on the means to achieve such savings and the impact of these savings – particularly the substantial savings proposals and the impact, directly or indirectly, on frontline services in schools. For example, there is very little information on how substantial savings in ALBs (£60m over the four years) and Professional Support for schools (£105m over the four years) will be delivered, particularly as significant savings are proposed for 2011-12 with no evidence of plans, consultations, or timescales. Some members pointed to the difficulty in identifying implications of the Budget due to the complicated nature of the education structure with numerous ALBs and over 1200 schools managing budget lines.

380. Some members questioned and had concerns with the level of spending remaining for Special Educational Needs (SEN) capacity building, as the SEN and Inclusions Strategy is not finalised, while others agreed that such a budget line should remain open. Some members questioned whether the proposed savings in Teacher Substitution Costs are achievable; and whether the savings proposed on Primary Principal Transfer Interviews can be taken forward as consultation on this proposal has not commenced.

ASB Proposed Savings

381. The Committee has major concerns with the ASB savings proposal and the means of achieving these very substantial savings – as very briefly outlined in paragraph 5.24 of the Draft DE Budget document. These proposed savings represent 18.5%, 45%, 49%, and 58% of the total savings proposed by the Minister – rising to £180m in Year 4, nearly one-fifth of the total

ASB. The Committee remains very concerned with the level of these direct Schools' Budget Savings Proposals and some members questioned how this sits with the Minister's key priority in her Draft Budget of protecting front line services (schools) as far as possible. As for putting "in place plans across the Education Sector to reshape the schools provisions through rationalisation and restructuring" (paragraph 5.24) to deliver these substantial savings, the Committee was informed that "there are no detailed plans or timescales in place for this work' and with the 'complexity of the issues involved ... it will take some time to deliver results". With the lack of consideration of planning assumptions, estimates or any information on potential job savings through severance/redundancy across the education workforce at this stage, a number of Committee members remained very concerned with these ASB proposed cuts. Some members pointed to Years 2-4 of the ASB as an area which needs support from the potential additional revenue sources [£800m] identified in the Executive's draft Budget.

Employment and Learning

382. The Committee for Employment and Learning (the Committee) has provided an interim view on the Department of Employment and Learning's (DEL) budget proposals. Members feel that a lack of detail in the proposals at present prevents them from giving a full assessment. Further briefings have been scheduled and members expect to receive more detail on DEL's budget in due course. However, the Committee felt it was important that members make some comment to assist CFP in preparing a co-ordinated response to the budget proposals.

383. At its meeting on 19 January 2011 the Committee for Employment and Learning agreed to write to CFP to convey members' view of the budget proposals brought forward by DEL for 2011-15.

384. The Committee was briefed by the Minister on the proposals at its meeting on 12 January and members reflected on the details provided over the week that followed. The Committee would like to record its thanks to the Minister, Danny Kennedy, for coming to the Committee to present the budget paper and for remaining to answer questions. While DEL is not facing reductions on the scale of some other departments, it is still important to analyse the potential impact that any cuts will have on the areas within the DEL remit.

385. There are a few general comments that the Committee would like to make about the budget process and the way that the DEL budget paper is presented. It would seem that there has been very little co-ordination between the departments as to how the budget process would be handled and how departments would present their budgets. A lack of specific detail as to how budget cuts will be applied is common to all the budgets that have been published. This makes it almost impossible for any meaningful public consultation to be undertaken or any detailed scrutiny by the committees. The DEL budget paper for example, (see Appendix 4), indicates generally the total cut applied to each of the Department's main divisions over the next four years, but does not outline how the cuts will be applied within the divisions and, ultimately, how they will impact on DEL programmes and services. Only through questioning the Minister has the Committee gained any sense of how cuts might be applied within departmental divisions. The general public does not have the opportunity to do this, so members have to conclude that the "public consultation" on the budget paper will not allow the public to comment on cuts as they are not told exactly how these will be applied. The paper is also written in a fairly impenetrable way that the average layman would find difficult to understand.

386. In respect of the budget paper itself, a significant focus of the Minister's briefing to the Committee on the paper centred on pages 9, 10 and 11. The Minister highlighted the fact that earlier last year the Finance Minister had asked departments to calculate reductions in expenditure of 5% year on year over the next budget cycle. Following this instruction DEL had produced a set of budgets based on these reductions. A key message from the Minister was the

difference between these projected reductions and the budget reductions he now faces. These are highlighted and contrasted at the top of page 10 of the DEL budget paper. The Minister's difficulty is the gap between the reductions he was asked to calculate and the reductions he now finds he has to make which amount to £40m in 2011-12, £31m in 2012-13 and £13m in 2013-14. There is a reconciliation of plus £3m in the gap for 2014-15.

387. These deficits above what the Department had planned for are cause for serious concern. DEL is a Department which has some of the key drivers for our economy within its remit, such as Further and Higher Education, skills development and welfare to work programmes. Our ability to emerge from this economic slump and to benefit from any upswing will be contingent on having the capacity to win jobs and investment and to rapidly expand our own indigenous industry. DEL has a number of statutory commitments in terms of its spending, not least student support, which accounts for a significant proportion of the Department's budget. If the deficit highlighted above is not reconciled it can be seen that DEL will see more of its resources swallowed up in statutory spends such as student support while spending on programmes that expand skills within our economy and get people back to work will suffer. To this end the Committee would strongly advocate that DEL is considered first when the Finance Minister is making additional allocations from the contingency fund that he will hold at the centre. Quite simply, reductions from the DEL budget will have a disproportionately negative impact on our economy's performance and capacity than reductions made to the budgets of the majority of other departments.

388. The Minister shared with the Committee that the additional reductions he will have to make beyond what the Department expected (highlighted above) could mean the end of the tremendously successful adult apprenticeships; could spell the end of the Education Maintenance Allowance which is designed to incentivise our young people to stay in education or training; devastation of investment into research and innovation; an end to bringing the unemployed onto work schemes before it becomes mandatory; and a number of other consequences that will damage our economy. The Minister has already signalled that the reduction in his budget will make a rise in student tuition fees "inevitable". The size of that rise will be directly influenced by how well the Minister can fund the deficit highlighted above. Understandably, the Committee is reluctant to see the devastation of our Higher Education (HE) sector which this budget could presage. Again, the Committee would appeal that DEL's HE commitments are prioritised when the Finance Minister allocates contingency funds.

389. The Committee feels some level of relief that the cuts to the Further Education budget have been minimised. This sector has received considerable investment over the last number of years and the colleges have begun to reposition themselves as centres of excellence with cutting-edge courses which have an increasingly positive impact on our economy.

390. In common with all Members, this Committee has a clear understanding of the seriousness of these budget cuts; however, the Committee would commend the Minister for the businesslike way he is dealing with them and the work that his Department has undertaken to ameliorate any lasting impact on our economy. The Committee has little time for theatrical chest-beating when there is work to be done.

Enterprise, Trade and Investment

391. At the Committee meeting on 13 January 2011, members of the Enterprise Trade and Investment Committee (the Committee) considered DETI's spending and savings proposals and draft budget 2011-15.

392. As members of CFP will be aware, the Executive considers the Economy to be the top priority in the PfG. CETI believes that the proposed reduction in capital investment in DETI of 63.9% is cause for considerable concern. Invest NI consumes approximately 65% of the DETI budget and will, therefore, be greatly affected. The Department is confident that Invest NI will meet and exceed many of its PSA targets under the current PfG. However, Invest NI has a large number of future commitments which will have to be met prior to funding being provided for new business activity. This will reduce significantly, the level of new business that Invest NI can support in future years. The Committee is very concerned that this will have a long-term negative impact on our economic recovery and future jobs prospects.

393. Officials outlined Invest NI's role in following up on inward investment conferences. The Committee understands that a case can be made for further funding for future high quality investment. However, there is no guarantee that such funding would be forthcoming and members understand that, without additional funding, high quality inward investment opportunities may not be realised. The Committee is also concerned that a number of worthwhile projects further down the Department's priority list may not proceed. The Committee has always been very supportive of the social economy and is concerned that the additional support needed to drive the sector forward may not be available.

394. Committee members expressed some concern that the Department's four-year spending and savings proposals exist in the absence of a strategy for economic development or an investment strategy. It was felt that these strategies should be an integral part of any proposals.

395. On a positive note, the Committee welcomes the Department's commitment to completing the Tourism Signature Projects which will provide a much-needed boost to the tourism sector. The Committee is also reassured that the Department is already making a case for further EU state-aid beyond December 2013.

396. The Committee welcomes news that the Minister for Enterprise, Trade and Investment intends to prepare a case to improve on the proposed allocation. The Committee has written to the Minister fully supporting her in this. It is also felt that the proposed allocations for DETI in the budget further increase the need to provide the Executive with powers to vary corporation tax in order to stimulate the economy.

397. At the meeting of 27 January 2011, CETI received an oral briefing from Invest NI (Stephen Kingon, Chairperson and Alastair Hamilton, CEO). CETI believes that the proposed reduction in capital investment in DETI of 63.9% will have a very significant detrimental impact on the ability of Invest Northern Ireland to meet future requirements.

398. The oral briefing from Invest NI officials reinforced this concern. There was unanimous agreement within the Committee that is it absolutely essential that the Executive find a mechanism to provide EYF in Invest NI's budget. This is to meet Invest NI's requirement for £5m and £10m in years one and two respectively to meet its short-term operational costs for business support. This is not for Invest NI's own administration costs, but directly for support for business. You will be aware that the Report on the Independent Review of Economic Policy recommended that Invest NI be given greater autonomy in managing its budgets, including EYF. This report was endorsed by the Executive and the Assembly. The Committee is aware that DE and DFP have recently agreed a mechanism to allow EYF in its budget and believes a similar mechanism should be found for Invest NI.

399. The Committee considers the only alternative to providing Invest NI with EYF is to allocate an additional £5m to Invest NI in the first year and £10m in the second year of the budget to meet its requirements. Members stressed the importance of addressing Invest NI's situation without delay.

Environment

400. At its meeting on 13 January 2011 the Committee for the Environment (the Committee) discussed the draft budget outcome for the Department of the Environment (DoE) 2011-15. The Committee acknowledged the severe financial constraints faced by the Department and the need to make cost-savings. The Committee had serious concerns on several issues.

401. The Department anticipates a reduction of 150 staff. This is in addition to a previous reduction of 150 staff which departmental officials had indicated would be achieved by redeployment or secondment to other jobs in the wider public sector, early retirement schemes and routine retirement and resignations. However, it is evident that it will not be possible to achieve such a large reduction in staff numbers by these means. The Committee is therefore very concerned that the likely number of job losses in the Department will be considerably higher than 150.

402. The Committee accepts that any monies raised by the proposed levy on single-use plastic bags should be used by the Department for their Environmental Programmes. However, the absence of any procedures for the collection for the levy and the crude estimation of the anticipated amount of revenue this levy is likely to raise are of great concern to the Committee.

403. The Department has earmarked Environmental Programmes that are to be funded by the revenue generated by the levy but no other funds have been identified to continue supporting these Programmes in the event the revenue generated is less than expected.

404. The Environmental Programmes are linked to the Department's work to ensure that NI does not incur costs related to potential Infraction Proceedings for failing to adhere to existing European legislation. The Committee is concerned that the budgetary restraints, coupled with less than expected revenue from the plastic bag levy may increase the risk of Infraction Proceedings in the future which could ultimately result in huge fines.

405. The Committee noted the reduction in Road Safety Grants, Advertising and Research and were concerned that level of grants would be reduced to local road safety initiatives and noted that, despite the apparent success of a series of road accident advertising, this would also be reduced.

406. The Committee also has concerns about the impact of the funding on non-governmental organisations (NGOs) but the Department is unable to provide a breakdown of this funding until the overall amount for the Built and Natural Heritage Programmes have been agreed following the Executive's revised budget outcome. The Committee sees this as an important aspect of the Department's spend. Not only do several NGOs deliver government responsibilities in relation to habitat restoration and protection, they also enable the drawing down of significant levels of funding inaccessible to the Department. The Committee is therefore concerned that cuts to the NGO budget could result in greater losses to NI environmental resources than the Department's budget figures indicate.

Finance and Personnel

Introduction

407. CFP has been involved in an ongoing process of engagement with senior departmental officials as DFP developed it spending proposals and savings plans for 2011-15 in advance of the draft Budget announcement. In this regard, the Committee took oral evidence on 30 June, 8 September and 10 November 2010, with written responses also being provided to follow up

issues. Following the draft Budget announcement on 15 December, the Committee received the DFP Spending and Savings Proposals 2011-15 consultation document on 23 December, and took evidence on this and on the Department's draft Business Plan 2011-12 on 26 January 2011. The Committee has endeavoured, despite the absence of a PfG and related PSAs, to scrutinise the DFP plans in line with the Departmental business targets for 2011-12.

408. In its role in coordinating the Assembly committees' responses to the draft Budget 2011-15, the Committee is aware of the level of dissatisfaction with regard to difficulties encountered by a number of other committees which have hampered their ability to effectively scrutinise the plans for their respective departments. The Committee wishes to commend DFP for the level of engagement by the responsible departmental officials with the Committee, the timely publication of plans for consultation following the draft Budget announcement and the level of detail provided therein. The Committee notes that the Department has also engaged with Trade Union Side during the development of the plans, and that engagement is ongoing in the consultation period. In commending DFP in this regard, the Committee has, nonetheless, sought to determine the extent to which the Department's approach to engaging on its spending and savings plans aligns with good practice consultation. DFP officials have advised that the Department's comprehensive draft spending and savings proposals have been made publicly available. Engagement with key stakeholders has continued, and the officials affirmed that the Department is keen to consider all consultation responses it receives.

409. Members also sought a response from the Department on whether it intends to publish the results of the equality screening work which underpins the high-level impact assessments, as previously recommended by the Committee. The Department subsequently advised that a summary of the equality screening of its proposals had been published on the departmental website.

410. The draft Budget 2011-15 allocations for DFP are set out in Table 10 below.

Table 10: DFP Draft Budget 2011-15 Allocations (£ m)

	2010-11	2011-12	2012-13	2013-14	2014-15
Net Current Expenditure	182.9	190.5	187.1	179.9	180.9
Capital Investment	15.2	16.5	12.1	10.6	28.4

Table 11 below shows DFP's budget allocations in real terms[55].

Table 11: DFP Draft Budget 2011-15 Allocations in real terms (£ m)

	2010-11	2011-12 real	2012-13 real	2013-14 real	2014-15 real	Total real change 2010-11 to 2014-15	Total real % change 2010-11 to 2014-15
Current	182.9	185.9	178.6	167.2	163.7	-19.2	-10.5
Capital	15.2	16.1	11.6	9.9	25.7	+10.5	+69.1

411. Assembly research calculated that the real-term cuts to DFP's current expenditure budget between 2010-11 to 2014-15 amounts to 10.5%. This compares to an average real-terms reduction across Executive departments of 12%. Members have questioned the methodology used to determine the proposed DFP allocation over the four-year period, and have sought justification for the Department incurring a below-average real-terms cut to its budget. The Committee notes that the DFP underspend in current expenditure in recent years has been higher than the average across departments[56]. In addition, the Department has not sought

additional resources for emerging and unforeseen pressures in recent monitoring rounds, but instead has been able to manage these by reallocating resources internally. In view of this, members have questioned whether DFP may have been in a better position to withstand a slightly higher cut to its budget than other departments, particularly those with primary responsibility for frontline services.

412. That said, from its considerable experience of examining underspend across all departments, the Committee is mindful that a full assessment of the reasons for the Department's previous year-end underspends would be necessary to establish the extent to which there is excess in DFP's existing baseline allocation. As such, the Committee calls on DFP's Central Finance Group to critically review the Department's pattern of underspend in current expenditure over recent years to establish why this was higher than the average across departments and, in particular, to determine the extent to which it was a result of, for example: over estimating or bad prior-year forecasting in particular business areas; poor in-year monitoring; unforeseen or extenuating circumstances; or more efficient delivery. This assessment should also examine whether the Department's in-year reduced requirements were declared early enough by the respective business areas in the monitoring round process to allow redistribution to other departments. The Committee believes that this review will assist both in helping to inform final decisions around the DFP budget allocation for 2011-15 and in terms of improving financial management within the Department and minimising future underspending in light of the ending of the EYF facility.

Spending Proposals – Current Expenditure

413. In cash terms, DFP's current expenditure will increase by £7.6m in 2011-12, primarily to enable the Department to deliver Census 2011 and to provide additional funding to LPS. The Committee accepts that it is essential adequate funding is in place to deliver Census 2011 and welcomes this allocation.

414. Whilst welcoming the additional £5m additional funding for LPS, the Committee still has some concerns with regard to the Agency's baseline. A raft of rating reforms were introduced after the Budget 2008-11 had established the baseline for LPS, which necessitated bids of £5m in the in-year monitoring process in each of those Budget years. The importance of LPS in collecting over £980m per annum in rates revenue cannot be underestimated, and the Committee was fully supportive of these bids. A chief concern for the Committee was the need to ensure that an appropriate baseline would be set for the Agency for the new Budget period. The Committee notes that the additional £5m required for LPS will be provided through the "Invest to Save" initiative for 2011-12 and 2012-13 only; in the subsequent two years the Department proposes to allocate £5m from savings it expects to deliver in those two years. The Committee is not assured that the allocation of funding via the "Invest to Save" initiative and through the realisation of what are, at present, aspirational savings, is the most appropriate way to provide LPS with the additional funding required to establish a firm baseline.

415. The Committee noted that the targets for collection of net collectable rates and for the collection of rate arrears have not yet been established for LPS in the draft Business Plan 2011-12. In clarifying why this is the case, the Department advised that LPS is likely to be challenged to increase its performance in 2011-12; "the quantum of increase will be dependent on the outturn of this year for both collection and debt. The targets will be set during March 2011".

416. The Committee is disappointed to note that, in order to meet "inescapable" pressures over recent years, the Department has found it necessary to reduce its maintenance budget in respect of the NICS office estate, and that "this has contributed to the deterioration of the estate". The Committee considers that any further reductions in the maintenance of the estate could, at a later stage, necessitate repairs that will be more costly than any preventative work

that might have been undertaken. The Committee also considers it essential that the estate is maintained, at the very least, to the standards required by Health and Safety. The Committee understands that DARD is currently considering vacating Dundonald House, which is one of the buildings that DFP had earmarked as a priority for maintenance work. The Committee recognises that the Department will need to remain flexible in order to tie in with the plans of other departments. Nonetheless, the Committee welcomes the £2m per annum proposed allocation for the NICS office estate, and strongly recommends that maintenance requirements are addressed as necessary and that this essential funding is not diverted to other spending areas within this Budget period.

417. The draft Budget provides for £2.8m per annum to be provided to NI Direct under the "Invest to Save" initiative. The Committee notes that "the department will review the extent to which NI Direct will meet the requirements of the 'Invest to Save' initiative during the consultation period". In evidence to the Committee, DFP officials advised that the initial funding for NI Direct was £4.8m, and the £2.8m therefore represents a reduced allocation. The officials also confirmed their confidence that this "Invest to Save" allocation will deliver value to the citizen. The Committee notes from the draft Business Plan 2011-12 that NI Direct aims to handle 5 million calls by 31 March 2011, an increase of half a million from the 2010-11 target.

Spending Proposals – Capital Expenditure

418. Assembly research calculations show that, in terms of capital investment, DFP is one of only four departments for which the proposed capital allocation will rise over the four year period, with a real terms increase of 69.1%. Other departments will see their capital investment allocations cut by up to 96.2% in real terms.

419. The Committee notes that DFP's proposed Capital Investment spend for 2011-12, 2012-13 and 2013-14 will enable the Department to maintain existing services in respect of ESS (HR Connect, Records NI and Systems Maintenance), Accommodation Services, LPS and ICT Line of Business. The Department has stated that these allocations represent the absolute minimum required to meet contractual commitments, and "clearly limit the extent to which the department can make significant improvements to the government office estate", and no capital allocations have been proposed for those years to enhance the estate.

420. In respect of 2014-15, the draft Budget proposes a significant increase to capital funding for DFP, which will allow the Department to undertake major investment in the estate. During the evidence session on 26 January 2011, DFP officials confirmed that the profile of capital expenditure is not within the Department's control, but rather has been allocated in this way by the Executive. The departmental officials also confirmed that the Department would be in a position to undertake the planning and procurement to proceed with necessary work, should the capital allocation be moved forward to year 3 of the Budget period. The Committee understands that the Executive is, to a degree, constrained by existing commitments in respect of capital expenditure. While mindful of these constraints, the Committee calls for some of the capital allocation for DFP to be brought forward to year three of the Budget period if possible, both to allow for major investment in the estate at the earliest opportunity and to contribute to efforts to revitalise the local construction sector.

421. The delivery of longer-term efficiencies through the provision of shared services is considered in Part 1 of this Report. The Department proposes to allocate capital investment of £21.5m to ESS over the budget period, which would maintain the infrastructure and enable that services were responsive to customers' needs, "particularly given the level of change which is likely to be required as a result of policy and legislative changes over the period". In response to the Committee's request for more information on likely changes over the period, the Department stated that "over the Budget period, changes in policy and legislation can be expected to

emerge, for example, changes to the VAT regime, national insurance contributions and potentially to HR terms and conditions. The allocations will enable ESS to respond to such changes".

422. In terms of previous underspend by DFP in capital expenditure, the Committee notes that, in the provisional outturn for 2009-10, this was reported at 3.2% as compared to an average across departments of 0.5%. In its Report on the Executive's Draft Budget 2008-11, however, the Committee accepted that underspend in capital expenditure can fluctuate due to unforeseen delays in capital projects and matters outside the control of departments. That said, in terms of DFP's above average capital underspend last year, the Committee would reiterated its previous call for "steps to be taken to ensure the effective planning and management of capital projects, with a view to minimising delays and resultant underspend in this area". The Committee notes that the Department expressed its disappointment regarding the level of underspend in 2009-10, and stated that a number of measures were being implemented during 2010-11 to support more robust financial forecasting and management.

Savings Proposals – Current expenditure

423. The Department has stated that it will be necessary to make resource savings of £5.3m in 2011-12, £8.9m in 2012-13, £11.3m in 2013-14 and £12.6m in 2014-15 to ensure the delivery of the essential services it provides to the public and across the NICS. It points out that these savings succeed significant reductions to the Department's budget over recent years, as it has been required to make resource-releasing savings each year from 2004-2011; in addition, no allocations were made to address the cost of inflation from 2005-11.

424. The Department proposes to deliver the savings required in the following main areas:

- Reducing procurement costs;
- Maximising revenue;
- Reducing the cost of delivering NICS shared/corporate services;
- Staff reductions in administration and policy areas; and
- Reducing funding to arm's-length and independent bodies.

425. During discussions with departmental officials, members sought to determine the guiding principles used in identifying the specific areas for delivering budgetary savings. The DFP officials explained that options identified were considered in terms of their severity and potential impact on services, and a "long list" of prioritised savings options was developed accordingly. It is not clear, however, how the options were initially identified for inclusion on the "long list".

426. Of the opening gross expenditure baseline, DFP asserts that 37% is "inescapable" or contractually committed in the short-to-medium term. In discussions with DFP officials, members sought assurances that expenditure regarded as "inescapable", such as contractual obligations and recurring costs, are quality-assured to determine that they are indeed "inescapable". The departmental officials confirmed that senior DFP officials have a responsibility, as well as a challenge function, in this respect and stated that they were "taking a hard look at things that one might think are inescapable". An example was cited whereby negotiations on a medium-to-long term contract that had been considered inescapable have resulted in savings of £600,000 over a four year period. The Committee believes that all expenditure that is considered "inescapable" should be reviewed in terms of strategic priorities and to determine value for money.

427. The Committee notes that the Department has assessed contracts across a range of services and considers that procurement savings may be achieved by renewing or renegotiating contracts. It is also anticipated that £2.3m will be saved through lease consolidation by the final year of the Budget period. The Committee would emphasise the need for the Department to adopt the MEAT (most economically advantageous tender) approach to procuring contracts in the areas identified for savings, rather than opting simply for the low-cost option as a matter of course.

428. The Savings Plan includes planned additional receipts from provision of expert services, such as legal advice and internal business consultancy. During the evidence session on 26 January 2011, the Committee sought assurances that this would not simply result in a transfer of costs to the wider NICS, and therefore not represent a true saving to the Executive. The departmental officials advised that internal rates for professional services provided by DFP, such as business consultancy or legal services, are less expensive than external rates. The Committee accepts that these services can offer value for money to other departments and represent a true saving to the Executive, while at the same time generating additional revenue for DFP. The Committee would stress that this needs to be monitored carefully to ensure that this remains the case.

429. DFP anticipates that its staff complement of 3,313 posts will be reduced by 91 posts over the four year period. Staff turnover in the Department over such a period would normally be in the region of 500, and it is expected that these posts will be managed through natural wastage and that compulsory redundancies will not be required. During the oral evidence from DFP officials, members probed this issue and sought assurances that the reduction in posts will not impact, either directly or indirectly, on service delivery. The departmental officials advised that the posts to be reduced are directly related to the savings measures, but accepted that those who leave through natural wastage will not necessarily be in the posts that need to be reduced. The Department will therefore engage in redeployment to ensure that impact on service delivery is minimised. The DFP officials also advised that the Department has reduced its SCS numbers by approximately 10% since March 2009; a small number of additional posts have also been identified by which additional savings may be realised.

Health, Social Services and Public Safety

Introduction

430. At its meeting on 27 January 2011 the Committee for Health, Social Services and Public Safety (the Committee) agreed to forward an interim response on the draft Budget to the Finance and Personnel Committee. It was agreed that this response would form the basis of the Chair's remarks during the take-note debate on the draft Budget on 31 January 2011.

431. The Committee's decision to issue an interim response on the draft Budget was informed by the fact that it has received limited information from the Department to date. The Department published its consultation on the draft Budget on its website on 13 January 2011, only two weeks before the deadline for committee returns to the Finance and Personnel Committee.

432. Furthermore, the information which the Department has published on its website and which it briefed the Committee on, does not contain a detailed breakdown of either proposed expenditure or savings delivery plans. This is despite the fact that the draft Budget document states that Ministers have been asked to provide this information as part of the public consultation exercise (page 30 of draft Budget).

433. The Committee took oral evidence from the Department on the draft Budget on 13 and 20 January. Further information was requested from the Department following both these meetings. However, that information was not received until 27 January during the course of the Committee meeting.

434. Given the lack of the information supplied by the Department and its delay in providing responses to issues raised by the Committee, the Committee agreed to issue an interim response on the draft Budget.

435. The Committee was disappointed by the lack of detailed information provided by the Department on the draft Budget and by the lateness of the information which was received. The Committee is of the view that the Department's approach was not helpful in terms of affording it the opportunity to carry out a detailed and thorough scrutiny of the draft Budget, one of the key functions of all statutory committees of the Assembly.

436. The Committee will issue a final response on the draft Budget before the closing date for the public consultation exercise on 16 February 2011.

Key issues

437. At its meeting on 27 January 2011 the Committee agreed to highlight a number of key issues of concern in relation to the draft Budget for the DHSSPS:

Overview

438. The Committee acknowledges that health and social care have historically been underfunded in NI. Spending on health and social care should be maximised where possible, however funding needs to be matched to identified priorities.

439. The Committee is of the view that spending on health should not be at the expense of social care and public safety – all three are vital areas of work of the DHSSPS. The Committee recognises that there are many successful community sector initiatives.

440. The Committee is of the view that there needs to be urgent clarification on whether the Executive intends for the continuation of the guarantee of first call on available in-year money up to the limit of £20m each year to DHSSPS.

441. The Committee has noted the Department's concern that the proposed revenue allocation for year one of the draft Budget will present it with considerable difficulties.

442. The Committee is of the view that spending on the public health agenda needs to be increased – at present only 1.6% of the health budget goes to this area.

443. The Committee discussed the issue of the funding allocated to DHSSPS as compared to the allocations made to health in England. The Committee received a briefing paper from Assembly Research Service which indicated that if the same percentage changes that were allocated to health in England were applied to the DHSSPS baseline, it would be in line to receive an additional £458m revenue over the four year budget period, but would lose £137m on the capital side. However, the total net increase would be £320m over the four years, or £80m per year.

Potential for efficiency savings

444. The Committee noted a request from the Department for more flexibility to move money from capital to revenue. While this may be an option that requires further consideration, the Committee would emphasise that it is more important for the Department to continue to look for efficiencies in order to maximise its draft Budget.

445. The Committee is of the view that the Department should explore making efficiencies in the following areas:

- Purchasing of drugs;
- Prescribing of drugs;
- Senior salaries within the Department;
- Appointment reminder systems;
- Overuse of agency staff;
- Innovations and improvements in the use of IT;
- Clinical Excellence awards for consultants (£11m per year); and
- Bonuses to skilled tradespeople.

446. The Committee was of the view that there was a lack of information presented by the Department in terms of potential efficiencies. In particular, little reference was made to the forthcoming PEDU review of the Department and what efficiencies it could be expected to yield. Indeed the Committee had expected PEDU to have completed its report before the draft Budget was published and were disappointed to learn that little progress has been made in terms of the exercise.

Commentary on the Department's bids

447. In its evidence to the Committee the Department stated that it required substantial sums of money for pay increments – some £78m in year four. The Department stated that pay issues were agreed at a national level in GB and that it was contractually obligated in this matter. The Committee has concerns about this position and particularly the notion that a devolved Assembly has no power to negotiate locally if it is matter of a choice to be made between potential redundancies and finding funding for pay increments.

448. The Committee had queries regarding the bids put forward by the Department in terms of funding to meet demographic changes. The Department emphasised that NI has an ageing population and that this will put significant strain on health and social care services because older people cost it nine times what people of average age cost.

449. However, the evidence received by the Committee from two expert witnesses queried the Department's position on this matter. Professor O'Neill pointed out that it was not clear whether the Department's figures took into account the potential savings associated with "healthier ageing". Professor Normand suggested that the Department's analysis overstates the direct effects of ageing. His view was that the dominant effect in terms of need, particularly for acute care, is determined by proximity to death. Professor Normand pointed out that in NI over the next five years the number of deaths is predicted to fall. Therefore, he stated that it is reasonable to project that the effect of ageing over the next five years on the demand for acute services over this period is likely to be small.

450. The Department advised the Committee that the current draft Budget proposals could result in 4,000 job losses. The Committee sought information from the Department on the function,

location, and grade of these jobs. However, the Department did not provide this information and there was a lack of clarity in relation to whether the Department was proposing natural wastage or redundancies. The Committee would not wish to see redundancies being made.

451. The Committee supports the necessary capital and revenue funding being allocated by the DHSSPS for the satellite radiotherapy centre at Altnagelvin and for the Fire and Rescue Service training centre at Desertcreat.

Summary of evidence gathering

452. The Committee took evidence on the draft Budget from the following:

- Departmental officials (21 October 2010);
- Minister and departmental officials (13 January 2011);
- Professor Ciaran O'Neill, NUI Galway (18 January 2011); and
- Professor Charles Normand, Trinity College Dublin (18 January 2011).

453. The Committee also considered 4 briefing papers prepared by Assembly Research:

- Historic Health and Social Care Expenditure: Comparative Analysis (presented to the Committee on 13 January 2011);
- The DHSSPS Budget – where does the money go? (presented to the Committee on 20 January 2011);
- The DHSSPS Budget 2011-2015 Consultation (presented to the Committee on 20 January 2011); and
- DHSSPS budget allocations: impact of applying uplifts in line with Health in England (considered by Committee on 27 January 2011)

Justice

454. The Committee for Justice (the Committee) will continue to scrutinise the draft Budget proposals over the coming weeks.

Introduction

455. The Committee receives regular briefings on the Department of Justice (DoJ) budget and the position in relation to the monitoring rounds.

456. In relation to the Budget 2010 process the Committee was first briefed by departmental officials on 2 September 2010 when it considered detailed information on the Department's inescapable pressures for the 2011-15 period and savings scenarios based on a 5% year on year reduction to its baselines.

457. Following the national Spending Review published on 20 October 2010 by the UK Coalition Government the Committee received further evidence on 4 November on the likely impact of the Chancellor's announcement on the DoJ budget. During this briefing the Committee focused in particular on whether the DoJ budget would continue to be ring-fenced and the likely implications of that, the position in relation to EYF and continued access to the HMT Reserve for additional security funding.

458. The Minister of Finance announced the NI Executive's draft Budget 2011-15 on 15 December 2010 which provided the overall proposed DoJ resource expenditure and capital investment allocations for the four year budget period. Following this DoJ provided information on the Minister's priorities, the overall baseline reduction, draft budget allocations and proposed pressures to be funded and officials attended a committee meeting on 11 January to outline the key issues and answer questions. On 21 January the Committee received information on the savings delivery plans and equality impact assessments and officials returned to the Committee on 25 January to answer further questions.

459. When considering the DoJ's budget position the Committee has given particular emphasis to the likely implications of any proposed budget reductions on frontline services and the ability to deliver these services.

Ring-Fencing of the Department of Justice Budget

460. One of the key issues that needed to be resolved in relation to the DoJ budget for the 2011-15 period was whether it would continue to be ring-fenced or not. The Executive's draft Budget proposes that the DoJ budget will remain ring-fenced for that budget period.

461. The Committee wishes to dispel any misconceptions that the result of ring-fencing the DoJ budget for this period is that the budget is protected and will not face any reductions. The outcome of the proposal to continue to ring-fence the budget is that it will receive the direct Barnett consequentials arising from changes in the level of funding of the Home Office and Ministry of Justice as a result of the UK spending review settlement for Whitehall departments. The result of this is that DoJ faces an overall reduction in its cash baseline of £82m or 7.2% by 2014-15. Taking into account the effect of inflation the real term impact is significantly greater.

462. The Committee notes that ring-fencing the Department's budget results in it having a slightly worse resource baseline than the average NI settlement but does give it flexibility to move funding between spending areas and provides end-year flexibility (discussed below) which, as far as the Committee is aware, is not available to any other department in NI or the UK. The Committee is therefore of the view that ring-fencing is the most appropriate position to take in relation to DoJ's budget for the 2011-15 period.

End Year Flexibility

463. The Committee welcomes the fact that, as part of the ring-fencing of the budget, DoJ has guaranteed access to underspends generated both this year and throughout the Budget 2010 period. This will provide important flexibility for the Department, particularly in relation to this year where there are underspends in relation to both capital funding – for the planned Desertcreat Training College – and revenue – for the part-time Police Reserve gratuity and the full-time Police Reserve severance scheme. The Committee views the retention of end-year flexibility for DoJ as a distinct advantage.

Access to the Reserve

464. One of the key issues in relation to the DoJ budget is continued access to HMT's Reserve to fund exceptional security pressures faced by the Police Service of Northern Ireland (PSNI). The Chief Constable has indicated a requirement of approximately £250m over the four year period. In the draft budget the Executive has allocated an additional £45m to DoJ which it intends to contribute to meeting the security funding pressures facing the PSNI. A bid for £200m has been with HMT for some time and the Department is waiting on confirmation that the bid has been successful.

465. The Committee is extremely concerned about the implications for the DoJ budget if the bid is not met in full. In response to questions from members, officials indicated that there was no contingency plan in place if the bid was unsuccessful and admitted that taking out £200m from the rest of the Department's budget would result in it being in severe difficulties. The Committee believes that the implications to the Department's budget if the bid was to be unsuccessful or only partially successful are such that it will not be possible to agree the DoJ budget until confirmation regarding the granting of the bid is received. The Committee calls for a decision to be made as a matter of urgency. Given the time constraints in relation to having an agreed budget in place it is imperative that confirmation is received from HMT as soon as possible that this security funding bid will be met in full from the Reserve.

Resource Departmental Expenditure Limit

466. The Committee welcomes the Executive's decision to allocate an additional £45m to the DoJ budget.

Key priorities of the Minister of Justice

467. Turning to the key funding priorities the Committee notes that the Minister of Justice has identified the following:

- Protecting frontline policing;
- Protecting other frontline areas across the Department, with the aim of protecting outcomes for the public; and
- Protecting the voluntary and community sectors as far as possible.

In scrutinising the draft budget allocations the Committee notes that the figures provided do indicate funding has been skewed towards the priorities of policing and security e.g. the PSNI has the lowest percentage baseline reduction of all areas and the Directorate that provides back office support in the Department will be expected to deliver the biggest savings.

468. However on the information available to date the Committee is unable to properly and accurately assess the likely implications of the funding reductions on the delivery of front line services, either in relation to front line policing or other front line services. The Committee notes with concern that in nearly all of the draft savings plans provided by the Department there are references to achieving savings by suppression of posts, redeployment in headcount, workforce modernisation, absorbing vacancies, natural wastage, reductions in office equipment, reductions in training costs, reviews of the frequency of research work etc. The Committee wishes to see detailed impact assessments from each area of the Department of the implications of the proposed savings measures. Until these are available the Committee is not in a position to make an accurate judgement of the draft budget.

Funding of the Police Ombudsman's Office and the Probation Board

469. The Committee is concerned that two bodies have indicated that there may need to be redundancies to achieve the savings they are being asked to deliver – the Police Ombudsman's Office which has indicated 17 redundancies in the final 2 years of the budget and the Probation Board which has indicated the loss of 60 whole time equivalent employees by 2014-15 through natural wastage and redundancy. The Committee is not at all clear why these two organisations appear to being hit harder than other areas of the Department.

470. Whilst the Committee notes the assurances provided by departmental officials during the evidence session on 25 January 2011 that discussions are on-going with both bodies to ensure that the required savings can be made without the need for redundancies the Committee is very concerned about the likely impact on the ability of both organisations to deliver their services. The Committee calls on the Minister of Justice to give further consideration to this matter urgently with a view to ensuring that, in delivering savings, neither of these organisations are prevented from delivering the current level of service.

Legal Aid Funding

471. The Committee expressed particular concerns about the budget figure of £75m allocated to the Legal Services Commission for 2014-15 in the Department's draft budget proposals. The Committee understood that a budget of £79m for legal aid had been negotiated as part of the Hillsborough Agreement and that the proposals to reform the Legal Aid system, on which the Department has undertaken protracted discussions with the Bar Council and the Law Society to reach agreement on the way forward, are based on achieving a reduction in costs to that level. The Committee accepts that some of the £4m difference does reflect efficiencies to be achieved in the Legal Services Commission administration. However the Committee is very perturbed that the budget for legal aid now appears to be less than that which was negotiated and calls on the Minister of Justice to clarify the position urgently.

Voluntary and community sector funding

472. The Committee welcomes the commitment by the Minister of Justice to protect the voluntary and community sectors as far as possible but, due to the lack of information available, has reservations about the level of protection that is actually being afforded. Officials outlined that as a result of the prioritisation the voluntary and community sectors will face a reduction of 1.5% per annum which is less than the reduction for the Department as a whole. However the Committee has no information on which it can assess the impact this 1.5% reduction will have. Again the Committee wishes to see detailed impact assessments of the likely implications of this proposed reduction.

Funding for the NI Prison Service

473. The Committee notes that the Prison Service cash baseline will reduce by £18m by 2014-15. This is to be achieved through an invest to save programme (for which £13m is being provided in 2011-12) and a strategic efficiency and effectiveness programme. The Committee is concerned about the ability to deliver the savings required within the timescale and whether the provision of £13m is a realistic amount to achieve the possible range of reforms that may be required. The Committee wishes to see details of the proposed efficiency and effectiveness programme as soon as possible.

Use of Consultants

474. The Committee welcomes the commitment from DoJ to reduce the expenditure on consultancy to as close to zero as possible and notes that any expenditure in this area over £10,000 will require the approval of the Minister of Justice. The Committee raised concerns about the department's expenditure in relation to legal advice and recommends that the Department closely monitors proposed expenditure in this area to ensure costs are kept to a minimum.

Spending proposals not being funded

475. The Committee wishes to see details of the specific spending proposals totalling £5m that are not being funded in the draft budget proposals.

Capital Budget

476. The Committee welcomes the Executive's decision to allocate an additional £57m capital funding to the DoJ budget, £30m of which is for the Desertcreat Training College.

Capital Funding Priorities

477. The Committee is very pleased that, with the Executive's decision to allocate £30m to DoJ to fund the Fire and Rescue aspect of the Desertcreat Training College, this major scheme can now go ahead. The Committee is however very concerned about reports in the media that the Minister for Health, Social Services and Public Safety has indicated that he may not have the recurrent funding available for the running of the Fire and Rescue part of the college. The Committee calls for the Minister of Health, Social Services and Public Safety to urgently clarify the position and urges him to confirm that the recurrent funding will be available for the Fire and Rescue Service so that Desertcreat Training College can operate on a fully functional basis.

478. The Committee is disappointed that the capital budget is not sufficient to enable DoJ to complete both the redevelopment of Magilligan prison and the provision of a new women prisoner facility during this budget period. The Committee does however support the Department's decision to allocate £54m for the redevelopment of the prison estate. This will allow both projects to commence and the Committee wishes to be kept fully informed of progress in relation to these projects and the options for taking them forward.

Cross-cutting issues

479. The Committee wishes to highlight that DoJ has made no provision in its budget proposals for any requirements that may arise from the implementation of the Bamford review findings. The Committee has been advised by departmental officials that the principle on which they are working is that the lead Department, in this case DHSSPS, will make bids for any changes that is proposed as a result of new legislation.

480. During Committee visits to HM Prison Maghaberry and the Youth Offenders Centre and through policy briefings members are aware that the factors that contribute to offending and reoffending include homelessness; lack of educational attainment; unemployment; mental health issues; alcohol and substance misuse; and being a victim of sexual abuse or domestic violence. The Committee wishes to highlight the absolute necessity for other Departments to recognise the need for a holistic approach and the implementation of early intervention policies in these areas. A lack of investment will undoubtedly have a knock-on effect on levels of offending and subsequent increased costs to the justice system. The Committee calls on the Minister of Justice to raise these issues with the Executive and for the Executive to factor in these issues when looking at the overall draft budget for NI.

481. The Committee welcomes the fact that DoJ is participating in the Budget review group's review of all ALBs and quangos.

Draft Programme for Government

482. The Committee notes that work is on-going in relation to the preparation of the draft PfG. There is a range of reviews either progressing or being planned in relation to Youth Justice,

Community Sentencing, Reducing Offending and Prison Reform. Decisions made in relation to the budget allocations dictate what the priorities will be over the next four years. The Committee notes that there appears to be no priority given to diversionary policies, which the Minister has indicated he wishes to take forward, in this draft budget and questions how much flexibility there will be to implement new policies over this period of time.

Timescale for consultation

483. The Committee for Justice considers that the very tight timescale for statutory committees to consider the draft budget proposals has impacted on their ability to properly scrutinise and reach informed decisions. This is extremely unfortunate, particularly as the very difficult budgetary position being faced would have warranted detailed consideration of the likely impact decisions will have on the delivery of services.

Conclusion

484. The Committee for Justice will continue its scrutiny of the draft DoJ budget over the coming weeks and will be seeking urgent clarification of the issues raised.

Office of the First Minister and deputy First Minister

485. At its meeting of 26 January 2011, the Committee for the Office of the First Minister and deputy First Minister (the Committee) agreed to forward this response to CFP for inclusion in the co-ordinated report in response to the Executive's draft Budget.

486. The Committee was briefed by the First Minister and deputy First Minister on the Department's draft Budget 2011-15 proposals at its meeting of 19 January 2011. During the briefing Ministers provided further information in relation to the proposals. Ministers also gave an overview of some of the savings proposals and advised the Committee that it will receive the detailed savings plans very shortly, which are not yet available.

487. Members of the Committee discussed a number of issues with the First Minister and deputy First Minister. Discussions included the timetable for the Victims and Survivors Service and the Programme for Cohesion, Sharing and Integration.

488. Members also discussed with Ministers the strategic value of the Department's capital projects and the importance of maintaining momentum in relation to the regeneration of these sites, in order to attract investment and provide jobs for the local areas.

489. Ministers also provided further information in relation to the staffing levels in the Office of the First Minister and deputy First Minister and advised that staffing levels have been reduced from 460 staff (in 2004) to 350 staff. Ministers also advised that they hope to reduce the level to 305 staff in 2015.

490. Ministers provided further information in relation to the Social Investment Fund and the Social Protection Fund, which the Executive will be taking forward. Members were assured that these funds would be directed towards the most vulnerable and that Ministers were still considering areas and possible themes to direct the funds.

491. Members also had a discussion with Ministers concerning European funding and the possibility of introducing targets for drawing down funding from the European Union. There were

also discussions in relation to a possible Peace IV package. Ministers advised that the Barroso Taskforce was due to return to NI in the next few weeks.

492. Ministers advised of the success in attracting inward investment to NI from the United States, and in particular the success of the Titanic area in attracting companies such as HBO. They also highlighted the benefits to the local economy of such investment.

493. There was also a discussion on what revenue raising ideas are being explored, Ministers advised that they have been considering many suggestions and will continue to identify areas where additional revenue could be raised.

Regional Development

494. The size of the cuts facing the Department for Regional Development (DRD) are significant, and will have a severe impact on the most vulnerable in society, economic competitiveness, and the sustainability of transport in NI.

495. The scale of the cuts in DRD's capital budget, with reduced levels of investment in road schemes, roads structural maintenance, public transport initiatives and water and sewerage services will place additional pressures on businesses in NI, and will make growing the economy more difficult. Congestion and poor road maintenance lead to longer and less reliable journey times, and increase the costs of doing business in NI. The quality of all our infrastructure - public transport and water and sewerage services included - are a key factor in determining the attractiveness of NI as an investment location for foreign direct investment.

The scale of the reduction in DRD's budget

496. Although recognising the severity of the settlement in the 2010 Spending Review, the Committee for Regional Development (the Committee) was disappointed to note the allocations to the Department's total budget over the four year budget period. Whilst there is a slight increase, from £938.6m in 2011-12, to £1.012 bn in 2014-15, Members noted that, when compared with total planned expenditure in the previous budget period, the total draft Budget allocations were a 6.3% reduction in real terms.[57]

497. The reductions in the Spending Review settlement are particularly stark when you look at the impact of reductions in DRD's Draft Budget, as identified by the Department in its consultation document and evidence to the Committee.

498. There are no allocations to commence construction on major roads schemes such as the A6 Randalstown to Castledawson scheme; the A2 Greenisland scheme; the York Street Flyover; the Sydenham bypass widening scheme; and other schemes along the A6. With the exception of the A5 and A8, the A32 Cherrymount Link is the only other scheme to complete in the budget period.

499. There will be significant reductions in other capital improvement programmes such as walking and cycling, traffic calming, collision remedial (although Roads Service is adamant that safety will be prioritised); traffic management measures; local safety improvements; and bridge strengthening.

500. Funding will not be available in years two and three of the budget period to meet the agreed levels of investment in water and sewerage services as set out in the PC10 final determination.

501. Funding is confirmed for the planning phase only on rapid transit, and to plan to invest in electric vehicle charging infrastructure (despite DRD/DOE making a successful OLEV bid), the Belfast on the move city centre traffic management initiative, and for other bus priority measures.

502. From an historic high of £92m in year one, structural maintenance funding falls sharply in years two and three of the budget period, and over the budget period is some £200m below the circa. £112m per annum recommended in the Snaith Report. The Department states that this level of investment, coupled with reductions in roads maintenance activities is predicted to lead to the network being less resilient to extreme events such as freeze/thaw cycles and flooding.

503. Turning to current expenditure budget, the Department is required to fund cumulative current expenditure reductions of £163m over the four year budget period. The Department stated that it is the only department facing a year on year reduction. In evidence, officials indicated that roads PPPs, provision for public liabilities and public service obligations (PSOs) were the only areas not cut as part of its savings plans.

The balance of expenditures and savings between roads and public transport

504. The balance of expenditures over the budget period, between expenditure on roads and on transport, starting with 2011-2012 is 66:34; 79:21; 87:13 and 80:20. With the exception of the year one allocations which are unusual, these ratios fall short of the 65:35 identified in the 2002 Regional Development Strategy (RDS).

505. Of the 14 savings measures identified, two are to be achieved through procurement; two through increased revenue raising; one by lowering priorities; three through changes in administration or policy approach; and six through cuts in funding. The Committee will continue its work on analysing the incidence of planned savings during the remaining consultation period.

Ringfencing in the budget

506. The Committee noted the figures provided by the Department in its papers of 12 January 2011, which illustrate how much of the planned current and capital allocations in DRD which are ringfenced.

507. On the one hand, the Committee recognises the importance of ringfencing as a tool to ensure that funding for high priority projects is used only for those purposes. For example, significant amounts of the structural maintenance capital allocations (£107.8m of the £177.7m) are ringfenced for this purpose. Overall, members were concerned to note that, on average, 48% of capital investment in public transport and 83% of investment in roads over the budget period were ringfenced. Smaller amounts, 17% and 11% respectively were the proportions of current expenditure ringfenced over the same period.

508. This concern arises because once ringfenced, such allocations can only be used for the specified purposes. Should the Department be unable to spend all or part of a ringfenced allocation, permission must be sought from DFP to use that money for other purposes.

509. For example, the capital funding for the A5/A8 is ringfenced 100%. This project is dependent on a contribution of £400m from the RoI Government to progress. Construction, envisaged to begin for both schemes in 2012, is also subject to the successful outcome of public inquiries. Because the allocation is ringfenced, if the project was for any reason unable to

proceed, the Department would require approval from DFP for the reallocation of this funding to other priority roads projects.

510. The Department, in its briefing to the Committee on 12 January 2011, stated that whilst Roads Service has a significant allocation, around £790m (or 70% of it) is tied up in these two major road schemes (A5 and A8). The Department acknowledges the RoI's contribution to this project, however it highlighted that the 40% reduction in the Spending Review settlement, and the scale of these schemes means that there are no allocations to commence construction on other major road schemes.

511. Roads Service has, traditionally, been skilled in managing its funding allocations to achieve optimal outcomes for the Department. By managing the development of a range of priority schemes that are at different stages of the design, consultation/inquiry and construction process, Roads Service has in the past used its allocations flexibly to progress a range of roads schemes. Ringfencing such a significant amount of the Department's total budget for two schemes might hinder Road Service's ability to best manage work in its specialist area. The Committee hopes to continue to explore this issue and the Department's options with DRD over the course of the consultation on the draft Budget. The Committee is strongly of the view that if the A5 or A8 schemes, for whatever reasons, are unable to proceed then the ringfenced funding should be available to the Department for other priority road projects.

Failure to fund water and sewerage services to the levels identified in PC10

512. The Committee received a written submission from the Northern Ireland Authority for Utility Regulation, which highlighted the Regulator's views on the level and profiling of capital investment expenditures over the period of PC 10 (the three-year price control period from 2010-2013), as this is reflected in the draft Budget allocations. Table 12 below illustrates this point.

Table 12: Investment Expenditure

	PC 10 Final Determination (PE terms)	Budget 2007/ Draft Budget 2010	Difference	Difference
£m	£m	£m	%	
2010/11	194.2	201.00	7.7	4.0%
2011/12	188.4	202.00	14.1	7.5%
2012/13	195.9	145.0	-50.9	-26.0%
PC10 Total	578.5	549.0	-29.1	-5.0%
2013/14	--	140.0	--	--
2014/15	--	180.0	--	--
Draft Budget Total		667.5	--	--

Source: Letter from NIAUR, 26 January 2011 and DALO 489 12 January 2011.

513. The Committee notes that in year one of the draft Budget (year two of the PC10 period) there is an indicative capital investment allocation some 7.5% in excess of the level recommended in the agreed PC10 determination, however this is followed by an allocation which is £50m (26%) lower than the level agreed in PC10. Members recognise the constraints facing Northern Ireland Water, particularly in the current economic climate, however they were

concerned about the impact this may have on Northern Ireland Water's ability to deliver the investment in infrastructure which was agreed as necessary during the PC10 process.

514. Looking at the profile of capital expenditure for water and sewerage services in the draft Budget, it begins at a level, has a significant dip in years two and three, and increases again in year four. This "u-shape" profile is the opposite of what might be expected for relatively large scale infrastructure investment programmes carried out over a number of years. In profile, such projects tend to have lower expenditures in the early years, with an expenditure peak at the mid-point and slightly beyond (an "inverted u-shape").

515. Briefing from the Utility Regulator identifies the potential implications of the draft Budget profile for capital expenditure in Northern Ireland Water (NIW) as:

- Deferment of compliance waste water treatment projects as NIW would not be able to commit to them in this coming year in the absence of the necessary resources being available in future years to take them forward;
- Diversion of expenditure away from Ministerial social and environmental priorities to the networks where expenditure levels are arguably more flexible, although such ramping up followed by a decline is not desirable and will be less efficient as framework contractors may be reluctant to engage additional resources (equipment and labour) only to lose them in the following year;
- Asset performance information is particularly lacking for networks and hence when the asset base is significant (26,500km of water mains and 14,500km of sewers), targeting of expenditure to ensure delivery of benefits is not easily facilitated. This is particularly the case if the drive is to spend the money, rather than achieve pre-defined outputs;
- The price control "contract" which holds the company to deliver, as per PC10, will need to be revisited using the mechanisms as laid out in the recently agreed memoranda of understanding between the parties. The Regulator will have to consider the arguments which may be legitimate and will undoubtedly be put forward by the company for non-delivery of efficiency targets and other cuts;
- There will be a need to revisit the compliance and service performance targets set in the PC10 determination.[58]

516. Members wish to highlight the factors driving the need for capital investment in NIW (Table 13).

Table 13: Drivers of Capital Investment in Northern Ireland Water

% Capital Investment	Driven by:
44.4%	Need to maintain the asset base and sustain current level of performance and service.
29.3%	Need to meet quality compliance / EU directives
18.9%	Need to facilitate growth or development needs
7.3%	Enhancing the level of performance

Source: Letter from NIAUR, 26 January 2011

517. The Committee understands that work is ongoing to identify and investigate options for re-profiling the capital investment programme, however members are concerned. As can be seen

above, the majority of capital investment, almost 74%, is driven by the need to maintain current levels of service and performance and to meet compliance standards. A reduction of 26% in the level of capital investment in year 2, with a further reduction in year 3 of the draft Budget period, cannot but have an impact on the levels of service and compliance currently provided by NIW. There could be little or no room for service or performance improvements or development over the coming years.

518. Again, the Committee hopes to explore this issue with the Department during the consultation period and beyond.

Engagement with stakeholders on the impact of the Department's spending and savings delivery plans

519. The Committee held a stakeholder engagement event on Wednesday 26 January 2011 on the impact of the Department's spending and savings delivery plans. Whilst the Committee has not had a chance to consider the feedback received during this event in detail, the paragraphs at Appendix 4 are not exhaustive but they provide a flavour of the contributions made during the event. These are organised under the headings of social, economic and environmental impacts, however the Committee is keenly aware that these are interlinked and cross-cutting categories. The Committee plans to publish the Official Report of this event on the Assembly's web pages at the earliest opportunity. This will provide a more detailed and nuanced picture of the feedback received on the impact of the draft Budget, which we hope will contribute to the debate as the budget process moves forward.

520. The Committee heard from the Department and stakeholders that the proposed cuts will have a negative impact on all the Section 75 groups and will directly impact the most vulnerable in society, people with disabilities and older people, rural communities, and those without access to a car.

521. The evidence received stated that this draft Budget will roll back the progress made in recent years on accessible and sustainable transport, discouraging the use of public transport as an option for those with a choice, lead to social exclusion for those without alternative transport services or access to a car and, potentially, increase transport related emissions.

522. The Committee will continue to consider the evidence received, analyse the proposed allocations and savings plans, and looks forward to working with the Department to secure the best possible budget outcome for regional development in NI.

Social Development

523. The Committee for Social Development (the Committee) considered the Department for Social Development's (DSD) Draft Budget 2011-15 consultation document.

524. In the absence of detailed information relating to capital and revenue allocations, the Committee generally welcomed the allocation of funding in the draft Budget to:

- the Warm Homes Scheme / Fuel Poverty;
- Supporting People projects;
- Voluntary and Community Sector projects including the Neighbourhood Renewal Strategy; Areas at Risk and Small Pockets of Deprivation; and
- Co-ownership Housing; Private Sector Grants and Disabled Adaptations.

525. The Committee particularly sought additional information on:

- the impact of Housing Executive rent levels on possible redundancies within Northern Ireland Housing Executive (NIHE);
- Housing Executive maintenance and Decent Homes programmes;
- the Social Housing Development Programme (SHDP);
- the number and timing of new Bamford units;
- the impact of reduced allocations on Urban Regeneration and Public Realm schemes;
- the Jobs and Benefits Office programme;
- the impact of proposed Department of Work and Pensions (DWP) reforms to Child Maintenance and Welfare; and
- a proposed application to the Social Protection Fund for support for homeowners facing repossession proceedings.

526. Some members of the Committee expressed significant concerns in respect of the potential reduction in the number of new social houses to be built under the SHDP. Members sought further information on the strategic use of Departmental land to support the SHDP. Some members also expressed concerns in respect of the viability of a proposed reduction in the Housing Association Grant as a mechanism for increasing new social house building.

527. The Committee agreed that it would in principle support the Department's application for Invest to Save funding to upgrade NIHE tenures so as to reduce the effect of future adverse winter weather events.

528. In the absence of sufficient detail on a number of key issues, the Committee agreed that it could not undertake further scrutiny or make additional comment on the DSD Draft Budget 2011-15.

Introduction

529. In September 2010, the Department, as part of the Spending Review process, submitted bids for capital programmes and increases to revenue programmes for the period 2011-2015.

530. On 15 December 2010, a draft budget document setting out the NI Executive's overall proposed spending plans for the four year period from April 2011 to March 2015 was issued for consultation. The consultation was due to close on 16 February 2011. A final Budget was expected to be published later in February 2011.

531. In addition to the above, DFP asked all departments to publish expenditure and savings delivery plans including the impact on frontline services and to produce equality impact assessments as appropriate. DSD's consultation on its expenditure and savings delivery plans ran concurrently with the DFP consultation.

532. The draft Budget figures (£m) for DSD were as shown in Table 14:

Table 14: Proposed Budget Allocations for DSD (£m)

	Current Expenditure	Capital Expenditure (net of receipts)
2010-11	521.1	269.6
2011-12	516.7	150.3
2012-13	532.0	120.6
2013-14	543.0	99.0
2014-15	523.4	190.3

533. The DFP Minister also indicated that the Executive was to establish

"a £20 million Social Protection Fund to assist those in severe hardship as a result of the economic downturn. This Fund, with an initial allocation of £20 million 2011-12 will then draw upon the additional new revenue streams that Ministers are to take forward."

534. The DFP Minister further indicated that the Executive "has proposed the establishment of a fund of £20 million per annum which will be administered by OFMDFM" to tackle the problem of disadvantage within Northern Ireland "in those interface communities where the problems are many and complex".

535. CFP asked statutory committees to review their departments' draft budgets and respond before 16 February 2011.

536. The Committee for Social Development's review of the DSD Draft Budget 2011-2015 is summarised below.

537. In preparation for its review of the Department's draft budget proposals, the Committee undertook a call for evidence with the voluntary and community sector which was facilitated by NICVA on 25 November 2010. A report on the call for evidence event is available from the Social Development Committee webpage.

538. The Committee also sought written evidence from a wide range of stakeholders including: Northern Ireland Federation of Housing Associations (NIFHA); NICVA; Mencap; Housing Rights Service; NIPSA; Citizens Advice Bureau; Advice NI and Law Centre (NI). Copies of these written submissions are available from the Social Development Committee webpage.

539. The Committee received a Ministerial briefing on the budget at its meeting of 13 January 2011 and a further Departmental briefing at its meeting of 10 February 2011. The relevant minutes of proceedings are is available from the Social Development Committee webpage. Relevant Departmental submissions are also available from the Social Development Committee webpage.

Budget Context- Welfare Reform

540. The Committee took evidence from IFS so as to establish the context for the draft budget. The IFS indicated that tax and benefit changes introduced by the Westminster Government would impact disproportionately on the poorest income quintile (lowest 20% of the population by income) in NI.

541. Members of the poorest income quintile in NI have an average income (after tax and including benefits) of around £10,000 pa. The average cash loss to members of this group is estimated as £360 pa (in 2012) rising to £691 pa (in 2014).

542. The Committee also noted Assembly Research information designed to characterise the poorest income quintile in NI. The briefing note showed that 350,000 individuals including working age adults, children and pensioners are in this category and that they are in receipt of a range of benefits.

543. Relevant papers are available from the Social Development Committee webpage.

Consideration of the DSD Draft Budget 2011-2015

544. The Committee agreed that the draft budget document and Departmental responses did not fully address members' queries or concerns. The results of the Committee's consideration of the draft budget are set out below.

Pay and Posts

545. The Department's draft Budget 2011-2015 document referred to revenue bids that were made in September 2010 in respect of pay increases and price inflation. The Department advised that it expected that there would be no requirement for voluntary or compulsory redundancies in any business area during the budget period. The Committee was advised that reductions in posts will be achieved through natural wastage. The draft budget also appeared to indicate that pay progression will apply to all staff - with those staff earning less than £21,000 also receiving a £250 payment for at least the next 2 years.

546. In respect of the information provided, the Committee agreed that it generally endorsed the Department's apparent approach to the management of pay and employment within DSD in the budget period.

Housing and Social Housing Development Programme

547. The Committee welcomed the apparent commitment in the draft budget to continue to support 500 first-time buyers per year to secure their homes through co-ownership and for support for 200 Disabled Adaptations per year (as recommended by Occupational Therapists). The Committee also noted the capital allocation which is apparently designed to cover most of the costs of the estimated 2,600 pa mandatory private sector grants.

548. It is understood that the draft budget allocation to the SHDP will provide for 4000 new social homes in the budget period. The Department advised that this figure does not include those new social homes that may be started as a consequence of additional funding from the Housing Associations.

549. The Department advised that the Minister does not accept that Housing Associations can provide an additional £80m during the budget period for the SHDP.

550. In correspondence from NIFHA, it was claimed that around £31m can be provided by Housing Associations – through £14m of "in kind" expertise plus £15m by Housing Associations developing new housing with smaller grants from the Department plus £2m in efficiencies and grant savings by "non-developing" Housing Associations. NIFHA also claimed that the above could be partially funded by rent increases equalling RPI plus 0.5% for every year of the budget period and by changes to legislation to allow Housing Associations to build and sell private housing. NIFHA also advised that its members' reserves are committed and their reduction could impair Housing Associations' ability to borrow.

551. The Committee agreed that it generally welcomed many of the capital allocations in the budget designed to meet housing pressures through Disabled Adaptations and Co-Ownership.

552. Some members expressed significant concerns in respect of the potential reduction in the number of new social houses to be built under the SHDP. Members sought further information on the strategic use of Departmental land to support the SHDP. Some members expressed concerns in respect of the viability of a proposed reduction in the Housing Association Grant as a mechanism for increasing new social house building.

553. The Committee sought clarity in respect of how the SHDP was to be funded by additional contributions from the Housing Associations. In the absence of further detail on the funding of the SHDP, the Committee agreed that it could not necessarily endorse the Department's approach in respect of the SHDP.

Northern Ireland Housing Executive and related programmes

554. It is understood that NIHE rents for period 2011-12 are to increase by 3.75%. The Department, in its evidence to the Committee, could not clarify the amount of NIHE rent increases for the rest of the budget period and therefore could not also confirm the level of redundancies that may be required in NIHE (if any).

555. The Department indicated that savings would be made in NIHE through the curtailment of maintenance in-line with the findings of the Saville's report; staff reductions in administration and policy areas; a curtailment of travel & subsistence; training; IT, advertising and survey costs.

556. The Department could not confirm the number of NIHE homes which are to be brought up to the Decent Homes standard in the budget period. The Department advised that it has submitted an "Invest to Save" bid of £12m to upgrade the insulation etc. of a large number of NIHE properties.

557. The Department confirmed in evidence to the Committee that funding for the Warm Homes scheme in private housing is to be maintained at £12m pa. A further £8.5m pa from the Decent Homes budget is to be used to provide anti-fuel poverty measures in NIHE tenures.

558. The Department also indicated that funding for Supporting People providers is to continue at £64m pa though there is to be no increase for inflation for providers. The Department could not indicate the number of new build units to be provided to meet the recommendations of the Bamford Review – this is expected to be some way short of the 1168 units for which the Department bid in September.

559. The Committee agreed that it welcomed continuing support for the Warm Homes Scheme and Supporting People providers. The Committee also indicated its support in principle for the Department's Invest to Save bid to upgrade NIHE homes.

560. The Committee also agreed that, in the absence of clarity on NIHE rents and possible redundancies at the Housing Executive, it could not necessarily endorse the Department's general approach to the funding of the Housing Executive and related programmes.

Voluntary and Community Sector

561. The Department advised in evidence to the Committee that funding for the Neighbourhood Renewal Strategy; Areas at Risk and Small Pockets of Deprivation projects will continue at

present or higher levels, though options to improve efficiency of delivery were being considered. The Department also advised that funding is to continue at current levels for the Housing Rights Service and Supporting Communities NI.

562. In evidence to the Committee, it was indicated that further consideration is to be given by the Department to the reduction of costs by voluntary groups through, for example, the sharing of services.

563. The Committee agreed that it generally endorsed the Department's apparent support for the voluntary and community sector and urged the Department to clarify the detail of its funding decisions at the earliest opportunity. Members also supported, in principle, the voluntary sector's call for the optimization of audit requirements so as to ensure transparency and accountability whilst minimizing unnecessary bureaucracy and costs.

Urban Regeneration and Public Realm

564. The Committee welcomed capital allocations to public realm schemes but noted with concern the Department's advice that there may be an adverse impact on Physical Development projects in: Belfast's middle core; eleven areas in Londonderry, Limavady and Strabane and phases 2/3 of Belfast Streets Ahead.

565. The Department could not advise in detail on the impact of a somewhat reduced capital allocation on the vesting of houses in declared Urban Regeneration Areas, e.g. Parkside; Glandore; Lawnbrook; Woodvale Avenue; the Village and Upper New Lodge.

566. The Department indicated that in respect of the Ilex and City of Culture projects, it had received a lower capital allocation than was requested and that, therefore, its focus would be on the delivery of priority projects.

567. In respect of the Royal Exchange, the Department recognised that the reduced capital allocation for this project must be addressed in advance of the firming-up of the relevant delivery timescale.

568. The Committee generally welcomed the allocation of funding to urban regeneration schemes. The Committee agreed that in the absence of detail relating to key urban regeneration projects, it could not necessarily endorse the Department's approach to the funding of these projects.

Other

569. The Committee noted the capital and revenue allocations to support Welfare Reform including additional resources for the Appeals Service and Medical Support Services. The Committee agreed that many aspects of the proposed reforms are unclear and sought further information as to the relevant allocation of supporting funding.

570. The Committee noted the absence of detail in the budget document in respect of the Jobs and Benefits Office programme. The Committee considered that this important programme has had a positive impact on employment rates in deprived areas. The Committee sought further information as to how the Department is to work with other bodies to enhance the delivery of jobs and benefits services.

571. The Committee also noted proposed DWP reforms to arrangements for Child Maintenance. The Committee expressed some concerns in respect of these proposed reforms and agreed that,

when possible, the Department should brief members on the relevant outworkings of the DWP reforms.

572. The Committee also agreed that it required further information on the application by the Department to the Social Protection Fund for support for a scheme to help home owners facing repossession proceedings.

Independent Bodies

NI Audit Office

573. The Audit Committee has taken the opportunity to comment on the proposed spending reductions for the NIAO as set out in the Executive's draft Budget 2011 -15.

574. Although the funding for the NIAO comes from within the NI Executive's DEL and although there was a figure included in the Executive's draft Budget for reductions to the budget of the NIAO, further to section 66 of the Northern Ireland Act 1998, it is for the Audit Committee (in place of DFP) to agree the estimates of the NIAO and to lay those estimates before the Assembly.

575. The Audit Committee recognises the significant reduction in the levels of funding available from within the NI Executive's DEL over the budget period. The Audit Committee thinks that it is important, therefore, that the NIAO should make a significant contribution to reducing its own expenditure over this period. This is important not only in terms of reducing costs to the public purse, but also in terms of demonstrating that the NIAO is willing and ready to bear its fair share of the savings that must be made.

576. The Audit Committee met on 9 December 2010 and received a presentation from the Comptroller and Auditor General on the issue of efficiency savings that could be made by the NIAO over the budget period. This presentation set out how the NIAO intended to build on efficiencies already made this year by, inter alia, reducing significantly its outsourcing requirements, by reducing recruitment and by implementing a two year pay freeze. Further detail is set out in the summary document produced by the NIAO provided at Appendix 4.

577. The Committee considered carefully the proposed savings that the Comptroller and Auditor General outlined. The Committee also gave consideration to the overall reduction to the NI Executive's DEL and to the planned reductions to the budgets of other audit bodies in the UK. Having considered all of this, the Audit Committee agreed that it would expect to see the NIAO reduce its budget requirement by at least 10% in cash terms by 2014-15. This 10% reduction is from a baseline of £9.0m in 2010-11 (in terms of the NIAO's net resource requirement).

578. The Committee advised the NIAO that it should therefore proceed to prepare a corporate plan for 2011-12 onwards based on this financial forecast. This plan will in turn inform the Audit Committee's consideration of the NIAO's estimates for 2011-12. The estimates for 2011-12 will be agreed shortly by the Audit Committee, after having first consulted PAC and DFP.

579. The Comptroller and Auditor General has advised that the proposed savings represent the maximum reduction that could be made by the NIAO whilst still maintaining the same quality and extent of service to the Assembly that has been offered in recent years. It is important in the current climate for the maximum level of practicable savings to be made. However, to be clear, the Audit Committee is committed to ensuring that the NIAO has the resources necessary in order to ensure that it can provide effective support to the NI Assembly in its task of holding NI departments, executive agencies and other public bodies to account for their use of public

money. This role is even more important in the current financial climate. The Audit Committee would therefore not agree a reduction in the funding for the NIAO that would prevent it from carrying out this crucial role.

580. Further to the meeting of 9 December, the Audit Committee wrote to DFP so that it could be aware of the position. However, before this correspondence was received by DFP, the draft budget was published. The Chairperson of the Committee has since met with the Finance Minister and informed him of the Audit Committee's position.

NI Assembly

Background

581. The NI Assembly Commission (the "Commission") is the corporate body of the NI Assembly. It has responsibility under section 40(4) of the Northern Ireland Act 1998 to "provide the Assembly, or ensure that the Assembly is provided, with the property, staff and services required for the Assembly's purposes". The Commission's budget covers the salaries and allowances for Members of the Legislative Assembly including Ministers and other Assembly Office-holders, the salaries cost for the Assembly Secretariat (the Commission's administrative arm) and general administration costs including non-cash costs.

582. Following the Chancellor of the Exchequer's statement on 24 May 2010, and in anticipation of the outcome of the UK-wide Spending Review, the Commission sought to identify cost savings and efficiencies in anticipation of a reduced allocation to the NI Block for the financial years from 2011-12 to 2014-15. Following the Chancellor's statement on 20 October 2010, the Commission noted that the headline impact on the NI Block from the Spending Review for DEL Resources had been variously reported (by HMT) as a 6.9% reduction in real terms or (by DFP) as a 8% reduction in real terms over the four-year Spending Review period. In cash terms, the Spending Review resulted in a modest increase of approximately 2% from £9.3bn in the baseline year of 2010-11 to £9.5bn in 2014-15 (as per HMT). The real reduction in DEL Capital is reported as -40% (from £1.2bn in 2010-11 to £0.80bn in 2014-15). It should be noted that all figures expressed in real terms in this paper are calculated using the assumptions for inflation over the Spending Review period that were used by HMT in the Spending Review.

583. The Commission's spending review exercise was contemporaneous with the exercise carried out by Executive departments in response to a note issued on 17 June 2010 by the Central Expenditure Division of DFP to Finance Directors in Executive departments. That note was subsequently forwarded to the Commission on 26 June 2010 following a request from the Commission to DFP for a copy. Guidance appended to the note titled "NI Executive Budget 2010 Guidance for Departments" observed (at paragraph 1.18) that "In line with previous arrangements, the NI Assembly and the NI Audit Office will be provided with the level of funding required by each organisation (both current expenditure and capital investment) in order to carry out their respective functions, as agreed by the Assembly Commission and the Public Accounts Committee (sic) respectively".

584. Although not part of the Executive's Budget 2010 process, the Commission continued to develop and refine its proposals for cost savings. It was indicated to DFP in late August 2010 that the Commission was clear in its intention to seek to identify cost savings on the 2010-11 baseline for each year of the four-year budget period. The impact on the operation of the Assembly through making savings had still to be assessed at that time and would be taken forward following the Assembly's summer recess. The Speaker (as Chair of the Assembly Commission) wrote to the Minister of Finance and Personnel on 15 November 2010 to advise the Minister that the Commission has asked officials to bring forward savings proposals of 13% in

real terms for DEL Resources. The Speaker subsequently wrote to the Minister on 9 December 2010 to apprise him of the Commission's budget deliberations and to confirm that a real cut of 13.3% had been agreed.

Key Issues

585. As part of its spending review exercise, all business areas within the Assembly Secretariat were asked to provide options for costs savings on the 2010-11 baseline level for the next four years. When these submissions were received, a cross-Directorate project team was established to analyse the data and to collate the savings options. The exercise included an assessment of the impact of the range of savings options on the delivery of services to the Assembly and its Members. Secretariat staff were primarily asked to look at Secretariat Staff Payroll, Secretariat Admin Costs, payments to political parties under the Financial Assistance for Political Parties Scheme 2007, non-cash costs and Capital expenditure; as it was recognised that the remaining budget items such as Members' Admin Costs, Members' Payroll and Office Cost Allowance (OCA) were likely to be decided by a proposed Independent Financial Review Panel (subject to the Assembly passing the required legislation).

586. Considerable work was undertaken in order to identify areas where savings might be made and, importantly, to assess the impact of any savings options on the delivery of services to the Assembly and its Members. The administrative costs of operating the Assembly Secretariat were closely analysed as part of this exercise, with a particular focus on seeking to find savings from within administrative budgets before consideration was given to savings that might include staff numbers. However, it was recognised that due to the structure of the budgets within some business areas, it might only be possible to achieve savings by considering staff resources. Where business areas could only achieve savings by altering their staff complement, the analysis of any impact on service delivery of such alterations was especially important.

587. At meetings on 2 November 2010, 23 November 2010 and 7 December 2010, the Commission considered the implications of the Spending Review outcome, the impact on the NI Block and its desire to move beyond the level of real reduction (either 6.9% or 8%) that occurred across the NI Block as a whole. The Commission agreed a Resources budget for the Spending Review period (shown at Annex A – see Appendix 4) that delivered a real cut of 13.3% over the Spending Review period which equates to a cash cut of 4.9% or £2.37m.

588. It is noted that a real reduction of 13.3% or cash reduction of 4.9% compares favourably with external comparators. For example;

(1) The savings exceed the overall real reduction in the NI Block Grant of 8% (DFP figure);

(2) The savings exceed the expressed will of the House through the Private Member's Motion passed by the Assembly on 8 November 2010 calling on the Commission "to reduce its running costs in line with the level of reduction faced by Executive Departments";

(3) The cash savings of 4.9% exceed the overall position for the NI Block which shows a modest cash increase; and

(4) The savings exceed the cuts agreed by the Scottish Parliament and the National Assembly for Wales (12% real cuts).

589. The figures at Annex A (see Appendix 4) are based on a series of assumptions. One of the most pressing assumptions relates to the proposed formation of an Independent Financial Review Panel to consider the financial support available to Members (both salaries and

allowances) during 2011-12. The Commission noted that these costs will be set by the Panel and, as such, will be outside the control of the Commission or, indeed, the Assembly.

590. The costs at Annex A have been constructed based on the following additional broad assumptions;

Members' Costs

a. Members' administrative costs will be higher in 2011-12 due to the payment of Winding Up Allowance and Resettlement Allowance following the May 2011 election. These costs will occur in advance of the first salaries or allowances Determination issued by the Panel and it seems unlikely that the Panel would take retrospective action for either of these costs. Therefore, an estimate of £1.0m has been assumed for Winding Up Allowance and Resettlement Allowance only for the 2011-12 financial year. The amounts for future years reflect the 2010-11 budget figure.

b. The rate of OCA has been frozen at 2010-11 levels over the four-year period as this is an area where the views of the Panel are uncertain. The Panel's view on the absolute rate of OCA and whether it should be up-rated each year cannot be known, so a flat line approach has been assumed. Any changes to the rate of OCA (upwards or downwards) would require corrective action as in each of the four years.

c. As with OCA, the level of Members' and Officeholders' salaries has been assumed to remain at existing levels over the Spending Review period. It is expected that the Panel will provide a new Determination in respect of salaries during 2011-12 but the Panel's views cannot be known. The evidence from recent SSRB exercises has shown that Members' salaries do not compare favourably with those in the other devolved legislatures. However, it is unclear how the current economic circumstances will have an impact on any recommendations that might come from the Panel during 2011-12. As with OCA, changes to the rate of Members' salaries (upwards or downwards) would require corrective action as in each of the four years.

Party Allowance

d. Payments to political parties under the Financial Assistance for Political Parties Scheme 2007 have been frozen at 2010-11 levels. This Scheme includes an annual uprating provision, so an amendment to the Scheme would be required following consultation with parties.

Secretariat Costs

e. Secretariat Costs includes staff payroll and general administrative costs. The estimates for staff payroll have been constructed in line with the Commission's understanding of wider public sector pay policy, i.e. the inclusion of annual salary increments with a modest additional sum of £250 for staff who earn less than £21,000 per annum for the first two years of the Spending Review period. Staffing costs have been constructed based on a planned reduction in staff numbers over the four-year period. It is assumed that the number of Full Time Equivalents (FTE) will fall by 30 FTE posts from the present staff complement of 440 FTE to 410 FTE by 2014-15. It is anticipated that the figure of 410 FTE can be attained through natural wastage.

f. The Committee will be aware that the Assembly Commission employs the staff of the Assembly Secretariat. Secretariat staff are not employed by NICS. Therefore, the terms and conditions of service for the Commission's employees are not wholly analogous to those in place in the NICS (in much the same way that staff employed in, for example, the health, education or local government sectors do not have the same terms and conditions of employment as the NICS). The Commission has made progress on a long-outstanding review of pay and grading within the

Secretariat and it is hoped that this review will be finalised before the commencement of the Spending Review period. Certain assumptions about the implementation of the review have been made including the Commission's desire to have a pay structure which does not include an Assembly specific allowance.

g. The Commission has also indicated its desire to undertake a thorough programme of efficiency reviews which are expected to deliver further administrative and staffing savings. However, given the uncertainty associated with such reviews, the Commission has not included an estimate of any further savings that can be delivered. Any savings delivered by this programme of reviews will, of course, reduce the Assembly's requirements over the period.

h. It is assumed that the administrative costs of providing a wide range of services to Members and other users of Parliament Buildings will fall by 30.1% in real terms over the four years. These figures were generated by the recently completed savings exercise across the Assembly Secretariat. The impact of this level of real savings will be felt across a range of services and business areas. For example, it is anticipated that paper-based outputs for use by the Assembly's committees will result in administrative savings and sustainable development benefits and reductions in catering services are anticipated.

i. It is also anticipated that new administrative expenditure pressures will emerge. For example, the running costs of the proposed Independent Financial Review Panel and the Northern Ireland Assembly Commissioner for Standards will be contained within the Commission's reduced budgetary requirements. Similarly, the costs attributed to the additional work undertaken at the Assembly following the devolution of Policing and Justice have been contained with the proposed Resource budget reduction over the four year period.

Non-Cash Costs

j. These costs have been profiled to reflect a level of capital expenditure that should not have an undue impact on depreciation charges over the four-year period.

Capital Expenditure

591. As part of the Commission's spending review deliberations, a schedule of potential capital expenditure proposals was compiled for the next four years. The cost of repairs and alterations to the roof of Parliament Buildings (which, at present, includes modest accommodation proposals) makes up just over 52% of the entire capital expenditure requirement of £11.5m across all years. Table 15 summarises the expected capital requirements for the next four years.

Table 15: Assembly Commission Capital Expenditure Proposals over the Spending Review Period

	2011-12 Forecast £m	2012-13 Forecast £m	2013-14 Forecast £m	2014-15 Forecast £m
Capital	£3.03	£5.71	£2.00	£0.80

592. Other significant proposals for capital expenditure include costs in 2011-12 for the introduction of software to produce, format, amend and publish Bills, further investment in the equipment and systems needed to produce Hansard and investment in the Assembly's website. In addition, further investment in the Assembly's IT infrastructure is required to maintain present operating capacity.

593. The Commission is very mindful of the pressures on the Block in respect of capital expenditure. As part of its planning process, it assigned indicative priorities (1 = high, 2 = medium, 3 = low) for each capital expenditure proposal. It is acknowledged that these priorities may change over the four-year planning period but they represent a reasonable estimate of the capital expenditure requirement over the Spending Review period. However, the Commission will re-consider these relative priorities in light of the emerging consultation exercise for the draft Budget 2011-15 as it relates to capital expenditure.

Next Steps

594. The draft Budget 2011-15 presented by the Minister of Finance and Personnel to the Assembly on 15 December 2001 included a 25.7% real cut (equating to a cash cut of 18.5%) to the Commission's Resources (DEL) budget over the Spending Review period. The Resources (DEL) and Capital budgets established by the Assembly Commission for the Spending Review period are shown in Table 16 below together with the figures included in the draft Budget 2011-15.

Table 16: Draft Budget 2011-15 Resources (DEL) and Capital Figures for the Assembly Commission

	2010-11 Budget £m	2011-12 Forecast £m	2012-13 Forecast £m	2013-14 Forecast £m	2014-15 Forecast £m
Assembly Commission Budget					
Resources (13.3% real cut)	£48.40	£47.45	£46.20	£46.08	£46.03
Capital	£3.60	£3.03	£5.71	£2.00	£0.80
Draft Budget 2011-15					
Resources (25.7% real cut)	£48.40	£46.00	£43.70	£41.52	£39.44
Capital	£3.60	£1.20	£0.00	£0.00	£5.70

595. The Commission fully recognises the constraints on public sector finance over the next four years. The Commission is also mindful of its legal responsibilities to the Members of the Assembly and to the Assembly as a whole. The Commission will continue to engage with internal and external stakeholders to seek to establish a budget for the Commission for the Spending Review period that allows the Assembly to carry out its legislative and Executive scrutiny functions and to facilitate engagement between the Assembly and its electorate in an effective and responsible manner.

596. The draft Budget implies a cash reduction of £8.96m by 2014-15 on the Commission's baseline budget for 2010-11. This level of reduction is £6.59m greater than the figures in the Commission's budget. A reduction of this magnitude would have a detrimental impact on the ability of the Commission to fulfil its statutory duties in support of Members and the Assembly (both in Plenary and in Committee).

Future Consideration of the Assembly Commission's Budget

597. The Commission is of the view that the process to set the budget of the Assembly requires further consideration. It is acknowledged that the Budget Act for each year authorises the use of resources to NI Executive departments and to other entities such as the Assembly Commission

and the NIAO so the Assembly, in Plenary, has the final say on all financial allocations. However, the present arrangements for funding the activities of the Assembly via the Commission's budget are, in practice, indistinguishable from an Executive department funded from the NI Block.

598. It is interesting that both the Scottish Parliament and the National Assembly for Wales have instituted separate arrangements to establish the budget for the legislature. The legislatures in Scotland and Wales are particularly relevant (as opposed to Westminster or Dublin) as they are both devolved legislatures whose funding is derived from the UK Exchequer via a Block Grant. In both cases, the Parliament or Assembly has a direct role in considering, approving and reviewing the budgets for their respective corporate bodies with the respective Finance Committees having distinct roles. In Wales, for example, the process for setting the Assembly's budget is covered in Standing Orders. It is the Commission's intention to give further consideration to these alternative funding approval and financial monitoring arrangements.

Conclusion

599. The Committee is invited to consider the Assembly Commission's approach to establishing a budget for the Spending Review period that meets the Commission's wish to exceed the level of savings (both real and cash) across the NI Block as a whole and that complies with the will of the House. In addition, the Committee is asked to recognise the statutory responsibilities placed on the Commission under the Northern Ireland Act 1998 in support of the Assembly and its Members in its legislative and Executive scrutiny roles.

600. The Committee may also wish to consider and, if appropriate, include relevant commentary on the means by which the Commission's budget is set in its third report on its Inquiry into the Role of the NI Assembly in scrutinising the Executive's Budget and Expenditure.

[1] On the 26 January 2011, the governor of the Bank of England predicted that inflation would rise towards 5% in the coming months: See - http://uk.reuters.com/article/idUKLNE70P00J20110126

[2] See http://www.ifs.org.uk/publications/5245

[3] For example, deaf people can rely heavily on text messaging.

[4] Minister of Finance and Personnel's Foreword, Draft Budget 2011-15: http://www.northernireland.gov.uk/website_-_draft_budget.pdf

[5] Reports published by the Committee can be found at http://archive.niassembly.gov.uk/finance/2007mandate/finreports_07.htm

[6] http://money.cnn.com/2006/05/15/real_estate/NAR_firstQ2005_home_prices/index.htm

[7] See: http://www.guardian.co.uk/business/2009/dec/21/osborne-warns-greek-style-crisis

[8] See: http://www.skidelskyr.com/site/article/austerity-v-stimulus

[9] A recession is understood as two quarters of negative GDP growth.

[10] In a paper submitted by Victor Hewitt, the Committee was informed that the reason for this variance was because HMT had subtracted student loans, depreciation and £128m worth of cuts that had previously been administered by the Executive in the 2010-11 financial year from it's baseline.

[11] Public sector job losses are likely to have a strongly negative impact the labour market in the private sector due to the strength of the regional economic multiplier. Prospects in the private sector are also likely to be negatively impacted by the collapse in the economy of RoI, Northern Ireland's largest export market. http://www.bbc.co.uk/news/business-11530811

[12] AQO 76/11

[13] Both the Scottish and Welsh Budgets have since been finalised.

[14] The Welsh Assembly passed a final budget motion for 2011/12 which included indicative allocations for 2012/13 and 2013/14. The final budget vote has approved resources only for 2011/12 and not beyond.

[15] AQW 3375/11

[16] A final version of the Committee for Education's response was received on 15 February, which the Finance and Personnel Committee has not had the opportunity to consider in finalising this Report. This updated version has therefore been attached in the Appendices to this Report.

[17] http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_41_09_10R.html

[18] http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_19_08_09R.htm

[19] http://www.scotland.gov.uk/News/Releases/2010/11/19124547

[20] http://archive.niassembly.gov.uk/record/reports2010/101215.htm#a4

[21] An extract from HMT's guidance in the Assembly research paper provides further details and states that administration budgets include the provision of policy advice, business support services, back-office administration of benefits, advice on and administration of grant programmes, technical or scientific support, and the work of the Government's Regional Offices

[22] http://archive.niassembly.gov.uk/record/committees2010/FinancePersonnel/110202_StrategicIssues.pdf

[23] HMT has agreed that, as an exception for 2010-11, the Executive may carry forward any underspends declared in advance of the Treasury Spring Supplementary Estimates. The Executive has used this flexibility to carry forward £23 million in capital resources, and this has been factored into the capital resources available in the draft Budget 2011-15.

[24] Assembly Research Paper, Draft Budget 2011-15 (see Appendix 6)

[25] The Committee understands that this amount will score as AME and not DEL and notes that it has not been included in the draft Budget tables of figures, though it was referred to in the UK Spending Review document.

[26] The £25 million from HMT is in addition to the block grant, and can only be used for this purpose. The £25 million from the Executive is from the 2011-12 block grant (source: DFP correspondence, Appendix 5)

[27] www.scottishfuturestrust.org.uk

[28] As outlined in Table 1 and Table 2 of the draft Budget document, pp 51-52.

[29] On 26 January 2011, the governor of the Bank of England predicted that inflation would rise towards 5% in the coming months: See - http://uk.reuters.com/article/idUKLNE70P00J20110126

[30] See paragraph 1.18, NI Executive Budget 2010 – Guidance for Departments, Appendix 5.

[31] http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html

[32] Official Report, Preliminary Inquiry into Public Sector Efficiencies: Response to Inquiry Report, 6 October 2010 (Appendix 2)

[33] See http://archive.niassembly.gov.uk/finance/2007mandate/cs_pay_review/fp_committee_response.htm

[34] Economic theory shows that following a reduction in government spending, consumption, investment and/or net exports must now grow in order to replace the portion of GDP previously reliant on government spending. Although increasing tax revenue to maintain government spending has the effect of reducing both consumption and investment, due to a positive marginal propensity to save, these reduce by less than the total amount of additional revenue raised. For this reason, a reduction in government spending is akin to a fiscal contraction.

[35] See http://www.ifs.org.uk/publications/5245

[36]A tax is efficient when it does not distort economic behaviour and vertically equitable when it is based on an ability to pay.

[37] See: http://archive.niassembly.gov.uk/record/committees2008/FinancePersonnel/240908_rates.htm

[38] Scotland hopes to raise £30m from the "supermarket tax" and to use the funding to support town centre development. See: http://business.scotsman.com/tax/Supermarket-tax-will-give-Holyrood.6650224.jp and

http://www.scotland.gov.uk/Publications/2010/11/17091127/0

The Commission for Integrated Transport published a report in 2006 which argued that the out-of-town retail model threatened social inclusion and accessibility for the wider community. Their report also found that the out-of-town retail outlets distorted the market because high street stores were unable to compete. Furthermore, the report argued that the increase in car use as a result of the development of out-of-town retail outlets was unsustainable. See: http://cfit.independent.gov.uk/pubs/2006/stc/index.htm

[39] See: http://archive.niassembly.gov.uk/finance/2007mandate/reports/report06_07_08r.htm

[40] PC10 is the regulatory price control determination, produced by the Utility Regulator and accepted by NI Water, for the three year period 2010-13. It sets the overall price limits and revenue allowed to NI Water, sets out high level investment priorities as well as operating costs and efficiencies for it to achieve over the period 2010-13.

[41] For example, deaf people can rely heavily on text messaging.

[42] Official Report (Hansard) Spending Review and Budget 2011-15, 10 November 2010, http://archive.niassembly.gov.uk/record/committees2010/FinancePersonnel/101110SpendingRevi ewandBudget2011-15.pdf

[43] Key elements of the proposed reforms to welfare are set out in the Assembly Research paper, Economic Impacts of Cuts in Annually Managed Expenditure (Appendix 6)

[44] Figure provided by Seamus McAleavey, NICVA, during oral evidence - £2,500 a week to put a child in care.

[45] The Westminster Government has retained control of the power to set interest rates or change the levels of taxation and overall government spending. Together these are considered the most important macroeconomic determinants of economic growth.

[46]Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure: http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html

[47] http://www.centreforsocialjustice.org.uk/client/downloads/CSJOutcomeBasedGovernment_final2_WEB.pdf

[48] www.pwc.co.uk/ni/publications/ni-government-futures-corporation-tax.html

[49] AQO 931/11

[50] http://www.erini.ac.uk/Publications/PDF/Review_of_Industrial_Derating_Oct_2007.pdf

[51] http://www.greennewdealni.org/

[52] http://archive.niassembly.gov.uk/record/reports2010/101005.htm

[53] http://www.nicva.org/sites/default/files/FINAL_REPORT_NI_DRAFT_BUDGET_9FEB11.pdf

[54] The final response from the Committee for Education, received on 15 February 2011, is included at Appendix 4.

[55] See Assembly Research paper, Draft Budget 2011-15, Appendix 6

[56] DFP underspend in current expenditure over recent years: 3.4% in 2009-10 compared to 0.7% across departments; 0.9% in 2008-09 compared to 0.5% across departments; 3.1% in 2007-08 compared to 2.1% across departments; 10.6% in 2006-07 compared to 2% across departments; 8% in 2005-06 compared to 1.9% across departments; and 9% in 2004-05 compared to 1.6% across departments.

[57] Assembly Research and Library Service Briefing Note, 17 January 2011 Draft Budget 2010: DRD Spending Proposals

[58] Letter from NIAUR, 26 January 2011.

Appendix 1

Minutes of Proceedings

Wednesday, 2 June 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Jonathan Craig
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan
Mr Declan O'Loan

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr David McNarry (Deputy Chairperson)
Ms Dawn Purvis MLA

10.07 am The meeting commenced in open session.

5. Budget (No. 3) Bill 2010 – Main Estimates 2010/11 (DFP Evidence Session)

Agreed: that the Committee will write to the Minister of Finance and Personnel to seek assurances regarding improved consultation and transparency in respect of future budget processes. The Committee will request an urgent response to help inform its decisions with regard to accelerated passage and support for the suspension of Standing Orders.

10. Correspondence

The Committee considered the following correspondence:

- DFP: Forthcoming Budget Process 2010-11.

[EXTRACT]

Wednesday, 9 June 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA

Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Jonathan Craig

10.10 am The meeting commenced in open session.

4. Budget (No.3) Bill – Consideration of request for accelerated passage and suspension of standing orders

The Committee received advice from Mr Damien Martin, Clerk Assistant, NI Assembly on the procedural considerations around the DFP proposal to seek a suspension of standing orders to dispense with both the Further Consideration Stage and the 10 day minimum requirement for the Budget (No.3) Bill to complete all Assembly stages.

Agreed: to release the briefing paper prepared by the Clerk Assistant to the DFP officials in the public gallery.

10.27am Ms Purvis joined the meeting.

Members also considered correspondence from the Minister of Finance and Personnel responding to the Committee's request for assurances in terms of addressing the need for improved transparency and consultation by departments with their respective Assembly committees as part of the future budget process.

The following DFP officials were invited to give evidence to the Committee: Mr Michael Brennan, Head of Central Expenditure Division, Central Finance Group; and Ms Agnes Lennon, Central Expenditure Division, Central Finance Group. The evidence session was recorded by Hansard.

Question put and agreed to: that the Committee for Finance and Personnel is satisfied that there has been appropriate consultation with it on the public expenditure proposals contained in the Budget (No.3) Bill 2010 and is content to grant accelerated passage to the Bill in accordance with Standing Order 42(2).

Question put: that the Committee for Finance and Personnel agrees to support the Department of Finance and Personnel in seeking the suspension of standing orders to dispense with both the Further Consideration Stage of the Budget (No.3) Bill and the 10 day minimum requirement for the Bill to complete all Assembly stages.

The Committee divided: Ayes 6; Noes 1; Abstentions 0.

AYES

Dr Farry, Mr Hamilton, Mr McCann, Mr McLaughlin, Mr McNarry, Ms Purvis

NOES

Mr O'Loan

ABSTENTIONS

None

Question accordingly agreed to.

Members considered a draft letter to the Speaker confirming its decision to support the request for accelerated passage and the suspension of the relevant standing orders.

Agreed: that the draft letter be amended to further contextualise the Committee's support for the request for accelerated passage and its support for the suspension of the relevant standing orders; including an indication that the support for suspending the said standing orders should not be regarded as setting a precedent for applying such measures in respect of future Budget Bills.

Agreed: to copy the relevant extract of the Minister's letter on the future budget process and the "early draft timetable for Budget 2010 process" to the other statutory committees for information and planning purposes.

Agreed: to request a copy of the DFP guidance in respect of Budget 2010 and the Savings Delivery Plans that was due to be issued to departments in early June.

Agreed: to invite DFP officials to brief the Committee at its meeting of 30 June 2010 on the Department's progress in preparing its return for the Budget 2010 process.

[EXTRACT]

Wednesday, 23 June 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Mr Jonathan Craig MLA
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Declan O'Loan MLA
Mr Fra McCann MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Christopher McNickle (Clerical Officer)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Ms Dawn Purvis MLA

10.31am The meeting commenced in open session.

5. DFP's Role in Review of Economic Policy

Members received a briefing on DFP's Role in the Review of Economic Policy from the following DFP officials: Mr Bill Pauley, Head of Strategic Policy Division, Central Finance Group; Mr Peter Jakobsen, Strategic Policy Division, Central Finance Group.

11.20am Dr Farry returned to the meeting.

11.22am Mr Hamilton left the meeting.

11.30am Mr Hamilton returned to the meeting.

11.30am Mr McCann left the meeting.

11.32am Mr Craig left the meeting.

Agreed: to forward the DFP briefing paper to the Committee for Enterprise, Trade and Investment for information.

[EXTRACT]

Wednesday, 30 June 2010
Room 135, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr Jonathan Craig MLA
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Fra McCann MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Miss Leanne Johnston (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr David McNarry MLA (Deputy Chairperson)

10.04am The meeting commenced at in open session.

6. Budget Issues (DFP Evidence Session)

The Committee took evidence from the following DFP officials: Michael Brennan, Head of Central Expenditure Division, Central Finance Group (CFG); Joanne McBurney, Central Expenditure

Division, CFG; and Deborah McNeilly, Finance Director, Corporate Services Group. The evidence session was recorded by Hansard.

A range of issues were discussed, including: the implications for Northern Ireland of the UK Emergency Budget; Provisional Outturn figures for 2009-10; the Budget 2010 process and Savings Delivery Plans; and the draft DFP position for Budget 2010.

11.44am Mr McQuillan returned to the meeting.

11.44am Mr Hamilton left the meeting.

11.44am Ms Purvis left the meeting.

11.50am Mr McCann returned to the meeting.

Agreed: that the Committee will forward any additional issues not covered during the evidence session to DFP for written response.

[EXTRACT]

Wednesday, 8 September 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Fra McCann MLA

10.05am The meeting commenced in open session.

3. Matters Arising

Budgetary Issues arising from the session on 30 June 2010

Members noted a response from DFP on matters arising from the Budgetary Issues evidence session on 30 June 2010.

Review of 2008 - 11 Budget Process: Action Plan

The Committee considered the DFP Action Plan, following the Review of the 2008-11 Budget Process, which was agreed by the Executive in July. Members noted that the Action Plan did not take account of the recommendations in the Committee's co-ordinated response to the DFP Review as set out in the Committee's Second Report on the Budget Scrutiny Inquiry.

Agreed: to defer further consideration of the DFP Action Plan until next week's meeting and, in the meantime, to seek clarification from DFP on whether the Executive was made aware of the recommendations of the Committee's Second Report on the Budget Scrutiny Inquiry when the Action Plan was agreed by the Executive in July.

5. DFP Spending and Savings Plans 2011-15 (DFP Evidence Session)

The Committee held an evidence session with the following DFP officials: Ms Deborah McNeilly, Finance Director, Finance Division, Corporate Services Group; and Adrian Doherty, Finance Director, Corporate Services Group, on the Spending and Savings Plans 2011-15. The evidence session was recorded by Hansard.

12.06pm Dr Farry returned to the meeting.

12.18pm Mr McLaughlin left the meeting.

12.22pm Mr McLaughlin returned to the meeting.

12.35pm Ms Purvis left the meeting.

Agreed: that the Departmental officials will provide further information as requested by members, including a copy of the DFP Savings Delivery Plan by early October; and that the Committee will forward any additional issues not covered during the evidence session to DFP for written response.

9. Committee Work Programme

Members considered a draft of the Committee work programme for the autumn session and an outline of Departmental-Committee Business provided by DFP.

Members also noted a request from the Northern Ireland Council for Voluntary Action (NICVA) to brief the Committee on the 'Government's current round of Comprehensive Spending Review 2011-2015'.

Agreed: to invite NICVA to submit a written submission to the Committee ahead of a proposed oral evidence session which could take place after the Spending Review announcement due on 20 October.

[EXTRACT]

Wednesday, 15 September 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA

Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Daithí McKay MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

10.05am The meeting commenced in open session.

2. Draft Minutes of Proceedings of 8 September 2010

Agreed: that the evidence session on the Budget Process Action Plan and the Department's response to the Committee's Second Budget Scrutiny Inquiry Report will be held in closed session, as the Committee's Report will remain embargoed until the start of the debate in plenary on Monday 20 September. The evidence session will be recorded by Hansard, and the Official Report published on the website after the plenary debate has taken place.

8. Budget Process Action Plan and DFP Response to the Committee's Second Budget Scrutiny Inquiry Report

The Committee took evidence from Michael Brennan, Head of Central Expenditure Division, Central Finance Group, DFP. The evidence session was recorded by Hansard.

12.10pm Mr Frew returned to the meeting.

Agreed: to copy the Executive's Budget Process Action Plan and related correspondence together with the DFP response to the Committee's Second Budget Scrutiny Inquiry Report to other statutory committees, in advance of the debate on the Report in plenary on Monday 20 September.

Agreed: to publish the DFP response to the Committee's Second Budget Scrutiny Inquiry Report on the Committee's website after the plenary debate.

12. Correspondence

The Committee considered the following correspondence:

- Committee for Education: Budget 2010;
- Action for Children Northern Ireland: NI Government Department Spending Review 2010/11:

[EXTRACT]

Wednesday, 29 September 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies: Mr Mitchel McLaughlin MLA
Ms Dawn Purvis MLA

10.03am The meeting commenced in open session.

9. Correspondence

The Committee considered the following correspondence:

- DFP: Follow up to session on DFP Spending and Savings Plan 2011 – 15;
- DFP News Release: Wilson Meets Chief Secretary to the Treasury;
- DFP: Response to Committee Report on its Preliminary Inquiry into Public Sector Efficiencies:

10. Committee Work Programme

Members considered a draft of the Committee work programme.

Agreed: to take evidence from the Strategic Investment Board regarding its role in the Investment Strategy.

Agreed: to postpone the Ministerial Briefing to a date when further progress has been made on the development of the Draft Budget. In the meantime, the Committee will proactively explore issues of relevance in this regard.

[EXTRACT]

Wednesday, 6 October 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Simon Hamilton MLA
Mr Daithi McKay MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Miss Karen Jardine (Assistant As
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies: Mr Paul Girvan MLA

10.04am The meeting commenced in open session.

3. Matters Arising

Budget 2010 Process

Members discussed ways in which they could begin to proactively explore issues relating Budget 2010.

Agreed: to invite evidence from a number of economists/specialists on strategic and cross-cutting public finance issues, which will inform the Committee's deliberations. Further consideration will be given to the individuals to be invited, the areas of focus and the possibility of commissioning separate research and briefing on these areas.

4. Construction Industry and Public Sector Expenditure: Construction Employers Federation – Evidence Session

The Committee held took evidence from the following witnesses from the Construction Employers Federation (CEF): Mr Ciarán Fox, Federation Manager; and Mr Nigel Lucas, Federation Manager. The evidence session was recorded by Hansard.

10.34am Ms Purvis joined the meeting.

10.44am Dr Farry joined the meeting.

10.52am Mr McNarry left the meeting.

11.00am Mr McNarry returned to the meeting

11.15am Ms Purvis left the meeting.

11.22am Mr Frew left the meeting.

Agreed: that CEF will provide the Committee with further information on a number of issues raised during the session.

Agreed: that the Chair and Deputy Chair will seek an urgent, informal meeting with the Minister of Finance and Personnel to discuss issues regarding the Aggregates Levy.

11.27am Ms Purvis returned to the meeting.

5. Industrial Derating: DFP Evidence Session

The Committee took evidence from the following DFP officials: Mrs Veronica Holland, Rating Policy Division; Mr Andrew McAvoy, Rating Policy Division; and Ms Tracey Ayre, Rating Policy Division. The evidence session was recorded by Hansard.

11.43am Mr Frew returned to the meeting.

Agreed: that the Committee will defer its decision on whether to support the DFP proposal to extend the industrial derating scheme, until it receives the follow up information requested from the Departmental officials during the evidence session.

12.00pm Mr McNarry left the meeting.

6. Preliminary Inquiry into Public Sector Efficiencies: Departmental Response to Inquiry Report – DFP Evidence Session

The Committee took evidence from the following DFP officials: Mr Richard Pengelly, Public Spending Director; and Mr Shane Murphy, Performance and Efficiency Delivery Unit. The evidence session was recorded by Hansard.

12.02pm Mr Hamilton left the meeting.

12.20pm Mr McKay left the meeting.

12.22pm Mr Frew left the meeting.

12.30pm Mr Frew returned to the meeting.

12.32pm Mr McKay returned to the meeting.

12.34pm Mr McLaughlin left the meeting.

12.46pm Mr McLaughlin returned to the meeting.

Agreed: that the DFP officials will provide further information to the Committee as requested, including confirmation of which of the Committee's recommendations the Minister has accepted.

Agreed: that any issues not covered during the evidence session will be forwarded to DFP with a request for a written response.

Agreed: that the forthcoming session with the Strategic Investment Board (SIB) will include consideration of the work of SIB in relation to the Capital Assets Realisation Taskforce.

9. Correspondence

The Committee considered the following correspondence:

- Confederation of British Industry (CBI): Delivering Public Services in a Time of Austerity;

Agreed: to invite representatives from CBI to brief the Committee on its report.

- DFP: Letter from Minister to Chair regarding the Executive's End Year Flexibility Stock;
- Department of Education: Education Minister's reply to Committee for Education regarding Budget 2010:

[EXTRACT]

Wednesday, 13 October 2010
Colby House, Stranmillis Court, Belfast

Present: Ms Jennifer McCann MLA (Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Simon Hamilton MLA
Mr Daithí McKay MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
iss Karen Jardine (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies: Mr David McNarry MLA (Deputy Chairperson)
Mr Paul Girvan MLA
Mr Adrian McQuillan MLA

11.09am The meeting commenced in open session.

3. Matters Arising

Departmental Response to the Report on the Preliminary Inquiry into Public Sector Efficiencies

Agreed: to publish the Department of Finance and Personnel's (DFP) response to the Inquiry Report on the Committee's website.

Budget 2010 Process

The Committee considered a Secretariat briefing paper regarding possible areas for examination and expert witnesses in respect of the forthcoming Spending Review and Budget 2010.

Agreed: to invite those listed to give evidence to the Committee. Members will notify the Clerk of any additional potential witnesses.

4. Land and Property Services Update – Departmental Briefing

The Committee received a briefing from the following DFP officials: Stephen Peover, Permanent Secretary, DFP; John Wilkinson, Chief Executive, Land and Property Services (LPS); Iain Greenway, Director of Operations, LPS.

11.29am Dr Farry joined the meeting.

Agreed: that the Departmental officials will provide further information as requested by the Committee during the evidence session.

Agreed: that any issues not covered during the evidence session will be forwarded to DFP for written response.

The Chairperson thanked the officials and LPS staff for the interesting and informative tour that preceded the Committee's meeting.

11.53am Mr Hamilton left the meeting.

12.10pm Ms Purvis left the meeting.

5. Enterprise Shared Services: IT Assist; Network NI; and Records NI – DFP Evidence Session

The Committee took evidence from the following witnesses: Paul Wickens, Chief Executive, Enterprise Shared Services; Barry Lowry, Director IT Services, Enterprise Shared Services.

12.24pm Mr Frew left the meeting.

12.26pm Mr Frew returned to the meeting.

12.27pm Mr O'Loan left the meeting.

Agreed: that any issues not covered during the evidence session will be forwarded to DFP with a request for a written response.

The Committee agreed to move to Agenda item 8. Agenda items 6 and 7 will be considered at the Committee's next meeting on 20 October.

7. Correspondence

The Committee considered the following correspondence:

- DFP: Access to End Year Flexibility Stock.

[EXTRACT]

Wednesday, 20 October 2010
Parliament Buildings, Stormont

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Daithí McKay MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

10.05am The meeting commenced in open session.

2. Draft Minutes of Proceedings of 13 October 2010

Agreed: that a paper from the Northern Ireland Public Service Alliance (NIPSA) on issues regarding HR Connect can be provided to Department of Finance and Personnel (DFP) officials in advance of the evidence session at Agenda item 6.

3. Matters Arising

Budget 2010

Agreed: to invite a number of additional witnesses to give evidence on strategic public finance issues.

6. Enterprise Shared Services: HRConnect and Centre for Applied Learning - DFP Evidence Session

The Committee took evidence from the following DFP officials: Paul Wickens, Chief Executive, Enterprise Shared Services (ESS); Patricia Corbett, HR Service Management Director, ESS. The evidence session was recorded by Hansard.

10.49am Mr McNarry left the meeting.

10.55am Mr McNarry returned to the meeting.

Agreed: that the Departmental officials will provide further information as requested by the Committee during the evidence session.

11.25am Mr McNarry left the meeting.

7. Account NI and Performance of NICS in payment of suppliers – DFP Evidence Session

The Committee took evidence from the following DFP officials: Paul Wickens, Chief Executive, ESS; Fiona Hamill, Treasury Officer of Accounts; John Crosby, Chief Executive of Account NI. The evidence session was recorded by Hansard.

11.47am Mr McQuillan left the meeting.

11.55am Mr McLaughlin left the meeting.

11.59am Mr McLaughlin returned to the meeting.

Agreed: that the Departmental officials will provide further information as requested by the Committee during the evidence session.

Agreed: that any issues not covered during the evidence session will be forwarded to DFP for written response.

10. Correspondence

The Committee considered the following correspondence:

- DFP: Draft Spending and Savings Plans Follow-up Response.

[EXTRACT]

Wednesday, 3 November 2010
Senate Chamber, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Daithí McKay MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

10.10am The meeting commenced in open session.

1. Apologies

There were no apologies.

Agreed: to release the Department of Finance and Personnel (DFP) briefing paper relating to agenda item 4 to Professor David Heald in advance of his evidence session at agenda item 5.

3. Matters Arising

HR Connect

Members noted that the Northern Ireland Public Service Alliance (NIPSA) had requested a copy of the DFP paper relating to the previous evidence session on HRConnect and any associated follow –up information.

Agreed: to provide NIPSA with the DFP paper and any associated follow-up information, as requested.

4. Implications of the Spending Review 2011 – 2015

The Committee took evidence from the following DFP officials: Mr Michael Brennan, Head of Central Expenditure Division, and Ms Joanne McBurney, Central Expenditure Division. The evidence session was recorded by Hansard.

10.14am Mr McKay joined the meeting.

10.46am Mr McNarry left the meeting.

10.47am Mr McNarry returned the meeting.

10.48am Dr Farry left the meeting.

Agreed: that the DFP officials will provide further information as requested by members during the evidence session.

Agreed: that the Committee will, through the Minister of Finance and Personnel, write to the Executive, seeking assurance that all Assembly statutory committees are provided with sufficient time to fully scrutinise the draft Budget; and also requesting a copy of the Executive's latest draft Budget timetable.

Agreed: that the paper provided by DFP for this evidence session will be copied to the other relevant Assembly committees for information.

5. Spending Review & Budget 2010

The Committee took evidence from Professor David Heald, University of Aberdeen. The evidence session was recorded by Hansard.

11.00am Mr McNarry left the meeting.

11.00am Mr Frew left the meeting.

11.09am Mr McNarry returned to the meeting.

11.15am Mr McLaughlin left the meeting.

11.17am Mr McKay left the meeting.

11.26am Mr McLaughlin returned to the meeting.

11.28am Ms Purvis left the meeting.

The Committee agreed to take agenda item 8 next.

6. Correspondence

The Committee considered the following correspondence:

- DFP: Follow-up to Public Sector Efficiency Session;
- DFP: Land and Property Services Response to Issues;
- Community Relations Council: Response to the draft Programme for Cohesion, Sharing and Integration;
- Advice NI: People on welfare benefits bear brunt of Osborne Spending Review;
- DFP: Response to follow up questions on IT Assist, Records NI & Network NI;

8. Delivering Public Services in a time of Austerity: Evidence from Confederation of British Industry

The Committee took evidence from the following witnesses Mr Nigel Smyth, Director, CBI; Mr Terence Brannigan, Chairman, CBI; and Mr Richard Moore, CBI. The evidence session was recorded by Hansard.

11.41am Ms Purvis returned to the meeting.

11.41am Mr McNarry returned to the meeting.

11.41am Dr Farry left the meeting.

11.45am Mr Hamilton returned to the meeting.

11.49am Dr Farry returned to the meeting.

11.50am Mr Girvan left the meeting.

11.56am Mr Girvan returned to the meeting.

12.03pm Mr Girvan left the meeting.

12.05pm Mr Girvan returned to the meeting.

12.25pm Mr McKay returned to the meeting.

12.25pm Mr McNarry left the meeting.

12.26pm Mr McNarry returned to the meeting.

12.37pm Mr O'Loan joined the meeting.

12.41pm Mr McLauglin left the meeting.

12.50pm Mr McKay left the meeting.

Agreed: to ask DFP to cost the proposals for alternative revenue sources detailed in the CBI document.

Members noted an update from DFP on Workplace NI.

Agreed: to request an update on the progress of the Capital Assets Realisation Taskforce from the Strategic Investment Board, through COFMDFM.

Agreed: to invite Professor David Bell, Budget Adviser to the Scottish Finance Committee and Professor Alan Barrettt, Economic and Social Research Institute to give evidence on the Spending Review and Budget 2010.

Agreed: that the Committee will consider the options for further engaging with stakeholders on matters relating to the Spending Review and Budget 2010.

1.00pm The Chairperson suspended the meeting.

1.27pm The Chairperson resumed the meeting.

The Committee agreed to take agenda item 7 next.

9. Industrial Derating – DFP Evidence Session

Members took evidence from the following DFP officials Mr Brian McClure, Head of Rating Policy Division; and Ms Veronica Holland, Rating Policy Division. The evidence session was recorded by Hansard.

1.28pm Mr O'Loan returned to the meeting.

1.28pm Mr Girvan left the meeting.

1.29pm Mr McNarry joined the meeting.

1.30pm Dr Farry joined the meeting.

1.48pm Mr McNarry left the meeting.

1.54pm Mr Girvan returned to the meeting.

1.55pm Dr Farry left the meeting.

Agreed: in principle that the proposal to retain the industrial derating provision is included in the draft Budget consultation document; that the Committee will consider its final position in light of the consultation outcome; and to recommend that DFP further explores the Skills Training and Research scheme, and for that proposal to also be included in the draft Budget document.

[EXTRACT]

Wednesday, 10 November 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Daithí McKay MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

10.07am The meeting commenced in open session.

3. Matters Arising

10.09am Ms Purvis joined the meeting.

DFP: Follow up to query on £18 billion long term investment strategy

Members noted correspondence from DFP relating to a query raised during last week's evidence session.

Agreed: to request confirmation that DFP is pursuing the anomalies between the Department's and the Westminster Government's calculations the £18bn capital investment commitment; to establish if a commitment is being sought from the Westminster Government in respect of the remaining £4bn in the two years following the spending review period; and to seek clarification regarding the inclusion and treatment of the Reinvestment and Reform Initiative funding within the calculations.

Agreed: to copy the DFP correspondence and follow up Committee correspondence to the Committee for the Office of the First Minister and Deputy First Minister (COFMDFM) for information.

10.11am Mr Frew joined the meeting.

Engaging with Stakeholders on Spending Review and Budget 2011-15

The Committee considered a Secretariat paper outlining options for stakeholder engagement on the Spending Review and Budget 2011-15, which included the Research briefing note, Budget Simulators and Participatory Budgeting.

10.15am Mr McKay joined the meeting.

10.20am Mr McQuillan joined the meeting.

Agreed: to seek clarification from DFP on what provision it has made for consulting with stakeholders and the wider public on the Executive's Draft Budget, including at a sector level, and to request a report on the outcome of this consultation. The Department will also be asked for its view on the potential for using online "budget simulators" in the public consultation on the Draft Budget.

Agreed: to establish whether the Business Alliance, the NI Council for Voluntary Action (NICVA) and the Irish Congress of Trade Unions (ICTU) are planning stakeholder/engagement events on the Draft Budget.

4. DFP Preparations for Budget 2011-15

The Committee took evidence from the following DFP officials: David Orr, Corporate Services Director, Corporate Services Group; Deborah McNeilly, Finance Director, Corporate Services Group; and Brigitte Worth, Finance Branch, Corporate Services Group.

10.30am Mr McKay left the meeting.

10.46am Mr Frew left the meeting.

10.55am Mr McQuillan left the meeting.

10.57am Mr Frew returned to the meeting.

10.59am Mr McQuillan returned to the meeting.

11.09am Mr McNarry left the meeting.

11.20am Mr McLaughlin left the meeting.

11.20am Dr Farry left the meeting.

11.21am Mr McNarry returned to the meeting.

11.25am Mr O'Loan left the meeting.

11.26am Mr McLaughlin returned to the meeting.

11.28am Mr O'Loan returned to the meeting.

11.31am Mr Girvan left the meeting.

Agreed: that the Departmental officials will provide further information as requested by the Committee during the evidence session.

5. DFP Implementation of the NI Audit Office Efficiencies Checklist

In view of time constraints, the Committee agreed not to take oral evidence on the implementation of the NI Audit Office's Efficiencies Checklist in DFP. The Committee will instead forward a list of issues to the Department for written response.

11.32am Mr Hamilton joined the meeting.

6. Spending Review & Budget 2011-15 – Evidence from NI Council for Voluntary Action

Members took evidence from the following witnesses: Seamus McAleavey, NICVA; Bob Stronge, Advice NI; Margaret Kelly, Barnardos.

11.34am Mr Girvan returned to the meeting.

11.38am Dr Farry returned to the meeting.

11.51am Mr McQuillan left the meeting.

11.56am Mr Frew left the meeting.

12.10pm Mr McQuillan returned to the meeting.

12.15pm Ms Purvis left the meeting.

12.16pm Mr Frew returned to the meeting.

12.20pm Ms Purvis returned to the meeting.

12.26pm Mr McNarry left the meeting.

12.27pm Mr McNarry returned to the meeting.

12.27pm Ms Purvis left the meeting.

12.29pm Mr Girvan left the meeting.

Agreed: the witnesses will provide a paper in follow up to the evidence session, to include information both on the longer-term preventative spending measures being taken forward by the voluntary sector and on specific public services and policies that could be delivered more efficiently by the voluntary sector.

7. Spending Review & Budget 2011-15 – Evidence from Irish Congress of Trade Unions (ICTU)

Members took evidence from the following witnesses: Peter Bunting, Assistant General Secretary, ICTU NI; Avril Hall-Callaghan, Chair, ICTU NI Committee; Pamela Dooley, Unison; Brian Campfield, General Secretary, Northern Ireland Public Service Alliance.

12.34pm Mr Girvan returned to the meeting.

1.05pm Mr O'Loan left the meeting.

1.14pm Mr Frew left the meeting.

1.20pm Mr Hamilton left the meeting.

1.23pm Mr Hamilton returned to the meeting.

Agreed: the witnesses will provide a paper in follow up to the evidence session, detailing proposals in respect of savings and revenue raising options.

9. Correspondence

The Committee agreed to consider the correspondence requiring decisions at its next meeting on 17 November. The following items of correspondence were noted:

- DFP: Account NI and prompt payment of invoices follow up
- DFP: HR Connect follow up

10. Committee Work Programme

Barnados NI: Request to Brief Committee

Members considered correspondence from Barnados NI requesting the opportunity to brief members on protecting vulnerable children in a time of public spending austerity.

Agreed: to request a written submission in the first instance.

[EXTRACT]

Wednesday, 17 November 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr David McKee (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies: Mr Adrian McQuillan MLA

10.08am The meeting commenced in open session.

3. Matters Arising

DFP: Budget 2010 Process & BBC Report

Members considered correspondence from the Minister of Finance and Personnel in relation to the Budget 2010 timetable and an issue arising from a recent BBC news report.

10.15am Mr Girvan joined the meeting.

10.23am Dr Farry left the meeting.

10.24am Dr Farry returned to the meeting.

Agreed: to copy the Minister's response on the Budget 2010 timetable to other statutory committees for information.

Agreed: to reply to the Ministerial correspondence advising that the Committee encourages the Finance Minister in his efforts to secure Executive agreement on a draft Budget which seeks to safeguard key frontline services and policy priorities, including growing the economy, and which is subject to appropriate consultation. The reply to the Minister will also be copied to the other statutory committees for information.

Stakeholder Engagement

Members discussed a further proposal for engaging with stakeholders on the Spending Review and Budget 2011-2015. This could involve an informal stakeholder event in conjunction with other statutory committees whereby representative groups would have the opportunity to speak individually with the committees of their choice, specifically on issues relating to the anticipated Draft Budget. The information collected would help inform the subsequent committee responses to the Draft Budget.

10.26am Mr Frew joined the meeting.

Agreed: to write to other statutory committees, advising them of this proposal and inviting them to participate.

4. Spending Review and Budget 2011-2015

The Committee noted that it may need to address the issue of cuts to Annually Managed Expenditure (AME) on a strategic level on its Report on the Draft Budget.

Agreed: to commission Assembly Research to provide a paper on the impact of AME cuts on the economy at a local level.

The Committee took evidence from the following witnesses: Neil Gibson, Oxford Economics and Mike Smyth, University of Ulster. The evidence session was recorded by Hansard.

11.25am Ms Purvis left the meeting.

11.27am Mr McNarry left the meeting.

11.29am Ms Purvis returned to the meeting.

11.35am Mr McNarry returned to the meeting.

11.55am Mr McLaughlin left the meeting.

12.00pm Mr McLauglin returned to the meeting.

12.03pm Mr Hamilton left the meeting.

12.07pm Dr Farry left the meeting.

12.15pm Mr McNarry left the meeting.

Agreed: that the witnesses will provide the Committee with a copy of the papers presented today.

Agreed: that DFP officials will be invited to give evidence to the Committee on the issue of accommodation efficiencies to help inform the Committee's Report on the Draft Budget.

6. DFP Progress against PSA and Departmental Targets – Written Briefing

The Assistant Clerk briefed the Committee on a written submission from DFP on its progress against PSA and Departmental Targets.

Agreed: to invite selected DFP officials to provide oral evidence on issues arising on 1 December 2010; and to request further information as agreed by the Committee.

9. Correspondence

The following items of correspondence were noted:

- Mitchel McLaughlin MLA: Comprehensive Spending Review Query;

Agreed: to copy the correspondence to DFP for a response on the issues raised.

- DFP: Response to CBI report "Time for Action";

Agreed: to raise the revenue-raising issues with the other relevant statutory committees; and to ask DFP for further information on the revenue raising proposal identified within its remit.

Agreed: to ask CBI to provide an update on its engagement following the publication of its report.

- Advice NI News Release: "Universal benefit being paid for by savage cuts to the social security system":

[EXTRACT]

Wednesday, 24 November 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Daithí McKay MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies:

10.07am The meeting commenced in open session.

3. Matters Arising

Mike Smyth: Follow up to evidence session on 17 November 2010

The Committee noted papers provided by Mike Smyth, University of Ulster, in follow up to the evidence session on 17 November.

4. Spending Review and Budget 2011-2015

The Committee took evidence from the following witnesses: Dr Esmond Birnie, Pricewaterhouse Coopers, and Dr Graham Brownlow, Queen's University Belfast. The evidence session was recorded by Hansard.

10.13am Ms Purvis joined the meeting.

10.20am Mr Girvan joined the meeting.

10.21am Mr McQuillan joined the meeting.

10.47am Mr Hamilton left the meeting.

10.54am Mr Frew left the meeting.

11.00am Mr McLaughlin joined the meeting.

11.10am Dr Farry left the meeting.

11.14am Mr McNarry left the meeting.

11.20am Mr Hamilton returned to the meeting.

11.21am Dr Farry returned to the meeting.

The Committee noted a response from DFP regarding the UK Government's Paper on Rebalancing the NI Economy. The Committee also noted the uncorrected transcript of oral evidence to the NI Affairs Committee on Corporation Tax on 10 November.

Agreed: to request details on what interaction Departmental economists have with local private sector and academic economists; and clarification on the transparency of economic data that is available via Departmental websites.

5. Spending Review and Budget 2011-15

The Committee took evidence from Colm McCarthy, University College Dublin on potential lessons from the experience of the Republic of Ireland in terms of the work of An Bord Snip Nua and the current debt crisis.

11.27am Mr Girvan left the meeting.

11.29am Mr Girvan returned to the meeting.

11.52am Mr Frew returned to the meeting.

12.04pm Mr McKay left the meeting.

12.09pm Ms Purvis left the meeting.

12.10pm Mr McKay returned to the meeting.

12.18pm Mr Girvan left the meeting.

10. Committee Work Programme

Northern Ireland Association for Mental Health (NIAMH): Request to Brief Committee

Agreed: to advise NIAMH of the Committee's remit regarding budgets and financial scrutiny, and to request a written submission in the first instance.

11. Any Other Business

Presbyterian Mutual Society Rescue Scheme

Agreed: to write to DFP requesting details of the scheme, including the related budgetary implications and departmental responsibilities.

Dormant Accounts Scheme

Agreed: to seek an update on the current position regarding the Dormant Accounts scheme.

[EXTRACT]

Wednesday, 1 December 2010
Room 30, Parliament Buildings

Present: Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Daithí McKay MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Ms Jennifer McCann MLA (Chairperson)
Mr Mitchel McLaughlin MLA

10.07am The meeting commenced in open session.

4. Spending Review and Budget 2011-2015

The Committee took evidence from the following witnesses: Mr Victor Hewitt, Director, Economic Research Institute of NI; and Mr John Simpson, Economist.

10.20am Mr McQuillan joined the meeting.

10.32am Ms Purvis joined the meeting.

10.40am Dr Farry left the meeting.

10.41am Dr Farry returned to the meeting.

10.58am Mr McKay joined the meeting.

10.59am Mr Girvan left the meeting.

Agreed: that, as part of its response to the Draft Budget, the Committee will consider how the Assembly and Executive could best utilise independent economic expertise.

Agreed: that the witnesses will provide further information to the Committee as necessary.

11.28am Mr Frew left the meeting.

6. Correspondence

The following items of correspondence were noted:

- DFP: Stakeholder Engagement;
- DFP: £18bn Long-Term Investment Strategy;
- DFP: Preparations for Budget 2011-2015;
- DFP: Press release "Analysis of Sickness Absence in the Northern Ireland Departments 2009/2010";
- DFP: Press release "Wilson Concerned about Sickness Absence in Civil Service";

7. Committee Work Programme

DFP – Corporate HR Evidence Session

The Committee considered correspondence from DFP regarding the evidence session scheduled for next week on strategic Human Resource issues, including Northern Ireland Civil Service (NICS) Sickness Absence.

Agreed: that the evidence session be rescheduled at the earliest opportunity and that DFP officials be asked to also update the Committee on the recently reported shortfall in NICS pensions.

[EXTRACT]

Wednesday, 8 December 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Daithí McKay MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)

Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)
Mr Colin Pidgeon (Assembly Research)

Apologies: Mr Simon Hamilton MLA
Mr Adrian McQuillan MLA
Ms Dawn Purvis MLA

10.22am The meeting commenced in open session.

7. Correspondence

The following items of correspondence were noted:

- DFP: Budget and Spending Review.
- DFP: Response to CBI Report "Time for Action".
- DFP: NIAO Checklist Follow-up.
- DFP: Accommodation Efficiencies.
- DFP: Dormant Accounts Query.

[EXTRACT]

Wednesday, 15 December 2010
Room 30, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)

Apologies: Mr Mitchel McLaughlin MLA
Mr Simon Hamilton MLA

10.11am The meeting commenced in open session.

3. Matters Arising

Draft Budget

Members noted that the Minister of Finance and Personnel was expected to make a statement on the Draft Budget during today's plenary session.

Agreed: that the Secretariat will issue a commissioning note to the other statutory committees once a formal announcement on the Draft Budget has been made, allowing them as much time as possible to scrutinise their departments' budget proposals, while taking into consideration the stages that this Committee must undertake in preparing a co-ordinated report on the Draft Budget by the Executive's deadline.

Agreed: that the draft motion for the "take note" debate on the draft Budget is laid in the Business Office noting that the requested date may be subject to change, depending on the consultation period for the Draft Budget.

10.13am Dr Farry joined the meeting.

Agreed: that the Finance Minister is invited to brief the Committee soon after recess on the Draft Budget, and again, before the end of the budgetary process.

Agreed: to invite the economists, who have given evidence to the Committee on the outcome of the Spending Review 2010 and Budget 2011-15, to provide a written update on any relevant issues once the Draft Budget is published.

Resource DEL: Administrative Cost Controls

Members noted an Assembly Research paper on Resource DEL: Administrative Cost Controls which had been presented at last week's meeting.

Agreed: to request DFP to provide the breakdown data on administrative and programme expenditure referred to in the research paper.

Agreed: to copy the research paper to the other statutory committees suggesting that they may wish to request the same type of information from their departments as part of their budget scrutiny.

5. DFP Progress on PSA & Business Targets: DFP Evidence Session

Members held an evidence session with the following DFP officials: Mr David Orr, Corporate Services Director, Corporate Services Group and Dr Norman Caven, Chief Executive and Registrar General, Northern Ireland Statistics and Research Agency (NISRA).

Members noted correspondence from the Department explaining that Mr Richard Pengally, Public Spending Director, Central Finance Group was unable to attend today's evidence session due to other work commitments.

10.20am Mr Girvan joined the meeting.

10.27am Dr Farry left the meeting.

Agreed: that any issues outstanding from the evidence session will be followed up in writing.

Members agreed to take agenda item 8 next.

6. Correspondence

The following items of correspondence were noted:

- DFP: Industrial Derating – Recycling of Manufacturing Rates Revenue

Agreed: to write encouraging DFP to undertake further exploration of the issue, in particular the proposal for a manufacturing skills levy, and liaise with the Department for Employment and Learning and the Department of Enterprise, Trade and Investment.

Agreed: to copy the DFP correspondence to the Committee for Employment and Learning and the Committee for Enterprise, Trade and Investment for information.

Agreed: that Secretariat staff will give consideration to the most appropriate approach for examining the issues surrounding State Aid and report back to the Committee.

- Stakeholder Engagement:
- Committee for Agriculture and Rural Development;
- Committee for Regional Development;
- COFMDFM;
- Committee for Culture, Arts and Leisure;
- Committee for Health, Social Services and Public Safety; and
- Committee for Social Development.
- DFP: Presbyterian Mutual Society Assistance Package;

Agreed: to copy the correspondence to the Committee for Enterprise, Trade and Investment for information

- DFP: Liaison with Economists;

Agreed: to forward the correspondence to the economists that raised this issue, offering them an opportunity to respond.

[Extract]

Wednesday, 12 January 2011
Senate Chamber, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Daithi McKay MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA
Mr Mitchel McLaughlin MLA
Mr Simon Hamilton MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)
Mr Colin Pidgeon (Assembly Research)

10.07am The meeting commenced in open session.

3. Matters Arising

Presbyterian Mutual Society

Agreed: to request an oral evidence session on the Presbyterian Mutual Society rescue plan, in view of the financial aspects that have been included in the Draft Budget 2011-15.

4. Draft Budget 2011-15 – Assembly Research Briefing

The Committee received a briefing from Assembly Research on the Draft Budget 2011-15 briefing note.

10.39am Mr Hamilton left the meeting.

Members noted that the Minister of Finance and Personnel quoted incorrect figures to the House when comparing the proposed budget for the Department of Health, Social Services and Public Safety to its counterparts in the other devolved administrations.

Agreed: to draw this matter to the attention of the Speaker, noting that the Committee expects that the necessary steps for the Minister to correct this error will be expedited.

11.00am Mr Hamilton returned to the meeting.

Agreed: to forward the Research briefing note to DFP for comment and specific response to six of the key points highlighted in the paper. Given its cross-cutting nature, the paper will also be forward to the other Assembly statutory committees, the Assembly Commission and the Assembly Audit Committee for information.

Members noted that the Executive's Draft Budget 2011-15 imposed spending reductions on the NI Assembly itself and on the NI Audit Office which are in excess of the reductions faced by Executive departments and comparable bodies in Scotland and Wales. Concerns were raised around the basis for these proposed spending reductions and the implications for both of the bodies, which provide constitutional/statutory checks and balances to the Executive.

Agreed: to seek the views of the Assembly Commission and the Assembly Audit Committee on the draft budgets of the NI Assembly and the NI Audit Office respectively. This evidence will be incorporated in the Committee's co-ordinated report on the Draft Budget 2011-15.

11.03am Mr McNarry left the meeting.

5. Draft Budget 2011-15: Strategic Issues - Evidence Session

Members held an evidence session with the following DFP officials: Michael Brennan, Head of Central Expenditure Division, Central Finance Group (CFG); Joanne McBurney, Central Expenditure Division, CFG; and Jeff McGuinness, CFG.

11.13am Mr Frew left the meeting.

11.21am Mr McNarry returned to the meeting.

11.21am Mr Frew returned to the meeting.

11.47am Mr O'Loan left the meeting.

11.47am Mr McLaughlin left the meeting.

11.51am Mr McLaughlin returned to the meeting.

11.51am Mr O'Loan returned to the meeting.

Agreed: the DFP officials will provide further information to the Committee as requested during the evidence session.

The Committee noted correspondence from the Irish Congress of Trade Unions (NI Committee) regarding the Draft Budget 2011-15 consultation.

The Committee noted correspondence from the Minister advising that he would not be available to brief the Committee on either 12 January or 19 January as requested, or any Wednesday thereafter.

Agreed: to request clarification from the Minister on the reasons why he is unable to attend any of the Committee's normal weekly Wednesday meetings to discuss important issues.

The Committee noted concerns raised in correspondence from the Committee for Regional Development with regard to the timetable for scrutinising the Draft Budget 2011-15. The Committee also discussed a Secretariat paper outlining options for timetabling the scrutiny of the Draft Budget.

12.15pm Mr Frew left the meeting.

12.24pm Mr Frew returned to the meeting.

Agreed: to move the deadline for returns from the other Assembly committees to 27 January to offer more time for each committee to scrutinise the draft budget of its department. Submissions received after this date and before the closing date of the Executive's consultation will be appended to the Committee's coordinated report on the Draft Budget.

Agreed: that the preferred dates for the "take note" debate on the Draft Budget are Monday 31 January or Tuesday 1 February, subject to the Business Committee's agreement.

Agreed: the Committee will endeavour to complete the co-ordinated report by the closing date of the Executive's consultation, while recognising that an additional week may be needed to finalise the report.

Agreed: to record Mr McNarry's dissent in respect of the Committee's decisions on how to proceed with the timetabling for scrutiny of the Draft Budget 2011-15.

Agreed: to respond to the Committee for Regional Development outlining the decisions taken by the Committee.

12.54pm Mr McNarry left the meeting

8. Corporate HR issues including NICS Absenteeism, Equal Pay and Pensions

The Committee took evidence from the following DFP officials: Derek Baker, Director of Personnel for the NICS and Mark Bailey, Pay and Grading Review Team.

2.43pm Mr O'Loan left the meeting.

3.05pm Ms Purvis left the meeting.

Agreed: to forward issues regarding absenteeism to DFP for written response, and to request an update with regard to the Senior Civil Service pay review.

9. Correspondence

The following items of correspondence were noted:

- DFP: End of Year Flexibility.

Agreed: to forward the correspondence to the Committee for Justice.

- DFP: Departmental Spending and Savings Proposals.
- DFP: Efficiency Delivery Plan 2008 – 11.
- DFP: Follow up to PSA and Business Targets Session.
- Committee for Education: Stakeholder Engagement
- Robert Skidelsky and Felix Martin: NYRB Essay Plan for a National Investment Bank

[Extract]

Wednesday, 19 January 2011
Senate Chamber, Parliament Buildings

Present: Ms Jennifer McCann MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Daithi McKay MLA
Mr Mitchel McLaughlin MLA

Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

10.18am The meeting commenced in open session.

3. Matters Arising

Draft Budget 2011-2015

Agreed: to request that the Business Committee considers allocating three hours to the "take note" debate on the Draft Budget 2011-2015, scheduled for Monday 31 January 2011.

Agreed: to keep open the possibility of tabling a motion to debate the Committee's co-ordinated report on the Draft Budget. The Committee will reconsider this option following receipt of responses from the other statutory committees and taking account of the themes emerging from the Committee's report.

Agreed: to invite the Minister to brief the Committee on the Draft Budget at one of its scheduled Wednesday meetings which is mutually convenient.

4. Update on the Presbyterian Mutual Society (PMS) Rescue Plan

The Committee held an evidence session with Mr Bill Pauley, Head of Strategic Policy Division, Central Finance Group, DFP. The evidence session was recorded by Hansard.

10.30am Mr Hamilton left the meeting.

10.34am Mr Hamilton returned to the meeting.

10.55am Mr McNarry joined the meeting.

11.20am Mr Frew left the meeting.

11.22am Ms Purvis left the meeting.

11.27am Mr Girvan left the meeting.

11.35am Mr Frew returned to the meeting.

11.42am Ms Purvis returned to the meeting.

11.42am Mr McKay joined the meeting.

11.46am Dr Farry joined the meeting.

Agreed: that the DFP official will provide further information as requested by the Committee.

Agreed: to provide the Committee for Enterprise, Trade and Investment (CETI) with a copy of the DFP briefing paper on the PMS Rescue Plan and to request that CETI shares information that it receives from the Department of Enterprise, Trade and Investment (DETI) on this matter.

6. Preventative Spending – Assembly Research Briefing

Members received a briefing from QUB Bursary Student, Gareth Brown, on preventative spending.

12.15pm Mr McNarry returned to the meeting.

12.16pm Mr O'Loan returned to the meeting.

12.17pm Mr O'Loan left the meeting.

12.20pm Mr O'Loan returned to the meeting.

Agreed: to copy the research paper to the other statutory committees, suggesting that they may wish to take the issues raised into account in their separate considerations of the Draft Budget 2011-2015 as appropriate; and to include the research paper in the evidence base for the Committee's co-ordinated report on the Draft Budget 2011-2015.

12.25pm The meeting was suspended.

12.47pm The meeting resumed with Ms McCann, Dr Farry, Mr Frew, Mr Hamilton and Mr O'Loan present.

11. Correspondence

The following items of correspondence were noted:

- Derry City Council: Comprehensive Spending Review;

Agreed: to forward the correspondence to DFP; and to advise Derry City Council accordingly.

- DFP: Monitoring of Departmental Efficiency Delivery Plans;

Agreed: to copy the correspondence to the other statutory committees for information.

- DFP: Savings Options;
- CETI: Skills, Training and Reinvestment;
- Northern Ireland Office Press Statement: End Year Funding;
- Public Accounts Committee: NI Audit Office Efficiency Savings;

Agreed: to forward the correspondence to the DFP Minister highlighting the operational independence of the NI Audit Office, as detailed in the research paper presented at last week's meeting; and to include the correspondence in the background papers for the Committee's report on the Draft Budget 2011-2015.

12. Committee Work Programme

Members considered a secretariat paper relating to the planned evidence session with DFP officials on Government Accommodation Efficiencies on 26 January 2011.

Agreed: that, given the Committee's heavy workload, the issues identified will be forwarded to DFP for a written response in lieu of the scheduled evidence session.

[EXTRACT]

Wednesday, 26 January 2011
Room 30, Parliament Buildings

Present: Mr Daithí McKay MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr Adrian McQuillan MLA
Mr Declan O'Loan MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies: Ms Jennifer McCann MLA
Ms Dawn Purvis MLA

10.10am The meeting commenced in open session.

3. Matters Arising

Take Note Debate on Executive's Draft Budget 2011-15

Members noted that the Business Committee has allowed up to three hours for the Committee's "take note" debate on the Draft Budget 2011-15 on Monday 31 January 2011.

10.11am Mr McQuillan joined the meeting.

4. Departmental Draft Budget 2011-15 and Business Plan 2011-12: DFP Evidence Session

The Committee held an evidence session with the following DFP officials: David Orr, Corporate Services Director, Corporate Services Group (CSG); Deborah McNeilly, Finance Director, CSG; Colm Doran, Head of Business Planning and Corporate Governance, CSG; and Brigitte Worth, Finance Division, CSG. The evidence session was recorded by Hansard.

10.14am Mr McNarry joined the meeting.

10.17am Mr Frew joined the meeting.

10.29am Dr Farry left the meeting.

10.47am Mr McNarry left the meeting.

10.53am Mr McNarry returned to the meeting.

10.54am Dr Farry returned to the meeting.

Agreed: that the DFP officials will provide further information to the Committee as requested during the evidence session. The Committee will also forward additional issues not covered during the evidence session to DFP for written response.

5. Draft Budget 2011-15 – NI Assembly Commission Evidence Session

The Committee took evidence from Trevor Reaney, Clerk to the NI Assembly/Director General, on the Draft Budget 2011-15 allocation for the NI Assembly. The evidence session was recorded by Hansard.

11.26am Mr Hamilton left the meeting.

11.47am Mr Girvan left the meeting.

12.00pm Dr Farry left the meeting.

Agreed: to write to the Minister of Finance and Personnel to register the Committee's serious concern at the implications of the proposed allocation in the Executive's Draft Budget 2011-15 for the effective functioning of the Assembly. The Committee's concerns will also be reflected in both the Chairperson's contribution to the "take note" debate on Monday 31 January and the Committee's forthcoming co-ordinated report on the Executive's Draft Budget 2011-15.

Agreed: that, as part of its Third Budget Scrutiny Inquiry Report, the Committee will examine the arrangements for setting future Assembly budgets, in the context of good practice elsewhere in terms of ensuring the independence of the legislature.

12.12pm Mr McNarry left the meeting.

7. Annually Managed Expenditure- Assembly Research Briefing

Members received a briefing from Assembly Research on the economic implications of the cuts to Annually Managed Expenditure.

12.16pm Dr Farry returned to the meeting.

12.22pm Mr McNarry returned to the meeting.

Agreed: that the Researcher will provide additional information to the Committee as requested.

Agreed: to copy the paper to the Department for Social Development via the Committee for Social Development.

8. Draft Budget 2011-2015: Consideration of Responses

The Committee noted the responses received to date from other Assembly statutory committees and stakeholders regarding the Executive's Draft Budget 2011-2015. The Committee also noted two responses regarding DFP's liaison with economists.

10. Correspondence

The following items of correspondence were noted:

- Construction Employers Federation: Alternative Finance Report.

12.55pm Dr Farry left the meeting.

- DFP: Administrative Cost Controls.
- Committee for Social Development: Response to CBI report "Time for Action".
- DFP: Draft Budget Strategic Issues Follow-up.
- CETI: Consultation on the NI Executive's Economic Strategy – Priorities for Sustainable Growth.

Agreed: to respond to CETI stating that, given current work commitments, the Committee is not in a position to give a considered reply to the consultation but would like to receive a copy of the analysis of responses received by DETI.

11. Committee Work Programme

Members considered a draft of the Committee work programme and noted that it will be necessary to hold a longer meeting on 2 February 2011 in the Senate Chamber.

The Committee noted that the Minister will attend the meeting on 9 February to discuss the Draft Budget 2011-15.

Agreed: to invite the Minister to also attend a further Committee meeting, possibly on 9 March, to discuss the Committee's co-ordinated report on the Draft Budget 2011-15, in advance of the Executive finalising the Draft Budget.

Members noted that the issue of a reduced rate of Corporation Tax was raised with the Minister of Enterprise, Trade and Investment (ETI) during Question Time on Monday 17 January 2011. The ETI Minister indicated that a draft version of the UK Government's consultation paper on rebalancing the economy was received by the Executive on 16 December 2010.

Agreed: to request an update from the Minister of Finance and Personnel on his ongoing involvement in the discussion about reducing the rate of Corporation Tax; and to ask if the Minister will share the paper on rebalancing the economy with the Committee, to help inform the Committee's co-ordinated report on the Draft Budget 2011-15.

[EXTRACT]

Wednesday, 2 February 2011
Room 30, Parliament Buildings

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

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies: Ms Jennifer McCann MLA
Mr David McNarry MLA (Deputy Chairperson)
Mr Adrian McQuillan MLA

10.14am The meeting commenced in open session.

3. Matters Arising

DFP: Response to Budget Research Paper

The Committee noted a reply from DFP regarding the Assembly research paper on the draft Budget 2011-15.

Agreed: to commission a paper from Assembly Research which could examine the Scottish and Welsh models with regards to the independence in which these legislatures set their budget, and any other legislatures as appropriate, to inform the Committee's Inquiry Report.

8. Correspondence

The following items of correspondence were noted:

- DFP: Banking Issues Response;

Agreed: to copy the response to the Churches group and the Committee for Enterprise, Trade and Investment; and to include the correspondence in the evidence base for the Committee's co-ordinated report on the draft Budget 2011-2015.

- DFP: Accommodation Efficiencies;
- PMS Savers Lobby Group NI & ROI: Presbyterian Mutual Society in Administration since 17 November 2008.

Agreed: to include the correspondence in the evidence base for the Committee's co-ordinated report on the draft Budget 2011-2015.

10. Draft Budget 2011-2015: Strategic issues – DFP Evidence Session

The Committee took evidence from the following DFP officials: Mr Michael Brennan, Head of Central Expenditure Division, Central Finance Group (CFG) and Mr Jeff McGuinness, Central Expenditure Division, CFG.

12.39pm Dr Farry left the meeting.

12.45pm Ms Purvis left the meeting.

12.49pm Ms Purvis returned to the meeting.

Agreed: that the officials will provide further information as requested by the Committee.

12. Draft Budget 2011-2015 – Consideration of initial working draft report

The Committee considered a proposed structure for the Committees report on Draft Budget 2011-2015; and a draft Committee response to the DFP draft spending and savings plans for 2011-2015.

1.08pm Mr O'Loan left the meeting.

Agreed: that the secretariat will take account of members' comments in preparing a draft of the report for consideration next week.

[Extract]

Wednesday, 9 February 2011
Senate Chamber, Parliament Buildings

Present: Mr Daithí McKay MLA (Chairperson)
Mr David McNarry MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Paul Girvan MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies: Ms Jennifer McCann MLA
Mr Adrian McQuillan MLA

10.10am The meeting commenced in open session.

3. Matters Arising

Composite Request

The Committee noted the composite request for information from the Department of Finance and Personnel (DFP) which provided an update on any matters arising not covered elsewhere on the agenda.

Agreed: that, in line with convention, the working draft of the Committee's Report on the Executive's Draft Budget 2011-15 will be considered in closed session.

10:11am The meeting moved into closed session.

4. Executive's Draft Budget 2011-15 – Consideration of Working Draft Report

The Committee considered the first working draft of its Report on the Executive's Draft Budget 2011-15.

10.14am Mr Hamilton joined the meeting.

Agreed: members will forward any comments or suggested amendments to the draft report to the Committee secretariat by 12.00pm on Friday 11 February 2010.

10.17am Mr Frew joined the meeting.

5. Executive's Draft Budget 2011-15 – Ministerial Briefing

The Committee took evidence from the Minister of Finance and Personnel and Michael Brennan, Head of Central Expenditure Division, Central Finance Group (CFG), DFP on the Executive's Draft Budget 2011-15.

11.50am Ms Purvis left the meeting.

11.53am Ms Purvis returned to the meeting.

12.17pm Mr McNarry left the meeting.

12.20pm Mr Frew left the meeting.

12.24pm Mr O'Loan left the meeting.

12.31pm Mr McNarry returned to the meeting.

12.31pm The Chairperson left the meeting.

12.31pm The Deputy Chairperson took the Chair.

12.40pm Ms Purvis left the meeting.

Agreed: that the DFP officials will provide any further information that may be requested by the Committee.

12.41pm Mr Hamilton left the meeting.

12.42pm The Chairperson returned to the meeting and took the Chair.

8. Correspondence

The following items of correspondence were noted:

- DFP: Presbyterian Mutual Society (PMS) Response;

Agreed: to request details of the Administrator's risk assessment and business plan from the Department of Enterprise, Trade and Investment via the Committee for Enterprise, Trade and Investment (CETI). The Committee will also request further clarification on the details of a schedule for repayments for PMS savers.

Agreed: to request clarification from DFP on the status of HM Treasury's £25 million contribution to the mutual access fund.

- DFP: Response to Committee on December Monitoring;
- DFP: Industrial Derating – Recycling of Manufacturing Rates Revenue;

The Committee also noted that the following routine correspondence had been emailed to members prior to the meeting:

- Response from the Minister of Finance and Personnel regarding the creation of a Credit Review Office in Northern Ireland; and

[Extract]

Wednesday, 16 February 2011
Room 29, Parliament Buildings (Unapproved)

Present: Mr Daithí McKay MLA (Chairperson)
Dr Stephen Farry MLA
Mr Paul Frew MLA
Mr Simon Hamilton MLA
Mr Mitchel McLaughlin MLA
Mr Declan O'Loan MLA
Ms Dawn Purvis MLA

In Attendance: Mr Shane McAteer (Assembly Clerk)
Miss Karen Jardine (Assistant Assembly Clerk)
Mrs Kathy O'Hanlon (Assistant Assembly Clerk)
Mr Jim Nulty (Clerical Supervisor)
Mr Dominic O'Farrell (Clerical Officer)
Mr Gareth Brown (Bursary Student)

Apologies: Ms Jennifer McCann MLA
Mr Adrian McQuillan MLA

10.50am The meeting commenced in open session.

11.08am Dr Farry left the meeting.

11.08am The Committee moved into closed session.

5. Executive's Draft Budget 2011-15 – Consideration of Working Draft Report

The Committee undertook paragraph-by-paragraph consideration of its draft Report on the Draft Budget 2011-15.

Agreed: that paragraphs 1 – 11 stand part of the Report;

Agreed: that paragraph 12 stands part of the Report;

Agreed: that paragraphs 13-18, as amended, stand part of the Report;

Agreed: that paragraphs 19 stands part of the Report;

Agreed: that paragraphs 20-21 stand part of the Report;

Agreed: that paragraphs 22-24 stand part of the Report;

Agreed: that paragraphs 25-30 stand part of the Report;

Agreed: that paragraphs 31-32, as amended, stand part of the Report;

Agreed: that paragraphs 35-41 stand part of the Report;

Agreed: that paragraphs 42-47 stand part of the Report;

Agreed: that paragraphs 48-54 stand part of the Report;

Agreed: that paragraphs 55-58 stand part of the Report;

Agreed: that paragraphs 59-62 stand part of the Report;

Agreed: that paragraphs 63-66 stand part of the Report;

Agreed: that paragraphs 67-70 stand part of the Report;

Agreed: that paragraphs 71-72 stand part of the Report;

Agreed: that paragraphs 73-75 stand part of the Report;

Agreed: that paragraphs 76-84 stand part of the Report;

Agreed: that paragraphs 85-90 stand part of the Report;

Agreed: that paragraphs 91-98 stand part of the Report;

Agreed: that paragraphs 99-101 stand part of the Report;

Agreed: that paragraphs 102-107 stand part of the Report;

Agreed: that paragraphs 108-112 stand part of the Report;

Agreed: that paragraphs 113-119 stand part of the Report;

Agreed: that paragraphs 120-123 stand part of the Report;

Agreed: that paragraphs 124-127 stand part of the Report;

Agreed: that paragraphs 128-134 stand part of the Report;

Agreed: that paragraphs 135-141 stand part of the Report;

Agreed: that paragraphs 142-143 stand part of the Report;

Agreed: that paragraphs 144-147 stand part of the Report;

Agreed: that paragraphs 148-152 stand part of the Report;

Agreed: that paragraphs 153-156 stand part of the Report;

Agreed: that paragraphs 157-160 stand part of the Report;

Agreed: that paragraphs 161-166 stand part of the Report;

Agreed: that paragraphs 167-178 stand part of the Report;

Agreed: that paragraphs 179-186 stand part of the Report;

Agreed: that paragraphs 187-198 stand part of the Report;

Agreed: that paragraphs 199-208 stand part of the Report;

Agreed: that paragraphs 209-234 stand part of the Report;

Agreed: that paragraphs 235-252 stand part of the Report;

Agreed: that paragraphs 253-261, as amended, stand part of the Report;

Agreed: that paragraphs 262-271 stand part of the Report;

Agreed: that paragraphs 272-274 stand part of the Report;

Agreed: that paragraphs 275-278 stand part of the Report;

Agreed: that paragraphs 279-285 stand part of the Report;

Agreed: that paragraphs 286-289 stand part of the Report;

Agreed: that paragraphs 290-292 stand part of the Report;

Agreed: that paragraphs 293-406 stand part of the Report;

Agreed: that paragraphs 407-429 stand part of the Report;

Agreed: that paragraphs 430-600 stand part of the Report;

Agreed: that the draft Executive Summary stands part of the Report;

Agreed: that the Appendices stand part of the Report;

Agreed: that the extract of the unapproved Minutes of Proceedings of today's meeting is checked by the Chairperson and included in Appendix 1;

Agreed: that the Report, as amended, be the Third Report of the Committee for Finance and Personnel to the Assembly for session 2010/11;

Agreed: that the Committee's Report on the Draft Budget 2011-15 be printed.

Members were advised that the report will be issued to all MLAs once published.

Agreed: that a copy of the Report be submitted to all relevant Assembly Committees, to the chairpersons' Liaison Group and to those that provided written and oral evidence.

11.33am The Committee moved into open session.

[Extract]

Appendix 2

Minutes of Evidence

30 June 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

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

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

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

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

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

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

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

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

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

their ideas on how the Budget process should progress and on what its key priorities should be. Those meetings will take place over the next two or three weeks.

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

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

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

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

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

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

15. Mr Brennan: It will be on 20 October.

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

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

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

19. Mr Brennan: We are constructing a draft Budget position based on our expectations and forecasts for current and capital. The forecast for current and capital that we produced in March turned out to be very accurate, based on the Office for Budget Responsibility report and as set out in the revised Treasury Budget documents on 22 June. We have given Departments what we think is a very realistic funding envelope to work within in shaping their bids, and that will be the basis for the September draft Budget. On 20 October, we will have the definitive funding

envelope that has been set by the Treasury, and, obviously, we will then make revisions. My expectation at this point is that we are pretty close to the mark in terms of what will be available to us.

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

21. Mr Brennan: It will run from September until the beginning of December.

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

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

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

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

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

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

28. Mr Brennan: The £128 million pressure that emerged from the —

29. Mr O'Loan: Sorry, I said £128 billion; £128 million is big enough.

30. Mr Brennan: Things are bad, but they are not that bad. [Laughter.]

31. We now have clarity from the Treasury on the £128 million pressure that emerged from the UK's £6·2 billion cut. The breakdown is £89 million current and £38 million capital. When our Minister presented his June monitoring paper to the Executive last week, one of the key issues was how to address that £128 million pressure. In his papers, the Minister pointed out the downside of deferring the issue to 2011-12. All that it is doing is building up the pain at the start of 2011-12. The Minister sought to address as much of that pressure as possible in the 2010-11

monitoring rounds. The Executive did not reach a definitive position in the June monitoring round, but our Minister put a paper to the Executive in the June monitoring round recommending addressing a lot, if not all, of the £128 million pressure through this year's in-year monitoring process.

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

33. Mr Brennan: Not for this year.

34. Mr O'Loan: Has that been removed?

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

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

37. Mr Brennan: On the current side, it is £65 million, and, on the capital side, it is £8 million.

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

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

40. Mr O'Loan: I thought that the previous figures were the overall block position.

41. Ms Joanne McBurney (Department of Finance and Personnel): That is the departmental position.

42. Mr Brennan: That is departmental.

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

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

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

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

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

48. Mr O'Loan: What about Northern Ireland?

49. Mr Brennan: We are engaging with Departments.

50. Mr O'Loan: Across four years.

51. Mr Brennan: Yes.

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

53. Mr Brennan: Yes.

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

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

56. Mr O'Loan: Can you quantify that?

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

58. Ms McBurney: In flat cash, it will be reduced by £168 million.

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

60. Mr O'Loan: When?

61. Mr Brennan: In 2011-12.

62. Mr O'Loan: So you expect the revenue side of our departmental spending in 2011-12 to be £420 million less than current spending?

63. Mr Brennan: That is the parameter within which we have asked Departments to plan.

64. Mr O'Loan: What about the capital cut of 9%?

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

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

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

68. Mr O'Loan: We are talking about a £500 million drop.

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

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

71. Mr Brennan: We have freedom to move from resource into capital.

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

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

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

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

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

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

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

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

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

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

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

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

requirement for LPS going forward, and it will be a key issue for us to highlight in our paper to the Minister.

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

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

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

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

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

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

90. Mr Brennan: Yes.

8 September 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Ms Deborah McNeilly Mr Adrian Doherty	Department of Finance and Personnel

91. The Chairperson (Ms J McCann): I welcome Deborah McNeilly, finance director, and Adrian Doherty, from the finance division of the corporate services group. We are running a bit late today. I invite you to make a few opening remarks, after which I will open up the meeting for questions.

92. Ms Deborah McNeilly (Department of Finance and Personnel): I will make some comments on our Budget 2010 position and give a brief summary of the information that is set out in the paper that was forwarded to the Committee.

93. As you know, the Executive will not know the exact amount of funding that is available until the national spending review announcement in late October. In the interim, Departments have been asked to start planning. Departments have been required to formulate spending proposals and come up with indicative saving options. The paper that we provided sets out our current expenditure proposals for both resource and capital, as well as our direction of travel as regards the indicative saving options.

94. To inform the planning process, we have been asked to identify saving options that range from £7·8 million in 2011-12, rising to £28·2 million in the fourth year. That represents a significant challenge for the Department, given the nature of the services that we provide. We do not have many programmes; our only programme is EU expenditure, and there is not a significant amount of funding in that, because it is tailing off. The lion's share of our costs comes in providing services, largely to other Departments. Those include accommodation; shared services, such as ICT and accounting; legal services; and procurement. Reductions in those areas will inevitably have consequences or implications for other Departments. It is important that we seek to minimise those, and we have been trying to do that to meet customer need.

95. Equally, we have front line services, which are confined to Land and Property Services (LPS) and the General Register Office services in the Northern Ireland Statistics and Research Agency.

96. Our approach to savings has been to ask all our business areas to identify savings, which are then ranked according to priority. The front line services may have come up with savings, but we will have to take cognisance of any resulting difficulties, to minimise the front line impact. We are very conscious of that.

97. You will have seen in the paper the difficulties that we will face, given the historical reductions in the Budget, which amount to more than £30 million since Budget 2004, six years of no inflation and the nature of our expenditure, with some £90 million already contractually committed. The challenge facing the Department of Finance and Personnel (DFP) is significant, as I expect it is for all Departments.

98. Our resource expenditure proposals focus largely on the areas that were identified at in-year monitoring rounds, such as the census, accommodation and Land and Property Services. Our capital expenditure proposals focus on maintaining and enhancing service delivery levels.

99. By taking the approach that we have, we have challenged all business areas. We take a rigorous approach to prioritisation across the Department, and we continue to engage with our business areas as we go through the iterations of the process.

100. Mr McNarry: Thank you; you are very welcome to the Committee . We have been told that addition funding of £5·5 million per annum is required to maintain the ability of Land and Property Services to deliver on its current business obligations. We have been told that because LPS is now dealing with record levels of non-payment, which translates into increasing volumes of court cases and enforcement action and has resulted in a reduction in income streams. As a result, the Department says that it has had to rely heavily on in-year monitoring rounds to make up the shortfall in the agency's core budget. Amid the talk of efficiencies and management frailties in other Departments, what are the current outstanding arrears debts?

101. Ms McNeilly: The most recent figure that I have seen is that it was being confirmed at £136 million.

102. Mr McNarry: Yes, I thought that it was around that figure. Would it not be good management and productive to think more about reducing that debt, or am I being told that £5·5 million per annum is needed to reduce that debt but not being told by how much, because of the lamentable performance in bringing in arrears? Is it the case that the significant reduction of those arrears would bring in significant revenue? Has that been considered? You may tell me that it has been considered as it is obvious. However, I do not see any great steps being taken to buck that trend. If a business had £136 million of debt, it could not survive. If half of that figure could be brought in, that could go a long way to helping the situation facing all of the Executive's Departments.

103. Deborah, I know that you are presenting the report, but, not speaking for anyone else, I am very reluctant to support any calls for an extra £5·5 million when I see no great steps being taken to reduce £136 million of arrears. I find that to be a very difficult situation.

104. The bid for £5·5 million for LPS in the June monitoring round, which comprised £5 million to cover the shortfall in the agency's baseline and £500,000 in transitional rates relief, was not successful.

105. Ms McNeilly: I was looking at the Budget 2010 paper, which shows that the Department bid for £5·5 million. In the June monitoring round, £5 million was allocated to Land and Property Services on the basis that it would raise £10 million of additional rate income. The allocation for the transitional rates relief was not made, and it is in our September monitoring submission.

106. Mr McNarry: According to the information that I have, the September return includes only a bid of £600,000 for transitional rates. Why is that the case and why has it not been necessary to bid for the additional baseline funding on this occasion?

107. Ms McNeilly: At June monitoring we identified the pressure for £5·6 million, £5 million of which was for the baseline and £600,000 of which was for LPS for the current year. The outcome of the June monitoring round was that LPS got an allocation of £5 million. The bid was met on the basis that LPS would bring in an extra £10 million this year. The £600,000 for which we bid at June monitoring for the current year was not met at that time, and we are resubmitting that bid in September.

108. In Budget 2010, we are trying to secure £5·5 million per annum to address the underlying shortfall that has been in the LPS baseline.

109. Mr McNarry: Are you making one bid of £5·5 million, rather than one for £5 million and another for £0·5 million? Are you simply saying that that, as is stated in the paper, is necessary for Land and Property Services to deliver its current business obligations? I find it very difficult to understand how LPS can deliver at all. Is it the case that instead of separating the bids, as you have done previously, you are now asking for £5·5 million in total, and you are telling us how you are going to use it? In other words, having been knocked back on the bid for £0·5 million, you are now grouping your bids together in one big lump sum?

110. Ms McNeilly: No. For the Budget 2010 period, the transitional rates relief no longer applies. It was a two-year scheme. The £5·5 million is the revised or updated profile for the underlying shortfall in LPS's baseline. Therefore, there would be nothing required for transitional rates relief, the obligation for which runs out during the current financial year.

111. Mr McNarry: Let us stick with the issue. Additional funding of £5·5 million per annum is required. That is a statement of fact made by the Department. It says that it needs £5·5 million. On what basis does it ask for that, other than that this is a failed agency, which is failing to do its work? Is it purely on that basis that the Department wants to prop it up? I know that you cannot speak for the agency, and it is unfair of me to ask you to. I am just asking for a technical answer.

112. Ms McNeilly: The baseline, which has been available to the agency over the past three years and has been rolled forward to the next four years, was set as part of Budget 2007. It did not take account of all the rating reforms. There were some 43 rating reforms. Therefore, LPS has had to implement administration arrangements for those. It has also had to make other payments, court costs have increased and so on. In the proposals, the Department is trying to get the baseline onto an even keel in respect of where it should be in order to provide the services in accordance with the current service delivery model.

113. Mr McNarry: Have you been presented with a case that says that LPS is — let us say — £136 million in arrears and that, by next year, it will not have those arrears?

114. Ms McNeilly: The agency is in the process of preparing a business case to address the debt. That is one of its key priorities.

115. Mr McNarry: How many business cases has the agency given you?

116. Ms McNeilly: On the issue of debt reduction, I have seen only one recently. There is one on the go at the moment —

117. Mr McNarry: Prior to the one that is on the go at the moment, no business case has been put to the Department?

118. Ms McNeilly: It has bid as part of monitoring rounds, but the business case is a key piece of work — one that has been brought to our attention and that I am aware of — that the agency is currently taking forward in a specific way to see how best to redeploy resources into rate recovery. At the moment, LPS is redeploying staff from other areas into the recovery of rate arrears. That has already started. On top of that, it is preparing a business case, which may mean that it will want funds over and above the figure in the paper if the business case is approved by the permanent secretary.

119. Mr McNarry: I understand.

120. It is clear what the £5·5 million per annum is to be used for. Will you equate for me what the return will be against spending that £5·5 million per annum?

121. Ms McNeilly: Spending that £5·5 million per annum supports the realisation of the rates income. Last year, £961 million was brought in. This year, that figure has increased to between £970 million and £980 million. That is the agency's target for this year. Even taking a flat line, the funding will support the delivery of a sum of £970 million to £980 million.

122. Mr McNarry: So, what will an investment of £5·5 million bring in?

123. Ms McNeilly: It will bring in the current target for the current year. If the agency gets a reasonable baseline, it will bring in somewhere in the region of £970 million to £980 million.

124. Mr McNarry: I cannot figure that out. I am lost on how it would bring —

125. Ms McNeilly: With the establishment of a proper baseline for Land and Property Services and recognition that there has been a shortfall in the baseline for the agency, the rate collection target for this year is £970 million to £980 million. That is my understanding.

126. Mr McNarry: I realise that. However, the extra £5·5 million will not bring that in alone; it is an addition to the money that has already been spent. For my £5·5 million — I do not want to seem like one of those dragons in the den who is going to invest his or her own money, because I would not be putting a penny into this —

127. Mr Hamilton: I'm out. [Laughter.]

128. Mr McNarry: There is £136 million outstanding. What will be the return on my £5·5 million against that over the course of the year?

129. Ms McNeilly: In the absence of more information from the agency, all I can say is that, without the £5·5 million, LPS would not bring in £970 million to £980 million. Therefore, without the £5·5 million, it would not be able to meet its target for the current year. The £5·5 million is just to keep the business running; to improve the return, more investment would probably be needed.

130. Mr McNarry: You are doing a very good job at trying to explain somebody else's woes, and it is not fair to press you. Simon said that he was out, and I cannot buy into the case or the argument for the investment; I see no evidence that sets out how we attack the £136 million outstanding. Turned on its head, the argument could be that, unless LPS gets £5·5 million, the £136 million of arrears will increase.

131. Ms McNeilly: That is true.

132. Mr McNarry: I want to know what LPS is doing now. What has it done? You told us that it has not presented a business case until now.

133. Ms McNeilly: It is very specific.

134. Mr McNarry: Nevertheless, we have been financing the arrears. That is clear. Thank you.

135. Ms Purvis: The Department had to produce a savings delivery plan by the end of August. How did you produce that plan, and did you produce it on time?

136. Ms McNeilly: We had to key some savings onto our detailed financial database. The timetable is that we are due to produce the actual savings delivery plan — the date templates, measures and so on — towards the end of September, for publication alongside the draft Budget in October.

137. With regard to the approach that we have taken to savings, we asked all our business areas to identify savings of 6% each year on a cumulative basis to generate a long list of options. That long list of options was reviewed by our departmental board at a full-day session in June. Since then, the business areas have been reviewing and refining those options. We have been working to prioritise them in terms of their impact — low, medium, etc — and we still have a long list of options.

138. The permanent secretary has arranged bilateral meetings to take place over the next fortnight with all of his directors and chief executives to challenge and to refine the options again by probing their deliverability on savings. That will inform the detail of the efficiency delivery plan, which we have to produce in near final draft towards the end of this month. That plan will be subject to review, scrutiny and the Committee's views. The intention is to publish it in line with the timetable; within two weeks of the Executive's draft Budget being published at the end of October.

139. Ms Purvis: When can the Committee have sight of that, or when will you brief the Committee on the delivery plan?

140. Ms McNeilly: I need to look at the detail and work back, but we can probably brief the Committee on the savings delivery plan in early October.

141. Ms Purvis: Paragraph 8 outlines the work that has been undertaken to date to achieve savings, including reductions in external consultancy expenditure, air fares, mileage, hospitality, etc. Is there potential for further savings in all the areas listed?

142. Ms McNeilly: Expenditure on external consultancy dropped dramatically. If a business area wants to engage in external consultancy, it is subject to review by the permanent secretary and senior directors. We already have a target in place in the current year for another 5% reduction in areas such as air fares and mileage costs, and we want to drive those costs down as we go forward. It is the same for hospitality. We have halved hospitality costs over the past two years and will try to drive it down further. The departmental board has a range of general economies in place at the minute whereby people are not allowed to go on external training without senior management approval. We will continue to drive down on that, and it is a key component.

143. Ms Purvis: Your staff costs comprise 43% of your overall budget, and you say that staff reductions are inevitable. What does that mean in practice? Given that other Departments are probably under pressure to reduce their own staff costs, what are the opportunities for the redeployment of staff?

144. Ms McNeilly: Given the nature of the service provided by the Department and the fact that there is not one big button that will realise a large amount of savings, a lot of the savings will arise from reductions in posts. Business areas have been doing post-by-post reviews to determine where they can make reductions. At an average employer cost of £30,000 per person, we are talking about 30 people per £1 million to try to manage reductions. However, we do not know what quantity of savings we will have to deliver, and we do not know if any of our bids will be met. Therefore, we are working in a lot of uncertainty at the minute. On the wider position,

we have highlighted the fact that the key risk for us, like any Department, will be the impact on all other Departments and the ability to absorb staff numbers. Our colleagues in corporate HR are looking at the potential for absorbing staff numbers, but the ability to do that will diminish, and it is a significant risk.

145. Ms Purvis: At the minute, are you simply looking to not recruit into vacancies and to review posts? Some posts are crucial, and, therefore, you will have to recruit into them. Are you looking at natural wastage from other parts of the Department?

146. Ms McNeilly: Yes. Recent figures that I saw indicated that natural wastage usually runs at about 100 posts a year. However, it may not keep up at those levels, and, given that people can work on, retirement levels may not keep up either. At the minute, there is a freeze on recruitment to the general service grades up to grade 7, and specific posts have recently been subject to review. The permanent secretary asked for all those to be seen, because, as a Department, the last thing that we want to do is to bring people in now who we cannot afford and, therefore, worsen the problem. That is a key area. Increased controls have been placed on temporary promotions, and numbers of agency staff have been reduced. It is an ongoing process, and the departmental board is very alert to the fact that it should not recruit people now and be faced with a bigger problem later. Equally, it is aware of the need to look at whether business-critical posts can be filled, and if they can be filled from surpluses in other Departments, that will be the initial way forward.

147. Ms Purvis: Do you envisage voluntary or compulsory redundancies?

148. Ms McNeilly: I cannot comment on that at this stage. Our corporate HR people are looking at that issue at the Northern Ireland block level, but I know that Departments are having difficulty providing any quantification for them at this stage, whether on overall numbers or on complement and grade structure. However, we are looking at that issue at the minute.

149. Mr Hamilton: Paragraph 15 talks about some of the categories where savings are being considered. I want to ask about two of them. The first is maximising revenue. When the Committee has taken evidence previously, it has considered the fact that increasing the amount of money that comes in is not technically a saving or efficiency. Aside from that point, what is suggested in that short paragraph all seems very acceptable. It talks about widening the customer base and, basically, selling more services. If there was to be an upswing in the property market, it would increase the work that LPS does. That would bring in revenue, which is great. It might sell a few more maps or whatever. That is acceptable. However, in the current climate, none of that is certain. Therefore, to factor that in as a definitive saving or additional revenue is quite uncertain.

150. I presume that, apart from the "nice" stuff that is listed in that paragraph, consideration has also been given to increasing fees for some of those services, so that if the quantum of services that are being sold does not increase, the revenue that is taken does. In some cases, such as solicitors carrying out searches for conveyancing as required, that money is pretty much a guaranteed business stream. Is that also being considered, aside from the hope — the hope rather than the expectation — that you will be able to sell more services?

151. Ms McNeilly: Yes, it is. However —

152. Mr Hamilton: In what areas are fees being looked at?

153. Ms McNeilly: Work is ongoing to review how all the Department's business areas calculate fees and to determine where there are inconsistencies in how they calculate overheads and so

on. We want to ensure that they at least operate on the same basis. That has been looked at, and it will inform some of the fee setting.

154. The key thing for us is that, if we reduce expenditure in an area and it becomes more efficient, we must reduce our fees because we cannot recover more than our full cost. It is a matter of ensuring that fees are taut enough to recover full cost. We cannot go above that to bring in more revenue to use for something else. That is our focus. We have already issued a high-level policy paper to our business areas that explains the principles of calculating all of that and how to do it. We are also reviewing how business areas throughout the Department calculate their overheads because there are inconsistencies. That may help to make sure that there is more consistency across the fees and, at least, to reinforce their tautness to ensure that they bring in full cost.

155. Mr Hamilton: OK. My second and final question relates to lower priority programmes. The commentary suggests that the Department, having reviewed all its programmes, finds that none of them is lower priority. I am sure that that is the case in the other 11 Departments as well. I will make a statement and ask you to confirm whether it is correct. In DFP's case, is that finding due to the Department's distinctive nature and the fact that, apart from LPS and perhaps a few other agencies, it does not really do things itself? It does things on behalf of others. It provides central services for other Departments. Is that why there is a limited amount of discretionary expenditure or number of programmes going on?

156. Ms McNeilly: That is the primary reason for us. A programme, in terms of what you would be familiar with as a programme, will be an EU one. It is what it is, if you like. As regards other small, discretionary items of spend, we have a small number of grants; for example, to the sports association. I think that we used to make grants to the holiday play scheme. Those are tiny amounts of money.

157. Reducing checking, for example, is another area currently included in that, though it is perhaps more appropriately reflected in corporate services. We are looking to see whether, in relation to those programmes, we can "increase the risk" and reduce the level of checking that goes into certain functions. At the minute, that is a high priority as regards following audit recommendations, but it is something that we are going to revisit. You are quite right about actual programmes. It is not something that we have a lot of material on.

158. Mr Hamilton: OK, that is fine.

159. Mr O'Loan: You said that you have presented no savings plan in detail but have just given directions of travel. All Departments were asked to provide a savings plan by a certain date, which has expired — was it 2 September?

160. Ms McNeilly: We were asked to key savings equivalent to our indicative savings targets onto the database, which has all the expenditure on it. We keyed those to meet the deadline of 26 August — I think that we got it in on 31 August. We keyed those at the very highest level in the Department. They are not keyed against individual lines in our database; we keyed them on at the highest level, which we were able to do, with a view to working within them further down the line. In respect of the detailed work of the savings delivery plan, the timetable requires us to have a near draft of our savings delivery plan by the end of September, with a view to publishing that draft within two weeks of the publication of the Executive's draft Budget 2010 document.

161. Mr O'Loan: So you have done all that was required of any Department?

162. Ms McNeilly: We have fed in what we were required to feed in.

163. Mr O'Loan: My next question covers similar ground to a couple of points that Simon raised. You said that the Department has no lower priority programmes. It disappoints me that you are not managing to go further on a couple of fronts, of which this is one. For example, the fact that there are three separate economic policy units in the Executive, one of which is in your Department, has been referred to a number of times in the past. Is consideration not given to rationalisation of that, for example?

164. Ms McNeilly: I will have to look at that for you.

165. Mr O'Loan: I am not inside the Department, and I do not know what areas exist there, but I think that it is too easy just to say that there are no lower priority programmes, given the stringency of the situation that we face. All Departments must look more acutely at their areas of work. Clearly, your Department is different from any other, as you have spoken about, insofar as it does not have programmes as such but, by and large, services other areas of government. However, I think that there is a greater onus on the Department than has perhaps emerged. I am disappointed that there are no major initiatives coming forward. In the past, we have had major initiatives that have done things better and saved money. We are told — I have no evidence to discount it — that Account NI and HR Connect, for example, are major programmes. It is in that kind of arena that we ought to be seeing at least the beginnings of ideas coming forward.

166. Ms McNeilly: The shared services, in particular, have been a focus for us in seeking to identify savings. We are talking about looking at whether we can streamline the processes further. Following its establishment, the Enterprise Shared Services centre is reviewing its management structure with a view to making it more streamlined across the organisation. It is also considering its processes in relation to things such as levels of checking, so we will see some savings coming through that. Our interpretation of the word "programmes" may be an issue.

167. Mr O'Loan: To what extent do you agree with me that it is not possible to carry out the enormous project of writing a four-year Budget within the current timetables at this stage, when it is an incredibly difficult, demanding and politically challenging task to face up to very substantial cuts in budget and to manage those cuts in a way that is not going to do enormous harm to the public sector but, on the contrary, protects the front line service of our public sector? We ought to be taking quite a different approach that involves the political arena and real communication with our public. Attempting to create headline figures will end up with what is essentially a salami-slicing exercise. You referred to that yourself when you said that the small number of other agencies that you have control of will be told to take proportionate cuts. That sends out the wrong message from the central Finance Department. How do you react to that thesis?

168. Ms McNeilly: The timetable for all the work that is required, whether at the departmental level or Executive preparation, is extremely challenging. At this point, however, we effectively do not have a Budget for 1 April next year to enable us to provide services. Therefore, that is a priority, and the timetable attached to it is pressured.

169. Mr O'Loan: Yes, I have no doubt that a Budget has to be created for next year, but what is being planned for is creating a four-year Budget. That is a very questionable project.

170. Mr McLaughlin: You are very welcome. Is it correct that the central finance group asked Departments, in delivering their efficiency or savings plans, to explain the impact on the standard of public service and any mitigating actions?

171. Ms McNeilly: Yes.

172. Mr McLaughlin: Was that then applied to your proposals or responses?

173. Ms McNeilly: Yes.

174. Mr McLaughlin: The Department's spending and savings proposals paper states on page 9 that there will inevitably be staff reductions, which will have an impact on the Department's capacity to develop and review policy as well as to provide advice and guidance to customers and stakeholders. Will you give the Committee examples of what you are talking about there and detail of the mitigation?

175. Ms McNeilly: The focus of the Department is two or three fold. Some policy functions, such as the central finance group, provide support to the Executive and the Minister in managing the Northern Ireland block grant. Central personnel, or corporate HR, will be increasingly required to deal with issues surrounding the management of staff. If those areas, for example, have to take significant staff reductions as part and parcel of any outcome, the work that they currently do would have to be scaled back. In that case, they would not be able to take forward as much policy work or to provide the same level of support. Those are two areas. There are other areas across the Department where there is work on developing policies in and around valuation, legal policies, and the legislative process. That work would have to be scaled back, and it may take longer for things to be done. For example, the administration to support a piece of legislation may take longer to process. Those are broad examples of the areas that we are considering.

176. Mr McLaughlin: That is of limited assistance. Are you proposing a menu of options for consideration by the Minister, with not necessarily 100% of them to be accepted, but with enough selected from the menu to meet the Department's target? Is that how you are approaching the matter?

177. Ms McNeilly: Yes, a long list of options.

178. Mr McLaughlin: And you are not only identifying those possible areas of service delivery but the equality impact, and you are indicating the mitigation measures that could be applied in those circumstances if those particular recommendations were adopted?

179. Ms McNeilly: Yes, because mitigating may mean just taking longer to do things or doing things slightly differently, or it may have to be accepted that there will be a marginal adverse impact. That information will go to the Minister as part of the detailed list.

180. Mr McLaughlin: The calculation of whether it could be reduced — presumably the bean counters will do that anyway — would not necessarily be about delivering the same range and quality of service for less money but cuts in services, and you have identified those services that you believe will have to be considered.

181. Ms McNeilly: That is what we are working towards.

182. Mr McLaughlin: Will that be on a reduced budget?

183. Ms McNeilly: Yes, but we can manage to deliver on critical needs with a reduced budget.

184. Mr McLaughlin: In my head, this is a related point. We have heard in the media that 60 staff members were redeployed to the Department from planning. How does that significant influx of staff fit into this very difficult issue?

185. Ms McNeilly: The 60 staff are on loan to DFP for two years to work in LPS and will return to their parent Departments following that period. They are assisting in a project to improve the mapping information that informs EU subsidies for farmers, and the funding for those staff members will come from the Department of Agriculture and Rural Development. Therefore, it is a nil cost to us.

186. Dr Farry: Most of the main issues have been covered, so I will not detain things for too long. You are talking about £28 million in cuts over a four year period, which roughly equates to an overall cut of some 15% or 16%. Obviously, there is a certain degree of anticipation among the central finance group regarding what is likely to happen, but has the Department been advised to carry out further contingency planning in the event that the cuts are worse than what you have been asked to plan for?

187. Ms McNeilly: Not yet.

188. Dr Farry: Has the Department planned for how it would cope if it were asked to go beyond what has so far been asked for?

189. Ms McNeilly: The Department asked the business areas to generate options for consideration on the basis of cumulative cuts of 6% per annum over the next four years, so the long list of options generated would exceed that target. However, a large proportion of the options put forward were classified as being of very high pain in relation to deliverability and there are issues with them.

190. Dr Farry: In essence, are you saying that there are certain areas in which there are inescapable ongoing commitments and there are other business areas that will have to absorb whatever level of cuts are called for, whether that is 15%, 16% or 20%?

191. Ms McNeilly: At the end of the process it may not necessarily be that each business area will have faced the same percentage cut. Although each business area has been asked to consider cutting 6% per annum cumulative as a starting point, the prioritisation aspect will then come into play. The engagement with the permanent secretary over the next fortnight will be to work through the proposed cuts with each business area to challenge and probe what could be delivered. The cuts in different business areas will be lower or higher depending on their relative prioritisation.

192. Dr Farry: Building on what Declan said earlier, the Committee appreciates that the Department has introduced a number of innovations in recent years, but what is planned by the Department over the next four years seems to be simply a continuation or consolidation of those. Four years is a considerable period. Looking back through history, some of the most important innovations in policy or business have come during periods of particular stress. Does the Department have in mind any new initiatives for this period?

193. It almost seems that there is a drawing-in of the wagons around the core areas. The debate has centred on what areas are more core than others, rather than on any notion of taking a leap of faith and doing something differently, to take away some of the cost pressures. There does not seem to be any evidence of the Department considering new innovations.

194. Ms McNeilly: Not in the area of shared services that you referred to, as that falls under the consolidation aspect. With the other services provided to the Department, we are looking at what they are doing, why they are doing it, whether they still need to do it and whether it could be done better. We are also looking at changing such things as management structures and processes. You are quite right; that is where the main focus is.

195. Innovation may involve a cost implication in some areas; for example, if Land and Property Services were to introduce an e-registration system for its registry function. I believe that those are the areas that you are referring to.

196. Dr Farry: Correct me if I am wrong, but with past innovations, has the tendency been to fund the core service and the innovation simultaneously and hope that, down the line, the innovation will pay off, reducing the cost of the core service? Can we try to make innovation work, thereby reducing the cost of the core service, rather than running the two in tandem?

197. Ms McNeilly: As I understand it, the e-registration system would require capital investment and the implementation of changes to current systems. I would not see those two courses of action working in tandem in that example. If there were other examples that the Department could develop, that would be something that it would have to consider.

198. The Chairperson: Thank you; that concludes our questions for this session. I hope that if other issues are raised we can write to you and receive a response.

15 September 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Michael Brennan Department of Finance and Personnel

199. The Chairperson (Ms J McCann): This session deals with the review of the 2008-2011 Budget process action plan and the Department of Finance and Personnel's (DFP) response to the conclusions and recommendations in the Committee's second Budget scrutiny inquiry report. There is also a paper, and the executive summary and key conclusions and recommendations from the Committee's report, in member's papers. Michael, please make a few opening remarks, after which I will open the meeting for members' questions.

200. Mr Michael Brennan (Department of Finance and Personnel): As the Committee knows, the 14 recommendations in the paper went from our Minister to the Executive and were endorsed at the Executive meeting at the end of July. The general observation was that the Finance Minister warmly welcomed the recommendations. He is particularly exercised about the key question of consultation on the Budget process and will be keen to labour that point during next week's take-note debate. The Minister is particularly anxious that Assembly Committees have an opportunity to engage fully with Ministers and their Departments on the evolution of the Budget for the new spending review period.

201. The Chairperson: A very clear point was made about the clear lack of support from the Assembly Committees for some of the recommendations, particularly recommendation 12. Was any consideration given to postponing the issuing of the Minister's paper in order to update it to take account of the co-ordinated response on behalf of the Assembly's Statutory Committees, given that a date was not mentioned? I know that your report says that you did not receive that response until 2 July, at which point it was too late to include in the Executive meeting on 5 July. Was any consideration given to postponing the paper to allow the very detailed report to be factored in? Furthermore, is any provision in place to enable Ministers to table amendments to their papers when they come to the Executive table? Was that opportunity available on this occasion?

202. Mr Brennan: Our Minister's papers were issued before we received the Committee's report, and we also noted that it was embargoed to DFP. Therefore, in that position, the Minister had written to the Executive, and he held to that position. I know that our Minister wants to address that issue next week because we think that there is possibly a misunderstanding about the wording of recommendation 12, and we wonder whether it is possible that there were cross-purposes at work here.

203. The recommendation talks about having a lead role in the consultation process going forward, yet the concern of the Committee seems to be about not having the authority to act. There could be a view that acting as a conduit for the views of all the other Committees, and presenting that view on the Budget, is not, in any way, saying that the Committee needs some sort of statutory authority to do that.

204. The Chairperson: As Committees, we cannot do anything about the Budget. Therefore, what is the purpose of being involved in it?

205. Mr Brennan: If, for example, there was frustration in all the other Committees and they could not relay their views, those views could be relayed to the Finance Committee and then be presented to the Finance Minister, who could take them forward.

206. The Chairperson: The view of most Committees is that they could not act on the results of the consultation. It is very clear that there was a lack of support for that particular recommendation. I want to make that point; however, I will not labour it. If there is a process whereby a Minister's paper can be amended before it is brought to the Executive, then that may have been the option that should have been used on this occasion.

207. Mr McNarry: I want to look at recommendations 6 and 7. I understand that the Department's original recommendation proposed that it would be the Department that would take the lead role from the strategic investment board (SIB) in developing capital investment allocations in the Budget process. It now appears that that has been changed; and, on page 5 of the action plan, it states that that has been agreed by the Executive. We now find that DFP and the strategic investment board will work collaboratively in developing capital investment allocations in the Budget process. Will you tell me why that has happened and whether the recommendation has been amended?

208. Mr Brennan: In the past, there was some concern on the part of Departments that there was a disjoint between DFP's role in setting and monitoring capital budgets and the SIB's role in giving strategic direction to the allocation of capital. That is why the original recommendation had DFP taking the lead. However, operating practice over the past four or five months has changed significantly, in that DFP and SIB are working closer together than they ever did in the past on setting and monitoring the capital position and in taking positions on the allocation of capital. For example, last week, there was almost daily contact between the DFP team and the

SIB team on the capital position for Budget 2010. It is much more of a close and collaborative effort than that which we had envisaged in the past.

209. Mr McNarry: Are we to take from that that although the Department indicated that it wished to take a lead role, the SIB, having previously not worked so closely with the Department, decided that it is better to work together with the Department, and that, purely on the basis of five months' operating practice, there has been a turnaround and you have rolled over?

210. Mr Brennan: What has triggered the change in operating practice is that we are heading into an environment in which capital will be much scarcer. The availability of capital is going to be significantly constrained over the next four-year period. Therefore, there needs to be a much more focused, strategic decision on how we allocate that capital. For example, DFP could not strike the capital budget on its own without having some significant input from SIB on what the strategic priorities for the allocation of capital should be.

211. Mr McNarry: That would have been the case anyhow. I am saying that, having rolled over completely, you have dramatically changed the recommendation that you would take the lead role and are now saying that you will not take the lead role. I am trying to get at why you have changed that recommendation and why you are not going to take the lead role. Is it because the Department is not competent on its own?

212. Mr Brennan: I do not think that having to take the lead role is an issue now.

213. Mr McNarry: You made it an issue.

214. Mr Brennan: That was at a time when we were worried about various Departments having the perception that there was a disjoint between the roles of DFP and SIB.

215. Mr McNarry: We do not work on perceptions: we work on facts. You came to the conclusion that DFP would take the lead role. I am trying to get at what changed your mind. Is it that you have better relationships with SIB? Was pressure put on the Department by SIB?

216. Mr Brennan: I think that the working relationship between SIB and DFP is much better than it has ever been.

217. Mr McNarry: Do we have to now hope that that is going to be the case for ever and a day?

218. Mr Brennan: Certainly, that is the working assumption that we have made.

219. Mr McNarry: On recommendation 7, we, as a Committee, had recommended that linkages on PSA targets should be extended to the reporting stage, whereby end-year delivery reports would enable performance to be tracked at departmental levels with respect to inputs, outputs and outcomes. You responded to that by saying that it could:

"perhaps be considered in the wider review of the financial process proposed by DFP."

Are you in a position to go beyond the word "perhaps"? Will you give the Committee a firm commitment that that will be examined as part of the review of the financial process? Will you be able to give us a commitment that we will be provided with an opportunity to consider the proposed terms of reference in advance of the commencement of the review? Will you bring clarification to the table as to when that work is likely to commence? What is the timescale for completion? It is fair that we ask for that commitment, rather than work with you on the basis of the word "perhaps", which could mean anything.

220. Mr Brennan: As you know, on many occasions in the past, we have kept the Committee up to date on what we would liked to have done with regard to bringing about the review of the financial process to make it a more transparent and aligned system. Our Minister has written to his Executive colleagues with the terms of reference for taking forward the review. Once the Executive have signed off on that, we will come back to the Committee as quickly as possible, not only on the terms of reference, but on how we will see those terms of reference being operationalised.

221. Mr McNarry: Will you help the Committee in any way? We are clear in what we are asking for. You have responded with the word "perhaps". It might be unfair to ask you to give a commitment, Michael, but could you take back to the Minister that the Committee would find it more satisfactory if the commitments that I had asked for on behalf of the Committee were to be judged by him as being reasonable, and ask that he, in fact, could commit to the commitments that I am asking for on behalf of the Committee. In light of when you say that that could be resolved, when might we get a response from you or the Minister?

222. Mr Brennan: The Minister is getting comments back from his Executive colleagues, and those received to date are supportive of his proposals. There is no reason why you will not get that the minute that it is signed off.

223. Mr McNarry: When you say that they are supportive of his proposal, does that mean that they are supportive of the "perhaps" scenario?

224. Mr Brennan: No, they are supportive of taking forward a process to review and simplify the financial process and make it more transparent, and align budgets, estimates and departmental accounts.

225. Mr McNarry: Can you see that what we are asking for is fairly reasonable and that an opportunity to consider the terms of reference in advance would be helpful to the process?

226. Mr Brennan: I can see where you are coming from. I understand where you are coming from, and I will relay that to the Minister.

227. Mr McNarry: May I ask that you give an opinion to us at the table today that you share our view and that it is a reasonable request?

228. Mr Brennan: Yes.

229. Mr McNarry: Thank you: that is helpful.

230. Ms Purvis: Our reading of recommendation 12, and why it has been rejected by this Committee and the other Committees, is that you wanted this Committee to take the lead role in the Executive's consultation. Part of the Executive's consultation is consulting with other and wider organisations. Is that a misunderstanding of the recommendation in that what we currently use in gathering the views of Assembly Committees, co-ordinating those views and sending them on is what you are really talking about?

231. Mr Brennan: There is no intention to try to circumvent the formal public consultation process. The Minister would like to be sure that he is getting the views of all Assembly

Committees and that the Finance Committee could act as a conduit for relaying the views of all Committees to him. That was the intention.

232. Ms Purvis: That is something we do already. That leads me on to recommendation 13. One of the criticisms that constantly comes from Assembly Committees is the lack of [Inaudible.] and information — enough information to do their job — that they get from Departments prior to review. For example, [Inaudible.] understands well in advance so that they have an opportunity to scrutinise how it can review its budget and the subsequent spending plans. It seems to me that recommendation 13 is asking of the Finance and Personnel Committee something that is way beyond its scope, remit and powers, bearing in mind the inadequate information that comes from Departments to Committees and the powers and ability of this Committee to adjudicate on spending programmes.

233. Mr Brennan: The key concern is that Committees do not have access to all the budgetary information that they should have, not just on the bid information that Departments submit to DFP but on their savings delivery plans and how they intend to take forward their budget consultation process. The key issue under this recommendation is to ensure that the Committee sees everything in relation to the construction of that departmental budget development: for example, where there is a particular concern or a lack of understanding, then there is an issue about how that particular Committee engages with the Finance Committee and relays that to DFP. An information breakdown is the fundamental concern.

234. Ms Purvis: It seems to me that there is an information breakdown in the Executive in that the Minister of Finance and Personnel is not getting the information or co-operation from his Executive colleagues and, therefore, what is coming out of this is to place that responsibility on the Committees, because the Committees have already complained that they are not getting the information from their Departments and their Ministers to enable them to scrutinise the Departments' budgets and the wider Budget. It seems a bit like passing the buck to Committees, when the Executive and the Minister of Finance and Personnel should be looking more closely at Executive colleagues. I accept that Assembly Committees, including the Committee for Finance and Personnel, have a crucial role in scrutiny. However, I cannot see why we and other Committees should be expected to do the role of the Finance Minister.

235. Mr Brennan: I do not think that the intention was in any way to pass the buck or to circumvent the Executive. In previous Budgets, many Committees complained that they had been asked to take a view on the Budget but did not have all the information necessary to form that view. When DFP was issuing its Budget guidance to Departments, it made it clear that it was in those Departments' interests to make available to the Committees all financial information on the bid side and on the savings side, so that the Committees could form a view. That was the only intention in putting that into the Budget guidance. It was not about trying to obtain information on other Executive Ministers' behaviour by the back door.

236. Ms Purvis: What has changed? How is it going to work?

237. Mr Brennan: For example, if Committees ask of their various Ministers to see the information, the information is there in Departments. If the Committees cannot obtain that information, they know where the fault lies with regard to the failure to provide.

238. Ms Purvis: It is really a benign action point. If Committees have already asked for information from the Departments and the Departments have not been forthcoming, they cannot fulfil the role that is required of them. Is this not really a benign point? It is really apportioning blame as opposed to saying that this is how Committees can fulfil an active role in the process.

239. Mr Brennan: I do not think that it is a benign recommendation. It is a recommendation that should encourage greater transparency in the engagement between Ministers and Committees.

240. Ms Purvis: It has not worked to date.

241. Mr Brennan: Hopefully, it will work over the coming months.

242. Mr O'Loan: I have a number of points, all of which are to do with the overview position. I do not think that that is a good [Inaudible.] budgetary process. That leads to a lot of friction. We are in a difficult environment, which brings it own issues [Inaudible.].

243. [Inaudible.] point that Dawn made about recommendation 13 and the demand that, if a Committee is going to make any comment at all and to seek that anything else be done, it must come up with the funding arrangement for that. Our Committees, as constructed at the moment, [Inaudible.]. However, we are not there yet. The Department needs to be aware that just making that blunt statement [Inaudible.].

244. My next point of concern is around the desire that you talked about to make the Budget more clearly linked to the Programme for Government and the PSAs. In many cases, Departments share that view. I have many concerns about how we do that. The Department has responded by talking about the maze of interaction that is involved in that and what a difficult process it actually is. The first attempt of the Department to do that has been to map all the money in its spending lines to particular PSAs. The first editions have not agreed at all, and we end up adjusting that to make it consistent. Therefore, how valid it is remains in doubt. If we were to add to that with a plethora of information coming before Committees and Assembly Members, that would be so daunting that we would not be able to make anything of it. [Inaudible.]

245. Do you feel confident that all our Departments can produce a meaningful four-year Budget [Inaudible.] and will use that four-year period to get us to a different place at the end of it? I am not confident that we can do that. [Inaudible.] I think that even writing a four-year Budget is a questionable project. I would be far more content with producing a one-year Budget that gets us somewhere and then using that longer period to have meaningful engagement and strategic thinking about what [Inaudible.].

246. Mr Brennan: I take entirely your point about the unique difficulties that having a spending review announcement in October brings. Normally, Treasury spending review announcements are in July, so the fact that we have one coming on 20 October means that we have a much more compressed time period in which to construct, deliver and get approval for the Budget. Over the next couple of months, the timescale for taking forward consultation and engagement with the Executive and the Assembly is horrendous.

247. Our difficulty with the timescale is that, in effect, Departments need to have Budget allocations by January next year so that they can give sufficient notice to the various boards, trusts and arm's-length bodies to enable them to start planning. That is particularly important this time around because we are heading into a period in which resources are going to be so much more constrained than they were in previous years. It is not just a question, like it was seven, eight or nine years ago, of allocating a Budget and [Inaudible.] money in-year. This time around, we are heading into the opposite world, so we need Departments to have certainty about their Budget allocations early in the new year.

248. The new UK Government is setting a four-year Budget. Normally, spending reviews cover only three years, but this one is set at four years. I think that they want to reinforce the message that this spending review is copper fastened and will not be reopened and that they are

committed to addressing the fiscal reduction plan that the Exchequer has in place. They want to reinforce the perception that the funding net will not be reopened for a long time.

249. Resources are so tight that it is difficult to make every Minister happy, so one of the benefits of being able to strike a four-year Budget is that you can start to make trade-offs; you can ask Minister A to take a little bit of pain in year A, but Minister B will get a bit of easement in year C. Therefore, over a four-year period, you can start to smooth out departmental allocations. The only thing that you have to give Ministers then is the confidence that you will not reopen that Budget. For example, if Minister A gets all the money in years 1 and 2 and is supposed to take pain in years 3 and 4, and you reopen the Budget in year 2, you will have howls of protest about breaches in faith in delivering the Budget. That is one positive aspect of adhering to a four-year Budget.

250. I can see the other point that you are making, because we are asking the Executive and the Assembly to take some fundamentally difficult decisions about Northern Ireland plc going forward, and there is a certain logic to saying that we should strike a one-year Budget and bring a much more orderly thought process to how resources are allocated through years 2, 3 and 4.

251. Mr O'Loan: [Inaudible.] I notice that a legal challenge to the British Budget has been made on equality grounds. Given that we need a very fast process, which may not allow adequate time for all that equality screening, are you concerned about that?

252. Mr Brennan: The legal challenge to Whitehall Departments is to do with the impact of the Budget on gender imbalance. Our equality screening procedures are significantly more advanced than those in Whitehall. For example, we publish high level equality impact assessments on a departmental basis. [Inaudible.] is quite unique, and we put a lot of resources into delivering that.

253. Mr O'Loan: Even in this very compressed period [Inaudible.].

254. Mr Brennan: Yes, our Budget guidance to Departments makes it mandatory to publish that.

255. The Chairperson: In recommendation 10, the Committee added that Departments should publish the results of the equality screening undertaken in respect of each spending proposal. In your response, you merely noted the recommendation. How will you oversee its implementation?

256. Mr Brennan: All we can do is to tell Departments to make sure that they undertake the work. We will not accept bids from Departments unless they say that they have undertaken high quality equality impact assessments. So, their bids will not get anywhere unless they have undertaken that work. The difficulty is that the responsibility for publishing the information resides with individual Ministers. DFP cannot force Departments to publish that information; the responsibility lies with Ministers. All we can ask them to do, as a matter of best practice, is to make their best endeavours.

257. Mr Hamilton: I have a point about recommendation 13. In echoing what colleagues have said already, I question the risks associated with it. The indication is that, for example, if this Committee backs a recommendation that Land and Property Services (LPS) gets x million more pounds to help recoup the rates arrear, we say that that [Inaudible.] should be taken from the central expenditure division, rather than saying that the bid that we are backing is strategically important for [Inaudible.] PSA targets and the Programme for Government (PFG) and that that money should not necessarily be found from DFP's internal budget. Is it not a fundamental point that we should be encouraging Committees to look not in silos but more widely? However, that creates another risk, which is that Committees could get silly. We could say that we want £5

million for LPS and that it should come from the Department of Health, Social Services and Public Safety, which should stop x, y or z because we do not think that those are important.

258. Mr Brennan: To be honest, I do not think that Committees could win at that game because they would be second-guessing Departments in terms of the resources that are available and [Inaudible.] prioritisation. However, the first part of the issue is correct: Committees could outline what they think should be done. The difficulty is going to the next step and identifying where to take money from. There is an information breakdown between Departments and various Committees. The more information that is put in the public domain, [Inaudible.] debate on prioritisation is going to be.

259. Mr Hamilton: I do not disagree with the principles behind that. In fact, I am very supportive of them. However, I worry that Departments may not give the information and that Committees then just give very basic statements [Inaudible.]. I do not think that it is strategically good to limit where savings can be made to internally within one Department.

260. Mr Brennan: The Programme for Government should give some over-arching strategic sense of where the priorities should lie. [Inaudible.] to identify individual Department's contributions to that Programme for Government. That is a critical issue. Some people argue that that is a flaw in the existing Programme for Government. Basically, every Department in the Executive could say that they are the number one priority in the existing Programme for Government. They could see what they feed into the over-arching aims of the current Programme for Government. There may be greater transparency in that regard in seeing the linkages through the PSAs.

261. The Chairperson: Michael, thank you very much for coming along. We will forward any remaining issues for a written response.

6 October 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Ciarán Fox Mr Nigel Lucas	Construction Employers Federation

263. The Chairperson (Ms J McCann): I welcome Mr Ciarán Fox and Mr Nigel Lucas, who are Construction Employers Federation managers. I invite you to make some opening remarks, and I will then open the meeting up to questions.

264. Mr Ciarán Fox (Construction Employers Federation): Thank you very much for the invitation. Our briefing paper sets out some of the key statistics in the industry, and, if you are happy for me to do so, I will touch on some of the paper's key points.

265. As everyone will be aware, the construction industry has had an extremely difficult time, particularly over the past two and a half years. The biggest impact has been on employment. In other industries, a factory may close down and there will be a big hoo-ha about the fact that hundreds of people have lost their jobs, and there will be an immediate reaction. However, the construction industry is unlike other industries in that it is made up of so many small companies that there is a drip feed of job losses. The figures are quite substantial when they are put together. Over the past two and a half years, or 30 months, 21,000 jobs have been lost from construction. That is quite a phenomenonal rate; it equates to around 700 jobs being lost a month over that period. The industry has been decimated by around 25%, and various government publications back that up.

266. I want to add to the paper some comments on where are going from this point onwards. Over the past two and a half years, we have had a very difficult time and our membership is telling us that the future looks bleak, both in the private sector and the public sector. As our paper states, 62% of companies expect a lower workload over the next 12 months. Naturally, that will have a major impact on jobs.

267. Other than telling the Committee the bad news about where the industry is, one of the key reasons that we wanted to meet you was to explain the impact and the potential impact of cuts on the building and maintenance of our infrastructure. Those impacts are both social and economic. The focus tends to be on economic impacts, but there are also some major social impacts. We often hear talk of the direct job losses of the cuts that will come to the revenue budget, but, let us be clear, there will be job losses from cuts to the capital budget. It may be one step away from the public sector, but there will be job losses, and it is very important to remember that.

268. However, when it comes to cuts to the infrastructure budget, job losses are only the start. Economically, every £1 that is invested in construction generates £2·84 in economic activity. Of course, lower investment means that that stimulus effect to the Northern Ireland economy is reduced. Figures of potential cuts of 30% have been bandied around, and that would be a major reduction to a driver of the Northern Ireland economy. It is also important to note that the vast majority of investment in construction infrastructure is reinvested locally, unlike other industries, where, quite often, the money will spread out beyond Northern Ireland.

269. We are looking at the potential impact of cuts to the infrastructure budget a bit further down the line. If we really are keen to grow our private sector, we need a solid bedrock to do that upon, and infrastructure is needed to do that. If we want to rebalance, investment is key. Major cuts would hamper or hinder efforts to rebalance our economy.

270. Perhaps most importantly, the impact will be felt on public services. Investment in the building and maintenance of schools, hospitals, road and water networks and social housing delivers tangible benefits to every citizen in Northern Ireland. That is so important. Lots of investment and expenditure through government affects people, but few areas affect people's lives in such a tangible and meaningful way. There is a very direct output from construction expenditure, and there is an improvement to the delivery of public service at the end of that, which is the overriding priority for everyone.

271. Socially, the construction industry generates great opportunities for people through employment and apprenticeships. We are close to signing off with the various government construction clients on social objectives being embedded into public procurement contracts. A

requirement for apprenticeships would be embedded, and there would also be a requirement to give people who are unemployed a work placement. Those social benefits are there to be gained.

272. Before, we go to questions, I wish to raise with the Committee a couple of issues on which I will be interested to have a discussion. Three years ago, when the Budget was issued, we felt that, because the amount of information that was available to us was so limited, the process did not really enable organisations such as ours to engage fully to provide constructive criticism. To give just one example, we were given figures of net capital investment in the draft Budget, and some of those figures were negative. There was no information available to us to be able to comment or assess whether that was a good or a bad thing, because the figures were quite meaningless.

273. We would like to see each Department's planned construction spend, capital and revenue, in the next Budget, which is due in a few months. I realise that that may be a big ask, but it reflects the importance of the construction industry to the Northern Irish economy. The current position of the industry in that it is very reliant on the public sector. It is vital to our economy. This will be a four-year Budget; why not strip those elements out and let everybody see up front what the Northern Ireland Executive intends to do about investing in and maintaining our infrastructure? We could then assess that: we would not say that it was right or wrong; we would just be able to make a proper assessment.

274. Another pressing issue that has just arisen in the last few days is that of the aggregates levy. The main issue will be driven forward by the Quarry Products Association. However, we would like to add our support to that drive to ensure that the aggregates levy is dealt with in a way that does not impact negatively in Northern Ireland. There is a potential change to the levy that would significantly increase the cost of construction contracts. We have heard of one example, the swimming pool in Bangor, where an additional £70,000 of costs could be incurred because of potential changes to the levy. The Committee's support on that would be very welcome.

275. I know that the Committee is very interested in procurement, and we would be happy to have engagement around the pre-qualification process. Our members have some strong views on that. I would like to state at this stage that we have a very productive relationship with the Central Procurement Directorate. We have good engagement, and there has been some progress around procurement. There is still a long way to go but, again, we would like to engage with the Committee on that issue.

276. Finally, while accepting that there is great strain on budgets, we believe it is essential that alternative finance is given real consideration. We have examined various models of private and alternative finance and started to deconstruct them to look at associated problems. In the past, there have been some serious problems where the private sector has made bumper profits. That is not good for anybody except the people making the profits. We have started to try to address those and to put together the bones of a model that would be more socially acceptable. We have engaged with the Department of Finance and Personnel extensively on that issue, and are now in the process of putting together a working sample of how an alternative finance model may work. We are keen to share that with the Committee when it is ready. At this stage, it is really just a matter of letting the Committee know that that work is ongoing.

277. The Chairperson: Thank you very much for coming along. I think that everyone on the Committee knows people or local firms in their constituency who have suffered from the economic downturn. The 21,000 jobs that you mentioned are just in the construction industry; it does not even count the number of jobs lost as a result of the initial losses. You have put forward very good points. Hopefully, we will tease them out a bit more during the questioning.

278. Mr O'Loan: Thank you for your presentation. As the Chairperson said, we are very conscious of the effect that the recession has had, particularly on the construction industry, over the past couple of years. I will endorse a couple of points that you made; first, around clear information at the draft Budget stage. I have concerns about the accelerated timetable and whether it will allow meaningful consultation at a time and for a particular type of Budget that we really need. We need a better quality of consideration than we have ever had before.

279. You talked about having information to enable you to form an opinion. At a political level, to do our job, we also need the informed view of stakeholders, and if there is no time for the exchange of views based on hard information, none of us can do our scrutiny job effectively. I support your concerns about the aggregates levy, which the Committee should look at after taking evidence.

280. On the capital side, the indications are that there will be reductions in the order of £500 million, or 40%, unlike on the revenue side, where that order of reduction is likely to be front loaded. That is absolutely massive, especially given the degree, as has been said, to which the construction industry has been hit already. That further cut is very worrying for us all, not just those in the construction sector. Based on recent experience, what percentage of the total capital spend finds its way into the construction industry, because capital spend has a variety of purposes? What effect do you envisage the kind of cuts that have been talked about having on the construction industry?

281. To some extent, you have already addressed the final point that I was going to ask you about, which was with respect to mitigating measures. I am pleased, therefore, that you are having conversations with DFP. Indeed, I believe that your representatives met the Minister. What kind of reception have you been getting? Have the discussions been open, and is there a willingness for original thinking? In addition, will you give us more specific examples of mitigating measures?

282. Mr Fox: I will start in reverse order. The reception from the Minister and DFP officials has been positive. There is an acceptance that we have to be creative and look at alternative means of finance. Of course, the Minister, officials and, I presume, the Committee's overriding concern is that we must demonstrate value for money, and we are going to work up a detailed model of how particular projects might work. If value for money cannot be demonstrated for a project, as you will understand, it will not be a runner. A positive reception is the first thing.

283. We understand that, last year, the level of capital investment was about £1·7 billion. This year, it is expected to be £1·4 billion, so the cuts are starting to come through already and we are over the crest of the hill for capital expenditure. How much of that translates into construction work on the ground has been a bone of contention for us for a number of years, and we have never been able to get a clear picture from the Departments of exactly how much it is. Of course, our members tell us all the time that the figures do not equate with what they see coming out on the ground; they just do not add up. When we look at it departmentally, sometimes it comes down to the fact that a Department's internal costs of running a capital project and what it pays to consultants are packed into capital budgets, so that accounts for a chunk of it. In addition, there are land purchase costs, which, of course, are necessary; however, buying land it is an easy way to spend money quickly if you do not have anywhere else to spend it. Nevertheless, in the long run, it has to happen if you want to build things. To be straight, we do not know how much capital spend translates into the construction industry, because every time we have asked the question, we have never been given a good —

284. Mr O'Loan: There is also capital expenditure that does not go anywhere near the construction industry.

285. Mr Fox: Yes, of course, such as spending on IT. We have never been given a definitive list that would give us the confidence to say what proportion of the overall figure goes directly to construction.

286. Another mitigating factor that is within the power of the Executive is the ability to switch spending from revenue to capital. Our slice of the pie from London comes in two blocks: the revenue block and the capital block, and there is potential to switch some of the revenue to capital. Doing that should be given serious consideration at Executive level and within each Department, because they can also switch. Therefore, given the economic and social benefits, money may be better spent on capital.

287. Mr McLaughlin: My point is along the same lines. There may be tensions or differences of opinion about how much you can do. Switching from revenue to capital is an available but limited option, because it you cannot do it willy-nilly, and you certainly cannot substitute it for what will be removed from the projected capital spend, going back to 2007 and 2008.

288. You make a valid point about the lack of transparency around how the spend impacts. Such transparency is important so that people can see their part of the pie. As a result, as well as there being mystery around the situation, people feel that the whole question of value for money and strategic spend, and responses to the significant decline in the market, are not being reflected in the figures.

289. A global sum is banged out all the time — £1·7 billion — and it sounds brilliant, but people look around them and ask how that helps their industries or sectoral interests. As well as demanding clarity from the Government, it could help if you devised specific questions that would help you understand the situation better, even if they were trafficked through the Committee. It will be in people's interests to get down to the nitty-gritty. However, we do not want to be floundering around in a morass of statistics and figures. If people are spending money, for instance on land acquisition, as part of a capital spend project, that is legitimate.

290. Mr Fox: Absolutely.

291. Mr McLaughlin: That is just as legitimate as the direct construction costs and the cost of hiring consultancy firms to design the project and project manage it, etc. We would like to see all of those kinds of aspects of spend defined better, and why not? There is no reason to keep them mysterious. It would probably help this Committee and other Committees if they were helped to design the questions in a way that helped them to extract the relevant information. That would nurture a good and mature working interaction with industry representatives.

292. That could also help to get them into the habit of sharing information, which is important because, without it, the ball keeps being passed around in circles. That is more a philosophical point. We could work together. The scrutiny Committees have some sense of their powers and abilities, but a positive working relationship with industry generally helps everybody, because it frees up any constipation in the system around defining how the spend affects the situation.

293. Talking to the press after this meeting or reporting back to your members after your meeting with the Minister, what specific suggestion would you make? What message would you want to leave with the Committee, the Minister and your members?

294. Mr Fox: The key message is the importance of investment in infrastructure. There are lots of things around the edges that could be improved, such as the procurement processes and the level of efficiencies. However, with regard to jobs and the growth of our economy, the key is to try to maintain, as much as possible, the level of investment in the building and maintenance of our infrastructure. That is the real challenge, and it will mean pain. Undoubtedly, those are

difficult decisions. We are stuck between a rock and a hard place. Cuts in revenue will mean lob losses; cuts in capital will mean job losses, but a lot more than just job losses. That is the difference.

295. Other than the standard capital investment, consideration needs to be given to other things. Northern Ireland has a massive built environment that is underperforming in energy performance. Investment in that would reap great benefits, not only in the short term, with the creation of jobs to deliver it, but improvements in energy performance would reduce dependency on fossil fuels, and that would reduce the cost of fuel bills and fuel poverty. There are benefits and win-wins. A small amount of investment by the Executive would produce great societal benefits. We need to think outside of the normal standard strands of capital expenditure.

296. The Committee will be aware of the energy efficiency homes scheme, which gives people a bit of rates relief. That scheme was devised, and we were made aware of it quite late in the day. It turns out that very few people are even aware of that scheme. On top of that, only contractors who are registered with the National Ventilation Authority are permitted to insulate homes. People in Northern Ireland have not heard of that group; it is based in GB. Contractors and our members are coming to us and saying that they are more than capable of putting insulation in people's attics, but they are not able to do it because they are not registered with that body. The scheme is a good attempt to do something, and although the bureaucracy and administration around it does not render it useless, improvements could be made, which would be of great benefit to the local economy.

297. Mr McLaughlin: Talking about a rock and a hard place, you mentioned the aggregates.

298. Mr Fox: Contracts have been signed, sealed and delivered at this stage, and the price has been given to the client. For the Government to change the levy on aggregates after those contracts have been signed and, in so doing, increase the cost significantly, would be to kick the industry when it is down. I know that there is complete support across the board. The MEPs have been involved, and they are going to take the issue to Europe. The Finance Minister is fully supportive of a need to have this pushed back so that when people enter into contracts there is, at least, clarity on what levy will be applied to the aggregates that will be used on the job. In the longer term, it needs to be sorted out so that there is not a legal cloud hanging over it.

299. Mr McLaughlin: You are obviously familiar with the briefing that the quarry producers have issued. It is a very good document, but it acknowledges that there is little likelihood of an appeal succeeding. What options does that leave us with?

300. Mr Fox: The quarry producers are leading on this issue. The only options available are the options that they are taking. They are going straight to Europe through the MEPs and pushing from every angle that they can to look for a delay, at least, in the implementation of the system. To do it retrospectively would have be absolutely crazy and have a big impact on the industry. One contract that I mentioned was for a swimming pool, and the increase in the cost was £70,000. Multiply that across all the contracts that are currently let in Northern Ireland and you will see that it would have a phenomenal impact on the industry. Everyone knows that the prices that have been submitted recently for public sector have been low, because the contractors are desperate to win the contract. To be told that they have to take another slice off would be unfair. It is not about people making a profit; it is about how much of a loss they are making.

301. Mr Nigel Lucas (Construction Employers Federation): If the scheme is to be withdrawn, it would be unacceptable to give the industry three weeks' notice. The scheme would have to have a phased withdrawal over six months at least, and, as my colleague said, it should not affect contracts that have been signed.

302. Mr McNarry: When we had the boom, and I assume we had one because people talk about a bust, prices went overboard. I understand how a business mind works, so I mean no disrespect when I say that I did not hear anything from your organisation about prices being too high, about there being too much work or that tradesmen were having to be brought in from all over Europe, and so on. What contingency did you make in event of the bubble bursting?

303. I strongly support the construction industry. I, like Simon Hamilton, represent Strangford: a constituency that depends on the skilled and unskilled labour of the people who live there. We are mindful of how that contributes to our local economy. I hear that what I would expect to pay for a piece of land now is nowhere near as high as it would have been two years ago. Among my great frustrations with the 2020 project is that prices and the competition for materials are down. Is that reflected in percentage terms in current tendering? What difference would one expect per square metre, square foot, or whatever? Projects at final costing stage are gathering dust on the shelf. They have gone through all of the process to get there. Can a case be made for having a look at what is on the shelf and comparing the price at inception with what it would be today? That might be helpful.

304. My line of thought is that you could tell us with how many contracts in the past, say 12 months, have been finalised to costing stage; how many are going forward; and how many have been knocked back. As Declan O'Loan and Mitchel McLaughlin said, the Committee needs to have a picture of that. There is no point talking about billions of pounds; we need to see where is being hit and what is being affected, including sectors other than construction. Is it affecting education? Is it affecting sport? Is it affecting industry? Exactly where are we seeing it? To expect you to have those figures is a big ask. However, what is the breakdown between the public and the private sector?

305. Finally, the Committee came to know what was going on, particularly among quarry businesses, about the state of the roads industry. Not far from here, we had a road that was not going to be built, even though everybody was ready to build it, and it was half-built or something similar. That is the height of stupidity. Forgive me for again mentioning the constituency that Simon and I represent, but we have the worst roads in Northern Ireland and they are getting worse. What representation is being made, particularly about roads? If our roads get any worse, we might as well blow them up with dynamite and start all over again in 20 years' time. No one would insure our cars to drive along roads like those that we have at present, Simon.

306. Mr Hamilton: We could use a horse and cart, David.

307. Mr McNarry: Well, we could do that. My neighbours have those things. Horses are good for the organic vegetables as well.

308. Mr Hamilton: Back to basics.

309. Mr McNarry: To put all of that in perspective, when I walk around our —

310. Mr McLaughlin: There is too much manure in this conversation.

311. Mr McNarry: When I walk around our capital town of Newtownards, and then go into the capital city, I see too many empty buildings. Those have been built at a price. I have to wonder — you must give me an answer on this — why anybody would want to build any more, particularly in Belfast. How can we ask anybody to give relief money or such effort when there are empty buildings? Have you taken account of the stock of empty factories — I hope that we do not have any of those — and empty commercial buildings? That will do for starters.

312. Mr Fox: Between us, we will do our best to respond. I believe that I we were asked around 12 questions. I will try to go through them in reverse order.

313. We fully acknowledge that there has been a great deal of development and, because of that, there will be empty buildings. Our big concern is that the private sector, the private side of the industry, will not pick up and that, therefore, the industry will, in the medium term, be ever more reliant on the public sector. On the public side, there is no doubt that there is dire need for investment. For example, many school buildings need refurbishment. New schools are needed. There is also severe need for works in the health estate. You mentioned roads. The Roads Service's reports demonstrate clearly the percentage of roads in Northern Ireland that are below standard. There is potential for future infraction proceedings if Northern Ireland Water's investment is lowered. Demand for social housing is unbelievable. Right across the board on the public side — stadiums, public realm works, and so on — there is desperate need for building. On the private side, there is a need for house building. In parts of Northern Ireland, houses will not be built for a long time because there was oversupply in those areas.

314. Mr Lucas: Another topic that you mentioned was having projects on the shelf that are fully designed and ready to go. That is absolutely true. Specifically, many of the large capital projects that the education and health sectors had planned for 2010 have not been able to start due to cutbacks and lack of money. In education, around 63 new schools were to be built under the investment strategy.

315. Mr McNarry: I appreciate all that. I have no money: therefore, it is not my money that will be invested. I am trying to get at how well a case can be made to say that now is the time to build because prices are lower.

316. Mr Fox: Evidence of that is best gathered from public sector clients. In fact, CPD would be able to give you clear information on tender prices that it has received during the latest three-year period. I can guarantee that prices have fallen dramatically. The way that the construction industry works is that everybody now meets quality standards. Therefore, effectively, on many occasions, the issue comes down to price. We are hearing of prices that are well below cost winning work. When that happens, it raises questions about the sustainability of the industry. Of course, when one price is accepted below cost, that becomes the new bar against which everything after that is judged.

317. Mr McNarry: Do you agree with me that, as Nigel Lucas said, the case could and should be made that, although things are difficult, but, because of the deterioration and the effect on jobs, certain risks should be taken today to protect ourselves coming out of our present financial trouble?

318. Mr Fox: I fully agree.

319. Mr Lucas: We very often encourage clients who get a tender price significantly below the estimate to interview the contractor to ensure that they can deliver for that lower price. Given the lack of available funding, clients are tempted to let the contract run at unrealistically low prices.

320. Mr Fox: I think the point being made is that it can be argued that now is the time to get building because prices are low and great value is to be had. A strong argument can be made that there is great value out there now. That is a fact, and investing now would be better value than doing so at a peak time when people are fully employed and the rate for a bricklayer goes back up to x number of pounds a brick.

321. Mr Frew: Silly money.

322. Mr Fox: Silly money; absolutely. However, it is a big decision to get that money in now, but that is the investment that we are calling for. On the specific issue of roads, we have met the Regional Development Minister and we meet the Roads Service regularly. Of course, they continually tell us that they would love to invest more but do not have the money to do so. Again, that comes down to the key issue of funding. Our organisation is pressing for investment across the board. It is hard to distinguish between a school, a hospital or a road that are all in desperate need. It is important to consider them all.

323. No one doubts that house prices went sky high — well beyond what was reasonable. We feel that house prices have come back down. They have fallen by 35% or 40% to return to affordable levels. The big problem now is that funding from the banks and the lending institutions is not available. The rhetoric is that mortgages have increased, but that is not the experience that we hearing on the ground from builders who tell us that there is great interest in buying their housing; however, when it gets to the stage of getting a mortgage, the requirement for a large deposit is where potential buyers fall down, particularly first-time buyers.

324. Mr McNarry: What are your members' feelings about the problems or the concerns over NAMA? We are hearing figures of between £3·5 billion and £7 billion in respect of the assets that it will hold here.

325. Mr Lucas: There are huge concerns. First, a significant number of our members who have loans that are performing well are concerned that their loans will be taken up by NAMA, because there may be a stigma associated with that. There is no need to take such loans in. The other major concern is that some of the assets taken over by NAMA will result in land being put on the market wholesale. At a time when the industry is struggling to maintain sales, and when maintaining sales means maintaining employment, putting out land at knockdown prices will devastate the market.

326. Mr McNarry: That is worrying. Thank you.

327. Mr Frew: I have two comments that come out of that interrogation by David.

328. Mr McNarry: Wait; there was no interrogation.

329. Mr Frew: I was only joking. There was certainly a boom in the housing market. The limited boom in Dublin attracted many of our workers and companies, leaving plenty of work for the rest of them up here. However, a limited number of people benefited from that. Brickies and plasterers, who have been mentioned, got extortionate money but nobody else was. The prices charged by commercial and industrial companies reflected the costs of what they paid for materials. The price of copper and equipment that builders bought from the wholesalers went through the roof. Their labour rates stayed relatively the same, so there was no real boom for the person working on the tools.

330. I agree with the point that you made about tendering and having no prices. It is important for tenders to be fully inspected, and for people not to simply raise their hands and be happy because the tender is so low. There is a number of problems with that, the first of which is standards. Secondly, many companies, out of necessity, are submitting low prices to get jobs, and are asking the companies around them to submit relatively low prices to give them a cloak of respectability. That should not happen, but I can understand why it does.

331. You have spoken about 21,000 jobs being lost in only 30 months. I totally agree with that figure: it is a fact. However, there is another story with companies going to the wall. When times were relatively good, employees could move from one job to another and from one company to another. When those companies go, the whole landscape of the construction industry will totally

change. I can tell you anecdotal stories about companies that have gone into administration or have gone bust, but I know that there are so many others that are teetering on the brink. Can you give us any indication of how many companies are in that position?

332. When prices reduce, that becomes the norm. Another common practice is companies taking contracts at a loss, because it is cheaper to do that than to pay for redundancies. That may be sustainable in the short term, but it is not sustainable in the current recession, which may last anything between five and 15 years.

333. Mr McLaughlin: There could also be a double dip on the way.

334. Mr Frew: Yes. How many or what percentage of companies do you feel are in a terrible position?

335. I have a problem with the practice of prompt payments not being made throughout the industry, and I think that the Committee should also concern itself with that. We know that most clients, whether in the public sector or the private sector, pay on time, but the main contractors, again perhaps through necessity, hold on to those payments. That practice is placing a stranglehold on the majority of the construction industry, because the main contractor's sub-contractors, specialist contractors and wholesalers are not paid. That is a major problem, and companies are not going to the wall because of a lack of work, but because of cash flow problems.

336. There was a debate in the House yesterday on the green new deal and the renewable energy sector. Do not hold your breath, but how well prepared would the industry be if the Assembly were to do something to help the recovery with regards to our infrastructure, energy and power? We cannot go out and build a Hoover Dam, but if we were to do something on a small scale in the field of renewable energy, how prepared is the industry to adapt quickly to take the full benefit?

337. Mr Fox: I want to pick up on Mitchel's comment about a double dip first. From the point of view of the construction industry, it has been one long slide, and we are still on that slide at the moment. There has not been even a plateau for the industry over the past couple of years.

338. Companies tend to be very good at keeping things quiet if they are sitting on the brink —

339. Mr Frew: Yes; they hide it.

340. Mr Fox: It is essential for the survival of those businesses that people are not aware that they are in trouble, because customers would back out of contracts and others would not be keen to use them. To be honest, we would not have a strong feel for those numbers and anything that we do have would be entirely anecdotal. Like you, we have heard talk and that is all. We do not ask our members if they are in difficulties and, even if we did, they would not tell us. I cannot give you anything factual and can only give you a feel. However, a lot of companies have been in survival mode for so long that it is inevitable that people will set reduced pricing structures for two years in the hope that things will get better, but things are not getting better and prices are not increasing. Indeed, the view is that things are getting worse and it is inevitable that more companies will go bust.

341. There have been varied attempts to address the issue of prompt payments through the construction industry forum, and the most recent attempt will hopefully be the most effective one. We regularly consult CASEC, which is the representative group for special subcontractors, and we have agreed a policy with them and various clients that the subcontractors must report on the payments that they have received at every monthly meeting. Therefore, it is not the case

that subcontractors are telling tales about whether or not the main contractor is paying them, because there is a standard report. It is then up to the clients to use their authority to ensure that the terms of the payment schedules are adhered to.

342. I wish to pick up on your point that public sector clients always pay on time, because that is not the industry's experience. The Finance Minister requested that final bills be paid within 10 days. However, we have heard that that is not happening across the board. Of course, as with all these things, it tends to get a bit muddy and a bit grey when it comes to the arm's-length bodies. Once a Department gives a grant to a particular group — this is way in which a lot of construction work happens — that group is then given a big set of rules about how to procure and how to pay. However, that set of rules is often set down somewhere and no payments are made. That is causing problems for the main contractors as well as for those right down the supply chain.

343. As for the green new deal, 13,000 ex-construction workers are currently on the unemployment list. In fact, there is probably more than that because there has been reclassification: people who left construction jobs over the past couple of years and got a job in a supermarket, then went back on the dole are no longer defined as construction workers. There is a massive supply of skilled and unskilled people who are ready to go. The Construction Industry Training Board has the potential to very quickly redirect grant funding towards particular training courses. The federation and other groups have systems in place that can quickly train people at managerial and technical levels. Of course, if something were agreed in the Budget to advance the green new deal, it would not happen overnight. However, we as an industry feel that there would be no difficulty in reacting to that.

344. This issue has been raised before but in a different guise. When the first investment strategy was launched, people said that it was an awful lot of money for the Northern Ireland construction industry. They questioned whether the industry was capable of meeting the challenge, and the industry consistently said that it was absolutely capable. It said: "Put the challenge down in front of us and let us see what it is. Be clear about what you expect us to deliver, and we will prepare ourselves to deliver that." Of course, the industry geared up for that, only to have the rug pulled from underneath it. The green new deal is very similar. People will react if clear goals are set for what the industry needs to achieve. The industry will react quickly.

345. Mr Lucas: I wish to pick up on Paul's point about companies on the brink. Although we cannot provide figures for the number of companies in the house building sector specifically that are in that situation, there are clearly quite a lot. When the market was rising, the banks were very keen to lend money to companies to buy land in order to create deals. However, when the markets collapsed during the credit crunch, house prices adjusted and fell by 30% or 40%. The danger now is that once house prices start to show upward movement again, some banks will be tempted to cut their losses and foreclose businesses. However, we believe that they should instead show some responsibility and try to help to nurture those companies back to full health.

346. Mr Frew: I agree.

347. The Chairperson: As you know, those issues were raised in our discussions with the banks, and we will continue to raise them.

348. Mr McLaughlin: On that point, the banks are clearly monitoring underpricing very carefully. Companies, particularly small contractors, are being summoned in front of their bank managers and are being asked to either reconfigure their facilities or, in some instances, submit a new business plan. Some viable business and those that are capable of surviving the downturn are in danger of being driven out of business. They are not on the brink because they cannot manage

their way through the crisis; they are on the brink because, in some instances, banks are, effectively, closing them down.

349. Mr Lucas: Banks are pressurising businesses because they are trying to recapitalise themselves. One way in which they can do that is, as you said, by reducing clients' banking facilities and, at the same time, increasing significantly the charges that they apply to small businesses.

350. Mr McLaughlin: My supplementary questions relates to government business. I am thinking particularly about arm's-length bodies, some of which have legal autonomy. That makes it difficult, for instance, for a Minister to make interventions that could help you. Have you commented on or considered the move to measured-term contracts by many of those arm's length bodies and quangos across the board and in different Departments, and how that affects micro-business? Many contractors are facing the wall because the threshold has simply been set beyond their ability to compete or even to co-operate with each other successfully in order to compete.

351. Mr Fox: Our view has consistently been that public procurement should be about opportunities for all. We believe that that should be looked at throughout the public sector. Northern Ireland Water might say that for its business to run efficiently, it cannot put out individual contracts of £100,000 every time; it has too many contracts, too regularly and, therefore, needs to have measured-term contracts. That is fair enough if there is a good economic reason. If it is for efficiency and delivery, the industry can buy that.

352. A couple of years ago, there was a drive for major frameworks. We were on the brink of having an educational framework, which every single school would have gone through, and a massive CPD framework, which would have captured many other projects as well. I believe that it amounted to £800 million. Now, we have moved away from that. The current process is that individual schools come out one by one. Clients report that that process is, obviously, administration heavy, bureaucratic and slow in getting work out. It is probably not the most efficient way to procure. However, at present, it provides great value for money because tender prices are very low.

353. A balance must be struck: when you look at the full armoury of procurement methodologies, ensure that you use balance. Tenders for some schools could be part of a mini-framework. Tenders for others could be individual competitions. We have been keen to look at a rota system for projects in the health estate, whereby any company that is capable of, for example, doing minor works would be able to get onto that rota. It would be clear what companies had to do to get onto the rota and how often the list of companies would be refreshed. Therefore, it would not be a closed shop. Clearly, if the rota were to start today, any work that went out to tender up to a certain value would go through it. After, let us say, a year, that would be closed and the rota would reopen.

354. That would be efficient in so far as there would no requirement for constant prequalification. At present, we are working with CPD on the potential for the use of random selection as a way to try to short-circuit the process. If you imagine that — and this is happening across the board — a small, let us say, £200,000 job is advertised and 60 companies are interested, probably 50 of them are more than capable of doing the job to the exact standard that the client wants. How is the client supposed to choose five of them from which seek tenders? Under the current process, that would require a full pre-qualification document from all 60 companies. The client would then have to mark those documents and assess all of those companies. That is very bureaucratic and potentially gives larger contractors, who have great systems and people who are dedicated to writing those documents, a better opportunity or increased chance of winning.

355. We are moving towards the potential use of random selection in limited circumstances for contracts that are below £500,000, although none of that is agreed yet. Those contractors who are interested would answer a basic pre-qualification notice. From them, 10 would be randomly selected and assessed. The top five from those 10 companies would tender for the work. We believe that that would be a way of increasing opportunities for smaller companies. However, it needs to be looked at in full across the public sector. Although some clients can say, rightly, that frameworks — even larger ones — may be appropriate for them, the case is not quite so justified for others.

356. Mr McLaughlin: The issue for us is compliance with EU competition law, and to give indigenous enterprises the opportunity to compete and to ensure that there is no inbuilt disadvantage. You have described the minor works and the higher capital works. However, there is a significant market in the maintenance sector for the existing estate. Again, small contractors, some with decades of experience, are more than capable of doing the work but are not capable of meeting the thresholds in respect of those measured-term contracts. In a sense, they are being legislated out of the market, and where else have they to go but to the wall? We are losing a lot of skill and capacity. Have you submitted a presentation on that overall situation?

357. Mr Fox: No, but we would be happy to have give the Committee our overall views on the breadth of procurement. If we have raised any issues today on which you would like a more detailed follow-up paper, we would be happy to provide that. We see this as the start of a dialogue over this difficult period for the industry.

358. The Chairperson: It would certainly inform the Committee.

359. Mr McKay: Many of my issues have been covered. However, from the perspective of the Committee and the Assembly in general, we need to halt the slide before we can recover. It is disconcerting that there are still 700 job losses a month. If a company were losing that many jobs, it would be on the front page of the paper. I am thinking of the effect that Quinn Insurance had on the entire community. It is death by a thousand cuts, and it is having a big impact on rural communities. David referred to the Strangford area. The need for fewer construction workers is having a big impact in north Antrim and, probably more so, in mid-Ulster, together with all the services that have been affected, such as filling stations, etc, that no longer see the white transits lined up outside the door.

360. The banking issue has been covered already. Whatever the rationale may be for the aggressive banking practices, it is certainly having a huge impact. We have only had a general picture so far with regard to how many businesses are being pushed to the wall. Do you have any figures or any idea that would give the Committee a general impression of the scale of businesses that are being pushed to the wall on the basis of loans and overdrafts that are being called in, etc?

361. Mr Fox: We do not have the figures for the specific element of why companies being driven to the wall, and I do not think that it is available.

362. Mr Lucas: It would be difficult to be exact. People would just regard it as being commercial job losses.

363. Mr McKay: How big a factor is it with regard to the overall job losses?

364. Mr Fox: From what we can gather, a lot of the job losses are from companies that still exist. A lot of companies have the ability to almost hibernate. The ribbons of the businesses have been cut and they have been strimmed right back to their bare bones for survival: that is where a lot of companies are. Even those who are still working are working short weeks, and that is not

reflected in any figures. Nevertheless, it is reflected in people's pay packets, and they know all about it. That makes it difficult to get the real hard sense of it.

365. Mr McKay: How constructive have your engagements been with the banks?

366. Mr Lucas: The banks tell us that they are open for business and ready and willing to lend, particularly in the house-building sector. However, when we talk to them, they say, first of all, that they are looking for a loan-to-value rate of around 75%. In other words, if you want to buy a house at £100,000, you have to put down a £25,000 deposit. I do not know too many young people looking for starter homes who could put down £25,000. The next thing is that, if a bank does give you a loan, the interest rate will be significantly higher than the current base rate. The base rate is 0·5%, but the interest rate for mortgages for first-time buyers is around 6·5% or 7%.

367. The third and crippling factor is that, if a young couple applies to a bank for a mortgage, instead of, as in the old days, applying the prudent three times the first income test and one or two times the second income, the banks now put couples through a stress test. Three years of bank statements are looked at so that the bank can see a couple's income, expenditure and outgoings, to determine how much is spent on loans and other commitments, such as food and going out. If the bank finds one example of a missed payment, for example, of a credit card or utilities bill, that is enough for it to turn that couple down. That is why houses are not being sold at the moment. Our members have plenty of demand from young people wanting to buy houses, but they just cannot get the mortgages.

368. Mr McKay: I spoke to somebody who had reapplied for a mortgage in the past four or five months. Everything was going fine until something came up in a credit check. However, the banks are refusing to tell that person the specific reason. It is case of going from one extreme to the other. Is that happening across the board? Are some banks better than others? A couple of weeks ago, four banks came before the Committee, and some said that they were doing more than others.

369. Mr Lucas: Over the past 18 months, we have, on three or four occasions, met all the major local banks. The scenario has been the same as that which I have just described. The banks say that they are open for business and ready and willing to lend. However, the reality is very different.

370. Mr Fox: We must remember that the majority of mortgage lending does not come from local banks in Northern Ireland. We have to ask how much influence those banks that are lending mortgages have over policy in Northern Ireland.

371. Mr Lucas: That is the biggest problem. The Northern Ireland market is perhaps less than 1% of the UK mortgage market, and the policies on bank lending are being set in London.

372. Mr McKay: Has the rate of young people coming through apprenticeships in the colleges and techs been affected? Are people deciding to go down another route? Is there a stream of young people coming out the other end of those courses with nowhere to go?

373. Mr Fox: That is a major problem for our industry and for society. We track, through our stated trade, the proportion of apprentices to employees. Over the past two or three years, that has gone from a high of around 6% to the current figure of just above 2%. That shows what is happening in the industry. Companies have shrunk their businesses, are holding on to the people who are skilled and able to do the work, and have not been able to hold on to their apprentices. Most people that I hear from would love to be able to take on apprentices, and it is with great

regret that they cannot. However, when it comes to business decisions, companies have to try to survive. It is at those times that apprentices are let go.

374. As you would expect, fewer people are coming through the system. However, we are very keen to try to raise the bar for the industry. The Construction Employers Federation's role is about not just representing our members' interests, but about driving the industry in a positive direction. We have been working very closely with government construction clients to agree that any company wanting to work for a government client should be able to demonstrate that 5% of its workforce is made up of apprentices, and our aim is to try to sign off on that by around 13 October 2010. Therefore, it will not just be the companies that win government contracts that will have to meet the 5% target, but any company that is even going for a contract. If companies want to work for a Northern Ireland government construction client, they will have to demonstrate a commitment to apprenticeships through that 5% ratio, which is 1:20. That will be very healthy for the industry and good for public expenditure, as well as delivering a very positive social benefit.

375. To come back to what I said at the start, that is another example of a tangible benefit that investment in construction can deliver. The benefit is not just economic but societal.

376. The Chairperson: You made your point well about apprenticeships, given that recent reports illustrate the unacceptable numbers of young people who are unemployed and who will continue to be unemployed. Those young people perhaps left school with no academic qualifications, and learning a trade through an apprenticeship is a way for them to go back to further education and skill themselves up to create better employment opportunities. That was a very good point.

377. Mr Frew: On the electrical side of things, and the mechanical too, I imagine, you used to have to pay everyone off except your apprentices. That made it very hard for companies to survive; if they hit a bad patch, they basically had a workforce that could not do the job. I think we have to be very careful about how to proceed.

378. The Chairperson: We are talking about creating opportunities for young people in particular.

379. Mr Hamilton: The circumstances are well known; there has been an awful coincidence whereby lots of things have happened at the same time. The private house-building bubble has burst and issues around borrowing are not helping us to get out of that. On the public side of things, we are facing the reality of reductions. That is viewed by the Treasury as an easy target. The orthodoxy is that if you do not build a school — it was not there to begin with — then nobody would miss the school that was never there. People will notice the impact it will have on the construction industry right down to retail and professional services.

380. I have two questions; one is on planning. The sad reality is that some frightening figures are being bandied about regarding the level of cuts in, say, capital expenditure. Even if they are not as bad as the really bad ones, they are still bad. I do not want to invite you — or me — to be impaled by Justice Girvan, but one way of getting out of this is private investment. There are significant projects across Northern Ireland. I am not thinking of some of the big ones that are in the news headlines, but smaller ones that have been stuck for a while. What discussions have you had with the Planning Service and maybe with the Department to try to improve that situation? I know that there have been significant improvements over the last couple of years, but we need to try to continue to drive further improvement into the system.

381. I have a quick question on a complex issue. We have talked about alternative funding models; have they been a variant on the traditional alternative method of PPPs, which were on major infrastructure like roads, schools and hospitals, or have you looked at public sector

housing as well? I think there is greater potential there because you would be building an asset that has a steady income stream, rather than just have something coming out of the revenue side.

382. Mr Lucas: I will address the issue of the planning system first. We have been working closely with senior officials at Planning Service headquarters over the past 18 months or more to try to improve the planning system as it stands. That was in advance of the review of public administration. We have had a number of successes in getting rid of the backlog by taking minor planning applications out of the system through the principle of delegated powers, whereby they just go through local councils on the nod. That allows the Planning Service to concentrate on the more significant planning applications.

383. However, the difficulty that we have found is that, although there is absolute commitment at headquarters level to deliver those changes to the planning system and have a change of attitude within the Planning Service, that message seems to get dissipated and dissolved before it gets to divisional level. Our members tell us that there has been very little improvement at divisional level. That has not been helped by the fact that the Planning Service has suffered a loss of staff recently, which again means that its workload is significantly more than it should have been. They were struggling to maintain output even in these difficult times with the industry slowing down. We do not see any significant improvement in the figures coming through the planning approval system. That all creates uncertainty. An efficient Planning Service is a key factor in attracting inward investment. There is also uncertainty about what is going to happen post RPA.

384. Mr Fox: Our figures show that, since 2006, our members have consistently reported that it takes an average of 18 months from planning application to planning decision. To be honest, the variation is massive. Some people say the process has improved quite a bit, others that it takes a lot longer, but the average period of 18 months has not changed. That is surprising because we hoped that the changes that Nigel Lucas described and the interaction that we have had with them, along with the general thrust for reform, would help us to see some benefits come through. However, the consensus is that there has not been any real improvement on the ground.

385. Regarding private finance, in short, we are looking at social housing as well. We use the word "alternative" because we are looking at any way, other than the traditional public money route, to bring in money. If any Committee members have any suggestions or would like to assist in that work, we would be keen to involve them.

386. Mr Hamilton: We will certainly do that.

387. The Chairperson: Before I bring in Mr McNarry, members are very interested in some of your alternative finance proposals.

388. Mr McNarry: My question was on planning and it has been dealt with adequately.

389. The Chairperson: That ends members' questions. I thank the witnesses for a very informative evidence session. A few issues were raised about which we wanted more information, such as the measured-term contracts around procurement and the alternative finance model. If the witnesses have any questions that they want to factor into other Departments' thinking, they can use this Committee to ensure that that those get through.

390. Mr McNarry: It would help to have the federation paint a picture of what it knows about projects that are in the system but will not go ahead.

391. Mr Fox: I suggest that the best people for that are the clients, because they have better information than us. Ours would be scrabbled together, whereas they would have it in front of them.

392. Mr McNarry: I understand that, but the clients do not appear here, you do. You represent the federation.

393. Mr Fox: OK. I am sure that we can get that information from the clients.

394. The Chairperson: Thanks very much. If you have anything to add, feel free. The Committee has no more questions.

395. Mr Lucas: In closing, I reiterate what Ciarán Fox said at the start of the session. We may hear of a manufacturing organisation putting two or three people on the dole in one week, but the nature of the industry is so dissipated that losses in construction far outweigh the losses of an individual manufacturer, simply because unemployment in construction is rising at the rate of six jobs here, four jobs there and a few jobs elsewhere. Collectively, over the past 18 months, we have hit nearly 30,000 unemployed. That is staggering, so anything that the Committee can do to address that issue would be very welcome. We thank you for the opportunity to be heard.

396. The Chairperson: Certainly. Thanks very much.

6 October 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Ms Tracey Ayre	
Dr Veronica Holland	Department of Finance and Personnel
Mr Andrew McAvoy	

397. The Chairperson (Ms J McCann): I welcome Veronica Holland, Andrew McAvoy and Tracey Ayre from the Department's rating policy division. I propose that, if Committee members are content, we move straight to questions.

Members indicated assent.

398. Dr Veronica Holland (Department of Finance and Personnel): I apologise for the fact that Brian is unable to make it today. He is in Brussels on work business.

399. Ms Purvis: I have some difficulty with industrial derating. It is a universal benefit to business and is not focused or targeted at any specific scheme. The briefing paper states that

revising the scheme would run the risk of contravening state aid rules. Would it simply run the risk of contravening those rules or would it actually contravene them?

400. Dr Holland: Any re-targeting or refocusing of the current scheme would run a significant risk of contravening state aid rules. It is highly likely that it would be deemed to be a new state aid measure, and, on that basis, it is not possible to re-target or refocus a scheme. We appreciate the concerns that are expressed about it being, essentially, a blunt mechanism; one that would be more effective if it were more targeted and focused. However, it is not possible within those constraints to change the nature of the scheme. It is also not possible, legislatively, to make any alterations without new primary legislation, other than those on the level of support that is provided more generally. The more pertinent issue outside of the legislation is the risk of challenge by the EU.

401. Ms Purvis: It is targeted specifically at manufacturing and not at other businesses.

402. Dr Holland: It is allowed to continue by virtue of the fact that it was a pre-accession measure. It would not be possible to introduce a measure such as industrial derating today. It is allowed to continue as it was in place at a much earlier date.

403. Ms Purvis: What would happen if, for example, the Minister sought assurances from the manufacturing industry that, in return for capping the rates at 30%, those who benefit would look at investing in research and development or exports?

404. Dr Holland: Are you asking whether that would be feasible?

405. Ms Purvis: Yes.

406. Dr Holland: There are also difficulties associated with redirecting money.

407. Ms Purvis: Sorry; you misunderstand me. I am not suggesting that government should redirect the money. We are talking about growing the economy and about industrial derating as a measure for doing so. To grow the economy, we need many things, which include the need to increase exports and to invest in research and development. If the Minister got agreement to cap industrial rates at 30%, could those who benefit from that cap be asked to give the assurance that whatever they save will be invested in their own companies in research and development or in increasing exports?

408. Dr Holland: I think that the Minister would be keen to see something like that. In practice, the difficulty would be getting those companies to sign up to it, and it is probably unlikely that we could place some form of obligation on them. The Minister and the Department could indicate their keenness to see what you suggest happen, but there may be difficulties in placing any formal obligation on those companies and penalising them were they not to adhere.

409. Mr Andrew McAvoy (Department of Finance and Personnel): There is no capacity in the primary legislation that would allow us to put a legislative onus on businesses to provide a return on industrial derating.

410. Dr Holland: It would probably be a goodwill measure. A number of companies would probably commit to it, but others may not. As Andrew said, there is currently nothing that we could do legislatively to oblige them to commit.

411. Ms Purvis: I am concerned that some businesses see industrial derating as a tax rebate and put it in their back pockets.

412. Dr Holland: Yes; whereas the money that is saved should be used to improve the economy for the benefit of all.

413. Dr Farry: The policy decision that the Executive are potentially about to take is to extend the measure to 2014-15. Is that the intention?

414. Dr Holland: Yes.

415. Dr Farry: With regard to the decision-making process, is it intended that one Order will cover that entire budgetary period, or will there be annual Orders?

416. Dr Holland: The intention is for one Order to cover that entire period. I suppose that there would be nothing to stop a future Assembly from taking a decision to revoke that. At this stage, however, the intention is to bring forward one Order next year.

417. Dr Farry: You referred to Brian being in Brussels. I wonder whether he is trying to negotiate some leeway around this. Given that there is the potential for some radical changes to EU state aid rules by 2013, is there a danger that what happens with the rules will overtake our policy?

418. Dr Holland: We would be keen to ensure that any changes were taken account of and reflected in what we were doing. At the moment, the intention is that we will bring forward that one piece of legislation to cover that period. Should changes be needed at a future date as a result of Executive decisions or external factors, it would be possible to bring forward a further piece of legislation to amend that.

419. Dr Farry: Is it accepted that, in economic terms, there is a considerable deadweight to the rebate?

420. Dr Holland: That was covered in the Economic Research Institute of Northern Ireland (ERINI) report. It is the case that industrial derating is a blunt measure. ERINI indicated, and we support the fact, that if we were starting from scratch, we would not have industrial derating in place. Unfortunately, we are not starting from scratch, and the issue is what we do with the measure that we have in place and what the level of rates liability should be for that sector.

421. Dr Farry: We also need to take the opportunity cost into account. At what expense do we lock ourselves into doing this for the lifespan of the next budgetary period, bearing in mind that the same amount of resources could be used to support business in other ways with potentially greater benefit? One such example is corporation tax. We are still chasing that and are getting slightly warmer words than was the case.

422. Dr Holland: Yes; there were warmer indications this morning.

423. Dr Farry: In the event that we get the ability to lower the rate of corporation tax, we have to decide how we will fund that. Presumably, it could be argued that the money used to facilitate the lower rate of industrial rates could be used more productively to support the lower rate of corporation tax, which, taking on board Dawn's point, would cover a wider range of businesses and also target businesses that are more profitable, thereby facilitating export growth.

424. Is there a danger that we lock ourselves into something that will restrict our ability to shift resources into more productive ways of supporting business, particularly if the opportunity should arise with corporate tax?

425. Dr Holland: Again, at the moment, the intention is that, if the 30% is agreed by the Executive, it would apply for that full period. That would not, I suppose, prevent the Executive from deciding at a future date that there should be some change. At this point in time, though, the intention is that that measure would apply for the full period.

426. There are concerns about revenue foregone, and significant sums are involved. In the figure work quoted, it is the difference between the 30% and 100% that is often referred to, whereas account has to be taken of the fact that we are probably unlikely ever to be talking — certainly not in that time period — of the full £56 million being recovered from the sector. That is one important factor to be taken account of. However, we do appreciate those concerns.

427. Dr Farry: I return to the Assembly's debate about the green new deal yesterday. Is it fair to say that the biggest competitive disadvantage for manufacturing in Northern Ireland is not so much property prices as energy costs? Surely, the logic is that the state would seek to intervene to help on the energy front rather than the property front, because property is not as big a problem cost-wise as energy?

428. Dr Holland: Certainly, the ERINI report indicated that electricity and gas costs were a big factor for firms. I am not sure whether that is something to which we would give consideration as such. The ERINI report did flag that that cost was a significant issue for the manufacturing sector and something that should probably be looked at, perhaps not by DFP but by the Executive more widely.

429. Dr Farry: That highlights the concern that this decision has to be taken in the context of a wider discussion on a whole range of economic issues and not simply confined to a DFP silo.

430. Mr McLaughlin: The predominant argument in the briefing paper is that we cannot adjust this relief without risking the possibility of EU action. If we abolish it, we cannot reintroduce it. The argument is really a rationale for maintaining the status quo. You made the interesting comment that, if you were considering the whole issue today, you would not opt for this particular relief.

431. Dr Holland: That is something that ERINI flagged up. However, its view was that this is the second best position. We are not describing what we would do if we were starting from scratch; we are trying to accommodate what we have at present.

432. Mr McLaughlin: I will tell you what I am exploring. I understand what you say, and we have previously discussed the ERINI report. However, it is adversely affecting our ability to think outside the box. The Minister is not saying that he will introduce this for the upcoming Budget period and then stop it. We will get an argument for the status quo in four years' time, because people are saying that, if we do away with it, we cannot go back to it.

433. Dr Holland: There is an issue if, say, for argument's sake, liability is increased to 40% or 50%. We cannot decide at a later point to revert or to change that to provide more relief. We are not saying that, in another four years, the Minister will necessarily bring forward a similar argument for retaining the status quo. It will have to be looked at in the economic context of that time and how the manufacturing sector is doing.

434. Mr McLaughlin: There is an economic context now, and that is really what I am complaining about. My complaint is a fair criticism. We have not been given a rationale that includes the EU state aid consideration and also assesses the benefits of this relief in the current circumstances. No one has bothered to assess that, and I think that that is a glaring omission. What is the benefit of the relief? Is it based on the survivability of small companies? Is a blind eye being turned to the abuse of that relief? There are people who are effectively warehousing but are

camouflaging their operations as manufacturing. We know that it is going on. Why are we not getting the full picture and an indication as to whether this relief represents a strategic benefit to economic activity? In the paper, we have only a defensive argument.

435. Dr Holland: The concern is that, given the economic circumstances of the moment and the difficulties that manufacturing is facing, any significant change in the level of liability that is imposed on the manufacturing sector will have an adverse impact on that sector in respect of the viability of firms, employment, etc.

436. Mr McLaughlin: So, the reality is that we have a manufacturing base in which significant parts or some sections are not viable unless we give them 70% rates relief?

437. Dr Holland: It is not necessarily the case that significant numbers of manufacturing companies are not viable. The issue is that, if the level of liability on some of those manufacturing companies were to significantly increase, it could potentially have an adverse impact on them and on employment, given the economic circumstances at this time.

438. Mr McLaughlin: We all understand why the lobby is vociferous. As politicians, we are not insensitive to that. However, the underlying issue with which we have to deal is that our private sector is underperforming and is uncompetitive, in many cases. We do not achieve the same productivity as other, similar regions, and yet we are providing relief rather than encouragement.

439. Dr Holland: There is a desire that, along with measures such as industrial derating, steps are taken to encourage the private sector and to boost productivity. That is not in our remit in respect of a rating measure. Unfortunately, we cannot alter the scope of this scheme.

440. Mr McLaughlin: You have responded, and I do not want to get into a debate about it, but I made a point about assessing the wider rationale for the continuation of this particular measure. Could the Committee have that rationale? I would like to see it in writing.

441. Dr Holland: That is fine.

442. Mr McNarry: Growing the economy, as far as I am concerned, is about keeping businesses in business and making them profitable, but I do not subscribe to keeping people in business when they cannot pay their way. I am concerned about the way in which the Department is handling this matter. It is not quite drip-feeding that we are getting, but we are close to being asked to give our opinion or to take decisions that lead to giving an opinion, on the hoof, with no insight into priorities coming from our Department or any other Department in the face of the current and looming reductions. I find that difficult, because, although I am sympathetic, I am being asked to pluck something out now that will go to the Executive. Our Committee will have said whatever it is going to say, but what is coming next week or the week after? We are not seeing an overall picture. I am concerned about how we are handling this matter, and it is difficult for me.

443. The briefing says:

"In not rating ... £31m - £32m regional rates revenue would be foregone annually over the next four years (with 30% liability)".

It then says:

"such a figure makes a somewhat unrealistic assumption that all of our manufacturing firms can afford to pay full rates".

What does that mean?

444. Dr Holland: It is meant in the sense of moving immediately or very sharply from a 30% situation to a 100% situation. We do not want to imply that significant numbers in the manufacturing sector are dependent on rates relief for continued viability. It is more to do with the fact that were there to be a significant shift in the policy over a short time frame —

445. Mr McNarry: I am glad that you said that. I know that it is only a briefing paper, but instead of saying "all of our manufacturing firms", why do you not tell us how many businesses cannot afford to pay full rates and what the consequences of that are? That would make more sense; we could understand that. The briefing goes on:

"The collectable figure is likely to be considerably less but, to be candid, it is 'anybody's guess'".

I wish that I could say to someone in business or to a constituent that it is "anybody's guess" what is going to happen here.

446. Dr Holland: Unfortunately, we do not have figures to hand to show us, if we were to jump immediately from 30% to 100%, what the impact would be or how many companies could potentially go under as a result of that. I apologise if the briefing is somewhat misleading in that regard.

447. Mr McNarry: It is not misleading; you have explained it. It tells me that, really, we do not have a clue. If you have figures, we need them. I cannot accept something that says that it is anybody's guess what the collectable figure might be. We are not in the position of guessing at a time when the Minister is saying that he would like to proceed with this course of action. The briefing also tells us:

"The Minister intends to make reference to retaining industrial rates liability at 30%".

448. He intends to do that at tomorrow's Executive meeting. I sometimes wonder, Chairperson, what it is that we are being asked. Are we being asked to give the Minister some sort of cover?

449. Dr Holland: No. I think that the Minister is keen to take on board the Committee's views before that paper is discussed.

450. Mr McNarry: I suspect that perhaps he is keen to know them rather than to take them on board.

451. Finally, what is the debt on collection of industrial rates?

452. Dr Holland: Sorry; what do you mean by the debt on collection?

453. Mr McNarry: What are we owed? What are you not collecting?

454. Dr Holland: I am sorry; I do not have a figure available for the arrears. We will find that out for the Committee.

455. Mr McNarry: You say that you will find that out for me, but that is a bit too late. When the Minister is asking what he is asking — unless somebody can tell me that I have missed something — it is very important that I know the existing rates arrears. What are we not bringing in? What is the problem? Is it a major problem? Can you tell me that? Is it significant?

456. Dr Holland: Do you mean that you want to know how much of the 30% that is currently being paid is not being collected in revenue? Or, do you mean the sum in relation to the 70% relief?

457. Mr McNarry: I am asking how much revenue you would expect to bring in from rates.

458. Dr Holland: Do you mean if it were to be charged at 100%?

459. Mr McNarry: No, as it is now.

460. Dr Holland: As it is now, it is about £20 million to £25 million for 30% liability.

461. Mr McNarry: Are you telling me that, as it is now, we would expect to draw in £25 million?

462. Dr Holland: That would include the regional and the district rate elements. On its own, the regional rate element would be around —

463. Mr McNarry: So, the simple question is: what are we bringing in?

464. Dr Holland: Unfortunately, I do not have access to figures on what is collected from that sector, but we will find that information out and come back to the Committee with it.

465. Mr McNarry: Well, without that information, I cannot reach an opinion on this.

466. Dr Holland: I apologise. I did not appreciate that the Committee would be interested in arrears levels for the manufacturing sector.

467. The Chairperson: Will you get that information for the Committee, Veronica?

468. Dr Holland: Yes.

469. Mr O'Loan: My questions are in a similar vein to those of other members, particularly Mitchel. Is manufacturing so distinctive that it merits a 70% discount when other business does not get any? I do not think that the information is there, in strong evidential terms, to argue that case. Nobody would advise a jump from a 70% discount to a zero discount straight away. Therefore, if that is ever to be changed, it would have to be done in stages, with pauses to reflect on the consequences of change, one stage at a time.

470. ERINI argued that the discount should reduce from 70% to 50%. If we look at the figures for that, we see that the loss in regional rates of that not happening would be £9 million. However, compensation is paid to district councils — the figure quoted is £25 million. May I take it that that would apply if we went to 100%?

471. Dr Holland: That would be to 100%. The district rate element is probably in the region of £7 million to £8 million.

472. Mr O'Loan: Yes, that is the figure: two sevenths of the £25 million would be about £7 million. Therefore, the total cost in not going to the ERINI figure of a 50% discount would be £9 million plus £7 million, which is £16 million. That is what we are currently losing. If we changed to the 50% discount, that would become the gain to the Executive.

473. My immediate question then is: what would be the loss? What would be the loss to the manufacturing sector? How many jobs would we lose? Is it an extra piece of pain that firms

could not take? We do not get any information at all on that side of the equation, which leaves the Committee in a difficult situation. We need more information on that, difficult as it may be to find.

474. You said that you cannot vary the scheme itself. However, if a move were to be made to reduce the discount, could you bank the proceeds and use them to assist manufacturing in a much more dedicated fashion? Is anything such as that conceivable?

475. Dr Holland: Do you mean in terms of the additional revenue that the Executive would bring in from increasing liability to, for example, 50%?

476. Mr O'Loan: Yes.

477. Dr Holland: My understanding is that that would probably give rise to similar state aid issues. Again, there would be difficulties in respect of targeting a particular sector. I consider that it would be deemed to be, in effect, a new state aid measure.

478. Mr O'Loan: You talk about the difficulties of targeting a particular sector. However, we do have an economic policy to some degree. Invest Northern Ireland has strategies that are not broad-brush but state that they will do particular things in particular sectors. What is there to prevent us saying that we have extra money, which we will use to advance certain aspects of manufacturing, whether that be R&D, training, assisting exporting or whatever?

479. Dr Holland: We would run into difficulty if specific moneys were redirected and awarded to companies as a form of blanket relief for that sector or parts of it.

480. Mr O'Loan: It may not be impossible to design a scheme in which the money is used in a way that the manufacturing sector sees as conferring some benefit on it.

481. Dr Holland: That could be looked at. However, without looking at the detail, my sense is that state aid issues and difficulties would be likely to arise.

482. Mr O'Loan: David's question on arrears is valid, but only if comparisons are made through the information that comes back. If information came back to the effect that the manufacturing sector is having a lot more difficulty paying its rates than other businesses, as exemplified by its level of arrears, that would tell us something. It would be useful to have that information.

483. Mr Hamilton: Some members have performed their well-established roles as sceptics of the policy, so it is probably time for me to step forward to play my role as cheerleader. I accept the point that others have made that, if a policy were being designed to help the sector, this would not be the starting point. However, I imagine that the consequences for the sector would be quite serious if the policy was not retained. We capped it at 30% a number of years ago on the basis of the economic climate at that time.

484. Dr Holland: The situation is worse now than it was at that point.

485. Mr Hamilton: It is arguably much more perilous now. I take the point that Mitchel and Declan made about having substantive evidence or commentary. I would be happy to see the evidence to back up the argument to retain the policy, and I share the views of others that we should seek that evidence. It is not really a question, but I want to register my view that, imperfect as the policy mechanism is, it is still required at this level at this time. The Committee would benefit from seeing commentary and evidence that backs up the perilous position that manufacturing is in. I believe that that evidence exists and can be produced, but it is not here at

the minute. If that evidence is what it takes to persuade some members of the merits of retaining the policy, it is worthwhile to seek it.

486. The Chairperson: It seems to me that we need more evidence. Most Committee members have said that we need access to evidence of the benefits and the wider rationale of the policy. We need to know the level of outstanding debt or arrears and what the loss to businesses would be if the policy were removed. It would be helpful for us to have that information to enable us to have an informed opinion.

487. Dr Holland: We will get that to you as soon as we can.

488. The Chairperson: Does the current system apply to all forms of manufacturing or just the more traditional forms?

489. Dr Holland: It is directed at mines, quarries and what would be deemed as factories. Essentially, it applies anywhere where manual labour is involved in the production or alteration of particular goods.

490. The Chairperson: Does it apply to more high-tech manufacturing, such as the production of component parts of computers?

491. Dr Holland: My understanding is that it does not. The policy is focused largely on manual labour; the software side of manufacturing is not eligible for industrial derating.

492. Mr McLaughlin: It is not really an element of, say, the foreign direct investment (FDI) strategy or of trying to develop the manufacturing base of the economy. It deals with an existing component.

493. Dr Holland: It is unfortunate in a sense that the focus is on dealing with where we are, as opposed to us being able to do anything different.

494. Mr O'Loan: Several sectors were named. Given that food manufacturing is such a big part of our economy, is food processing, whether on farms or in more commercial environments, captured?

495. Mr Hamilton: It is if it is commercial.

496. Dr Holland: I am not sure, but we will check that out.

497. The Chairperson: In the information that you provide to the Committee, will you tell us what is and is not included under the policy? Thank you for coming along, and we await that information.

498. Dr Holland: We will get it to you as soon as we can.

6 October 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Daithí McKay

Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Shane Murphy Mr Richard Pengelly	Department of Finance and Personnel

499. The Chairperson (Ms J McCann): I welcome Richard Pengelly, public spending director, and Shane Murphy from the performance and efficiency delivery unit (PEDU). Given that we received the Department's briefing paper, if members are content, we will move straight to questions.

Members indicated assent.

500. Mr O'Loan: Thank you for coming before the Committee. I shall ask you about a few general points. When a Department receives a report from a Committee, it is normal practice for it to respond to the recommendations and to say whether it accepts them or not. Remarkably, on this occasion, your commentary does not do that. It simply says repeatedly that you note our comments. I find that concerning. Do you accept any of the recommendations? If so, which ones, and what is the rationale behind doing so?

501. Mr Richard Pengelly (Department of Finance and Personnel): It is not uncommon for departmental responses to Committees to note recommendations, and that is the position that our Minister has taken. It resonates with the views that he expressed at the take-note debate.

502. Mr O'Loan: The word "accept" does not appear anywhere. In my experience, that is new, and I hope that such an evasive response does not indicate a deterioration of the relationship between the Minister and the Committee.

503. Mr Pengelly: I certainly do not think that there was any intention to undermine the relationship with the Committee, which is very good.

504. Mr O'Loan: Could the Minister come back to us to firm up some of those simple "take note" comments?

505. Mr Pengelly: I cannot commit the Minister to doing anything, although I will certainly take the point back to him. As I said, the paper reflects his take on the report.

506. Mr O'Loan: I will come back to you with a similar point later. First, I have a couple of other questions. You tell us that the requirements for Budget 2010 and the savings delivery plan guidance have superseded the efficiency delivery plan reports. Does that mean that you are no longer considering or monitoring efficiency delivery reports? What is in place to monitor savings delivery plans?

507. Mr Pengelly: That issue has to do with the cutover point. The savings delivery plans will be in place for 2011-12 as part of the new Budget period. The efficiency delivery plans will be in place up to the end of the current financial year. We will continue to monitor and report progress against the efficiency delivery plans, but the guidance for the next set of plans that are to be produced by Departments to demonstrate how they are delivering savings will be the new guidance rather than the original efficiency delivery plan guidance.

508. Mr O'Loan: We will await those with interest. We have been very clear on the need for a clear definition of valid efficiency savings, and that is not contained in the savings delivery plan. In principle, we do not dispute the validity of increasing charges for services or of creating new revenue streams, but we are concerned about regarding those as savings. The savings delivery plan refers to maximising revenue and indicates that it is treating that as an efficiency saving. We dispute that that is an efficiency saving. I go back to my first point: why do you not provide a clear definition of an efficiency saving to Departments?

509. Mr Pengelly: It is difficult to come up with a precise and pithy definition of efficiency that will address the often unique circumstances of over £10 billion of public expenditure. The new guidance to Departments on savings delivery plans tries to bring a sharper focus to the explanation and analysis that Departments require to demonstrate what they are doing and to put some framework around the different types of savings, including procurement savings and other types of spending. It tries to sharpen the edge of that.

510. Obviously, the contextual position is somewhat different going forward than it was in the 2007 spending review, in which additional efficiency savings were needed to plug the gap between the money that would come to the Executive and the total additional resources that were required to push forward improvements in public service provision. In this context, we are looking at real terms reductions in the funding that is available, so savings will, inevitably, need to go beyond pure efficiency into the allocative efficiency area and choices about the cessation of programmes. Therefore, the guidance tries to encapsulate all those points.

511. Mr O'Loan: For brevity, I will make one final comment, which goes back to my critique on how you have responded to us. I will use paragraph 7 as an example. We made a recommendation that argues against Departments operating in silos as they do their efficiency savings and said that what happens with an efficiency saving in one departmental area may have a consequence for overall Executive objectives. Our recommendation asked you to address that, and, frankly, your answer does not even address that point. That is totally unsatisfactory. It a serious point and a difficult one to address, but you do not address it all.

512. Mr Pengelly: I will take that point back to the Minister.

513. Mr McLaughlin: I endorse Declan's point, because I have also found some of the responses to be a bit disconcerting. The response states:

"The department notes the Committee's concerns about the reporting of its Efficiency Delivery Plan, and will give this matter higher priority in future, subject to the reducing administrative resources available."

That seems to mean nothing. That kind of answer does not take seriously the efforts of the Committee to advise and to scrutinise what the Department is doing. We require a clear commitment not only to take the report's recommendations seriously but to indicate that the outcome will be better shared information and the ability to share responsibility, which continues to be a shortcoming.

514. I wanted to colour my comments with that reference, but I could pick out some other answers that indicate, at best, a laissez-faire approach. For instance, I do not understand the reason for the delay and the explanation that we were given that there was a misunderstanding. Again, that does not tell me a great deal. How could the Department not understand the convention on responses and the time frame involved? How could that be the case? What misunderstanding are we talking about?

515. Mr Shane Murphy (Department of Finance and Personnel): With regard to the convention, it was not the Department's misunderstanding but mine. I did not understand the convention. The combined effect of that and the other issue described was that the response was late. I was not aware of the convention. I should have been. I certainly am now.

516. Mr Pengelly: I did not know that Shane was going to say that. It was good of him to do so. However, let us not hide the fact that, as public spending director, it is my responsibility. I am there to guide and to support Shane —

517. Mr McLaughlin: That saves me making that point, Richard.

518. I suppose that little difficulties such as that add a bit of canker to our working relationship. However, to be honest, I have generally found it to be constructive enough, and that is the way in which we should proceed. Enhanced transparency helps everybody, including stakeholders, such as the people whom we met earlier. They have difficulty accessing the kind of information that helps them to manage their lives, businesses and the jobs that they help to create and sustain.

519. I return to the report. There is debate about what is a budgetary saving and what an efficiency gain. Again, there is a need to develop better language because we simply appear to have circular discussions. The Committee addressed that matter specifically in recommendation 2 of the report. In light of the budgetary pressures that we now face, what advice does DFP give other Departments to assist them in their reassessment of priorities in a way that will translate into understandable responses for all MLAs and the people whom they represent?

520. Mr Pengelly: There are two ways to approach that. The dreaded management consultancy phrase is "top down and bottom up". In the top-down analysis, there is the parallel piece of work that colleagues in the Office of the First Minister and deputy First Minister (OFMDFM) are leading on to refresh and drive forward the Programme for Government, which will put in place the strategic prioritisation at Executive level and provide a framework for that to be cascaded down.

521. In the bottom-up analysis, there is a clear need for Departments to prioritise individual programmes. Certainly, my Minister is on record saying, on many occasions, that it is not his job to tell individual Ministers about their priorities for their own departmental portfolio. He has expressed publicly his frustration that when we get into that dialogue — for instance, when we sought, during one of the initial stages of the Budget process, identification of bids and pressures from Departments, we asked for them to be prioritised to get a sense of where strategic priorities were at departmental level — many Ministers decline to prioritise their programmes.

522. In the context of the parallel process of developing the Programme for Government, departmental priorities need to reflect and to respect the programme's strategic priorities. Therefore, it is a matter of trying to bring the strategic and the departmental dimensions together. Until we are further along in the process, there will be that bit of friction between the two. As the Programme for Government starts to crystallise in parallel to departmental portfolios, prioritisation will start to crystallise as we start to evolve the draft Budget for discussion at the Executive.

523. Mr McLaughlin: That is a fair enough point as far as it goes, because if people were to cross-reference the Programme for Government, they would expect there to be some kind of synchronisation between departmental priorities and wider strategic priorities. It appears that the process has been impacted by political dynamics apart from any logical assessment of how and why they are going to do it.

524. The thrust of the Committee's report and what we are interested in finding out is what mechanisms we can expect that would give us a better read-across. Such mechanisms may even help Ministers to get their heads straightened on the need to reflect on the priorities that they set at a departmental level and the fact that those priorities have to be synchronised with the Programme for Government measures that they agreed and signed up to. Are there any new mechanisms? In the upcoming Budget period to 2015, will we see mechanisms for evaluating the setting of the priorities and their delivery and outcomes?

525. Mr Pengelly: I am not sure that we will ever get to the point that you are pushing towards. I suspect that you recognise that we will never complete that journey. The reality is that there is no mechanism or formula that we can apply to neatly categorise every activity within a Department and across all Departments and to give that activity a priority ranking between one and 5,000 to see what nudges ahead.

526. The nature of programmes means that they are complex to evaluate. For example, any £1 spent on health can legitimately impact on priorities for the health of the population, economic issues and deprivation issues. There have been many attempts — nationally and internationally — to bring a formulaic approach to that. The reality is that it does not work. Ultimately, it comes down to a subjective discussion at the highest political level about the strategic priorities facing the Administration. The reality is that there will be more of that as opposed to a mechanistic approach.

527. For our part, we will continue to push Departments to properly articulate what value their spending delivers in both social and economic benefits and to try to quantify those benefits. However, it is in that context that hard choices about relative prioritisation need to be made as opposed to anything more formulaic than that.

528. Mr McLaughlin: I am thinking more about the fairly intense pressure that will be put on Departments and the fact that Ministers are going to have to publicly stand over their defining how they will move forward into a situation where the budgets are significantly impacted and, in some instances, reduced. That implies that there is no avoidance of specifying what the real priorities are or what outcomes we are aiming for over that Budget period. It is not formulaic, and, in my view, it should not be. However, if there is to be buy-in and endorsement, people have to be able to agree on priorities. I am talking about the reporting mechanism. Sometimes, we over-complicate matters, and I think that it has been accepted that the PSA approach is too complex for any effective evaluation because there are too many cross-cutting issues. Perhaps performance and output measurement is the way that we should go.

529. Mr Pengelly: That is where we would like to take it, but, again, there is complexity due to the cross-departmental linkages. For any specific policy priority of the Executive, not only can a number of Departments play into that objective but a larger number of individual policies and programmes within any one Department. The way in which the Executive try to give the overall strategic sense of prioritisation will shape a relative budget position initially between Departments and then at individual ministerial level.

530. At a human level, I can absolutely understand a Minister's position. We have been asked for a prioritisation of bids. If we were to look at the full scale of our programme and to prioritise it in absolute order from top to bottom, it raises the risk that someone else can dive in somewhere in the middle and say that one project is just about important, so, by default, everything that falls below it should stop. Some projects are more important when judged by one set of criteria but less important by a different set.

531. Our Minister's view is very much that, when it gets to the departmental level, it is not his position to interfere with individual ministerial views. That means that the situation keeps coming

back to the two-stage approach: the strategic skewing between Departments and then within Departments for Ministers to consider.

532. Mr McLaughlin: I suspect that that is a discussion that is only now starting to strike home. I am a supporter of PEDU, and I see a role for it in identifying deliverables and that type of outcome so that we can move forward with a degree of confidence that we can meet the promise.

533. What assessment has the Department made of the current invest to save initiative? Is there an intention to roll that forward into the next Budget period and, possibly, to develop it?

534. Mr Pengelly: As regards the next Budget period, it is one of a number of strategic issues that our Minister wants to consider in detail himself and to discuss strategically around the Executive table. His view is that an invest to save fund is a good thing, particularly as we face into a tightening public expenditure position. The trade-off is that invest to save money is always front-loaded, so the costs always fall now, with the benefits later. The challenges facing Executive Ministers are here and now. However, everyone accepts the rationale for the initiative, and there is certainly a long-term gain.

535. Mr McLaughlin: Is there any retreat from the idea of invest to save under the financial pressures that you are talking about?

536. Mr Pengelly: They have not reached a definitive conclusion on it, but nobody is saying that it is beyond possibility and that they cannot afford to do it. The mood at the moment is that it is a good thing to do and that we need to work hard to find a way to do it.

537. Mr McLaughlin: Does that mean that it will be kept as an option to be deployed as and when resources can be found in in-year monitoring, for instance?

538. Mr Pengelly: My view is that, if we are going to do it, we should set aside the money at the start, because the in-year position is too tight now. The delivery of long-term savings needs a bit of preparation and planning.

539. Mr McLaughlin: It needs programmes and preparation.

540. Mr Pengelly: The decision should be to do it and to make provision to do it, or to accept that it is not going to happen.

541. The other part of your question asked about the current invest to save programme. We continue to look at that. However, there is a caveat with that. Unfortunately, the £26 million invest to save fund that exists for the current financial year was formally signed off by the Executive and the Assembly only at the start of this financial year, so we missed the opportunity for that necessary preparation and planning work. I think that many of the programme's elements will be successful. However, in a couple of cases, as Departments have tried to move forward, they have identified that they will simply be unable to do it this year. To give credit to those Departments, they are saying that they will not be able to capture the savings, so they should not spend the money. They want to defer it for another year, rather than spending the money and not getting the savings, which would be a worse position to be in. Nevertheless, there are signs that, in many cases, those savings will bear fruit for us.

542. Mr McLaughlin: It sounds as though there is not much certainty about the continuation of the initiative. You cannot give me an assurance.

543. Mr Pengelly: I could not give an assurance in any event, because the creation or otherwise of an invest to save fund is a decision for the Executive. The Executive have not yet considered a draft Budget position. The invest to save fund is high on the list of issues that we want to make sure the Executive actively consider. However, it is for the Executive, rather than me, to conclude as to how that will play out.

544. Mr McLaughlin: I asked you earlier whether the intention is to roll the initiative forward into the next spending round. Is your answer a "maybe" as opposed to a "yes"?

545. Mr Pengelly: It is an issue for the Executive. Any decisions about allocations in 2011-12 are not for my Minister to make. My Minister will bring proposals to the Executive, and it is for the Executive to conclude on those. There is a strong case. My Minister has had a round of bilateral discussions with all his ministerial colleagues. Without his seeking a definitive position, all Ministers without exception have been supportive of the concept of an invest to save fund. So, there is support for it. The rubber hits the road when they see the financial position and have to consider whether they can afford it. I think that the case has been accepted as a concept.

546. Mr McLaughlin: If the case has to be proven, it can be proven only if there is a definitive commitment to rolling it out over the next spending round and taking it forward on a programmatic basis. A stop-start approach is not going to work. We are coming at it too late to measure its effect.

547. Mr Pengelly: Our view is that, if we are looking at a four-year Budget cycle, an invest to save fund would work if the Executive set aside some provision for each year. For the money that would be spent in year 1, we would start to track the savings in year 2 and to make use of those savings in years 2, 3 and 4, because we need to create an incentive.

548. Mr McLaughlin: It could become a revolving fund.

549. Mr Pengelly: There is a strong case that the relevant Department would retain some element of the savings, as an incentive to roll them out. The argument about the balance is whether it would go back into an invest to save fund to further replenish the pot or be recycled to other areas to support ongoing core services. Again, that is a decision for the Executive.

550. Mr McLaughlin: That is probably something that we will come back to.

551. Finally, recommendation 4 is about concerns around the lack of transparency and information that is available in monitoring delivery, which has been a consistent theme of the Committee. What information will be made available to enable the Assembly and the wider public to be sure that Departments are safeguarding essential services and strategic policy priorities when delivering their savings in 2011-15? There is an understandable and legitimate demand that those savings are specified. How can the Assembly and the wider public track performance? Do you envisage any change in the information and reporting that is available?

552. Mr Pengelly: I will say a bit about the position going forward. The difficulty with looking back is that, in a Budget process, a number of things happen to result in the Executive ending up with a pot of money that they can allocate to pressures. For example, in Budget 2007, there were efficiency savings from Departments, Barnett consequentials from the national spending review, and increases in the local revenue base through the domestic and non-domestic regional rate. All those resources were pooled in a central pot, at which point the Executive made decisions about allocating them. Administratively and from a common sense point of view, it would be unworkable to track that and to say that a bit of money from here is being moved there. It goes into the pot.

553. The way in which that is managed is that, in parallel with making allocations, the Executive agreed a clear commitment that administration expenditure would reduce by 5% per annum on a cumulative basis over the period of the spending review. Therefore, no money was going into admin; in effect, money was coming out of it. When admin is taken out, everything that is left is programme spend leading to front line spend. Therefore, with the declining admin spend, the case was made that money was not going back into propping up administrative structures.

554. In respect of the extent to which the Departments are efficient, parallel to that was the Programme for Government and the monitoring work, which Shane has talked to the Committee about previously. There was continuous monitoring and challenging of Departments as regards how they were delivering on their PSA targets, which require the rolling out of the efficiency agenda. It was about trying to pull those strands together.

555. Going forward, the guidance we are putting together on savings delivery plans for Departments builds on and makes specific reference to the Committee's report. In rolling that forward, we are trying to bring greater clarity, to centralise the availability and publication of information, and to see exactly what Departments are doing. However, our Minister will not go nap on that until we get to the end of the Budget process, because a lot of the tracking arrangements going forward will be contingent on the shape of the Budget that we end up in.

556. The savings plans that have been requested from Departments will not be the final position. The reality is that some, if not many, Departments will need to make further savings beyond what we have asked for thus far, because money will not be given to them to meet pay and price inflation. Departments will have to generate those resources internally.

557. We are working on the guidance for what we will require Departments to publish, and we will watch and build on the points made in the report as we finalise the arrangements for the end of the Budget process.

558. Mr McLaughlin: I acknowledge that it is very complex. People will look at headline figures, such as the ratio between administration and programme spend, but a figure for programme spend does not tell them about the prioritisation process that resulted in that programme spend and the spend areas that were de-prioritised or dropped. Those are the kind of things that people want to know about.

559. Mr Pengelly: They will be clearly set out in the savings delivery plans.

560. Ms Purvis: I assume that you evaluated the use of efficiency delivery plans to see whether they worked.

561. Mr Pengelly: It is a classic case of the curate's egg; some were missing, some were not great, and some were good. Our Minister's position is clear that the delivery of efficiencies is an issue for Ministers. Our imposition on Departments was for them to set out how they would do it, to publish the information and for it to be challengeable. From our Minister's point of view, money was taken off Departments, so it was for Departments to account for how they did that. In a sense, the evaluation is a combination of this report and the other work that we have been doing with Departments. We even moved the savings delivery plan to another place. However, the answer to your question is that we have not carried out a full, formal evaluation of efficiency delivery plans, because they were departmental tools.

562. Ms Purvis: Are you saying that the lessons learned from the process have been put into the savings delivery plans process?

563. Mr Pengelly: Yes, with respect to a better articulation of what is required in them.

564. Ms Purvis: However, there is still an element of unaccountability. Given that Ministers have responsibility for their Departments, they can do almost whatever they want with their Budget allocations when they get them.

565. Mr Pengelly: No, and the accountability issue is what our Minister is trying to point out. Too heavy a hand from DFP would blur the accountability mechanism, because it would allow Departments to say that the efficiency plans are DFP's and not theirs and that there are points in them that DFP wants but they do not. A Minister might say that his or her responsibility lies with the portfolio, which would blur things fundamentally. Our Minister is saying that the Executive have agreed, as a strategic decision, that Departments will deliver x in the way of efficiencies. It is for individual Ministers, who are absolutely responsible for their respective departmental portfolio, to deliver those efficiencies, to explain how they are doing so and to be held accountable for that. Our Minister's intention is to keep that accountability line clear.

566. Ms Purvis: Yes, but the process is only as good as the plans that are produced. In light of the quality of the plans that are being produced, how is that process progressing?

567. Mr Pengelly: No plans have been produced thus far in the process. The guidance for Departments is that they should produce and publish savings delivery plans within two weeks of the publication of the draft Budget, so that those are available as part of the public consultation on the draft Budget process. No Department yet knows the full quantum of savings that it will need to deliver. They are all working on plans, because they know that they need to deliver some savings. However, it is too early to tell, because we have not seen any of the plans yet.

568. Ms Purvis: Are you working with Departments to prioritise where cuts will be made?

569. Mr Pengelly: It is for the Minister in each Department to prioritise where savings will fall in his or her Department. The Executive have started the process of working at block level on the relative prioritisation of resources between Departments. Although we have what we think are quite good forecasts of the likely outcome from the national spending review, we will not know for certain until 20 October, which is the point at which the Executive have indicated that they want to get into detailed dialogue on constructing a draft Budget. That will allow the review to cascade through Departments.

570. Ms Purvis: Your guidance to Departments says that the overriding principle is that savings should be cash releasing and not result in the diminution of the provision of priority front line public services. How do you ensure that?

571. Mr Pengelly: We do not ensure it, in the sense that we do not police that. That is the guidance. Our Minister sees our role as issuing guidance to Departments, which need to produce plans to demonstrate how they are complying with the guidance, and it is against those plans that Departments will be held to account.

572. Ms Purvis: Who will measure that? It will not be DFP. Is the Minister hoping that Committees will do so?

573. Mr Pengelly: The Minister will be looking to the relevant Committees and to the consultation. That is why the plans are to be produced and published virtually alongside the draft Budget. Although we are not taking ownership of the plans, DFP will be looking at them and posing some questions as part of the process of moving from draft to final Budget.

574. It is about getting the balance right between trying to be an informed critic of what is in the plans and pushing back. We will highlight issues mentioned in the report, such as when one Department's savings delivery plan would have an adverse impact on another part of the public

sector. If one Department is determined to do that, that would influence our Minister's proposals to the Executive on a final Budget. Therefore, we will be looking at the plans and feeding comments back to Departments. However, our Minister will be looking to the Committees to challenge Departments on their plans as well.

575. Ms Purvis: Therefore, the prioritisation of front line services is a principle that is aspirational but depends on the commitment of individual Ministers, the level of scrutiny from Committees, and the quality of the savings delivery plans produced?

576. Mr Pengelly: The prioritisation of services will be determined at a strategic level by the Executive through the Programme for Government, which the Executive will sign off. The nature of the Programme for Government, and the level of granularity in that, will set out the big issues. It is a right and a responsibility of an individual departmental Minister to determine his or her priorities in that Department, as long as they are consistent with the Programme for Government. In many cases, it will be difficult to spot an inconsistency because of the respective level of detail. Beyond that, there is DFP's challenge role, the Committees' role, the general public and the wider Assembly. There are all those mechanisms, but that is fundamentally about holding Ministers to account. We cannot put a single organisation in place to get that right, partly because prioritisation is also a subjective view.

577. Ms Purvis: We have previously discussed evidence of efficiencies being passed on as blunt cuts to the tail end of Departments. I am concerned that the same thing will happen again, with no focussed process or unit to oversee how front line services will be protected and that the savings will be cash releasing.

578. Mr Pengelly: I absolutely accept the point. We have talked about it before, and I certainly cannot or will not attempt to push back against it. I am genuinely trying to find a way through this. If we take Department X, I do not believe that we could create a unit or function outwith Department X that could have any legitimacy in saying to the Minister of that Department:

"We do not agree with your priorities; therefore, you must change them."

579. The approach that we have is one of ensuring transparency, so that all of us collectively can pose the questions. Beyond that, there is no way that we can undermine the rights and responsibilities of a Minister with regard to prioritisation in a Department.

580. Ms Purvis: I accept and understand that.

581. Dr Farry: Richard, I take you back to the issue of definitions. You ducked Declan O'Loan's question on a definition of efficiency. Surely, that is fairly straightforward, and it basically means outputs relative to inputs.

582. Mr Pengelly: Yes. It is so straightforward that everyone knows it.

583. Dr Farry: Good. On a slightly more difficult definition, how do you define front line services?

584. Mr Pengelly: I suspect that, if we went round the population of Northern Ireland, we could find about 1·7 million different definitions for front line services. The classic example of that is the debate nationally at the moment in which the coalition Government have confirmed that front line services in health will be protected. Anecdotally, I know that the Department of Health in Whitehall is very concerned about what that means, because it could be that they define 50% of what they do as front line services, which will be protected, and the balance takes a severe hit; or it could be that 90% of what they do is front line services. There is no definition.

585. Dr Farry: Just to complicate things even further, I have a concern that, using a popular definition of front line services, we take the view that front line services are good and back office services are bad. There is a danger in that, particularly if Departments have a singular focus on front line services, because, at the same time as we are asking government to protect front line services as much as possible, we are scrutinising government more and more. If civil servants make mistakes, they are hauled before the Public Accounts Committee. I am concerned that there is not a system that encourages innovation and that that perpetuates a simplistic view of life.

586. Mr Pengelly: Absolutely. My personal view, for what it is worth — probably not very much — is that everything any civil servant does should be seen as a front line service. When I get out of bed and come to work in the morning, if I do not add something to the provision of public services in Northern Ireland, I would be as well staying in bed and saving the taxpayer some money. Front line service provision needs back office support. Unfortunately, one cannot deliver services without that element of support.

587. Dr Farry: The point is also that, if we hollow out the back office, or if Departments are overly encouraged to do so, that may become a false economy and become counterproductive.

588. Mr Pengelly: Absolutely. You mentioned the Public Accounts Committee (PAC). Hollowing out the back office certainly raises the risks in relation to accountability, value for money, governance and stewardship. The experience of the PAC suggests that, when we get that wrong, we jeopardise millions of pounds of public expenditure, because we do not spend it in the best possible way, securing value for money.

589. Dr Farry: That could even be tied into the discussion about the construction sector with which we started our meeting this morning. If government is slow in turning around economic appraisals, it has an impact on life.

590. Mr Pengelly: It would do, though when economic appraisals need to be turned around quickly as an output of DFP, I assure you that there is never a delay.

591. Dr Farry: It is always the other Departments' fault.

592. Mr Pengelly: Absolutely.

593. Dr Farry: Is invest to save still fundamentally seen as a silo approach — that it is for individual Departments to bid for moneys that are centrally available, as opposed to the old Executive programme funds that were cross-cutting?

594. Mr Pengelly: It is more a case of the former. I envisage that, if the Executive agree the establishment of an invest to save fund, we will ask Departments to submit proposals to access that fund. Obviously, that is subject to Executive consideration. For the current financial year, the Executive agreed that priority would be given to those proposals that are deliverable and offer the biggest potential return. What you are suggesting, and I agree, is that the biggest potential return undoubtedly lies in better joined-up working between Departments. If two or three Departments join together to make a proposal, the payback will be much greater for a smaller investment, and that will massively enhance —

595. Dr Farry: So, there is nothing to preclude a joint bid in the invest to save rules.

596. Mr Pengelly: Absolutely not; we would encourage joint bids.

597. Dr Farry: At the same time, there is no real incentive for Departments to do that, given the way in which the system and the rules for budgets are structured. Each Department brings forward it own budget.

598. Mr Pengelly: The only incentive would be that it would massively enhance the potential return. We know that, in the event that there is an invest to save fund, the bids for it will be a multiple of the available funds. If our criteria are about deliverability and the rate of return, the joined-up bids will have a much greater chance of success.

599. Dr Farry: Finally, I appreciate that there is a bit more emphasis on what happens beyond 20 October over a longer period of time, but we do still see some evidence of the Budget being prepared. I am seeing very little evidence of the Programme for Government being prepared. We are told that it is best practice for the Programme for Government to be prepared in conjunction with the Budget; in practice, it is even better if it is actually ahead of the Budget. Is there a danger that we will end up producing a Budget that is ahead of the Programme for Government because we have to set a legal timetable?

600. Mr Pengelly: That remains a threat. Colleagues in OFMDFM are progressing work and have been involved in substantive engagement —

601. Dr Farry: With whom?

602. Mr Pengelly: With other Departments in respect of commissioning programmes, so —

603. Dr Farry: Is that solely behind the scenes at the moment?

604. Mr Pengelly: At this stage, yes.

605. Dr Farry: No Committee has been briefed on potential Programme for Government proposals in the same way that some Committees have been briefed by some Departments on their budgets.

606. Mr Pengelly: I am not sure exactly where OFMDFM is in the process. It may be at the first pass of distilling inputs from Departments.

607. On your point about partnership, common sense suggests that, if a Budget is to be run, the strategic priorities need to be understood before allocations to Departments are thought about because they fundamentally shape that. That analysis was evident in earlier comments. The difficulty is that the Executive want a Programme for Government to be deliverable, and that is contingent on the availability of funds. Including a lot of aspirational targets for which funding is not available would leave us with an undeliverable Programme for Government. By necessity, they need to move together. However, there can be emerging strategic priorities, and going nap on the specific metrics in some of the targets can be left until the tail end. The debate about strategic priorities and a framework can precede the Budget and helpfully inform the Budget process.

608. The Chairperson: I have a question that is unrelated to this evidence session. I asked the Minister a question in the Assembly about the outcome of the September monitoring round and end-year flexibility stock. The Minister has written to me to say that there is £428·4 million in current and £72·8 in capital, but he did not answer my question. I asked what access the Executive have to that. Can you answer that?

609. Mr Pengelly: Yes, but not off the top of my head.

610. The Chairperson: Will you get me that information?

611. Mr Pengelly: It is easy to answer because the Executive's access was agreed with the Treasury as part of the last spending review, so I can get that information for you quickly.

612. The Chairperson: That is great. There are no more questions from members. Thanks to Richard and Shane for coming along.

13 October 2010

Members present for all or part of the proceedings:

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

Witnesses:

Mr Iain Greenway	
Mr Stephen Peover	Department of Finance and Personnel
Mr John Wilkinson	

613. The Chairperson (Ms J McCann): I welcome Stephen Peover, the permanent secretary of the Department of Finance and Personnel (DFP), John Wilkinson, the chief executive of Land and Property Services (LPS), and Iain Greenway, the director of operations in LPS. On behalf of the Committee, I thank you for bringing us out here today and for taking us on a very detailed tour of the building; some of the work that is going on is very impressive.

614. Mr Stephen Peover (Department of Finance and Personnel): I thank Committee members for coming out here; it is very good to have you on site.

615. We had prepared presentations but I know that you are running behind schedule, so we are happy to move straight into questions if you want. Iain is here to deal with issues related to rate debt; that is his side of the business. We expected you to have some questions about rates, and Iain is our expert.

616. Ms Purvis: I really appreciate the tour that we were given this morning; it brought home to me the value of the service that you provide and everything that goes on in here, particularly the work that is being done with the Department of Agriculture and Rural Development (DARD) on the single farm payment.

617. I want to ask a couple of questions about the report that was published and the new service delivery model. The report refers to the service delivery model as being a critical success factor in the development and evolution of a more integrated and effective LPS. The report lists a number of dependent service delivery model actions, some of which are out of kilter and some that are unachievable. Which of those actions are out of kilter and which are unachievable?

618. Mr John Wilkinson (Department of Finance and Personnel): The service delivery model looks to draw together a number of strands of our rate collection service. It spans right across various parts of the organisation. For example, one directorate collects data and information, another is concerned with valuation and another is to do with the collection of rates. We have tried to pull that together as a single process. The service delivery model is big and it has a lot of connected parts that reach into various parts of the organisation. One of the issues that resulted in it not progressing as smoothly as we would have liked is the development of a management information system (MIS), which is mentioned elsewhere in the report. We have pockets of information across the legacy bodies. To help us to run the service delivery model effectively, one of the issues that we have looked at is how we pull together management information systems across the organisation so that, in parallel with a smooth flow of process, we have a smooth flow of information. That is one of the strands that have been held up in relation to wanting to make progress against a service delivery model. That is just one example.

619. Mr Peover: I am the chairperson of the strategic oversight group that looks after all of that. We took the attitude that the action plan as a whole was built up in consultation between John and us in the Department in the wake of the production of the performance and efficiency delivery unit (PEDU) report and the Public Accounts Committee recommendations. At the stage at which it was drawn up, it was a best estimate of what we might do and the order in which we might do it. We are very keen that it is a living document rather than an historical one and that it gets revised as we go along. Things have emerged as we have gone along and things that seemed, on the face of it, to be fairly straightforward turned out to be more complicated than we expected. We are amending deadlines and changing things in light of that, including the resources. We have had to shift resources in the organisation to deal with issues on the rates side. We have also had staff shortages. There are issues of accommodation; we have to find resources for additional accommodation or for the IT systems. We are trying to keep it as a live document and we are amending it as it goes along. We are not simply looking at it as John's initial assessment, whatever number of months ago that was —

620. Mr Wilkinson: Eighteen months.

621. Mr Peover: It is not set in stone. We are changing it as we go along and trying to make sure that we keep up the progress. We are elaborating, developing, changing and refining the actions as they are investigated and as we get some more insight into what is necessary to deliver the overall improvements in the service.

622. Mr Wilkinson: Stephen has just touched on the issue of accommodation, which was another action that was rescheduled. We put together a fairly extensive and comprehensive business case on accommodation. Again, there is a linkage in that regard in respect of restructuring the organisation to put the rating service into one big building. That is another strand that has affected the development and progress of the service delivery model.

623. Ms Purvis: You mentioned the management information system. You said that the pilot study is complete and that an MIS demonstrator is in place. What is a demonstrator?

624. Mr Wilkinson: We have carried out a pilot exercise to see whether this could be done. That is about drilling down into the IT systems of the legacy bodies to see whether we can extract data, draw it together into a separate point and make it live for, for example, directors and senior managers across the organisation. Therefore, we have mocked-up a system that has been successful. I have seen examples from the team developing it, whereby you can have an update of your progress against targets on your BlackBerry at 7.30 am. That is the demonstrator that we are using. I am very excited about it. When it is resolved, it will be fantastic for improving and driving performance. We will be able to switch resources to where they are needed rather than being somewhat reactive, as we are at the moment because we do not have real-time data.

It is something that we are building. We ran a model to test it, and it works. We are now going through the procurement exercise to put it all together.

625. Ms Purvis: Can I ask Iain about the collection of rates? The target for the collection of net collectible rates for this year is 2·5% less than the target for last year. Why is there a reduction, particularly in light of the focus that has been placed on reducing the level of rates arrears?

626. Mr Peover: I will come in first on that, to give the departmental perspective. I am keen that we have targets that give staff some sense of achievement. We have been running a target of 98% for some time and have been significantly below it every year, but we have been improving every year. My view on targets is that they should be at least potentially achievable. There is no point of having a target of 98% if we are operating at 94% and know that we are not going to get to 98% this year. I would rather, as we have done this year, have a target of 95·5%, which is one-and-a-bit points above where we were last year.

627. I would like to be able to say to the staff at the end of the year that everything we have done has contributed to achieving this year's target, and that next year's target will be higher again. We are still heading for the 98% target, but I see no point in having an annual target that we always miss. We had that in other areas of activity. I am trying to give the staff a target that is stretching and challenging but is achievable so that, at the end of the year, we can say that we either achieved it or came very close to it. That is more important to me than having a target that is aspirational and is not going to be achieved.

628. Iain, do you want to say where we stand on targets?

629. Mr Iain Greenway (Department of Finance and Personnel): I can certainly reinforce the importance of the motivation of staff. The Rate Collection Agency, as it was before the merger into LPS and before the profound rating reforms, just nudged over the 98% target once or twice; it was always a very stretching target in a stable, more economically comfortable time. For GB collection authorities, 98% would be a demanding target in a stable rating policy environment, so to have a target of 98% in the economic situation that we are in and with the ongoing impact of profound rating reforms would simply have been unachievable.

630. Our performance against the target of 95·5% is on target. We are comfortably ahead of target in our profile position. A large number of public bodies have paid their rates in a very timely manner this year; much more so than ever before. We believe that there are two strands to that: the significant work that we did to clean up the data in those accounts last year and the overall public sector pressures to pay invoices in a timely manner. We are around 3·5% ahead of our profile position at the moment, but if one takes out the public bodies, we are in a good position but not one that we can be complacent in.

631. Ms Purvis: So, you are ahead in collections this year. Do you think that the earlier payments have skewed the profile?

632. Mr Greenway: The in-year, month-to-month profile is skewed. It will start to unwind now, because last year many public bodies paid in this calendar quarter, between the end of September and Christmas. Indeed, we are gently dropping back towards the profile that we had set, which was largely based on last year's profile.

633. Ms Purvis: Do you think that you will exceed your target of £980 million this year?

634. Mr Greenway: I believe that we are on course to achieve the 95·5% target for the in-year collection of bills issued this year and the target to collect £980 million.

635. Mr O'Loan: Thank you very much for this morning's presentation, which was very much as I expected. It shows what a powerful mapping tool we have and just how important it is in the governmental process. You also have a potentially lucrative source of information in the public arena. It is very important that that is used well in a business sense and that it provides the proper service to government.

636. The ongoing DARD project to reclaim the ground that it lost was exposed through EU Commission intervention. The question that I ask myself is: how did that Department get into that mess? Why did it not consult the mapping experts at a far earlier stage? It would have seemed obvious to do that. As that emerged only through external intervention, one wonders whether other sectors of government are identifying Land and Property Services as the body that they need to consult. You may want to respond to that before I move on to my next point.

637. Mr Peover: I will pick up that point first and then go back to the one that you made about the lucrative nature of the material that we have.

638. On the latter point, you are entirely right. John and his staff are doing their best to sell the benefits of that information to all Departments. They have asked all Departments to come along to departmental boards, where they will talk to them and show them a presentation on the powerful nature of the available information. Iain, John and I, along with others, are on a geographic information council that aims to proselytise the strength, power, detail and depth of the available information across a whole range of agencies. We are doing quite a lot in an advertising sense to try to sell that resource to others and make them aware of what is available. A lot of agencies are using the material, but more could. Your second point is very important, and we are seized of its importance.

639. I will make a comment on your first point that is not directly relevant but is something that I want to mention to you nonetheless. At UK-wide level, an ongoing strand of government activity is about making public sector information available to those who might use it free of charge. That is being done on the basis that we have huge amounts of non-personal information — I am not talking about people's names and addresses and so on — that is relevant to commercial organisations. Those organisations could find innovative ways of bringing information together, making new packages out of it and then selling those on. The idea is that if the information is made available free of charge, people will play with it, tinker with it, adjust it and may find a way of using it and selling it on to third parties or the public.

640. The government are keen to facilitate that on the grounds that it will encourage economic development. Although I appreciate that argument, people such as John and me, who rely quite heavily on the income that we get from selling our information to third-party organisations, are a bit concerned about what the impact may be on our services. At the moment, the taxpayer pays for it and we sell it on. Therefore, there is an income that is offset against the taxpayers' money, which supports our organisation. If the information is passed on free of charge rather than sold, there will be a net cost to the public purse and the taxpayer. It is early days, but that is worth watching. We would certainly want to bring that back to the Committee if it emerges as a real proposal.

641. Mr O'Loan: Yes; there needs to be a very clear discussion about the options in that regard.

642. I will move on to the other point about the collection of rates and arrears and debt. I will come to the Institute of Revenues Rating and Valuation (IRRV) report in a moment. Dawn asked about the current state of collection. You say that it is quite good. It is difficult for us to get a handle on the arrears issue because it keeps moving; every year you have a new swathe of receipts and collections to make. Do you feel that the arrears issue is under control? What does the long-term trend in arrears tell you?

643. Mr Peover: The long-term trend has been upwards and that is the cause of our concern. John, Iain and I talk about it on a regular basis. A key priority for LPS this year is to begin the difficult process of tackling that accumulated debt. By comparison with past years, we are doing reasonably well; it has come down from £157 million to £131million —

644. Mr Greenway: It has come down to £110 million.

645. Mr Peover: Even better. The debt figure is made up of a number of components. We are still in the current year, so we do not know how things will pan out towards the end of the year. The key priority for LPS this year is to tackle debt and to be seen to do so. It is a key reputational issue. It said that in the update to the PEDU report. In my interactions with John, in respect of our line management relationship, that is what I have said to him. It is key to the reputation of the organisation. If LPS is not seen to tackle debt efficiently, it is impossible for LPS to have a good public reputation, even though it does lots of other important things. Dealing with arrears is a key indicator of the standing of LPS with the Committee, the Assembly, stakeholders, the public and the media. It is crucial that the issue is tackled. John has done a lot of work in getting together with colleagues to shift resources around within LPS to enable us to tackle the debt issue effectively. John and Iain may want to say something about it.

646. Mr Wilkinson: To add to that, I can provide some detail. Going back to 2005 and 2006, before the 2007 reforms, the rating system was fairly stable. Debt was around £40 million or £50 million. In 2007 everything was turned upside down, with a period of profound reforms. There was also a well-publicised replacement of an obsolescent IT system that proved very difficult and did not go according to plan. We then had to deal with funding issues in LPS. To answer the question, it is only since the Public Accounts Committee hearing in September 2008 that we moved the basis of our accounting from cash to accruals. As a result of that, we have an interrogation tool that we can use across the system. That came live in February, when we finished the conversion process. It gives us a very accurate picture of the various categories of debt and shows where the debt is. The tool is called DI-Diver and is very useful.

647. As soon as we got that tool up and running, we decided that we needed an external view of the whole situation, so we called in the IRRV to have a look at where we were and what we were doing. We also wanted to see if the IRRV could use its great experience from around the world to give us the benefit of its advice and guidance. That is what we did. I will hand over to Iain who will take up the story and tell you about what we have been doing about the debt lately.

648. Mr Greenway: As John says, the rating reforms profoundly affected collection performance. We were down at 89·1% collection in 2007-08. That inevitably built up a legacy of debt, which reached £157 million on 31 March last year, which is unacceptable.

649. This year we have set about using the interrogation tool that John mentioned to tackle in a structured way the complex cases that remain. To give you a feel for those, our largest single prior-year debt at the moment turns on a complex point of law about whether or not the property is an industrial premises. If it is, no debt is outstanding; if it is not, more than £500,000 is outstanding.

650. Each case is complex and a number of them are some years old because of the IT problems and so on, which makes them more complex. We are making steady progress in working through those cases. However, we are still looking at what we need to do to become more effective. Certain strands in the IRRV report are about the need for LPS to be a little more imaginative in some of its processes. For example, should we be using different strands to deal with bills, final demands, court summonses, court decrees and enforcement? We have talked to

a number of private sector tracing organisations about finding those who are known as "gone away" and have done some pilot work with them on a pro bono basis.

651. One of the interesting findings from the data was that for several score of the 2,000 "gone away" return-to-sender letters, all the data points to the person still being in the house but simply returning the rate bill to sender. We will now take those cases forward. We have been talking to private sector debt collectors about the additional skills that they have to deal with the people who simply refuse to pay, while being very careful, at all times, to separate the "cannot pays" from the "will not pays". The IRRV report sharpened our focus in a number of areas and supported our understanding of the situation and the actions that we needed to take.

652. Mr O'Loan: This year's target of 95·5% means that there will be £50 million of debt at the end of the year, and, as a result, LPS's arrears figure will immediately jump up. That is a major issue that needs to be addressed.

653. I know that we are pushed for time, so I will reduce my three questions on the IRRV report to two. The report states:

"Although there are a number of action plans in place, there is no overall written strategy in relation to collection ... [and] no established written strategy for the enforcement of debt."

That is remarkable commentary, given the discussion that we have just had.

654. Mr Wilkinson: Some of the earlier parts of the report draw out the fact that the organisations went through a difficult period. That goes back to my earlier point about not having a tool that we could use to interrogate various areas of debt, because of the way in which the accounts were set up. As regards some of the other actions and backlogs, there was an element of firefighting going on with resource use and the way in which we were addressing issues. We had action plans and strategies in place. However, the report points out that now that we are getting to the point where we have cleared a lot of the backlogs, we are starting to get into a more stable position.

655. As a management board, we have moved more staff and resource in that area of the business, and that has an impact elsewhere. Therefore, some of the actions in the LPS action plan were not progressed on time because we had to switch resource into dealing with rate debt. We had to firefight and try to tackle those issues. However, we are moving out of that period now, and the report has suggested that now is the point at which we should pull together a more combined approach. That is the situation that we are in.

656. Mr O'Loan: Finally, the IRRV report and PEDU have referred to legislative issues regarding collection and enforcement. Does that mean that LPS needs stronger laws and legal powers? Will you elaborate on that?

657. Mr Wilkinson: Again, we are looking at a suite of actions to improve the situation. Some of the actions are down to the way that things have been done in the past, and some of them are down to strengthening our relationships with the enforcement of judgments office. As Iain just pointed out, we are also reviewing the variety of approaches that we have at our means. For example, we are looking at whether it would help to get some private sector debt collectors involved in enforcement. We have made contact with the enforcement of judgements office, and we are looking to address some of those issues.

658. Mr Hamilton: The IRRV report has a review of the arrears and breaks it into different sections. The most intriguing section is that regarding public bodies. Bear in mind that the report is dated May 2010, so the situation may have got better or worse. The report says that at the

time of the field work on consultancy, there was some £13 million in arrears against public bodies. We could probably talk for a long time about how dreadful it is that because of that rising arrears bill, you are suffering reputational damage that is part caused by other areas of the public sector. I do not expect it now, but would it be possible for the Committee to get a breakdown of which bodies accounted for that £13 million of debt? There is something seriously wrong. In some cases, there may be valid reasons for that. However, if there is not and the bill simply has not been paid, that will contribute to your high arrears figures and make the organisation look bad, in missing its key target for the year. Is it possible to get some analysis of who owes that money?

659. Mr Greenway: I can certainly give the Committee assurance. Those figures are from the early part of March 2010. By the end of March, the figure was £4 million, and, this year, public bodies account for roughly £140 million of rates in round figures. This year, the bulk of that is paid, and the bulk of what is unpaid is being paid in instalments. Any ratepayer has the right to pay in instalments across the year.

660. I mentioned in passing that our challenges last year included the extensive cleaning up of the rating data. Many public bodies have extensive premises. NI Water is the largest single list: it has more than 500 premises, because each sewage treatment works is a separate entry in the valuation list. Significant technical issues had to be resolved between valuers and engineers about whether items were sewage treatment works or pumping stations. Pumping stations are not rateable whereas sewage treatment works are. Therefore, there was genuine engagement between public body ratepayers and LPS, particularly the valuers, to resolve liability. If one sits as an accounting officer in a public body, one should not sign off an invoice that one is unable to stand over. We have a tension between rating law, which says that a valuation list is correct until legally proved otherwise, and the management of public money, which says thou shalt not sign off an invoice without being able to stand over it. There were instances in that £13 million that fell to that. Therefore, it may be a little unfair on those bodies to bring a list forward, given that the issues have now been resolved.

661. Mr Wilkinson: The issue has now moved on, and, for me, it is another success story. Iain had to put quite a number of staff on that area of work. The handover from the old IT system to the new IT system led to a lot of cleansing of accounts, data-matching, and so on, and the various public bodies involved just wanted to be sure that they were paying the right amount of rates. We had a team that worked for 18 months or a couple of years to sort all that information out and assure people that their rate accounts were correct. That work is done, and I am pretty sure that we are moving on from that. There will still be issues and queries, but we have moved on from that. It is another success story.

662. Mr Hamilton: I appreciate that. You get a bald figure, and it does not have the same significance as when it first appears. However, it still might be useful, out of interest, to get some breakdown of that and an explanation as to why various organisations and public bodies have done that.

663. Ms Purvis: Northern Ireland Water.

664. Mr Hamilton: I have heard that. [Laughter.]

665. Mr Greenway: Northern Ireland Water is our largest single ratepayer. Its rate bill is in the order of £14 million a year.

666. The Chairperson: Iain, when you responded to Declan, you mentioned the DI-Diver tool and said that it looks at particular areas of debt. The report states that some debt was considered non-economic to collect. You mentioned the difference between people who cannot

pay and people who habitually do not pay. We have talked previously about taking action against people, but how economic is it to take to court people who, for genuine reasons, cannot pay their rates? The whole judicial system is quite costly. Is there some part of that process that differentiates between the people who cannot pay and the people who habitually do not pay? Sometimes it does not make economic sense to pursue cases because the cost is just then put on to another public body.

667. Mr Greenway: Previously at the Committee, we have discussed the issue of people who cannot pay and people who will not pay and how we do our best to separate those, but, until someone contacts us, it is often difficult to ascertain the category into which a person falls. I have said at the Committee before that I do not want to take anyone to court. That clogs up the courts, takes us time and effort and causes members of the public grief and stress. Where payment is not forthcoming, there is a cost-effectiveness issue, but there is also an equity issue of the funding of the services through rates, not only from district councils but from the Executive. One of the Committee members, Stephen Farry, made those points on Radio Ulster yesterday morning.

668. We recently revised our write-off guidelines, and one of the elements is a consideration of whether it is economic to collect. That is more of a consideration when we are struggling to trace a ratepayer, and there are costs with using a tracing service and so on. We are mindful of the legal costs, but there is a duty on all of us as citizens to pay.

669. We recognise that there may be a need for extensions to bring people through difficult periods. Around £19·5 million of rates are in formal extended payment arrangements currently, and, of course, there is much more in informal arrangements where people pay whatever they can whenever they can. Such informal arrangements are enough to prevent us from taking recovery proceedings without making a formalised arrangement to take, for example, £50 on the last day of each month. We are actively working with people to the extent that we can, but, currently, our mandate is still to collect the rates that are due.

670. Mr Peover: We get quite a lot of correspondence to the Minister on those sorts of issues. In particular, small businesses are regularly in contact with the Minister about the rate debts that they have incurred and the difficulty that they have in servicing those debts in the current economic climate. We try to be sympathetic, and we will explore all options before we go down the route of taking cases to court.

671. Mr Wilkinson: It is a very difficult position.

672. The Chairperson: I appreciate that, but I wonder whether you could have looked at that issue. I know that you said that people have contacted you and that you have put a plan in place for them, but could it have been more strategic? For instance, there may be someone who has not paid for 10 years, but if someone has not paid for three or four years, that might tell you that that is because of the economic climate. I will not labour the point, but I wanted to raise that again. Some sort of process needs to be developed to differentiate between people who cannot pay and people who can pay but habitually do not. In my view, they are different.

673. Mr Greenway: That is one of the key strands in this overarching strategy, as we emerge from the firefighting. Everyone will get a bill and a final demand 40 days later, but there are then a number of routes to take. One of those is legal process, which I believe should be more for the consistently recalcitrant, but there are other routes that we should be looking at more. However, in a period of backlog and rising debt, we have had to take a fairly four-square approach.

674. Mr McLaughlin: You pretty well covered my points. I have one question that is supplementary to the earlier discussion. The IRRV report talks about collection, enforcement and

management. Is identifying recalcitrant payers an end-of-year process for you, or is it in-year, especially with non-domestic clients?

675. Mr Greenway: It is an ongoing process. Court action will normally be taken in order of value of debts. Therefore, non-domestic clients will tend to come earlier in the annual cycle than domestic clients simply because of the value of the accounts.

676. Mr McLaughlin: Does your management of the debt problem give you options in relation to non-domestic clients? It would be more difficult to apply to domestic clients who pay incrementally through the year. I do not know the pattern or the statistics, but you may have that information. If you do not have that information, I would be content for you to respond in writing. When you review the benchmarks that trigger enforcement proceedings, does that happen as an end-of-year process or do your systems allow you to identify when a problem is beginning to develop and a client has started to miss monthly or quarterly instalments?

677. Mr Greenway: When a domestic or non-domestic ratepayer is set up as an instalment payer and they miss an instalment, it triggers a missed instalment letter. Hopefully, that will trigger contact with the ratepayer at that point. We do not wait until the end of the year to find that things have fallen short.

678. On the domestic side, smaller debts of less than £100 will be picked up at the end of the year in missed instalment processes. However, we try to help ratepayers to keep on top of their responsibilities, on the basis that if they do not and the issue simply drags on, it is likely that we will end up writing-off more money in bankruptcy at some point further down the line when we could have dealt with it earlier, or we could have found a way where it did not have to lead to bankruptcy. Therefore, we try to work with people.

679. Our starting point on payment arrangements is that clients should at least pay this year's rates this year, as well as some of what is owed from prior years. That is our starting point, and, over a reasonable number of years, they can bring that debt down to zero. Recently, an MLA contacted us about a leisure centre that owed more than £50,000 in rates, which talked about paying back £100 a month. That did not conform with our guidance, and it would simply have left the centre building up more debt. Furthermore, if it genuinely could not afford to pay its rates, it was unlikely to be viable as a business. Therefore, putting my hard head on, I was going to end up writing more money off. Also, neighbouring gyms that pay their rates were not having a fair, competitive field to play on. Therefore, all of those factors came in. We explained that to the MLA, who was understanding, and he went back to his constituent and said that more money needed to be forthcoming.

680. Dr Farry: I apologise for being late and missing the presentation. If any of the issues that I raise have been covered already, please cut me off. Following on from Simon's point about public sector liability, to what extent are non-devolved public bodies a factor in that regard, particularly the Ministry of Defence (MOD)? I am sure that John will recall the difficulties that we had with security services, even with letting yourselves in to value properties.

681. Mr Wilkinson: Not me personally. [Laughter.]

682. Dr Farry: My second question arises out of 'The Stephen Nolan Show'. He raised the issue of doing domestic and non-domestic revaluations. Originally, it was planned to have a non-domestic revaluation this year, but that was put off due to the instability of the market. As property prices rise and fall, the key issue is the relative ranking of properties rather than the absolute values. On the other hand, there is the possibility that some properties, depending on the part of Northern Ireland that they are in, will vary. We need to get a sense of how big an issue that is. Will you clarify your plans to have a domestic or a non-domestic revaluation? I

imagine that your answer will be that, because of the instability of the market, any revaluation would be counterproductive, given the resources that it would require.

683. My final question is probably one for Stephen Peover to answer. Over the lifetime of the current Budget, there has been a bid in every monitoring round for additional resources for LPS. That probably indicates that there was a fundamental problem with the baseline to begin with. Obviously, we are going into a much more difficult financial situation in which everyone will have to cut their cloth a lot more tightly. That said, there can be a trade-off between the resourcing of LPS and the amount of money that will be brought in. Are you satisfied that we will get the balance right in future Budgets? Cutting resources to LPS may be a false economy; there will be a natural point at which we will get the maximum efficiency in collection.

684. Mr Greenway: There are significant landholdings rates due from non-devolved public bodies; the rates from the MOD are definitely the largest. The MOD account is reasonably stable. There are residual valuation issues with some of the premises, particularly those that are partially vacated or awaiting vesting into the hands of the devolved Administration. Therefore, there is continuing engagement with the MOD as a ratepayer over certain issues concerning exemptions from non-domestic vacant rating and the public body exclusion around premises awaiting vesting, for instance. There are no significant outstanding issues on those accounts that are not in active discussion.

685. Mr Wilkinson: We had plans to do a non-domestic revaluation. The revaluation was initially postponed for a year and was then cancelled. That was largely to do with the state of play in the market and the ability to deliver an accurate valuation list, which would be a sound base for the collection of tax for the funding of district councils. It was for those reasons that we postponed and then cancelled the non-domestic revaluation.

686. Going back to the points that you made about 'The Stephen Nolan Show', revaluations are, overall, a revenue-neutral exercise. The amount that someone pays in rates is based on the valuation of the property multiplied by the rate poundage. So, if we double all of the values, the multiplier is halved, and the amount is the same.

687. The 2007 revaluation in Northern Ireland was based on January 2005 values. Over that period, the market rose considerably — I have not seen market conditions like them in my 36 years as a chartered surveyor — and then started to fall. Values are probably still sitting slightly higher than they were in January 2005. Therefore, unless there are great shifts in relativity, the overall absolute position is not greatly different to what it was. As a chartered surveyor and a rating surveyor, I would say that revaluations are good for the tax base, but you have to look at public spending and so on.

688. Dr Farry: That is what I expected you to say.

689. Mr Greenway: We should add that that is the same as what the Committee member said on 'The Stephen Nolan Show', so you ought to join our valuation area. [Laughter.]

690. Dr Farry: John said it so much better though.

691. Mr Peover: On your question for me, Mr Farry, the short answer is no, I am not comfortable with the funding of LPS. Land and Property Services is a large part of DFP, with over 1,000 staff, which is a third of the Department's staff. So, it is a big element of our budget. As John said, a lot of its funding comes through income, and that is fine. As long as that continues, that helps us. However, some of the organisation is just funded out of the departmental expenditure limit.

692. When I came to DFP just over a year ago, it was apparent that John's organisation had been staggering from monitoring round to monitoring round hoping that money would be made available to cover the cost of the staff that he had in post. It was not even to do anything more; it was just to balance the books at the end of the year.

693. We have been lucky in a sense in that money did tend to come, but it tended to come at the last minute, so it was a bit of a cliffhanger. This year we have a useful device with the promise of additional money. There is a quid pro quo for that, because John has to deliver against it, but that at least provides a reasonably stable funding base for the organisation.

694. Although I am in charge of DFP, I do not know exactly what we will be like next year. We will get some indication next Wednesday when we get the Chancellor's statement. After that, the Executive will have to decide how they want to approach the Budget locally. Traditionally, DFP Ministers have not felt able to be terribly sympathetic to their own Department. We are an inward-looking Department; we do not deliver hospitals, schools or roads, and there is a priority to try to maximise the services that are delivering directly to the public.

695. The argument that we have for LPS is the one that you mentioned: we bring money in; we help that process. That is quite a powerful argument, but at the end of the day we will have to convince our own Minister, and then the Executive, that we need a stable and appropriate funding base. On the other side, LPS must operate as efficiently as it can, because we cannot afford to feather-bed an inefficient organisation.

696. John has been doing a lot of work to try to rejig our resources internally, to focus resources on debt and to pick up all the issues that are coming out of the action plans from PEDU and the Public Accounts Committee within existing resources. We have been doing our best to support him, to give him a reasonably stable financial base.

697. However, we are looking towards a very uncertain future. We will do our best. We have done a lot of scenario planning in the Department about what the outcome may be for us and how we can try to manage the Budget for the years ahead. However, we do not yet know exactly what our situation will be. We will do our best, and we recognise the importance of LPS.

698. Dr Farry: That reinforces the point that the Committee made on a number of occasions, that the distinction between front line services and back office can at times be very simplistic, and there is a danger of [Inaudible] up here.

699. Mr Peover: Thank you; it is very helpful to have you say that.

700. Mr Frew: I agree with Mr Farry on the issue of how front line services are defined. If you take away the back office support, that puts more pressure on the front line, so it can be difficult to distinguish between the back office and front line services.

701. My questions are about phantom debt. There has been a bad press about LPS and everything that it does. How much has phantom debt contributed to the total values that are being bandied about, and how do you recover from the morale-sapping effect that that has on your people?

702. My second question is about debt that it is not economical to collect. Is that purely because of the cost of the legal process, or can efficiencies be made, through your staff and the organisation's structure, to bring that economic bar down so that you can collect more rates?

703. An additional £5 million came from the June monitoring round, so £10·6 million of additional current expenditure was made available. Can you give us a breakdown of how that money was spent? Is there a direct link between the £5 million and the £10·6 million, or was that just to balance the books and keep things afloat?

704. Mr Greenway: Perhaps I could clarify from the Committee member: what specific aspect of debt are you talking about as phantom debt?

705. Mr Frew: You talk about not having enough up-to-date knowledge of what buildings are occupied and what businesses are in them. How does that skew your debt figures? Also, how do you build up intelligence on that, in order to remove that skewing of the figures?

706. Mr Greenway: I suppose, simplistically, we are always struggling to keep up. Properties go in and out of occupation on a daily basis, and properties can become no longer capable of beneficial occupation, which is the test of whether they should be rated. Therefore, we use a range of sources. We work closely with the local authorities, because there is a combined financial and system interest, and we work with utility organisations. In the past few weeks, we have set up a central investigation team to manage all the data gathering that we need to do, with local authorities being one of the central sources of that information, because they are in touch with people about waste disposal, environmental health and many other things.

707. At the moment, we are probably issuing occupied rates bills to a number of vacant premises, as the ratepayer has not informed us of that change. Coming back to Declan's earlier point, there is no legal requirement for ratepayers to tell us of a change. We rely on that being done voluntarily, or, when we have a ratepayer occupier, we continue to bill them until they tell us of a change. Therefore, we are relying on getting the first person to inform us of a change and then keeping the chain afloat.

708. The likelihood is that, at the moment, there are a number of areas in which we are overstating the debt. However, in accounting terms, until we can correct the assessment in the bill, the debt figure is the debt figure. To an accountant, bills raised less money collected equals residual debt. Therefore, as we work through all the debt, we have to go back and ascertain whether bills have been raised correctly or whether a credit or, indeed, an additional debit is due. At the moment, there is probably an overstating in the £157 million figure. However, that is no more than a general feeling.

709. When looking at the cases that are not economic to collect, it is important to distinguish between current rate accounts and closed rate accounts. We very rarely write-off debt for a current rate account. However, we would do, if, for instance, a company goes into insolvency. The economic argument for writing-off a current rate account does not enter into it, because of the equity issue, which perhaps picks up on what the Chairperson said earlier.

710. The economic argument comes into play more with a closed rate account. If a rate account is closed and if the ratepayer has left the premises — they may well have left the jurisdiction — at that point, we would start to consider the economics of continuing to collect. Our write-off guidelines say that we have to go through the process of trying to ascertain a ratepayer's whereabouts. If that does not work, and if the debt is less than £200, we write it off. If the debt is more than £200, the guidelines give additional sources, which may include private sector tracing agents or trying to determine a person's previous employer. Mathematically, that £200 figure is based on the cost of a court process plus a decree plus the likely enforcement of judgements office fee, which comes, on average, to around £180. However, for us, there is an important distinction between an active rate account and a closed rate account.

711. Mr Frew: It is very important to know that that is equitable. That makes good business sense, if people are competing along a stretch of road and one person is bad with their payments and the other is not.

712. I have another question, Chairperson, if you would indulge me. Can the Department do any background checks on a business or person to find out whether LPS is being treated as an easy touch, in that people pay their wholesalers, creditors, utility bills and staff, but leave their rates until last?

713. Mr Greenway: I have become used to being last in line when it comes to people paying money. I do not have a service to switch off, labour to withdraw or goods not to supply. I do not even have a power supply to switch off. Therefore, we have to understand that, whether it is for a business or household, ratepayers look at rates not as an easy touch — I certainly do not want to be seen as an easy touch — but as something that will not, in the short term, affect their ability to live or trade. We are, of course, always trying to understand where we may be building up debt that will eventually go bad, due to a company going bankrupt or seeking a company voluntary agreement. In days gone by, we could realistically expect 10p, 15p or 20p in the pound from companies that became bankrupt or went into liquidation. These days, we rarely see anything. The non-priority debtors are lucky to see anything. We are trying to keep a sense of that, but we know that we are likely to be at the back of the queue.

714. Mr Frew: What about my final point?

715. Mr Wilkinson: As the permanent secretary said, the £5 million has been an historical issue. You will have read in the IRRV report that the rate collection process is big and complex and it has lots of interrelated strands. At the beginning of the year, when I set off to the Land and Property Services, the business plan commitments, which I agreed with the permanent secretary, were based on the £5 million coming during the course of the year. That is unlike previous years, when we were running right through to February without knowing whether the money would be made available. I am a little more comfortable having it in the middle of the year. However, I still have to deliver.

716. I have not put the £5 million into a particular part of the business; we have used the £5 million to resource across the business. We talked about the 2005-06 period, for example, when the amount of debt was low. Historically, the Rate Collection Agency had 20 staff working on recovery. We are now approaching 150 staff in that area of the business.

717. Iain mentioned the central investigation team, and you referred to occupancy management and the phantom accounts. It takes a lot of time and effort to look into that, particularly in difficult economic circumstances. We have had to make additional resources in a number of the different teams, such as the landlords team. Therefore, a lot of the money has gone directly into the recovery and collection process.

718. I have also used it in other bits of the business. You made a point about efficiencies. At the beginning of this rate year, the communications and marketing team worked on the publicity, communications, rate booklets and rate bills. Putting resources into that was a big success, because we have been able to measure all of the contacts that we have had and better repayments have resulted from it. Furthermore, people have got their prompt payment discount; they have got it in on date, and we are not having to deal with lots of complaints on that. In fact, that work has been recognised, and the communication campaign and booklets are up for a fairly high-profile public sector award. We might win that; I do not know yet.

719. Mr Peover: Looking at it from the other side, in negative terms, if we had not had that money, John would probably have had to shed 150 staff. We have cushioned them against that

saving, but only on the basis that he has to deliver more back than goes in. We are pretty confident that that will happen. That is the scale of the problem that we are talking about: £5 million is at least 150 staff, it could be more. To pick up on Mr Farry's point, to have taken those staff out of LPS would have been an own goal. We are grateful to the Executive for agreeing to the £5 million. In response, we have to deliver the money back.

720. The Chairperson: Thank you for attending this morning's Committee meeting. Are you content for us to write to you with any other issues that might arise?

721. Mr Peover: Yes.

722. Mr Wilkinson: I thank the Committee for coming here this morning. I know that your walkabout and chats with staff will have been well received.

13 October 2010

Members present for all or part of the proceedings:

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

Witnesses:

Mr Paul Wickens Mr Barry Lowry	Department of Finance and Personnel

723. The Chairperson (Ms J McCann): I welcome Paul Wickens, the chief executive of enterprise shared services (ESS) and Barry Lowry the director of IT services in ESS. You are both very welcome. I invite the witnesses to make a few opening remarks, and I will then open the meeting to questions from members.

724. Mr Paul Wickens (Department of Finance and Personnel): Good morning. I have been in post for just over a year, with ESS having successfully come into operation in April. During that year, my priorities have been to improve service effectiveness and quality; maintain business as usual with no disruption to customers; continue to resolve residual implementation issues; move quickly from project to service mode; build confidence and manage expectations; centralise and restructure where appropriate; and implement new governance arrangements. My initial priority has been to allow a period of consolidation; however, I am now keen to move forward in driving significant performance improvements to ensure that our customers receive a good, value-for-money service. With that in mind, we have undertaken some work on customer experience to set a baseline to enable us to measure improvement.

725. You asked me here today to discuss IT Assist, Records NI and Network NI. The integration of Network NI and Records NI into IT Assist has now been completed. The quality of service continues to be of a very high standard, with excellent rates of customer satisfaction being reported. The benefits that we have seen include: lower costs than the GB Flex model or the local private sector; reduced costs of a broadband network; and world class software, hardware,

data centres and support. As you know, Barry Lowry is my director of IT services in ESS. Both he and I are happy to answer your questions.

726. Mr McLaughlin: During the Committee's inquiry into public procurement, we heard many concerns from small business, which is a huge element in our economy. They complained that they were getting squeezed out of public procurement opportunities, specifically because the guidelines were making it more difficult for them to access those opportunities. Will you talk us through the role of IT Assist in procurement, and how it benefits or affects those small businesses?

727. Mr Wickens: We touched on that during a previous Committee inquiry session. Our challenge is to operate within EU procurement rules, and we do that. However, we also recognise that we live in a very small local economy and we are keen to involve as many local players as we can. I continue to regularly meet anyone who asks me for a meeting, as do the rest of my team. That includes many of the small suppliers, right down to those at the micro-level rather than just the small and medium-sized enterprises (SMEs). Barry and I also recently met with the chief executive of Momentum to discuss some of the consortia that it has been trying to pull together to have a bigger impact on what was going on. That session was fruitful and useful.

728. Barry can give you the detail on the number of contracts that are under management in IT Assist, but there are many tens of contracts. They tend to be for very large infrastructure projects for software, hardware, support and data centres, so it is fundamentally difficult for small organisations to break into those markets. We try to get the smaller firms to talk to some of the bigger suppliers, to join the consortia that are already in place, to see whether there are any change-control opportunities. Indeed, that is what we did with Momentum. We no longer have the luxury of the e-government fund, through which we could have set up pilot projects and tried things. We are in an age of austerity, so we cannot do that anymore. Barry, do you want to add anything?

729. Mr Barry Lowry (Department of Finance and Personnel): That was a pretty comprehensive response. Because IT Assist is about providing the corporate infrastructure of the Northern Ireland Civil Service, the products and services that we use tend to be products and services that are available worldwide. Therefore, it is companies with a worldwide presence that tend to be successful. However, there are a number of areas in which we have used products and services provided by indigenous companies. There have been two successes in the last several months of indigenous companies winning quite sizeable contracts. That is obviously a positive thing.

730. The other thing, as I said the last time, is that a lot of the large worldwide players are now setting up in Northern Ireland and creating jobs here on the back of some of the contracts that they have won. That is not directly helpful to the SMEs, but it is obviously helpful to the wider job market.

731. Mr McLaughlin: Without naming any specific organisation, I am aware of a local enterprise that has an award-winning operation involving the assembly of computer systems for the market and for internationally reputable suppliers, but finds it impossible to supply to the government here in the North of Ireland. The specifications of that company's equipment and its costings are, I am reliably told, as competitive as one would wish, but they do not have a badge. Your remarks, Barry, just triggered that memory. I think that I brought it to people's attention previously. The company in question has a badge of excellence from Intel for the package that they can put together, but cannot sell to us.

732. Mr Wickens: I encourage you to have them contact us, because, given the way that we manage information about assembly opportunities there may well be an opportunity — within

the procurement rules and the contracting governance structures that we have — for us to tell them to talk to one of the consortia that lead in the space of information management. We can certainly broker that introduction, so we are quite happy to deal with that separately if you want.

733. Mr McLaughlin: It is something that I have come across in health procurement as well. The badge and the name carry with them an advantage, particularly when it comes to local suppliers. I have previously encouraged that individual to pursue the matter, but I will not go into the specifics.

734. My question for today is: are we constraining our own ability to encourage indigenous enterprise within the European guidelines because they may not offer the same assurance that a big international name would?

735. Mr Lowry: I do not think that it is an issue with the name but with the scale. IT Assist has over 18,500 customers. Even if we replace a PC every five or six years, that amounts to over 3,000 a year. Because of our drive towards sustainability, we have set standards for the power consumption and so on that those PCs should achieve. What we are really saying to the industry is that we want an organisation that can guarantee to reach all of those standards and provide us with 3,000 PCs in a year. That is very difficult for small companies to achieve; hence we tend to look at the likes of Hewlett-Packard, Dell, Acer and so on, which are very large worldwide companies with assembly units in Ireland, China and so on. That is just the nature of the business that we are in, along with other public and private sector companies of that size. By using our economies of scale, we have considerably driven down the price of each unit, and that has been a substantial saving to the public purse.

736. Mr McLaughlin: OK; I have a related question, which is perhaps more in-house. What steps are you taking, or can you take, to consolidate and harness the expertise that your project managers are gaining in the procurement and delivery of IT contracts? Do you have a specific goal for developing that capacity?

737. Mr Wickens: First, we work closely with the Central Procurement Directorate, which we rely on to provide us with procurement expertise. We have a number of ways of operating contract management across the different services that I am responsible for. Today is about IT Assist, which Barry will talk about. I would like to look at the bigger picture across all the services rather than just look at how we do things within IT Assist.

738. Mr Lowry: When we set up IT Assist, we agreed to try to be the best at every single function that we perform. We adopted a method called skills framework for the information age, which is a European method used by public and private sector companies. It breaks down into blocks the elements of work that are required to provide an IT service, such as project programme management, contract management, technical elements and so on. It sets standards that the people who work in those areas achieve. We try to encourage our staff to take accreditation in all those elements. In project programme management, for example, we have people who are PRINCE2 accredited, which is the highest standard that they can achieve. We have developed a very strong capability in contract management, which is reflected in how we manage our partners and the performance that we are getting out of our partners. As a result, we are very clear about the management information service that we are getting from them and about where we feel that they can improve. We manage those contracts pretty rigidly.

739. The Chairperson: If we have any further questions, we will write to you. Is that OK?

740. Mr Wickens: That is great.

741. The Chairperson: Thank you very much.

20 October 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Ms Patricia Corbett Mr Paul Wickens	Department of Finance and Personnel

742. The Chairperson (Ms J McCann): I welcome Patricia Corbett, HR services director of Enterprise Shared Services, and Paul Wickens, the chief executive.

743. Mr Paul Wickens (Department of Finance and Personnel): Good morning. Since January, HR Connect's service management division and the Centre for Applied Learning (CAL) have been brought together under a single HR services director — Patricia Corbett. That has enabled some reorganisation and a focus on joined-up service delivery.

744. Since my last discussion with you, the quality of the service provided by HR Connect has continued to improve in a number of key areas. For example, payroll accuracy is consistently high, the majority of service levels are being met each month and complaints have fallen to their lowest level since the launch of the payroll service. In addition to maintaining a high level of service delivery in recent months, HR Connect has successfully delivered three retrospective pay awards, implemented the equal pay changes to pay scales and commenced payment of the associated lump sum payments. A number of programme deliverables and action plans remain to be completed, and excellent progress is being made with that work. It remains on track to be fully implemented by the final milestone date in the second half of 2011.

745. We are also making good progress in CAL, which provides training to NICS Departments and a range of non-departmental public bodies. The level of satisfaction with the quality of training delivered by CAL is consistently high. Patricia Corbett is the director of HR services; we are both happy to answer your questions.

746. The Chairperson: Is there any firm evidence that verifies the benefits of the value-for-money savings that have been achieved by each of the shared services, compared with what existed previously?

747. Mr Wickens: For HR Connect alone, or for all the shared services?

748. The Chairperson: For HR Connect.

749. Mr Wickens: I am the senior benefits owner responsible for benefits across all the shared services, including HR Connect —

750. The Chairperson: I am sorry; I meant across all the services.

751. Mr Wickens: OK. I am responsible for those benefits that are measured at the NICS level; in other words, benefits across all the services. There are also a range of benefits that are measured at departmental levels. We have substantial evidence from all the services that we are achieving the benefits on that benefits realisation plan. I have a small team that is dedicated to managing, reporting on and monitoring that plan. We also assist the Departments in their responsibilities for the work that they do in defining their benefits targets and in measuring the evidence.

752. The Chairperson: Does that include quantitative information on those benefits?

753. Mr Wickens: Yes. We did not get to discuss that last week. For example, we achieved benefits of about £15 million for IT Assist and £7 million for Network NI. There are a number of substantial quantitative benefits that have been coming out. I am happy to provide more details of those.

754. The Chairperson: Yes, that would be good. Thank you.

755. Ms Purvis: There has been some criticism of HR Connect from the trade union side, as I am sure you are aware. One of those criticisms has been about the availability of third-party access and HR Connect's failure to devise a system to facilitate it. Has that been resolved?

756. Mr Wickens: We were just handed a copy of a letter that the Committee has received from the Northern Ireland Public Service Alliance (NIPSA) on the way in to the meeting today. We have not had a chance to go through the details of that. We had a fruitful and productive meeting with senior NIPSA officials in the past couple of weeks, at which we discussed a number of issues. I also pointed out to them, and I reiterate here today, that I hold monthly escalated issues meetings with the managing director of the supplier that leads the contract for HR Connect. Third-party access is not one of the escalated issues; it is one of the more detailed issues that are managed.

757. Ms Patricia Corbett (Department of Finance and Personnel): You are absolutely right. For some time, the trade unions have been requesting third-party access, whereby they would have the ability to ring up on behalf of an employee and go through whatever security questions are required to verify that they represent that employee. To introduce that access and to safeguard all our requirements, we need to define and review processes, procedures and system access, which is on our work-off plan to deal with programme completion, which is the smaller elements that we have not completed as part of the full service roll-out.

758. The plan includes a range of items that are scheduled to be completed by the end of March 2011, and we are committed to letting NIPSA know exactly when third-party access work is to be scheduled, which will be sometime during the first week in November, after we have reviewed the detail of the plan for the last quarter of the year. Some of these things moved into the last quarter because of the major change work that we undertook over the last year to facilitate a number of pay awards and the payment of the equal pay lump sums, and, indeed, to bring the Department of Justice on to HR Connect. Substantial additional work has been absorbed; hence, other issues have moved out on the plan.

759. Ms Purvis: The ability of staff to accrue holiday entitlement while on sick leave is another issue. I understand that corporate HR was to come up with an interim solution. What is that solution, and why was it not designed into the system at the beginning?

760. Ms Corbett: It was not known about at the beginning. It is based on a European Court ruling that has an impact on annual leave entitlement for people who have had sick absence. We have been working with corporate HR, which is responsible for policy and for deciding which policies HR Connect will design delivery processes for, on an interim solution to apply that judgement. In doing so and in working with the contractor, who has brought to bear HR professional expertise and advice to guide us, we have been looking at the strategic picture and the wider implications of other judgements and rulings that may come forward. That complex piece of work has enabled us to try to future-proof any designs that we might put in to HR Connect. I admit that there has been a delay in resolving the interim arrangements to deal with annual leave accrual; however, looking at the wider picture, we feel that we can introduce a more robust solution that will future-proof other changes, and we are working closely with corporate HR on that.

761. Ms Purvis: Are there difficulties with the data available for management information?

762. Ms Corbett: Most of the management information reports on HR Connect are working very well and accurately. We are refining the data and the output from a couple of reports to ensure that they give the actual management information that clients and customers require. The data coming from them is accurate and robust. On the action plan that I referred to, there are some particular reports that we have still to fine-tune.

763. Ms Purvis: Some of the problems that have been outlined by trade union side point to a personnel service that is not personal, which seems to be the problem with the system overall. Is that accurate?

764. Ms Corbett: HR Connect provides a very good service to NICS. It provides a single point of contact where employees and line managers can get direct access by telephone to someone in the shared services organisation in order to resolve their query. They can pull information on all our HR policies and processes directly from the portal, and, to enable individuals to get what they need from the service, amazing support is available through e-learning, including user guides and help guides. There is a personal service, and there are various layers of expertise within the shared service team. If your question cannot be answered at the first point of contact, you will be referred to a specialist group in payroll, employee relations or absence management. It is also important to realise that the shared services centre team works closely with departmental HR teams, which are the decision-makers in employment issues for employees. I would say, therefore, that employees do have access to a good, personal service.

765. Mr Wickens: The self-service HR system that we have in place — HR Connect — is very much the way the rest of the world has gone in providing an IT-based system. The way HR used to be provided in terms of personal service was that each Department had a large number of retained staff. People were reliant on staff filling in forms and all the rest of it. That has now been replaced by the new system, but we are playing catch-up with the rest of the world. I used the same system in the private sector. The idea is to reduce the amount of cost in the retained side. I am sure that we will come back to that at some point.

766. Ms Corbett: Every month we take an average of 10,000 calls through HR Connect. The issues are generally resolved at first point of contact or escalated. There is a process for monitoring and tracking those calls and their resolution.

767. Ms Purvis: Can you elaborate on the reduced cost on the retained side? Obviously there has been a reduction in retained staff, so what have you saved and what benefits have you gained through that?

768. Mr Wickens: I said that I was the benefits owner for those benefits at an NICS level, but it is up to each Department to realise the savings of the retained staff. The Committee has visited this on a number of occasions. Due to early teething problems going back some way, the level of retained staff was higher than was perhaps hoped or expected. With the system now bedding in and performing well, there is a big driver to look at the reduction of that retained staff. We are working with the Departments on those reductions, and I believe that the performance and efficiency delivery unit (PEDU) has also been engaged to work with some of the Departments to review the amount of retained HR staff — and retained finance staff for Account NI, as well. I cannot give you actual numbers today, as I do not have them to hand.

769. Ms Corbett: I can elaborate on the improved ratio of HR staff to employees. When we first did the business case that ratio was approximately 32:1; in 2009-2010 it was 64:1. We are just about to undertake a piece of benchmarking work using the Saratoga — the PricewaterhouseCoopers tool — to benchmark the HR service end to end, including HR Connect and the retained HR, looking at a number of key measures. That will provide us with benchmark data against the best in class and against our comparators — GB public sector organisations. For the first time that will give us a measure against the measure that we took in 2006. It will let us see across the whole service where we have improved and, more importantly, what areas we now need to focus on and put our energies into going forward.

770. Ms Purvis: The Public Accounts Committee discussed an Audit Office report on the cost of the HR Connect contract and how it had increased from the original estimate. Have you projected further costs? How much will that have increased by the end of its life?

771. Mr Wickens: In relation to the high-level figure, we are living within the tolerances of the full business case that was put together.

772. Ms Purvis: Will you explain what "living within the tolerances" means?

773. Mr Wickens: The business case contains a figure.

774. Ms Corbett: Are you referring to the figures for the outline business case and the final business case? I think the figures were £385 million and £400 million. The reason for that was that the figure in the outline business case did not take account of the fact that the contract would be let for 15 years. The full business case was actually a net saving of £27 million on the previous figure. It is also important to say that the benefit has been achieved in relation to a reduction in current cash running costs. We are operating within the HR figure of £26·5 million that we had at 2005-06 prices. Those are our operating costs today in 2009-2010, which represents a saving of between £1·5 million and £2 million when one reflects the inflationary savings that we have made.

775. Ms Purvis: Obviously you will have to try to stick to that.

776. Ms Corbett: Absolutely. The contract value is £185 million. We have agreed costs for that, and there are rates for payslips going through and for service charges against each year built into the contract charges.

777. Mr McKay: The cost is obviously one of the primary concerns put forward by NIPSA in its paper. I understand that you have not got the detail of it yet, but can we get a full breakdown of what the projected spend will be over the 15 years and where the extra costs will come from, etc? Is that possible? I do not know if the Committee has got it before.

778. Ms Corbett: Yes.

779. Mr McKay: With regard to the efficiency concerns that have been outlined, a number of NIPSA's concerns relate to employee relations cases taking longer to conclude than they did prior to HR Connect. Have you identified that problem, and has it been resolved?

780. Ms Corbett: Yes, some problems have been identified with case management. We do not have any baseline data on how long it took or the number of those cases before HR Connect. Therefore, we are in the position of having new data. As with any new process, there have been some teething problems with bedding in the relationship management. Sensitive issues are being dealt with, and they involve employees, line managers, departmental HR in the role of the employer and the investigation carried out by HR professionals in the shared service centre.

781. There are also some process handoff issues and some recording details relating to the software. In order to resolve that, we put together a team of all the interested parties — departmental representation, corporate HR and the shared service centre team — and brought in an HR adviser to facilitate. We have concluded that work and agreed a range of actions with all parties that will improve and resolve the issues, some of which have been referred to. I wrote to NIPSA last week inviting it to join the group that will take forward the resolution of the actions that have been outlined by the case management team.

782. Mr McKay: Can you explain paragraphs 8 and 10 of your paper? Paragraph 8 states:

"overall, the majority of service levels are being met each month with 52 out of 55 are consistently achieved".

Which three are not being achieved? Paragraph 10 states:

"A number of programme deliverables and action plans remain to be completed".

Can you outline what they are, or give us written details?

783. Mr Wickens: We can talk about the details. However, the important thing is that we have got 52 out of 55, which was not the case a year ago. If you look at the measurement of those key performance indicators going back over 12 months, you will see a substantial improvement in all of them to the point where we have now got, consistently, 52 being met out of the 55. The most important is the payroll one, which is now at 99·9%. That seems like an abstract figure, but bear in mind that we do 32,000 payslips a month; that equates to about 32 inaccuracies. I know from talking to my colleagues in other shared service centres in GB that they are enviable of that figure.

784. Ms Corbett: Of the other three specific ones, one relates to the handoff of calls. We monitor the number of calls at the first point of contact, and we want to get a measure of how many are moved through to the second level that I described earlier. We do not have that measure yet, so we are working on that.

785. Another level relates to management information, which we have referred to, and one relates to a minor ICT incident earlier in the year. I have the figures from this month's report and, out of over 30,000 payslips for the last month reported, only 19 were inaccurate. That is an incredible improvement from where we were, and it shows a very settled, stabilised service. It indicates that employees are interacting well in getting the information into HR Connect and HR Connect in processing it and getting the result out.

786. Mr McKay: My main concern is the staff's opinion of the processes and that they are dealt with adequately. The figures from the surveys carried out by Millward Brown and the Civil

Service staff attitude survey last autumn are extremely poor. Only 16% of staff agreed with the statement:

"Overall, I am satisfied with HR Connect".

I do not know the details of those surveys and whether staff gave specific reasons for their dissatisfaction. Have you looked at that in detail? What surveys are forthcoming, so that we can get a tighter reading on how things have progressed?

787. Mr Wickens: I am just glancing through the NIPSA letter. I believe that we provided evidence previously on some of those. However, I am happy to do that again. When I started, I said that my first year would be about improving the effectiveness of the services. We have proven that we are continuing to deliver across all the services. I am very aware of the Millward Brown and staff attitude surveys, and some specific comments have been made in those surveys.

788. I have appointed a head of customer experience in recognition that we have differing and varying levels of perception of customer experience across all the services that we provide. I want to try to get a consistency in all of those, so I have appointed a person who works directly for me to look at that whole space.

789. We have just kicked off another Northern Ireland Statistics and Research Agency (NISRA) survey to try to get a deeper level of evidence. What are the specific things that we have to do? Is that to do with the way that users access the systems? Is it to do with the way that we respond by using the systems? Is it the way in which we respond to and deal with users' queries, complaints, problems or issues? We are establishing a proper baseline. The problem was that some of the Millward Brown research and staff attitude stuff gave us more anecdotes than real, solid evidence. We are not ignoring those findings, but my key aim is to get a proper evidence base from which I can show a real and marked improvement. We have shown and will continue to see improvement. That is how we are going about it.

790. The Chairperson: OK. A formal, written response for the Committee to some of the issues in the NIPSA paper would be helpful.

791. Mr Wickens: We will happily provide that as a follow-up.

792. Mr O'Loan: We know about the historic issues around HR Connect and the Department's clawback from the contractor. You say that you signed an amendment agreement in March 2010. Can you tell us the broad substance of that agreement? Diathí McKay referred to your current level of consistency. You say that what I call the clawback from the contractor is down to 1%. I take it that the taking back of money is the final stage. Does that indicate greater significant underlying problems than the 1%? Finally, do you measure workforce satisfaction?

793. Mr Wickens: Clawing money back as service credits is there almost as, dare I call it, a weapon of last resort. We aim to get a fully performing service.

794. Mr O'Loan: That is the point that I am making.

795. Mr Wickens: Yes. We are paying a full fee for a fully delivered service. On occasions in the past year, we have withheld money. We have visited that issue on previous occasions. That has got to a point of almost nothing, in fact. We are getting to the point of not really taking any service credits from the contractor, so we believe that we now have a performing contract.

796. Ms Corbett: Essentially, the issues that surrounded that amendment agreement were caused by delays in the earlier stages of the programme. Those delays had run on for some considerable time and the contractor had submitted a number of compensation claims. The authority had challenged the contractor's interpretation of some of the contract's provisions that were designed to protect us. We had a disagreement on that. Therefore, although the Department and the authority continued to consistently and robustly defend its position against claims from the contractor, we were also determined to resolve those and move forward with the delivery of the service.

797. In seeking a satisfactory resolution, we were mindful that that contractual relationship was for 15 years, that we had delivered significant success in many of its elements, and that we did not want these issues to drag it down. In reaching agreement, we sought to build and repair the relationship with the contractor to achieve service improvements that we knew we needed to have. We also wanted to protect against a lengthy and potentially very costly legal dispute, with the potential, in the event of arbitration, of blame being apportioned to the authority.

798. The agreement has placed both parties in a much better position for moving forward in terms of relationships and behaviours. It has cemented the strategic partnership and moved us from a place of project development and resolution on many issues into collaboration and the delivery of a high-quality service. It has allowed us to capture and to seek improvements as part of that plan that I referred to earlier, and to put more effort into improving access for employees and the reputation of HR Connect. The agreement involves a number of commercially sensitive elements that I can share in writing with the Committee, if required.

799. Mr O'Loan: Did the Department have to pay extra for that agreement?

800. Ms Corbett: No; the way that it is worked through is within the tolerance of the business case.

801. Mr O'Loan: Do you measure workforce satisfaction?

802. Mr Wickens: We measure workforce satisfaction. We had the Department's survey, and we will be measuring it through the new NISRA survey that I just mentioned. It is not just about customer satisfaction; it is about the underlying reasons why customers are, or are not, satisfied.

803. Mr O'Loan: Moving on to Account NI, paragraph 14 of your submission —

804. The Chairperson: Sorry, Declan. Account NI is in the next session, so you may want to leave it. Other witnesses are coming in to talk about Account NI.

805. Mr O'Loan: OK.

806. Mr McQuillan: I wanted to ask you about value for money, but you have answered my question. HR Connect has improved vastly in the few months since you were last here. That is shown in your figures and by the fact that the amount of complaints that we get has fallen vastly. Indeed, no one has phoned me about HR Connect in the last two months at least, which is really pleasing. You receive roughly 10,000 calls a month; what is the flavour of those?

807. Ms Corbett: The calls are wide-ranging, and I can give you a breakdown of them. They can be anything from an employee ringing up to ask to have a policy interpreted; about where they might find information; for help with e-learning guides; for an explanation of their payslip; or about recruitment. It is a complete cross-section, and we do segment it. We can share it with you.

808. Mr Wickens: We have got the segmentation. I would like to reduce it, because that would potentially reduce the cost to the contractor. Some benefit may also come back to us if we can help to reduce the cost. I would like the number to come down once it has been stabilised a bit more.

809. Mr McQuillan: How do you plan to do that?

810. Mr Wickens: We know that there are areas in which we could use more e-forms rather than manual processes in which people have to intervene. We want to get to the point of being able to do that, and we have some ideas in mind.

811. Mr McLaughlin: There are two conflicting evidence trails in respect of the contemporaneous arrangements. I have no grounds at all on which to challenge the evidence that you gave about improved delivery on the service level agreements. Of course, I welcome that improvement, given the initial hiccups; I give credit where it is due. However, the persistent dissatisfaction and hostility among your customers should worry any enterprise, whether in the public sector or the private sector. It is very significant, and, in some instances, the situation is worsening.

812. I accept the dynamics of change management and the resistance to change. However, you referred to the absence of an evidential base or benchmark against which we can measure whether we are getting value for money or a better service. Are we expected to believe that there is no evidence anywhere on the management or staff side that we could compile as a robust benchmark? I support this departure in principle; we have to move forward and take account of new techniques, ICT and all of that. However, I find it incredible that anyone would take this step without ensuring that they were going to be able to demonstrate that it has a better way of doing things by taking the then current practices and using them as a benchmark for improved delivery, better value for money and so on.

813. Mr Wickens: The key thing to get a good measure of — and we have a baseline — is the number of retained staff. We referred to that earlier. At this point, we are not able to say how many were there at the start, how many are there today and how many we can take out of the system. That is why I am working with the Departments to —

814. Mr McLaughlin: You have reduced the ratio by a factor of two; fair enough. However, that does not answer my question. Reducing the numbers of retained staff does not necessarily mean that you are improving the service. That may be the case, but I want to know how you are going to prove it.

815. Mr Wickens: That is very much in reducing costs and creating value for money. On the other side, the customer —

816. Mr McLaughlin: Sorry, but reducing costs does not always mean value for money. We have found that over and over again. You could spend less money and give less service.

817. Mr Wickens: We believe that the direction of travel will provide a better service moving forward. I have already referred to the actions that we have put in place in the area of customer satisfaction.

818. Mr McLaughlin: Do you understand my question or are you avoiding it? How can we demonstrate better value for money in what we are doing now compared to what we did then if you have not taken care or established a robust and evidence-based benchmark?

819. Ms Corbett: The way that we are dealing with it through the full business case is the way that I would demonstrate it. It sets out how we deliver the service within the affordability envelope that I referred to earlier, and it includes benefit plans that refer to some of the baseline measures that were in place then. For example, there was a requirement and a benefit to have a single source of data on individuals and the organisations. When we did the original baseline, HR data on staff was held on over 52 systems across the NICS and there was no single truth. That is one example of a measure. We integrated of all of that information from the various systems to one platform and made it accessible and able to report through one source to confirm the validity and robustness of the data. There was also a benefit for an increased use of electronic data to remove some of the transactional and administrative processes. The other benefits include things like the self-service system, the electronic workflow and the opportunity to deliver HR messages across the NICS using one consistent forum and process — our HR portal.

820. We are currently in the process of mapping those benefits to report back to the supply division of the Department on how we have delivered against the business case. That will be done as part of our sign-off on the project and completion of gateway 5. That is scheduled for mid-2011, when all the project work will be finished.

821. Mr McLaughlin: Is that the next review?

822. Ms Corbett: Yes. I hope that goes some way to answering your question.

823. Mr McLaughlin: I can see that people at a departmental level will be interested in that report. However, how will you address the very low level of satisfaction among customers? Perception is everything, and the customers do not think that they are getting a better service.

824. Ms Corbett: I cannot comment on what the level of satisfaction is today. The measures you referred to were taken over a year ago and, at that time, we were not in a good place with HR Connect. There were many serious issues with people not being paid accurately and not being responded to promptly. Indeed, the number of complaints received then was in four figures in a month, while we are now down to fewer than 70 complaints in a month. The service deserved the reputation and kickback that it got, but we have moved considerably from that place.

825. I am very interested in what the new survey results will be. I do not expect them to be high, because it will take some time for the change and transformation that has been introduced and the new way of working to be imbedded, accepted and to become commonplace. Those results will allow us to understand exactly what the issues are for employees and line managers, and to take more targeted action in how we improve that experience across the piece.

826. Mr McLaughlin: The next gateway review will be in mid-2011. When will we have the outcome of that? Will it be this time next year?

827. Ms Corbett: Absolutely; before that, possibly.

828. Mr Wickens: To ensure our own accountability, I have restructured the governance in Enterprise Shared Services. We have a strategy board that is chaired by a separate permanent secretary. Seven grade 3s also sit on that board, and it acts as an advisory board to me so that I can give proper assurance to my permanent secretary. Beneath that board, the three areas of HR, finance and IT services are covered. Within HR, which is what we are talking about this morning, a programme board looks specifically at the completion plan that has still to be done.

829. Each of the Departments is represented on that board, which I chair. It is very much through that forum — through the HR directors to the individual user groups that are beneath them — that we have access to make sure that we try to do the right things in the right areas.

We have a number of different groups that allow us to focus on each of the functional areas of the HR Connect system.

830. The Chairperson: It would be useful, Patricia, if some of the detail that you talked about to Mitchel was set out in a paper.

831. Ms Corbett: Certainly.

832. The Chairperson: That is the end of the session.

20 October 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr John Crosby	
Ms Fiona Hamill	Department of Finance and Personnel
Mr Paul Wickens	

833. The Chairperson (Ms J McCann): I welcome Paul Wickens again; John Crosby, who is the chief executive of Account NI; and Fiona Hamill, who is the treasury officer of accounts. I invite you to make a short statement, because we will go to questions as soon as possible.

834. Mr Paul Wickens (Department of Finance and Personnel): Account NI has been in full operational mode since November 2009, with all services operating effectively. In total, £4 billion has been paid to Northern Ireland Civil Service (NICS) suppliers since Account NI went live. Performance against the 10-day prompt payment target has improved in recent months. We also routinely achieve targets for the completion of bank reconciliations and closure of ledgers. We welcome the opportunity to discuss progress in Account NI and explore the matter of prompt payment with the Committee. Members will already know Fiona Hamill from central finance group, and my director of finance service is John Crosby. We are happy to answer your questions.

835. Mr O'Loan: Paragraph 14 of your document says that:

"One of the challenges has been to get buy-in from Departments to the concepts of self service, commonality and shared ownership against a legacy of the autonomy and control offered by Departmental systems."

I do not know what self service means; you might tell me. I found that piece of information very disturbing. It is key that the Departments work with you rather than against you. It sounds like duplicate systems are operating, which would be extremely wasteful. I would have thought that, by this stage, we would have got on to a stable place, as you were saying in relation to HR Connect, with Account NI. However, Account NI and its relationship with Departments does not seem to have got to a stable place.

836. Mr Wickens: I reassure you that it has got to a stable place. We are working very closely with Departments in the same sort of governance structures that I mentioned in the previous session. Under the finance service board, we have a group of finance directors, so we work very closely with the finance directors' group. We also link to Fiona in the central finance group. Account NI is not just about us delivering a service; it is about working in partnership with the Departments and the suppliers in the system. There is a tripartite approach to those things. It is stable, which we can see from the measures that we are getting.

837. Mr John Crosby (Department of Finance and Personnel): Account NI has introduced an element of self service, for example, for staff in the input of their own travel and subsistence claims and in the raising of requisitions and purchase orders online. Those are responsibilities that staff in business areas did not have before. Previously, they were handled by the finance division. There has been quite a seismic shift in the amount of online access that staff have to the accounting system and getting familiar with the requirements of it.

838. Mr O'Loan: Paul, your answer did not seem to agree with the statement that you made in your report. I am sure that it would not be there without a very good reason. Can I just challenge you a bit more?

839. Mr Wickens: The key areas that we are focusing on with Departments do not include the day-to-day use of the system. That is extremely effective. The two areas we focus on are the 10-day prompt payment and making sure that Departments and suppliers are working with us and doing the things that they need to do, and there is also the production of better-quality management information. We have the engine working very effectively.

840. With regard to Department behaviours, we have an education process to try to bring Departments with us to make sure that they are doing the right things. If we are trying to get things done within 10 days, Departments have to live up to certain responsibilities. That is the area that we continually focus on with them.

841. Mr O'Loan: A lot of evidence suggests that the bigger problems with prompt payment are not with the central bodies or departmental structures that you are working with, but with what one might broadly call arm's-length bodies. There are current issues with health trusts, education and library boards, district councils, and so on. Some of those are very outwith you, for example, district councils, but do you have the figures and records for departmental arm's-length bodies or agencies?

842. Mr Wickens: Yes, and we can provide a breakdown. We segment the figures by each customer, or client, by the level of prompt payment. The average for prompt payment last month was up to 82%. There is a variation across Departments and other bodies, and we can provide that to you.

843. Mr O'Loan: Does that include health trusts and education and library boards?

844. Mr Wickens: No, we are nothing to do with those.

845. Mr O'Loan: Right, so you simply cannot offer us any information about those? That is a problem for us.

846. Mr Hamilton: There is a marked improvement in the performance of a lot of Departments. There is almost too much information. You could pluck out every single one of them and ask various questions about why one has improved dramatically, and why one is not showing a sign of improvement at all. However, I want to ask an overall question. The report talks about 82% on average across the board being paid within the 10 days. Are the remaining 18% capable of being paid within 10 days? Is the fact that they are not thus a failing of the relevant Department, or are they not capable of being paid, and the problem lies at the suppliers' end? Have you taken those out? Is the 18% a failure within Government to pay within 10 days, or does it include those cases where you are not getting complete information from suppliers?

847. Mr Wickens: It is all of the above.

848. Mr Crosby: What we actually measure is those that we have paid. You cannot get the period that it is taking you to pay until the payment is made. There are dependencies with the supplier, the quality of the invoice, and where it is sent. There are then dependencies with Account NI in processing the invoices at the first stage. Invoices need to go to Departments for approval, and that goes out through workflow, so there are departmental dependencies on how quickly they approve those and whether at that point they can approve them — whether they match with a purchase order or not. There are a number of approvals and procedures all the way down the line, so invoices can be held up at any point.

849. Mr Wickens: Believe me, the finance directors for each Department do jump into the details, and say: "Why has mine gone up this month?" or "Why has mine gone down?" so that we can understand that. We are focusing on two areas around that. We have quite a lot of high-volume, low-value transactions coming through, and we are trying to work on ways to advise the Departments and suppliers on how we could handle that differently.

850. For example, group billing. We get lots of individual mobile phone bills. It would be much easier for us to handle one large bill with a lot of line items. We may not get to that point, but we are certainly working with policymakers on how we could affect that and change the behaviour. We are looking at areas where we are doing too much work unnecessarily.

851. Mr Hamilton: The Department for Regional Development (DRD) pays out a huge amount, around £20 million each month, and has made dramatic improvements, now hitting 83% according to the latest figures. Other Departments have significantly less, but show no real sign of improvement. What do you do with those? With DRD spending £20 million, with so many invoices and so many contractors doing bits of work all over the place, you might expect it not to hit the higher levels, but it is now getting there. The Health Department, however, which has only £2 million to £2·5 million each month, has gone up in the past couple of months, but overall has been consistently quite low. What do you do to try to drive up its performance? If somebody spending £20 million is hitting a pretty high level, you would expect a Department with quite a low expenditure —

852. Mr Crosby: The short answer to that is that we provide Departments with this table, and that puts pressure on them to see how they are performing. Account NI provides the same level of service to all Departments; we provide the same solution. That is one of the advantages and benefits of Account NI: everyone is now on the same system. These figures prove what can be achieved.

853. The other thing we do for Departments at the lower levels is to provide them with information on invoices in the workflow, so that they can see whether their invoices are, for example, escalating from one member of staff to another, and they can manage that from within.

854. The table reflects diversity in the nature of the Departments. It is much easier in some Departments to have invoices that match purchase orders. If you are purchasing something straightforward, like a desk and four chairs, you will get an invoice that will match it, whereas in, for example, Roads Service, the purchase order may be for a load of stones — it may not equate exactly to the invoice. There is a difference in the natures of invoices that Departments receive.

855. Mr Hamilton: If the idea is to shame Departments, you might want to do it like a league table, with promotion and relegation.

856. Mr Crosby: We provide Departments with the facts. There is information underpinning this table so that they can have more detail and see exactly what has gone on. The other thing that we do is provide information on how long invoices have taken to arrive with Account NI, how long it has taken us to scan the invoices and how long it has taken us to pay them at the end. However, the amount of information that is exclusively down to Account NI is limited. We take less than two days to get invoices from scan into the workflow. We take just over one day to get them finally paid once the approvals are in place. All the other time is mixed time between the Department and Account NI.

857. In any workflow situation, it is easy to pass on to the next person if you do not do what you are supposed to do right. Sometimes there is a little bit of pushing it on to the next person, but if you do not fix it at the first point, it will take the next person longer to process. Finding out where the time is spent is not an exact science.

858. Mr Wickens: I take the point about the league table, but we are trying to work in partnership with the Departments. There is some implicit league-tabling, if you want to use that term. However, the strict measure of prompt timing is from receipt of a correctly rendered invoice. We are still working with Departments on that area to ensure that it is correctly rendered at the first point of contact. That is not always the case.

859. Ms Purvis: All the Departments, except the Department of the Environment (DOE), had a bit of a dip in July, but the percentage meeting their targets increased by September. Is there a particular reason for that pattern?

860. Mr Crosby: There is nothing specific to DOE. It is worth mentioning that DOE was one of the last Departments to come on board. There is a difference between Departments that have been running the system for up to three years and those that have been using it for less than a year.

861. The improved performance has been slightly influenced by reduced volumes that we have seen over the summer period. We are not sure why that is. With the outcome of the spending review due today, Departments have been reluctant to initiate expenditure given that uncertainty. That has certainly helped us. Sometimes, it is simply the volume that we get from each Department and the way that they come in. It is really a queuing system. If they all come in on a Monday, it takes longer to get them through than if they come in sequentially through the week.

862. Ms Purvis: We have some correspondence from Mr Ian Houston in which you talk about the additional investment in Account NI of some £900,000. What has been the return on that investment? We are still not meeting the 10-day prompt payment target. Is that sustainable?

863. Mr Crosby: The return on that investment has been that we have made the best effort possible to maximise performance at the Account NI end. The Departments' performance for 2010 was 57%, so it has gone up considerably. We have put in resources of £300,000 to £400,000 per year. Whether that is sustainable in the longer term is really a matter for the

outcome of the spending review and our available budget going forward. It may well be that it is not sustainable.

864. Mr Wickens: When Account NI was first conceived, designed, built and tested, it was intended to meet the statutory obligation for 30 days, beyond which we have to pay interest to those suppliers that have not been paid within that time. The introduction of the 10-day target means that we have effectively had to implement manual workarounds to the IT system to force things through in a much shorter time. There is a question about whether it is worth spending £400,000 or £500,000 per year going forward to achieve the 10-day prompt payment target. We believe that that figure could be reduced as policy.

865. Ms Purvis: Was sufficient flexibility not built into the system at the start to allow for a change in payment turnaround?

866. Mr Wickens: It is fairly fundamental to the way that the process was designed. It was designed to allow electronic workflow. I suppose that the answer is that it was designed for 30 days. Ten days is totally different. The things you have to do to pay in 10 days are different from what you have to do to pay in 30 days.

867. Mr Crosby: It is worth making the point that the system is designed to facilitate use of purchase orders and to have all expenditure approved in advance of an order going out the door, rather than, as has traditionally been the case, at the point of invoice receipt. We are trying to capture expenditure information at the earliest possible time and accrue information so that financial records are intact. That is the important thing. The system was not designed to be a payment engine it was designed to capture quality financial management information. That will be even more important going forward.

868. Ms Purvis: You mentioned late payment. Our figures show that Departments are paying only 93% of invoices within the statutory 30-day period. We have evidence that, for example, Account NI's September figures show that 1,172 invoices were not paid within 30 days. Has that led to action by contractors? What has been the cost of late-payment interest to contractors?

869. Ms Fiona Hamill (Department of Finance and Personnel): Obviously, where contractors consider that they have not been paid on time, remedies are available to them under the Late Payment of Commercial Debts Regulations 2002. That has led to settlements, and those figures are reported in Departments' accounts. They can certainly be extracted from Departments' accounts for Committees. That is how they are reported and published.

870. Ms Purvis: The purpose of introducing the 10-day turnaround was because of the economic recession and to ensure that contractors, particularly smaller contractors, were able to survive. When you see that invoices are not even being paid within 30 days, that is cause for concern. Obviously, they may be larger contractors. I would be interested in whether they are, in fact, larger or smaller contractors because I am sure that at this time, the impact of that on some businesses is tragic.

871. Mr Wickens: This is one of the dilemmas. Achievement of the 10-day prompt payment actually works against the 30-day payment. By focusing on the 10-day payment — while it does not mean that you take your eye off the ball for the 30-day prompt payment — you actually do things differently. Fundamentally, focusing on the 10-day payment goes against good practice.

872. With regard to the breakdown of the type and size of suppliers, one challenge is that we do not have information on whether we are paying an SME or a large PLC. We actually do not seek to make a distinction. We aim to pay all. That comes across in GB as well. My colleagues also pay all suppliers. They cannot make a distinction between an SME and a PLC.

873. There is then the question about the flow-down of payment terms, because very often you find that the small fish at the end of the value chain are depending on the big suppliers getting paid. I have written to the Institute of Directors, the Confederation of British Industry and the Federation of Small Businesses to ask them what evidence there is to show how the smaller suppliers are paid by their members. I wrote to them in July and sent a reminder in September, but only the Institute of Directors has replied to say that it is working on it. I have not had a reply from the other two, so we do not know what the supply terms are.

874. In his recent report, Sir Philip Green questioned why the Government are bending over backwards to pay suppliers in a short space of time when organisations like his own are taking 45 days to do so. Between 45 and 50 days is the norm in the private sector, but we are focusing on 10 days.

875. Ms Purvis: Is there a difference in the size of firms that are pursuing late-payment interest? I imagine that it would be more beneficial to smaller firms to pursue that, but they probably do not have the means to do so.

876. Mr Wickens: We do not have that information to hand, but we can provide it.

877. Ms Hamill: We can ask the Departments to advise us on that.

878. Mr McLaughlin: I am interested in the flow-down. We have got the explanations about the change and the impact on your processing from a 30-day target to a 10-day target, but we are trying to ensure that we do not add to the difficulties of contractors. I am wondering why we are relying on things like the fair payment charter as opposed to a contractual obligation, even if it is modelled on the 30-day payment, which appears to be contractually possible. Why do we have that amount of flexibility when we know that it is causing difficulty at a local level?

879. Ms Hamill: In large construction contracts, for example, Central Procurement Directorate (CPD) has put requirements within the standard terms and conditions that major contractors pay their subcontractors within 30 days to see the flow-down. That can be done by us with the big contracts, because it was an issue. It is very difficult for us to do that in the more routine purchasing of goods and services.

880. Mr McLaughlin: What do you mean by "a large contract"? What is the threshold?

881. Ms Hamill: The big construction contracts.

882. Mr McLaughlin: Is it multi-millions, or over £1 million?

883. Ms Hamill: It is in the advice from CPD, which I will forward to the Committee. It is now a standard part of those contracts that people must sign up to a commitment to pay their subsidiary providers. In that area, a lot of the business that Account NI is covering is smaller, normal routine procurement. In those conditions, it is very hard to see how you could start to exercise terms and conditions that would force those principal suppliers to pay subcontractors, particularly where you are paying for utility services. How do you enforce a requirement on a large utility firm to pay its subcontractors? The majority of our money is going to large companies, and it is through the value chain that the money moves into the local economy. At a policy level, I do not know how we could enforce it.

884. Mr McLaughlin: If the policy is to apply this right down through the food chain and it is a contractual obligation, it can be enforced at some level. That does not necessarily imply that the Department has to follow the food chain. It does not necessarily imply that the Department has

to follow that food chain. The contractors and the subcontractors would have legal protections and entitlements and could insist that the obligation was enforced and delivered at that level. If that has not been considered, is it possible to establish whether people are considering those measures?

885. We are getting a very consistent pattern of reports from those subcontractors who are experiencing difficulty. The charter of fair treatment does not seem to work or solve the problem; the complaints continue. We have to do more.

886. Ms Hamill: I will take the Committee's concern to CPD and ask for its advice.

887. Mr McLaughlin: That will be fine.

888. Declan was asking about the arm's-length bodies. It was not clear to me whether Account NI is tracking the performance of arm's-length bodies.

889. Mr Crosby: We are not. We provide and compile figures for only those organisations that are on Account NI and which pay through Account NI. That is the only role that we have; that is our remit.

890. Mr McLaughlin: I can appreciate that you might think that that is quite enough. However, a significant amount of the programme spend is delivered through quangos and arm's-length bodies — £8·9 billion in total. It appears that if we rely on the current arrangement, the profile of the application of public funding will be quite narrow. There may not be any noticeable impact for operators whose point of contact is some sort of arm's-length body that does not subscribe to what the Department does.

891. Mr Wickens: We provide services to 13% of the public sector. That 13% comprises the NICS Departments and the arm's-length bodies. In some cases, we are contractually prohibited from providing services to other organisations because of the way the procurement was done. It is impossible for us to take any responsibility or ownership for those organisations. We are seeking to continue to grow our customer base. Account NI is working actively with the Department of Justice, as a new Department, to see how it could be joining. We are bringing on the Driver and Vehicle Agency. We are seeking to bring on other organisations. We can take responsibility for those that join the club, as it were, and report back to them. Other than that, it is definitely outside the remit of Account NI as a delivery organisation.

892. Ms Hamill: In February, the Finance Minister wrote to ministerial colleagues and asked them to consider the matter and to seek assurances from their Departments, agencies and the wider public sector organisations for which they were responsible that all appropriate action was being taken. That is at the wider level.

893. Mr McLaughlin: The fact that so much of the spend is outside the remit and even the projected remit of Account NI raises fairly fundamental issues. Then, of course, we come back to the performance statistics of the Departments; some of them are so far behind counterpart organisations elsewhere. In the broad scheme of things, it seems that we may not be delivering as much support to indigenous and small and medium-sized enterprises as we think.

894. Mr Wickens: I will give you an example. I maintain a close contact with the chief executive of the regional Business Services Organisation in the Health Department. It has started the procurement of a system equivalent to Account NI. It will be taking responsibility for its prompt payment through the systems and services that it provides. I take your point, but it is definitely outside of our remit.

895. Mr McLaughlin: We might want to follow that one up.

896. Mr Frew: I support the fair payment charter or any such model. I believe that the biggest problem in the construction industry is not the lack of work, but the prompt payment of contractors. That is the major problem in the construction industry, because it is hard for a subcontractor to put pressure on a contractor to pay up. You talk about the norm. It might be the average, but anecdotal evidence suggests that the norm is that it can go on for long periods with large amounts of money at stake. If they get payment, it is a small fraction of what they should have received. There is a major problem there. I believe that it is right to take that pressure away from subcontractors, because the only real strong argument that they can use is the fact that they can lift their labour off the job. That becomes very embarrassing for everyone: the client, the contractor and the subcontractor. It is a model of best practice that the project manager focuses on that. He can ask about prompt payment at meetings. I think that that is vital. It takes the onus off the subcontractor and the people who deserve and need that money. How can we, as a body, encourage that throughout the wider construction industry, which is purely in the private sector and away from government bodies? How can we encourage that best-practice model?

897. As regards the league table that has been talked about, when we look at some of our big hitters, we see that some of them do better than others. DRD, which is probably one of the most important Departments that interacts with the construction industry, seems to have done terribly in April to June but has recovered immensely in July to September. In the first league table, it is broken into "core" and "roads", but that that is not the case in the other league table. Is that a sleight of hand? Did we unfairly ask them to do something that other Departments have not done? There is quite a difference; DRD roads was the one that showed concern. There is £11 million there in those three months that had not been paid within 10 days. Was that £11 million paid within 30 days? The Department has recovered, so I will qualify my comments. Has the fact that it has bunched the two items together skewed the figure slightly? I see that DRD core does not have a great amount of money, but has that skewed its figures to make it look better than it really is?

898. Mr Wickens: In terms of what we can do about the construction industry, you have prompted me to think that I should write to the Construction Industry Federation (CIF) as well as to the three other organisations. I am wondering why I have not had a reply in such a long period. Is there a driver impetus in any part of the private sector to take up the challenge of prompt payment? The drive is very much in the opposite direction, and I am very aware of the anecdotes about the construction industry and am quite happy to write to the CIF and ask the same question so that we can at least establish an evidence base on that.

899. Mr Crosby: At the outset of Account NI, DRD and Roads Service were to come in as separate entities. In the process of migration, they decided to come in as one and to manage the project jointly. Therefore, for different reasons, the figures are sometimes presented separately and sometimes together. There is certainly no sleight of hand to cover those up. At a departmental level, the figures for DRD as a whole are still the figures for the Department, and the Department is our customer. The figures reflect the complexity of the business that Roads Service is in, where purchasing procurement, receipt of goods and matching of invoices with purchase orders are some of the most complex, largest and significant issues that we have. DRD was one of the last Departments to come on. The figures are a reflection of embedding new systems and processes and the direction of invoices. However, as you said, the figures have come up and, in September, are sitting at 83%, which is just above the overall average. That is a very encouraging sign.

900. Mr Frew: One of our other big hitters is the Department of Agriculture and Rural Development (DARD). Can you explain its figures for me? Again, it has improved greatly; is there any reason for the figures in April to June?

901. Mr Crosby: Last year, we had funding difficulties, and Account NI's funding position on transfers from Departments was resolved only in January or February. It is only since then that we have been able to put the resources in at our end. DARD was one of the last Departments to come one, and it has one of the more complex requirements through invoice processing. It has things like agriculture colleges and quite a variety of spend; it is not just an admin Department like some of the smaller ones that came on first. It is just a reflection of the nature, extent and diversity of that Department. In fact, it is quite a small proportion of DARD's spend. Most of DARD's spend goes on the single farm payment, which is completely outside these figures.

902. Mr Frew: Mitchel commented that the fair payment charter does not seem to be working, but it has only been in place since March. Is that right?

903. Ms Hamill: In respect of construction contracts?

904. Mr Frew: Yes. The charter has only been in place since March, so it is a bit unfair to comment on it.

905. Mr Crosby: The difficulty with the charter is that it only applies to new contracts. A lot of contracts under which people, including some of your constituents, are operating have been in place for years. Therefore, influencing that piece is the bigger challenge, and there is no direct way that we can control what private firms do in terms of paying subcontractors.

906. Mr Frew: I agree.

907. Mr Crosby: We are not in that mix.

908. The Chairperson: I noted your comments to Mitchel and Declan about arm's-length bodies. Is there any sort of discussion going on where that remit could be extended to include those arm's-length bodies?

909. Mr Wickens: Yes. In fact, as recently as yesterday afternoon, my senior management team had a workshop on how we can increase the number of customers and what additional services we could potentially provide. That is at a very early stage, but we have commenced an ideas generation process in respect of that.

910. The Chairperson: We will want to monitor the progress on that, so we will be in contact with you. Thank you very much for coming along.

3 November 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay

Mr Mitchel McLaughlin
Ms Dawn Purvis

Witnesses:

Mr Terence Brannigan	
Mr Richard Moore	Confederation of British Industry
Mr Nigel Smyth	

911. The Chairperson (Ms J McCann): I welcome Terence Brannigan, the chairman of the Confederation of British Industry (CBI), Nigel Smyth, the director of the CBI, and Richard Moore, who is also from the CBI. I invite the witnesses to make some opening remarks on their report, and I will then open the evidence session up to questions from Committee members.

912. Mr Terence Brannigan (Confederation of British Industry): I want to give the Committee a broad sweep, but I will try to keep my contribution reasonably succinct. We welcome the opportunity to give evidence to the Committee and thank the Committee for its invitation.

913. I will focus on our report, which is called 'Time for action: Northern Ireland — delivering public services in a time of austerity'. In the report, we considered five areas: immediate cost savings, thus "Applying the brakes on existing costs"; opportunities for efficiency savings, thus "Every pound well spent", and improving productivity and value for money; "Re-engineering public services"; "Structural reform"; and "Bridging the funding gap", by looking at alternative funding streams, alternative sources of debt and asset sales.

914. The CBI has an active public services directorate. We tried to leverage that experience and aim it at Northern Ireland by looking at it how it would apply here. We drew on best practice, benchmarked information and explored the evidence. We also looked at many local ideas and things that had been done successfully, particularly in the Civil Service, such as the shared services model. We got a great deal of information from government itself to inform the report, and we looked at the experiences of businesses through the recession.

915. Our overall aim was to protect services and service outcomes — core services in the public sector. We put together a steering group of senior members of the CBI in Northern Ireland. I chaired that steering group, and we had a number of significant meetings and gathered a significant amount of evidence. We published our report on 22 September, and, although it was offered as a solution or a series of solutions to the Budget challenges that we saw coming, it was not designed to be a definitive blueprint.

916. Public sector expenditure has doubled during the past decade, with an increase of more than 40% in real terms, while productivity has fallen during the same period. Public sector employees have increased by more than 20,000 since the 1990s to around 225,000, and, taking account of the Department of Justice, the Executive have approximately £10·2 billion in current revenue expenditure and £1·4 billion in capital expenditure.

917. That was the backcloth to the report. Therefore, the recommendations made in it had to do with applying the brakes. We are looking to save £340 million per annum by 2014-15 through freezing the pay bill, reducing overtime, increasing pension contributions, and so on. That would include things such as reducing the legal aid bill, which is significantly out of step with other parts of the UK, and reducing school transport costs, which have grown to around £80 million a year.

918. We then looked at what we termed "Every pound well spent", which is the better value-for-money aspect. That includes opening up public sector markets to competition and taking the shared services model that the Civil Service has employed very successfully and putting it across the whole of the public sector. We looked at outsourcing, which lags significantly behind the rest of the UK, at streaming our procurement structures, better management of the government estate and cutting public sector absenteeism.

919. We estimated that we could save around £570 million per annum by 2014-15 through the re-engineering of public services. That could be done through cutting costs, waste and duplication. We looked at the better use and rationalisation of the health estate. We looked at treating more people in their homes and at the better use of technology. We looked at the administration of education. We looked at the number of schools and considered the fact that 54,000 places in our education system are empty. We looked at how we could re-engineer the financing of housing in Northern Ireland and at what would be the best use of the £4·1 billion in assets in that sector. That, plus the rental income, could be used to borrow and invest in rebuilding and refurbishing our housing stock. We looked at the justice remit and at the need to re-engineer prisons, the police and, as I said, the legal aid system. We felt that an overall better use of technology would improve productivity.

920. We looked at the need for structural reform. Existing governance arrangements do not deliver efficient public services. Although some savings would be modest, such as £20 million per annum from having fewer Departments, fundamental changes could be made to help overcome the silo mentality that exists in some Departments.

921. Owing to excessive management layers, the private sector has had to significantly de-layer its management over the past four years. We are looking to do the same in the public sector. Stronger, more robust performance management arrangements should be introduced. A cultural change is necessary, with clear vision, accountability, more collective interests and more flexibility, the real focus of which would be delivery.

922. Our revenue savings were around £1·1 billion against a backcloth of the need to save around £1·6 billion. As we have seen, we were left with a funding gap of around £500 million. We looked at ways in which we could generate further revenues as an Invest to Save measure, because we recognise that some of the recommended changes would require some investment. Therefore, we would seek to raise revenues though options such as water charges and rates; asset sales and strategies, such as land and property sales, franchise models and mutualisation; and, in particular, alternative sources of debt finance. We looked specifically at the Northern Ireland Housing Executive and, as I said, at how we could leverage its assets to get private sector moneys into the public sector.

923. Those are the key areas that we looked at. Overlaying that was a sense of urgency, and we are concerned that we see some significant movement. We would like to see a Programme for Government, a strategy and a Budget delivered by the end of the year. We recognise that that is a very tough ask; nonetheless, we believe that that is important for reinvigorating confidence in the private sector and, indeed, in the public sector. That will be necessary over the coming weeks and months.

924. Mr McNarry: I congratulate you on your paper, presentation and, indeed, work. I am sure that you will not mind my saying that the paper is worthy of being a party political manifesto. People in some circles will be relieved to know that you are not a branch of the Tea Party movement or any other organisation and that you are not going into the party political business. If you were, you would scare the hell out of us and shake us up, and that would probably be your intention.

925. I share your views on the Budget, which you set out at the end of your presentation, and I welcome your use and initiation of the term "leverage". That is extremely important in what you are bringing to the table.

926. We know from we what see around this table and outside the Senate Chamber that there is growing frustration. That has been demonstrated by the gathering of a plethora of ideas and suggestions, all of which are equally important to us, from all sorts of key sources. However, nothing has been co-ordinated as yet. I do not know whose fault that is — perhaps it is ours. Nothing has been co-ordinated to bring together a workable and agreed approach for politicians such as us, key stakeholders such as you, and the other people of whom we are aware.

927. As you mentioned, there is an uncertainty about whether there will be a Budget by early next year, and the Committee discussed that earlier today. Most of us will take that matter extremely seriously. The main parties represented around this table are on the Executive, with the respectful exception of Dawn Purvis. If the Executive cannot agree a Budget by the end of this year, they will need to explain the reasons for that. If they cannot agree — this is a natural phenomenon — individual parties are unlikely to go outside the Executive box, and therein lies the problem. Sinn Féin recently presented a party paper. My party presented a paper a couple of weeks ago, and the DUP presented one this week. Others have presented papers before, and I am sure that more papers will be forthcoming.

928. My question arises from wanting to know what can be done to help — if that is the right word. Gentlemen, do you see any merit in trying to find mechanisms that may be used to take forward a co-ordinated outcome that is capable of going a long way towards satisfying the frustration that I know, you know and we all know is out there and that we have mentioned? It is unlikely that we will get total agreement; in fact, that will never happen. However, there must be a consensus from which we can start or even build on, and there must be something tangible that we can get to grips with. We must frustrate you immensely, given the way in which we go about our business, the systems that we must operate through and the bureaucracy that we must cut through. However, at the end of the day, Northern Ireland's decisions about budgets and the control and usage of our finances is dependent on the Executive.

929. I am sure that you agree that there is a challenge to be faced. However, on the basis of what you see and who you talk to, is there an ability to co-ordinate the action that you and others talk about? Many of us around the table would readily sympathise with your position, but it is unable to be worked through because of the political nuances.

930. Mr Brannigan: I will pick up on that in several parts. We have engaged with our colleagues in the other major business organisations; namely the Institute of Directors, the Northern Ireland Chamber of Commerce and Industry, small business, the Centre for Competitiveness, and so on. As a result, we have the Business Alliance, and we engaged with our colleagues to get our act together first of all, which is important. From a business perspective, we have tried to pull together a single direction and common agenda. We have done that recently by coming up with five key initiatives that we believe can be addressed.

931. Secondly, we have engaged with various parties that are represented here. We have not engaged with them all as yet, but we would welcome meeting with everyone. That dialogue has been ongoing for some time. It would be easy to be cynical. Indeed, I have to say that I was cynical at the beginning of the process. However, I have been genuinely encouraged by the dialogue that I have had with politicians here on the hill. I detect significant accord and an understanding that we are all in this together, that the issue to be addressed is serious and that, unless we work together, we will not solve the issues and give the leadership that people have the right to expect, whether that be in business or in politics. Much of my cynicism has genuinely

disappeared over the past few weeks. There is an opportunity for us in business to get together with political parties and the political leadership to form a common agenda.

932. We are keen to stress, however, that dialogue has to be action-centred. It would be a waste of our time and yours to sit and engage in ongoing dialogue that has little outcome. We are not prepared to do that. We need a common agenda that is short, to the point and action-centred. It would have, say, a maximum of five points. We could take those points one at a time and agree a timescale for the outcomes of each. That would ensure that there is an agenda that is driven to create outcomes for the common good of all citizens in Northern Ireland. I genuinely believe that there is an opportunity to do that. There is only a short time in which to do it. Along with our colleagues in the other business organisations, we are keen to engage with you to drive that forward.

933. Mr McNarry: I do not want to put you on the spot. However, experience tells us that you need a catalyst —someone to do all that. Do you think that it would be prejudicial to the confederation's independence, for which you are respected, for someone from your circle to make those overtures? Do political parties need to get into a powwow and agree or agree to disagree? Do you think that, given the shared circumstances, it would not be wise for a political party to ignore an invitation from people who are as serious as it but who have a share in the same agendas? I, and, indeed, all people who have a background in business, like the term "short agendas", because those enable us to find out quickly whether we are going in the right direction.

934. I do not wish to put words in your mouth; I am just trying to say that there seems to be a problem with bringing that agenda to fruition in the sense of it being on the table for people to talk about. Will getting people around a table be part of the action?

935. Mr Brannigan: Yes, because of some of the conversations that we have had during the process. There have been signs of encouragement for us to engage and draw up what we see as five key issues that would be action-centred and put those forward as a suggested agenda for us coming together. Nigel is writing on behalf of Business Alliance to suggest the agenda and approach, which, as I said, is taking one issue at a time and driving it through. The issue is agreed and the interested parties, including us, meet around a table and agree a tight timescale and an action-centred agenda, and we deliver an outcome to which we can all append our name. We have been encouraged, from the conversations that we have had, to take that kind of approach and we would be very positive in doing so.

936. Mr Nigel Smyth (Confederation of British Industry): We are at the early stages of the process, which is why we are a bit cautious about what we say. The private sector has lots of ideas in the area of alternative sources of financing. We are keen to develop a paper, engage with all the political parties and see whether we can get broad buy-in to try to take that forward.

937. That is only one aspect. At an Executive level, we understood that a ministerial subgroup was set up. We understand that, politically, nobody will shout to increase something or take a particular action, but some tough decisions have to be made. Those will have to be made around a table, so we would have thought that a subgroup of the Executive would try to take forward some of the broader ideas or themes at the same time. We can adopt a bottom-up approach on particular issues. We will take advantage and do as much as we can. I would have liked to have thought that, on the political side, there would have been some work coming from a top-down approach also.

938. Mr McNarry: I accept that. The private sector has valuable but unfortunate experience of turbulence. We have that experience in our minds as we consider similar turbulence that is likely in the public sector.

939. This suggestion is off the wall, Chairperson; I know that we have a substantial work programme. Perhaps it is not for answer now but when the gentlemen leave. On the basis of what we are hearing, and without hearing the views of other members, which is important — I would like to hear those — is there a role for this Committee? The parties are represented here. We are the people who take on the responsibility of scrutinising the money side of government. Is there perhaps a role that we might consider getting involved in as a Committee or being the respondent to anything that may come from a group such as what is before us? Perhaps we could come back to that.

940. The Chairperson: We could also ask DFP to provide an estimate of the potential income costs that are associated with some of the proposals as well as the options for the local charges that were listed. We could follow up on that as well.

941. Mr McNarry: We must not believe everything that we hear. It would be far from us to take all of that on board. I am aware of some salesmen who sit up there who could sell ice cream to Eskimos, but we have to be a bit more careful. That is helpful. Thank you.

942. Ms Purvis: I agree with David. When I first looked at the document, I thought that it was a manifesto. I thought that it was 'Back to the Future' to 1983 and a Margaret Thatcher manifesto, but I had to remind myself that it is a business manifesto. Obviously, you come at it from what is good for business and not necessarily what is good for public services.

943. I have difficulties with the paper on a lot of fronts, particularly the parts about selling off public services, privatisation of public services and the introduction of local charges. I am fundamentally and ideologically opposed to a lot of it, particularly given that the Assembly is already addressing some of the issues in the paper, such as reducing the level of sickness, improving management of government estates and establishing a better community health service. When I looked at the part about local charges, I could not help but think that many of the suggestions in the paper will impact on some of the poorest and most vulnerable in our society. In particular, the suggestions on Housing Executive rents, the increase in MOT test charges and the introduction of a range of charges for specified services will lead, in my opinion, to social exclusion of the most vulnerable in society.

944. I am particularly disturbed by the suggestions on the Health Service. Our public services are in great demand from some of the most vulnerable in our society. That is where the bulk of public services are gained and where the demand for public services is, and there is absolutely no mention in the paper of addressing the inequalities that exist in our society. Those inequalities lead to the demand for public services and the increasing cost of public services. For example, the cost of domestic violence and of providing health and housing services runs into millions of pounds every year because of the inequalities that women face in our society. It runs into billions of pounds when we consider the criminal justice system. I would have loved the paper to focus on trying to address the inequalities, because, by addressing those inequalities, we will reduce the demand for public services and, therefore, the cost of public services. That is not addressed anywhere in the paper.

945. Some parties may congratulate you on the paper, but I have to keep reminding myself that you are a business organisation and that the paper proposes a business approach. Therefore, to my mind, a lot of the suggestions in the paper, such as those on privatisation and franchising, seem designed to enable business to get rich from public services. I wonder how that fits with the notion that we have to rebalance our economy and encourage growth in our private sector. The paper suggests to me an approach of growing a private sector that will become more dependent on the public sector by franchising public services so that business can grow. That was more of a rant than a question.

946. Mr Brannigan: As Ms Purvis says, that came across as an ideological pitch rather than a question, and I am not sure where to start. However, I will start with Housing Executive rents. My understanding is that, because of social inequality, 83% of Housing Executive rents are paid for by government. I come from east Belfast and was brought up in a working-class area in Paxton Street and, therefore, have seen and suffered inequality and have first-hand experience of it.

947. Our suggestion is to increase the rents for Housing Executive properties by £2 a week. Of those who would be affected by that increase, 83% would have it paid for them and the moneys obtained could be used to improve the infrastructure and stock of Housing Executive homes by, for example, investing in more environmentally friendly heating, which would bring costs down. Indeed, we calculated that by increasing rents by £2 a week, the tenants in those properties would save £5 each week.

948. Therefore, if you look behind some of your own headlines and at how we see some of those things working, you will see that we have taken their impact on people into consideration. Indeed, if you return to my introduction, I said that the first thing we looked at was how we could protect core services, because the most vulnerable in our society depend on them. I understand that, because that is where I come from and where we started. However, to have a situation in which the public sector doubles its costs in 10 years is no way to protect core services or the most vulnerable in our society. I would contend that it is actually quite the opposite. We must address that fundamental point and stop wasting money. It is that waste that angers me, and I say that not just as a businessman in Northern Ireland but also as a citizen and a taxpayer.

949. It is through the work of the private sector that we generate the wealth that pays for those things. Unless that money is spent properly, and for the good of all the citizens of Northern Ireland, I have a right to make the type of comments that I did. I resent some of the remarks that were made about where our approach came from, especially since you did not discuss them with us.

950. Ms Purvis: You are entitled to your opinion and I respect it, but I am also entitled to mine. We probably agree about the issue of waste and how to address that. It is the role of the Assembly, through its Statutory Committees and the Public Accounts Committee to highlight how public money is spent and to make improvements. It is for the Departments to carry that through.

951. I do not believe that the privatisation of public services is necessarily good, or that many of the things that you proposed in the paper are good for public services. We can reduce waste and improve services and outcomes for the most vulnerable in our society by reducing inequalities. I respect your right to have a view, but I am also entitled to mine.

952. Mr Brannigan: Of course you are. I did not suggest for one moment that privatisation is either good or bad. Privatisation of some things is good and other things remaining in the public sector is good. It is about taking an objective approach to what is the best and most effiecint way of delivering services to give real value for money for those who live in Northern Ireland. Neither of us should take an ideological stance as to whether it is automatically good thing or a bad thing to privatise public services. Rather, we should consider what the most efficient way of delivering public services. We should all look at that.

953. Ms Purvis: I happen to believe that it is the wrong way, and I am entitled to have that view.

954. Mr Brannigan: Of course you are.

955. Mr Smyth: Inequality in our education system is one of the biggest areas. In the report, we identified a massive amount of waste and inefficiency, whether in administration or in the excess number of schools. A CBI report that was produced last week shows how they are increasing standards in Great Britain through a significant use of the private sector. At the end of the day, we and they are interested in outcomes, and 43% of our pupils left school this year without an A to C grade in maths and English at GCSE. Prospects for them are not good in a difficult environment.

956. Our interest is in improving outcomes. It is not a case of the public sector being good and the private sector being bad. There are significant opportunities for the private sector and, indeed, the community and voluntary sector, quite often in partnership with the private sector, to provide a much-enhanced service much more efficiently. There are Departments that are trying to reduce absenteeism to 15 days a year — the private sector would be broke with such figures. The private sector could run those things, make a profit and deliver better outcomes in certain cases.

957. Ms Purvis: If we want to get into a debate on education, there are 77,000 empty school desks in Northern Ireland. There are 1,200 schools when we probably need around 600. I am up for that debate, and I am up for one education system, but other parties have a different policy agenda. I am acutely aware of the tail of underachievement. In fact, Protestant working-class boys are the major group of non-progression in the education system, and academic selection has a lot to do with that. That is another ideological discussion that is probably for another day.

958. Mr McLaughlin: We started this discussion by comparing your document with a manifesto, which, obviously, it is not. People might focus on the local charges section of it. There is a reality to what the political parties here will agree to and disagree on, and there will be quite a range in each case. There may be more significant agreement than is generally acknowledged, but, clearly, there are significant political, ideological and social perspectives that mean that agreement on other issues may elude us for a time yet.

959. Obviously, there are inefficiencies, and you have done the service of pinpointing those. No party here will defend the current profile of the numbers of MLAs and Departments as the optimum and most sensible arrangement that we can arrive at. However, it reflects the position that we have started from, and we are about to complete the first full mandate of the Assembly having achieved the situation in which every party in the Assembly supports the power-sharing arrangements. We have achieved a significant milestone in that policing and justice has been devolved, and all of that brings benefits in a strategic way. We can address issues such as inclusivity in a different way. We can do that in a more inclusive way and in a way that does not necessarily threaten to destabilise the progress that is being made in the arrangements that exist.

960. You also identified issues that the Assembly is prepared to deal with despite the kind of dynamic that I described. Perhaps with your perspective, you could be of some assistance to us, because we are not necessarily dealing with those issues, particularly asset disposal, in the most effective way. Perhaps concern about the fall in property prices has meant that people have not only recast their calculations but their views on whether this is the time to move forward. My party takes the view that we should not abandon the potential to raise revenues. We do not by any means suggest a fire sale but carefully judged interventions and disposal of assets that could address some of the pressures that we face.

961. Your ideas on reconfiguring the Housing Executive do not coincide with my party's approach, but neither are they a million miles away. It would be useful perhaps to develop that as a discussion document, and it might help the parties in their business of coming together and making decisions, given the short and fairly intense period that is ahead of us.

962. Furthermore, if you have to make a judgement on that, as the parties will, and you believe that the private sector can address certain issues better than the public sector, shape that out. People can take a look at it without prejudice and reject it or otherwise on ideological or other grounds. We should not, however, be afraid of that engagement. I strongly encourage you to identify those issues.

963. Your document covers a range of topics, some of which, in your heart of hearts, you must know will not get through the Executive as they are comprised at present. I suggest, respectfully, that, in the time that we have left and given the urgency of the situation, you do not waste your time. Where you think you can get purchase and a response, and the useful, for all sides, experience of working together, let us aim for results. You have given us some headings. I have had some discussion with you, and we intend to follow up on it. My party is interested in some of the report's content but would tell you straight up that there are other parts of it that you can forget about as far as Sinn Féin is concerned.

964. However, we are coming to it with common purpose. We are dealing with a situation in which we need to identify additional revenues. We need to identify efficiencies. We need to give hope and expectation that we can manage the downturn and invest in the recovery. That will require us all to work together. It means challenging all of our perspectives on what is doable and possible. Therefore, your report is a useful contribution. That is how I would approach it.

965. Dr Farry: Welcome, everyone. I apologise for missing your opening remarks. However, I will catch them in the Official Report. I have read the entire document. I warmly commend the CBI for its contribution. Its launch at the end of September was timely.

966. I do not want to make a long speech. However, I will ask a couple of questions. I do not believe that what you have set out — accepting that it is a snapshot from a business perspective — is mutually exclusive with regard to the wider agenda of addressing inequalities and investing in early intervention and preventative work. That is all consistent with reducing cost pressures in government. In some respects, what you suggest is consistent with that and would reinforce much of it.

967. I have two questions, one of which, hopefully, will be challenging because I do not want to simply accept the report and congratulate you, but try to push you as much as possible. First, the exercise cannot simply be about trying to find the best way to address the need to find 8% revenue cuts and 40% capital cuts just by paring back. There must also be an agenda for reallocating resources. It is not simply a case of finding savings of 8% or 40%. It is about striking a budget that, in light of the resources that are available, meets needs as well as possible over the next four years.

968. Accepting that you are coming from a business perspective, and in view of the economy's drivers, where do you currently see the Executive's priorities in supporting Northern Ireland's economic transformation?

969. Mr Brannigan: First, I want to underline what you have said: our report is not meant to be a business manifesto. However, it is, certainly, a business perspective. There is no getting away from that. Obviously, when we started it, the CSR had not been completed. The Chancellor had not stood up and given us our medicine. What surprised us was the balance between revenue and capital. We did not expect the significant cut in capital of 37%. Therefore, our report was on a different premise.

970. In light of that, and from our perspective, we see a need to take money from the revenue budget into the capital budget. There is an opportunity to do that. Although no cut is welcome, the cut on the revenue side was not as draconian as we may have expected. Therefore, there is

probably room to transfer funds from revenue into capital and still be able to meet the revenue budget and target by using some of the mechanisms in the menu. As I said earlier, this is a menu; it is not meant to be a definitive blueprint.

971. Undoubtedly, the capital side is one Northern Ireland's exceptionally important areas for two reasons. First, it generates jobs. The construction sector has been hit particularly dramatically, with the loss of 20,000 to 30,000 jobs over the past couple of years. Hence, there is an opportunity to kick-start that sector again and to create employment through a capital programme. Secondly, there is no doubt that our infrastructure is lagging behind. If we are to come out of this recession and hit the ground running, we need to have an infrastructure that allows us to do that. Here is an opportunity to put money into the capital budget to allow us to develop an infrastructure that will allow us to move the economy forward when we emerge from recession.

972. For those reasons, and in light of the CSR, we have looked again at some of the proposals that we had put forward. We certainly see a need, which I accept is from a business perspective, to move moneys from revenue into capital.

973. Dr Farry: Along similar lines, if we look at the UK Budget as a whole — particularly in England and Wales — we see that some of the economic drivers have, perhaps, been particularly hard cut. For example, the Department for Business, Innovation and Skills has taken a disproportionate hit. There is a lot of attention, and the natural tendency for us, as public representatives, is to get sucked into the high-spending public service Departments rather than the economic driver Departments. What is the CBI's view on how the Assembly should balance its approach to that, rather that salami-slicing down the line? Does the CBI believe that areas, such as skills investment by the Department for Employment and Learning (DEL), should be given not full but more protection on the economic side?

974. Mr Smyth: You are absolutely right. This document is very much focused on the whole public sector and on having some money to spend. We are inputting to the regional economic strategy that is being delivered. Clearly, we need to support areas of foreign direct investment (FDI) exports, so we believe that agencies such as Invest NI provide important support. The same applies to science and R&D on the skills side.

975. Terence Brannigan made the important point that we need to get agreement. Nationally, the sums are done and the focus is now on the growth agenda. That is where Northern Ireland must move to and that is what we need to debate. There are growth sectors out there, including the food sector. The ICT sector is doing extremely well. I would say that ICT is almost booming again; it probably has almost 800 vacancies. Health technologies, the pharma sector, the low-carbon green industries need to be supported. Going forward, business will be export-driven. Consumer demand will be fairly soft for several years, so we need to focus on the areas that I have mentioned and areas that that support them by providing transport and skills.

976. Dr Farry: Does that mean that the CBI strongly endorses the green economy and housing initiative launched yesterday?

977. Mr Smyth: Absolutely, and there were a couple of smart elements in that, particularly around leveraging a certain amount of government money up front by a factor of about 3:1. That achieves a bigger bang for your buck, which particularly interests construction. There is a wide range of benefits and a more innovative payment scheme, but everybody will benefit from day 1, and, once it is paid off, they will get a much bigger benefit.

978. Dr Farry: My final question is the challenging one, but it needs to be raised and I will push the CBI to answer. There is a probably a less than 50:50 possibility of Northern Ireland being

granted a lower rate of corporation tax. The CBI was part of the Economic Reform Group report on that. Under the Azores ruling, it will fall on the Executive to decide whether to use the block grant to fund the lost income in the short-term, before the anticipated uplift in returns. That resource must be found from somewhere. Perhaps, from your perspective, in an ideal world, that money would be found by making savings in other areas or through non-economic activities. However, if it comes down to the Executive having to cease or reduce some of their investments in economic drivers to fund corporation tax shortfall, is the CBI prepared to live with that?

979. If we are serious about a step change in corporation tax being the key issue, is there a justification for shifting resources from lower-efficiency forms of economic support to what have been presented as higher-efficiency means of economic support?

980. Mr Brannigan: You are absolutely right about corporation tax. We are very supportive of the need to reduce corporation tax, to at least in line with the rate in the Republic, in order to become competitive in attracting FDI. At the moment, we are a cost centre, in that we offer a low-cost economy — for labour, and so on — for companies coming in. Anyone can compete on a cost base. If costs are cut elsewhere, we will suddenly find ourselves uncompetitive again.

981. Instead of becoming a low-cost economy, therefore, we have to become an income-driven economy. There is no doubt that varying the rate of corporation tax can enable us to do that. Whatever way we look at it, experience says that that is the case. It is interesting that, despite all the Republic's travails with its economy, which is arguably in a worse state than ours, it has protected its corporation tax rate absolutely. In 2010, the Republic is still attracting significant numbers of companies and significant investment, which is creating significant numbers of jobs. Therefore, this is about trying to create worthwhile and well-paid jobs for the people of Northern Ireland.

982. There is no doubt in the mind of the Business Alliance that varying the rate of corporation tax is the single most important lever that we could put into the hands of government here to create real growth in real jobs to create real wealth for all the people in Northern Ireland. You can argue about whether it is a silver bullet, but I have no doubt whatsoever that varying the corporation tax rate is the single most significant tool that can be used to create that growth. Therefore, you should think long and hard about how to create the opportunity to do it.

983. We understand that a reduction in corporation tax would have an impact on the block grant. As yet, no one has been able to say by how much: some people say £100 million, while others say £300 million. Once we have a definitive answer, we can truly make up our minds about how — not if — to introduce this important tool, which we should and could use. It will then be a case of deciding whether to introduce it gradually or as a big bang. We will know the real answers only when we understand the true implications. However, we are very supportive of a significant reduction in corporation tax.

984. Mr Hamilton: I welcome the production of the report. Terence, you said that it is a menu. It is not an all-you-can-eat buffet but an à la carte menu from which to pick and choose. I very much welcome the fact that the report challenges us in the job that we are doing and stimulates debate. Like others, I do not support absolutely everything in the report, but I see a great deal of merit in a substantial amount of it.

985. There has been discussion about the privatisation, outsourcing or alternative delivery of public services. However, that is not new, because it is happening today. It is not always private companies that do it; it can be community organisations and the voluntary sector. It has been independently verified that the saving delivered to the public purse can be between 20% and 30%. Indeed, in-house bidding in the public sector almost always delivers a higher standard of service. One thing that I have detected from discussions with those in the community and

voluntary sector is that there has already been a retrenchment at the centre. Rather than Departments and agencies tendering and going out to procurement, they are delivering by themselves. I understand the reasons that they are doing that, although I do not agree with them. It is a false economy, in that they are retaining staff in their Department and not wanting to let them go because of the difficulties that that poses, instead of going for the potential saving and a higher quality of service delivery. In your sector, do you detect any similar retrenchment among organisations that are members of the CBI for services that they were delivering previously? It is not that they are losing services but that that delivery is going back to the centre.

986. Mr Brannigan: I will pick up on that in two parts. Earlier, I said that not all in the private sector is good and that not all in the public sector is bad, and Nigel reinforced that opinion. It is about using the most appropriate tool to drive the greatest efficiency. Indeed, as you say, the voluntary sector does some significant work in that area and does so very efficiently. Undoubtedly, there has been retrenchment. That is regrettable from two perspectives. First, it damages the voluntary sector, never mind the private sector, which, of course, it also damages. I preface the second perspective by saying that I have not lost all my cynicism — some of it remains. If I were to be cynical —

987. Mr Hamilton: You sound cynical when you say that.

988. Mr Brannigan: Yes, let me display some of that cynicism. I happen to think that some of that behaviour is about protecting jobs rather than about protecting services and delivering efficiencies. Doing that is cynical in itself, and it is not in anyone's interests.

989. The Committee talked earlier about taking jobs out of the public sector and putting them into the private sector to generate profit. That is an important point, and you are right to say that that happens. Let me give you a simple and easy example of how you can leverage the public sector into the private sector and grow jobs significantly. That happened when the Ministry of Defence (MOD) in England outsourced services to the private sector. A business that started off with an annual turnover of £3 million ended up, within seven years, turning over $1·7 billion a year. That outsourcing created an export business, because the vast majority of that money was generated abroad. Therefore, a business was created out of a public sector service that became a highly successful business. Yes, it generated profit, but it generated tax and created massive employment — more than 100,000 jobs.

990. The issue is not only about transferring people out of the public sector into the private sector. Your point is well made, and we know that there are examples not only of the private sector being damaged in that way but, importantly, the voluntary sector being similarly damaged because work is being taken off it and given to the public sector at, I stress, greater expense to the public purse. That cannot be right.

991. Mr Smyth: Most of our experiences have been with the Health Service and probably more in its use of the community and voluntary sector. The issues in the private sector are more to do with delays owing to budgetary uncertainties in various areas. That is where the frustration lies. At Invest Northern Ireland, there has been a tendency over the past couple of years to bring services back in-house rather than use outside bodies to deliver services.

992. Mr Girvan: Like other Committee members, I welcome the report. Parts of it are easy to swallow and will work well, but other areas of it will result in a kickback from the public sector because of how its proposals would impact on it. I appreciate that the cuts that were announced in the spending review will have a greater impact on the private sector than on the public sector. I know that a lot of people may disagree with that, but, because of the capital aspect of the spending review, it will have a greater impact on the private sector.

993. We need to ensure that every pound is accounted for and well spent. Your report identifies areas in which that can be done. When the announcement was made, we saw the unions' response to the cuts and the impacts that they will have. They made representations about jobs in the public sector alone. The unions may well see areas in which the report's proposals are completely against their ideology of a socialist state. How can there be buy-in? At the end of the day, the proposals could be a way in which to generate wealth in the economy. Have you engaged the unions in any way?

994. Mr Brannigan: I sometimes do not understand. We, rightly, are focusing on the public sector, but it is almost as if the private sector has somehow not been touched in Northern Ireland over the past two to three years. It is almost as if unions do not exist in the private sector — of course they do, and so they should. My grandfather headed up the unions in the Belfast shipyard. I like to think that he did a very good job, although, at that time, it employed 40,000 people. Perhaps he did not do a good job, because there are not too many there now. Nonetheless, it is essential that management and unions, whether in the public sector or the private sector, work together. If they do not, there will be mayhem and the service will not be efficient. No services are protected when there is that kind of discord.

995. In the past two to three years, there has been significant downsizing, reorganisation and re-engineering in the private sector. That has been able to happen through unions' co-operation and support. Indeed, jobs have been saved because that has happened. Michelin, for example, invested significant amounts of money in retraining and upskilling its people during a period in which it was down to around 25% or 30% of production. Michelin worked with the unions to try to retain jobs and to use the time and money to upskill its workforce at a time when the company was losing money in Northern Ireland. That is good behaviour. Unions and management can work together to generate or retain and support jobs in Northern Ireland.

996. This is not about kicking the public sector because the private sector has already had it pretty tough. Not everything about trade unions is bad. They do an important and good job in protecting their membership. At the same time, however, they have a responsibility, as we all do, for the Northern Ireland economy and their part in it. They have to take that responsibility seriously. We have said in the report that they must play an important part and must be engaged in the process, which will not work unless politicians, unions, the private sector, and so on, get together and formulate a plan that we can all deliver. That is an exceptionally important part of the process.

997. Mr Smyth: If I might add to Paul's comments, the biggest hit that people will take overall will not occur in the public sector. That should be managed through natural wastage and various other things. It is a relatively small minority of the total number. Numbers in the public sector will have to shrink from 225,000 to about 200,000, the vast majority of which could and should be done through natural wastage. The big hit will come in the construction sector when the cuts in capital funding are implemented. That is why there is an urgency to see how we can increase some revenues by whatever means. There are a number of options; for example, I see a lot of opportunities to build the capital base a little bit. Young people will be particularly affected. We expect the public sector, like the Civil Service has done, to have a recruitment freeze. That is where the real challenges will be. That comes back to the point that we need to do absolutely everything now to grow the private sector at a faster rate.

998. I have done various interviews, and the trade unions do not want to engage. They did not believe that the cuts were necessary and they now oppose them, so it has been very difficult to engage constructively with them.

999. Mr Girvan: The CBI has found it difficult to engage trade unions on some of those elements in the report. The unions view the private sector as being in direct competition with some of

their members' work. I, for one, have been involved in the private sector, and I know about the difficulties. For example, I know that many people in the private sector have taken up to a 40% pay cut just to keep the business going. That is endemic throughout that sector. I also know that pay cuts would not be tolerated in the public sector.

1000. You have tried to engage the trade unions, but the feedback is that they are not willing to engage positively. There is now an opportunity to buy in and a necessity to focus on making savings, but everybody has to buy in to that. People cannot simply dip in and out. We all have to endure the pain together.

1001. Mr Brannigan: Absolutely. The situation that arose when the comprehensive spending review (CSR) became public and everybody began to understand its potential repercussions was not helped by the unions and the private sector being painted as diametrically opposed, with the unions in the red corner and the CBI in the blue corner. It should not be like that. In fact, it is not like that in the private sector, where management and the unions have been working together. As you say, the private sector has had to take pay cuts, pay freezes, and so on, and it is no surprise, therefore, that the average wage in the public sector is 28% higher than it is in the private sector. That is not sustainable in the longer term, and we must manage that. However, we should be managing it in conjunction with the unions to ensure that we best protect our core services, as we said earlier. That is what we should both be focused on.

1002. Mr Frew: Thank you for your report and paper. I am not making light of the recession or the economic downturn, but the good thing about it — if there is a good thing about recession — is that it forces politicians and businesses to do something that they should have been doing anyway. What I mean by that is that politicians should always be looking at how they can do things better. Perhaps we should have been looking at absorbing people into the private sector 10, 15 or 20 years ago, when that sector was much healthier.

1003. There is fear out there. This time last year, I was working as a foreman electrician, and I, along with everyone else whom I worked with, had to take a 12·5% pay cut just to try to save the company, which was of a good size. However, that was all in vain, because we went into administration in January, so I understand the fear, hurt and pain that people out there are feeling. How should the House manage that fear? Should we ease it or enhance it? In some quarters, people are optimistic, because they think that the actions that we will be forced to take here will mean that, when we come out of recession, whenever that is, we as a country and as a business community will be in a better place, or that we will be able to take off to a higher and better place. I will flip my question: how well are we managing optimism?

1004. I want to get down to the nitty-gritty of the paper. It states that we should increase MOT charges. Do you think that public service vehicles (PSVs) should be included in the proposal or not? In the paper, you also talk about the introduction of congestion charging and tolling. Do you not feel that that would hurt businesses even more at this time, especially the haulage and construction industry, and even the service industry, given how important deliveries are and how much people rely on them? How will that be managed? I recognise that roads are the veins of the country and that haulage is the blood. That is what makes businesses work. I am interested to hear your comments on that.

1005. The last page of the executive summary of your report states:

"Prior to the next Assembly elections, determine the size and shape of Government departments, so that it is clear in advance which positions new ministers can be appointed to;".

Given that we use a mandatory coalition system, that suggestion will not be easy to achieve. Moreover, we have a tremendous workload as it is. We must try to agree a Budget as quickly as possible, and the Bills that are going through the House at the minute result in an incredible workload. How would that proposal take shape and how would we get to that position? I do not know whether I would support a voluntary coalition, but it is bound to be very close.

1006. Mr Brannigan: I will address the point about confidence outside these four walls. None of us is insulated from the fact that there is a lack of confidence and significant concern out there among consumers in the private sector workforce, and in the public sector workforce absolutely, about what may come down the line. How do we deal with that? Again, I can give only a private sector perspective. I have dealt with significant change. I built a business in Northern Ireland that ended up employing 15,500 people, and I ran a business in 48 countries around the world that acquired companies and blended them together, and so on.

1007. What lessons have I learnt? When significant change is coming down the line, leadership, decisiveness — one cannot win unless one is decisive — and speed of action are exceptionally important, and I commend those three principles to anyone. My experience tells me those are the three skills that people require of others. It may be necessary do distasteful things, but if those things are done quickly and decisively, the pain will be out of the way and it will be possible to start to move forward again in a positive manner. I say that from bitter experience. There is nothing worse than losing workforce and having to make people redundant. I have had to do that at times in my life. It is most painful for the people who are made redundant, and it is exceptionally painful for the people who have to do it. However, people earn respect through leadership, decisiveness and speed of action, and rightly so. That is why I said at the beginning that we want the Executive to act decisively, show leadership and arrive at a Budget quickly.

1008. The final part of your question was about the size and shape of government. That is not for us to determine, nor should it be. Nonetheless, government must be fit for purpose, and you must decide how that is shaped. We find that a silo mentality can occur. Protectionism of individual departmental budgets is neither healthy nor helpful. However, it is understandable, and, given the mandatory coalition, it is not easy to manage that situation. More of a collective responsibility is needed for the situation that we are in, for the decisions that need to be taken, for the Budget that needs to be struck and for the repercussions from that. There are certainly things that need to be done.

1009. Mr Smyth: As far as Departments are concerned, the wording in the report is not perfect. We are not suggesting that there should be any interference with d'Hondt; rather, we thought that it would be better if all parties could agree to go to six or eight Departments in advance of the elections instead of holding elections and then start to battle it out. It would be far better to have agreement on that issue beforehand.

1010. The suggestion about MOTs was focused on cars rather than on PSVs. We thought about broader policy issues, particularly to do with the environment. Likewise, on congestion charging, there are options on car parking levies, for example, that we do not think will change behaviour. Congestion charging would probably be limited to some of the main roads into Belfast. That is about changing behaviour. It could be time-limited, or it could be that freight vehicles do not pay at all, as is the case with the Dublin tunnel. It costs a lot more for cars to use it. We are conscious about the competitiveness aspect. If we can guarantee that a lorry will be able to drive straight into the port at no cost, it is probably worth a 50p or £1 charge. With new technology, those things can be designed at a far lower cost than would have been the case 10 years ago.

1011. Taking all those suggestions together, we believe that the Executive need to think about raising £400 million from the range of options that was set out. The trade unions would probably agree that rates should go up; that might be the easier option, rather than battling it out on water charging. As we make clear in our paper, rates here are the lowest in the UK. If they were brought into line with Scotland, where wage levels are similar, around £300 million would be realised. Many people, particularly well-off people, in Northern Ireland do very well and have very good disposable incomes because we do not have water charges and rating costs are very attractive.

1012. The Chairperson: Thank you very much. If we need clarification, we will write to you.

3 November 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Ms Dawn Purvis

Witnesses:

Mr Michael Brennan Ms Joanne McBurney	Department of Finance and Personnel

1013. The Chairperson (Ms J McCann): I welcome Michael Brennan, head of the central expenditure division and his colleague in that division Joanne McBurney. You have been here before and know the drill. I invite you to make a few opening remarks, after which I will open up the meeting for questions.

1014. Mr Michael Brennan (Department of Finance and Personnel): I will begin with a few headline observations and then delve into some of the detail of the data. The spending review outcome was almost exactly as the Department of Finance and Personnel (DFP) had been forecasting for the past five or six months. Over the four-year period, current expenditure will fall by 8% in real terms, and capital expenditure will fall by some 40% in real terms. The net effect is that, over the four years, the Executive and the Assembly will have, cumulatively, some £4 billion less in real terms to spend on the provision of goods and services. After the effect of inflation has been taken into account over that period, the totality of the shortfall in spend is £4 billion. When that is broken down, the current expenditure will be down by £2·1 billion and capital expenditure will be down by £1·8 billion in real terms over the four years.

1015. There has been widespread confusion about the apparent disparity between DFP's numbers and those of the Treasury. In current expenditure, for example, the Treasury quoted a decline of 6·7% and DFP quoted 8%. On the capital side, the Treasury quoted 37% and DFP quoted 40%. Their 2010-11 baseline positions were different: the Treasury's opening baseline position was £9·3 billion, and DFP's position was £9·8 billion on the current side. The vast bulk of that difference was made up of some £400 million for depreciation, impairments and ring-fenced student loans. The Treasury takes the position that those are ring-fenced items and should not be included in the baseline figure, but our position is that they are costs that the Executive and Assembly have to cover, so that is why they are built in.

1016. After the spending review announcement, there was also much debate about whether the commitment to the £18 billion investment strategy would be delivered. DFP's position is that, by the end of March 2011, Northern Ireland will have spent some £9 billion on capital investment. If we take our spending review settlement from the Treasury and factor in £200 million a year for the reinvestment and reform initiative (RRI) borrowing and the capital receipts that Departments have notified to us, it means that, over the next four years, we will spend a further £4·57 billion on capital investment. That brings the total capital spend from the start of the investment strategy to March 2015 to some £13·6 billion. Effectively, that means that, in the final two years of the investment strategy, a further £4·4 billion in capital would have to be made available to the Executive and Assembly. We cannot tell what will happen in the two years after the spending review. However, on the presumption that that will even out at more than £2 billion a year, it would require some heroic assumptions about what we may get in capital in the next spending review.

1017. On an upbeat note, although the capital spend will reduce dramatically over the next four years — a 40% decline is significant — that just takes us back to where we were in 2004-05. The delivery of capital projects will not fall off the end of the earth. Over the next four years, there will still be significant capital spend — in excess of £1 billion a year — by the Executive and Assembly.

1018. Members will probably have picked up on some concern about how the end-year flexibility (EYF) scheme will work as we go forward. The Treasury has confirmed that the operation of the EYF scheme will end next year. It will no longer be available. The Executive had a stock of some £312 million in current expenditure resources that we had built up over the years. That has been taken away from us, so we cannot plan to draw down any of that. A further concern was that the stock of capital that is held by the Department of Justice (DOJ) might also have been lost. Our latest understanding is that the planned EYF drawdown by the DOJ for 2011-12, which I think is in the order of £32 million, will be honoured by the Treasury and delivered to the DOJ.

1019. We also now understand that whatever amount of EYF the Department of Justice was planning to draw down in 2010-11 — I think that it was some £100 million in current and £50 million in capital spend — that is not spent that year, it will be allowed to carry across into the following year. That was a positive element of the EYF scheme for us. The £312 million was money that the Executive earmarked over the past years, but that has been taken away.

1020. We do not know what scheme the Treasury will put in place from April 2011 to replace the end-year flexibility mechanism. I suspect that it will be a more centralist system whereby an individual Department will not have access to its own end-year flexibility scheme. The Treasury will probably create some sort of national reserve, whereby all departmental underspends will be carried across, held centrally and then dispersed. I suspect that the Treasury will set up something along those lines.

1021. That was just a quick run through of some of the numbers and issues.

1022. Mr McNarry: Good morning. What is the Department's view on whether there has been a breach of the £18 billion capital investment commitment?

1023. Mr Brennan: It is difficult to say definitively whether that commitment has been breached, because the spending review period ends before the end of the investment strategy, which extends for two years beyond March 2015. As I said earlier, by the end of the spending review, the Executive will have spent only £13·5 billion, which leaves a shortfall in the investment strategy of more than £4 billion. Given that the Treasury has given us a capital departmental expenditure limit of less than £1 billion for the next four years, it would be a quite heroic assumption that that would suddenly be ramped up to in excess of £2 billion in each of the final two years.

1024. Mr McNarry: We really need to get our heads around this; it would certainly help me to get my head around it. Is it in order for us to request papers that set out in detail the Department's understanding of the capital commitments that were made at St Andrews by what was a different Government and at a time when there were only 11 Departments? May we also have details of what additional capital commitments were made as a result of the devolution of policing and justice powers and a breakdown of how the UK Government's calculation of the £18 billion capital investment compares with that of DFP? We are grateful to Michael and his team for telling us how DFP made its calculation, but we do not have direct access to London to ask the UK Government about their calculation. No one from London will sit in front of us, which is disappointing. We need those important bits of information.

1025. The Chairperson: Can you provide that information?

1026. Mr Brennan: We have a table that disaggregates the investment strategy over the period, as we see it. It breaks down the spending review from the Treasury, the reinvestment and reform initiative borrowing and the receipts of Departments. We could make that table available to the Committee if it would assist members. I should have clarified that the capital departmental expenditure limit going forward includes contributions to, for example, the Department of Justice. When the original investment strategy was constructed, there was no assumption that those functions would be transferred. If it will help, we will certainly make that table available to you.

1027. Mr McNarry: That would be useful. It would also be interesting to access information to compare the calculations of the Treasury and DFP; perhaps you will provide that too.

1028. I declare an interest as a member of the Committee for Justice. From the outset, that Committee was interested in the funding for the Department of Justice. On a number of occasions, the Minister of Justice and his officials, genuinely, in my opinion, made it clear that the Department of Justice had direct access to the Treasury reserves. It seems that there is either a blind spot or an unquantified position as regards what "reserves" means. We all saw the Chief Constable make his pitch for £200 million or whatever. How he was able to do that I do not know, but, no matter, it has happened. I wonder whether that represents access to an unknown sum. The Justice Minister was genuine in what he said, as were his officials. He said that, if there were to be a policing problem that was connected to the issues to which the Chief Constable has been referring, we could access the reserves. It would be extra money for the unforeseen, as opposed to money for simply running the police or its administration.

1029. Do you include in your calculations some transfer of moneys that are either additional to, or taken out of, the funding of policing and justice? Are you satisfied that the word of the Minister, which is not to be challenged, is firm? Are you satisfied that, to meet any extraordinary requirements for which the Chief Constable might convince the Minister that he needs funds, the access to that money would come through the reserves? Where should we position the reserves or the access to them?

1030. Mr Brennan: The DOJ settlement in the spending review was achieved through the mechanics of the Barnett formula. The DOJ received what are known as the Barnett consequentials on all the allocations that went to the Home Office and the Ministry of Justice. All those moneys have come across as planned. There were two worries about how the settlement letter received by the First Minister and the deputy First Minister would be interpreted in light of the spending review. The first, as I mentioned, was about how the EYF scheme might operate in relation to the Department of Justice. We are now in a more comfortable position with regard to what we think that the Treasury means in relation to access to EYF —

1031. Mr McNarry: Will you speak up a little, Michael?

1032. Mr Brennan: I am sorry. We are now more comfortable about how we think that the EYF scheme will operate in relation to policing and justice. The DOJ's underspends will carry across, and it will have full access to those, which gives us comfort. The remaining issue relates to the security pressures that the Chief Constable identified, which run to approximately £50 million or £60 million a year over the next four years. Our understanding was that, if those pressures were to arise, the Department of Justice could go directly to the Treasury and the Cabinet Office to access the national reserve to meet those pressures.

1033. Initially, having reading the settlement letter, the worry was that it would not work that way. We have not yet received any clarification on that. As I understand it, the request for clarification is one of the major issues contained in the reply of the First Minister and deputy First Minister to the UK Government. We are more comfortable with our take on how EYF would operate for policing and justice.

1034. Mr McNarry: I understand EYF, but are you saying that, at this stage, there is a question mark over what was the previous understanding on direct access, as articulated publicly by the Minister?

1035. Mr Brennan: No. I am saying that our current working assumption is that, to deal with the pressures that concern the Chief Constable, our first call is to draw down funds from the national reserve.

1036. Mr McNarry: Are you saying that your assumption is that such access will not be denied?

1037. Mr Brennan: Yes.

1038. Mr McNarry: I am very grateful for that, Chairperson, because I think that we can now park that issue and concentrate on the direct funding that policing and justice needs. You have given us good news, Michael. However, what you have told me is based on your assumption. I do not disbelieve you in any way or want to tie you down too much, but how can you confirm that?

1039. Mr Brennan: In their reply to UK Treasury Ministers, the Ministers will ask for complete clarification in relation to our reading and understanding of the settlement letter.

1040. Mr McNarry: Therefore, if there is any change, I assume that you will let the Committee know about it immediately.

1041. Mr Brennan: I presume that the Minister of Justice will be pretty frank about wanting to address the Committee for Justice on the issue.

1042. Mr McNarry: I can talk only about this Committee at this meeting.

1043. Can you say whether you are confident that the Budget will be agreed by Christmas, Michael?

1044. Mr Brennan: Unfortunately, I am not in a position to say that. That depends on engagements in the Executive and among Departments. We have the headline numbers. We know the funding envelope that is available, and it is now up to the Executive and the ministerial Budget review group to take that forward. As an official, I cannot be confident about whether that will be delivered.

1045. Mr McNarry: I appreciate that. Obviously, the Committee's work is linked to budget outcomes in the Executive, whatever they may be. Although I appreciate what the official says, I am not prepared to accept that "it depends". The onus is on the Executive to resolve the matter. I wonder how long the Committee will be content simply to go along with the situation while the Executive discuss it, or they meet but do not discuss it. It is now November. All indications are that a drama is developing. I wonder how we, as a Committee, can perform our duties if we are not confident that the Executive will be able to prepare and agree a Budget to bring to the Assembly. Therefore, I hope that colleagues agree that the Committee should make the Executive aware of its opinion and exert pressure on them. I do not see how the Committee can function properly if the Executive do not really function properly. It is important that a message be sent out to the public about our ability to address the Budget.

1046. Finally, Michael, I want to come back to your assertion — although not today, because I will need do some more work — that one bit of comfort is that the position that we are in is the same position that we were in in 2004-05. I am not happy about going back and saying that that is good. It is 2010, going on 2011. I am aware of the difficulties that people and businesses faced in 2004-05. I am not persuaded that a return to that time is comforting. I could be persuaded if, attached to that statement, you told us how we will catch up and how long that will take. If you are saying that, in 2011, we have gone back six years, I want to know how quickly we will catch up 2012 at least. I do not believe that what you say provides great comfort. I understand perfectly why you say it. However, it is no comfort whatsoever politically. I want to come back to that issue when I have researched it. The danger is that we will settle for six-year-old standards. That is not progress.

1047. Mr McLaughlin: Good morning. To return to the issue of confusion over the impacts, what assumptions are we making about inflation over the comprehensive review (CSR) period? Is there a disparity between our projection and that of the Treasury?

1048. Mr Brennan: Joanne will give you the detail, but the inflation factors that we have used over the four years are Treasury's gross domestic product (GDP) deflators.

1049. Ms Joanne McBurney (Department of Finance and Personnel): We have used percentage uplifts from 2011-12 onwards of 1·9%, 2·3%, 2·6% and 2·6%. For the first three years, those were taken directly from the Treasury website.

1050. Mr McLaughlin: Is that an agreed datum point between us and Treasury?

1051. Ms McBurney: Yes. We used its figures.

1052. Mr McLaughlin: OK. That is important. A very tight timetable has been agreed. What is the Executive's position on when we have to have the Budget agreed?

1053. Mr Brennan: There is a ministerial Budget review group meeting tomorrow afternoon. I think that the intention is that Ministers on that subgroup will get together as much as is necessary over the next two to three weeks to have a Budget paper ready to take to the Executive.

1054. Mr McLaughlin: I understand that the Executive have not agreed on the Budget, but we are informed that they have agreed on the timetable. What is that timetable and when is the sign-off date?

1055. Mr Brennan: The initial timetable goes something along the lines of the Executive agreeing a draft Budget around 15 or 16 November and presenting it to the Assembly the following day. That would then issue to formal public consultation with a view to bringing it back to the Executive and Assembly in early February for ratification.

1056. Mr McLaughlin: The Chancellor referred to the statement on rebalancing the economy here by growing the private sector. When he made the CSR statement, he announced that that was one of the absolute priorities of the Secretary of State. I will resist discussing just how much reassurance I take from that commitment. The contents of that paper must be a factor in the ability of the Executive to agree a Budget and a Programme for Government. When do we expect that paper? Is Westminster working to a firm deadline?

1057. Mr Brennan: All that I know is that we have not received the paper. We are told that it is imminent, but I am not sure what that means.

1058. Mr McLaughlin: What are the implications of not knowing what it will say for agreeing a Budget in the timetable that we have set ourselves?

1059. Mr Brennan: From recollection, that paper was to address the long-term economic transformation of Northern Ireland. One of the timescales that was included was that the transformation would take 25 years. I think that that was what the Secretary of State said. The paper will address a long-term agenda.

1060. Mr McLaughlin: Assuming that it would feature in our current Budget projections —

1061. Mr McNarry: That is a start.

1062. Mr McLaughlin: It starts at some point. I cannot see how we can expect our Executive to agree a Budget unless they can factor that paper into their discussions and allocations from the get-go.

1063. How real is the timetable for agreeing the Budget if we have no real date for the announcement by George Osborne, David Cameron, or whoever makes it?

1064. Mr Brennan: The Assembly and Executive's fundamental difficulty is that they do not have the luxury of sitting and waiting for the paper, because, as the Minister of Finance and Personnel has said many times recently, there needs to be certainty about the Departments, the arm's-length bodies, the trusts, the boards, the schools and the hospitals. They all need to know what their budgets are come 1 April next year.

1065. Mr McLaughlin: Is it viable to go forward on the basis of current realities and then run another Budget process when the document is produced? Is that what we are being told?

1066. Mr Brennan: It is for the Executive to form a view on how they want to deal with that. Until the paper is delivered and presented —

1067. Mr McLaughlin: I just want to be clear about how real the timetables are that people are talking about. That information was promised after the CSR announcement. I am asking you, Michael, but you did not create the timetable or the difficulty. I see a complete contradiction if people have said that rebalancing the economy is an absolute priority.

1068. How can we take the Budget forward? How can our Executive deal with the matter unless Treasury tells us when we will get the document and what we can expect, and gives us the detail and the quantum so that we can take it forward as part of our Programme for Government, as well as the Budget that will underpin it?

1069. Mr Brennan: The Finance Minister's primary responsibility is to construct and present a draft Budget. That is where all his focus lies in his engagement with ministerial colleagues. In many ways, we will not know what comes out of the paper on rebalancing the economy until we see it. We cannot hold up the whole process; everything is in abeyance until we see what emerges from that document. It may be something of substance, or it may be a more long-term project.

1070. Mr McLaughlin: If it proves impossible to agree the Budget in the absence of that information, we could well be walking into a situation in which the Assembly gets the blame for that when in fact it is not responsible for creating what I see as a crisis in the process. There is logic in getting the CSR statement and getting the commitment to delivering proposals and policies for rebalancing the economy. I take the point that a generational change is being set down here, but the process is supposed to start this autumn. There is then the process of drafting the Programme for Government, after which there is the process of agreeing the Budget. We cannot do that back to front or with half the information.

1071. Mr Brennan: As far as rebalancing the economy is concerned, I suspect that many of the issues that will be presented in that regard, even with the best will in the world, will take many years to deal with. The issue that seems to be attracting a lot of attention at the moment is some sort of initiative on corporation tax. That would require legislation and European Commission approval. A considerable amount of time will have passed before any of those measures would be introduced, so I suspect that the first priority is to establish the financial position for 2011-12.

1072. Mr McLaughlin: I agree, but not in the absence of what will be the policy superstructure that will determine Budget and Programme for Government processes for the next 25 years.

1073. Let me come at the issue in a different way. We are also told that there is engagement with the Treasury on this issue. Is that correct? Previous to the CSR statement, the Minister of Enterprise, Trade and Investment told the Assembly that she and the Finance Minister had been working with the Treasury on a paper on rebalancing the economy. What has been DFP's input? Can we assume that there is an agreed Executive position, or is it, at this stage, limited to DFP engagement with the Treasury? It has to be one or the other. Is there formal guidance and manifesto agreed by the full Executive in addressing the issue? It is obvious that there are fairly significant cross-departmental implications.

1074. Mr Brennan: I am not the lead official on that particular issue, but I know that there is ongoing direct engagement among DFP, the Treasury and other Departments on that work. However, I have not seen the output of that engagement.

1075. Mr McLaughlin: Is that engagement going to comprise separate engagements, depending on departmental interests, or is there a lead Department that represents the consolidated position of the Executive?

1076. Mr Brennan: I know that there is an Executive economic strategy subgroup that works directly on that issue with the Treasury. Other than that, I cannot go into the detail.

1077. Mr McLaughlin: Is that subgroup directing the DFP engagement with the Treasury or not?

1078. Mr Brennan: I am not close enough to it to go into detail on that.

1079. Mr McLaughlin: Do you know whether that group is reporting back to the Executive on its engagement and progress, or otherwise, with the Treasury?

1080. Mr Brennan: I am sorry, but I am not aware of the detail.

1081. Mr McLaughlin: Can you get that information?

1082. Mr Brennan: I can certainly relay the point to the lead official.

1083. Mr McLaughlin: I have to say that I am concerned as to whether we have a real timetable. There are too many imponderables and too many holes in the process. I am not holding you responsible for that, obviously, but great play has been made of the urgency of finding agreement. I would not resist that at all, and I am certainly prepared as a member of this Committee to play my part in facilitating the process. However, I do not see any sense whatsoever in going forward without all the required information, and that seems to be the position in which we find ourselves.

1084. Dr Farry: Welcome, Michael and Joanne. There appears to be confusion around figures. On the rebalancing of the economy, the Secretary of State is saying 77% of our economy is public sector. I knew that the percentage was high, but I was not under the impression that it was quite that high. What is DFP's understanding of where that lies?

1085. Mr Brennan: From recollection, public sector activity, both direct and indirect spend, is equivalent to somewhere in the order of about two thirds of regional gross value added (GVA). I have never heard a figure higher than that.

1086. Mr McLaughlin: Since May 2008, 35,000 jobs have been lost from the private sector, so, exponentially, the 65% figure does not stand up. Percentage-wise, the figure is in the mid-70s.

1087. Dr Farry: I think that it is certainly over 70%, but, as for the 77% that he is talking about, I think that the Secretary of State has picked it up wrong somewhere.

1088. Looking specifically at the financial end of things, Michael, I understand your point about there being confusion around our baseline versus the Treasury baseline, but the other aspect of the confusion was the figure of £4 billion that was talked about. Speaking in layman's terms, the public were expecting a £2 billion figure coming out of this process, yet all of a sudden the Stormont press machine is pushing a £4 billion headline cut. I understand how one gets the £4 billion figure, but that is not the conventional way in which most Governments measure spending cuts. I am wondering why that was done and what the reasons were for presenting the figure in those terms. Surely what the Treasury has done with its figures and what we were doing going into this process was working on what would be the 2014-15 baseline, relative to our 2010-11 baseline.

1089. Mr Brennan: The difference is, as you say, a subtle one, in that the £2 billion referred to a point, March 2015, and that is what the reduction would see you at. However, it became apparent that, in many ways, that would be a misleading figure, because carrying forward the same level and range of services as provided today over each of the next four years and allowing for inflation would see a reduced spend of £4 billion across the period. The other factor at play was that there was such a significant decline in 2011-12, particularly on the capital side, so we could get to the final year and be at £2 billion less, but we would need to reflect the magnitude of the changes that take place in years one, two and three. As I say, particularly on the capital side, the decrease was so significant.

1090. Dr Farry: Yes, but even within that £4 billion, the reductions in capital would still be well under half of that £4 billion.

1091. Mr Brennan: Yes; the figures that I gave were £2·1 billion on current expenditure and £1·8 billion on capital expenditure.

1092. Dr Farry: However, the goalposts were shifted in the way in which we were presenting the figures. Going into this process and coming out the other end, we used a different methodology, and it is not a methodology that most other Governments would use.

1093. Mr Brennan: We were trying to convey the message that that is the total shortfall across the four-year period, so that is what the Northern Ireland public will notice as the shortfall in the total provision of public services across that period, not what it would be at the end of the four-year period.

1094. Dr Farry: The message coming out beforehand was to expect a cut of £2 billion, but all of a sudden we were told that it is £4 billion. That gives the impression that, in very simplistic terms, the cuts were twice as bad as expected, when evidently they were not.

1095. Mr Brennan: On reflection, for consistency, we should have taken the £4 billion methodology and applied that across the period, because, as I say, that is the total impact.

1096. Dr Farry: Moving on, you said that the level of the cuts was pretty much as expected. I appreciate that on the capital side it is really bad. On the current side, it is perhaps not quite as bad as we were expecting. I understand that Departments were asked to proceed on the basis of higher percentage cuts.

1097. Mr Brennan: Yes, we have been working on the basis of a cut of roughly 10% on flat cash, so it was slightly better than that. Some specific issues contributed to that; for example, in 2011-12 there is an allocation from Treasury of £25 million for the Presbyterian Mutual Society. Some specific issues were built into current expenditure, which if netted out, the 8% figure would rise.

1098. Dr Farry: Yes, so it is slightly better but not by that much.

1099. To what extent is active consideration being given to moving resources from current to capital expenditure? A number of parties, including the Alliance Party, have talked about that option, particularly bearing in mind that the capital side has really suffered while the current side is not quite as bad.

1100. Mr Brennan: That is an issue under active consideration by the ministerial Budget review group, and it is in the papers that have been prepared. The other side of the coin is the need to look at the quality of capital projects. Good money should not be thrown after bad. The key issue is whether greater value for money is achieved on the current side or the capital side. For example, £x million could be taken out of current expenditure and put into a capital project that generates transitory jobs in a certain sector with poor value for money. However, taking money out of current effectively takes money away from nurses, teachers and doctors. There is a balance to be struck.

1101. Dr Farry: The political concern that has been expressed by the First Minister, the Finance Minister and the rest of the Executive is to the effect that capital is the area in which we are suffering most. There is an opportunity for us to move resources from current to capital, provided that we do it sensibly.

1102. My final question relates to timetables. I share many of the concerns that David has already mentioned. The next Executive meeting will take place in mid-November. You mentioned that consultation will run until early February and that the Budget will be adopted in February. That takes us down to the wire. The public consultation process is important, particularly on difficult decisions of this magnitude. The Committee must also be allowed to conduct whatever evidence sessions it wishes.

1103. When you talk about the Assembly adopting a Budget in February, that probably refers to the formal vote on a four-year Budget, which is the equivalent of what we did in February 2008. Beyond that, the Budget (No. 1) Bill will have to go through. I am conscious that the Assembly will rise on 24 March 2011. Is that part of your considerations? Have you factored in how you will run through all the legislative stages after the Assembly adopts a Budget in mid-February, which is the best-case scenario?

1104. Mr Brennan: Those issues are certainly at the forefront of our timetabling concerns. Our Minister has stressed his concern in the House many times. He has said January at the latest, and that time is getting close.

1105. Mr Hamilton: There has been an understandable concentration on the current and capital departmental expenditure limit, but the Budget also has annually managed expenditure (AME) implications, particularly on the welfare front. What discussions have there been with the Treasury about the implications of reductions in welfare? Is one of the issues that has been discussed the Executive's ability to retain any portion of the savings made in reducing the overall welfare bill?

1106. Her Majesty's Government's policy appears to be to reduce overall spend on welfare through crude cuts on the one hand and longer-term reform on the other. Much of the longer-term reform will concern how welfare is administered, assessed and processed, the cost of which is a direct hit to our Budget. Therefore, we are spending money from our Budget to save money that all goes back to Treasury. The Chief Secretary to the Treasury hinted at the possibility of our retaining some of those savings as an incentive. Has there been any discussion about that?

1107. Mr Brennan: You touch on two or three important issues, the first of which is the funding of the welfare reform agenda in Northern Ireland. The Treasury position is that the Executive got Barnett consequentials on the allocations that the Treasury made to the Department for Work and Pensions in Whitehall. We got the Barnett consequential on whatever money the Department for Work and Pensions (DWP) got to deliver the welfare reform agenda. Northern Ireland's allocation has a departmental expenditure limit on both resource and capital to deliver the welfare reform agenda and the projects that are needed.

1108. Secondly, the savings that are made in the welfare reform agenda all accrue on the AME side, to the direct benefit of the Treasury. DFP is working closely with Department for Social Development (DSD) colleagues. Our proposition to Treasury is that we find some sort of sharing mechanism — basically, an Invest to Save-type project — by which savings that accrue on the AME side can be of additional benefit to us and the departmental expenditure limit. That proposition is currently with Treasury. We are still exploring the issue.

1109. The third issue concerns maintaining parity in welfare throughout the UK and whether we can do anything regionally. The difficulty is that Treasury will say that any decision that the Executive take unilaterally on welfare reform, with regard to, for example, differing levels of benefit or not implementing universal credit in future, they must, therefore, fund themselves. One may find that some notional saving is made on the AME side but that Treasury will deduct the difference from the departmental expenditure limit. It goes to the heart of Treasury's concern about the fundamental principle of repercussiveness.

1110. Ms Purvis: You have access to underspend next year, provided that you meet the £127 million pressure in the current Budget year. Underspend has decreased owing to improvement in Departments' spending. How confident are you that you will meet that £127 million in the current year?

1111. Mr Brennan: The Executive have not given a formal commitment to address that £127 million pressure in-year. We have told Treasury that we will make our best endeavours to address it. We have until the spring Supplementary Estimates to notify Treasury formally of what we intend to do. We have addressed the capital element of that pressure. We will see where we are after the December monitoring round has been completed in the Executive and the Assembly. We will then notify Treasury formally of what we intend to do on the current side. Treasury will not impose a sanction on us. Our door is still open with Treasury to notify it of what we are doing.

1112. Ms Purvis: Was that negotiated specifically for Northern Ireland, or do the other devolved regions have similar access?

1113. Mr Brennan: The regions were all offered the same access. However, I understand that there is a difference in approach between the Scots and the Welsh. One is writing off that pressure and the other is deferring it.

1114. Ms Purvis: Right. It is allowed to defer?

1115. Mr Brennan: That was an option. The difficulty with deferring is that all the pain is transferred to the start of the next financial year.

1116. Ms Purvis: Is it the Executive's intention to agree a four-year Budget, or has any consideration been given to agreeing a one-year Budget?

1117. Mr Brennan: To date, all work that has been done and papers that have been produced have been on the basis of a four-year Budget.

1118. Mr Frew: Michael, you said that the Department viewed the figures and cuts that we face here to be pretty much as we expected. I agree with that analysis. I heard the Minister tell us that many times in the House. All Departments were given your assumed figures, on which they based their spending and saving plans. How many Departments have submitted their plans? How will those plans aid the timetable and budgetary process?

1119. Ms McBurney: Departments were not asked to submit their savings delivery plans to DFP but to publish them alongside the draft Budget. Therefore, we have not been expecting to see those savings delivery plans yet. We asked Departments to provide us with spending area details on our database so that we could have a look at figures. To date, only four Departments have done so. Hopefully, when the overall Budget position is set, they will all follow through with that.

1120. When the level of savings that we have asked Departments to find was compared with the forecasted spending review outcome, the two were slightly different. The level of savings that we asked Departments to provide was higher than our forecasted reduction in spending, because we wanted to set aside money for the Executive to reallocate to anything that they consider a priority. Therefore, the two figures did not exactly correlate.

1121. Mr Frew: How helpful do you believe that that information will be now to informing a timetable?

1122. Ms McBurney: The information that we have asked Departments to provide will help them to plan and give them a ballpark position against which they can plan to make savings. Obviously, that will help in working towards a timetable.

1123. Mr Frew: Do you think that the four Departments that have done that are in a much better position?

1124. Ms McBurney: The four Departments have provided us with that information. I hope that the other Departments have done the background work but have not necessarily populated our database with it.

1125. The Chairperson: The Committee is stating very clearly that we and the rest of the Committees need sufficient time to consider any draft Budget. We cannot work to an unrealistic timetable. We will relay that to the Minister, and we hope that we will be given sufficient time. Michael and Joanne, thank you very much for coming.

3 November 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Ms Veronica Holland Mr Brian McClure	Department of Finance and Personnel

1126. The Chairperson (Ms J McCann): I welcome Brian McClure, the head or the rating policy division, and Veronica Holland, who is also from the rating policy division. I refer members to the DFP briefing paper. If Brian and Veronica begin with some short opening remarks, we will then ask them questions.

1127. Mr Brian McClure (Department of Finance and Personnel): Thank you for the opportunity to further update the Committee on industrial derating. If members are content, I will spend five minutes running through some of the main points and giving an overview of the Minister's position. In addition, I will highlight some of the more pertinent points in the briefing paper.

1128. As members will be aware, industrial derating provides 70% rates relief to the manufacturing industry. This relief has existed since 1929. Around 2003-04, direct rule Ministers decided to start phasing it out. However, before it got too far — it is currently at 30% — direct rule Ministers agreed that the Economic Research Institute should undertake a study into the effectiveness of the policy. The institute duly reported shortly after the return of devolution. It concluded that there were risks in fully phasing out industrial derating. At the time — 2006-07 — it thought that increasing rates to 50% would pose a low risk to jobs and investment. However, the institute highlighted the fact that that assessment was based on fairly limited evidence and that the available information was incomplete. Therefore, the report suggested proceeding cautiously. That was why, at that time, Peter Robinson agreed to hold manufacturing rates at 30% for the current comprehensive spending review (CSR) period, and the Executive endorsed that decision.

1129. Today, we are considering the forthcoming spending review period, and it is important to stress that the Minister is not advocating that the status quo be maintained indefinitely. However, given the current climate and the important contribution made by the manufacturing sector to the Northern Ireland economy, he considers that now is not the time to change the level of support.

1130. The economic rationale behind industrial derating is all about maintaining competitiveness. That was the original rationale in 1929 and it remains the rationale, particularly in the context of economic development being the Executive's top priority. That is why the Minister believes that we should continue with the policy. Were today's economic reality and outlook different, a different proposal may well have been on the table, so it is worth considering the context.

1131. The Minister also feels that it is important for the Executive to demonstrate their continued support for the manufacturing sector through maintaining derating at 30% liability for the spending review. There is also concern that suddenly and unexpectedly increasing liability could force some firms to consider relocating, reduce employment, cease business altogether or lead to disinvestment. On that point, the Economic Research Institute of Northern Ireland (ERINI) survey found that 25% of firms interviewed said that they would consider transferring production to outside Northern Ireland if rates were fully levied here. That was quite a factor for those firms. It may be claimed that they would say that anyway, but the Economic Research Institute also applied its own view.

1132. The briefing paper sets out further information on the revenue implications of increasing the current level of liability, the level of rates arrears and the potential loss to business from increased rates. The figure that we have shown to illustrate the difference between 30% and 100% liability represents a maximum, because it presupposes that all of the extra money would be collected. Evidence also suggests that increasing liability to 50% would not devastate manufacturing in Northern Ireland. However, based on evidence from the ERINI report and other studies, the view is that a number of manufacturers could not afford to pay the extra if it were imposed suddenly. I suspect that many more may refuse to pay. Given the uncertain economic outlook, the collectable figure cannot be predicted with any certainty. I know that the Committee is particularly interested in that figure, but I do not think that we can provide a reliable one.

1133. The ERINI report also states that, due to the lack of comprehensive data, it is difficult to put a meaningful figure on how many firms could go to the wall over increased rate liability. However, the Minister thinks that there would be a risk of an adverse impact on manufacturing at that time, which is why he believes the level of support should be retained. I again emphasise that it is not suggested that the status quo should continue indefinitely. The level of support would have to be reviewed again before the end of the forthcoming spending review period. Indeed, it would be open to a new Assembly mandate to do that sooner rather than later.

1134. Finally, our briefing paper to members highlights the type of businesses that benefit from industrial derating. They are quite broad in nature but there are some exceptions that the Committee may care to note. At the previous session, someone asked whether some software businesses benefit from industrial derating: they do not, because they involve an insufficient degree of manual labour. Therefore, the policy has some anomalies. Industrial derating is not a policy that the Department would come up with now, but it is a one that has existed for many years.

1135. Northern Ireland is the only part of the world that has property tax relief for manufacturing. We could not introduce it now because of EU state-aid rules, but, in its current form, it qualifies as a pre-accession aid.

1136. We are asking for the Committee's view on including the proposal in the Budget paper that will go out to consultation. We do not intend to undertake separate consultation on the matter; it will be consulted on in the round along with the Budget. We intend to review things in light of the consultation response, and, if necessary, we will give further evidence to the Committee. Obviously, the Committee is free to take evidence from other sources, and that evidence will be reviewed in due course. All that we are asking the Committee for today is its view on including in the Budget paper the proposal to hold the industrial rating liability at 30% for the spending review period. That would require subordinate legislation that would have to be debated in the Assembly in the new year, so there will be an opportunity then for the Assembly to consider the issue fully.

1137. Mr McNarry: I am not moved to increase those rates. Perhaps discussion beyond what Brian said is required to determine where industrial derating sits and should sit in relation to growing the economy, which is very important. I understand what we are being asked, and my initial reaction is that it is OK to include the proposal in the Budget consultation paper. However, I am concerned that that may be a piecemeal approach.

1138. We heard that there may not be a Budget and that, if there is one, we are unsure about what type it will be. Brian McClure alluded to the fact that a review might be necessary, although that would be up to the newly mandated Assembly. I think that we should be stronger on the matter. Indeed, I would prefer the Department to specify its position. I know that Brian did that, but there needs to be an Executive position on industrial derating. Let us include it and, if necessary, consult on it. Nevertheless, regardless of whether there is good reason to include consultation in the Budget process, it seems to me that the approach is piecemeal and based on shifting sand. I would like the relief to be retained and not be subject to conditions.

1139. As I said, it requires Executive endorsement and it should be included in the things that we are going to address, perhaps as part of a strategic objective. How on earth can you tell industrialists and businessmen to base their budgets on — I do not know whether there would be consensus for this — the likelihood that derating will continue when, on the other hand, a review is due and something else might hit it? In my opinion, you cannot ask businesses to work around piecemeal proposals that have no objective unless, as I asked, the Department's attitude to growing the economy becomes firmer and it can say that the proposals are part of that pursuit. That seems to fit in with keeping businesses afloat. You cannot fault a business for basing its budget on the current rates regime.

1140. Businesses are inclined to take costs as they are. Not many of them have the luxury of writing off costs as they might be, and it could have a detrimental effect. If we are serious about growing our economy, that is part of a package that would fit into what we can do. I do not know whether we would lose that if we were to reduce corporation tax or create enterprise zones. We still have not taken any decisions on those, and, until we do, we should retain derating.

1141. Mr McClure: The Minister's clear position is that he wants to retain industrial derating at 30% liability — 70% relief — for the entire spending review period. He will seek the Executive's endorsement of that, but, before he does so, he wants the views that the Committee expresses today on the issue put forward to the Executive. Like Mr McNarry, our Minister is very keen on certainty for business and that there are no sudden shocks for business. That is what this policy is about.

1142. Mr McNarry: I do not have a problem with that. This is not a criticism of the Minister, who, over recent times, seems to be performing very well. Perhaps he should come to the Committee, but he is the Minister, and, if he has a strong opinion, he should take that opinion forward. He does need my support or the support of anyone else on that. I hope that he is not hedging his bets, because, if the Committee were to say no, what on earth would the Minister do? He would not have the Committee's support to take to the Executive, so, without any disrespect to Brian, I would rather the Minister were here to tell us what he is doing or what he wants to do.

1143. Dr Farry: In the past, I have been sceptical of derating because it is a blunt instrument, and I have viewed it as not the most efficient way of supporting business. In some respects, I saw it as ossifying the current structure in the economy rather than encouraging change. Those criticisms still stand, but, that said, I recognise that, in the current specific economic climate, removing it would be disproportionately destabilising to business, which is already under considerable pressure. For that reason, I am prepared to be a bit more pragmatic. Brian, given the changes in the EU state-aid rules that we expect to come into effect by 2013, will we be able to continue to have that policy for the next four years anyway?

1144. Mr McClure: There is no absolute certainty on that, but our reading of the situation is that, because it is a pre-accession measure, there are no signs that any of the changes that are coming up on state-aid rules would affect it. That is not to say that the European Union could not suddenly do something unexpected, but it is our reading that, with respect to the changes to state-aid rules, we are reasonably safe. We will have to continue to monitor that, and, if there is any likelihood that the position will change, we will advise the Committee immediately.

1145. Dr Farry: I have one big reservation about the proposals. It is a slightly different emphasis to David's point, and I accept what he said about business needing a degree of certainty. I appreciate that the opportunity to set a lower rate of corporation tax over the next four years is an "if", and we can discuss how big an "if" that is. If it were to come to pass, based on the Azores ruling, we would have to fund it. There is logic in saying that the lost revenue from industrial derating is an obvious candidate for reallocating towards corporation tax measures.

1146. That may not account for it in its entirety, but using an element of it jumps out as an obvious way of doing things. In essence, we would be moving resources from a less efficient means of support to business to what was described to the Committee as a more efficient way to support it. If we lock ourselves into one method of supporting business over four years, I fear that we could restrict our ability to deliver on other options that may come our way in the future.

1147. I have no problem with linking this issue into the wider budgetary consultation, but I would be happier with an approach that sees the Executive give a more general commitment of support to business of at least the value of industrial derating. In practice, in year 2 or 3, that may involve industrial derating plus corporation tax, purely industrial derating, or entirely corporation tax, with the potential to throw in more resources if corporation tax is costing less than £200 million. That would allow a bit more flexibility at the same time as providing surety to business.

1148. Mr McClure: The legislation allows that to be unlocked. Were we to want, as I think is the suggestion, to cross-fund corporation tax in some way, we would just introduce a new set of regulations in a subsequent period. However, reducing industrial derating to 50% would raise £16 million. During an earlier session, the CBI talked about a range of £100 million to £300 million of a deficit to fund corporation tax, so it would go only a small way towards that.

1149. Dr Farry: Sure, but a whole range of sources will have to be drawn on to fund corporation tax.

1150. Mr McClure: It would, absolutely; yes.

1151. Dr Farry: It would be unfair if, for example, health and education took all the hits while inefficient economic measures escape.

1152. Mr McClure: A decision of the Assembly on industrial derating would not lock it in for ever and a day. The Assembly could introduce new legislation; if the context changes because of corporation tax flexibility, the policy would change too. I take the member's point. We must be careful with our words around policy announcements or whatever may well come out of this process. It may be that the Assembly will state that it wishes to provide a certain level of support, whether from this source or others. That is the ongoing position.

1153. Dr Farry: Thank you.

1154. Ms Purvis: In my opinion, the paper probably raises more questions than it answers. It refers to job losses in the manufacturing sector and the contraction in the manufacturing base, but there is no analysis of the reasons for that contraction, for example the departure of foreign-owned companies such as Visteon and Baker Hughes, taking their jobs with them. Again, there is no information about the potential risk to the manufacturing base. There are no specifics about companies going under, and the paper is based on an ERINI survey that was conducted, I think, in 2007.

1155. Mr McClure: That is correct.

1156. Ms Purvis: I take issue with some of the suggestions that the Department has used from that survey, including:

"The Minister considers that suddenly increasing liability from 30% could force firms to consider relocating elsewhere".

How would the Department know that? There is no evidence of that. It seems to me to be an assumption made by the Minister based on a survey conducted in 2007.

1157. The paper continues:

"Of those surveyed by ERINI 25% said they would consider the transfer of part or all of production to outside Northern Ireland".

In real terms, how many firms is that? Are they still manufacturing in Northern Ireland or have they gone since 2007?

1158. The basis of the paper is in question. I am concerned that, since the ERINI report, there has been a significant decline in the economy. The Minister is of the view that, even if the real risk to industry and jobs is not particularly high, every single job loss would be blamed on the imposition of the Assembly. I am not sure whether he has the same concern about every single public sector job loss. The paper does not answer any of our questions from the last session.

1159. When the Committee agreed that industrial derating should be extended for the last CSR, surely businesses had a four-year run-in to get over the shock. How would it be a shock if businesses had years to prepare for derating to be increased to 50% liability? When the issue was agreed last time, it was not agreed for ever and a day.

1160. ERINI's paper also stated that a major threat to the sector was its competitive position deteriorating. I have difficulty with a blanket benefit to business because ERINI's paper refers to a lack of innovation and interest and to a risking cost base. Obviously, if industrial derating is kept as it is, it will help to keep the cost base down, but there is no link with innovation and investment. I have a difficulty with that because businesses can take that, put it in their back pocket and say that that is all right. It is about keeping costs down but it is not tied into job creation, R&D or helping with exports.

1161. What consideration has been given to looking at the income from 100% liability and using the other 70% — 30% comes in currently — in other ways to help the base to become more competitive by investing in innovation, research and development, and increasing exports? You said at the last meeting that we cannot change the legislation. We wanted businesses to invest the 70% that they do not pay or do something with it to create jobs. There is nothing to say that we cannot increase that to 100% and use the other 70%. Has any consideration —

1162. Mr McClure: Recycling it in manufacturing?

1163. Ms Purvis: Yes.

1164. Mr McClure: That is a very good point. We looked at that back in 2006 when we were engaged with Northern Ireland Manufacturing and other business organisations. In fact, we reached the stage of naming the proposal; it was called the STAR (skills, training and research) scheme. It looked at whether a proportion of the savings from the rates scheme could be recycled back into manufacturing. The industry was quite keen. There were complications about the skills levy at that time, and it never developed as a policy. At the time, the direct rule Minister decided not to take that forward because it was complicated. We looked at the proposal, and, if the Committee wanted, we could look at it again. However, it could not be introduced quickly because it would require primary legislation, consultation and research. We could re-engage with business organisations on that issue.

1165. The ERINI study back in 2007 struggled to identify possible closures or the impact on individual businesses. We do not have any newer research. We asked the Minister whether he wanted us to commission a further study, but he felt not because of two reasons. One reason was because of the general cross-party support for retaining industrial derating at 70%, which many voices at that time were looking to be a long-term fix. Secondly, he feels that any change in policy is inconsistent with rebalancing the economy in Northern Ireland, and he felt that that was not the appropriate thing to do. For that reason, we did not reopen the issue with new research.

1166. I am not an economist, and we have to look at the evidence that is presented by economists. ERINI carried out a substantial piece of work, but even it failed to identify that at an individual level. I accept fully that we are not armed with all of the facts, but I am not sure that we ever will be, and you may well get a different view from a different set of economists. I am sorry that that is an unsatisfactory answer, but I am trying to explain how we got to this position.

1167. Ms Purvis: It is very important that we grow our manufacturing base in Northern Ireland. There is no question about that, but when does stimulus to help growth become dependency on the state? I am concerned that a continual blanket handout becomes dependency rather than stimulating growth in that sector through jobs and exports.

1168. Mr McClure: I do not disagree with you.

1169. Mr O'Loan: I am interested in your answer to Dawn about the possibility of a scheme that would return to manufacturing in a more targeted way some of the extra revenue that potentially would be raised. I thought that we had been told previously that that would not be permitted under the rules, so I am interested that you were exploring that, and I am keen that you open that exploration again and get that evidence in front of us at some stage. I guess that everyone would like to move away from that discount, and, by that, I mean that we would like to feel that we had the confidence that the manufacturing sector could stand the stand the ordinary rates charge in the same way as other businesses.

1170. I take David's point that we do not want to spring surprises on any section of business so that, if there were a change, it would have to be phased in properly, due notice would have to be given, and so on. The difficulty is that the evidence is not clear. The costs of the discount are clear enough; I understand that, for every 10%, a figure of around £8 million is involved. How much benefit is going to manufacturing out of that? For all the analysis in your paper, which is based on the ERINI evidence, we do not have real clarity. By and large, I conclude that, if there is to be change, it is up to the Minister to lead it. He is not currently minded to do that.

1171. Other businesses pay rates at 100%. Is there evidence that pressure on manufacturing is greater than that on other businesses in these difficult times for everyone?

1172. Mr McClure: Probably not. As you know, the big sector that is suffering in Northern Ireland is construction. The service sector is not doing terribly well either. Over the past quarter, output from the manufacturing sector has grown a little, but, again, it depends what sub-sector you are talking about. This morning, I heard the CBI talking about some sectors that are doing quite well, including ICT, food processing, and so on. Sectors that have been successful in exporting to countries that have not suffered so much from the economic downturn are doing well, but that does not apply across the board. We cannot retarget this measure. We are stuck with it, warts and all. The Committee will know that, if we were to modify it in any way, it would become the nature of a new scheme, which, therefore, would not be allowable under state-aid rules.

1173. Mr O'Loan: Last week, a member raised the question of arrears, which I thought was a good question. I note that your paper states that there were arrears on around 19% of properties that are subject to industrial derating. You say that there are arrears on 7% properties that are classified as other derating. I do not know what that is, and it may be a small category. You say that there are arrears on around 15% of properties for all other non-domestic properties. Do you regard that as very strong evidence that those in the manufacturing sector have significantly more difficulty in paying their rates bills than others?

1174. Mr McClure: I certainly did not take that from the evidence. Veronica, do you have any comments on that point?

1175. Ms Holland: Without the level of support that is provided to the sector, the figures would be slightly different. For example, I imagine that the arrears figures would be higher. For the other derating category, there should be a footnote in the paper to cover sport and recreation and transport.

1176. The Chairperson: No other members have indicated that they want to ask a question, so thank you very much for attending. Do you need to wait while we discuss this?

1177. Mr McClure: If possible, yes, because I would like to be able to report back to the Minister.

1178. The Chairperson: If the Committee agrees, I suggest that we agree in principle that the proposal to retain the scheme be included in the draft Budget consultation. The Committee will then be able to consider its final position in light of that consultation. Furthermore, you mentioned the STAR scheme, to which a couple of members also referred. We could recommend that further exploration be carried out into that scheme and that that should also be included in the draft Budget consultation. Are members happy that we do that?

Members indicated assent.

1179. Mr McClure: Thank you very much.

3 November 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Ms Dawn Purvis

Witness:

Professor David Heald University of Aberdeen

1180. The Chairperson (Ms J McCann): Professor Heald, you are very welcome. I have just explained to the Committee that you did not have time to prepare a paper for today's session. Please cover some of the main points in more detail than we would normally ask for if we had a paper. I will then open up the session to questions.

1181. Professor David Heald (University of Aberdeen): Many thanks for the invitation. Obviously, I do not know the detailed numbers in the way that the Department of Finance and Personnel would. Furthermore, I have not seen some of the papers. However, I have some general points that I believe are very important for the Committee to consider. The settlement for the Executive and the other devolved Administrations is much less bad than it might have been, given all the talk of 10% or 20% cuts that had dominated the London newspapers in particular.

1182. It is very important to recognise that although people criticise the Barnett formula, it is the Barnett formula that is now protecting the devolved Administrations. Given the mechanical nature of the formula consequentials, the fact that education and health in England either received increases or did not take significant cuts, fed through as the driving factors in the consequentials that the devolved Administrations receive. The difference, of course, is the treatment of local government in England, which maps onto some of the Executive functions in Northern Ireland. Therefore, the real-terms cuts of 8%, 10%, or whatever, are actually not the kind of system-destroying cuts that people have been talking about.

1183. I think that Simon Hamilton raised this issue in one of his questions to Michael Brennan: the Committee ought to think about what is happening on the welfare side. The welfare budget is enormously complicated and I would not dream of understanding how it affects Northern Ireland. If there are cutbacks in disability and housing benefit, that will affect the people of Northern Ireland even though it does not directly affect the Executive. However, it will affect public services because more demands are likely to be made on Executive services. There are two issues: the welfare side is probably more severe than anybody expected, but what has actually happened to the resource budget of the Assembly is not as severe as it might have been, given all the rhetoric.

1184. It is very important to protect capital expenditure as much as possible. Obviously, one does not want bad capital projects — the quality of capital projects is important — but Northern Ireland is heavily dependent on the public sector and the construction sector. My understanding is that the construction sector is quite localised, so the regional multipliers in Northern Ireland will be quite high from capital spending. Therefore, one ought to think about the question of whether room can be found to move money from resource into capital.

1185. In a Scottish context, I have been a very strong devolutionist and have been involved in the arguments for devolution in Scotland since the 1970s. However, in a largely grant-financed devolution system, the Treasury currently holds too much power. The unilateral decisions to end the end-year flexibility (EYF) system are seriously damaging. That was a very good system that arose during the spending review system from 1998 onwards. One does not want a situation again whereby people paint buildings simply to spend money at year end. The Treasury seems to have unilateral discretion to take decisions on issues that fundamentally affect the financial management of the devolved Administrations. The fact that the EYF built up very strongly in the first 10 years of devolution reflected the fact that public spending was growing faster than the absorptive capacity. It is all right to have more money for health, but if we cannot hire doctors and nurses, the money will not be spent sensibly. Therefore, the EYF was an important mechanism for cushioning that pressure and preventing people from wasting the money.

1186. There are important constitutional questions about the future of devolution. The devolution system has had 10 years to bed down during a period of very strong increases in public expenditure. The situation has now changed, and many things that are happening in England, such as the abolition of primary care trusts and the scale of reductions in local government expenditure, will, in my view, be quite destabilising to public service provision in England. However, the fact that the consequentials come together to feed the Northern Ireland Budget means that Northern Ireland, Scotland and Wales can insulate themselves from some of those pressures.

1187. Given that the gross domestic product (GDP) deflator is now 2·7% — the DFP officials said that the projected figure for the future is about 2% — the crucial question is what will happen with pay. If pay does not go up and there are no pay rises in the public sector, one will absorb a lot of that real-terms reduction. Therefore, one has to communicate to people that there will be a very clear trade-off in the devolved Administrations between jobs and pay rises.

1188. Mr McLaughlin: You are very welcome. In your experience, and given the challenge that now faces this devolved Assembly, where are the real opportunities to identify additional revenue-generating ideas within the legislative powers of the Assemblies?

1189. Professor Heald: That question has two parts. I have, for a long time, been supportive of increased tax powers for the Scottish Parliament. I was one of the people who devised the "tartan tax", which has never been used by the Scottish Parliament because there was too much money around and there was no need for it. The build-up of EYF indicated that people could not spend the money that they had, let alone use the tartan tax. I gave evidence to the Calman Commission in Scotland, and I am in favour of increasing tax powers. However, I do not accept the "devolution max" scenario whereby all the devolved Administrations would finance all their spending through their own taxation. However, the direction ought to be a move towards more tax powers.

1190. It is noticeable in Scotland — I am sure that it is the same in Northern Ireland — that, because the block grant rose so fast, there was no pressure to use tax powers. In fact, over the period, it is certainly true for Scotland and, I suspect, for Northern Ireland, that less money has been raised in terms of internally generated revenue.

1191. I know that there has been debate about water charges in Northern Ireland. However, it is clear that in a period of expenditure plenty, it is very difficult to persuade people to accept new charges or increased existing charges. I suspect that that will be different over the next 10 years. In principle, I believe that it would be better that devolved Administrations raised more of their own money, but within the constitutional structure of the United Kingdom and the centralised fiscal control of the Treasury, I think there are limits on how far you can go, but I would wish to move.

1192. The Chairperson: On the back of that, can you identify any potential areas in which long-term efficiencies can be achieved?

1193. Professor Heald: I have limited practical knowledge of the government of Northern Ireland. In 2003, I wrote a report for the then Northern Ireland Economic Council on the funding system, which touched marginally on government structure. Looking in from the outside, it is obvious that the structure of Northern Ireland government is very complicated. I am fully aware of the historical and current reasons for some of that complication. One of the things I would urge the Executive and you, the scrutiny Committee, to recognise in the current context is that one can not only do things that destabilise the system, but things that represent sensible belt-tightening.

1194. I would urge Northern Ireland to rationalise the machinery of government in the way that one would wish to do anyway. Government in Northern Ireland is too complex; it has too many Departments and public bodies. Some of the reasons for the multiplication of public bodies may no longer be so important. The structure needs to be simplified. However, you must not get into a situation in which the system is thrown into complete chaos at a time when you have to manage budgetary reductions. There would then be all sorts of wasted expenditure on severance payments that are avoidable, after which people turn up in other parts of the system in some future role, leading to scandals about such matters that damage public trust in government.

1195. If you have good control of pay, and you can persuade people in Northern Ireland that there is a jobs/wages trade-off while sensibly doing the rationalisation that you want to do, you can achieve expenditure reductions on the resource side without destabilising the system. Obviously, there are going to be some ramifications of destabilisation in England.

1196. Mr Hamilton: You made a point about the pay bill and the need for balance. The choices are neither easy nor desirable, but there has to be a balance between trying to keep as many people as possible in public sector employment, avoiding some of the negative consequences that you talked about, including fairly hefty pay-offs in some cases, and freezing pay. The Westminster Government have decided to go for a freeze, and there is some debate about whether we should do that here. What is the Scottish Parliament doing about that? What is their approach? It is relevant here that we may be able to control the Northern Ireland Civil Service, which accounts for approximately 15% of the public sector, but we have limited or no control over the remainder of the public sector and the issues that that throws up.

1197. Professor Heald: I completely accept your point that this is a very complicated area. I am not sufficiently involved to be able to comment in detail on what the Scottish Government is doing, but there is a difference between imposing a pay freeze, and having discussions and a consensus that there is a trade-off. It is clear that there is going to be a trade-off in Northern Ireland between getting rid of jobs that you do not want to get rid of because they contribute positively to public services, and meeting budgetary targets. A lot will depend on the extent to which we can build a consensus that one wishes to minimise the damage. Quick expenditure reductions can end up being wasteful.

1198. I am strongly reminded of the early 1980s cuts to English education, including universities, which took about 25 years to repair. Things that are done in haste can take a long time to repair. There has already been discussion this morning about infrastructure in Northern Ireland, but the issue is true of the UK as a whole. In the 1970s and 1980s, for various reasons, the UK neglected its infrastructure, relative to continental European countries. It has taken a remarkably long time to make any inroads into repairing that deterioration in infrastructure. One has to try to take people along with you and recognise that there are difficult trade-offs.

1199. Ms Purvis: Devolution in Northern Ireland came about a lot differently than in Scotland and Wales. There was probably more popular support for devolution in Scotland and Wales; I have seen that public confidence in the Welsh Assembly is high and has grown every year. We suffer a crisis of public confidence in this Assembly, although this has been the longest period of devolution since 1998. There is a link between public confidence in our political institutions here and the continuation — or not — of conflict. Do you have a view on how fair this CSR has been to Northern Ireland, given its recent history? Do you think that there is a case to be made to the Treasury regarding Northern Ireland's particular circumstances?

1200. You talked about the dependency on the public sector and the impact that there will be, particularly on jobs. However, a heavy concentration of our public sector involves women in low-paid jobs, and I would like your view on that. Much has been made of the level of a pay freeze, for example, and how that will impact on lower-paid people.

1201. Professor Heald: The question about fairness is inevitably a very difficult one. I do not know the figures for Northern Ireland, but certainly there has been concern at the UK level that of the 490,000 jobs that are expected to go across the UK, a heavy concentration are held by women. Arguments have been about whether there were proper equality assessments before the expected reductions were announced. I do not know enough detail about the circumstances of Northern Ireland, but I suspect that that is a general problem.

1202. Your point about pay freezes and the low paid in the context of the 4·6% retail price index (RPI) and the 3·1% consumer price index (CPI) goes back to my previous answer to Simon: it is a question of whether one can build consensus. Also important is the question of whether one is part of the UK pay negotiations or whether you have got your own pay negotiations. But the point that I am making is that the more that you can contain pay costs, the less real service provision will have to be cut.

1203. The Chairperson: You talked about more tax powers regionally. I remember hearing something about the new revenue system in Scotland including a local income tax. I know that you mentioned adding a penny on that, one way or another, but is there some sort of initiative in Scotland to develop that even more?

1204. Professor Heald: My understanding is that it is the policy of the UK coalition Government to bring forward legislative proposals in connection with one of the recommendations of the Calman Commission, which was essentially the transfer of 10 income tax points from the UK Treasury to the Scottish Parliament. That is a specific proposal about Scotland. In principle, I support that being available to Wales and Northern Ireland, should they want it. The question is about the willingness to use taxation powers. People are much more willing to argue for them than they are to use the taxation powers that they have.

1205. Mr Girvan: David, I really appreciate your report and I welcome this opportunity to go into some detail. The Northern Ireland economy depends greatly on the public sector. It has its major problems in that our private sector is not really a large economy and we have a difficulty in transferring money from what is currently a revenue spend to capital projects. We have a certain amount of flexibility in that regard, but, from an industrial point of view, we need to improve our infrastructure to encourage inward investment in the Province and to try to ensure that that sector grows. Scotland invested greatly in its oil industry. It spent a lot of money on its infrastructure to try to encourage involvement from private and public money. Where in Northern Ireland, other than in the construction industry, do you see an opportunity for us to do that?

1206. Professor Heald: I am not a specialist on the Northern Ireland economy. In the short term, the issue is to make sure that the fiscal consolidation does not unnecessarily impact on the private sector. Very clearly, if there are fewer public sector employees and they earn less in real wages, they will spend less in the private sector in the form of personal consumption.

1207. The new Government asked Sir Philip Green to complete a report on Government procurement, one of the recommendations of which was to centralise procurement more and pay suppliers more slowly. Government has special responsibilities. Before I came here, I read the Committee's report on public procurement and the report on public sector efficiencies. The Committee made a very important point in the public procurement report: within the requirements of UK and European law, the public sector has responsibilities to its suppliers. The public sector should not behave badly towards its private sector suppliers. There is obviously a trade-off. Centralising procurement in Northern Ireland may have certain cost advantages to the public sector, but bulking up the contracts to a very large size would exclude the small and medium-sized enterprises that the report concerned. It is about minimising unnecessary damage to the private sector from the fiscal consolidation.

1208. In terms of the broader issue, I first came again to Northern Ireland in 1992. The sense that one gets here now is very different to that in 1992. In respect of public confidence of the people in Northern Ireland and of people who might invest here, the success of the Assembly and Executive is immensely important. Devolution is very important in sending a message to the outside world that may wish to invest in Northern Ireland.

1209. Mr Girvan: We have a problem in that we have created a culture in which Departments receive a certain amount of money and must make all of their spend. In doing so, they do unnecessary things. You made mention of coming to the end of the year and throwing another coat of paint on a building, even though it may not need it, or replacing carpets. I appreciate that there is a necessity for us to see where savings can be made. I appreciate that the spending review has allowed us to focus on areas so that there will not necessarily be big job losses left, right and centre in the public sector but that savings can be made, and spend in proper areas can be encouraged.

1210. Capping or freezing pay for a period is a positive way to try to protect jobs and to keep an economy going, as opposed to creating more dependence on the social sector, because we have no control over the benefits system. We would like to see an opportunity for savings through welfare reform being used to contribute positively to the Northern Ireland economy.

1211. Professor Heald: I have already commented adversely on the Treasury removing the stock of EYF. The member raises an interesting point because Northern Ireland has kept its EYF. However, it may be that Departments were frightened of DFP taking back the money. Therefore, in a sense, EYF is a complicated issue because of the structure of government.

1212. I will make two other points. First, I very much emphasise the Committee's scrutiny role. In a period when public spending is rising fast, it is much more difficult to get people to take scrutiny seriously. Over the next 10 years, the Committee's role is going to be more important.

Secondly, in my view, bizarrely, the UK Government have announced the abolition of the Audit Commission, claiming that doing so will save £50 million. Northern Ireland will have taken the Barnett consequentials of that. I argue that, as with scrutiny, the protection of audit and the protection of the budget of the Northern Ireland Audit Office are very important, because scrutiny and value-for-money audit should attract more attention during periods of financial difficulty.

1213. The Chairperson: In its earlier evidence session, the Committee was told that the EYF built up in previous years is now lost.

1214. Professor Heald: Yes.

1215. The Chairperson: Do you see any logic in that decision?

1216. Professor Heald: Presumably, from the Treasury's point of view, there has been a big build-up of EYF over the years, although there has been some running down of it in more recent years. Presumably, the Treasury sees it as an easy kill. I think that it is an easy kill that gives very bad incentive signals to Departments. The "spend it or lose it" idea is very bad and is linked to one-year budgeting. We are talking about a four-year budget, and big efforts have been made to think beyond that one-year horizon. It is obviously difficult to bring in a budget exactly on time because the capital side depends on how bad the weather is from January to March. In my view, it is a retrograde step to cancel the EYF stock.

1217. For some time, I have suspected that that would happen at some point in the future. However, even if the Treasury were to devise a new EYF system, people will be distrustful because of previous experience. Hence, I think that it is a question of looking for an easy kill now without proper regard to the future consequences.

1218. The Chairperson: No other member has indicated that they want to ask a question, so I thank Professor Heald for coming. That was very useful. If there are any more questions, may the Committee write to you for more information?

1219. Professor Heald: Yes. Many thanks.

10 November 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr David Orr
Ms Deborah McNeilly Department of Finance and Personnel
Ms Brigitte Worth

1220. The Chairperson (Ms J McCann): I welcome David Orr, who is from the corporate services group; Deborah McNeilly, who is the finance director of the corporate services group; and Brigitte Worth, who is from the finance branch of the corporate services group. You are very welcome. Please make a few opening remarks, after which I will open up the session for questions.

1221. Mr David Orr (Department of Finance and Personnel): Thank you for inviting us, Chairperson. I have just one main point to make. I hope that the Committee agrees that we have been very transparent and open with it in setting out the wide range of options for reduction. I stress that these are indicative options. They total about 16% reduction by year 4. As we know, the national spending review outcome, when it is translated down to Northern Ireland block level, was for an 8% reduction in year 4. I do not know what the Department of Finance and Personnel's final position will be until the draft Budget is agreed by the Executive, but my point is that we have identified options that are greater than are likely to be required. Therefore, in case the media or press are covering the session, I do not want the options to be reported as actual cuts that we are making. They are a menu of options for reduction that we may or may not have to take. We are willing to take the Committee's advice and view on the prioritisation of any of them. That is the only point that I wanted to make.

1222. Mr McNarry: Good morning, ladies and gentlemen. David, you really cannot have your cake and eat it, which is what you are asking. You have presented a report to us and are asking whether we agree that it is open and transparent. I accept that it is, and I am grateful for it being so. It is in front of a scrutiny Committee, and our entitlement is to scrutinise it. It would not be anything that we say that may be misrepresented by the media. I do not know whether the media have this document, but I will come to that.

1223. You said that you would not want any of the options to be reported as being actual cuts. Perhaps you will help me with what your Department were briefing about a draft Budget to the media last night. Your Department were using the media very effectively. I nearly crashed the car when I heard Mark Devenport giving his report on the radio that a draft Budget can be agreed by next Tuesday, with a final Budget following in mid-February. You have put before us a very open and transparent paper that gives us no indications whatsoever because there is not one thing that you say will happen. There are a whole lot of options, and I respect them. However, last night, that is not what your officials briefed the BBC about. They said that we would have a draft Budget next Tuesday. If that is the case, David, why do we not have a better paper than this?

1224. Mr Orr: I am not aware of what briefing was given last night, but I am aware —

1225. Mr McNarry: Did you hear the report on the news?

1226. Mr Orr: I did hear the report on the news, but I am aware that the Minister spoke at length about the Budget process during Question Time in the Assembly. I think that he covered many of the points that you have made, including the February date and the process.

1227. Mr McNarry: He did not cover next Tuesday.

1228. Mr Orr: I am unsighted in that regard. I do not know the answer to that. Deborah's and my responsibility is to develop a budget for the Department of Finance and Personnel. Central finance group is dealing with the overall Budget process. I am not sighted on its proposals for the rest of the Departments. I do not even know what its proposals are for the Department of Finance and Personnel because, quite rightly, it treats us as another department in relation to our budget allocation. This paper makes the point that until the Executive develop and agree a draft Budget, I will not be in a position to know which, how many, or what proportion of these options will have to be cut.

1229. Mr McNarry: I accept that, David. I am just making the point. I would have been quite happy with that had I not heard Mark Devenport's report on the BBC. I have now received the transcript of his report. It very clearly indicated to me and the world that was listening that your Department expects to have a draft Budget agreed by next Tuesday. That disarms me. I am at a disadvantage because I suspect that there is another paper about the Budget, which must be in circulation somewhere, that led whoever the officials were to brief — it was not your Minister, it was officials — the BBC last night. It is always very nice to see you. This may not be a question that you can answer, but, if no one is denying that we will not have a draft Budget by next Tuesday, when will officials be in a position to let the Committee see the draft Budget?

1230. Mr Orr: I cannot answer that question because it depends on the discussions at the Budget review group and on agreement —

1231. Mr McNarry: I sometimes think that you are sent here to take a tongue-lashing. It is nothing personal, but someone else should really be here instead of you.

1232. The Chairperson: I was about to suggest that we invite Richard Pengelly, or whoever is responsible for that, to the Committee to answer those questions.

1233. Mr McNarry: I would have thought that he, or whoever is responsible, should be here. However, given that you are here — you are very welcome — I have a couple of questions. It is blooming annoying that we go to the trouble of reading all the information when a one-liner on the news from somebody in your Department throws it completely haywire. I am, perhaps, about to delve into a question that you cannot answer. However, the Committee and I were very pleased, because we were pressing for more activity from the performance and efficiency delivery unit (PEDU) to assist people with their efficiencies and, in turn, their budgets. Are you aware of any effect of PEDU activity in the Department of Health, Social Services and Public Safety and in the Department of Education?

1234. Mr Orr: Again, that is not my area. However, as I understand it, the terms of reference have been put to the Departments and are with the relevant Ministers for agreement.

1235. Mr McNarry: Given that bodies have to make efficiencies and cuts, we thought that PEDU might help. There is no sign that that help has been utilised yet, and that tells me something. Again, that is perhaps Mr Pengelly's area.

1236. I fully take on board your comments that you must not allow the media or anybody else to consider the proposals to be cuts. However, if I am allowed, and I have your Department's paper in front of me, I think that we are talking about 916 jobs being projected to go over four years. Is that incorrect, Deborah?

1237. Mr Orr: If we take up all the options, a total of 400 jobs will go by year four.

1238. Mr McNarry: The figures are 65 jobs next year, an increase to 185 the following year, up to 266 and then to 400.

1239. Ms Deborah McNeilly (Department of Finance and Personnel): No; the figures are cumulative. By the time we get to year four, the total will be 400.

1240. Mr McNarry: I hope that there will be a mechanism to create a retrievable situation by year four and that we will not be talking about job losses. However, I see why you have projected those job losses. Am I to take it from that that the budget assumptions for your Department and every other Department, and the draft Budget that we expect to see, will be based on the next four years?

1241. Mr Orr: That is our understanding and expectation.

1242. Mr McNarry: Therefore, it is clear that everybody is working to the same blueprint of a four-year expectancy.

1243. Mr Orr: Yes; that is what we have been asked to work to.

1244. Mc McNarry: On job losses: are you able to say how the Department will manage that and communicate with staff during a terrible time of uncertainty for them? Here we are only weeks before Christmas and your corrected figures show that 400 people will very shortly lose their jobs. Have staff of all grades in DFP had an opportunity to contribute to the development of the savings plans that we talked about? We have been talking, more or less, about people at a senior level.

1245. Mr Orr: I am sorry to repeat myself, but it is important that I first make the point that those 400 jobs will be lost only if a 16% reduction is imposed on DFP.

1246. Mr McNarry: Yes. It is important to make that point.

1247. Mr Orr: Were DFP to be faced with the same reduction as the block generally, about 200 jobs would be lost. That is important. We may not have to impose the full level of those savings.

1248. My next point is that we have conducted four-year models with our Northern Ireland Statistics and Research Agency (NISRA) statisticians, and we reckon that more than 500 people will leave the Department over that period through retirement and general departures. In their models, the statisticians take account of the tighter employment situation and the fact that people will be less likely to leave their jobs. Therefore, we think that more than 500 people will leave DFP. Of course, there is no guarantee that the people who leave will be in the jobs that may have to go, so there will have to be a reconciliation exercise. We are consulting the trade union side, with whom we have another meeting on Friday.

1249. To answer the question: people right across DFP have been involved in developing those plans because the options were developed by the business areas themselves. I do not guarantee that every person in DFP has had an input.

1250. Mr McNarry: I have two further points. I hear what you say, and I think that it is plausible and shows a caring attitude. The briefing from your Department states in black and white:

"Given that some 43% of the department's gross expenditure is on staff costs, it is inevitable that a substantial level of savings will relate to reductions in staffing levels."

Therefore, on the one hand, you say what you have said, which is creditable, but then you say that DFP will actually have to cut staff.

1251. Mr Orr: I think that we say that we would cut posts and jobs. To be honest, that is inevitable. There will have to be job reductions, but, because of the turnover to which I referred, there is a difference between cutting a post and reducing staff.

1252. Mr McNarry: Perhaps one day you will be able to tell us how many jobs are going.

1253. Mr Orr: When the draft Budget is published, we will do all in our power to do so.

1254. Mr McNarry: That is what we need, because the people whom we are talking about are more than likely to be constituents of ours.

1255. Mr Orr: Yes, indeed.

1256. Mr McNarry: We have a duty of care for them. Finally, the Department's briefing paper states:

"The 'long list' of options has not yet been ranked".

What does that mean? How can you come here with a paper that tells us blah, blah this and blah, blah, blah that, but at the end of which, unless I am wrong, a sentence is included that states:

"The 'long list' of options has not yet been ranked"?

1257. Mr Orr: Yes.

1258. Mr McNarry: Can we get a ranking? When can we get it? We do not really know the Department's priorities or what it is doing.

1259. Mr Orr: Our briefing paper explains that the ranking has been done in business areas, but it has not yet been ranked at an overall departmental level. We have arranged a board meeting in the next month or so to do that. We are waiting to see how much we are allocated so that we can undertake that ranking and ensure that we get it right in the critical area of where to draw the line.

1260. Mr McNarry: At this moment in time, can you give us —

1261. Mr Orr: We have not ranked it at departmental level.

1262. Mr McNarry: Are you prepared to say, or even to give us a sweetener, about what your preferences might be?

1263. Mr Orr: Our preferences are to take what the business areas have ranked as low priority. We really do not want to get into some of the things that we marked as very high pain, and I am desperately hoping to avoid doing so.

1264. Mr McNarry: When we read the Hansard report, I am sure that we will see that all that will have been worthwhile. Nevertheless, thank you for your time.

1265. Mr O'Loan: Thank you, David, and your colleagues for your presentation and for your informative paper. I endorse the general comment that it is important not to scare the public and staff in your Department. The situation is clearly difficult, but it is important that we do not say that everything on your list will definitely happen because staff and their families are involved, so there is a heavy duty of responsibility on how we discuss those issues. I take it that, even in the worst-case scenario of a 16% reduction in your budget, which ought not to happen, in all probability, you could manage without compulsory redundancies.

1266. Mr Orr: I very much hope that that will be the case. However, I cannot give a guarantee, because I do not yet know — nobody does — the implications for other Departments. The Civil Service will try to manage it in the round. Therefore, losing a great number of posts in another Department will impact on our Department. Our hope and expectation is that we will not have to have compulsory redundancies.

1267. Mr O'Loan: DFP is conspicuous, among all the Departments, in having a very large cohort of Senior Civil Service (SCS) staff. Land and Property Services (LPS) is the only place that is addressing that matter. You talked about the ongoing review and the proposed reductions in LPS senior staffing. We are conscious of the pressures in LPS. Surely the huge proportion of Senior Civil Service staff in DFP is one area that should have been mentioned, with direct proposals to engage with the problem.

1268. Mr Orr: Our proposals cover two ways to reduce the SCS: one is in Land and Property Services and the other is in the Central Procurement Directorate. Details of that are in appendix 2. On the thrust of your question, since 1 March 2009, the start of the last financial year, we reduced the number of senior civil servants in DFP by 10%, and further reductions are to come. DFP's Senior Civil Service is smaller than it was 10 years ago, despite the fact that, during those 10 years, we took on a wide range of functions, including the construction service, rates collection, land registers, the Ordnance Survey and all the new shared services — Account NI, IT Assist, and so on. Indeed, most recently, a couple of SCS posts have been needed to provide a supply team and a legal adviser for the Department of Justice. You are right to say that it is an important issue. I agree with you, and we have been working hard to deal with it and to constrain the numbers of SCS in DFP.

1269. Mr O'Loan: Further work and analysis is needed in that area. I want to comment on your proposal to end the 10-day payment arrangement for suppliers. The Committee's view is that that is an important commitment, and we would be concerned if it were to be reduced. How will that save £500,000 in each of the four years, and what is the assessment of the effect that that will have on the private sector?

1270. Ms McNeilly: We have had to employ additional staff in the Account NI shared service organisation to improve our activity to meet and deliver on the 10-day prompt payment commitment. The Account NI shared service was originally set up on the basis that it would meet the legal commitment on prompt payment, which is 30 days or the terms that the supplier has agreed. Therefore, there are additional staff resources, and it costs the Department £500,000 each year to try to meet the 10-day prompt payment commitment.

1271. That commitment is targeted at small and medium-sized enterprises to enable them to improve cash flow. Many of the Department's commitments and payments are to big companies such as BT and Fujitsu, and that gives rise to the issue that, even though we give them the money in 10 days, they do not necessarily pass that on to their small and medium-sized subcontractors. Given those issues on subcontractors, we are not clear whether we are achieving the objectives of the 10-day prompt payment commitment in that way. We are looking at that, but it does cost us £500,000 a year.

1272. Mr O'Loan: More work and thought may be needed to target measures to benefit the people whom we really want to benefit.

1273. Has there been a participative process in the Department? We talked about the potential for media coverage, the implications of that and the need for responsibility. We do not want people to learn about certain issues from the media. Such media stories are, potentially, produced in a polemical fashion that might make people think that their jobs are even more at risk than they actually are. Therefore, has there been a participative process, or has it been a top-down management approach? What kind of process have you conducted and what kind of consultation will continue with staff so that they are kept on board? The matter has created morale issues across all Departments.

1274. Mr Orr: The development of the options started in May/June 2010 at a full-day board meeting at which board members put forward options for reductions. Over the summer, those options were refined, and middle management in each business area was involved in that process. The permanent secretary, Deborah and I had bilateral meetings with each grade 3 to refine those options further.

1275. Mr O'Loan is right about the staff. We must strike a balance between not causing anxiety — some of the options may never happen — and, on the other hand, being realistic. At least every other monthly staff brief has covered issues such as the need to develop a savings-related budget, the process that we are going through and the fact that we have a range of options, some of which may be taken up and some of which may not, depending on the final Budget outcome. As I said, we are in touch with our trade union colleagues to share those points in the same way that we share them with the Committee.

1276. Mr O'Loan: As well as talking to the trade unions, do you have any process for engaging with the staff and asking how they feel about the consultation during this difficult period?

1277. Mr Orr: I will give an example. My senior managers and I meet groups of staff on a monthly or two-monthly basis, and we have an open forum at which staff from all grades can ask questions. You are right. People ask three questions: will they have a job, will they be redeployed or moved elsewhere, and they will get a pay increase? My practice is to deal with those questions as openly and as honestly as I can. I do not have all the answers, but, by discussing the issues with staff, that type of approach is appreciated.

1278. Mr O'Loan: I very much endorse that approach.

1279. Dr Farry: David, you are welcome. I appreciate the fact that your function is to deal with the DFP budget only. To build on David McNarry's comments: it is fairly common knowledge that an Executive subgroup is trying to wrestle with the Budget. There is an Executive meeting on 18 November, and they need some agreement. If the Executive are meeting, we can presuppose that they are discussing written proposals as opposed to sitting around and shooting the breeze without having anything concrete to discuss.

1280. It strikes me that the option of ending the 10-day prompt payment commitment is a beggar-my-neighbour approach, which I find a little disappointing. We are trying to stress collaboration among Departments and, beyond that, the need for the public and private sectors to work together. Such an option comes across as DFP cutting its cloth, with the consequences for Government, the private sector and anyone else being secondary in its considerations.

1281. Mr Orr: That is a high-pain option, so we understand your issues and those that the Committee has previously raised with me. The payment of invoices within 10 days is a resource-intensive process. It costs £500,000 a year for DFP alone, never mind the other Departments. The standard payment terms for most businesses are 30 days. If you asked small businesses in your constituency whether they get paid by their higher-tier suppliers within 30 days, they would break their arm to get those sorts of reliable payment terms. It costs us £500,000 to achieve an

84% 10-day prompt payment rate. Is that good value for money? I am happy to take the Committee's view on that.

1282. Dr Farry: I want to follow up on Deborah's point about the main government suppliers and their payments to subcontractors. When contracts are up for renewal, would DFP consider the introduction of clauses that require payment within at least 30 days? That would avoid a situation in which a subcontractor could be hanging on for 90 days or longer.

1283. Mr Orr: The 30 days is a statutory requirement and is already written into contracts. The law provides that payment must be made within 30 days unless the two parties — the main contractor and the subcontractor — have agreed otherwise.

1284. Dr Farry: What is the rationale or methodology for the distinction between low and medium pain, on the one hand, and high and very high pain, on the other?

1285. Mr Orr: It is not that scientific. We consider a range of factors. On the low-pain side, there are efficiency savings that we have identified and will make in any case. I have spoken to the Committee previously about our process of relocating staff into more space-efficient accommodation. We have already made £1·5 million a year in savings by doing that. If we continue with that process, by year four, we will make an additional £3 million a year in savings. We should do that anyway because it makes good sense.

1286. At the other end of the scale are some very high-pain options. As I mentioned to Declan, we really do not want to contemplate those. Ending the digital inclusion work would not make sense. We would have to do that only if our backs were really against the wall. A high-pain option is to do away with my corporate improvement group, which tries to do continuous improvement work throughout the Department.

1287. Dr Farry: David, I am sure that you are more than capable of doing that yourself.

1288. Mr Orr: I am not so sure. However, the high-pain options are those that would impact on front-line services to the public or that require a massive effort to get them in for not much return.

1289. Dr Farry: It is a little simplistic and disappointing to consider where reductions can be made from the Department's existing baseline. Ultimately, the Department will get a certain amount of money with which to provide a required level of service. Within that, there should be scope for innovation or initiatives, such as starting new projects or programmes. We should not stop that process. Why do I see no evidence of new and different ways to do things that might be part of the mix to compensate for ceasing to do other things?

1290. I have a long-standing concern about Land and Property Services, the 2007 baseline for which was clearly wrong. In almost every monitoring round, LPS sought additional resources. LPS may be viewed as a back office, but it is central to rates collection, which is another issue about which the Committee has voiced concern in the past. We are, again, tinkering at the edges of LPS in trying to make further cutbacks. I see no evidence in the Department's paper of the fundamental issue of the LPS baseline being addressed. I also rather suspect and fear that we will see more bids from LPS in every monitoring round over the next four years.

1291. Mr Orr: Today's briefing paper deals with the reductions. The previous paper that was presented to the Committee dealt with the bids for the Department and included £5·5 million a year for LPS. I agree with you that that is important. I know that you were at Colby House a couple of weeks ago. LPS is a good organisation that is trying to get better. It has a difficult job, and it needs to be properly resourced.

1292. Dr Farry: You highlighted the fact that there are separate departmental papers on bids and reductions. Is there not a case to be made for bringing those papers together to say that this is the Department's view on the best way that it can deliver its services in cutback scenarios of 8%, 10%, 14% or 16%? We would then have a consolidated view. Rather than the Department considering reductions and hoping the best for bids, it could come back and say that, within certain overall parameters, this is what we need.

1293. Mr Orr: I take your points. We had a previous paper on bids. Sooner or later, I will have to bring all those papers together, and I will come to the Committee at that stage, once the way forward is clearer.

1294. On innovation: you made the point that we are talking about reductions right across the board. I assure you that we in the Department try hard to ask ourselves what we can stop doing. That was the focus of the bilateral meetings that the permanent secretary held with each business area. It is more difficult than you might think.

1295. For example, Deborah's division looks after internal audit, business planning, the production of the official accounts and financial management. Which of those four areas can I stop? The answer is none. We have identified and included some areas in the paper, but it is more difficult than might be thought. That is because, over the past three to four years, no allowance was made for inflation, so we have already stopped doing those things that we could. I am keen on innovation, and there are some innovative ideas in the paper that we can talk about if we have the time.

1296. Dr Farry: I stress again my point about integration. We almost get the sense that the bids are something that the Department hopes to get. I am disappointed that the two elements have still to be integrated. Consequently, rather than telling the Committee that a bid is important and the Department hopes that the Executive will allow it, I would like the Department to spell out internally how it feels that it could pay for a service by shifting things internally to enable it to realise a plan.

1297. Mr McLaughlin: The savings delivery plan guidance indicates explicitly that measures that simply shift costs and do not represent a true saving will not be considered, yet we hear of a proposal to increase charges for business consultancy commissions and legal services provided to other Departments. How can that be explained as representing new revenue?

1298. Mr Orr: Business consultancy is the responsibility of one of my divisions, the delivery and innovation division, and its business has increased because Departments are coming to our internal business consultancy rather than to external business consultants, such as PricewaterhouseCoopers and Deloitte. Consequently, we are seeing growth in our business, which is represented by the increase in fees and income. The Departmental Solicitor's Office introduced charges in this financial year, and the increases that you see for the next four years are just the outflow of that.

1299. Mr McLaughlin: So, it is a saving, rather than new revenue. In other words, Departments would have expended resources on external consultancy otherwise.

1300. Mr Orr: Yes, and I think that they would have expended more than the have on the very good value services that our business consultancy provides.

1301. Mr McLaughlin: Do you have a list of other government bodies and agencies that should be encouraged or enticed to use those services?

1302. Mr Orr: My internal business consultancy —

1303. Mr McLaughlin: Is this an organic process, or are you, in fact, seeking to bring business in?

1304. Mr Orr: We market our services across the NICS, and there are excellent examples of good work and co-operation between our business consultancy and the Health Department, the Education Department, and across the board. It is highly regarded.

1305. Mr McLaughlin: I am trying to figure out whether you answered my question.

1306. Mr Orr: We do market those services across the NICS.

1307. Mr McLaughlin: OK, but if government here has an overall efficiency goal, then I am trying to find out whether the process is voluntary, or whether Departments are being presented with targets to realise significant savings in current usage profiles on, for example, external consultancy?

1308. Mr Orr: I am not aware of any targets for reducing external consultancy across the board, other than the general advice that it should be used only when absolutely necessary. I can speak for my own Department, where the use of external consultancy has been reduced very considerably, from £4·5 million two years ago to £1·1 million last year. This year, the figure will be around £100,000 to £120,000.

1309. Mr McLaughlin: I want to talk about that, but, first, I will press you on this issue: is DFP not putting an onus on Departments to use in-house, instead of external, consultancy, and is it setting measurable goals?

1310. Mr Orr: DFP is not doing that, because it is a matter for individual Ministers and Departments. I know that some Departments have said that all external consultancies must be approved by their Minister. DFP has not set any goals.

1311. Mr McLaughlin: For instance, that particular measure, which I approve of, does not cut across the Executive's collective efforts, through the aegis of DFP, to set thresholds or benchmarks on performance.

1312. Mr Orr: DFP has issued guidance to the whole Civil Service on the use of external consultants. That guidance does not set a target for how much a Department can or cannot use. However, one of the first points in the guidance states that Departments should have first considered the internal business consultancy service. The second point is that there must be business case. Those are the controls that are in place at the moment.

1313. Mr McLaughlin: I presume that there was some engagement with other Departments or potential clients about the increased charges and their impact on departmental running costs? What was the general outcome of that discussion?

1314. Mr Orr: It was discussed by the permanent secretaries group, and it is fair to say that some of the increased charges were not welcomed. In the case of business consultancy, there has been no adverse reaction, mainly because Departments come to us to ask us to do a job of work, and we can do it for a certain amount of money, which they know probably provides comparable value than using outside services.

1315. Mr McLaughlin: Will you repeat the savings that have resulted from the 75% reduction in 2009-2010 in external consultancy?

1316. Mr Orr: In 2008-09, external consultancy cost £4·5 million in DFP. In 2009-2010, it cost £1·1 million, and this year to date it has cost £62,000. However, I estimate over the year that it will perhaps cost £100,000 or £120,000. Part of the explanation for those figures is that, as the Committee will remember, we introduced new shared services to the Department, and, therefore, three years ago, there was high spend on external consultancies as we tried to set up contracts and introduce the services. That has diminished as the services have come on stream.

1317. Mr McLaughlin: Who now undertakes the functions that were previously franchised?

1318. Mr Orr: In the case of the new shared services, the need for consultancy has largely gone, because that was associated with the build-up and the implementation process. However, in many cases we can now carry out the other consultancy functions in-house through business consultancy services. The first thing that we ask ourselves is whether we really need to use consultants at all and whether we can do the work in-house with our own staff in our own business areas and Departments.

1319. Mr McLaughlin: Are you saying that the development of the shared services project has, as a consequence, reduced the need for external consultancy, or are you making a virtue of something that happened?

1320. Mr Orr: No, it is a simpler point. When we were setting up HR Connect, we had to employ a lot of external consultants to advise on the contractual terms and so on that we would settle with the main contractor. Therefore, the very act of establishing the shared services meant that we needed a bit of external consultancy advice. Now that those services have been established, we no longer need that external consultancy because the work is done and the shared services are running in a steady state.

1321. Mr McLaughlin: This could be important in trying to understand how other Departments are responding. There was a specific need for consultancy, and although there may be an argument about whether there was or not, that was the explanation at the time. When the project was up and running, that need disappeared. However, that does not set an exemplar for other Departments. Therefore, the 75% headline is perhaps meaningless for some Departments.

1322. Mr Orr: I agree. DFP may be a special case because of that work.

1323. Mr McLaughlin: It makes good PR.

1324. Mr Orr: I am only answering the question.

1325. Mr McLaughlin: Let me deal with something that may give us a sense of the issue. There was reference in your report to savings in air fares, mileage and hospitality. The media are constantly examining that issue. How much how are we talking about? I notice that you do not give us the benefit of a percentage figure in that statistic.

1326. Mr Orr: I have the figures here. As regards air fares; in 2008-09, we spent £291,000; last year, we spent £225,000; and, this year, I project that we will spend £120,000. As regards hospitality; the figure for 2008-09 was £209,000; in 2009-2010, it was £91,000; and, this year, my projection for the full year is £50,000.

1327. Mr McLaughlin: The 2008-09 figure seems a big one. Were external consultants getting fed and watered?

1328. Mr Orr: We have waged a bit of a war on hospitality, and we have tried to reduce costs as much as we can. It is hard to put a finger on —

1329. Mr McLaughlin: If you were to offer a systemic explanation for the downward slope, which I welcome, how have you achieved the savings?

1330. Mr Orr: In August last year, we had to reduce our budgets because of the general pressures on all Departments. At that stage, we, as a board, made a number of decisions. We decided to cut out attendance at external conferences, which are largely in England. We set targets for air fares; we have a target to reduce air travel as part of our sustainable action plan. There was a big focus on that across the Department and it seems to have paid off.

1331. Mr McLaughlin: Thank you very much. I briefly return to the 10-day payment issue. We have discussed the cost to the Department. Is there, in the economic modelling, an assessment of the effect on the private sector, particularly the contractors who rely on the work and on prompt payment?

1332. Mr Orr: I am not aware of any modelling. Are you, Deborah?

1333. Ms McNeilly: I think that it is one of the issues that enterprise shared services is looking at in relation to the 10-day commitment. It has had some meetings with business representatives, but we need to clarify the position.

1334. Mr McLaughlin: I suspect that you will get a very hostile reaction from the Assembly to the proposition. Perhaps it is included to demonstrate that all options are being considered. Quite clearly, economic planning and projection was involved in developing the proposition in the first instance. There may well have been more associated costs or difficulties. There has been a level of achievement, but I think that people would like to see it improving further. We have uncovered a particular issue, which is that there is nearly constipation in the process of transferring from main contractors to subcontractors. I do not know how that will be addressed, whether it can be part of a contractual obligation going forward, but there may be contracts that are already set.

1335. All savings are important in their own right as part of an eventual composite figure, but they are relatively minor in the scheme of things and the type of budget quantums about which we are talking. The issue that I am raising is that I think that it is incumbent on the Department to be able to demonstrate that the downstream effect on the economy of abandoning the 10-day commitment will not, in fact, cost more.

1336. As regards the economic plan, although, given the Minister's approach, perhaps this is not surprising, the process in which we are involved with the Budget with respect to responding to imposed cuts on the block grant requires us to measure impacts and to begin to bear down on how we can sustain the widest possible range of what are regarded as essential services. Nevertheless, your paper indicates, fairly enough, that there are staff implications to all of that. Indeed, according to the model that was produced, it appears that people at the lower end of the salary scale will be considered. At least, it was presented to us that a £1 million reduction would have staff implications. The point is that the approach must be more about managing the economy than managing cuts.

1337. For instance, the reference to LPS does not take into consideration any proposals to generate revenues that the Executive may consider in order to pay for essential programmes. For example, retrofitting homes as part of the green new deal may have implications for NEETS and be an effective way to get subscription out of not just the social housing sector but the private rented sector. Therefore, proposals to streamline LPS before the Executive have had time to consider how to manage the economy might, in fact, be a retrograde step. I agree with the comments about teething problems, but LPS were asked to do a lot in a very short time, so I have grudging admiration for the way in which it coped with that significant task.

1338. I see no strategic consideration of revenue generating initiatives in proposals to further streamline relatively new structures that are, nonetheless, travelling in the right strategic direction because they take account of, in particular, modern IT technologies. Do you have a comment on that? There is no scope in your plan to accommodate some of your structural and staff proposals, which might cut across the Executive's ability to cope with revenue generating ideas.

1339. Mr Orr: Our aim is not to cut across any of the Executive's initiatives. LPS is a good example of that, because it has implemented the many rating reforms that it has been asked to introduce. That will continue to be our focus, and, if necessary, we will reprioritise in order to support the Executive's revenue generating initiatives. That would be a high priority for us.

1340. The Chairperson: Given that another couple of members wish to ask questions and the fact that we are running way behind time, I apologise to the departmental representative who is waiting for the next session. I suggest that we send officials a list of issues concerning the Audit Office, which we can discuss for five or 10 minutes. Is that OK? At the end of the session, members should ask any pressing questions that they might have. If not, we will send them in writing. We are really running behind time, and we have two more evidence sessions to get through.

1341. Mr McQuillan: I shall be very brief. I thought that the paper was not bad at all. It was a genuine attempt to address a difficult problem that will face the whole of the Civil Service. One thing that caught my eye was car parking charges for staff. You characterised that as "high pain". In order to save £0·5 million, high pain as a result of those charges would be felt across the Civil Service, from junior to senior staff. On the one hand, we will be asking people to take a pay freeze and, on the other, we will be sticking the arm in by asking them to pay for car parking. That will be a difficult one to sell and to justify.

1342. Mr Orr: Yes. It will be very difficult for staff, but it is something that we need to think about and at least develop as an option, even if it is a high-pain one.

1343. Mr McQuillan: Is there anything concrete on that yet?

1344. Mr Orr: Not yet. It is a proposal that has been put forward more to scope the sort of income that would be generated. Sometimes, people think that tens of millions of pounds would be generated, but it is in the order of £500,000.

1345. Mr McQuillan: It is not a big deal for all the pain that that would cause.

1346. Ms Purvis: Would that be introduced irrespective of ability to pay? Would it be across all grades, or has consideration been given to charging those in senior grades more?

1347. Mr Orr: The proposals have not been developed in depth, but I fully expect that it would be progressive so that the higher grades would pay more than junior grades. That would be likely.

1348. Mr Purvis: On the proposal to reduce the number of leased car parking spaces, what consideration has been given to the need for car parking spaces for essential business for senior civil servants?

1349. Mr Orr: Those spaces are leased by properties division on behalf of all Departments. They are only for people who need them; for example, essential users, such as valuers, who need to be in their offices and then go out. We have been reducing the number by 10% this year and we hope to get another 10% out of it by 2012-13 by constantly questioning and challenging whether people are essential users and whether we can reduce the number. They should only be for people who need a parking space because they are going out and using their car for business purposes.

1350. Ms Purvis: Table 1 refers to standing down the pay and grading review team when the project is completed. You said earlier that you differentiated between posts gone and jobs gone. If the pay and grading team is stood down, that means that the posts will be gone but the jobs will not. Will the people be redeployed elsewhere? If so, is that really a saving?

1351. Mr Orr: There is a particular pay and grading exercise that will come to the end of its life, and there are four people engaged in that exercise. Once the project ends, as would happen anyway, those people will be redeployed. They are very good people, and we will try to keep them in our Department.

1352. Ms Purvis: Is that really a saving?

1353. Mr Orr: It is a saving because we are paying for four salaries to do that work at the moment.

1354. Ms Purvis: Would you not still be paying for four salaries somewhere else in the Department?

1355. Mr Orr: We hope to find them other jobs in the Department. We said earlier that there will be a number of job reductions and post reductions, but it may well be that natural wastage and turnover will give us a bit of headroom to keep and redeploy those people to some of the jobs that are retained.

1356. Ms Purvis: I see that the options include ending the digital inclusion programme, ending the 10-day prompt payment of suppliers, reducing survey work and reducing improvement activity. Do all of those savings relate to staff? There are quite a number of them, and I wonder how much you can rely on redeployment if you do not know how much natural wastage there will be.

1357. Mr Orr: Appendix 2, which is the detailed list, gives the number of posts that would be affected by each measure. In many cases, there is none, but there are some in other cases.

1358. Although I am sure not sure that it is the case, let us say that DFP suffers the same sort of reduction as the block grant in general, namely an 8% reduction by year four. That means that we would be reducing by about 200 posts. Our prediction over that four-year period is that around 500 people will leave the Department. That will give the Committee an idea of the scale. We might try to take out 200 posts, but 500 or so people would leave, and I hope that that will give us some scope to redeploy.

1359. Mr Girvan: Thank you for your paper, David. What was the rationale behind the decision to front-load a lot of the cuts in the first two years? The presentation seems to suggest that we will take a big hit. Why did you calculate the figure at 16% when we know, realistically, that the figure will be 8%?

1360. Mr Orr: The 16% came about because of the indicative options that we were asked for by the centre during the summer. Therefore, it arose when we were making our preparations. A lot of that work was done before 20 October when the national spending review was announced. The central finance group asked us to make 16% savings by year four, and that is what we have planned for. I hope that I do not have to take up all of the options.

1361. The savings are fairly evenly spread over the four years, and we can go into that in more detail if the Committee wishes. By and large, we have shown 4% savings in year one, another 4% in years two and three, and they will build up to 16% in year four. They are evenly spread.

1362. Mr Girvan: That 4% is at a decreasing level because it is front-loaded. It will equate to 4% of a larger budget in the first year and then 4% of a slightly smaller budget in the second year.

1363. Mr Orr: That is a good point. The percentage reductions that we and central finance group are talking about are based on a comparison with the baseline expenditure in this financial year. Therefore, when we talk about a 16% reduction by year four, we mean a 16% reduction in year four compared with this financial year. It is not a 16% reduction between years three and four. I am sorry if I did not make that clear.

1364. Mr Girvan: I appreciate that, to come forward with some of the figures and positions that are listed in the paper — and I appreciate that there are sensitivities around those — some thought has gone into areas of waste. I use that word because I know that there are definitely opportunities to make savings. We do not want to tell people that they will lose their jobs. That is not what we are trying to do. We are trying to make sure that we get the best for our money by ensuring that we achieve maximum efficiency from the existing staff.

1365. In light of that, the Department must have done some negotiation to come forward with this paper. It has not merely sat down and looked at a spreadsheet. Has any discussion taken place with staff on any of these points? I know for a fact that, from looking at this in another forum, people are offered voluntary redundancy. Names are put forward, and management decisions are made on which people an organisation can afford to lose and in what areas cuts can be made. Has that process already been engaged in?

1366. Mr Orr: We are not in a voluntary redundancy situation.

1367. Mr Girvan: No, I appreciate that. However, some people might want to take early retirement.

1368. Mr Orr: We are not in an early retirement situation either otherwise I might not be here. In the context of this Budget exercise and the build-up of the spreadsheets, the discussions have, to be honest, taken place mainly at senior management and middle-management level. However, I recognise that the best allies in a war on waste are the front line staff.

1369. They are the people who see where processes can be improved and money saved. Although DFP's quality programme is a different exercise, it feeds into that. We are engaging with staff throughout the Department to see where efficiencies can be made, where things might be done differently and where we can innovate in order to make the best use of our money. That is an ongoing project, which is quite structured and will feed through into next year.

1370. Mr Girvan: I am always fearful when only senior management is involved in a process, because it tends to protect itself and forget about others.

1371. Mr Orr: It is the people on the front line who are important.

1372. The Chairperson: Thank you very much, David, Deborah and Brigitte. I am sorry, particularly to Colm, for your having to wait. We will send additional questions to you.

1373. Mr Orr: That is fine.

10 November 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Bob Stronge	Advice NI
Ms Margaret Kelly	Barnardo's
Mr Seamus McAleavey	Northern Ireland Council for Voluntary Action
Mr Peter Bunting	Irish Congress of Trade Unions
Ms Avril Hall-Callaghan	Irish Congress of Trade Unions, Northern Ireland Committee
Mr Brian Campfield	Northern Ireland Public Service Alliance
Ms Pamela Dooley	UNISON

1374. The Chairperson (Ms J McCann): I welcome Seamus McAleavey from the Northern Ireland Council for Voluntary Action (NICVA), Bob Stronge from Advice NI and Margaret Kelly from Barnardo's. You have all appeared before many Committees, so please begin with a brief statement and an update on any new information that you might have. We will then open the session to members' questions.

1375. Mr Seamus McAleavey (Northern Ireland Council for Voluntary Action): Thank you for the invitation to talk to the Committee. As you said, you received our short briefing paper, so I shall be brief. Margaret and Bob will then comment on specific issues.

1376. NICVA has talked to quite a few members, in various guises, about the recession at large and about the impact that we expect to see in the form of public expenditure cuts. A big concern to our sector is the fact that it takes income from a broad range of sources, a significant part of which — about 45% — comes from government in all its forms, including Departments, their agencies and non-departmental public bodies. Often, we are involved in co-producing services, which are funded partially with public money and partially from other sources. We have been articulating the sort of services that voluntary and community organisations provide and what we see to be the value of them. Some time ago, when the First Minister, Peter Robinson, was the Minister of Finance and Personnel, we asked him whether he would use his new performance and efficiency deliver unit (PEDU) to carry out efficiency scrutiny of voluntary organisations that deliver public services, because we wanted an official view of the value of that provision. PEDU obviously had larger fish to fry at the time and did not take that up, although I think that the

Minister was intrigued. Our view is that the services that are delivered by voluntary and community organisations stand up to scrutiny. We are interested in their being treated fairly as we go forward. Our big fear is that if public expenditure reductions are handled badly, those organisations will be hit particularly badly, and their capacity will be put at risk.

1377. One issue for the Committee is the overall view that it takes about finance issues. Members will have seen the report that the Comptroller and Auditor General published in September about creating effective partnerships between government and the voluntary and community sector. It is an interesting report. It refers to how the sector contributes to the delivery of the Northern Ireland Executive's objectives. A key issue that it highlights is the bureaucracy from which organisations often suffer. We are not afraid of accounting for public money and doing that well, but there have been huge issues about the constant checks and changes and the amount of resource that is taken up in reporting on services that are delivered, so much so that it seems to have taken much away from the front line.

1378. The Department for Social Development is now in a position in which it is willing to take that up. However, it is an important issue for the Department of Finance and Personnel because it has overall responsibility for providing guidance to all Departments and their agencies on the accounting and audit processes. As regards being able to do more with the same amount of money, that is an area in which significant savings could be made.

1379. Ms Margaret Kelly (Barnardo's): As a children's charity, the focus of Barnardo's is on the most positive outcomes for children in health, education and social outcomes. We focus on the children who are most disadvantaged and try to ensure a fairer chance for them. Our interest in the comprehensive spending review and Budget is twofold: the bigger policy discussions and how decisions that are made here impact on those very vulnerable children and families and what can be done to ameliorate negative impacts; and Barnardo's — the organisation — and our income and contribution. That is my focus this morning.

1380. In the past few months, we have spoken to a number of Departments and have experience of departmental CSR briefings. Our view is that we are seen as a passive recipient of the impact of the CSR; we are not seen as an organisation that can contribute to the debate about how to get the most for the most disadvantaged children. Barnardo's in Northern Ireland has an annual budget of £12 million, so we are not an insignificant player in the field of children's welfare and good outcomes for children. We have over 50 distinct local services, and we work in over 60 local schools. We have a reasonably sized presence in outcomes for children. Of that £12 million, around £3 million is not statutory funding: £2 million comes from publicly raised funds that we generate through fund-raising work, and the other £1 million is money that we lever from charitable or philanthropic institutions. Therefore, we bring an extra £3 million of income when we get that funding from Departments. That is simply our contribution. The contribution of the entire range of charities here needs to be examined and accumulated to get a sense of what we bring to funding.

1381. The services that we provide cover the entire spectrum. We do sharp-end crisis intervention and statutory child protection work, and we also do early intervention work that tries to prevent families and children getting into crisis. Someone would not run a business and look at only one set of funds. Statutory funds and how they are dealt with and changed should not be considered while another substantial income stream is not considered. Trying to make changes for children without taking account of the role of the sector is like a business trying to make changes while leaving part of the funding invisible.

1382. To our knowledge, there has not been a discussion with the children's sector or other voluntary organisations about how we could develop a clear investment strategy for children and young people. We are concerned that if we focus only on cuts to services, we may sustain the wrong services. We want a debate about effectiveness. We want to identify which services deliver for children, what the Executive want for children here, how they will get it and our role in achieving that. That is a crucial role for the sector to be able to play.

1383. Mr Bob Stronge (Advice NI): Where does one start when dealing with such a complex area? From letters, and so on, in members' constituency bags, I am sure that you know that advice services are in the front line. We have just completed our latest profile report on the level of work coming into our advice agencies, of which we have about 65 across Northern Ireland. This year, an additional 30,000 people came through our doors compared with last year, most of them because they were experiencing unemployment. They had been hit by redundancy and issues around debt, which has increased hugely. Our debt service is dealing with about 1,500 people whose combined total debt amounts to approximately £24 million. Those figures are pretty stark, and we anticipate that they will get worse.

1384. The advice sector's benefit take-up initiatives do well in targeting people and ensuring that they get the right benefits to which they are entitled. Our services are holistic. We look at people in the round from the moment they arrive with an advice need, should that be a money, debt or benefit problem. We try to ensure that we look at all the issues affecting people, refer them to the proper services, do a benefit entitlement check and make sure that they get the additional income. That is good for here, because it does not involve direct expenditure — it comes from the Treasury not from DEL — and it works for people.

1385. We have found that every pound invested by the Social Security Agency in benefit take-up initiatives raises £8 to £18 in return. That is a huge amount of income. Welfare reform is coming, of course, and we do not know how that will affect people. We think that it will lead to major problems and further work for the advice sector.

1386. Of the 145,000 people with whom we deal, at least 80,000 come to us with social security problems. Last year, we persuaded the Department for Social Development to look at an initiative called 'Systems Thinking in the Public Sector', which was considered radical at the time it was published because it tried to show a person's journey through the advice system. Why did people go to an advice centre in the first place? What issue or problem did they have? We then tried to track the person's problem back through the system.

1387. Our work uncovered that, in many cases, people who came to us with a social security problem might have been in to see us three or four times. We sat in social security offices and tracked 1,000 such cases, and, in many instances, we found that there were sometimes upwards of 30 different transactions affecting that person, of which only three were relevant to him or her. The rest were bureaucratic and systematic failures. We did not get to complete that work because, let us say, certain barriers — for want of a better word — were put in our way. We are still considering the issue, still talking to the Department and still trying to produce the report.

1388. That is, however, one area in which we think that quite a lot of savings could be made by getting the system right for people first time and by focusing on people's entitlements, rather than having the negative perspective that they are all scroungers who are out to get us and take money off the taxpayer. That is not the case in Northern Ireland, where we have high levels of deprivation, poverty and disability. Therefore, we think that there is merit in doing that and in carrying out further work in that area.

1389. I was going to leave it at that for now, but I want to say something about contracting. We think that voluntary sector organisations could play a greater role in the delivery of public services, although we are not saying that they should replace public sector organisations or that there should necessarily be public sector job losses. All hands will be needed.

1390. The Chairperson: Thank you for those presentations. I think that I speak for all members when I say that the voluntary and community sector's contribution to people, communities and the wider economy is second to none. Before I open the session to questions, I want to ask one myself. In your concluding remarks, Bob, you touched on contracting out more public services to the voluntary and community sector in order to achieve savings. Do you have any specific examples to share with us that would be worth considering?

1391. Mr Stronge: Some benefit take-up contracts are helpful because the sector can get to the hard-to-reach people. I am sure that the panel will have other examples. We also have some concerns about the dangers of contracting and tendering for the voluntary sector. Recently, we submitted a bid for a big tender from the Financial Services Authority on money guidance. It was a huge contract issued from London, and we thought that we had it in the bag. However, we lost it to a private sector company, which simply undercut us in order to deliver the service. You could say that that was good because it was cheaper than we were; however, in such cases, I wonder about the quality of service delivery. Nevertheless, we can be effective in those areas, and there are many examples of our effectiveness.

1392. Mr McAleavey: The big issue is that voluntary and community organisations work more on prevention than cure. Generally, cures are very expensive, so the state puts them in place only when it absolutely has to. We highlight organisations such as Home-Start, which works with families for whom the next stop for their children is to be taken into care. Taking a child into care is very expensive — £2,500 a week — and it is not a good outcome or solution. Home-Start might work with 40 children, and the main thing is to turn that family situation around. It is not a question of offering people a cheap option or of denying them services but of getting a much better outcome.

1393. The same applies to older people. For every year that we are able to keep older people out of residential or nursing care, we save £28,000 per person. Consequently, we have organisations that work to keep people in their own homes and to provide them with the wherewithal to stay there comfortably. Therefore, it is not about neglect or denying people services; it is about giving them a win-win situation. People do not want to go into care, whether at an early or later stage of their life, so we help them to avoid that. Many of our organisations work in that type of area.

1394. Ms M Kelly: A balance has to be achieved between contracting, cost and effectiveness. Barnardo's provides the Dr B's service for young people with severe learning difficulties or for those who have been down an offending or care route in order to get them back into employment or learning. We put £200,000 a year into that, which is the profit from the café that we run. In addition, the Department for Employment and Learning (DEL) and European funding accounts for another £200,000 a year. For all those young people, we achieve an 85% into-employment rate, compared with the New Deal employment rate of 31%. There is an issue about cost, but effectiveness is a bigger issue.

1395. The Chairperson: Early intervention has proved to be cost-effective in determining outcomes later in people's lives. It works.

1396. Mr McAleavey: Public bodies tend to go down the contracting route, which makes it more difficult when organisations bring additional resources to bear. Contracting to voluntary organisations leads to a very transactional service. Therefore, it gets more difficult to co-produce. It is a bit rich to contract with us and then offer 70% or 75% of the costs.

1397. Ms M Kelly: Barnardo's has had that experience with trusts. In one example, Barnardo's was willing to put up £50,000 to examine the refocusing of a family centre service towards early intervention. We wanted to consider putting in that service as a proven family partnership model. We were happy to put in £50,000 a year for the next three years to trial that model to see whether it worked. The trust's position was that it wanted to take £100,000 out of it, so it simply refused and walked away from that extra £50,000. It said no. It was not prepared to try to test that element of that model. That trial did not happen here.

1398. Ms Purvis: Thank you for the paper and the presentation. I have an ideological difficulty with the contracting out of public services. That said, we are where we are, and I know the contribution that the community and voluntary sector makes in Northern Ireland, particularly during such recessionary times, when the demand, particularly for advice, crisis intervention and support services, is constantly on the increase.

1399. It is important for the Committee to scrutinise Budgets and departmental budgets. The Executive have made a commitment to protect front-line services, but we know that, over the past couple of years, the so-called efficiency savings have been passed on as blanket cuts, mostly to the community and voluntary sector. Although we have no hard evidence of that, all the anecdotal evidence is that community services have been cut.

1400. Some good points are made in your paper, particularly on what type of questions should be asked around decision-making and the options for savings. I cannot speak for other Committees, but as a member of this one, that is the type of question, and the type of scrutiny, that we would pursue with the Department of Finance and Personnel. I share your concerns about other Departments and Committees. This Committee has raised with departmental officials the issue of an absence of any Executive mechanism to oversee the Budget and to ensure that it is implemented in a way that protects front-line services. There is no such mechanism. Therefore, when each Department gets its budget, it will be up to that Department and its officials to implement it.

1401. In light of that, the Committee can do what it can, but what are your thoughts about what should be done by other Committees or Departments to try to ensure that level of scrutiny and a degree of protection for front-line services?

1402. Mr McAleavey: We talk about that quite a bit, including asking Ministers, first, how they define front-line services. Some people think that front-line services are delivered only by the public sector. The reality is that, here, front-line services are delivered by many organisations.

1403. Voluntary and community organisations are not interested in simply contracting with government to deliver more services for it. We are not private sector organisations in which winning the contract and the bottom line are all-important. For us, the issue is about co-producing. The objectives for voluntary and community organisations are making a change and having an impact on certain parts of society.

1404. It is sometimes appropriate that we deliver certain services. Therefore, take my advice: the public want to talk to independent people without statutory responsibility to advise them; they are not afraid to take their advice. For instance, some pensioners do not receive their full entitlement. I was shocked when the organisation A2B: Access to Benefits found that some pensioners were missing out on £37 a week, which is quite a significant amount. Pensioners are afraid to talk to social security staff in case they poke into all their other affairs. Even though those affairs may be entirely correct, pensioners are afraid that they will end up worse off. That is why they want to talk to organisations such as A2B. There is a key role for our sector, and it is not competing with the public or private sectors.

1405. Treasury guidance offers three ways for government to involve itself with the voluntary and community sector. It is by contracting, which is appropriate sometimes, and it is also by grant and granting aid, by which we try to achieve the same sort of outcomes. The current fashion is to move everything towards contract. That is where we may lose out because it will not solve all the problems. The danger is that organisations will lose a lot of capacity if matters are simply moved in one direction, and then, in three or four years' time, they hope to pick them up again. Much damage was done in England.

1406. Ms M Kelly: There is anecdotal evidence. We have experience, even in the past number of years, of efficiencies that will not show. A health and social care trust will not show that it has taken £25,000 out of early years autism services that it previously gave to us to engage early with parents about diagnosis, help and support. When the trust took that out of the service, it said that it would bring it in-house. Our experience is that that simply disappeared because the trust did not have the in-house capacity to deliver it. A problem for us is that that becomes quite invisible. The services simply begin to disappear, and they are not seen.

1407. Ms Purvis: Home-Start is another case. Have you engaged with other Committees?

1408. Mr McAleavey: We have engaged with quite a few. We noticed that Tom Elliott piped up on the Committee for Justice about scrutinising some of the proposed savings. He noticed one of the issues that we mentioned: the savings proposed were quite often aimed at cutting back services from external voluntary organisations. When he raised that point, he was told that, effectively, the centre was being protected. That is a big worry for us. We engaged with other Committees, and they are starting to notice some of those issues.

1409. Ms Purvis: From your discussions with other Departments, do you get the sense that they are also protecting the centre?

1410. Mr Stronge: We always think that the tendency in government in that sense is to circle the wagons.

1411. Ms Purvis: I have one final question. We have had previous discussions about monitoring and auditing. I am well aware of the level of audit that is required in the community and voluntary sector. You state in your paper that you will work with the Department and others to establish and promote practical guidance for monitoring or auditing sector organisations. I do not know how far you got with those discussions, but there was an attempt previously to grade community and voluntary sector organisations by giving them a star rating or something for their financial management.

1412. Mr McAleavey: It was low, medium and high risk.

1413. Ms Purvis: Is there some way that that could be promoted and implemented across the board so that organisations do not have to jump through hoop after hoop when it comes to auditing and monitoring?

1414. Mr McAleavey: That is an important issue in which significant progress has been made. There is agreement at the highest level from the Audit Office and senior people in Departments that the system has got out of hand. We have an organisation in your constituency of East Belfast. We had a look at one of its projects, and it believed that 30% of the resource was being put into the accounting process. That does not protect public money very well. It certainly could be streamlined and could give much more benefit. It is recognised that there is a real problem at the high level. It is almost impossible to drive change through the system to tackle that. The Department for Social Development said that it will make that a priority. What DFP does is hugely important because it sets the standards for other Departments and tells them what to do. There should be a link that begins to deal with that. I think that there is some commitment to that at the highest level.

I believe that there is some commitment to that at the highest level. However, making it happen is another matter. We find that it is easy to add bureaucracy; on the other hand, people just do not like removing things. They are afraid to do so.

1415. Mr McLaughlin: My concern, which is reflected in the Assembly, is where the community and voluntary sector features when it comes to examining the delivery of services and allocation of resources. In many instances, the sector is seen to be at the bottom of the food chain, particularly by those at strategic policy level. How do you approach that difficulty in circumstances in which Assembly parties must wrestle with tough questions? There will be a smaller cake to share out, and sustaining the level of services to which people are entitled will be challenging.

1416. I will not rehearse my position. The community and voluntary sector is part of my political background and I do not need to be convinced of its value. However, given the present pressure, it seems to me that we need to ensure that that sector is coherent in providing more than an advice service, which is generally recognised as adding value in reaching significant numbers in the community who need support and help in accessing their entitlements. Those entitlements are often presented in the form of benefits, but they can be misunderstood or pejoratively misrepresented. Nevertheless, such entitlements exist, and, whatever emerges in time, the centre will release resources if you make representations, but it will not seek out people to tell them what they should do to get this or that.

1417. How much engagement and discussion is there in the sector about how it can protect and enhance its role? The statistics cited by Bob Stronge indicate what will become the trend in the current circumstances. The burden on the advice sector will continue to grow, but the community and voluntary sector also provides a range of others services that would not be provided by the centre due to the cost and pressure on its resources. That must continue to be addressed, or more and more people will fall through the safety nets.

1418. Even that will not be sufficient. We have to move into the area on which Dawn Purvis voiced her ideological difficulty: the franchising out of public services. I do not have such a difficulty if doing so preserves the community and voluntary sector. In some instances, the services could be provided better and with greater value for money, which, at least in theory, are the cornerstones of departmental spend. As a group, or a network, have you considered those areas in your consultations with the Department? More discussions will be held in the course of preparing the Budget and in examining its proposals, but have you considered areas in which you feel that you can make a proposal to the Government and the centre? Have you said that you can do a job and provide a service more efficiently, cost-effectively and reliably?

1419. Mr McAleavey: Our sector has been discussing issues arising from the recession for the past couple of years. A fairly deep dialogue is ongoing, and we have a degree of unanimity that we do not often get, because we are a very —

1420. Mr McLaughlin: I know. I have been there. It is difficult to get unanimity.

1421. Mr McAleavey: As you know, Mr McLaughlin, most of our organisations operate in almost permanent recession: they respond to adversity. Generally, community organisations are thrown up in very difficult times. Given the area that you come from, you know about the so-called social economy organisations that were thrown up to respond to real difficulties, such as when there is a market failure and the private sector does not want to step in, even to build shops. Organisations are often born in response to extreme difficulty, and they respond quite well.

1422. Our sector needs to focus on prevention and on shifting government thinking so that it intervenes a bit earlier in the process. The difficulty is that people always intervene too late. For instance, by the time that I need a hospital, it must be there. If we intervene to prevent people from needing those services — not keep them away or close the door on them — society will be more efficient and effective and will cost less to run. Organisations in our sector have always been at the leading edge of plugging gaps and finding new things that need to be done. We also tend to throw up innovators; people who do things when everybody else tells them that they cannot be done.

1423. Mr McLaughlin: I have no difficulty with that theory. However, I do not see the argument being completed successfully in time for the Budget. Your ideas may be right, but they are conceptual. Society may not have reached that point, let alone government, which is nowhere near that stage. Are any services being provided by conventional means that you could tell the Committee about? If you cannot answer today, perhaps you will respond in writing. I would like an indication of the type of service that could be provided in a more cost-effective way and that we could argue for in the Budget process.

1424. Mr McAleavey: You will hear about children's services, services for older people and, definitely, mental health in the community. In the Health Service, mental health tends to be the Cinderella service, and community services are often provided by voluntary organisations.

1425. Ms M Kelly: In Northern Ireland, about 40,000 16-year-olds to 24-year-olds are not in education, employment or training, and most of them will not have reached that point by age 16. One can identify those young people as they are going through the system, sometimes at age eight, certainly at age 11 and definitely by age 14. They cost £160,000 each in lost tax, benefits paid, lack of input and in mental health provision.

1426. We are saying that we have good evidence to support a piece of preventative work that could be undertaken with those young people. By going into schools early, we could shape a model that would identify those young people at age eight. We already run risk assessments in quite a number of schools. Consequently, because we know all the factors that lead them to that position, we can say, for example, that a particular school contains 10 or 15 young people who have a 75% risk of becoming NEET.

1427. Let us put in the kind of intensive support that will means that those young people do not become NEET by the time they leave school at age 16. That is the kind of work that this sector could take up. It is quite difficult for schools to provide that support mainstream. However, it could be done by our working with schools. There are quite a number of issues across children's services that could be approached in the same way.

1428. Mr McLaughlin: The crude analogy is that, at the very least, we have to deliver the same for less. I suspect that the community and voluntary sector will need to offer the same cost saving propositions as Departments, regardless of whether they can deliver them in practice. We will get a series of recommendations from Departments about how they will cut overheads and identify efficiencies, and they will put prices on those recommendations. Indeed, we heard some of that earlier, although delivery over the next four years may turn out to be problematic as well. Nevertheless, with your sector coming in as the Cinderella sector, politicians and senior officials will operate on the basis of inescapables, giving a big list of around 80% to 85%.

1429. They do not see you as being an inescapable. Therefore, I think that your propositions for the current services also need to be augmented by almost a business equation. You should state that you can do something for government less expensively and with better quality control than someone else can and save money in the process.

1430. Mr Stronge: That brings us to the number of knives in my back from the trade union representatives who are sitting behind me.

1431. Mr McLaughlin: There are a few coming in my direction, too.

1432. Mr Stronge: We accept that point. However, we do not want to shout it from the rooftops because we believe that the quality of services needs to be maintained. Although we can get to the bits that the public sector often cannot get to — and we would like to concentrate on those areas — I have suggested that the voluntary sector could be more involved in delivering the employment-related programmes under the new welfare reform initiatives. We could do that a lot better than anybody else. We have also suggested that, if things get bad, we may need to look at employment schemes, such as the old ACE scheme. The sector can do things like that well.

1433. Mr McLaughlin: The general line has to be concentration on social outcomes as opposed to profit outcomes. There are opportunities in these circumstances. You may well find that you receive more attention from the politicians and some of the people at the centre than may otherwise be the case. In a perverse way, in times of plenty, they are not interested in you. They would give you the stuff that makes you go away, but they would not drill down into the issues.

1434. The Chairperson: We need to be out of this room for 1.15 pm and we have a session with the trade unions after this one. I ask members to try and be focused in their questions. Perhaps we can follow up some issues in writing.

1435. Mr McLaughlin: I am sorry about that. I did not know that we were going to be evicted.

1436. Mr McNarry: The recent news from this place has been about subsidised meals. I put on record that I very rarely use those. There is no such thing as a free lunch in my world. I know that you will appreciate that whatever we are talking about has to be paid for by somebody. My concern is for the casualties that will be unearthed. We can put the wagons in a circle. However, media attention is on cuts, job losses and so on. There will be a list blow a certain line to which people will not pay attention and my concern is that the things that are below that line are likely to be forgotten. In many ways, politicians need to focus on that and try and identify what is below that line.

1437. I am glad that you mentioned Home-Start. It is an organisation of which I am very supportive in my constituency of Strangford. Simon Hamilton and I represent an area that is perceived to be very affluent, but that is deceptive. As the focus is not on the type of area that we represent, I sometimes feel that people there are more disadvantaged. No attention is drawn to their situations because, usually, a community of disadvantaged people will be right up against a very affluent area, and nobody notices them. Home-Start has a tremendous record in the Ards, Comber and peninsula area for the demand and use of its services. Lately, the trusts have called on Home-Start's services, which shows that they are abandoning people because they cannot afford to look after them. However, they that there is a freebie down the road, so they hive people off to Home-Start, which cannot cope. As I said, on the basis of value for money, Home-Start in our area is on its knees. I am not sure that it will survive until the end of the year; and that will be a disgrace. If I can find out whose head I should chop for that, I will chop it, providing I can get a ransom for the head, which will go to Home-Start.

1438. Dr Farry: Michael McGimpsey?

1439. Mr McNarry: No, it is not Michael McGimpsey: that is a stupid remark, Stephen.

1440. Dr Farry: It is Michael McGimpsey.

1441. Mr McNarry: It is not Michael McGimpsey. What I wanted to say is that we do not have a contingency-fund mentality in anything that we do here. We do not seem to put anything away for a rainy day. Perhaps you will think about the following; and I do not need a reply today. Do you think that the collective of organisations that you are working with could come up with a suggestion for a contingency fund that could be used for the type of thing that I am talking about, such as Home-Start? I think there will be a lot more of them, and they will be at a level that people do not really focus on.

1442. There is another thing that I would like you to consider — again, I do not need a response now. Should Home-Start have the ability to charge the trusts for the referrals that they are making, because all they are doing is passing poor families that they cannot cope with down the line? I have a second point, but I know you are pushed for time. Margaret, did you say that £2 million was raised from public giving?

1443. Ms M Kelly: Yes; in Barnardo's we raise that on a UK basis. We are located in England, Scotland Wales and Northern Ireland, so we might not raise the total £2 million here, but we bring that in from Barnardo's UK.

1444. Mr McNarry: It was just a general question. Have you been assessing the impact of a reduction in that public giving? I can see in churches etc the stress and strain on all people who give. I hope that it does not affect the poppy campaign, which is on the go at the moment, but I can see it hitting hard, and I wonder what contingency you and organisations like yours are thinking about for covering a reduction. You said that it was UK-wide, etc; does that mean that you cannot tell me what the benefit is for Northern Ireland? Is it just doled out from a general fund?

1445. Ms M Kelly: No. Every year, Barnardo's in Northern Ireland has £2 million of voluntarily raised funds. I cannot tell you off the top of my head, but I will be able to tell you how much was raised here and how much extra we got from Barnardo's organisationally. Every year, we put in £2 million. At the moment, that overall fundraising profile has held fairly steady. Given that the Budget will mean that most middle-income families are set to lose about £10,000 per year for the next four years, our expectation is that that will start to drop, and that we will have to respond to that.

1446. Mr McNarry: I know that it is a massive exercise, but public giving is almost an essential part of our economy because it has so many dependencies. I do not know whether one can find out the total amount of public giving in Northern Ireland.

1447. Mr McAleavey: NICVA monitors those sources of income. Public giving in Northern Ireland is quite high, averaging at £12 per person per month. It is slightly higher than the UK average, so Barnardo's might be getting a significant amount of that £2 million here. The other thing that we know is that a lot of public giving goes to the Churches, which are organised in relation to tax-efficient giving, etc. Children are the next biggest area, followed by health-related groups. We can monitor that. On your question about —

1448. Mr McNarry: I am just talking about the impact. My worry is —

1449. Mr McAleavey: Last year, it went down by 11% across the UK. The interesting thing is that, of all the sources of income, the most resilient is public giving. If the public feel the need to cut back, charitable giving is not the first to be reduced. People cut back on discretionary spending such as going out and entertainment. Hence, public giving remains strong until it takes a real knock. The UK figures probably showed that people were in difficult circumstances and dropped back. We expect that to pick up once employment levels out again. The two million regular, tax-efficient givers in the UK tend to be middle-aged and middle-classed. If they keep their jobs and maintain their circumstances, they tend not to cut their donations.

1450. Mr Stronge: Funnily enough, people make other kinds of donations. Last week, because we were interested in finding out about it, we issued an e-mail asking people whether they were aware of organisations that were distributing food hampers. We learnt that about a dozen organisations are now preparing food hampers for vulnerable and poor families. We saw hardly any of that activity a year ago. Therefore, people give in different ways.

1451. Mr McAleavey: The trend is that people shift what they spend their charitable donations on. They react to what is happening in the economy.

1452. Mr McNarry: Will the witnesses come back to me about Home-Start?

1453. Mr McAleavey: We will.

1454. The Chairperson: Is that OK?

1455. Mr McNarry: That is fine with me.

1456. The Chairperson: We are a bit pushed for time.

1457. Mr McNarry: If you could send a cheque down to Home-Start, Chairman, that would be useful.

1458. Mr Hamilton: Like others, I recognise the huge contribution that the community and voluntary sector is making. I also want to put on record my thanks for the mature and responsible contribution that the witnesses are making to the debate about the Budget; it is a difficult discussion for us all.

1459. I concur with colleagues and you about retrenchment by the centre. A senior official told me with pride a couple of weeks ago how, during a previous round of reduced budgets, he managed to save every member of staff in his purview. He told me that he had had to let some programmes go but had preserved every member of staff. I do not advocate losing staff, but that shows the mentality that operates in the centre of government, where personal fiefdoms are protected rather than the services being delivered, largely to vulnerable people.

1460. Your submission states that you do not believe that the sector should or even wants to be immune from inspection. I am all for the sector getting contracts to deliver services when and only when such services are delivered efficiently and effectively. However, in accepting that you should not be immune, do you also accept that there is a need for the sector to look at itself and at how it delivers services? Are you looking at how it collaborates, pools resources and, in effect, merges functions if not organisations? Is NICVA at the centre of that, trying to pull people together? Are you doing that? If so, how successful is it proving to be?

1461. Mr McAleavey: You have looked into a crystal ball, because NICVA has just agreed to provide resources for the Building Change Trust to help organisations on the merger and collaboration bid that will be announced shortly. It is not yet fully in the public domain, but we have been doing quite a lot of work on the efficiency and effectiveness of organisations that are very much up for looking at how they deliver services and how their delivery can be improved.

1462. It is also right to say that we have not come with a begging-bowl approach. The Assembly wants to get the best results possible for people in Northern Ireland, so it is after the value of the outcome. We are happy to be compared on that level. That is really important.

1463. A big worry for us, and both of you put your finger on it regarding Home-Start, is that perverse decisions quite often get made down the chain because budget holders are left in a position thinking that they cannot square all the expense and cannot afford some of the outside bodies, so they cut the money to Home-Start. However, it may be the most valuable thing that could have been done. As I said, we tend to backload everything rather than think about that. The budget holder, not deliberately, thinks that they have to square some of that, so they protect some of those things and cannot afford the grant to Home-Start. No serious thought is given to the real benefit that may be delivered. You are right: people in the public sector send people to Home-Start because that is where they will be really helped.

1464. Dr Farry: In the interests of time, I will make a very brief comment. I fully understand the approach that you are advocating, and I fully endorse it. Like Simon, I commend the approach that the community and voluntary sector has taken by trying to set out some realistic options. The main theme of this discussion has been about supporting early intervention and prevention. In the past, government would have funded pilots to see how they worked and possibly reviewed service provision afterwards. In the current climate, we are essentially asking government to take a leap of faith and back early intervention and prevention, and, as a consequence of redirecting money up front, look at reductions in back-office functions.

1465. Ms M Kelly: There are clear examples of how Birmingham and Nottingham have already taken that leap of faith. We do not have to take that blindly; those examples show that they pooled resources across their children's services budget, education, health and social services. They front-loaded upfront prevention and they are starting to see something of a slide in crisis intervention.

1466. Dr Farry: That is even more encouraging; if there is real empirical evidence —

1467. Ms M Kelly: There is very clear evidence. If members want some clear examples of that evidence, we could certainly follow up on that.

1468. Dr Farry: That would be very useful.

1469. Mr McAleavey: The system in Nottingham was taking up to 160 days to process a housing benefit application, but the legal department of the council was prosecuting people for not paying their rents. When the system was looked at, they brought the housing benefit payments down to five days and they saved a fortune.

1470. Mr O'Loan: I will try to be very brief. You have set out the case for what the community and voluntary sector can do very strongly, and I support that case very strongly. When we think about creating a reconciled society here, we tend to think of the traditional Protestant and Catholic division. However, the whole socio-economic division is equally as important. It is critical to our economic development and to our moving forward together as a society. I am sure that you agree that the community and voluntary sector has a major role to play in tackling division. You outlined a lot of that already. Have you done much work on establishing priorities in that area? Given the many challenges in tackling socio-economic disadvantage, where is best to enter that arena? What will be most effective given the pressure on resources?

1471. Mr McAleavey: We learned, from programmes such as neighbourhood renewal, that community and voluntary organisations can take the lead in driving change. However, unless the whole system begins to change and piles in, we will not be able to do it. The most annoying thing about the areas that are most disadvantaged is that they have remained so over a very long period despite various pilots being tried. We need to get beyond that and think about the bigger part of the system. Quite often, in neighbourhood renewal, we will be running things for children like homework clubs and giving them additional assistance.

1472. The education and health systems will become hugely important. If we continue to do the same things, we will get the same results. Therefore, we need to think about how to begin to redirect services. People continue to talk about wanting to rebalance the economy. However, if we do not make any leaps of faith and make decisions, the situation will not turn out any differently. Therefore, we need to begin to move beyond pilot mode. When we use tried and tested methods, their translation into the delivery of bigger services becomes really important.

1473. The Chairperson: I am sorry for rushing you at the end, but we are really pushed for time. The Committee leads the Assembly scrutiny of the Executive's draft Budget, and, to help to inform our thinking, it would be useful if you put down some of those proposals on paper and send them to our Committee Clerk, including the longer-term preventative measures that you talked about and the specific areas of policy delivery that you feel could be delivered more efficiently and by the community and voluntary sector.

1474. I welcome Peter Bunting, the assistant general secretary of the Irish Congress of Trade Unions (ICTU); Avril Hall-Callaghan, the chairperson of the Northern Ireland committee of ICTU; Pamela Dooley from UNISON; and Brian Campfield, who is the general secretary of the Northern Ireland Public Service Alliance (NIPSA). I know that you have had conversations and meetings with Committee members already. However, given that you did not submit a paper, you should give a presentation, after which we will go into questions. I am not rushing you, but we are behind time and had to cancel an evidence session. I want to go to questions as soon as possible. You are very welcome.

1475. Ms Avril Hall-Callaghan (Irish Congress of Trade Unions, Northern Ireland Committee): Our preamble will be fairly brief, and we will then concentrate on the questions. Given the campaign that ICTU has been running here, I am sure that most members are aware that we are opposed to the scale of the cuts and to the basis on which they have to be made. We believe that they will have a disproportionate effect on the most disadvantaged in our society, and I know that some political parties concur with our view.

1476. We are also concerned about how to rebalance the economy. If we hit public services strongly, it will have a halting effect on the growth of the economy. The private sector cannot grow if there is no money in the economy. We are heartened by the fact that the First Minister and deputy First Minister have said that they will go back to Westminster to seek further funding on the capital side. However, the alternative that has been suggested is to put some of the revenue spending into capital. That will not help the situation.

1477. At the outset, I want to state very clearly that we do not feel that it is our role to identify where cuts should be made. We are certainly prepared to consider where efficiency savings could be made in the public sector, although that process has been ongoing for the past few years anyway. Given that we have already taken £700 million out, it will be difficult to find those efficiency savings. However, we do not want to give the impression that the unions will reject everything absolutely. We are prepared to sit down and talk about that, but there should be a different emphasis on how to manage the cuts. I will pass over to Brian, who will talk about capital assets and outsourcing.

1478. Mr Brian Campfield (Northern Ireland Public Service Alliance): I will generally supplement what Avril said. I note that, at the end of the last session, you invited the witnesses to send in written material. We will also send you some written material.

1479. As to providing alternatives to what is happening in order to resolve any public spending issues, our view is that, with £4 billion to £5 billion being taken out of the public sector economy — or the economy generally — over the next four or five years, any proposals for alternatives are likely to be very much in the margins.

1480. Our difficulty is that we do not see ourselves as providing solutions to the overall problem. In some respects, the problem can be addressed by prioritising. In view of the scale of things, when £5 billion is taken out of the economy, we can come up with all sorts of alternatives, but they are unlikely to meet the challenge presented by the absence of that £5 billion. It is like a teacher asking a pupil to solve an almost insoluble puzzle. With the best will in the world and co-operation among the parties, it is not political insight that is needed; people would almost need to be in the magic circle in order to square the circle of the £5 billion worth of cuts, given Northern Ireland's limited powers to raise revenue. Even if it were possible to raise revenue to a greater extent, the big question is: what is the wealth base in Northern Ireland from which to raise that? That is a separate question.

1481. I want to pick up on a number of points in your questions to the previous witnesses. There is the issue of potential savings from outsourcing public services to the private and voluntary sectors. You will not be surprised to hear that we do not see outsourcing — which is privatisation, basically — as something that we can support. That applies even to work transferred to the voluntary sector.

1482. We are in favour of the voluntary sector filling existing gaps. That is how the voluntary sector cut a niche originally, by filling gaps in services to local communities for which the public sector did not provide. Some of our organisations have members working in the voluntary sector, and we support their work. However, we draw the line where the voluntary and private sectors take on work that is currently done by the public sector. We do not think that that provides a better service. It generally means that there is a race to the bottom in employment levels, pay, and terms and conditions of employment. The voluntary sector in Northern Ireland is characterised by less favourable pay and terms and conditions of employment than the public sector. It probably could do things more cheaply because of that. It is also characterised by much temporary working, fixed-term contracts, uncertainty in the workforce as to whether jobs will be there in two or three years' time. To transfer work away from the public sector to the voluntary or private sectors will result in driving down terms and conditions of employment. We will not support that.

1483. There is an argument about the balance between the public and private sectors in the Northern Ireland economy. People say that the economy must be rebalanced. One way to rebalance the economy is to grow the private sector by trying to develop it. However, we do not rebalance it by transferring public sector functions to the voluntary or private sectors, because the public purse still has to pay for those services and functions. The fact that they are being delivered outside of the public service makes no additional contribution to economic development or to achieving the proper balance between the private and public sectors. Therefore, we see outsourcing, be it to the private or voluntary sector, as a race to the bottom.

1484. We view privatisation generally as being part of what has been described as the neoliberal agenda, which kicked off in the mid- to late 1970s with Ronald Reagan, Margaret Thatcher and the Chicago school of economics with Milton Friedman. That economic agenda was a disaster for ordinary people. It de-industrialised large areas of the UK and resulted in the whole liberalisation of the economy, which allowed the private sector to become involved in the public realm and in areas in which there is a need for more accountability and democracy. However, we did not see that.

1485. I know that the Committee may be concerned with what might appear to be rhetoric. However, we have views on a range of financial and economic measures that could be used to address that, and Peter will talk about those measures.

1486. One specific measure that is close to my heart— it was referred to in some of the papers that have been issued and in the Varney review — is allowing the Housing Executive to borrow on the back of its assets and rental income. The Housing Executive has been seeking to do that, and although the power exists to allow it to do so, it cannot because of public expenditure rules. The Housing Executive is quite capable of borrowing and is in a position to do that in order to upgrade stock and to provide additional social housing in Northern Ireland. However, it is being prevented from doing so. The Housing Executive has almost been forced out of the public sector. However, if it were a registered social landlord, it would no longer be on the public accounts system and would, therefore, be able to borrow privately and generate income in that way. The public financial rules are almost forcing the Housing Executive out of the public sector in order that they can borrow money to meet housing need and other social need. We think that the Housing Executive should be allowed to remain in the public sector and to use its assets and income stream to borrow. That would allow it not only to meet social housing need but to provide much-needed employment in the construction industry. We are in favour of that.

1487. The other measure, which Peter Robinson mentioned last Monday, concerns the port of Belfast. We are opposed to the privatisation of the port. In the past, we called for the port to be given full commercial powers so that it can generate more income and profit. We, of course, believe that any profits or income generated from that should be at the disposal of the Northern Ireland Executive.

1488. We support a range of proposals. However, I will go back to my first point: those proposals will not square the circle of the £5 billion that will be taken out of the block grant over the next four years.

1489. Ms Hall-Callaghan: We have huge concerns about equality issues and how they will impact differentially on different groupings. Pamela will speak about that.

1490. Ms Pamela Dooley (UNISON): There are a number of other strategic budgetary considerations that the Committee should take into account. The coalition Government face a judicial review on their failure to apply their statutory equality duties to the Budget spending review. The Executive have a legal and policy obligation to give due regard to the promotion of equality in producing a Budget and consequent Programme for Government.

1491. The last time that high-level equality assessments were carried out, most of them were kept confidential. However, the ones that we saw involved no consultation. No one established what impact it would have on equalities and what could be done about it. Equality assessment is part of the law and the agreements on which the Executive and the Assembly are based. It is now clear that all UK Ministers, including the Chancellor, received clear advice on giving due regard to the relevant equality duties from the Home Secretary in her capacity as Minister for Women and Equalities. That advice was specific to the 2010 UK Budget.

1492. The apparent absence of due regard to the duties and principles of equality assessment is now subject to judicial review from organisations representing women and ethnic minorities. The Executive can and must do better than that. They should confirm and publish clear guidance to Ministers and Departments on the application of due regard to equality as a requirement of law and policy. That guidance must emphasise the strategic case for, and benefits of, equality impact assessments, the need for comprehensive research and consultation, the fullest consideration of doing things differently and minimising the damage.

1493. In the necessary jargon of case law across the UK, advanced consideration of equality duties is required, not a rearguard action following a concluded decision. There must be a conscious direction of mind to the obligation. A budgetary deficit in itself cannot be justification for modifying statutory duties on equality. Rights must not be removed because the UK grant has been cut. Equality schemes, as approved by the Equality Commission, set out requirements that cannot be set aside.

1494. I will move to the other strategic budgetary considerations. We need to protect crucial long-term initiatives, such as nutritional school meals and investment in literacy and numeracy. We must not lose sight of our duty to future generations. We need to look within and beyond the devolved policing and justice budgets to end the harm and cost of domestic violence. The best immediate response to the pressures and joys of an ageing population is to invest in statutory domiciliary care services and work to minimise hospital admissions, which are a personal disaster and a disaster to the health budget.

1495. Ms Hall-Callaghan: Finally, Peter will say a few words about alternative strategies.

1496. Mr Peter Bunting (Irish Congress of Trade Unions): I want to quote from a certain speech, and if you can guess who made it, I will give you a tenner:

"If our skill base continues to decline, there will be no growth. If our infrastructure remains poor, there will be no growth. If we don't support our businesses, there will be no growth. If we don't improve our education, for everyone, our country will become more unequal, more unfair, less prosperous. So we will give priority to spending that supports growth in our economy."

George Osborne said that; I had thought that it was a trade union speaker.

1497. As my colleagues already suggested, we find ourselves in a difficult position because, on one hand, we are totally opposed to the cuts and the ideology behind those cuts, yet at the same time, we are being asked and tasked to come up with mechanisms or processes to determine where the cuts should take place or how the reduced money should be allocated. That proves to be difficult for us; it is a contrarian position in many senses. That said, we do have certain views.

1498. The difficulty that I sometimes have in dealing with politicians is that we believe that our views are good, but they do not filter through until a number of years later, and then somebody says that it was a good idea. For example, we opposed public-private partnerships (PPPs) from day one, but despite our opposition, they were implemented. We are now paying a huge cost out of our current expenditure for the bad decisions that were taken. For example, Balmoral College has closed down, and we will still be paying for it out of the public purse for the next 25 to 30 years. Even Victor Hewitt agrees with us that it puts a huge burden on how we spend public money in Northern Ireland. It is difficult for us.

1499. However, we maintain, as we have done over the past number of years, that the rates freeze was another poor decision. It took money out of the public purse when it was needed to stimulate investment. We advocate that the rates — domestic and non-domestic — should be increased and that the cap at the top rate should be removed. In many senses, they are small figures in relation to the problem that we are attempting to confront. A 1% increase in the domestic rate would generate £2·83 million, and a 1% increase in the non-domestic rate would generate £3 million, which would give us £5·83 million a year, depending on the size of the percentage point rise. How far do we raise it? The difficulty is that taking money out of the disposable incomes of families reduces their spending and has a huge adverse impact, particularly on the services sector across Northern Ireland. However, that is one way to raise finance.

1500. We also advocate the use of our public assets as revenue streams. For example, our forests could be used for orienteering, paintballing and other activities. That would allow the private sector to invest, but a fee would be paid to the public purse for utilising those public assets, whether our lakes, forestry or whatever. Listening to the Confederation of British Industry (CBI) reminds me of Will Hutton's famous comment that an entrepreneur is somebody who risks his or her own capital, not the public's capital. Let us see where the entrepreneurship is in Northern Ireland.

1501. We agree with Mike Smyth about taxing mobile phone texts. We believe and have advocated that the Assembly or the Executive should seek the Treasury's consent to issue a Northern Ireland bond. When county councils across the water can do that, it is strange that the Northern Ireland Assembly cannot. We believe that finance from such bonds could be allocated to stimulating and growing the private sector. The difficulty in Northern Ireland is that its private sector is small, not that its public sector is too big.

1502. We believe that there is scope to increase jobs in HM Revenue and Customs (HMRC) to target, specifically, tax evasion, tax avoidance and welfare fraud. The trouble with that is that, under the current circumstances, any money recovered could be returned directly to the Treasury. Our solution is to require that Northern Ireland retain, by way of bounty, say 50% of the money recovered by the new revenue staff dedicated to targeting such evasion, avoidance and fraud. The 50% retained would fund private sector development, and the other 50% would be returned to the Treasury.

1503. I emphasise: we are talking about evasion and not simply welfare fraud, which costs the United Kingdom about £1·1 billion. Tax evasion and tax avoidance cost £123 billion, and we can provide the Committee with the relevant statistics. There is a lot of money to be had somewhere out there. Why the entire emphasis is placed on the cost of welfare fraud beats us.

1504. We have always proposed the use of the European globalisation fund for upskilling purposes. We have consistently argued that the Assembly, and particularly the Department for Employment and Learning (DEL), should seek money from that fund towards upskilling people who have been made redundant over the past few years. For example, Dell in Limerick — the employees, not the company — was able to utilise €14 million for upskilling out of that European fund. We have not claimed a cent, despite the fact that 1,000 Seagate workers were made redundant, and we had redundancies in Visteon, Nortel and Reid Transport. Not only can employees from a particular company bid for that money but suppliers, who might also be made redundant, can avail themselves of it. There is a Treasury difficulty with that. I do not think that Northern Ireland has the power to request that money itself. However, most other EU countries, including Portugal, have applied for it. A fund — a big bank of money — is sitting in Europe to be used for upskilling people who have been made redundant, from which we have not claimed a penny.

1505. I do not know whether that suggests that the parties here are anti-Europe. However, in that sense, some people should swallow whatever principles they have and utilise the public money like everybody else does. We have advocated an approach whereby a Minister or another person should be responsible in the Assembly for exploring where European funding is going and whether we are availing ourselves of that funding to build the economy. There are linkages, and money is available between Scotland, Northern Ireland and the Republic of Ireland. I wish that we could create a link-up there to build, to some degree, for new economic projects. Brian has already mentioned the ports.

1506. More generally, we suggest that the Assembly, along with our Scottish colleagues and the Welsh devolved Administration, pass a motion to take to Westminster to seek the imposition of a wealth tax on the richest 10% of people in the UK. That would generate a huge sum of money.

Furthermore, we support the introduction of a Tobin tax. Such a form of taxation was agreed, in principle, by the leaders at the last G20 meeting. It is also called a Robin Hood tax; it is a tax on financial transactions. That would generate £32 billion across the United Kingdom, and, if we take tax avoidance and tax evasion into account, there is scope to generate another £40 billion or £50 billion. Therefore, the money is out there, and we do not have to go through all this pain. Even a fraction of that amount of money would eliminate the current deficit, which is not the highest ever in the history of the United Kingdom.

1507. We can provide the Committee with documentation about that and with evidence of a Nobel Laureate economist's view that the coalition Government's proposals are totally and utterly wrong and will lead us into a depression that will take 10 years to get out of. The justification is that the private sector will create 2·5 million new jobs. However, given that it could not create one million jobs over a 10-year period at the height of the boom in the early 2000s, how will it create 2·5 million jobs in the next five years? It is absolute and utter nonsense.

1508. I have much empathy with Assembly Members because they have been set a difficult task. It is not of your making. None of the people who voted for Members voted for the proposals. Therefore, it is difficult. However, there are alternatives, and they are mostly fiscal. Members have to give a lead to the people and, perhaps, pass a few motions to send to Westminster to get our parliamentarians there to stand up and represent the people in Northern Ireland on those issues. That is how we need to move to address the deficit in the UK Budget.

1509. The Chairperson: I need to move straight into questions. We have to be out of the room by 1.15 pm, and I do not want to rush out at the end. I want people to have the time to talk and to ask questions.

1510. Mr O'Loan: My own time is very limited; I need to leave shortly. Thank you very much for your presentation and ideas. As you know, the SDLP is keen on social partnership. What is your view on that? None of us likes the cuts one little bit, and we all have our own views, as economists do. Do you think that, after we have made our case — we do not know, ultimately, where that will go, but we have our fears — you will reach a stage at which you are more prepared to engage in a social partnership model, provided the Executive are willing to meet you halfway; or do you feel that you will be caught in endorsing measures that you do not want to endorse and, therefore, will stay outside the tent?

1511. Mr Bunting: In many senses, it is Hobson's choice for the people whom we represent. We do not deal with social partnership in Northern Ireland, primarily because the involvement of the employers' associations is needed, and we do not think that that will happen.

1512. Also, of course, social partnership, as it emerged in the Republic of Ireland, was built around deals to moderate wage demands as against reductions in taxation. As we have no fiscal powers here, it is that bit more difficult to replicate it here. What we mean by "social partnership" will determine what sort of model we will get.

1513. With regard to engaging at some stage, one assumes that whatever decisions are taken in the future will have an impact on employees in the health sector, represented by Pamela, the education sector and the general public sector service by Avril and the private sector by Unite. Obviously, by its very nature, there will be engagement. We will try to moderate the extent of it. There will be negotiations, as there have been negotiations over the last number of years on efficiency savings.

1514. Ms Dooley: My union works in partnership. It may not be a social partnership as such, but we work in partnership with the trusts as an equal partner around the table on a number of projects to ensure better efficiency on things such as domiciliary care. We have a project whereby each of us around the table has an equal voice, and we look at making the service more efficient. We look at how our members can envisage a more efficient service and how they are prepared to deliver on it. That is what I call partnership.

1515. Ms Hall-Callaghan: In the education sector, we have been working up to a strategic forum. We are nearly there. We have agreed terms of reference and that is the kind of forum in which partnership will take place in practice.

1516. Mr Campfield: I reiterate what Peter said. If a social partnership approach was on the table, the first major difficulty that will present itself is lack of sovereignty on a whole range of matters that require the power to deal with taxation and so on. We would want things out of a social partnership which the Northern Ireland Government is unable to deliver. That militates against a social partnership.

1517. From a trade union point of view, our bread and butter is engagement with employers and trying to negotiate solutions to problems. I expect that we can do that in dealing with Departments, the Executive and whatever. However, we have to retain our independence.

1518. If a consensus develops in the Executive around a Budget, and how it will be distributed, it will be important to have an opposing voice, from the point of view of maintaining a healthy democracy. If there is a consensus among all the political parties running the show, there will be a need for an alternative voice to keep people on their toes.

1519. We have to have a free hand to represent our members' interests and defend jobs and services. We are not in the position of a political party, which has seats in the Executive. We have a separate and independent role to play in the democratic process of how the Executive might want to proceed with respect to Budget reductions.

1520. Dr Farry: I welcome all the witnesses and I regard the unions as a key partner in all of this.

1521. I must clarify a few points of realism. There was some movement in what was said. Leaving aside the rights and wrongs of who caused the recession and what has happened at a UK level, is there now an acceptance that the Northern Ireland Executive has to strike a Budget for the next year, based on the figures given us by the Treasury? If that is the case, we can talk about how to do it, the issues of fairness and how that burden is distributed.

1522. I agree with Peter about what we can do to raise revenues locally, and as regards rates and rate capping.

1523. Why do the trade unions continue to oppose the introduction of water charges? Any water charge, as far as I am concerned, must be linked to ability to pay. It must be based on people's income. If we are to be progressive in how we do it, we must ask those who are better off to pay most, so that we have more money to protect those who depend most on public services. I do not understand the logic of what has been said. Most people objectively understand that a water charge can be made to be progressive.

1524. I have a final comment for Brian to address. Around half of the overall current expenditure in the public sector goes on wages and salaries. Ultimately, the purpose of the public sector is not to provide employment but to provide services, and employment is a consequence of the provision of those services. Nevertheless, we are hugely sympathetic to people who work in the public sector, but there are choices to be made and we cannot duck those choices, whether they are about wage freezes and at what threshold those wage freezes apply, about redundancies and whether those are purely voluntary or whether there are going to be some compulsory redundancies, or about how we split that up.

1525. If the unions are not prepared to take a stance on that issue, the decisions will be taken by the politicians and the Civil Service without the input of the unions, and those decisions will essentially be imposed on people, thus creating difficulties. I am at a loss as to why the unions are not prepared to engage on that issue to work out the most advantageous approach to maximising the retention of employment and that spending power in the rest of the economy.

1526. Mr Bunting: I will make two points. First, although you might think that it is history and that we should not argue over it because it is irrelevant —

1527. Dr Farry: We can do both at the same time.

1528. Mr Bunting: To me it is very important, because it is the future; not history.

1529. Dr Farry: We can do both.

1530. Mr Bunting: The future is for all children, our grandchildren and our nieces and nephews in this society. The question of who caused the economic crisis is not history, because we are going to pay for it in the future. The other point is that there is an acceptance that one has to introduce a Budget — says who? [Interruption.] Hold on a second, guys. You can all get upset —

1531. Mr Hamilton: Live in the real world.

1532. Mr Bunting: I am in the real world, Simon: I have been living in the real world for a long time. There is a school of thought — though we do not share it — that the Assembly was taken down for less important reasons in the past.

1533. Dr Farry: If we do not strike a Budget, a Budget will be imposed, which will mean even deeper cuts in the public sector.

1534. The Chairperson: Stephen, you have to let him finish.

1535. Mr Bunting: I have at least provoked a few people and got some reaction. Stephen, I would like to make the point about why we oppose water charges. We do not oppose paying for water: we actually pay for water already.

1536. Dr Farry: To an extent.

1537. Mr Bunting: Yes, to an extent. We do not oppose an increase in what we currently pay. It is how we differentiate what we currently pay when it was assimilated into the rates. That was the difficulty, and the issue was confused when John Spellar said — quite disingenuously — that the public did not pay for water, and never had, yet those of us of a certain age remember going to the Water Office with our parents to pay the water bill. We have been paying for water for a long time. The difficulty is that it was assimilated into the domestic rates and none of it was then allocated to Northern Ireland Water. That is the problem.

1538. We are paying for water, and we accept that there should be an increase in that, but we do not accept that there should be a separate water charge of £200 per house. The other reason we oppose it is that there is a need to get the balance right between, for example, increasing the domestic rates and adding water charges on top of that. The disposable income in society is needed to retain jobs in the private sector. One cannot keep taking disposable income out of family purses. Where did that money go in relation to keeping small businesses going — the restaurants, the shops and the retail sector? That is the difficulty I have with all of that. Again, it is not easy, but how much can one actually suck out of household budgets? One has to judge what adverse impact that will have on the private sector. That is the difficulty that I see.

1539. Mr Campfield: I will pick up on the issue of wages. It is a fallacy that high wages are problematic in the economy. That has been dispelled over the years. What you are presenting is a situation where there is a certain amount of money, some of which is paid out in wages, and if that is increased or maintained, it will lead to job losses. The difficulty with the logic of that is that it is a formula for a wage freeze every year. I have been involved in the public sector for over 30 years, and there has never been a time when there has not been pressure on public spending.

1540. Using your logic, if our members had been presented with that argument back in 1979 or 1980 when the Conservatives were elected, Margaret Thatcher came to power, and there was big pressure on public spending and cuts in public expenditure, they would have accepted either no pay increase or a freeze in wages for 20 or 30 years. That is where the logic of focusing on wages takes us to.

1541. Everybody can do the mathematics. Members will appreciate — and the Executive have looked at this — that the biggest majority of public servants in Northern Ireland have their wages determined by reference to UK pay settlements. There are contractual and statutory elements to those, so the Northern Ireland Executive do not necessarily have the power to interfere with them. George Osborne's June statement introduced a pay freeze for those earning above £21,000. Although he said that people below that would get £250 a year, local government across the UK, for instance, said that there is a pay freeze this year and that people earning below £21,000 will get nothing as well. Therefore, local government has already imposed a pay freeze over and above what George Osborne said.

1542. We hope to be involved shortly in negotiations with the Department of Finance and Personnel about Civil Service pay. We have produced a booklet — all members should have received a copy — that demonstrates that pay increases for civil servants since 2003 have fallen drastically behind the retail price index inflation measure and our colleagues in the Health Service and local government. We are then being asked to either freeze pay or take a reduction. We argue that people have to be paid a proper rate for their jobs. It needs to be ensured that there is sufficient morale in the public sector. We made a pay claim for civil servants. We know that that will not be conceded, but we want a fair wind and fair treatment of civil servants in comparison to all other public servants.

1543. There is a fallacy that the private sector has universally taken wage reductions or freezes. Quite a number of private sector operations have done that, but that is not universally the case. In fact, even now, the income data services documentation indicates that pay increases in the private sector are starting to pick up again because it is coming out of recession. The increases are around 2% or 3%. The point that we need to make regularly is that people say that the private sector has taken its hit and now it is the turn of the public sector. One does not follow the other. We are a mixed economy in Northern Ireland: the private sector and public sector do not inhabit two different geographical zones. People who work in the public sector and the private sector live in the same communities. People in the same families rely on public sector and private sector wages. In fact, there is more of an argument for public sector wages to be increased because thousands of people in the private sector in Northern Ireland rely on the breadwinners who work in the public sector to get by, because they are unemployed. I have friends who are unemployed because the firms for which they worked in the private sector made them redundant, but their spouses are part-time workers in the Health Service or in education and they rely on that income from the public sector to get by.

1544. There are certainly real issues, and we will have to discuss them if they are put on the table. However, we are not in the business of volunteering a wage freeze or cut. Staff have to be treated reasonably, including on the wages front.

1545. Mr McLaughlin: You are very welcome. Peter said that the unions are in a very difficult position. I profoundly agree, and I will not add to those difficulties in any way. Speaking on behalf of my party, I also agree with the view of the ideological force that is driving the British Government policies, which is reflected in the CSR statement. Furthermore, I agree with the point about fiscal powers, which has been the standing position of my party.

1546. We can have a view of the British Government, but there will be no resolution that will be to our satisfaction between now and the end of this financial year or the beginning of the next CSR period. I hope that it will be resolved as some stage. Neither will we get those fiscal powers between now and March; at least, it is very unlikely that we will do so.

1547. We have to adopt an approach that reflects the current position. Our strap line is that this is about managing the economy, not the cuts. We are adopting that approach and are looking at a cocktail of responses, including efficiencies and new sources of revenue, some of which were mentioned in the presentation. There are bound to be other and wider contributions to that discussion. Can we eliminate the impact of the arbitrary removal of £4·5 billion? Can we cope with the consequences of over £300 million of end-year flexibility stocks being removed at the stroke of a pen? My point is that it is a difficult time for all of us.

1548. I strongly welcome the succinct and helpful statement about equality-proofing the policies. The Executive should reflect on that in every decision that they take on policy priority.

1549. You indicated that you will provide a response. This is an invitation more than a question, but I look forward to that submission. If we do not agree a Budget, people in the wider public sector whom your organisation represents will face real challenges. If we relinquished control to the extent that we had limited powers of local accountability, we would not be able to escape your attention. If you wanted to talk, you would find us and be as blunt and to the point as you have been in your presentation. However, the fact that that can happen is a helpful, mature and progressive development. We could surrender that, but the impacts would still be the same as the ones that we are all worrying about. The potential for us to fight about this is strong. However, if we want to manage the situation better than it would be managed for us, we better get together.

1550. Mr Bunting: We will put our ideas on paper for you. However, it will be difficult to get the time to do that. We are a very democratic organisation, but sometimes we say feeling like saying boohoo to democracy, because it is a terrible bother, and because it is very hard to get many different views from 34 different trade unions and reach an agreement about what to do.

1551. For the purposes of clarity, we are not advocating that full fiscal powers should be surrendered from Britain to Northern Ireland. I say that in case you got that impression.

1552. Mr McLaughlin: No, I did not get that impression. However, you mentioned the possibility of not striking a Budget, which is clearly an option, and more than one political party has thought about that. However, one must think about the consequences of that.

1553. Mr Bunting: Sorry, I thought that you were talking about the bond.

1554. Mr McLaughlin: No, I was referring to the little kerfuffle that happened when you mentioned the Budget.

1555. Mr Bunting: OK, so we are clear on that.

1556. Mr McQuillan: I agree with some of the comments that have been made. I agree with Brian that the Housing Execuitve needs to be run more like a business. There are so many housing associations now that people do not even know who their landlord is. They think that it is the Housing Executive, when it is actually one of those housing associations.

1557. I also agree that we need to get a handle on fraud across the board from tax fraud to diesel laundering — the whole works.

1558. A rise in rates will hurt people working in shops, businesses and in the local public sector. Those are the first people who will lose their jobs, so I disagree with rates being increased in any shape, form or fashion. I also disagree with water charging. I agree with you: we are paying for our water consumption through our rates, and there should be a more detailed breakdown of the rates to show that we are paying for water in that way.

1559. The unions need to live more in the real world, rather than in this wee fantasy world that they sometimes live in.

1560. Mr Bunting: Let me assure you, Adrian: we do not live in any fantasy world; we live in the real world. We have a difficult job to do. People may not like what we have to say, but we say it because we represent people.

1561. Mr McQuillan: So do we.

1562. Mr Bunting: Exactly. In fact, in many senses, it is a dual constituency. We represent the same people whom you represent. However, our members do not go to their MLAs about wages or whatever; that is where our difficulty lies.

1563. Mr McQuillan: I get a brave wheen of them.

1564. Mr Campfield: We will send you a few more then.

1565. Mr Bunting: You are just reiterating the dilemma that we are in. Does one increase rates, or what? Irrespective of where one cuts, they have an impact somewhere? I was looking at the TUC. We work in collaboration with our sisters and brothers in the Scottish TUC, the Welsh TUC and the TUC. Last Thursday and Friday, I attended the meeting of the Council of the Isles in Derry, and women from the TUC suggested that 72% of the cuts will impact on women, which is fascinating. By the way, I am quoting empirical evidence; it does not just come off the top of our heads. For instance, Richard Murphy made the business case, to which I alluded earlier, for investing in staff for HM Revenue and Customs. More staff would bring in additional revenue. Money is out there, so we should not have to deal with cuts when people are evading their obligations to the state.

1566. Mr Girvan: Thank you for your presentation. If we follow your line of argument, the cuts will reflect primarily on private sector capital spending. The majority of capital spend is associated with private sector firms, which deliver buildings and so forth, and they are already suffering greatly. Indeed, a number of them have already paid staff off or they are taking big pay reductions in order to sustain themselves. How will focusing just on the revenue aspect of the argument help the overall process?

1567. As far as I can see, we are looking at cuts. I appreciate that we all want to see whether we can pull more money from the general grant into our Budget, and, if we can, it would be brilliant, because it would minimise the impact of cuts. We do not want public sector job cuts either. We want to retain those jobs and ensure that we get value for money from them. To do so, it is important that we get buy-in for, and ownership of, the decisions that have to be made. It is a two-way street, because, at the end of the day, we have to take the pain of making those decisions and the unions cannot pull everybody on to the streets willy-nilly.

1568. We all oppose some of the cuts, but we live in the real world, so we realise that they are coming and that we have to deal with the outworkings. Yes, we can adopt other fiscal measures, such as identifying money that is being defrauded from the system and bringing the people responsible to book, and that work is ongoing. Nevertheless, how do you view the revenue aspect, because our understanding is that it will be cut by roughly 8% over four years? How will that impact on the thousands of public sector job losses that are being portrayed, as opposed to what we are being told, which is that there will be thousands of job losses in the private sector and that, in effect, they will drive the economy down further?

1569. Mr Bunting: I think that both of those things will happen. In one sense, you are quite right: the public sector in Northern Ireland purchases goods and services from the private sector totalling £3·28 billion a year. Therefore, even cutting down on the revenue end will have an impact. I agree totally with your other point. In our meetings with the First Minister and deputy First Minister, and even in our meeting with the Secretary of State, we argued robustly about the Secretary of State reneging on the St Andrews Agreement and on the capital expenditure that we were promised. Initially, that will probably have greater consequences on the private sector and on how we grow the economy. Of all places and regions, Northern Ireland cannot afford to lose one private sector job, because, as a small, local economy, the private sector is our weakness. That is hugely important.

1570. Equally, it is forecast that we will lose in the region of 30,000 public sector jobs, which, by their very nature, will impact on the private sector, because the removal of 30,000 disposable incomes from our economy will result in huge economic drops for retailers, hairdressers, pubs and restaurants etc.

1571. That is why I am emphasising the fact that doing it in the manner in which it has been put upon you will end only in a depression, as opposed to a recession. Furthermore, over the next number of years, I cannot see any green shoots emerging in Northern Ireland or, for that matter, in the rest of the United Kingdom.

1572. The Chairperson: I have to cut things short, because we were given a 1.30 pm deadline to get out of here.

1573. Mr Bunting: Are you sure that it was not 1.45 pm?

1574. The Chairperson: No. Deadlines keep getting moved. Thank you very much for coming along, and if we have any other questions, we will write to you. We understand your difficulty in producing a paper, because we asked you to come only two weeks ago. Nevertheless, if members have questions that they did not have time to ask, is it OK to write to you for answers?

1575. Mr Bunting: Feel free.

1576. Dr Farry: In due course, a follow-up meeting might be possible.

1577. The Chairperson: That is true. Thank you.

17 November 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Neil Gibson	Oxford Economics
Mr Mike Smyth	University of Ulster

1578. The Chairperson (Ms J McCann): I welcome Mike Smyth from the University of Ulster and Neil Gibson from Oxford Economics and invite them to make their opening remarks and then answer questions.

1579. Mr Neil Gibson (Oxford Economics): Thank you very much, Chairperson and members. I am delighted to be here. As an economist of 15 years in Northern Ireland, it is nice to be invited to speak about one of our greatest economic challenges. Mike will speak a little bit more about how revenue could be raised.

1580. As an economist who works around the world, I want to be clear at the outset that what is in front of us is challenging. I do not want to underplay how hard it will be to make savings, but it should not be catastrophic. The amount of money that comes into Northern Ireland, and that will come in even by the end of the four-year period, should still be more than enough to run world-class public services. Most other countries, and certainly other regions of the UK, would be delighted to have that level of revenue. We need to keep that in perspective.

1581. I noted with great interest that, in the debate during the boom years of public-spending announcements, we always quoted the Barnett formula and said that it provided a squeeze that was hurting Northern Ireland. The Barnett squeeze helps us when there are cuts, but that has been scarcely mentioned in any of the coverage. The cuts could have been much more significant. Asking for something akin to flat cash for four years on the current side is a situation that most private-sector businesses would have been delighted to face over the past two or three years, given the security of four years of the same amount of money.

1582. The challenge that I put to Northern Ireland is to change the narrative from one of cuts to one of reform and think about the sort of public services that we want and can afford. If we believe that we need additional public services or if we want to fund things differently from other parts of the UK, it is increasingly our responsibility to find the money. As one who does a great deal of work in the other regions of the UK, I sometimes find how we speak about our financial problems almost disrespectful; many places in the UK are just as bad as — and worse than — Northern Ireland but do not have our level of funding. Saying that we are a special case and that we need to find extra money from outside Northern Ireland would be unsuccessful. It also abdicates our responsibility to get the economy functioning in a way that we can afford.

1583. In addition to changing the narrative from one of cuts to one of reform, we should undertake an extended cost-reduction programme; after all, that is what the private sector has had to do. We need to control costs in public services. I mean that in the widest sense. Everyone instantly thinks of wages, which is an important issue that we will probably pick up on in questions. However, we need to control costs even in procurement. I speak as a consultant who avails himself of public contracts on occasion, so I may have a vested interest. However, we should look at that and take account of Sir Philip Green's review that looked at mobile phone contracts, for example, and how one purchases from consultants and what one asks of them. Thinking about a cost-reduction strategy across the board means that the numbers may not be as startling as people suggest.

1584. The coverage of the cuts has been unfortunate. Our evidence papers that made the headlines were all about how many jobs it would cost: it might be 16,000 or 30,000. Even the evidence paper that quotes PricewaterhouseCoopers's work, which was sent to us in the briefing for today's session, does not reiterate that it is still a choice before Northern Ireland. Everyone around the water coolers in public-sector offices believes that job losses on that scale are inevitable; that has a psychological impact on confidence and spending. Pretty much every civil servant in Northern Ireland thinks that his or her job may be under threat.

1585. There are difficulties, complications and challenges around fixed pay settlements and increments. However, in the private sector, the deal has often had to be put to businesses and staff: do we lose 15% of people or do we accept pay cuts? In the South, the question has been about pension levies and so forth. That narrative has not been well played out. One of our jobs is to mitigate the jobs impact, and that is doable if we can control costs.

1586. The other aspects of cuts, such as capital, will be very challenging. However, that only raises the bar. Even if we go down to £800 million a year by the end of the period, that is a significant amount for a region of this size.

1587. It is about what the main priorities are now. If good ideas, such as the expansion of roads, which incentivises economic development, were implemented, wider investment, such as pension funds, from elsewhere in the world would be interested because investors might get a return through the rates base, toll roads or whatever. That raises challenges.

1588. It will also be difficult on the annually managed expenditure side (AME). It is interesting to hear the narrative around welfare reform, which is being couched as cuts to the AME budget. However, they are trying to do something to which Northern Ireland has long aspired: make work pay, to make it better to be in work than out of it, and to reduce problems with the welfare system. Although I do not want to minimise the risk that cuts — if you want to call them that — will bring to the AME side, we can use that and the squeeze on public-sector money to help Northern Ireland to re-orientate its priorities towards a private sector-led economy, which I have seen written in every economic strategy for as long as I have been practising. It is an extremely significant challenge, and I am not downplaying it; however, it offers opportunities. If it were done right, there would not be the devastating effects that are being portrayed in the public realm.

1589. Mr Mike Smyth (University of Ulster): Our weather this morning is sober to match these sober times. Perhaps that is a pathetic fallacy. I wish to make some general comments and then some specific proposals on the issues that the Committee asked me to consider.

1590. The cuts under the comprehensive spending review (CSR) are very challenging, although I make no judgement on whether they were better or worse than we have been conditioned to think. A challenge for the Assembly is to examine new forms of revenue raising and alternative ways of leveraging public assets by keeping them public. Another challenge is to cause the Executive and the Assembly to ask fundamental questions about how we deliver public services and to get more value from less money. If we do not do the latter, we are implicitly arguing that we believe that public-service delivery is optimal. If you asked anybody about that, even those working in the public sector, they would tell you that that is far from the truth. Therefore, government must constantly ask whether it should be doing this or delivering that. We have not done that before, but the process must now become part and parcel of our daily thinking.

1591. My suggestions to the Committee today would greatly reduce the impact of the proposed spending reductions on the delivery of front-line services in Northern Ireland. However, they make no value or political judgement on their impact on the electorate. I leave that to you; this is just my advice. My proposals also relate to the future path of fiscal policy in Northern Ireland, which may sound very new-fangled. We have fiscal controls here, but we do not have enough of them and we should get more. However, we do not yet really understand the ones that we have or how they work. This offers an opportunity to close the gap between taxpayers and services. That would be good for democracy here, because, at the moment, there is a wide gulf in financial and engagement terms between ordinary citizens, the services that they consume and the taxes that they pay. That goes to the heart of the problem.

1592. I now turn to revenue-raising proposals that the Committee may wish to consider. I start with the most unpopular: water charges. I will not give the Committee a lecture on their merits or otherwise. I have been through the debates and took part in the public consultation — I still bear the scars from the debate with Eamonn McCann in the Guildhall. I am prepared to admit that Eamonn might be right. There's a quote: Eamonn might be right.

1593. Mr McNarry: He is more than likely wrong.

1594. Mr Smyth: People think that they pay partially for water, and I am sure that that is true. However, they do not pay enough, so where will the difference come from?

1595. We can cry all we like about the privatisation of water, with which I never agreed in the UK, but it has happened. There is no Barnett line in the UK Budget from which we get a consequential to cover water. We either pay for much needed investment in water out of the block grant or we find other ways of raising revenue. We do not have to go straight for the proposals; it can be brought in very gradually, but we must make a start.

1596. On a more pragmatic note, there are other new revenue sources that we can tap in to. Whether mobile phone texts or mobile phone masts are taxed makes little difference, although my preference is for a tax on mobile phone texts. In the UK in 2009, 97 billion mobile phone texts were sent. An imputed Northern Ireland share of 2·5% gives an estimate of 2·4 billion texts originating in Northern Ireland. Those figures were given to me by BT. A penny tax levied on each message would yield £24·3 million a year. That is a stealth tax. Nobody can tell me that that will greatly affect the most disadvantaged. It will come out of the pockets of parents who pay their children's mobile phone bills, but they will not notice it. Will we pass up on £24 million? It would generate about £23 million if 5% covered collection costs, which the mobile phone companies would have to do. It is a no-brainer, and I have heard no philosophical or commercial objections to it.

1597. Raising the fee for MOT tests from £40 to £60, depending on the size of the engine or the CO2 emissions, would raise between £10 million and £15 million. It would also achieve another public policy objective and would encourage behavioural change in motorists in the right direction.

1598. In the Budget of 2007, the Minister of Finance and Personnel froze domestic and non-domestic rates for very good reasons, but the world was different then. Now, we have a choice between revenue raising and perhaps service cuts. If that is the choice, we should consider unfreezing domestic and non-domestic rates. The Republic of Ireland, in its dire straits, is considering introducing a property tax that is akin to rates. That reminds me of the joke, in the pre-Celtic tiger days, that the motto of the Finance Department in Dublin was "If it moves, tax it." In 2010-11, the estimated yield to Northern Ireland is about £280 million from domestic rates and £270 from business rates. Increasing those by 1% would raise £50 million to £60 million a year. We are closing the gap.

1599. We now move to prescription charges. Never mind about the worth or otherwise, basic economics shows that if a good is made free, it will be over-consumed. The Minister of Finance said that that would cost between £12 million and £13 million; my research tells me that it is north of £20 million. It is time for a rethink.

1600. Public-sector car parking is a very opaque issue here. For many people across the United Kingdom, workplace car parking charges are the norm. I pay about £300 a year for parking, sometimes on a muck heap at the University of Ulster in Jordanstown. Northern Ireland is more car-centric than any other part of the UK because our public transport infrastructure is simply not fit for purpose. A charge on public-sector car users seems appropriate. Five pounds a week might yield between £10 million and £15 million, depending on the assumptions that are made about car usage in the public service.

1601. It is normal across the European Union and in the Republic for patients to make a small contribution towards the cost of a GP visit. In France, which is more socially oriented than we are and which embraces the European social model, it is normal to pay €50 for a visit to a GP. Thereafter, everything is magic carpet stuff. In the Republic, a charge of €45 has been introduced for an A&E visit unless one is referred by a GP, in which case it is free. At the very least, we should consider a GP visit fee, a fee for health check-ups or fees for out-of-hours access. Whether or not we adopt such measures, we need to consider them, cost them and see what revenues they would raise and what behavioural change they would bring about.

1602. There is no incentive for Departments to borrow money. Under the reinvestment and reform initiative, which was negotiated at the time of the Belfast Agreement, Northern Ireland can have access to up to £200 million a year from the Treasury, theoretically serviced by regional rates but, in fact, serviced out of the block grant. The Executive should seek to increase that ability to borrow. The rationale for the reinvestment and reform initiative is even stronger now than it was in 1998. The Treasury may reject that request, but we should look to use our revenue streams to leverage more borrowing from it. There is an irony there that I will go into later.

1603. It is my understanding that the restrictions on borrowing that apply to central government Departments do not apply to local government. If that is correct, I advocate that local authorities consider borrowing for capital expenditure. It would be appropriate if local government borrowing, which would be serviced from the substantial district rates receipts, could match central government investment, perhaps in a new investment strategy for Northern Ireland. I do not know whether the Assembly has considered that, but if the capital budget has been cut as severely as seems to be the case, we should make that up from elsewhere in local government if possible.

1604. I will give you an illustration. The European Investment Bank (EIB) could lend £40 million a year to local government. That could be serviced from district rates, and, at a rate north of 4·5%, including an exchange rate premium, £2 million per annum would be paid. The £2 million per annum at an assumed interest rate of 5% is eminently affordable by the 26 district councils. That £40 million would be matched either by £40 million from the capital departmental expenditure limit in the block grant or £40 million from private finance. It immediately doubles, and the EIB will lend up to 50% for any project.

1605. For that to work, it would be necessary for local and central government to agree on a strategy that would have to be compatible with the overall Northern Ireland investment strategy and with the needs of the participating local authorities. Therefore it requires a spatial dimension. One approach that I have thought about is a shared-services approach, which involves finding areas of common interest between central and local government. That is not difficult in the area of capital expenditure and can include waste management, housing, roads and infrastructure. It is past time that we started to investigate that, and the local authorities that I have run it past have indicated an interest in exploring it.

1606. I move on to asset sales and asset leverage. You have heard the following point before, so I will reiterate it quickly: the Northern Ireland Housing Executive is a non-departmental public body. Changing its corporate status to some form of non-governmental organisation would not require legislation. If that were done so that its net asset base, which is in excess of £4 billion, was no longer counted on the public-sector balance sheet, it could access the financial markets and embark on a sustained programme of housing renewals, effective insulation and new building. That would make a huge contribution to reducing the pressure on the Northern Ireland block. It would take a line of a couple of hundred million pounds out of the block. Such a move would make the Northern Ireland Housing Executive a very bankable proposition.

1607. It could involve the European Investment Bank and/or some of the larger banking institutions and pension funds in long-term, 20-year plus financing deals. Over the past five years, the Northern Ireland Housing Executive has reduced its historical debt profile from over £1 billion to £600 million. It is a tragedy that the Housing Executive cannot leverage its enormous asset base. We are missing a trick.

1608. As a subset of that, the green new deal was recently published. Notwithstanding the issues about the business model that underpins it, for an outlay of £80 million the green new deal permits the simultaneous achievement of several public policy objectives: reduction in fuel poverty; reduction of CO2 emissions; greater energy efficiency; and, above all, increased employment. Research shows that the most effective way of creating and maintaining employment at present is retro-fitting houses. I will give you the paper if you want.

1609. As for assets, is it too late to revisit Workplace 2010? Notwithstanding market conditions, parts of Workplace 2010 could release savings to the Executive. We must consider leverage and public assets. Any public-sector activity that has an income stream, such as the Housing Executive, can use its revenue stream to finance capital expenditure. Public-transport fares could be used in that way to improve investment in the public-transport infrastructure. We need to think about that.

1610. I move on to the issue of cuts in the annually managed expenditure budget. AME is administered, but not controlled, by the Executive. I have talked endlessly with informed colleagues about this and I share your frustration. One of the absurdities in annually managed expenditure is the use of jobseeker's allowance, disability living allowance or incapacity benefit. Those are passive responses. They say: if you fall on hard times, we will help you. Scandinavia does not operate like that. If you become unemployed or ill there and cannot work, the state will put you back to work, training or university. Those are called active labour market policies. There is no long-term unemployment in Denmark, Sweden, Finland or Norway. We, however, ex post, write cheques to people to do nothing.

1611. When I ask how annually managed expenditure is arrived at, I am told that we forecast what we think the jobless and dependency level will be. Is there any scope in that for over-forecasting, creating a bit of space, and using the money proactively to send people back to school and training or to give them a job subsidy? Sadly, the Treasury watches that very carefully, so room for manoeuvre is limited. However, we should look at ways of turning the switch on AME. Instead of its being demand-driven, we should use it proactively to put people back to work.

1612. A cut of £18 billion is proposed across the UK in annually managed expenditure; in Northern Ireland, it would amount to a £1 billion cut. We depend heavily on transfers from the central Exchequer. Let me give you some numbers: 87,000 claim income support; 99,000 are on state pension credit; 93,000 on incapacity benefit; 183,000 on disability living allowance; and 149,000 on housing benefit. Without any relative numbers, any cut in AME — whatever the source and all things being equal — will have a disproportionate effect in Northern Ireland. However, as Neil said, some of the proposed reforms are aimed at tackling our historically high levels of economic inactivity. If they succeed in doing that, it is slightly less bad.

1613. I was asked to comment on the capital programme cuts and the status of the so-called £18 billion capital plan. The CSR takes £1,400 million out of the £18 billion capital plan. The Treasury arrived at the pledge of £18 billion and says that it is already half way to being met. As far as it is concerned, the capital programme runs two years beyond the present CSR to 2016-17.

1614. However, it has been economical with the facts. It has included expenditure on capital, including the value of PFI and law-and-order projects in the years before responsibility for them was transferred, which is not fair. Some of its calculations use calendar rather than financial years, which extends the period of the pledge. It is a case of lies, damned lies and statistics.

1615. On the other hand, it is not true that PFI and asset sales were not included in the original investment strategy for Northern Ireland (ISNI) calculations; they are there for all to see. Either way, we have to make up a shortfall in the capital budget. It is too late to do anything about the period of the capital plan. I prefer to concentrate efforts on raising and leveraging investment to replace it. Neil and I are happy to take questions.

1616. Mr McNarry: You are welcome, and I thank you for your presentation. Can we get copies of your papers? It is no reflection on Hansard, which is overburdened with work, but we do not get the Hansard report quickly enough. It would be great to have those papers, even after today. We are told that inflationary pressures will have to be contained and that no allowance is being made for inflation over the next four years in the proposed Budget. What could that mean?

1617. Mr N Gibson: That is the key question. All the estimates on the scale of the cuts are put into real terms, and the number of jobs that will be affected is based on those estimates. The crucial calculation is the inflation figure. It has almost been assumed that it will be about 3%. I challenge that, as many elements of the private sector have kept their inflation well below that.

1618. That raises difficult questions about wages, which are the biggest chunk of spending. We heard Mike's numbers — £12 million here and £30 million there. I will get the precise figures and Mike may be able provide information. Of the £10 billion current costs, between £4 billion and £5 billion is wages. Therefore, a 1% wage increase is £40 million, which is a big number that we have to keep in mind. Many say that the public sector in Northern Ireland is better paid than the private sector, but we must be careful when comparing the metrics. One of the problems in the private sector is that there are not enough managers and senior officials, so it is not perhaps a fair comparator.

1619. Reviews of Senior Civil Service pay have been carried out and questions raised about it. However, the public sector pays up to 50% more for some unskilled administrative officers than a private-sector business in professional services, such as mine, pays for graduate staff. Therefore, controlling pay, painful and controversial though it may prove, does not damage the standard of living to the extent that people suggest. In Northern Ireland, where the costs of housing, services and rates — even if they increase — are relatively low, that is not as damaging as it otherwise might be.

1620. It is a painful route for those people; nothing is more demoralising than being told that one will not get a pay rise for four years. However, if we can keep hold of that, the inflation question that was raised will be the answer to some of the problems. If inflation can be kept at 1% rather than at 3%, the challenge of the cuts ahead will be much more modest. The procurement side of what is purchased, given the scale of the buying power of the Civil Service and the wages bill, is one of the biggest areas in which the cuts, for want of a better word, may not be as damaging as some people think.

1621. Mr McNarry: That is very useful. I find it difficult when we get a set of figures and then, six months down the line, somebody says that inflation was not included in them and it wrecks the calculations. Should we include a contingency figure for inflation because of the critical number crunching that we will have to do?

1622. Mr N Gibson: The figure that we have worked with thus far in real terms is to use the standard figure of 2·7% or 3%. The Committee would be wise, at least in its consultations, to see what keeping it at 1% would look like in respect of the choices in front of the Budget. To be fair, it will not be much higher than that, but — I tell my private-sector clients to budget for different oil prices — inflation almost dwarfs some of the other numbers that members heard. I support cost controls because, if we can manage them, they will mitigate the impact.

1623. It is good discipline to look at whether rising costs will be incurred naturally, as that may not be the case. With food shortages, the rising price of oil and the cost of drugs in Health Service, there are many things that are difficult to control, so perhaps it is a little churlish of me to suggest that we could keep inflation at zero. We would probably have to do that by taking pay cuts to offset some rises in materials. If the Department plans for inflation at 3% and can realise an aggressive cost-saving programme in the Civil Service, a significant amount of money will be left to address the challenges. I support that contingency planning approach on different inflation assumptions.

1624. Mr McNarry: That is very helpful. We should not lose sight of it in our deliberations later and should try to get inflation configured into this because it could have a knock-on effect.

1625. We were told that depreciation costs are inescapable. Surprisingly, in 2009-2010, depreciation amounted to about £34 million. I am probably going to give you a field day now, but do you have any ideas on reducing depreciation costs?

1626. Mr Smyth: It depends on the vintage of the capital. The public sector has a huge capital stock. Depreciation costs could be reduced by sweating assets more. What is the average time: seven years, 20 years? Can we push that back a little? This period of austerity will not last forever. Indeed, I am of the school of thought that the UK economy, and, in particular, the private sector, is recovering strongly, just as the Republic's export sector is booming. That sits very uncomfortably with the domestic economy, which is very challenged; nevertheless, we will come out of this. The Northern Ireland manufacturing sector is recovering, and we should not lose sight of that. We have a period in which to make adjustments. I am sure that, as an accounting challenge, it is not beyond the powers of government accountants to push back the period for depreciation and reduce it.

1627. Mr N Gibson: I am no expert on depreciation or on how years and calculations are decided. However, you draw attention to an important figure and one which we should consider. For example, can we tie in the retro-fitting and building improvement element of the green new deal for construction into longer depreciation figures? The stock would be of better standing. It is at least worth exploring.

1628. Mike listed valid options, but implementing them carries a significant political cost. It would play strongly if we produced the first Programme for Government to look in-house for savings before asking the public to make them.

1629. Mr McNarry: That is an important point. I share your thoughts on recovery. I am sure that everyone round the table hopes that we do not go to year 4 and that we see shoots. Alongside the figure of £34 million, we are told that rent and rates are another inescapable. It makes one wonder how the estates, land and properties are run in this place. Thirty-two million pounds is accounted for in the expenditure towards rent and rates.

1630. Mr Smyth: Is that for collection costs or arrears or a combination of both?

1631. Mr McNarry: That is payment. We have a massive estate here where we have depreciation costs. I cannot get my head round this. What are they depreciating against? How many blooming castles do we have here? We are still servicing government by inescapable costs — rent and rates — in 2009-2010 of £32 million. We simply accept those costs as inescapable. That is where your professional advice — as well as your energy and robustness — need to focus. We can help by saying that we cannot continue with £32 million of rent and rates or with £34 million of depreciation costs. Simply putting them in that column is no longer an option.

1632. Mr N Gibson: The public knows that you are undergoing that process. That is exactly the right attitude: do not assume that every number is set in stone. When a great deal of money was spent on private-sector consultants — good or bad — the question should have been asked: what are my options for getting £32 million of rent and rates down by 20%? You might not like the options, but too often Northern Ireland's economy has been given get-out-of-jail cards: this is not a devolved matter, or that is just a figure that we have to accept.

1633. The Committee and the Executive should be able to go back to the figures. Many of the figures are done cleverly and correctly by people with excellent accounting skills, but one of our challenges is to find out how to work the system differently. Reducing such costs will be much less damaging than the loss of ten thousand jobs or the introduction of prescription charges.

1634. Mr McNarry: I assure you, Neil, that we are learning very quickly about the figures that they present us with, even though they still present us with a great many complications about how they end up with those figures.

1635. Mr N Gibson: I do not understand all the complexities. However, a 10% saving on the two figures that you mentioned would make a significant dent in our problems. We dismiss questions on wages by saying that they are set by national bargaining agreements and that, therefore, there is nothing that we can do about them. That may be right; however, none of our expenditure should get through by saying that it is what it is. They all need critiqued.

1636. That is what the South did: it went through all its lines of expenditure to see whether there was any way of accounting them differently. Can we sweat the asset better? Are there sale options? Is there anything we can do before increasing taxes? The numbers are big and there is money to be found. It may not be easy, but cost reduction has to be our first and aggressive tactic. As I said at the outset, we must look at that before anything else.

1637. Mr Smyth: The question of depreciation, were we to roll back the period, raises issues about a rise in maintenance costs. Nevertheless, a legitimate question is: what impact would Workplace 2010 have made on the rates figure?

1638. Mr McNarry: The officials do not want to know. We question them and ask whether they could not do half of it, but all they say is that the property market does not suit. Such thinking does not reflect reality. We have to cut our coat according to our cloth. Buildings are included in Workplace 2010 that will, in the end, cost us a fortune. You mentioned maintenance. People not far from here would be insulted to be asked to work in those conditions. I agree that we should not let go of Workplace 2010.

1639. The Chairperson: We could ask DFP officials about those issues, including accommodation, and where efficiencies could be found.

1640. Mr McNarry: I like the Committee to do its work so that members know what they are asking officials, who are a slippery bunch, as you well know. If we do not get the questions right, we will not get the right answers.

1641. Mr McLaughlin: On that last point, I was at a meeting last week in the Stormont Estate. I was shocked at the state of the accommodation in which officials were working. However, to a person, everyone in the room said that they did not want us to do anything about it because they had a car park outside. That is their perk.

1642. Mr McNarry: Wait until we start charging them for it. Then we will hear what they say.

1643. Mr McLaughlin: We are wrestling with the same problem.

1644. I found the presentations stimulating. The argument "it is challenging, but we can do it" has yet to permeate the political class. You have seen the problems that we encountered with Workplace 2010. That was an early warning.

1645. The Committee conducted an inquiry into what is described, generously, as "a budgetary process". The Committee recommended making timely arguments to allow for engagement, discussion and exploration.

1646. Some of the presentation dealt with issues that would merit study, but that will take time. The time it takes us to produce and process reports means that you could agree your budget in time. There is a consequence of the work not having been prepared.

1647. Let me also put into that mix the problems that we encountered with the review of public administration and the education and skills authority. Mike referred to addressing efficiencies and reducing the costs of bureaucracy as a "no brainer". However, the political process was just coming together and it is still prone to divisions and problems rather than to solutions. That is a part of the maturing process. The achievement is that we will complete a term of the Assembly, although there may be a certain frustration about that. However, since people come from differing political perspectives, certain tensions, dynamics and divisions will exist, even if they are gradually reducing. That affects what we can do here and now.

1648. The presentation made revenue-generating proposals, some of which are already under discussion with the parties. That is to the good. However, efficiencies did not feature much in your presentation. Bearing in mind the very difficult timeline that we are working to, what issues will enable the parties, despite tensions, to agree to move forward?

1649. Mr Smyth: That is a very difficult question, but I will comment on your introductory remarks. Much of what I am talking about needs to be worked on, and it probably has a medium-term life. The Committee should consider, given that we will not be in this period of austerity forever, wage restraint as part of the immediate response for a year or two. The

Committee should get to work on revenue raising and asset leverage. Keeping assets in the public sector but leveraging them seems to be the way to go because, until fiscal powers are devolved — although that may never happen — that is all we can do to create space in our Budget. To create that space, the Committee needs to consider seriously a period of wage restraint in the public sector and the removal of the pay rise for the cost of living.

1650. I did not talk about efficiencies because there is an easy way to solve the problem. A cost of living pay freeze and a freeze on public sector recruitment will take care of three quarters of the cuts. However, can MLAs sell that? Will the parties accept it? That will leave less to worry about. When Whitehall talks about efficiencies, it means reducing headcount and wage costs. I am firmly of the school that a public service is a public service, not a private one, and there are clear limits on how to bring the disciplines of the private sector into the public sector. However, in a perfect world, electorates would demand more and more public services; whether they are willing to pay for them is another matter.

1651. All European countries are in a mess. I may be sidetracking slightly, but this is not all about bank bail-outs: the banks in Greece, Portugal and Spain did not collapse. However, reckless and feckless Governments in those countries spent money that they did not have and, in the case of Greece, lied about it. That is what happens when a country goes bankrupt, which is the position that they are in. In Ireland, Britain, France and Germany, there have been bank bail-outs, which is what is causing the Budget difficulties. However, reckless government caused the problem in those three important countries.

1652. That tells me that, in Britain, the £86 billion cut is to put the structural part of the Budget back in balance; it has nothing to do with bank bail-outs. It is because politicians like to be popular and their default mode is to buy popularity by promising to deliver and worry afterwards about where the money will come from. We have now reversed that and are in a period where we cannot overcommit and make promises but have to manage the situation for a couple of years. Pay restraint and a recruitment freeze is the least insensitive way of doing it.

1653. Mr N Gibson: I agree with most of what Mike said. We should put on record our successes with efficiencies. On a slightly tangential point, I looked at issues such as sickness rates, which have come down significantly. That was in the Programme for Government and is a genuine saving, because Departments do not have to buy in agency staff to cover. It is nowhere near the private-sector level, but it is improving. Given that much of the low-hanging fruit in efficiency has been picked, it gets harder and harder. That does not mean that we should take our foot off the pedal, but it is important that it is articulated that cost savings have been made.

1654. We have to look very carefully at who is trying to find savings. Some things worry me, such as recruitment freezes, which Mike mentioned. They get headcounts down, but they are not a victimless crime: many young kids have qualifications but no jobs to go to. We can hope that the private sector will take them on, but we must take account of the generational damage that will be done if student placements or recruitment are halted because they are too costly.

1655. When it comes to reducing headcounts and making savings, we are also looking quickly to external functions. Agencies and voluntary organisations are already being told to plan for pretty frightening cuts. There is a danger of centralising and retracting. I have noticed, for example, that some Departments are not asking private-sector providers to carry out appraisals but do them in-house. That is absolutely fine, if it is genuinely more cost-effective. Yet, we find that, in some cases, Departments do not record the time that they spend on activities and cannot say how much an appraisal costs. Are we sure that savings are being made by not asking for those tasks to be done by private-sector providers?

1656. Some agencies, in the voluntary sector in particular, have shown terrific delivery over the past two or three years and could be punished because we have decided that it is easier to cut at the fringes. We are cutting externally and not looking at resources in the centre. In the UK, there is a great deal of examination of the cost of central government and the internal central functions. We must not leave them off. We ask people to consider options for cuts, but when we look at the list we see that none of the cuts applies to them. That is a natural human response, but we have to be careful about how we go about the cutting process.

1657. I believe genuinely that, in pursuing our activities, we should explore the effective delivery model. That is not to say that it should be done in the private sector, but it would, at least, be nice to know what it would cost so that we had something to benchmark it against and be sure that our delivery model is cost-effective. Mike is right: it is a great challenge. However, we have to bring some private-sector disciplines into public-sector deliveries, irrespective of whether they are delivered in the public or the private sector. That includes challenging issues such as identifying staff who are underperforming. It is not about moving them to another Department or finding a different place for them to live for a few years. It is about making the difficult choices that all private-sector employers face when they have to sit down with an employee to explain that, having gone through a review process to get the employee up to standard, that employee is not meeting the requirements of the job.

1658. We know that the number of people who leave the Civil Service because they have reached that stage of the disciplinary process is very small indeed. There are people who, even with training and support, are not suitable for the job. That is a very tough thing to have to do, but that is the discipline of the private sector. If you told Northern Ireland's businesses that you will give them the same money for the next four years, 80% of them would bite your hand off for it.

1659. Things are bad but not as bad as they could be. We must keep our foot to the efficiency pedal and ensure that people understand the pay restraint deal and the difference that it makes. The unions have an important role, but we have to be careful that they do not peddle the myth to their people that they can reject this by saying that it will cost 20,000 jobs. It might not affect jobs, but there could be a 2% pay cut. It will be interesting to know how many civil servants would take that deal rather than have the uncertainty of the axe hanging over them.

1660. The point was made earlier about depreciation costs. We must challenge all the numbers that we have. I have seen you, and others, sit through the night to make difficult political progress that I can only look on and admire; I could not have contributed to that debate. If you are to be locked in overnight until you get Budget deals, it is important that we, as advisers, are willing to be in there with you to help and that DFP and all its expertise can be there and say whether something can be done. If we have to stay all weekend in a famous castle until we get a deal, that is what we will have to do. We are at the economic crossroads. Surely, given the political hurdles that we have had to cross, we can get across this one. However, we will not be helping matters if we simply say that we had to do things ad-hoc. Cutting consultancy spending may be a good thing, but we must think of the private-sector firms that will be put out of business. Bringing activities in-house will put some voluntary organisations and other agencies under extreme pressure, but that will be OK. However, accepting pay rises will not leave Northern Ireland in a good place.

1661. I am sure that Mike and all economists are willing to be in those rooms with you to find a way through it.

1662. Mr McNarry: Free of charge?

1663. Mr N Gibson: So long as it is after 6.00 pm; my rate goes down after 6.00 pm. [Laughter.]

1664. Mr Smyth: Are members familiar with the fiscal balance report that I have here? It is great bedtime reading. It is all there, except that I could not find the wage bill in it. Northern Ireland's finances are a bit opaque, but they are easily understood.

1665. Mr N Gibson: I am ranting a little, but it does not help —

1666. Mr McLaughlin: It would not be like you at all.

1667. Mr N Gibson: Sure it's not. I knew that that was risk when I came here. [Laughter.] It does not help when advisers stand on the outside throwing rocks in the press and saying that it is terrible and that politicians do not know what they are doing but without offering to help. I am encouraged that members have looked at the numbers presented to them, but it equally does not help for us to look at those numbers and say that they are just the facts. We have to challenge everything.

1668. Never forget that we have enough money to run this country well; the question is how we spend it. We can make tough, unpleasant choices, but — and I am not the right man to speak about this — think of it as a diet. We may hate the process, but we may be better off at the end of it, because tough choices bring about more efficient use of resources. Therefore the Committee has the support of all in the economics profession who wish to see this done well.

1669. The Chairperson: Mitchel has another question. Members must be a bit more focused, because everyone wants to ask a question.

1670. Mr McLaughlin: I will not open up another discussion. However, there was a range of revenue-generating ideas, which I will not rehearse because some of them have been identified by parties and are being explored in their discussions. The word emerging from the system on possible options is that this has implications for the block grant or the Treasury. Did you encounter that in drawing up the menu of options in your presentation?

1671. I am interested in the areas that you identified, because they coincide with my party's position that we have more fiscal power than we acknowledge or deploy. That is partly because the dead hand here is telling us that we cannot go in a certain direction because that would raise issues about Barnett with the Treasury. Have the ideas that you put to the Committee today been impeded in any way?

1672. Mr Smyth: I have checked them out as far as I can. Part of the problem is that we have never been in this position. This report on the fiscal balance is all about how we take money in from across the water, generate a little money here and how we allocate or spend it. For example, the mobile phone text tax is predicated on an interpretation of schedule 2 to the Northern Ireland Act 1998, but I have a pretty good feeling that we could do that. There are no block-grant implications for the other local taxation measures.

1673. It was hard to find but I secured a good source who assured me that local government borrows at the moment, but it does so by taking out mortgages on properties and so on. Therefore, there is a precedent, but they need the Department's permission. There is an issue whether, in giving that permission, the Department would transgress a Treasury rule. I do not think that it would, but it would have to be worked out. That is the only measure about which there is any lack of clarity at the moment.

1674. Mr N Gibson: It is important that we think of, say, corporation tax, as an example. That race has some way to run and we will see how it plays out. If we cast our minds back to the start of that process, we were told that the idea of a cut corporation tax was ridiculous, do not even look at it, no chance, it is not a devolved matter, forget about it. Now, we are much closer.

The UK Government are in such difficult financial straits that they will listen to any proposition — even one to get more powers — that may cost them less in the long run. Therefore, the issue of powers not being a devolved matter is supplanted by the question of whether they should be. The present Government are more receptive than the previous one; therefore if you want more powers, now is the time to ask.

1675. I agree with Mike that many of those options do not have a block-grant implication. A particular favourite of mine is rates. Many people here built beautiful large houses around the countryside, and we cap our domestic rates at a certain level. There is revenue potential there.

1676. Huge houses were built and rates are capped at £400,000. We have million-pound houses all over the country. We may think that we need exemptions for certain farming properties, for instance, but surely that is the right way round in keeping that artificial block. Those little areas add up, and that does not have a block-grant implication.

1677. Mr O'Loan: I welcome your presentation; it elevates the debate to the level that we need to get to. Much of the political debate around this has not been at the required level.

1678. Mr Hamilton: We will do our best to bring it down again. [Laughter.]

1679. Mr O'Loan: Saying that we are utterly opposed to the Tory cuts or to the Sammy Wilson's cuts and that we will not engage in the debate will get us nowhere. However, if we say that it is challenging but not catastrophic and that it is manageable, we may get somewhere. When you suggest changing the narrative from cuts to reform, we start saying something serious.

1680. As an example, I will look at the cuts that are coming to the capital side. In one sense, that is one of the most easily managed things. We should say that there is a particular amount of money, so we will do less. You reprioritise your list and start phasing things out longer. It is extremely easy. However, should we do that or should we say that we want to raise more money? That immediately begs the question: what are we trying to do? That is where the real reform narrative needs to change even further than you said. Where are we trying to get to? Then you start asking what we will do with the opportunity that is offered with the four-year budget.

1681. I have to be critical and say that there are people round this table who engage in constructive debate here. However, when they get on the airwaves or in the public arena, they do not engage in a realistic public debate, contribute to informing the public, show the public that they are giving a lead, give them confidence or enable them to contribute in that very necessary debate.

1682. We could discuss many of your interesting suggestions, but as we do not have the time I will ask about welfare cuts. You quantified that as £1 billion, which is more than previous estimates that I have seen. What would be the economic effect of taking that amount of money out of the economy? Would those affected move into the economy and could it receive them? Mike talked about using AME money in different ways and cited the Scandinavian model. I take your point about not accepting at face value everything that comes from London. Nonetheless, what freedom of movement do we have with AME to shift thinking and to create a Northern Ireland response to our situation?

1683. Mr Smyth: It is about how the proposed cuts are implemented, and I think that they are more than £1 billion. The intent is to move people from economic inactivity into activity, although that presupposes that there are jobs for them to take. That is an argument perhaps for this or another Committee. I have not checked how many unfilled vacancies there have been in the past month or so, but they sit at about 6,000 or 7,000. Most of them are skilled vacancies, although I am not sure. It raises the question of how the cuts will be achieved in AME if they are to be around the rules governing incapacity benefit, disability living allowance and jobseeker's allowance. The intent is to bring people out of inactivity into activity, but that will not work if the jobs are not there. It will be stressful for many households here if the numbers in this publication are correct.

1684. On the issue of autonomy on AME, I understand that the Departments here make a forecast of what they expect unemployment benefit, incapacity benefit and disability living allowance to be every six months and moneys are then drawn down. The first time that I had this debate was with the late Mo Mowlam, and I said that it was a tragedy that, under Treasury rules, people are paid after they become idle rather than being paid to become skilled and employable. Under the present rules, there is very little wiggle room, but surely to goodness, at the highest level, we should be negotiating with the Treasury to see whether those rules can be suspended temporarily on a pilot basis to see whether those moneys can be used more efficiently to put people back to work, to retrain and re-educate them. That argument is worth having.

1685. Mr N Gibson: I welcome welfare reform. I recognise the challenge that it brings to Northern Ireland. Jobs have come to some of our more economically challenged areas, and significant inflows of migrants have come to take them. That is how the labour market works and no one can complain about it; however, it was disappointing that there was not more local labour willing and able to come forward or with which employers were willing to engage.

1686. A subject that is close to my heart is the jobs that might come to the city of culture area, which might have the skills profile that local people will engage in. It has to be worth their while, and we should not allow press coverage of welfare cuts to be just that welfare is being taken off people. We should be looking at ways of reforming the system that always makes it better to be working than not working if a person possibly can. If it is done right, there will be more money to help the people who really need it, of whom there are many.

1687. Do not underestimate the significant challenge of that problem in Northern Ireland, because it is probably the biggest one that we face: generations of people who are workless and significant numbers who are so far from the labour market. However, I fear that we must deal with that problem, as it will be difficult to tell Westminster that it has a responsibility to give us more money to deal with our deprivation. As Mike said, we need to think of ways of raising extra revenue to help with that huge problem.

1688. David Cameron hit on something because the feeling from media commentators such as John Pienaar was that the speech on welfare reform would go down badly; however, surveys showed that many of those people want back to work. There is great support for measures that help them to get back to work, and everyone in Northern Ireland will tell you stories of people who have chosen not to work and who have a nice house. They will tell you about the number and standards of motability cars and that people who do not work can afford better cars than those who are on a low income. Those things rankle with working people. It will be painful, but if it is done right it will enable us to help those who need it and to get people back into work.

1689. I take Mike's point that the biggest problem is in ensuring that there is demand for those people, and that is why the economy has to stay front, right and centre of your policy choices. We need the big employers to require skills at the lower-end of the spectrum. That must happen, or else all forms of welfare reform will fall on deaf ears.

1690. Mr Frew: I will try to be as concise and focused as I can. This might be controversial, but if there is one good thing about a recession, it is that it forces politicians to do something that perhaps they should have done 10 or 15 years ago. I have enjoyed this evidence session, because the comparisons that you made between the private sector and the public sector are 100% spot on. I also agree with your statement on welfare cuts.

1691. I have four questions. The revenue cuts can be achieved, but cuts of 40% to capital spending will hurt the private sector. Could we manage the system by transferring funds from the revenue side to the capital side? You talk about increases in domestic and non-domestic rates. How will that affect the private sector, particularly retail, which is struggling and which could collapse as the construction industry did? There is merit in the green new deal, which we, as a government, are looking at, but could it create the 30,000 jobs that the construction lost?

1692. You have been honest and frank, and I welcome that. How do you feel we politicians are performing on this issue? You are right: this is probably the biggest challenge that the Assembly has faced and is probably the one issue that affects all our population. How crucial is it that we strike a Budget as quickly as we can?

1693. The unions told us last week that we should not strike a Budget. Unions are very good at telling us what we should fight for and fight against, but I did not hear many answers. You have offered us your services to sort this out. That is commendable, and society has to take that on board. We need to get everybody round the table to thrash this out. However, the unions are telling us what we are doing wrong and what we have to fight against, but they are not willing to take responsibility that will produce pain.

1694. The private sector has taken a 10% or 15% pay cut; had it not, people would have lost their jobs. Pay freezes are the least that people should expect; people can take it. Faced with a choice of pay freezes or job losses, people would take the former — and take your hand off to do so. The unions are not telling their membership how it is.

1695. Mr N Gibson: You need experts for moving from current to capital, although my understanding is that it is very difficult to do. Therefore you may need to think of targeting revenue-raising measures specifically to top up the capital programme.

1696. You need to be absolutely clear about what you need to build and about what is nice and what is necessary. You also have to remember that the capital programme that we have undergone does not need doing again, at least not for some time. We have made improvements to schools and hospitals that we need not do again, which is sometimes forgotten.

1697. In many cases, new buildings and widening roads may not be what you need when things are contracting. Therefore a reprioritisation of the capital spend may mean that you do not even need as much as was previously quoted. You can also drive costs down more than in the past. The construction industry is dying for work, so you can be much more aggressive in costing projects.

1698. The green new deal is a great idea. However, I sometimes wonder whether we need to be a bit more aggressive with the tax system. You are asking people to borrow and you will allow them to do that at 0%, but many people still regard that as taking on debt. In other places we used the tax system more aggressively to say that if your boiler is not x years young, if the energy certificate on your house is going down — that is, costing less — your rates will go down. There are ways of incentivising behaviour.

1699. The retail sector is hugely important, as anything that we remove from people's spending power will have an impact. However, it might change how people spend: they will still have to buy food and petrol, but they may just shop around. That is why I favour an aggressive use of the domestic and business rates system in a more structured and progressive way. Increases should be at the high end of properties, not across the board. We do not charge for vacant properties; people can leave buildings covered in moss and with broken windows without having to pay for them. Is that what we want in our towns and cities?

1700. Mr Frew: Is that correct?

1701. Mr N Gibson: There is a reduced rate. However, Scandinavia, for example, incentivises owners to keep better-quality buildings. Under the Scandinavian system even opening a building to school kids to exhibit paintings is better than leaving it empty. We do not want to tax landlords heavily who own properties that they cannot occupy; however, we desperately want them to incentivise rates reductions to get people in. We can use the rates system more progressively rather than introduce across-the-board rises for everyone.

1702. You asked how we thought politicians were doing. I am more positive than some. Economists can cast the first stone at politicians and say that they do not know what they are doing. However, unlike economists, politicians do not spend their lives in the minutiae of economics; therefore why should they be expected to find it easy? It is extremely difficult, which is why we should offer help and support. It needs the involvement of everyone round the table.

1703. The trades unions in the South enjoyed good times, but they had settled deals and so could take very painful medicine in the knowledge that there was no alternative. That is exactly what we need to do. I am happy to listen to any arguments about the cost of pay reductions and what they might mean. However, we cannot do that without an alternative; we simply cannot ask Westminster for more money. We already get so much that it would be pointless to ask for more. Anyway, why should Northern Ireland not have to make some contribution to reducing the UK's financial problems? We should not abdicate our responsibility.

1704. Mr Smyth: One cannot go from current departmental expenditure limits to capital departmental expenditure limits; there is very little room for manoeuvre there. I agree with Neil on the impact of business rates on the retail sector. Given a choice on revenue raising, I would put rates lower on my priorities; there are other things that we can get on with.

1705. The green new deal will not create 30,000 new jobs, but it will create many jobs. It should be looked at in the context of an enhanced social-housing programme of retro-fitting, which is the most employment-intensive activity in times of recession. The Housing Executive could move very quickly to open up new fronts by building houses, retro-fitting and energy efficiency to be part of the green new deal. I do not know what change would be necessary in the Housing Executive's legal status, but it could be done quickly if everyone showed willing.

1706. You asked how politicians are performing and how important it is to strike a budget. I will not say that you should ignore the trades unions' advice, but the trades union movement is heavily public-sector focused. It is almost deaf to the plight of the private sector, even though far more people work in the private than in the public sector. I wonder where the trades unions are coming from.

1707. Trades unions seem to assume that public-service delivery is optimal and cannot be improved. We can never get them to argue on public-service reform; they simply put their head in the sand. You should consider establishing a working party or a sub-committee to examine seriously the scope for asset leverage and borrowing. Such a working party's terms of reference should include the modalities of how it should be done as well as sensitivity to Treasury rules, and you should establish such a working party or sub-committee urgently.

1708. The Chairperson: Four members want to ask questions and we are running very late, so I ask members to be as focused as possible.

1709. Dr Farry: I will skip the preamble, except to say that you are letting down your profession very badly by agreeing with each other. It is extremely unusual.

1710. Mr Smyth: How many economists does it take to change a light bulb? Two: one to change the light bulb and one to hold everything else constant. [Laughter.]

1711. Dr Farry: We still hope for a corporation tax reduction. Should that happen, we would have to fund it over the next four years. How we could do that? Should we shift resources from less productive forms of economic support to what has been billed by economists as a much more efficient way of supporting economic growth?

1712. Which of the options for revenue raising are regarded as progressive and which regressive, particularly around water charges? I share your view that they need to be introduced. I am confused that people from a left-wing perspective are more vocal in their opposition to what can be a progressive option than those who come from a business perspective. The debate seems to be the wrong way round.

1713. Finally, I was under the impression that Treasury rules allowed us to move from current to capital but not from capital to current.

1714. Mr N Gibson: Most of those are for Mike, but my honest answer to your last question is that I do not know. It is important that we understand the options. I am on record as part of the Economic Reform Group (ERG) as being very positive that we get a reduction in corporation tax, not just for the jobs potential but for the statement that it sends. What better message could the Executive send that we are ready for business than to introduce tax-varying powers?

1715. It will cost, although I am frustrated at the people who have thrown that up as a reason not to go for it. I do not know what the finances will look like when we get a reduction, but all the big economic development choices will require some form of investment. Whether we look at raising tax or reprioritising spend to pay for it, let us cross that bridge when we get to it. We have to move from a de facto economic policy of protecting the block grant; that is unambitious, and it leaves us at the mercy of cuts. Let us be braver. The UK will not pay for it; businesses or somebody in Northern Ireland will have to pay for it. However, that is no reason not to keep our foot to the pedal to try to get it. It would make a great statement and could make a significant difference.

1716. Mr Smyth: Even with a fair wind, there will be no movement on corporation tax until 2012 or 2013. The recommendation of the Economic Reform Group is that it should be phased in until 2020, by the end of which it would be at a certain rate. Even announcing our intention to do that would have a tremendous effect on the number of enquiries into Northern Ireland.

1717. There is justifiable concern in some quarters that reducing corporation tax would give a windfall to big business: the supermarkets, the banks, BT, Bombardier Shorts and the utilities. Therefore we have explored adjusting the property taxes — the rates — on those businesses. That measure would take us a fair way towards meeting whatever final figure the Treasury produces for the cost of reducing corporation tax. Business should pay, and there would be safeguards for small businesses. We used to have rates relief, which we should bring back. There is also the question of whether the industrial development budget would need to be at quite the same levels if foreign direct investment was flowing in. We need to look constructively at that. I am as anxious as anyone to see what final figures, or range of figures, the Treasury puts on the cost. However, I am confident that we can find fair ways of paying for it.

1718. As to revenue-raising proposals, I must confess that most of the proposals that I put to you today are not progressive, but neither are they necessarily regressive. That is in the nature of things. We are a region of the UK and we do not have full control over progressive taxes. It is as though we have 10 VATs to allocate. Property taxes are at best proportionate and at worst regressive. I do not think that there is any way around it. However, in the debate on water charges, we showed that we can bring in safeguards to protect the vulnerable. We would have to offer the same facility in some of those other options. Rate increases already include protections. Would that we were a sovereign country; then, things might be different. However, we are not.

1719. Mr Hamilton: Neil said that, even in the face of very challenging circumstances, we still have sufficient money to deliver high-quality public services. However, there is a divergence in opinion. Mike gave a long list of potential revenue-raising areas. I am not afraid to look at existing revenue powers or new ones. However, I want to pull you up on this: you said that a 1% increase in rates could raise £50 million annually, but I think that it is only £6 million or slightly over it, of which £3 million is in the regional rate here. If a 1% rise could raise £50 million, the problem would be much easier.

1720. Dr Farry: Had there been an inflation-level rise in rates over the past three years, we would be £50 million better off.

1721. Mr Hamilton: That is right, but 1% is not £50 million annually.

1722. I am concerned about concentrating the debate on money. Declan is absolutely right: it is good that we have this discussion. However, concentrating on revenue raising almost implies that public expenditure in Northern Ireland is as efficient as it could be. I will not go off on one my rants about the size of government. I agree with you about the sweating of assets, to use that awful phrase. I agree entirely with the point about the Housing Executive and its assets. There are ways in which they could be utilised much better, and I have no firm favourite. There are as many ideas about how that can be done as there are days of the week.

1723. On the procurement side, I have spoken to organisations over the past weeks and months that are very concerned at what they see as retrenchment. Public services for which they used to tender are no longer being put out to tender. However, we have independent evidence in reports by Government in Whitehall that, even with in-house tendering, we can save between 20% and 30%. Therefore, we have an order to protect the centre with this retrenchment and to hell with the saving and the quality of service.

1724. Before we look seriously at more difficult revenue-raising areas should we not first consider how we can use our assets much more productively and procure better? We should look at how we deliver those services first — indeed, whether we should be delivering some of them at all any longer — before we look at anything else.

1725. Ultimately, even if there were new revenue powers, someone will to have to pay; if we borrow more, we will still have to pay for it. If we have enough money to run world-class public services, should we not be looking inside first before we start to look outside?

1726. Mr N Gibson: I can only commend that point. My strong belief is that we should start by asking what we are paying for and whether this is the optimum way of paying for it. Internal cost control should be the priority before we go down those more difficult avenues. There is a danger that if we had a list of tax-raising options ready to go, we might go to them too quickly before we had explored every option internally.

I cannot accept that if we are to bring services back in-house we have to demonstrate that it will cost us less. As one who has worked in the private sector all my days, I am amazed that we do not even account for some of our workers' time by assessing how much it costs to do a certain task. How can we possibly be sure that doing it in-house is a better choice? Many issues will remain in-house, but we have to look at all the possibilities.

1727. Like members, I have heard that agencies and people are already struggling. We must think of the small towns and villages that have little consultancy practices, little architects and various little business that all depend on public contracts. We are almost parading the fact that cutting such private-sector spending will be less damaging. It could cause more damage because it will reduce an already small private sector, although I say that as a private-sector consultant. However, cost reduction and control will solve most problems. It is possible to get through the whole process without any additional revenue raising if we are aggressive enough about looking at our internal options.

1728. Mr Smyth: I do not disagree; however, the electorate should be given the choice. The electorate was softened up before the debate, but very little of the debate featured alternatives to the cuts. Revenue raising and borrowing in leverage, which we have not mentioned, are legitimate considerations. Whether the period of austerity is long or short, we need to look at revenue raising for the future because elected representatives will want to be able to promise the electorate a better standard of living and better public services. Even if the UK Exchequer recovers from its structural difficulties and we go back to a generous Barnett settlement, members will still want to have the resources to improve people's lives. Therefore the Committee must look seriously at revenue, borrowing, asset sales and leverage. It is your duty.

1729. Ms Purvis: I agree. I want to go back to the issue of welfare reform and work, as we cannot separate the two. Work is good for people's mental and physical health and well-being and is a good way of addressing poverty. However, some of the proposed welfare reforms target people who are already in work, particularly women, who tend to be concentrated in low-paid, part-time jobs. Tampering with tax credits will put many of those women out of work by raising the threshold to 24 hours. I cannot imagine how employers will pluck eight hours out of the air to give those women.

1730. I see the potential for an increase in poverty, particularly lone-parent poverty, which will then increase child poverty. It is the most vulnerable — the sick, the poor, the illiterate and the workless — who depend most on public services. Demand for public services will increase, and I do not see how it can be matched by finding jobs. Poverty will create health, education and other inequalities. Some of the revenue-raising reforms seem geared to affect the most vulnerable. What room for manoeuvre should there be in the Budget to focus on preventative spending? You said that about 6,000 skilled jobs are unfilled. There are more than 250,000 illiterate adults in Northern Ireland and thousands of young people who are not in education, employment or training. There is a growing tale of educational underachievement that is not being addressed, and health inequalities are increasing all the time. Therefore, what focus should there be on preventative spending to reform our public services and our welfare system and invest in a way that will help us in the long term?

1731. Mr N Gibson: That is a fantastic point, and, as I said, that is our biggest challenge. From work that I have been doing in the north-west, I know about jobs that are coming in. Invest NI's strategy is to attract jobs that are above the median wage. We all know why that strategy is in place — and it is legitimate for creating economic growth — however, a huge tail of people here will find it difficult to engage with such jobs and the trickle-down effect may not reach them. It is your biggest challenge.

1732. If we believe that the tax credit system will affect groups adversely and push people out of work, let us get the figures for Northern Ireland to estimate that and ask what we are willing to tax or to cut elsewhere to address that. So far, the debate has tended to be that we should not accept the welfare reforms from Westminster. If it really is a problem here, how will we reprioritise our spending to address it? As Mike said, let us think about the choices before us. Let us think about what a reduction of 1% in the pay bill would mean for the choices that we would have to put money into other schemes.

1733. Welfare reform is a huge priority, but I am nervous about how we respond to it. Objecting to reforms will not work. We might want to lobby for greater powers over welfare here, but we should explore the options of top-up moneys or different ways of prioritising money. We should debate what we are willing to raise to address inequalities rather than simply object to cuts. We have to be more mature than that.

1734. Earlier, I raised the example of motability cars, but I could have used any other example. The scale of long-term sickness in Northern Ireland cannot be purely a health problem. We did not have those levels of sickness in 1997, because, at that point, people could be on jobseeker's allowance without looking for work. We know that, however politically sensitive it is to mention it, there is a problem of benefits and welfare getting to people who are not as requiring of it as some of the people whom you mentioned. The nettle to grasp is how to be aggressive. The press will always pick up on the one or two people who will be affected adversely by a different policy; our welfare budget is huge and, used more efficiently, it could do much more for the categories that you rightly identified.

1735. As I said, it is a massive problem for Northern Ireland, but it is our job to find a way to fix it. It is a question of ensuring that welfare moneys go to those who need them. If we still need top-up moneys for some of the categories that you discussed, let us think of prioritising some of the revenue-raising streams or cost reductions in the Civil Service directly to read across to the categories that you wanted rather than simply objecting to welfare reform.

1736. Mr Smyth: You asked very difficult questions. One of the things that surprised me in the debate is that it appears that Northern Ireland has some autonomy in how the welfare budget is allocated and administered. Iain Duncan Smith made that point when he was here, although I am not sure what degree of autonomy exists here. That is worth exploring, because it addresses your point about trying to prevent people from falling through the net.

1737. In the welfare debate, I am always struck by the gap between the rhetoric of reform and the reality. The UK's welfare system is the best in the Anglo-Saxon world; it is there to help people who are vulnerable, and departing from it would be a disgrace. We are arguing about whether the system is fair in getting resources to people who need them and whether changing the rules would disadvantage those people. We have to be very careful. With social security tribunals and so on, we have to be sure about reforms.

1738. We need to explore those issues with the Department for Social Development and the Department for Employment and Learning — they have responsibility — and with the Treasury. DEL piloted programmes to put people back to work. I must read the evaluations because if we are to make preventative interventions, we need to know what works and what does not.

1739. Are we confident that there are enough safeguards to prevent the sort of personal tragedies that you highlight? It depends on our support mechanisms: citizens' advice bureaux, the community and voluntary sector, and grassroots workers. We have to support the reform's intention to try, as far as possible, to use the welfare system to help people who have become weakened or vulnerable to get back into the mainstream. However, the bottom line for the welfare system is that it is there to help those who cannot help themselves.

1740. Mr N Gibson: Some of my team are doing work in Sudan, and when Bill Clinton was here he mentioned his work in Haiti. We have significant problems here, but again I take you back to the number that we get in welfare money. That should be enough to do it well and fairly. We are sometimes too quick to say that a cut will devastate x or y. The pot of money, if we stand back and abstract from it, is enough to avoid some of the social tragedies that you talked about. It is about being ambitious, brave and aggressive about how we deploy money. Most parts of the developing world would love to have that money to tackle welfare reform and social problems.

1741. Sometimes we lose sight of the amount that we have. As Mike said, it is a fantastic system. It may not be optimal, and we may be able to reform it; however, the number, just like the public-sector finance number here, is enough, looking at comparators across the world, to solve the problems. We just do not necessarily deploy it as well as we might.

1742. Ms Purvis: Getting joined-up government here is one of our biggest challenges, particularly welfare reform. The biggest obstacle preventing women from accessing the labour market is flexible and affordable childcare; we do not have a childcare strategy or available childcare in Northern Ireland. The Executive should look at that if they are looking at welfare reform and assisting women into work.

1743. Mr Smyth: Unless there is a corresponding proposal in England, we would not get any Barnett consequential for that in any future spending round. Perhaps that is a case for hypothecating some of my revenue-raising proposals.

1744. I do not make those proposals in isolation. If you raise taxes and charges, you have to be up-front with people and tell them that you are doing it collectively for the following reasons, and that may be one of them. This is not a kneejerk reaction to a period of austerity. I do not want to get into the issue of whether we pay enough taxes here, but if we are to ask people, particularly the middle classes, to put their hands deeper into their pocket, we should tell them that the money will be used for things that people will genuinely buy into. That is what we urgently need here to bed down the political process.

1745. Mr Girvan: I agree with Paul that this has been a fantastic evidence-gathering session. With regard to welfare reform, you mentioned a cost of roughly £1 billion. Does that include its impact on the private sector? Removing a large amount of money from revenue that was to be spent in the wider economy will have a knock-on effect on corner shops and all those areas that are not necessarily included in the overall impact.

1746. We do need to make efficiencies and ensure that we make proper use of the money that we receive. We probably need to focus on the areas that you identified. We need to make hard decisions about the public sector and about delivering better value for money through voluntary or other agencies. Unfortunately, for so long we were frightened, as the man says, to bite the bullet.

1747. Last week, we had an evidence session in which the trades unions were airy-fairy about where money should come from; they were pulling billions of pounds from here, there and everywhere. I am glad that we can put meat on the figures that we are hearing today, which have been very helpful. There is, however, the issue of the £1 billion of welfare reform.

1748. Mr N Gibson: In this session, I have probably come across as reasonably up for the challenge of absorbing that and confident that we can get through it. However, how and where we take money out will have an impact. Taking it from people on low incomes, who spend almost all their money rather than save it or spend it on expensive foreign holidays, will draw more money out of the local economy, because much of it goes straight into our shops. We need to be sensitive about that. However, welfare reform helps to get more people back into work, thus generating money, and that will mitigate the impact.

1749. I commend the CBI paper, which we need to look through, as those people have a great deal of experience. Although I would not back all the paper, it was a terrific effort in beginning to ask questions about where we might find money. When you get into a closed room with the unions, political representatives and, for what they are worth, economists, you will want to discuss exactly that sort of paper. The alternatives cannot simply be a rejection of cuts or putting the onus on the banks. On the one hand, you could ask local banks how much money they can stump up; on the other hand, you ask them to lend more money. You must have those discussions and, as Mike said, you must require people to put down achievable numbers, which the CBI should be commended for doing. We have to deal with realities, not just the rhetoric of what we would rather not do.

1750. Mr Smyth: The figure of £1 billion in cuts is based on the UK target of £18 billion — although I very much doubt that it will ever be achieved — and Northern Ireland's share is about £1 billion. Achieving that would remove spending from the high streets and hit the private sector disproportionately.

1751. Mr Girvan: According to today's figures, Northern Ireland has had an uplift of 400 jobs, all of which, I am confident in saying, came from the private as opposed to the public sector. Yet the only noise that we hear is from people brought on to the streets by the trades unions talking about public-sector job losses, which I do not think there will necessarily be.

1752. Mr Smyth: The churn in public-service jobs will take care of that. If recruitment were frozen, there would be no compulsory job losses.

1753. I also draw your attention to the evidence emerging from the reform of incapacity benefit in England, which suggests that they are finding it very difficult, because people are winning their appeals. We should not lose sight of the gap between rhetoric and reality.

1754. Mr Girvan: The employment and support allowance system is an attempt to do that.

1755. The Chairperson: Although the session has been very informative and interesting, I really have to end it here. If there are any more questions, we will follow up on them. I am sure that members will agree to have you in again. I am sorry to rush you out, but we are about an hour behind schedule. Thank you very much.

1756. Mr Girvan: We look forward to the late nights.

24 November 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Dr Esmond Birnie	PricewaterhouseCoopers
Dr Graham Brownlow	Queen's University, Belfast
Mr Colm McCarthy	University College Dublin

1757. The Chairperson of the Committee for Finance and Personnel (Ms J McCann): I welcome Dr Esmond Birnie from PricewaterhouseCoopers and Dr Graham Brownlow from Queen's University, Belfast. I ask you to make a few opening remarks, after which I will open up the floor for questions.

1758. Dr Esmond Birnie (PricewaterhouseCoopers): Thank you, Chairperson. The Assembly and Executive face a major challenge but also an opportunity. Ask yourselves what sort of Northern Ireland you wish to see in 10 years' time. Having done so, you can work back to the type of public spending — more, less or better — that you wish to see today. When talking about the future of Northern Ireland and the public sector, we need to focus on three issues: better definition of outcomes; assigning budgets specifically to those outcomes; and working out key performance indicators to track the progress of the public sector and public spending in the delivery of those outcomes.

1759. It is not for me, as one engaged in the private sector, to tell elected representatives what those outcomes should be. However, they need to be informed by reading the record of the Northern Ireland economy from the foundation of the state in 1921. Performance has been disappointing. We have failed to achieve substantial and sustained economic convergence with the UK average, and relative GDP per capita has been stuck for at least three decades at about 80% of the UK average — despite 15 major reviews or Government economic strategies since the mid-1950s.

1760. Therefore, we suggest that the following are likely to be priorities for spending, although it is for you politicians to make the choice: increasing productivity, particularly in the service sector; promoting foreign direct investment; and improving our transport and energy infrastructure. With special reference to Northern Ireland, we need to lower our dependence on fossil fuels and promote better internal balance east-west of the River Bann, North/South and east-west external links. We should encourage firms to cluster, particularly with respect to innovation; we should develop higher education and health, particularly their economic spin-offs; and encourage a longer productive working life.

1761. The need for leadership and courage is an underlying theme. In England and here, PricewaterhouseCoopers has organised citizens' juries as deliberative research; each jury is a more advanced focus group. In that process, we take people through the challenges of the spending review in an informed way, either at a UK-wide or Northern Ireland level. It may surprise you to hear that when the public are given an explanation of the constraints facing Government, they are often more up for radical, courageous choices than we might expect, particularly on questions such as whether specific areas of public spending should be ring-fenced, welfare reform, and charging for some aspects of service delivery.

1762. As a devolved institution, the Northern Ireland Assembly — and perhaps we should be grateful for this — is not directly under the cosh of the bond markets, in the way that counterparts in other parts of these islands and the continent are at this very moment. Notwithstanding that, the need to strike a Budget is urgent. Last week, Scotland and Wales did their Budgets for 2011-12. Uncertainty of any sort is bad for business. The private sector is appealing for a Budget to be struck as soon as possible, almost regardless of the content.

1763. Dr Graham Brownlow (Queens University, Belfast): Esmond summarised much of what I was going to say; indeed, I scribbled the word "opportunity" on my notes at the beginning. Despite our very serious problems, this is a moment for opportunity. You must think about the long-term ramifications of your decisions, as they will have major implications for decades.

1764. We must pursue not merely equity but also efficiency. The bad news is that there is an efficiency/equity trade-off — economics is not called the dismal science for nothing. As an academic, my big theme is to look towards the economic evidence; and the good news is that there is evidence that we can avoid the equity/efficiency trade-off by having policies and strategies that reinforce both.

1765. My briefing paper sets out the compelling evidence from the United States that early-years education and a pre-school environment are vital. The damage may already have been done by the time children go to school. Skills are important. When we think about skills, we think about an individual's lifetime earnings. However, if we do the right thing for skills now, we can send a signal to potential investors in the business community that Northern Ireland is open for business. That relates to Esmond's point about the kind of Northern Ireland that we are trying to create.

1766. The essential problem with Northern Ireland is a long-run supply side; that has been the case for decades. I have just finished writing 'Business and Labour since 1945', which will come out next year in the Oxford history series. It is clear from the archival material that the long-run supply side problems are the root cause of Northern Ireland's financial problems. If we could improve the supply side and make people more productive, tax revenue would increase, public services would continue to grow, and there would be greater prosperity for all.

1767. I will go through tax variation in more detail later, but those are main things that I want to say at this stage.

1768. Mr McNarry: Good morning, Esmond and Graham. Balancing job and wealth creation is some trick. We have to re-scope where we are. What opportunities lie ahead for doing that trick?

1769. Dr Birnie: That is a very good question. The Programme for Government, which was drawn up in 2008 but which will end soon, has targets for job creation and reducing the private-sector productivity gap between Northern Ireland and Great Britain, minus greater south-east England. You are right, Mr McNarry, that there is a trade-off in the short run. If we get very high-productivity jobs, we will have fewer of them. Economists and others would certainly say that, to ensure the long-run future of the Northern Ireland economy, we should not aim exclusively for low-productivity, low-wage jobs because they are not likely to endure. I am sure that Graham would second that.

1770. I think that your question, more specifically, was what sectors may be capable of development. There are at least two considerations: first, we need to get a sense of what Northern Ireland's economy and businesses have been good at and build on it; secondly, you want a sense of future global growth. Such analysis is very difficult to do well.

1771. One example is renewable energy, particularly heavy engineering related to it. Greater Belfast has several advantages: Harland and Wolff works at the seafront, where there is plenty of spare land; we have the growth of the wind turbine industry, particularly offshore. There are only a limited number of locations across Britain and Ireland where you can conceivably build the blades for an enormous 300ft wind turbine in a seafront dry dock, ship it out to sea and install it.

1772. Harland and Wolff has expertise in that area, and our two universities also have expertise in renewables. I mentioned the idea of developing a cluster of firms that work together, supply one another and share expertise and skilled labour. That is one example, but there may be others.

1773. Mr McNarry: When I was canvassing last April, a lady came to the door and I was quite pleased that she knew me. She asked me a question, and I would be grateful if you could give me an answer to take back to her, because I am blowed if I can get an answer. She said: "David, what career should I be directing my young son towards?" I asked what age he was, and she said that he was four. That is a monstrous question, which somehow, within the realms of sanity, we have to address. She is obviously looking to the future.

1774. I appreciate what you said about heavy engineering. The decrease in successful manufacturing — notably in light engineering — has greatly affected jobs and skills and the entrepreneurial spirit that lay behind them. Many firms were family firms. It is a bit like farming. The farmer's son is not keen to go onto the farm nowadays; it seems that the manufacturer's son is not keen to take on the family firm. What manufacturing projects should we be looking at to attract investment into and to rejuvenate a declining sector?

1775. Dr Birnie: Manufacturing in Northern Ireland, as part of the western world, will never again be a major employer. Several decades ago, 200,000 people were employed in manufacturing in Northern Ireland, perhaps a third of them in the linen industry; today, total employment in manufacturing is about 80,000 and falling. However, we should not write off manufacturing, which brings us back to the point about productivity. Far fewer people work in factories, but those who do produce a much greater value output per head. That is good, because it helps to underpin wealth across the economy, including the service sector.

1776. On the issue of career choices, I am tempted to say that you should tell your constituent that it is not reasonable to plan for their sons' or daughters' future at the age of four.

1777. Mr NcNarry: We need the votes. [Laughter.] You know as well as I do that I cannot say that.

1778. Dr Birnie: I have children of my own aged six, seven and eight respectively, and, believe it or not, they talk about what they want to do when they grow up.

1779. The labour market changes frequently, and the history of governments doing what used to be called, in non-pc terms, manpower planning — human resource planning, as it is now — has not been terribly good. However, there are some pointers in the Northern Ireland economy. The two most relevant Departments, the Department for Employment and Learning and the Department of Education, produced a new careers strategy about a year and a half ago. That strategy impinges on the issue of working with all the relevant stakeholders, particularly parents, who play a key role in determining what subjects their children study at ages 14 and 15, and if they go on to further study at 17 and 18 and at university.

1780. The science, technology, engineering, mathematics (STEM) strategy was published in the last year to address the problem of A-level and university students not studying mathematics, physics or biochemistry. There is probably a range of deep explanations for that; it may be something to do with performance in mathematics and how it is taught in schools, which goes back even to the early-years stage that Graham referred to. It may also be a cultural thing and the result of a collective bias to the so-called professions. That is not unique to Northern Ireland; it also prevalent in England and the South and means that aspiring parents think that wee Johnny or wee Susie should become a lawyer, a doctor or — dare I say it?— an accountant rather than a mechanical engineer. The important thing is to provide opportunities and good information to parents and young people, and, broadly speaking, the market will probably produce the right outcomes.

1781. Mr McKay: Esmond, you outlined how renewable forms of energy have great potential here. Therefore, what is your view of the green new deal? Secondly, corporation tax is a big issue. I agree with the point in your paper about lower corporation tax and the potential for us to create a futile race to the bottom. The CBI expressed a view on corporation tax, and its chairman, Terence Brannigan, said that he prefers a rate of 10%. However, there is more to attracting inward investment than the headline corporation tax rate, and we need to look at things in a more holistic way. In the interests of long-term sustainability, should there be an all-island rate of corporation tax rather than North and South continually undercutting each other?

1782. Dr Birnie: Among other things, the green new deal includes the idea of putting a great deal of investment into upgrading the energy efficiency of homes in the private and public sectors. In principle, that is a good idea. It will deal with immediate unemployment in the construction sector, and we will end up with a socially useful addition to our capital housing stock with buildings that are more fuel efficient.

1783. It is good for the individuals, in that such housing reduces reduce fuel poverty.

1784. As with all such things, the challenge is how to pay for the upfront cost, which could be considerable. There may be ways of doing that by spreading the cost over a number of years rather than facing it upfront. However, in principle, green new deals should be given serious consideration, particularly in the current context of rising unemployment and Northern Ireland's traditional problems of depending on fossil fuel imports and not being particularly efficient at heating buildings.

1785. Your second point, Mr McKay, was about corporation tax. PwC, the firm of which I am a member, has given evidence, along with others, to the current inquiry of the Westminster Northern Ireland Affairs Committee. Our position is that we do not believe that a reduction in the headline rate would be a panacea or silver bullet that would simply resolve everything overnight and result in the kind of performance in respect of foreign direct investment that the Irish Republic enjoyed for many years. Even in the current crisis, the Irish Republic still receives a disproportionate amount of the foreign direct investment that comes into Europe.

1786. What the rate should be is a secondary issue. Obviously, it would be nice to have a lower rate, but it must be part of a much broader package. What the Republic has been very good at, particularly in recent years, is the provision of tax credits and allowances to encourage intellectual property. In other words, it encouraged people to patent new products, ideas or processes in Dublin as opposed to in California, Germany, Japan or South Korea. There have also been tax credits to encourage R&D. In the context of the paper that we await from the London Government on the enterprise zone and rebalancing the economy, I would like to see serious thought given to those sorts of powers. The question of whether the rate of corporation tax should be 12·5%, or 10% to make it slightly lower than the Southern Irish rate, would become somewhat secondary.

1787. A couple of percentage points will not necessarily make that much impact on business. There would be a psychological effect, and you must make a political judgement on whether it is more important for Northern Ireland, given its current situation, to shine a beacon around the world saying that it is highly competitive and even more competitive than Southern Ireland, where Americans, Germans, and so forth, traditionally tended to put their plants, or simply to match the Republic's rate. Who knows? Notwithstanding all the denials, the fallout from the bailout could be that harmonisation occurs in the opposite direction should the Dublin Government be forced to increase their rate from 12·5% up towards 20%, which would bring it closer to the rate in Northern Ireland.

1788. Dr Brownlow: I return to the theme of academic evidence. I do not know whether the Committee has seen the evidence on corporation tax that the independent expert group for the Scottish Calman Commission examined. That evidence is overwhelmingly in support of Esmond's position. The evidence on corporation tax is that there are significant compliance costs to begin with, which, I am afraid, certain lobbyists in Northern Ireland have completely assumed away. There are all sorts of implicit assumptions that are fiendishly complicated — people have won Nobel prizes for trying to disentangle how specifically the physical capital is implicit in corporation tax and what the implications of that are. I could bore you with a lecture on confectionery manufacturers, how their physical capital operates and how differential corporation tax would affect the market for chocolate, but I will not put you through such an experience.

1789. Mr McNarry: Sweeties and politicians seem to go together.

1790. Dr Brownlow: It is incredibly difficult to model that, and it is also incredibly difficult to see how the assumptions could lead to some of the conclusions that people have suggested. The Economic Reform Group's report contains 10 or 12 pages of explicit empirical assumptions.

1791. Dr Birnie: The published work is not too lengthy.

1792. Dr Brownlow: Those are the explicit assumptions. In the report, a raft of implicit assumptions is made in order to come up with conclusions. Also, the payback is over a 20-year period, as is that of the Economic Research Institute of Northern Ireland (ERINI). The idea of crystal-ball gazing over a 20-year period makes that extremely hazardous.

1793. I go back to Mr McNarry's question: economists, as you might have noticed, are not brilliant at crystal-ball gazing, despite the profession's —

1794. Mr McNarry: You economists are getting a reputation like that of lawyers. One says one thing, and another says another. It depends on who pays the most as to whether they get the right answer.

1795. Dr Birnie: We are not as well rewarded as lawyers.

1796. Dr Brownlow: I am an academic, and I am certainly not. I would like to identify three categories: entrepreneurship, products and export markets. All the evidence on entrepreneurship tells us that people's entrepreneurial abilities —I wrote about this when I lived and worked in New Zealand — are determined by incentives. Incentives, institutions and organisations are the rules of the game, if you will. They determine whether people become entrepreneurs and what kind of entrepreneurs they become. We should not regard entrepreneurship as an amorphous blob. It is far more subtle than that. Entrepreneurship can be socially beneficial or socially detrimental. We do not have to look too far to see socially detrimental entrepreneurship. That is the point to note on incentives. The rules of the game must be made conducive to the social good as well as to private gain.

1797. I echo what Esmond said about picking winners when it comes to differential products. The record of picking winners is disastrously bad. However, we are able to say that certain trends in western economies will not be reversed. The ageing of the population is one such trend, and the shift towards environmental awareness is another. We should start with what we know, which is that western societies will become older, and they will have all the needs associated with that. By western societies, I mean the Organisation for Economic Co-operation and Development (OECD) economies, and so I include South Korea, Japan, New Zealand and Australia. From the economics of healthcare, we know that, as societies get older, the cost per patient rises. In other words, there is an increased need for medical technology, and there are pharmaceutical opportunities. If I had to pick a business in which to invest over the next 20 or

30 years, pharmaceuticals would be as good a bet as any. The environmental technology issue is as Esmond described. Those are the differential products.

1798. On the subject of differential markets, one of the places where I plied my trade of teaching economics is China. The big opportunities are to be found in the BRIC economies: Brazil, Russia, India and China. I will give the Committee one statistic to show why. About a month ago, I attended a seminar in Queen's University when the Chinese Minister of Commerce at the Chinese Embassy in London was visiting. In the next 20 years, it is forecast that 300 million people will migrate within China's borders. That is a huge number of people moving from the west of the country to the east coast of China. They will need schools, airports, and so on. The list is endless. There are huge construction possibilities, and the huge possibilities that exist in China can be replicated when it comes to Brazil, Russia and India. There will be huge opportunities in the world economy.

1799. I wish to make a historical point: the Ulster and Irish economy thrived best during what economists call the first era of globalisation. From 1871, when Germany's Zollverein, or modern Germany, was created, to the First World War, the major employers of modern day Northern Ireland thrived. If we are to have another era in which our economy thrives, we must move to an export orientation, and it is as good a bet as any other to think about high-growth economies over the next 20 years to 30 years.

1800. Happily, I will never run for office, but if I were to tell your constituent anything —

1801. Mr McNarry: I will give you her phone number if you want.

1802. Dr Brownlow: No thanks. I would tell your constituent that she should, perhaps, be studying Mandarin.

1803. Mr McNarry: Perhaps we should all study Mandarin.

1804. Mr Frew: Better still, you could give her Graham's number.

1805. Mr McNarry: That would be far better than saying: "The number 53 with fried rice".

1806. Mr McKay: I want to tease out one point that Graham made in the paper about economic advice. He criticised the way in which that advice is developed and said that it is far from transparent. How should that issue be addressed?

1807. Dr Brownlow: Many of my comments arise from the fact that, although the Independent Review of Economic Policy 2009 had a very narrow remit, in that it reviewed only Invest NI and the Department of Enterprise, Trade and Investment, it made many extremely pertinent, germane points about the joining-up of economic policy throughout government. My comments were, therefore, based partly on that review and partly on my experience. I worked in the Government Economic Service (GES) in London, which is attached to the Treasury. Therefore, I know how the GES operates in GB relative to here in Northern Ireland. In my three years at Queen's University, I have never once seen an official at one of the academic seminars. That is completely different culturally to what happens at Whitehall, where officials go to the London School of Economics (LSE), Birmingham and all over the shop. That is part of the culture, which is to tap into the brain power, such as it is, in universities, and vice versa. Unusually, however, that culture does not seem to exist in Northern Ireland. It exists in New Zealand and in Dublin. I do not have an explanation for why it does not exist here.

1808. As far as I understand, because it is not transparent, government economists spend an awful lot of time working on evaluations. One of the basic insights of economics is the concept of opportunity cost. In other words, we cannot spend the same pound or the same minute twice. There are opportunity costs of money and time. My point is that I am not sure that such evaluations always make the best use of the time available.

1809. If the longer-term strategic issues of the Northern Irish economy, such as those in the independent review, were more part of the bread and butter of the government's economic competence in Northern Ireland, I think that there would be a better policy framework. As far as I know, no formal mechanisms exist between the two universities and the Department of Finance and Personnel. The Invest NI group, on which both Esmond and I sit, is informal, and government economists are not to the fore of that. Rather, it is very much a place where business and academic economists give their views. The fact that there is no mechanism will be a problem.

1810. Take the example of something as mundane as the website: I went on to the Department of Finance and Personnel website to look at the evaluation materials, and the website is not exactly transparent. Teachers of health economics explain that quality adjusted life years (QALYs) are used to make comparisons between cancer drugs, kidney dialysis, and so on. To make informed decisions, we need a common metric. However, as I do not know what metrics are being used, I cannot give an informed opinion on the wisdom or otherwise of the decisions that are being made. It is simply not transparent, which takes me back to my point on equity and efficiency. It is not enough to be equitable or efficient; rather, we have to be seen being equitable or efficient, and that means transparency. During my research on economic policymaking between 1945 and 1972, I found that a complete lack of transparency led to poor outcomes. More transparency is good because we cannot necessarily always have competition in the public sector. Sometimes we can, and sometimes we cannot, but transparency is a very good substitute for competition. When everything is out in the open, we can all decide on what makes sense and what does not. I hope that that answers the question.

1811. Mr McKay: I have no more questions, but Graham has made a good point. I propose that the Committee contact the Department on the issue of transparency and to ask how economists in the Department relate to academics, because, if there is a deficit in comparison with other countries internationally, we should at least look at that and see how great the problem is.

1812. The Chairperson: That issue was brought up at last week's evidence session by Mike Smyth. He said that there does not seem to be any mechanism for giving or receiving advice. We could, perhaps, look into that.

1813. Dr Farry: I want to reinforce that previous point. This matter goes far beyond the issue of economics and finance; it spans the ambit of policymaking. We have a lack of interaction between academics and policymakers, and we lack the infrastructure of think tanks that are the norm in many other national or regional capitals.

1814. Before we look to the future, I want to go back slightly into the past. Graham and Esmond talked about our historical levels of low productivity relative to elsewhere. At the peak end of the nineteenth century or early twentieth century, were we one of the areas of higher productivity in the UK, or have we always been slightly below the UK average?

1815. Dr Birnie: Graham is probably a better economic historian that I am. I have dabbled in economic history over the years. Using the GDP per head of the population and living standards as measures had some flaws and were not perfect. In the 1920s, the level of GDP per capita in Northern Ireland was 60% of the UK average. It slumped a little during the great depression and jumped during the Second World War. That might seem surprising, but there is an explanation.

There was a huge amount of government spending, employment went up, and Harland and Wolff and the linen industry boomed. However, GDP slumped again from the late 1940s onwards as that wartime boom ended, and it began to grow again, relative to the UK average, only in the 1970s. Again, that seems somewhat counter-intuitive because that was the worst phase of the Troubles. However, partly because of political factors, there was a huge growth in public spending and a push for parity in public services relative to those in Great Britain.

1816. Therefore, the record has been one of a slow creep towards the UK average over the entire history of the state from 1921 onwards. We do not know for sure what the position was in 1900 or 1890, but it looks as though, even though we apparently had successful global exporting firms, the largest shipyard and the largest rope works and tobacco works — people in Belfast know about all that — their productivity was not particularly high compared with companies in America, Germany or even England.

1817. Dr Farry: I have two fairly broad questions. Graham, in particular, hinted in his remarks at the need for some level of tax-varying powers. I draw a distinction between tax-varying powers in the context of continued fiscal dependency on the UK and in the context of full fiscal autonomy. Is it fair to say that, when we try to address a productivity gap, our Executive are not properly incentivised to look to economic growth because, irrespective of how well or poorly we do, we still receive the same block grant? The determination of the block grant is not linked in any way to how well or otherwise we perform economically. Does that depress the level of innovation in government?

1818. I appreciate fully the need for us to look 10 or 20 years into the future and to ask what we want to do and achieve. However, given our current position of having to strike the Budget for the next four years, and accepting that we are not simply asking ourselves how to make cuts most sensibly, but what we want to do during the next four years and using whatever resources are available to best effect, where are the major inefficiencies that we must tackle, and in which priorities must we invest? In essence, what key recommendations do you want to make today on what we should do differently to cope with the short-term and medium-term challenges?

1819. Dr Brownlow: I will kick off on that. It is only during recent research that I have begun to crystallise my thoughts on productivity. The essential point that explains the problem is the Schumpeterian notion of creative destruction. Schumpeter's point was that part of economic progress is that old industries and firms disappear as new firms appear and reappear. For a long time, that was extremely out of fashion because of the rise of Keynesianism. Its being out of fashion led to a misdiagnosis in economic policymaking in Northern Ireland, certainly after 1945. The misdiagnosis was to identify Northern Ireland's problem as that of declining industries. Of course, the problem was not that of declining industries; it was that new industries were not emerging. That was the misdiagnosis. When industries were created, which occurred late in the day for reasons that are far too esoteric for me to go into now, they produced synthetic fibres. We were what Americans would call, "Monday morning quarterbacks": we were wise after the event. Therefore, my general analysis is that we must understand that raising productivity will not be comfortable. I return to the point that I made earlier: economics is the dismal science, because it requires you to say things that will not win you any votes on the doorsteps.

1820. It is pretty clear that, for the understandable reasons that Esmond mentioned, we have had policies that focused on equity to the detriment of efficiency and on stability to the detriment of flexibility. If we are to move forward on productivity, we must be honest with ourselves about the education system and about where we stand as a society. We must admit that ours is a classic low-wage, low-skill, low-productivity economy. In going forward, therefore, there will be problems, many of which are long-standing, and it will take a long time to put them right. In the meantime, there are things that we can do as Northern Ireland plc, and as the

Assembly and the Executive, to signal to investors that we are serious about recognising that problem and doing something about it.

1821. In a recent PwC report, Esmond made the point that there is no shortage of reports on your shelves. I have loads of old reports on my shelf, some of which are fine and others not so fine. However, that is another issue. The common denominator is the lack of implementation. That is a recurring theme. The first report sat on the shelf for two years before it was even published. Nothing was done for two years. There has been a culture, for want of a better word, of regarding a report as an end in itself — something pretty that can be stuck on a shelf. If you study Korea and how it goes about economic policymaking, you will see that engineers run the show and get things done.

1822. Dr Farry: China's past three or four leaders were all engineers. Engineering is the path to political power in China.

1823. Dr Brownlow: Does that answer your question?

1824. Dr Farry: Yes, to an extent. I am putting you on the spot now, Graham: what do we need to in the current Budget round?

1825. Dr Brownlow: As I am an academic economist, I do not have to be politically popular. You must signal to the electorate that you are serious about turning the economy round. A tax on mobile texts would be relatively painless and send out a good signal. Water charging is more controversial. The message that is being sent out is that the people of Northern Ireland are not supposed to pay for anything. The introduction of water charging would be a good signal. Any tax variation must start gradually. In that way, the Assembly and the Civil Service will learn and build up their confidence and develop that over a year. It is, I am afraid, inevitable that the cuts will balance the books in the short term. In the long term, we must think about tax variation to raise revenue.

1826. I need much more information about exactly where the cuts are supposed to be made. The CBI has some interesting ideas. Other ideas, such as cutting public and school transport in rural areas are not necessarily sensible. That does not seem to make economic sense, because it would lead to traffic congestion, and time is money. Therefore, the businesspeople who, today, want rural public transport to be cut are the very people who, tomorrow, will say that their time to travel to work has increased at a cost to their business. I would need to examine a whole raft of issues in more detail than I have at my disposal.

1827. Dr Birnie: I will try to add to what Graham said in answer to Mr Farry. I have two general points about setting priorities. Later this morning, the Committee will hear evidence from Colm McCarthy from Dublin. The so-called special group on public sector numbers and expenditure is a holistic approach that is taken by independent economic experts who are considering the entire range of public spending and programmes, and so forth. That is something to which the Committee should give strong consideration. To me, looking at it from the outside, it seems that the experience in Dublin was that the Government did not accept all of the McCarthy report recommendations. However, the process was a valuable discipline, and it gathered information. That is one thing that I would say about setting priorities for the Budget for next year and even, perhaps, for the next four years.

1828. A broad approach must be adopted to getting the most from the public spending that is available. We must try to ensure that we achieve desirable outcomes. Increasingly, that will require looking across Departments and agencies rather than taking — I know that it is a cliché — the silo approach. So many of the pressing social problems, such as crime and antisocial behaviour, alcoholism and mental health problems, which prove to be immensely damaging to society and, in the long run, immensely costly, are cross-cutting problems and, therefore, involve a range of agencies and Departments. We must try to take a holistic approach to those problems and, as a starting point, to benchmark how much money is being spent on issues such as alcohol abuse, mental health and early years education. When we know the total amount of money in all of the departmental pots, we should try better to join up that spending to achieve a better outcome.

1829. Moreover, because so many of those problems develop over a lifecycle, we need to ensure that Government intervention occurs at the preventative stage rather than at the picking-up-the-pieces stage when so much of the human tragedy and harm has already been done and so much of the cost has been felt. For example, prevent people from getting into crime rather than spend immense amounts on keeping them in prison. If you can prevent criminal behaviour at the start of the life cycle process, the result is much better financially and is much more socially desirable.

1830. The Chairperson: It has come up in the Committee before that there is no measurement of the social outcomes of public services to determine whether they are working holistically.

1831. Dr Birnie: That is true. Estimates show that the return on the investment in preventing an adolescent from embarking on a life of crime and antisocial behaviour is enormous; whereas the cost of holding somebody in prison is about £80,000 a year.

1832. The Chairperson: The issue is not just the cost of people being in prison; there are health and other problems that people experience in later life.

1833. Dr Birnie: I agree.

1834. Dr Brownlow: Work to apply the quality adjusted life years (QALYs) health economic framework to the issue of crime, particularly violent crime, is at an early stage. Graham Loomes from the University of Warwick, who has just been made a fellow of the British Academy, has pioneered that work, although, as I say, it is at an early stage.

1835. Mr O'Loan: I agree that this is a time of potential opportunity, despite the difficulties; however, the issue is how we address it.

1836. I want to ask about two areas in the economic arena that you touched on. I was very taken by your statement that we have had 15 major economic reviews but are still, essentially, in the same place. The business environment here seems in some ways very dynamic. You may know better than I the number of start-ups here compared with other places, but, on the face of it, there are many people with entrepreneurial instinct. Yet we do not grow or become as efficient as we need to.

1837. There seems to be a glass ceiling, but what are its main causes? Why do our businesses not spontaneously take off? Is that, to any degree, due to regional inevitability related to the British Government's economic policy or to natural market forces? In any large nation, there will be a central point: the south-east of England is very wealthy, which condemns regions to being relatively poor. It also has to do with a lack of political direction, although I do not know whether you want to enter that arena.

1838. Graham, you referred to "long-run supply side", which are big words that I do not fully understand. You talked about productivity. Is that a cause or a symptom?

1839. Dr Brownlow: I go back to the point that I made about incentives and entrepreneurship; although it is not presented as such, you can even seen that in 'Dragons' Den'. There is a phenomenon of the lifestyle business. That is an idea that economists kicked around in the 1960s to no great effect, but it is a convincing explanation of why, sometimes, you do not see the growth of businesses. People who have target incomes, such as a yacht or a BMW, for instance, might stop growing when they can comfortably maintain that lifestyle, because going to the next level is inherently risky.

1840. Historically, Northern Ireland was a low-house cost society. Grammar schools were a huge middle-class subsidy, because people did not have to pay the huge fees that they would in Richmond in London, for instance. Many factors conspire to make people not ambitious to take their businesses to the next level. That might be part of the story; however, I do not think that it is regionally inevitable.

1841. I will give an example from history. I do not pretend to have the answer to this; perhaps I should knock it around in future research. The textile networks in southern Italy created Benetton, while Northern Ireland, which had a much longer tradition, created linen firms that did nothing comparable to Benetton. That is puzzling. It is also puzzling that Northern Ireland did not develop a chemical industry, considering the chlorine that was used in bleaching linen. I do not have answers to those questions, but they suggest that there is something that is long-run institutional. I think that it is the long-run rules of the game, informal and formal. In other words, there are formal rules, regulations, institutions and laws, and there are cultural and informal norms.

1842. Part of economics is unavoidably cultural. Often, economists do not like that, because we cannot make a nice equation, draw nice little curves that shift and tell students "The curve shifts left." I do not think that it is regionally inevitable to go through that. Is it market forces? Yes, but market forces never act in isolation from institutions and incentives. That is my best first stab.

1843. Dr Birnie: I agree with Graham. Often a firm founder or entrepreneur reaches a level that satisfies their lifestyle, which further growth may risk. They may lose control of the firm. Perhaps we have a cultural aversion to bringing in wider capital from the outside; our previous industrial policies and heavy grants may be factors. Firms were started; they grew to a certain extent; and, subsequently, the growth petered off, and they remained as small or medium-sized firms. They did not expand further, because they were doing OK.

1844. Hopefully, that grant approach has gone. Moreover, from January of next year to 2013, Northern Ireland faces rules from Brussels with regard to the slashing of the maximum level of state aid that can be given across the European Union for the traditional payment of subsidies to buy machinery and so forth.

1845. Mr O'Loan: The second area that I want to ask about is corporation tax and, more particularly, foreign direct investment. I hear that the British Government are moving away from corporation tax. Do you know their thinking? How critical is foreign direct investment in breaking through? How will we get there? Peter Gregson at Queen's University suggests that it is very good to get firms to come here. However, another model may be advantageous: partnering arrangements between firms here and international firms and availing of research facilities in universities. Do you see significant potential in that idea?

1846. Dr Birnie: Foreign direct investment is critical. It is important to encourage indigenous or locally owned firms; however, foreign direct investment can bring sizeable additions to employment relatively quickly, whereas local start-offs can take years or decades to grow.

1847. The traditional criticism of foreign direct investment firms has been that they take grants and stay only a short time. That is sometimes true, but we have to balance that with the fact that here, and in most countries across the western world where statistics are available for multinational firms, there is much higher productivity and much higher wages and salaries. They are more likely to spend on research and development and they are more likely to export. They tick all the boxes.

1848. The joint venture approach could be a way of buying in expertise. Northern Ireland does not do much research and development — 99% of our manufacturing firms do not do research and development. A tiny minority do 90% or more of all research and development here.

1849. The coalition Government are to reduce the corporation tax rate across the UK, including Northern Ireland; in four years' time, it will be reduced from 28% for larger firms to 24%. We are still awaiting the paper from the coalition Government on rebalancing the Northern Ireland economy and their proposals on our regional rate of research and development relative to the UK average.

1850. Mr Girvan: Thank you for your report. In the Senate Chamber three murals depict the three key industries of Northern Ireland: linen, shipbuilding and agriculture. However, little mention is made in any reports of our agricultural impact, and we do not think outside the box. However, part of the culture of people from Northern Ireland is that we do not necessarily think how we can export.

1851. With regard to our agri-food industry, we hear that we lead the world in processes, but how can we influence globally? We are told that we have one of the best ways of producing milk in the world, and we produce some of the best beef, but we are not capitalising on our natural resources. We may be tied into the European agricultural policy, but we are not making the best use of it. The focus seems to be on the service industry, which does nothing to generate wealth; that is something that we should deal with. Do any reports identify the potential for employment? Could our agri-food industry gain a foothold in the growing markets in China and elsewhere?

1852. Dr Birnie: I agree with you about food processing and agri-food, which is a significant employer and the largest component of our manufacturing sector. Surely, we must have certain natural advantages, or, as an economist would put it, competitive or comparative advantages. For example, we get a great deal of rain and we have a great deal of grass and can therefore produce dairy and beef products.

1853. It is also significant that during the downturn, from roughly 2008 to the middle of this year, when so many other parts of the manufacturing sector here shed employment, agri-food and food processing remained fairly flat. The sector beat the downturn, and its exporting performance was impressive.

1854. As Mr Girvan hinted in his question, the sector faces many difficulties, one being that we are a small player. So many of our firms in that sector are now part, at the very least, of a supply chain that probably operates across the island. In some cases, firms are linked to Great Britain or have ownership outside the Province, and there has been considerable investment from the Republic. I am not saying that that is necessarily good or bad, as it has advantages, such as bringing in outside capital and managerial expertise. However, those advantages have to be weighed against loss of control. For example, the marketing of a product may not be locally controlled. Whether that is good or bad depends on how well the firm markets the dairy or beef product in question.

1855. The sector has potential, especially when we put it in a global perspective. Graham referred to the Bric economies. As if we do not have enough economic problems to think about, a long-running concern is food security, or, less euphemistically, whether there will be enough food to feed a growing world population. Until the downturn in 2008, global food prices for beef and wheat were rising. That was due partly, as Graham said, to a huge growth in incomes in China and the beginnings of a more affluent lifestyle and diet in parts of east and south Asia. That has a knock-on effect in Europe.

1856. We have been blessed with a climate that is appropriate for many parts of food processing. There are global opportunities. We have the challenges of a relatively small-firm sector. However, some companies are owned by wider firms. In principle, something can certainly be done through that sector. It should continue to grow.

1857. Mr Girvan: Farmers receive grant aid funding to set land aside, for want of a better way of putting it, in order not to contribute. Grants from the European agricultural policy are having an impact.

1858. I know from my engineering background that many engineering firms were bought over by multinationals that pulled out of Northern Ireland. One of their reasons for pulling out was that they got fed up with red tape and bureaucracy and because of the previous culture in which the unions took control of many firms. That has had a major impact on the engineering industry here. An example is FG Wilson, which trades under its original name but which is globally owned by the Caterpillar group. Kraft Foods has a major involvement in the buying of milk products; however, it has pulled all operations back to its base. If there are problems anywhere in the world, it will protect its home base. Unfortunately, we sold much of our home industry.

1859. We talked about the sweet industry and what is going on with Cadbury. That is another thing that affected our economy and may have a still greater impact on it. We are allowing it to happen. People may be happy that they are getting big pay-outs and are thinking, "I am OK Jack; I can forget about the future." However, we have sold off the family silver without thinking that we may need it further down the road. We need to re-educate people that wealth is not necessarily what they have today and that we should hold on to what we have and make the best use of it.

1860. Dr Birnie: I agree. We need balance and a strong, locally owned business sector in manufacturing and in some parts of the service sector. Certain activities in the service sector can be exported, and although financial services are not a good example at the moment, hopefully that sector will recover in due course. Tourism is a service that is provided here, but it will be exported as we increase the number of visitors to Northern Ireland, as we surely will.

1861. Alongside a strong indigenous sector, there is value in having inward investment, but you are right to be realistic: some firms will leave after a relatively short period. There will always be turnover, and it is a constant battle to encourage more firms to come here as well as growing our locally owned firms.

1862. The Chairperson: I thank the witnesses for their attendance. The Committee will take on board the issue that Daithí raised about asking for information from DFP.

1863. The Chairperson: I welcome Mr McCarthy to the meeting. Members have a copy of his presentation. Perhaps you would make a few opening remarks, after which I will open the floor to members for questions.

1864. Mr Colm McCarthy (University College Dublin): I thought that it might be helpful to give an outline of how we got into the mess that we are in, which is still unfolding, its implications for public spending and for the review of public spending. I am well aware that the situation in Northern Ireland, and I suppose in Scotland and Wales, is a little bit different, in that taxation policy is in London, so it is really the expenditure consequences that have to be dealt with.

1865. What has happened in the Republic is, in a way, a more difficult micro-economic crisis than the one that occurred in the 1980s. Some of you will remember that; some of you will not. However, there was a big public finance crisis in the South in the 1980s, which was eventually dealt with without external financial support through controlling expenditure and raising taxes, and with a little bit of good luck at the end of the 1980s.

1866. This crisis is more difficult, mainly because the banks are bust. The banks did not go bust in the 1980s. The banks in the Republic had a bigger crisis than the banks in the UK. I am aware that some of those banks operate here and that people have concerns about that. Some of the UK banks had to be substantively nationalised and a few of them compulsorily merged, and the UK Government had to insure certain bank liabilities, so there was and remains a banking crisis in the UK, but it is of smaller dimension relative to the size of the economy. Many countries have had bank crises. However, the Republic has experienced one of the biggest banking collapses anywhere since the Second World War relative to the size of the economy and to the capacity of the Exchequer to solve it.

1867. There are further complications. One of them is that, being in the euro zone, there is no flexibility on exchange-rate policy, and, moreover, through the construction bubble over the past seven or eight years, the traded sector of the economy got squeezed and the economy's resources were shifted into public services and construction. The cost base of the traded sector of the economy got squeezed quite badly, so there is now a competitiveness problem as well. Neither the competitiveness problem nor the exchange rate constraint is present in the UK, and although the UK's banks are a little bit bust, they are not seriously bust, if you know what I mean. Therefore the Republic is in a worse place than Britain.

1868. However, that is not to say that Britain does not have a big budget deficit — the ongoing budget deficits in the UK and in Ireland are similar. The Chancellor started taking measures in the emergency budget in June, I think; measures that, arguably, should have been commenced earlier. In the Republic, the budget measures commenced in July 2008, so it was one of the first of the European countries to begin to address the budget deficit. However, it has been overwhelmed by the banking problem, and the efforts made to address the huge loan losses in the banking system have not succeeded. The result is the International Monetary Fund (IMF) and the EU bailout.

1869. To be a bit technical, what happened was that the budget deficit problem became a debt crisis; a debt crisis happens when you simply cannot roll over the amounts that have been borrowed. Governments finance themselves, as do banks, with a series of term loans. It is worse for banks because they have zero-notice accounts and people can withdraw their money; they also sell bonds. Governments finance themselves mainly with bonds, which are like term loans; these mature every now and again and have to be re-financed.

1870. There is a continuing requirement to refinance, and fresh money must be borrowed to meet a Budget deficit, if there is one.

1871. What happened is that a deficit crisis became a debt crisis. In Greece, that happened last May because of the Treasury position. In Ireland, it was more because of the banks than the Government, because the Government are pre-funded. It is very disappointing that it has worked out this way. We will have to wait and see exactly what arrangement will be arrived at with the International Monetary Fund and the new European fund.

1872. I expect that you are most interested in what is being done about public expenditure. The Government began to make expenditure cuts in July 2008. A Budget was brought forward to October 2008, and more expenditure measures were taken in January or February 2009. There was an emergency Budget in April 2009 and, subsequently, an ordinary Budget in December

2009. Many of the measures that have been taken were tax increases. That is not on your agenda in Belfast, although it may be on someone else's in London.

1873. Many of the measures that were taken were on the expenditure side. An expenditure review, which I chaired, was established in December 2008. It reported in July 2009 and made extensive proposals about various cuts that could be made. Some of those were implemented in the Budget of December 2009. A four-year fiscal plan will be released in Dublin at 2.00 pm today. You can expect to see more of those proposals included in that plan.

1874. The exercise that was undertaken in that spending review did not include rates of pay in the public sector. We suggested cuts in public service numbers and much more besides; I will come back to that in a minute. Nor did it include the public capital programme, which had been quite sizeable in the South. The public capital programme was reviewed separately, and it has been cut. Indeed, it will probably be cut further, which may have consequences for cross-border projects, road projects, and so on. We will see the details later today.

1875. One difference between the public spending review in the Republic and the comprehensive spending programme that the Chancellor of the Exchequer revealed a month or six weeks ago is that we did not exclude any areas of spending. I think that I am right in saying that the new Government in the UK red-lined health and overseas development assistance. Without too much difficulty, we managed to persuade the Minister not to red-line anything. Every element of current spending was considered. It was the same in the capital spending review, which was carried out separately by officials in the Department of Finance: there were no red lines.

1876. Given the current situation, there will have to be a multi-year adjustment. It will be serious, and it will be politically difficult for everyone. Politicians always regret red-lining and end up trying to wriggle out of it. I predict that, if health is left completely untouched in the UK, it will become unsustainable to cut education in a few years' time. It will create industrial relations problems, such as issues of fairness, and so on. It is always a mistake to red-line any substantial item of expenditure.

1877. I am sure that, in Northern Ireland, as in most European countries, health, education and welfare dominate Government spending. Those three areas typically account for 70% of all Government expenditure. I am not familiar with the figures here, but I would be very surprised if they differed that much. The drawing of a red line around one of those three areas would make adjusting another area much more difficult technically. Given that we are talking about four- or five-year programmes, it would also be more difficult to sustain further down the line.

1878. Notwithstanding the cuts that have been made in current spending in the South, the total amount of Government spending on current account this year will not be much different from what it was three years ago. There are two reasons for that. Once in a fiscal trap, unemployment pay and all the other social expenditures that are linked to it start to go up. Someone who is unemployed qualifies for rent subsidies, a medical card and all sorts of other things. If no action is taken, social expenditure will rise.

1879. The other reason, which you do not have to worry about in Northern Ireland, is debt service. When one starts to borrow, the interest bill comes in the following year. Therefore, the two components of public spending in the South that have risen rapidly in the past three years are social welfare spending and debt service.

1880. To prevent the total from rising, something else must be cut. That is one of the frustrations of fiscal adjustment, and it is one reason why people try to take a four- or five-year view. In the early years, it is hard to prevent the expenditure totals from rising because of that build-up of debt service and social spending. Unemployment may have plateaued, so perhaps the worst of that side of it is over.

1881. I have not had time to study carefully the detailed spending review in Northern Ireland. Even if I had, I would not be familiar enough with the Northern Ireland economy to draw conclusions. What we tried to do down South was, first of all, to take a multi-year view from the beginning. This is not an immediate panic or something that will be sorted out in six months. It will take three, four or five years to get through this.

1882. Secondly, do not red-line anything. If I may presume, as a humble economist, to offer advice to professional politicians, I caution you that, if you red-line anything significant, you will regret it in due course.

1883. Finally, you must pursue social fairness when deciding what sort of medicine has to be dished out, and you must try to protect those who are least able to carry the burden. It is also important to try to design expenditure control policies in such a way that they will not inhibit the economic recovery in due course. That is quite hard to do because, in a crisis situation, people begin to think in the short term. The tendency is to think that they must get the next Budget through or that they must comply with something with which they have been asked to comply. People tend to get forced into a six-month time horizon.

1884. It is important, in so far as you can, to stick with a time horizon of three, four or five years and to think through the exit strategy from the crisis — there will be an exit. People will be pretty sour and fed up, but, in due course, it will be over, and it is important that, when it is over, a platform is in place for a sustainable economic recovery.

1885. It is possible to cut the wrong things, make the wrong taxation decisions, or be tempted into book-keeping-type accountancy tricks with national debt figures, and so on. That is always a mistake. What matters is to make the public finance adjustment and to leave behind, at the end of the crisis, an economy that is structured for recovery and growth.

1886. The Chairperson: Thank you very much. Several members have indicated that they have questions.

1887. Mr McLaughlin: You are very welcome. I am tempted to say that you are almost a household name in the North as well.

1888. Mr C McCarthy: I do not know about that.

1889. Mr McLaughlin: I found your comments extremely interesting. You referred to our limited fiscal powers in respect of red-lining. What are the implications of the International Monetary Fund (IMF) and European Union bailout and the announcement that is due later this afternoon on the work of NAMA? We have to consider how those issues impact on our planning.

1890. Mr C McCarthy: I am aware that NAMA is an issue in Northern Ireland because it now owns a bunch of assets up here. The lending policies of the banks are also relevant. There are four banks here: the Ulster Bank, the Northern Bank, Allied Irish, which calls itself First Trust in the North, and the Bank of Ireland. Clearly, the Ulster Bank and the Northern Bank have also had their problems. The Ulster Bank belongs to the Royal Bank of Scotland, which went wallop, and the UK Government now own 80% of it. The Northern Bank in the South belongs to Danske Bank, which also owns it up here, and Danske Bank had to bail it out.

1891. Taxpayers in the South are whingeing that they had to bail out the Bank of Ireland and the Allied Irish Bank, including, unfortunately, those banks in England. However, shareholders in the Royal Bank of Scotland and, ultimately, the UK Government, picked up the tab for the Ulster Bank. Under the Danish bank guarantee scheme, the Danish shareholders in Danske Bank picked up the tab for the Northern Bank. The good people of Scotland, had they voted for the Scottish National Party, would have had the pleasure of bailing out the Royal Bank of Scotland and the Bank of Scotland, but they managed to get the Sassenachs to deal with that for them.

1892. How NAMA operates in Northern Ireland is an issue. I am not that familiar with the details of it. As you can imagine, NAMA has not been proactively disposing of property up to now, but that must be addressed at some stage. There is a sunset clause hanging over NAMA, and it is not meant to exist in seven, eight or 10 years' time. In due course, whatever property NAMA owns in Northern Ireland will have to be put on the market or developed; something must be done with it. The NAMA legislation includes a provision for Ministers in the North to have a consultative role, and I hope that that will work.

1893. I am not familiar with the details, but NAMA's approach appears to have been not to sell off assets in the Republic for the time being. I presume that it has not sold much in Northern Ireland either. I would be surprised if it had, because the market here is pretty depressed, too. Banks here are not in lending mode. A large property portfolio cannot be liquidated into any market in which the banks are not lending, because deals have to be financed.

1894. NAMA has begun to look at disposals in the United States and the UK. It may have some strategy of starting with those assets that it considers are the most liquid and can be disposed of most readily. At some stage, it will have to dispose of property. If NAMA has not been wound up in 10 years' time, I will be astonished. That is what was always envisaged, and it might be wound up sooner. Over the years, it will dispose of everything.

1895. You asked me about the IMF and the deal that is currently being negotiated. There must come a point at which the banking collapse is resolved. "Bank resolution" is a technical term, which means that through compromising some categories or creditors, or through recapitalisation by the state, or some other way, banks are placed in a financial condition whereby they can finance themselves without resort to Government guarantees or anything similar. We are still a long, long way from that. In Ireland, we are far further away from it than we should be. We should have dealt with the situation faster.

1896. However, that is a Europe-level problem now. There has been a failure to address the scale of the bank problems. Many other countries have problems with their banks, and, in a funny sort of way, the Republic may have owned up to its problems a bit faster than some of the others. Some people think that there are hidden problems in the banks of some continental European countries.

1897. Until those issues are resolved, you cannot expect banks to lend aggressively. How aggressively do you want them to lend? Would you like to go back to the lending of 2005 and 2006? I certainly would not. There is nostalgia in some quarters for the credit bubble, but I hope that there will not be another credit bubble in your lifetime or mine.

1898. Mr McLaughlin: Or ever again?

1899. Mr C McCarthy: Yes. We do not want the banks to start undisciplined lending. No one would finance that anyway, so it will not happen. The concern is that viable small businesses are having their overdrafts pulled and are unable to finance projects. However, I am always slightly sceptical about the extent to which that is happening. The demand for credit has collapsed. It is not just that supply credit has collapsed. The demand for credit is way down, and the economy has slowed down.

1900. There have been huge reductions in inventories, for example. Inventory financing was a big part of capital demand, but that demand has fallen. Therefore, there may be bank branches around Northern Ireland that would not be able to lend a whole lot of money, even if they had it. I am not saying that that is universally the case, but we must be conscious that the supply of credit is constrained and that the demand for credit is way down. Furthermore, many people who looked like good credit risks a few years ago do not look like such good credit risks now.

1901. Mr McLaughlin: We are attempting to observe, and to learn from, your expertise on the Southern economy. The Assembly has been engaged with the British Government in the examination of how we can rebalance the economy, perhaps introduce some relaxations and achieve a more flexible fiscal policy. The issue that gets all the headlines is corporation tax and rationalising or harmonising it with the existing level in the South. Media speculation is that one of the conditions of the IMF/EU intervention is pressure on the Irish Government to raise the Republic's level of corporation tax. What do you expect to happen?

1902. Mr C McCarthy: That pressure will be resisted.

1903. Mr McLaughlin: Is corporation tax red-lined?

1904. Mr C McCarthy: None of the treaties provide for a harmonised taxation policy across Europe. There was a ludicrous piece in yesterday's 'Guardian' about the Irish Exchequer raiding everybody else's Exchequer, tax revenue being nicked, and so on. Any of you who shopped in Newry over the past few Christmases will have seen lots of Southern tax revenue being nicked by Her Majesty's Treasury.

1905. A surprising number of Irish companies have branches in the Isle of Man and Jersey. Tax competition is the name of the game. All the member states in the European Union have complete autonomy under the treaties to fix whatever rates of tax they like. There has been some harmonisation of tax bases, which is different, and there has been an attempt recently to bully the Irish Government over the 12·5% corporation tax rate. I would like to make a provocative observation: in all of the international economic diplomacy that goes on, there is more hypocrisy about corporation tax and tax competition than about anything else. Some continental European countries have headline corporation tax rates of 30% and 40%, but if you look at their fiscal accounts, you will notice that the gross revenue from corporation tax is not as high as you would expect.

1906. The reason is that businesses, especially if they have smart accountants working for them, can deduct fast depreciation allowances, capital allowances, R&D or something fashionable related to the green economy or whatever and end up not paying as much as they appear to pay. The system in the South has been infected a little by smart accountants and lawyers, but the intention was always that the rate would be 12·5% and that businesses would have to pay it. Some continental European countries have rates of 30% or 40%, but businesses do not have to pay that. There is wholesale hypocrisy.

1907. The rate of corporation tax in the UK is coming down. I think that the Government announced that they were cutting it to 28%. There are more deductibles in the UK system than there are in the South. Years ago, the corporation tax rate in the South was, I think, 40% for non-exporting companies. The Government then decided to make the rate 12·5% for everybody. However, at the same time, they got rid of many of the deductibles. There were all sorts of bizarre peculiarities. Section 84 of some finance Act or other, for example, meant that, if businesses juggled around with bank debt, they could write off their interest twice or some flipping thing — I cannot remember. There were stunts connected with leasing and all sorts of things like that. Putatively, people were liable for a 40% rate, but they did not pay it. When the Government got rid of the deductibles, there was meant to be a clean, simple, low rate of tax, with the snag that businesses had to pay it. That is not what happens in many of the continental European countries.

1908. There has been a campaign in Northern Ireland to have a 12·5% rate as against what will now be 28% in the rest of the UK, but I am not sure how practical that is. There are some precedents for differential rates of tax in different parts of the UK. I remember the selective employment tax. It was high in the south-east and lower elsewhere, but that was a long time ago. The Government persevered with that for a few years and then gave up. It did not survive. It would be extremely difficult to operate differential rates of corporation tax in different parts of the same fiscal jurisdiction. It would lead to all sorts of tax avoidance, and the smart accountants would have an absolute field day. Therefore, I do not know how realistic it is to push for the 12·5% rate.

1909. Mr O'Loan: You are very welcome, and thanks very much indeed for coming. When you look back to when the big bank crisis started in the South, could anything have been done differently? Were the Government too generous at that point, particularly in relation to the Anglo Irish Bank?

1910. Mr C McCarthy: Are you talking about in September 2008?

1911. Mr O'Loan: Yes.

1912. Mr C McCarthy: The balloon went up in September 2008, and the Government introduced a loan guarantee that I felt at the time was far too broad and too risky. Unfortunately, that is what has done for us rather than the public finance crisis. However, the fire brigade cannot be blamed for failing to put out a fire that somebody started. The fire was set by the failure of the banks and their regulators and supervisors, which had gone on for five or six years previously.

1913. The first line of defence against a credit bubble is the banks. The conditions for credit bubbles arise quite often — the economy gets a good run, asset prices are strong and people feel buoyant, and so on. However, those are the ingredients for a credit bubble, provided that banks that are too careless are added to the mix. When the banks are run by sober, granite-faced, tedious people who do not want to lose money, the credit bubble does not happen. The first line of defence, the banks, failed, and, subsequently, the regulatory and supervisory system failed. However, it did not just fail in Ireland; it failed in lots of countries, as we know. It failed spectacularly in Ireland.

1914. Mr O'Loan: In the longer run, the future discussion that Angela Merkel is mooting is about shifting the burden on to the banks. Is that the right future?

1915. Mr C McCarthy: On 16 October, after that meeting in Deauville, Angela Merkel made a statement on a Friday after the markets had closed. She envisaged that, from 2013 onwards, European sovereign debt could take a haircut. Her statement was all about the sovereign bonds of Governments. On the Monday morning, not surprisingly, the bond markets in the peripheral countries, such as Portugal, Greece, Ireland and a few others, took a huge hit. There are two possibilities: either she made a mistake in saying that or she did not. If she did not, it was an attempt to bring the crisis to some form of resolution. I am not sure whether that is the case.

1916. One potential outcome of the crisis in the euro zone is that the Governments that have very high debt ratios and are struggling to deal with them will eventually have to compromise with their creditors through restructuring their sovereign bond debt. However, nobody has thought that through, because more Italian bonds are issued in Europe than from any other country. Italy is a big country, and its debt ratio is very high. The Italian Government's bond market is bigger than the German Government's bond market because the Germans have not printed quite so many. The Spanish bond market is pretty big. It is all very well to talk about hair-cutting Greek debt into the balance sheets of lots of other banks. It is a different story to talk about hair-cutting Italian debt or Spanish debt.

1917. There is no worked-out strategy to do that on any comprehensive basis in 2013. In the absence of a worked-out strategy, the opportunity to say nothing should have been taken. What was said precipitated the bond market crash that happened last Friday week. The lender of last resort, which is the European Central Bank, began to brief to the effect that it was unhappy about the extension of bank credit to the Irish banks. I do not blame it for being unhappy, but it is not possible to impart stability to the system via a lender of last resort that gets windy.

1918. Mr O'Loan: Will the euro zone hold together?

1919. Mr C McCarthy: I think that it probably will. However, the policy response to date has involved kicking the can down the road, and that is what the resolution of the Greek situation achieved. Some deal will be done in Dublin, and it will be difficult to negotiate. That will kick the can down the road a bit further, and there will be trouble in Portugal in due course. The source of the difficulty is the infestation of bank balance sheets with various kinds of toxic assets. That has not been fully acknowledged, and there has been no full workout of the European banking system. Ultimately, I think I am right in saying that Greece, Portugal and Ireland account for 5% of the balance sheets of the European banking system. Therefore, at some stage, somebody will have to give some serious thought to the other 95%.

1920. Mr O'Loan: Provided that a major problem does not arise in the euro zone, once the election is out of the way in the South and the financial rescue plan has been implemented, has enough been done to stabilise the situation and to give confidence to the system to ensure that everything will be worked through over the next three to five years?

1921. Mr C McCarthy: I think that the answer to that is no. Two things are needed to get out of the situation. First, we need a credible medium-term programme to address the Budget deficit. That will be announced this afternoon. That has been tackled reasonably well since the middle of 2008. However, on the banking side, the resolution of the banking crisis requires that, if the banks have lost a huge pile of money, we have to quantify that as acutely as possible and decide who will pick up the tab. From that must emerge a clean banking system that does not have any unexploded bombs in the basement and is able to finance itself credibly in the markets. Until that has been done fully, the banking problem will not be resolved. It is not enough to continue to provide liquidity to those banks and to reassure depositors that small deposits are guaranteed. Of course, that all has to happen, but, eventually, the banks must have adequate capital, all the bad debts must be cleaned out, and some category of creditor will be hit with the consequences.

1922. The reluctance to do that has resulted in a kicking-the-can-down-the-road policy. That is where we are.

1923. Mr O'Loan: Your work in an Bord Snip Nua focused on numbers, headcount and expenditure. Is anyone looking at whether the Government are using that money for reform and ensuring that their business is done better?

1924. Mr C McCarthy: One of the features of fiscal consolidation is that people see it as an opportunity for reform. There are phrases such as, "Never waste a good crisis", for example, and a notion that things that were not normally politically possible become so for the period of the adjustment programme. However, there is a funny feature to that. We in the South have ended up with a cluttered public administration system, too many quangos, odd methods of financing and multi-stream funding for the same organisation. You would not tolerate that in a well-run business. It is an opportunity to clear them up.

1925. However, the opportunity is often not taken in fiscal adjustment, as it does not save much money. Politicians say that they have to save £1 billion, a zillion or other enormous sum, and they begin to focus on whether they can cut social welfare benefits or get rid of X number of public servants. However, the political energy needed to do those things is so great that it is very hard to get them to say that the "national mushroom council", for instance, was not needed. However, if getting rid of that council saved only €100,000, they would not bother. The spring cleaning of the public administration system sometimes gets lost, because you cannot tell Ministers that doing something will make a big contribution to the fiscal adjustment. It will not; it is small change. We had experience of that in Dublin last year. Of course, the folks who work for the mushroom council will leak information to the papers, hire a PR firm and battle for their jobs.

1926. Mr O'Loan: It might not make a saving, but you might get a better service.

1927. Mr C McCarthy: It might not save anything, but that does not mean that it is not worth doing. There is a whole agenda of essential rationalisations in enterprise promotion in the South that will probably not save money, but now is a good time to do them. Yet it is hard to get them done.

1928. After the Budget, about three or four months ago, I spoke at a meeting of a think tank in London. There were lots of people there from the Treasury who said that they have had a similar experience, especially with Ministers in a new Administration talking about reform and restructuring. However, when they realise that they have to put up income tax and cut social welfare they do not see it through.

1929. They did something interesting in the UK. Francis Maude, the Paymaster General and a Minister in the Cabinet Office, has been charged with the exclusive task of pushing through those measures. It will be interesting to see if he succeeds. However, even if Governments have the political capital and they expend it on unthinkable big-picture things to save money, it is hard to push through a reform programme. It should not be, but it is. You would think that a terrible crisis would be a great time to get things done, but it does not always work out like that.

1930. Dr Farry: Welcome, Colm. You mentioned the potential risk to the money that the Southern Government has committed to Northern Ireland for infrastructure. I want to widen that out. Do you see any interest in Dublin to do more on a North/South basis, particularly since Dublin and Belfast will each have its own separate financial crises to deal with over the next few years?

1931. This is not a political point and must be kept separate from politics, but there are opportunities for economies of scale in service provision or distortions that are caused by the border. Is there any recognition of that? Is there any interest, or are things so inward-looking at the moment that that it is not on the agenda?

1932. Mr C McCarthy: I did not say that I have any reason to believe that such commitments will be dropped. I do not know; I am not privy to those discussions. I am not an expert on economies of scale, but you do not need top-notch hospital in Enniskillen and another in Sligo. I do not get that, although the people who work in them may think otherwise.

1933. A programme has been under way in the South recently to create a network of 10 or 12 top-notch hospitals with other, smaller ones that would not have all the specialisms. There is phenomenal political resistance to that. One of the places chosen was Limerick, which is a pretty big city about the size of Derry. It will have a top-notch hospital, which is fine. There are two towns, each of them no more than 20 or 30 miles away — Ennis and Nenagh — both of which have had hospitals for a long time. There are huge campaigns in both places. Coincidentally, the motorways down there have just been finished, so you can now get from Nenagh to the hospital in Limerick in about 20 or 25 minutes. I cannot get to my local hospital through the Dublin traffic in 25 minutes. There is always scope for such rationalisation. I am sure that that is true of the border counties, although I am not familiar with the data.

1934. It needs to be pushed through. If there is money to be saved, let us do it. There are other nuts-and-bolts areas of North/South co-operation, one of which I benefited from this morning. I may never see Newry again. I will try to, just not so often. The cross-border roads programme has been carried out in a good and practical way with local authorities. I suspect that there are other areas, including electricity transmission system across the frontier. A great deal of money has been wasted, but that can be stopped now with better cross-border connections. I am not really familiar enough with the nuts and bolts to say much more.

1935. Dr Farry: One of the positive lessons from the first Bord Snip related to how public support was generated for what had to be done and how it was carried through. It happened without too much controversy. That is not the case now. Can you expand on that? You also said that, with hindsight, too much money was taken out of capital at the expense of revenue and that there is a danger of short-termism.

1936. Mr C McCarthy: Those are good points. First, preparing the public for the fiscal correction at the end of the 1980s was easy because it had been ducked for 10 years; everyone knew that it was coming and that it was necessary. Everyone felt that politicians were ducking and diving and not facing up to it so that when it eventually came it was almost a relief.

1937. Secondly, the capital programme was cut too much; however, it is much bigger now than it was then in relation to the size of the economy. It is still too big in the South and was way overblown a few years back. It is fine to build a motorway from Dublin to Cork, but it need only be done once. There is no need to over-design and over-build roads, which we did a little bit. Some parts of the motorway network in the South were over-specified. That happened here in the 1960s, the MI to Dungannon being a case in point. Guys used to bring over Grand Prix racing cars from Britain to try them out at 6 o'clock in the morning. It was a test road; there were 2,000 vehicles a day on it. I am sure that it is much busier now, but it was over-specified when it was built. We have done the same south of Carlow with the M9, which eventually goes to Waterford.

1938. Mr McLaughlin: It was future-proofed.

1939. Mr C McCarthy: It certainly was. According to the figures, it did not need to be specified to motorway level south of Carlow, but some politicians wanted it, so it happened.

1940. The Chairperson: Dawn had to leave, but she left a question about what will happen to the toxic debt in the banks.

1941. Mr C McCarthy: Some of the toxic assets have been discounted heavily and taken into the National Asset Management Agency (NAMA). The UK Government did something that was meant to have a similar effect, which it sort of did. They insured toxic assets. They did not set up an asset recovery agency as such in the UK, but they have taken liability for some of the rubbish off the banks' balance sheets. They also took shares in Royal Bank of Scotland and Lloyds TSB.

1942. The banks just acquired assets that turned out to be worth half of what they had lent on them; they will not get paid back. The banks' balance sheet is inadequate to take that hit, which has to be imposed elsewhere. It could be on other categories of bank creditors, such as bond holders, or on the unfortunate taxpayer.

1943. You will not have a normal banking system until you have owned up and done some of those things, one way or another. The approach to bank resolution in Europe generally has shown up weaknesses in the design of the euro system. It has been jusst too slow.

1944. It is salutary to remind you that there was a great, big Europe-wide stress test of the 91 biggest banks in Europe in June or July. The two Irish banks passed; some continental ones failed. However, the Irish have had to go to the IMF; that tells you how stringent the test was. The Allied Irish and the Bank of Ireland passed but have brought down the creditworthiness of the Irish Exchequer since. The banking crisis in Europe is not over by any means.

1945. The Chairperson: Is there more to come?

1946. Mr C McCarthy: Yes; I think so.

1947. Mr McLaughlin: I am not sure whether anyone has a figure, but you hear that bond holders may control €30 trillion. You cannot begin to imagine such figures. The debt for the Southern system is some 0·002%. Is there a point, given that this could have a European dimension, when the bond holders will start to take some of the pain? You do not want to go back to the taxpayers too often.

1948. Mr C McCarthy: No European bank has been allowed to go bust. The US Treasury and the Fed bailed out Bear Sterns, which was the first big bank to get into serious trouble, by marrying it off to, I think, J P Morgan, with taxpayers' money. They slithered taxpayers' money around, although we were not supposed to know that it was happening.

1949. The US Treasury got fed up with that, and when Lehman Brothers went under, they let it go. No one knew just how interconnected and fragile the system had become.

1950. As a good capitalist, I think that it was a good idea to let Lehmans go. Losses are important in capitalism as well as profits. Lehmans screwed up; let it bloody well go. Shareholders will lose, but that is tough. However, once people saw the mayhem that ensued when Lehmans had been let go, a decision was made in Europe that that would not happen here. Once it was decided that significant banks would not be allowed to go under anywhere in the euro system, the rest unfolded.

1951. Mr McLaughlin: You describe very well how we arrived here, but what of the taxpayer?

1952. Mr C McCarthy: Decisions to let significant banks go wallop, in Ireland or anywhere else, have to be thought through very carefully. It is the unplanned bank collapses that create mayhem rather than orderly resolutions, such as there have been in the United States. I should explain that there are two kinds of bank in the United States: those that are regulated by the Fed and those that are not. The five New York investment banks were not regulated by the Fed, because they used to be broker-dealers but became big investment banks over the past 20 years or so.

1953. The United States Government have terrific bank resolution powers; interestingly, the UK does not have such powers. The UK passed the Banking Act 2009, but the South has still not done anything similar. The South has powers, but it does not want to put them in place because that would frighten the horses. However, it is a bit late for that. The US has terrific bank resolution powers: banks go bust all the time, the Fed arrives, takes over the place, haircuts the bond holders and fires the management, who are given a black plastic bag and told to pack up the photographs of their children and get out.

1954. However, in a systemic crisis, such as that in Europe, there is no such process, and it is too late to start one. Europe is locked into inching its way towards some ultimate EU-led solution of a problem that is not going to go away. Moreover, there are hidden loan losses.

1955. Mr McLaughlin: You say that there is infection in the other 95%. Europe will get to the point at which there is a quantum that just cannot be borne at individual state level.

1956. Mr C McCarthy: There is no such quantum. The destruction of value has occurred, and the people who own the bonds are other banks, central banks, pension funds and life insurance companies. Ultimately, many bonds belong to the public not to a handful of fellas hiding in a cave in Switzerland. Losses have occurred, but we cannot decide how to share them: they cannot be avoided by refusing to crystallise them. The Irish banks were bust in September 2008, and the loans on which they lost money had all been made at that stage. The Irish banks did not go bust when we decided to look at the figures properly. Crystallising bank losses does not cause them; they are already there.

1957. Mr Frew: I apologise for not hearing all your evidence, although I caught some of it on TV; therefore perhaps you will forgive me if this question has already been asked. We know that in the Republic the problem has been banking issues and the property market. However, if Ireland had not entered the euro zone, where would it be today?

1958. Mr C McCarthy: Such counter-factual hypotheses are good fun, but you can never be definitive about them. I think that we would have had a smaller bubble, because the availability of credit would have been less. There would have been some exchange risks, so Irish banks would not have gone as mad as they did. However, it is salutary that there have been serious bubbles in countries outside the euro zone; you do not need to be in the euro zone to have had a bubble.

1959. What has happened with bank resolution has shown up weaknesses in the design of the euro system. One of those weaknesses, often commented on, is that there are no automatic fiscal-transfer mechanisms in it. I am not a big fan of that argument. There are no automatic fiscal-transfer mechanisms in the dollar zone either; a city in Texas is allowed to go wallop if it feels like it. Federal government usually helps with a bail-out in such instances, but there is no automaticity.

1960. We have seen some other design flaws, including the selective behaviour of the lender of last resort. In the sterling area, it would not be accepted if the Bank of England suddenly said that it would not provide emergency support to banks in Newcastle; such a stance would not go down well in Birmingham or Manchester either. The lender of last resort must be non-arbitrary and predictable. The absence of that has been a flaw in the design of the Euro system.

1961. The Chairperson: That was very interesting. You have given us much food for thought, although the subject matter is a bit depressing. Thank you for taking the time to speak to us. Can we write to you if we have any questions?

1962. Mr C McCarthy: Yes, of course.

1963. The Chairperson: Thank you.

1 December 2010

Members present for all or part of the proceedings:

Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Victor Hewitt Mr John Simpson	Economist

1965. The Deputy Chairperson (Mr McNarry): I welcome two familiar faces to the Committee. Which of you gentlemen would like to go first?

1966. Mr John Simpson (Economist): The young apprentice deserves his scene.

1967. The Deputy Chairperson: Victor, you are in the driving seat.

1968. Mr Victor Hewitt (Economist): I will kick off then.

1969. There may be a tendency to downplay some of the implications of the comprehensive spending review (CSR) now that the dust has settled. People see, for example, that current expenditure is dropping by roughly 2% per annum over four years and that, unfortunately, capital expenditure is dropping by closer to 40% over the same period. However, it would be wrong not to recognise this as something of a watershed in our financial relationships. One of the major engines of the economy's growth over many decades is starting to go into reverse. Although it looks like 2% against a flat baseline, the longer-term trend in public expenditure has been upwards. Therefore, we are seeing a break-point in the trend lines and a widening gap.

1970. I will deal with the minutiae of the CSR. It is gradually becoming known that there was a bit of jiggery-pokery around the baseline. My calculations are that the Treasury essentially removed certain things from the baseline, some of which were perfectly justified. Depreciation and impairment are ring-fenced in the departmental expenditure limit and, therefore, could not be used for anything other than that purpose. However, the £128 million of in-year cuts were a little bit naughty. There was a dispute about that, and I have tried to lay out the basis of it.

1971. The issue of the £18 billion was possibly a little overdone. We had an investment programme running for 10 years that covered £18 billion of expenditure. The naughty bit was the incorporation of law-and-order capital spend into that £18 billion even when it was not actually transferred. It was not a great ploy to base your major plank to the Treasury and the Prime Minister on the restoration of the £18 billion. Statements were made that the £18 billon was somehow free-standing and did not include the reinvestment and reform initiative and so on, but I am afraid that that is simply wrong; the £18 billion did include that.

1972. Another thing that may have slipped below the radar is the ending of the end-year flexibility (EYF) scheme in the UK as a whole. We had built up a substantial EYF stock of nominally more than £600 million but drawable of about £312 million. That has vanished. There may be some restoration, because, in multi-year schemes, some smoothing mechanism is needed to carry money from one period to another; however, whatever replaces EYF will be a good deal tougher.

1973. The other issue is access to the reserve. That is particularly important for areas such as law and order, which has a way of forcing itself to the top of the priority list whether one wants it to or not. The assumption seems to have been that we had a more or less automatic right of access to the reserve; that was probably a false interpretation. We would have had access to the UK reserve in appropriate circumstances, but, as far as the Treasury is concerned, appropriate circumstances are after every spare penny has been stripped from every other programme to maintain the position.

1974. Overall, the outcome of the CSR is quite tough, but it is probably also an opportunity to rethink our priorities and how we will balance our expenditures against our income over the next four years. It is starting to bring out some new ideas, some of which will take time to crystallise. In the short term, if you were to look to replace income, you would have only the regional rate to turn to. The regional domestic rate has been frozen in nominal terms, so it has been decreasing in real terms.

1975. There is also the issue of prioritising in the various programmes. A Budget has not been struck yet, but I would not be a bit surprised to find that we also provide some protection for health. It may not involve protection for the entire health, social services and public safety programme, but at least the health elements of it. We will possibly look at moving some current expenditure to capital expenditure.

1976. In his evidence to the Committee, Colm McCarthy emphasised that it is probably not a good idea to have red lines. Drawing a red line on a huge programme will paint you into a corner when anything goes wrong over the next four years. Health is a huge programme, so if you were to protect the health budget to any great extent, your room for manoeuvre would be seriously diminished. McCarthy carried out an exercise for the Irish Government over some six months looking at the numbers in the Irish Civil Service and at public expenditure. That was a valuable exercise, and I regret that it was not replicated here. To some degree, we are entering unchartered territory without a great deal of information about what works and what does not and how to prioritise. An interesting period is ahead.

1977. The Deputy Chairperson: We will try to deal with a couple of points arising from what each of the witnesses says and then members can comment generally. Having listened to Victor, the issue of access to the reserve comes to my mind. The Chief Constable made a concerted bid in London to have access to £200 million from the reserve. I know that it is not a bottomless pit, but he thinks that he needs it for security issues. Could that access be at risk?

1978. Mr Hewitt: When there was a wave of dissident activity, especially after the murders at Massereene, there was an agreement with the previous Government to access a reserve of some £72 million. At least some of that has been drawn down, but I imagine that all bets are off with the new Administration. As I said, you would get access to the reserve if you really needed it. However, you would have to prove that you needed it; it will not be automatic in future. One bit of good news is that I believe that the Northern Ireland Office's EYF element will be carried over, so that will give you some leeway.

1979. I see the coalition regularising the financial relationships between Northern Ireland and the Treasury rather than creating new spatial arrangements.

1980. Mr O'Loan: Thank you, Victor, for your introduction and paper. I agree with your endorsing Colm McCarthy on not red-lining an area, and on not protecting any area from scrutiny that it should be ring-fencing. I do not see how we can simultaneously call for better use of resources while at the same time protecting spend in one particular area. The two do not go together.

1981. You addressed those issues in your sections on zero-based review and public-sector costs. Colm McCarthy said that although people often talk about doing that when they hit a crisis, the tendency is, in fact, to deal with the crisis and keep your head above water rather than act strategically. It is imperative that we look not just at how much money we have and where we allocate it but how we use it better. Do you see much scope for doing that over the four-year period?

1982. Mr Hewitt: I agree with the Finance Minister in that, before turning to exotic revenue-raising measures, you really should check whether you are using the money that you have to the best possible advantage. One benefit of what economists call a hard budget constraint, as opposed to a fairly elastic budget constraint, is that it smokes out one's true priorities.

1983. The stated priority of the Administration is the economy. That is a bit of a fiction. The real priority will come to be seen as maintaining health, because that is what the people on the doorstep want, and you, as good politicians, tend to take notice of that. It would be useful to have clarity on exactly what the true priorities are to get a sense of what gives you the best value for money.

1984. Despite programmes running for many years, we do not know how valuable their outcomes are. That is why McCarthy 's exercise, although not perfect, was nonetheless a good catalyst for debate about the value of certain exercises, including things that we have always taken for granted, such as research and development expenditure. He questioned whether some of that was as valuable as was claimed. A great many lobby and interest groups have an interest in maintaining their position.

1985. Dr Farry: We may return to Victor after we hear from John to see whether there are any discrepancies between the two opinions.

1986. Mr Hewitt: Three opinions, at least.

1987. Dr Farry: Victor, you speculated that there may be a shift from current to capital when we finally agree a Budget. What should we be doing about that? That is something that we ourselves called for. However, Colm McCarthy also said that you can go too far with capital and that in the Republic of Ireland they perhaps over-built motorways and gave them more capacity than was needed. How can we ensure that we find the right balance between current and capital?

1988. Mr Hewitt: Be cautious on transfer — there are no free lunches in economics. You may transfer money from current to capital to preserve construction jobs, for example. However, you should not fool yourselves that removing current expenditure to help the construction industry will not have job implications: you may kill off jobs that were either directly or indirectly supported by that money.

1989. Some construction is specialised. If you put money into road building, you may have to import labour from across the water because we do not have those skills here. It is a very delicate balance and it must be looked at in the round. An economist should never look at things in isolation; there are always implications.

1990. Dr Farry: Opportunity costs.

1991. Mr Hewitt: Indeed; there are always opportunity costs and reverberations for the rest of the economy. By all means look at moving recurrent capital, but look carefully when doing so.

1992. Mr John Simpson (Economist): I have a few brief words. First, I have no exception to take at the — [Interruption.]

1993. Dr Farry: That is different from agreeing.

1994. The Deputy Chairperson: That is very disappointing.

1995. Mr Simpson: I have approached what the Committee asked for in a slightly different way. I hope that you have a two- or three-page summary of the points.

1996. The Deputy Chairperson: We have, thank you.

1997. Mr Simpson: I looked at the questions posed on the Committee's behalf. A large number of suggestions is available for this year and indeed for the four-year horizon. In preparing this list, I have considered what various business organisations have been saying. The quality of what the Confederation of British Industry (CBI) has been saying commands very careful reflection, to a better standard than previous years, and poses problems that link to what Victor said.

1998. I also took the liberty of reading the proposed Scottish Budget that was tabled about 10 days ago. It contains suggestions, some of which match what the CBI is saying, so there is some reinforcement there through their both saying the same thing. Perhaps we should consider that. Having looked through your questions, I have highlighted the issues on which I commend the Committee's particular attention.

1999. We share a belief that it would be desirable to have a four-year Budget or a Budget that is divided into the four years and that it would be desirable to have a clear head about the essential elements of matching resources to that four-year Budget. As Victor said, a Budget reduction of 2% a year in real terms may not sound difficult; the usual language in the public sector has been annual efficiency savings of 3%. Therefore some might say that you have not really been set a difficulty. However, added up, those figures become approximately 8% over four years; that is much more fundamental. Looking at the comments in paragraph 3 on page 3 of my submission, "Achieving longer-term efficiency savings", we should be going down the road that the Committee has already signposted on Victor's evidence.

2000. We need annual efficiency savings, and we need a careful review of how we deliver public services, or what I call the operational delivery of public services. We could use the McCarthy model, which is standing the test as people say that it has been a useful exercise; they may say that not everything was acceptable, but that it was, nevertheless, a useful exercise.

2001. Interestingly, the Scots are going to do the same thing and have asked Campbell Christie, a senior retired trades unionist from the Scottish TUC, to conduct a review. I am sure that Campbell Christie will be employ specialists; he will not do it on his own. However, the operational delivery review — and I intend no disrespect by saying the following — should not be conducted from within. Colm McCarthy did not examine the public sector from the inside. Would you ask the permanent secretary of a Department to carry out an operational review of the efficiency of his Department? Whatever regard one might have for him, my answer would be no; you would bring in outside evidence. I suggest that we learn the lessons of the McCarthy project or the Christie review.

2002. On efficiency savings, I am surprised that Northern Ireland does not seem to have made any progress on the review of non-departmental public bodies; there is certainly capacity to reduce the numbers and to review critically the services that they say they provide. This is not the forum for putting the first victim on the scaffold. However, some will need complete change.

2003. Is the Committee prepared to commend the freezing of public sector pay, as I recommend, on the same formula as is adopted by London and Edinburgh? Over two or three years that could give 40% of total savings. The basic question is whether it is better to continue to employ 95 people at slightly lower pay or to employ only 90 at the continuing rate. That is the trade-off. It involves 4% or 5% of the labour force. When it looks at longer-term efficiency, I hope that the Committee pays attention to those issues.

2004. As Victor said, "protecting the economy" is the phrased used. However, the Northern Ireland Executive have chosen to protect social, not economic, issues, and they are allowed to do so. Social issues took us down the road of prescription charges, the change in transport arrangements and the regional rate. We are heading for a shortage of revenue, and giving away part of the regional rate is not consistent with making the economy the number-one priority. Therefore, I put in paragraph 1 that we should remember to give training and skills priority, and I argue for prioritising further education in particular.

2005. We both have a background in higher education and we do not want to take anything away from that; however, comparing North and South, we need to learn that we need to be more ambitious. I do not know whether the Committee agrees. However, that is my assessment and I am working on a couple of projects that will bring that very forcibly to bear.

2006. Consistent with what Victor said, the other priority is rethinking infrastructure investment. I hear the comment that perhaps we have too many roads and motorways. That may now nearly be true for the Republic of Ireland, but I do not feel that way as I travel around Northern Ireland. I would not back off from tackling any major structural problems in roads. In the interests of good all-island communications, and forgive me if I use a trite phrase, I would remove the only set of traffic lights on the road between Dublin and Larne harbour: the one at York Street. Those of you who come in from the north of the city will appreciate what I am saying.

2007. I move on to the revenue question. Victor emphasizes that the regional rate is the most obvious source of extra revenue, perhaps £50 million or £60 million a year. That is worth having, but it is not the be all and end all.

2008. I know that there are other tensions, but I have highlighted water charges. I would like to see water charges introduced in some way; on a hypothecated basis against the regional rate if necessary. I want to see water revenue directed to a trading company called Northern Ireland Water, which would then stand separate from central Exchequer finances and would be in a position — as the water company in Wales is — to borrow from financial markets for its capital programme so that water would not be using capital that would otherwise be available to the rest of the public sector. I would like to see movement in that direction, but I realise that the issue is not uncontroversial.

2009. You asked me about potential savings from outsourcing. There are several of those, but one of the most conspicuous is market-testing the Rate Collection Agency or Land and Property Services. You can think of others, and the CBI has identified some. You need to open the door to that possibility. You asked about possible capital assets realisation. I do not know whether the Committee has seen Ed Vernon's reports on the capital assets of the public sector. He did a report two or three years ago, which he has since updated. At the time it was initiated, the intention was to publish it but, to the best of my knowledge, it has not been published. It should be available for assessment when the market improves — I do not suggest that we sell now when the market is down.

2010. I have a couple of other points. You asked about the impact of annually managed expenditure cuts. I am not much encouraged by the idea that we should break parity on social security spending. I have heard that argued in recent days, and I want to record my preference for holding parity. If, nationally, welfare spending is changing in uncomfortable ways, it may be the greater good to say that we have to live with it.

2011. In paragraph 6 of my briefing paper I introduce my only suggestion for improving capital spending. First, there may be capital spending from carrying funds from current to capital, but we would be lucky if that were more than a one-off £100 million or £150 million. I found the Scottish example interesting. The Scots have developed a little formula stating that they do not wish to expand public-private partnerships in an unlimited way, as it puts commitments on the next generation. They say that, in the four-year period, there is a need to build up and protect capital spending. Therefore, for that period, they are prepared to go for capital projects that might add 1% to the annual cost from government revenue expenditure. They have converted that 1% into what it might mean in potential capital spending, and, for Scotland, it could mean £500 million per year for the four years. On a pro rata formula, that must mean about £200 million per year if we decided on the same formula.

2012. That is not open sesame; it is a controlled, four-year, targeted, unusual step. I will go further and look at the Scottish ways of containing the impact. They now want to see the use of the phrase "non-profit-distributing organisations". They are trying to protect against the argument that PPP can mean a very handsome, unexpectedly large profit to the organisations that do it. They have tried to invent methods of putting a ceiling on that, and that is their formula. It is worth reading in detail.

2013. That takes me to an institutional point. Northern Ireland used to have a Strategic Investment Board (SIB). You may recall the fanfare when it was set up, but you may have some difficulty in recalling its most recent actions. It still exists.

2014. Nevertheless, now might be the occasion to look at the way in which the Scots have invented the Scottish Futures Trust, which I consider to be the SIB's equivalent. It has a nice, enticing title, but when you boil it down, it is their method of having a strategic investment board, making it real and giving it real challenges. That is interesting for Northern Ireland in its longer-term implications and in its being a vehicle to allow for some increase in capital spending.

2015. The Deputy Chairperson: Thank you very much, John. Just before we go into questions, I welcome Adrian. There was an apology on your behalf, Adrian, so I am just pointing out that you are here.

2016. Mr McQuillan: Thank you very much.

2017. The Deputy Chairperson: I welcome Dawn as well.

2018. We have taken a couple of questions to Victor. If members are happy to do so, we will take a couple of questions to John, and we will then open it up wider.

2019. John, you mentioned that the Ed Vernon report is very timely. We are hoping to address that and return to it in a couple of weeks' time, and we will let you know how we get on.

2020. You also mentioned CBI and other business representative bodies and spoke about their inputs and what they are doing. Most of us would concur that there has been a somewhat refreshing contribution from the unions. Certainly, the whole debate has opened wide. Do you have an insight as to whether Departments, particularly the Department of Finance and Personnel (DFP), are embracing outside opinion, including the respected opinions of both gentlemen here, and those of people like yourselves? Although those opinions are getting attention, it seems to be media attention. It would seem to be a bit wasteful if there are good ideas and nobody is taking them up.

2021. Mr Simpson: Mr Chairman, I share the concern behind your question. As someone outside the official system, I am not privy to the way in which particular proposals, for example, those from the CBI, are assessed in DFP, and I do not know to what extent your individual members are privy to that. When I was a very young civil servant, not going very far, I recall that when outside documents came in, we would go through them and say that some were good and some were rubbish. By and large, and forgive the implied reference, there is a tendency in Departments, such as DFP, to say, "Actually, they do not really understand our problems, do they?"

2022. That is why we need a forum that puts strain on the senior officials in an informal, intelligent way, to say which of the proposals command some interest and which they have looked at but established that Treasury rules would forbid them. Victor is in a privileged position in that sense. The degree to which officials come clean with the pros and cons of arguments is very limited, and that is a great pity.

2023. The Deputy Chairperson: That is alarming. I think that this Committee would ask how the hell do you break through the brick wall that is up, and who is listening? However, I thank you for the answer.

2024. Mr Girvan: I thank John and Victor for their presentations. You mentioned a pay freeze and how that could help us through part of this hiatus. The underlying inflation rate is controlled by the Bank of England. Or perhaps it is not being controlled; that might be one way of looking at the situation. It is probably a fact that inflation is rising, irrespective of us supposedly being in recession. Indications are that it is costing people more to fill their oil tank and a lot more for the food that they have on their table, because of transportation costs. How can you compensate for that factor if you put a freeze on public sector pay?

2025. Mr Simpson: The short answer is that if you put a freeze on, you will probably not be able to compensate. The purpose of the exercise is that real living standards will be reduced.

2026. Mr Girvan: What fiscal controls can be put in to control inflation at any stage?

2027. Mr Simpson: In recent times, the Bank of England has been more professional at assessing what has happened to inflation. At the moment, it is assessing that inflation will come back to 2% late in 2011. It may well be right. Look at the past performance. For the moment, they are off course, due, largely, to international events. I would not be too depressed about getting inflation back to between 2% and 3%, but, equally, I acknowledge that I have no answer to the question of how to maintain living standards for people who have had a ceiling put on their salaries. Nobody can answer that question.

2028. The short answer is that if the public sector lives through a period when salaries have a ceiling, it will also live through a period when pension contributions are going up. We cannot avoid that. We can compare it with the private sector. The private sector is doing this in different ways. It has had pay freezes for the past couple of years; in fact, it was first to adopt them. We do not know how many, where or who, but we know that it has been happening. There is a rough justice about it. One piece of comparative evidence that we can use is the events in the Republic of Ireland; this sort of step is mild compared with what they have to do, although their crisis is bigger.

2029. Mr Girvan: I know that a number of members sit on other Committees. What has been demonstrated is what you alluded to earlier, that Departments are coming back with their own figures, irrespective of any external expertise. I have a difficulty with that, because I always have had a theory that, if you interrogate statistics enough, they will confess whatever you want them to. To be truthful, that is exactly what is happening, because we are being told that there was £50 million of savings on management from one Department. However, when the Committee interrogated the figures, it looked like quite a bit less. It did not look as much as £10 million; it was quite a bit less. How on earth is so much wriggle room being given to the Departments to make those adjustments in their own figures? I feel that we are not getting down to the detail where we are seeing the full picture.

2030. Mr Simpson: If I may make an assumption: the illustration that is being used happens to be a very large-spending Department, concerned with our health. I will not name it, though. [Laughter.] The difficulty is that it took out elements of management, but, within a very short time, and for what it saw as good reason, other things came in. That is the sort of thing that can happen; you have to be sympathetic when they have unforeseen problems.

2031. The other area in which that is waiting to be done is education, where we have a scheme to reduce management costs. The introduction of the education and skills authority would reduce management costs, but we are stuck. From my perspective, my view is: for goodness' sake, make it work. There is a little political difficulty, but make it work.

2032. Mr Hewitt: Being slightly cynical, a little bit of inflation when a country is hugely in debt is no bad thing because the debt can be inflated away. The UK economy has had an enormous shock. Probably the best analogy is to go back to the oil crisis of the 1970s, when the oil price quadrupled in a short space of time. We fooled ourselves into thinking that it was a passing difficulty and that we should simply spend our way out of it. However, people's living standards had to drop; there was no way around that. There is no way around living standards dropping to try to cope with this debt. It is a big shock to the system and to people when they suddenly realise that they will be poor. There is no way out of being poor; it is just a question of who will be poor and how the pain will be spread.

2033. As regards interrogating numbers and so on, you have a pretty hopeless task. The complications of the system are such that virtually no one outside the system will ever be able to penetrate it to the required degree.

2034. The Deputy Chairperson: Is there no code or anything?

2035. Mr Hewitt: It is like entering into the priesthood. Outsiders cannot —

2036. The Deputy Chairperson: We had better not go there, but I understand what you mean.

2037. Mr O'Loan: I will direct one question to John and then I have two general ones. John, regarding your endorsement, or, certainly, interest, in the Scottish capital scheme, do you envisage that a similar system here could create a £200 million pot, for which Departments could then bid? I have heard at least one Minister saying that they will not touch PPP schemes. If that is a ministerial decision, that is fair enough. It seems to me that any other Department could go for it. Is that how you see it operating?

2038. Mr Simpson: That would be one of the things that a reshaped investment strategy could do. Ministers could say that they want bids for how to use the sum of money in the priorities. The people who devise that could bring something well up the list. If a Department says that it does not want something to be put on that list, the public would be entitled to know that a project was rejected on grounds of financial principle.

2039. Mr O'Loan: I am interested in your point about achieving efficiency through a McCarthy exercise. You said that it should be above all, not from within. Getting culture change is very significant here. I do not believe that it is possible for that to be achieved by somebody from outside cracking a big whip. Therefore, some exercise that, in a very deep way, involves activity from within to create change from within has to be part of the action. I offer that as my own corrective to what you said; it at least has to be thought about.

2040. Mr Simpson: That would be the skill of the person who was told to bring forward proposals but, insofar as they can, bring them forward with some empathy from within. An outsider in a senior position is needed to look at an organisation and say what should be stripped out or what they should stop doing. There will be a private stage in which the outsider will propose x or y and that can be argued about.

2041. Mr O'Loan: There is quite a high level of natural wastage in staffing, and, on its own, a freeze in recruitment would create gaps in the wrong places. However, managers may then have the opportunity to redeploy staff and so on. Does that mechanism have the power to force that kind of efficiency change, or is that too optimistic?

2042. Mr Simpson: I would treat the suggestion as something that has to happen, but it is optimistic to think that it is a very sensible restructuring mechanism. You put your finger on the real weakness, which is that vacancies tend to build up in areas in which there are skills shortages. An organisation does not adapt readily to casual vacancies in one place when there are skills shortages in another. For example, when vacancies have not been filled in the Health Service previously, it has tended to leave a lack of nurses but plenty of clerks. Clearly, that is a silly answer. That method may be part of the package, but it should not be relied on to be a useful restructuring mechanism.

2043. Mr O'Loan: We are about to write a Budget before we have seen or considered the paper on rebalancing the economy. If we start coming up with ideas about how we might rebalance the economy after the Budget is in place, how would those be married retrospectively? More broadly, how will we use the four-year Budget as part of achieving some longer-term vision when we have not written the long-term vision? I see that as a big problem.

2044. Mr Simpson: As an Executive and a community, we want to live within our public sector resources, and we want, as far as possible, to rebalance the economy. I caution about the scale of what rebalancing would mean. I know that you have all heard statements that it will take some time. If the private sector were to grow by 2% a year over the four-year period or a bit a longer, we would bring the proportion of employment in Northern Ireland that is in the private sector roughly into line with the average outside London and the south-east. The private sector is not small; 70% of our employment is in the private sector. It is dependent on the public sector for a lot of its business, but, if the Northern Ireland economy were to begin to grow by a couple of per cent a year and the public sector was not growing, it would be almost inevitable that the balance between the private sector and the public sector would change.

2045. You have not opened the door more widely and I do not particularly want to do that in this forum. If rebalancing the economy were to become centrally about changing the behaviour of businesses because of the way that the tax system works — I will not use the word beginning with "c" that describes the name of the tax — and that system were to work as effectively as some of my friends hope that it would, your question would not be so difficult to deal with, because that would be happening in parallel rather than in competition with what is happening here.

2046. Mr Hewitt: It would be foolish to stop everything entirely until a paper on rebalancing the economy comes from the Treasury. Whatever comes is likely to be a consultation paper, so it will pose questions rather than give answers. You may have noticed that the proposed White Paper on promoting growth in the rest of the UK has had to be put on hold because no one could think of any ideas to put into it, so I would not hold my breath in the hope that the Treasury will solve your problems.

2047. John is quite right that this CSR may take 6% of our gross value added (GVA) out of commission. Where will that be replaced from? The construction industry is on its back, and retail is not too far behind. The only sectors that have any growth in them are manufacturing and exports, which are very small. They have been aided by an almost deliberate devaluation of sterling, but, given the structure, it is an impossible task for that sector alone to make up 6% of GVA. In all probability, the economy will be flat for the next four years, and we will be lucky to have any growth in it at all. However, the labour market is not flat. People are joining it all the time. Therefore, there will inevitably be enormous pressure from unemployment and inactivity over the next four years. Those are the simple macro realities that we face.

2048. Dr Farry: I wish to pick up the point that was made about DFP and the impenetrability of its methodology and, indeed, David's question on the analysis of the CBI paper, if I caught that correctly. Has DFP consulted either of you gentlemen formally? Or, is this your first formal opportunity, besides in the media, to give your opinions on what should be happening?

2049. Mr Simpson: My colleague has a much more elevated status than I do. I am just the amateur about town who makes amateur comments. I am not professionally involved, but you have to give regard to Victor's official status.

2050. Mr Hewitt: Do not put any stock in my official status. I have no communication with DFP on an official level.

2051. The Deputy Chairperson: So, this is not 'I'm a Celebrity ... Get Me Out of Here!'; this is the Finance Committee.

2052. Dr Farry: Some of the economists at last week's meeting stressed the lack of a think-tank facility. In other jurisdictions, a healthy exchange between politicians, senior civil servants, academia and other interested private sector parties is the norm. We do not really have that. There is very much a silo mentality towards the Budget here, which does not give a terrible amount of comfort. This question may sound very academic, but it is not meant to. In the public service, are efficiency and subsidy mutually exclusive concepts from a purely economic point of view? Is the notion of subsidy inherently political and something that we do for reasons other than good economics?

2053. Mr Hewitt: No. There is a theoretical justification for subsidies, which is based on the nature of the activity. Take healthcare, for example. People's thinking tends to have short-term horizons, and they tend to invest less in their health than they should. There is, therefore, a good justification for the public purse stepping in to subsidise healthcare provision.

2054. Dr Farry: That is essentially a market failure argument.

2055. Mr Hewitt: It is a market failure argument. However, it is only one of a number of arguments for subsidies. Some of the reasons for subsidies are political or social, but there is also an economic efficiency argument for subsidies in certain circumstances.

2056. Dr Farry: Both of you have referred to many decisions over the past number of years that have been taken for various reasons. You are giving us a clear message that, looking to the future, those are not really sustainable.

2057. Mr Simpson: They are sustainable if that is the political will. What we have both been saying is that, if the economy is the real priority, some of the socially motivated decisions have to be questioned.

2058. Dr Farry: Is the notion of protecting the economy the right terminology to use? Is that almost a defensive way of saying that we have to protect what we have done in the past? Should the emphasis be on handling the economy differently, particularly bearing in mind other things on the horizon that will come into play over the next couple of years, such as changes to EU state aid rules, which may have to be thrown into the pot when we think about reallocating resources?

2059. Mr Hewitt: To be perfectly frank, my personal view is that our economic development model is coming to the end of its useful life. To caricature it somewhat, it is about selling Northern Ireland as a low-cost place in which to do business. Businesses will get pretty good labour for a relatively low cost. We give grants for capital and training, and property prices here are also reasonably low. That is the basis on which Northern Ireland is being sold to the market. That model will take us to a certain place in the market, because we will be able to attract companies that are interested in Northern Ireland as a cost centre. Companies and, indeed, Invest NI are quite frank about that.

2060. That is why those of us who are keen on things such as corporation tax really want to shift the argument to promoting Northern Ireland as a profit centre. At the moment, the existing model is being squeezed and the EU are coming down on state aid, so the ability to plough money in to reduce your costs even further is becoming more and more limited. Frankly, Invest NI has very few arrows left in the quiver once the grant regime starts to deteriorate.

2061. Ms Simpson: I agree with Victor, but to add to that slightly, we have been selling ourselves as a low-cost economy. We sometimes dress it up by saying that we are a skilled low-cost economy, but I think that that argument is misleading. To come back to the priority; if Invest NI is no longer going to play financial arrows across the target range, we now have to rely even more on playing the skills argument. That creates the public dichotomy over whether we have an adequate supply of skills or whether we are failing to create the range of skills that we will need in five or 10 years' time, which means that we do not have them in the shop window to sell. When comparing the North and the South, the argument is that the Irish have done more with their institutes of technology than we have done, and it is standing them in good stead. There is not direct proof for that at the moment, but I would like to see that developed further.

2062. The Deputy Chairperson: A trend seems to be developing in the Committee of looking at the utilisation of outside expertise in our work and anything that we might recommend. Do members agree that we will return to discuss that point at a future meeting?

Members indicated assent.

2063. Mr Frew: You are very welcome, gentlemen. Thank you for your presentations. I am relying on John's paper here, but I will take input from you both. John, you spoke about the need for training and skills programmes, yet Invest NI says that middle management is the area that is lacking. We are sending 50% of our young people to university. A lot of them go away, never to return. Do you think that we are sending too many people to university? Are we missing the point, in that we are not worrying about the skills base?

2064. People have said that corporation tax is not a panacea or a silver bullet and it might not be as good as we think, but do you agree that it is the biggest single tool that we have to help our economy? I have another question, but I will let you answer those two first.

2065. Mr Hewitt: To give you an example of what is happening on the training front at the moment, as of 20 October 2010, a large chunk of the financing of our higher and further education system suddenly disappeared. That part of the education system is now effectively much like water and sewerage, in that it has become an unfunded lump. That is because the teaching grant to universities and further education colleges in England went down by about £4 billion. That is entirely comparable spending through the Barnett formula, so we take a consequential hit of well over £100 million. That does not meant that you cannot continue to fund them, but you are not going to be getting anything to fund them with. That is the sort of pressure that you are facing.

2066. Having been heavily involved with corporation tax for what seems like forever — it can be added to the word "Europe" on my tombstone — we see corporation tax as, in a sense, a game changer, but it comes with a price tag.

2067. You will need to look carefully at whether the price that you would ultimately have to pay, not only in lost taxes but in administration, outweighs the likely long-term benefits. That said, I see no other instruments on the horizon that are not merely variations on what we have done for many years. That is why corporation tax remains a central plank in the argument for giving us the tools to get on with the job.

2068. Mr Simpson: At time goes by, Victor's views and mine on corporation tax have come a little bit closer. We started two or three years ago on opposite sides of the debate, but I have come far enough to say that I agree with Victor that the corporation tax change, should it happen and if we are prepared to pay the cost, is a game changer. However, it will change the game only if we do the other things that we should do to strengthen the economy. Those who think that once we make the corporation tax change we can sit back and wait for external investment to flow in will be disappointed.

2069. Your question referred to how many people and what we are lacking. The number of young people in Northern Ireland going to university is at the high end. However, I would not want to discourage that so long as they go to university because they have the ability and they pursue courses that develop their abilities in their career choice.

2070. Unfortunately, there is still too high a drop-out rate in the first year of university. That worries me for the people concerned because of what dropping out may do to them, but cost is also a worry. However, I would not want to alter what is happening at university level in order to push people back into a different form of further education. There is room to develop further education and take up the middle management-type qualifications that organisations need. That fits exactly with what I hope people in further education hope to achieve.

2071. I am in discussions to understand better what is happening in further education. However, we do not have a curriculum development plan for further education, although we do have allocations of funding for next year. We are moving a year at a time. We do not have a long-term view, but we should be looking at how to formulate one.

2072. Mr Frew: We are talking about freezes in public-sector pay, but does efficiency mean job losses?

2073. Mr Simpson: Oh, yes.

2074. Mr Frew: Could pay freezes be enough to reduce absenteeism and increase work rate? Would that be enough to create efficiencies, or does it mean some job losses? Would a recruitment freeze create problems in future for bringing in young people?

2075. Mr Simpson: A recruitment freeze in one year is always a disadvantage for those who are reaching the point in their careers when that would have been the year they would have been looking for those jobs. There is a distorting effect: if you do not recruit trainee nurses for two years, what are you doing to those who would otherwise have wanted those jobs?

2076. We have to be more open about freezing public-sector pay. A salary freeze is one thing; however, I would be very surprised if a system that operated more efficiently did not do so with fewer people. Our economy will need skilled people, but it does not need two of them doing the work of one. We should not freeze the labour market by trying to protect jobs when we should be shuffling people around a bit.

2077. Mr Hewitt: History seems to show that genuine efficiency comes from the substitution of technology and capital for people. Few of you will have been in a bank recently: you interface with a bank either through the Internet or through an ATM.

2078. The Deputy Chairperson: Victor, what is the point in going into a bank when you cannot get anything out of it?

2079. Mr Hewitt: Banks certainly do not want you there, because they would have to employ someone to deal with customers face to face. They have substituted technology for labour. In many ways, public services are a service industry, and, over time, we will see the substitution of technology and capital for people. That is how manufacturing went; that is why you get such huge increases in productivity in manufacturing. You get rid of people and replace them with machines.

2080. That process will be slower in the public sector, and there are some areas in which certain combinations of people are needed to provide a service. The famous example is that of a string quartet. One hour's music from a string quartet requires four man-hours or woman-hours of input, but if you break it down to three you no longer have a string quartet. There are areas in the public service where the people are the service, but, more and more, technology will replace people.

2081. Ms Purvis: I will change the focus of the discussion slightly to look at the people who suffer from health and educational inequalities and who will be affected because those inequalities place greater demand on the public purse. My focus is on preventative spending. John talked about training, skills and further education, and Victor talked about strategic public expenditure planning. I am concerned about a number of issues, including our long tail of educational underachievement, our 250,000 functionally illiterate adults, and how we focus our Budget on innovation and preventative spending for future planning purposes. Victor, you talked about mobilising a multi-agency approach to look at those issues. For example, there is a great deal of research about early-years intervention for children and young people, which, in the long run, is investing to save. What emphasis should the Executive place on preventative spending in this CSR?

2082. Mr Hewitt: You are right to mention the research on early years. All the research from the United States, the UK and around the world shows that the return on focusing on very early years is enormous if done right. Our problem is that programmes are running, so it becomes difficult to create new pools of money, especially when resources are going down. Money has to be extracted from other programmes. I suggested a couple of ways of doing that that have been tried in the past. Some of you may remember the Executive programme funds, one of which was a children's fund that took an inordinate length of time to put together. Nonetheless, it was a good idea because it involved looking holistically across the board. In ERINI, we did a great deal of work on how much was spent on children in Northern Ireland and, later, on older people.

2083. The other way is through an interdepartmental, interagency task force, an example of which was the Making Belfast Work scheme. That was interesting, because Departments and agencies came together and produced their work programme, but the scheme did not manage the money; it was managed centrally. The pool of money was held centrally and managed for the scheme in a sense, but it did the operational side of things.

2084. Ms Purvis: Was that top-sliced from Departments and put into a central fund?

2085. Mr Hewitt: As I recall, it probably was. It was quite amusing: when the Executive programme funds were funded by top-slicing, we were told that some projects would have to stop. However, when it came to bidding for the money back through funds, virtually none of those projects that were such high priority was part of the bids for the funds. There is a bleeding-stump mentality on these things, but you are quite right: if we can find ways of working together and preventing problems further down the road, that can only be a good thing.

2086. Mr Simpson: I will just add to Victor's point, Chairperson, and draw on my experiences in west Belfast and the greater Shankill. The Northern Ireland education budget, for each pupil across the Province, is probably quite acceptable compared with what happens elsewhere. However, the way in which it is used to meet priority needs of the kinds that you mentioned is not very satisfactory.

2087. My experience across the other side of the city probably bears out your experience elsewhere in that we do not treat people with special educational needs in early years with any sense of priority at all. The attitude is to have per capita funding of pupils wherever they are without regard to social need. I think that you and I are searching for the same answer: let us identify priorities. However, there is an acknowledgement in the political process that we do not use our total education budget very efficiently. That is not a matter for this Committee, but it is for somewhere. The education allocation leaves much to be desired.

2088. The Deputy Chairperson: Thank you. I gave a false alarm there. I knew that as soon as I said "final question" the last person in would ask the last question. Daithí, you are welcome. This is the final question.

2089. Mr McKay: Thank you, Chairperson. I am keen to hear your views on the social economy and on addressing social need as an economic stimulant. Average household incomes here are lower than those across the water while average household spending is among the highest, yet we have significantly higher levels of fuel and child poverty. The green new deal, which we debated recently, shows how addressing social need can act as an economic stimulant through construction work. Do you have any proposals for using the social economy to revitalise the economy?

2090. Mr Simpson: That is too difficult.

2091. Mr Hewitt: That is a very difficult question. Economists and public expenditure practitioners would consider the nature of the expenditure. They would ask whether it was an investment that would produce a later return or whether it was just consumption, in that it is meeting a need for today only with no real carry-through. A large part of social expenditure is more consumption than investment. It is only really at the margins that social expenditure translates into tangible returns.

2092. Spending on early years will produce long-term return, but the demand is immediate. The major problem is managing the tension between the two. For example, if there is a flood in Belfast, we throw money at it and give to people who should have had insurance. That puts a plaster on the problem when what we should do is improve our sewerage system so that we do not have to do that in the future. That is a bit of a caricature, although not too much of a caricature of what has actually happened.

2093. Mr Simpson: Daithí's question poses the tension. When you are faced with what you consider a social need, think that it a priority, and put funds into dealing with it, those funds are not available to do something else. The question is: what is the right balance?

2094. Fuel poverty is an interesting issue, and I will not open it up any wider other than to say that the right answer for fuel poverty is not necessarily to subsidise the cost of fuel; it is to improve the energy efficiency of where people live. That would give you a better long-term answer.

2095. Ms Purvis: And income levels.

2096. Mr Simpson: That is broadening the issue.

2097. Mr McKay: Your paper, John, talks about outsourcing public services. I was interested to see that prison and prisoner management is one of the headline sectors. What are the benefits of that for that sector, given the context that we are in?

2098. Mr Simpson: I am just being pragmatic in numbers terms. The only evidence is that the cost per prisoner for retaining people in Her Majesty's custody in Northern Ireland is so much higher than it is for prisons that are privately managed on the other island. We have a problem, and perhaps the organisation could be changed to help to reduce the cost.

2099. Mr McKay: Are prisons in Britain mainly separately managed?

2100. Mr Simpson: Sorry? I do not know how they manage to get the cost per person so high, but it is damned high.

2101. Mr Hewitt: Normally, you would expect to have more prisoners than prison officers, but that is possibly turned on its head in Northern Ireland.

2102. The Deputy Chairperson: It would appear from yesterday's news that it is easier to get out of jail than to get into it, so I do not know what we are worrying about.

2103. Gentlemen, thank you very much. We certainly enjoyed your presentation; it was very helpful. You are an excellent double act, yet you have managed to preserve your individualism, which is important. If you have other views on the questions that you heard, you are very welcome to write to us. Thank you once again, I look forward to seeing you in the future.

15 December 2010

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Dr Norman Caven Mr David Orr	Department of Finance and Personnel

2104. The Chairperson (Ms J McCann): I welcome Mr David Orr, the corporate services director in the corporate services group, and Dr Norman Caven, the chief executive and registrar general of the Northern Ireland Statistics and Research Agency (NISRA). Please make some brief comments, and then I will open it up to questions. We are really pushed for time today, as we have to finish by 11.00 am.

2105. Mr David Orr (Department of Finance and Personnel): Chairperson, we have no opening remarks. I think that you have our paper, and we are happy to answer questions as best we can.

2106. Ms Purvis: The fact that 15 of your targets have been met and that no further reporting is necessary is something of which to be proud. When do you expect the Programme for Government (PFG) end-year delivery programme for 2009-2010 and the delivery report for September of this year to be available?

2107. Mr Orr: The Programme for Government delivery report is managed by OFMDFM, which has put a paper to the Executive, as I understand it, in relation to 2009-2010. It will then be reporting throughout the 2010-11 year. We have reported on the Department of Finance and Personnel's actions in the Programme for Government. That is all before you in our papers.

2108. Ms Purvis: What about the September report? Is it similar?

2109. Mr Orr: As we understand it, DFP performance against our PSA targets is in line with the OFMDFM assessment.

2110. Ms Purvis: None of the business plan targets in your paper shows red, but some show amber/green and amber. How are targets in individual business areas monitored?

2111. Mr Orr: Targets are monitored by the departmental board on a quarterly basis, so we look at each quarter's report. We look at the progress update and assess it against the target. That is what has been reported to the Committee.

2112. Ms Purvis: Is there an opportunity before or during those quarterly meetings to identify what mechanisms are in place to identify any slippage?

2113. Mr Orr: Yes. Any slippage would be reported.

2114. Ms Purvis: Does that happen on a quarterly basis? What is the mechanism for it?

2115. Mr Orr: The mechanism is a quarterly report, similar to that which the Committee has received. That report is looked at by the board on a quarterly basis. The change would not be significant month on month; therefore we monitor it quarterly not monthly.

2116. Ms Purvis: What remedial action has been taken on the eight internal targets that remain amber/green or amber?

2117. Mr Orr: I would have to go through those individually, which I am happy to do.

2118. Ms Purvis: It does not say which colour NISRA target R4.5 is. Given the funding issues around that target, would it be classed as amber?

2119. Dr Norman Caven (Department of Finance and Personnel): Is that the census target?

2120. Ms Purvis: Yes.

2121. Dr Norman Caven: That target has gone to green. In the run-up to the December monitoring round we had a requirement for additional moneys, which was the reason that the target was amber. Those moneys have been found from departmental resources, so that target is now at green.

2122. Ms Purvis: Therefore there is no concern at all about that target.

2123. Dr Caven: No.

2124. Ms Purvis: In your submission you mention that contingency plans are being developed. Given that the target is now green, are those plans still being developed?

2125. Dr Caven: Contingency plans are in place for the census and for the logistics attached to it; a risk register will be in place.

2126. Ms Purvis: What are the contingency plans now that you have your funding?

2127. Dr Caven: We have our funding. We are in the final preparations, and we are quite prepared to say something about those afterwards. We are recruiting staff in the run-up to the census, and we are at the final stages of recruiting the third tier of field staff, who will be the enumerators. Had we not been able to recruit enough enumerators in the initial tranche, we had left ourselves enough time to go out again. We had further contingency measures in place after that.

2128. Mr O'Loan: My question is about PSA 21.3.2, the 3% efficiency savings for Departments and the use of PEDU. Will the report on the 3% efficiency savings across the Civil Service for 2009-2010 be available shortly? When will the report for April to September 2010 be available? Can you tell us something about the progress of the efficiency reviews in the Health and Education Departments? Have any other Departments sought the involvement of PEDU? What role do you anticipate for PEDU in the forthcoming four-year budgetary period?

2129. To amplify that, I am very much in favour of the concept of efficiency and an exercise that would deliver it. However, just yesterday, a report said that NI Water could be 40% more efficient. This starts to get into serious talk about public-sector reform. PEDU does not strike me as having the capacity to deliver that kind of serious reform. Perhaps you can address my more technical points and that more general point.

2130. Mr Orr: To start with the reports, may I ask whether it is the Programme for Government delivery report to which you are referring?

2131. Mr O'Loan: That is correct.

2132. Mr Orr: As I said to Dawn, that is managed by OFMDFM. They have a paper with the Executive, and as soon as the Executive have considered that paper, it would be for OFMDFM to publish the delivery report.

2133. Turning to PEDU, you asked about the progress of the studies in the Department of Health and the Department of Education. Those studies were agreed as part of the June monitoring round. The terms of reference were put to the respective Ministers. The Department of Education terms of reference were accepted, and the PEDU study commenced about a month ago. As I understand it, the DHSSPS terms of reference have not yet been agreed.

2134. Mr O'Loan: That strikes me as very slow progress. Those Departments were spared the cuts that other Departments suffered on the grounds that there would be an efficiency exercise. Will anything emerge in the next financial year? Will there be any outcomes from that?

2135. Mr Orr: As I said, the Department of Education study commenced about a month ago. The DHSSPS terms of reference have not yet been agreed. That is a question that you would have to put to the DHSSPS Minister.

2136. Mr O'Loan: It sounds as if there may be a problem there. What is the thinking about achieving efficiencies over the next four years?

2137. Mr Orr: The thinking is that PEDU will continue, and we will be seeking funding for it. Therefore that will continue, and a programme would have to be developed for the next four years.

2138. Mr O'Loan: Therefore you need funding for an enterprise of the same scale, type and definition.

2139. Mr Orr: My job is to provide the funding, but this is Richard Pengelly's area. However, whatever funding is required for PEDU, we will submit a bid and seek to provide it. Nevertheless, I cannot guarantee it because of the Budget.

2140. Mr O'Loan: OK, I know where we are. We will have a Budget statement later to-day.

2141. Mr McQuillan: I want to ask about the NISRA targets and the customer satisfaction survey. Is 75% the usual response rate?

2142. Dr Caven: The target is to get 96% of our customers satisfied with the services that NISRA provides. The reason for the amber/green this year is that we have set ourselves another hurdle by trying to get 75% of our customers very satisfied. The survey will take place early in the new year, and we will have the results in our annual report and accounts just after the end of the financial year.

2143. Mr McQuillan: What measures have you implemented to address issues raised in the customer satisfaction survey?

2144. Dr Caven: We have been very fortunate over the past number of years in that we have been hitting the high nineties with 98%. If anyone identifies the reason why they are dissatisfied, that would be addressed. Over and above that, I do not have any letters on my desk from Departments or public bodies indicating that they are dissatisfied with the service. However, we are always looking to improve.

2145. Mr McQuillan: Why is the sub-target of 75% of customers being very satisfied described as unpredictable?

2146. Dr Caven: Because we have not done it before; this will be the first time that we have set ourselves that hurdle.

2147. Mr McQuillan: How confident are you about meeting that target? Have you any reservations?

2148. Dr Caven: I do not have reservations, but we will have to see what comes out.

2149. Ms Purvis: What was the previous figure for "very satisfied"?

2150. Dr Caven: We do not have it; this is the first time that we have that new category.

2151. The Chairperson: Those are all members' questions, Norman and David. Thank you very much.

12 January 2011

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Michael Brennan
Ms Joanne McBurney Department of Finance and Personnel
Mr Jeff McGuinness

2152. The Chairperson (Ms J McCann): Today, departmental officials will focus on the strategic and cross-cutting issues covered in the draft Budget 2011-15 document, which has been issued separately to members. I also refer members to correspondence from the Irish Congress of Trade Unions.

2153. I welcome Mr Michael Brennan, head of the central expenditure division, and Ms Joanne McBurney and Mr Jeff McGuinness, also from the central expenditure division, all of whom are in the corporate services group. Michael, since you have been here before, I will ask you to make a brief opening statement, and I will then open the session to members' questions.

2154. Mr Michael Brennan (Department of Finance and Personnel): Thank you, Chairperson. I shall begin by highlighting the main issues in the draft Budget document. The starting point for the Executive was the conclusion of the UK spending review, which reduced the current departmental expenditure limit allocation to Northern Ireland by 8% in real terms over the four-year period and the capital expenditure allocation by just over 40% in real terms. The Executive then had to look, initially through the Budget review group, at ways of raising additional revenue for allocation through the budgetary process. Some of the steps that they took, which are reflected in the draft Budget position, relate to rates, for example. Domestic and non-domestic rates will increase in line with inflation over the four-year period, generating £12 million in the first year and, subsequently, £27 million, £44 million and £63 million across the four-year period. That is a total of £146 million that will come through the inflation increase in domestic and non-domestic rates. Some other additional new revenue sources that the Executive have factored into the draft Budget position relate, for example, to Belfast port. The Minister for Regional Development will bring a paper to the Executive on suggested changes and recommendations for ports legislation, which he anticipates will free up £125 million over the four-year period.

2155. In advance of that, the Executive decided to factor some initial resources into the draft Budget position. For instance, in year one, there is a £5 million allocation for the refurbishment of the Paint Hall in the harbour commissioners' estate, and, in years three and four, a dividend of £15 million a year will come into DRD from Belfast port.

2156. Work is to be progressed by the central asset management unit in OFMDFM on maximising capital receipts. However, the Executive thought that £542 million was a robust amount to factor into the Budget position at this time. Four hundred and forty-two million of that was already built into the Budget positions by Departments. They were receipts that Departments had keyed into DFP receipts, which they were already planning on getting. There was an additional £100 million of receipts that the Executive concluded could be delivered by the central asset management unit over the four years.

2157. The decision to carry across £23 million of capital expenditure from the 2010-11 financial year into 2011-12 also assisted the Executive. That £23 million will be available to the Executive for the Budget period.

2158. The introduction by the Environment Minister of a levy on plastic bags is another revenue-raising measure that has been built into the Budget position; it is assumed that it will raise £4 million in each of the four years of the Budget period. A contribution of £20 million per annum, for the next four years, by housing associations towards new housing construction is another measure that has been built into the Budget position.

2159. The Budget review group considered a wide range of other revenue-raising issues, which come to some £800 million over the four-year period. However, the Executive took the view that there was still work to do to firm up those proposals. They have asked the ministerial Budget review group to look at those proposals and to firm them up with a view to factoring them into a final Budget position to see how robust they are. If they are genuinely deliverable, they should be factored into the Budget position.

2160. The Executive decision reflected in the draft Budget position was that staff would receive their contractual entitlements in scale progression and that all staff earning less than £21,000 would receive a payment of £250. That is similar to the announcement that the UK coalition Government made for Civil Service workers in the UK. There will be a moratorium on Civil Service recruitment for 2011-12, and there will be a review at the end of that to decide whether the moratorium will continue. Ministers have also agreed to take voluntary reductions in salary.

2161. The employment of external consultants was of great concern to many Ministers. The analysis of the figure work showed that although expenditure on external consultants has more than halved over the past four years, there is still a desire to exert further pressure downwards towards eliminating those cost pressures. The Executive therefore agreed that a target of a 10% per annum reduction on the employment of external consultants would be introduced. Furthermore, if a Department wanted to employ an external consultant and if any of the proposed projects cost more than £10,000, the Department would require ministerial endorsement to proceed.

2162. There was considerable interest in rationalising the scope and cost of arm's-length bodies, but the work in taking that forward and seeing what can be delivered has been remitted to the ministerial Budget review group to firm up the foundations.

2163. There was also considerable debate about the pressures on the capital budget over the next four years and concern about the implications for the construction sector, for example, and the wider economy. There was a significant transfer or reclassification of departmental expenditure limit resources from current expenditure into capital investment resources; over the four-year period, that totalled just over £250 million.

2164. Under Treasury's accounting rules, it is permissible to transfer resources from current to capital — that is relatively straightforward — but not from capital back to current. However, the Executive have agreed that if a Minister had significant current pressures but thought that they might have less pressure on their capital side they could approach the Executive for permission to reclassify from capital to current. That will be managed in the totality of the Northern Ireland departmental expenditure limit.

2165. Two new funds were established: a social investment fund and a social protection fund. The social investment fund, which is led by OFMDFM, will spend approximately £20 million a year in each of the four years on revitalising the marginalised and most deprived communities in Northern Ireland. Initially, the allocation for the social protection fund will be £20 million in 2011-12; later, however, funding will come through the additional receipts that are generated. The social protection fund is targeted at addressing the negative outcomes of the UK's welfare reform agenda to provide assistance and support to those who suffer most as a consequence of that.

2166. Another important issue that is worth flagging up is the recommendation to provide assistance to the administrator to resolve the Presbyterian Mutual Society problem. The Executive have allocated £25 million of departmental expenditure limit to match-fund the Treasury's contribution of £25 million. That sits at the centre to be managed as a mutual access fund to assist the most deprived. In addition, Treasury has indicated that £175 million of annually managed expenditure (AME) will be made available through our borrowing facility to go towards a long-term resolution of realising the assets and paying back savers and creditors.

2167. The Executive also took a decision to establish an invest-to-save initiative for the four years of the Budget. The rationale was that short-term immediate interventions now can generate long-term savings for the Executive over the four-year period of the Budget and beyond and that if a business case is submitted under the invest-to-save banner that shows value for money and generates long-term savings it should be supported. At present, the allocation is £75 million in each of the four years to Departments under the invest-to-save banner. DFP has now asked Departments to produce business cases to justify those allocations so that we have robust evidence to make the allocations.

2168. The Executive's priority when constructing the Budget was the need to offer a degree of ring-fenced protection for health services in Northern Ireland through the allocation to the Department of Health, Social Services and Public Safety (DHSSPS). That is reflected in the fact that the allocations for the health element of the DHSSPS budget, which is 77% of that budget, has been built in at 0·2% per annum over the four-year period. That compares with an allocation in Wales for combined current and capital real terms allocation for 2011-12 of -2·5% and a combined current and capital allocation for Scotland of -0·3%. I know that there is an issue about the Minister's response to a question after his Budget statement, in which he quoted a figure of 3·0% rather than 0·3%. That was not in the Minister's statement as such; it was a response to a question that he caveated by saying "I think" at the start. However, I am sure that the Minister is now aware of that and will want to correct it at the earliest opportunity.

2169. It is also worth pointing out that the Executive agreed that the Health Minister will have full discretion over how he allocates the resources from his budget. That is a significant concession to a Minister to move allocations across spending areas.

2170. There are other key issues. Full provision has been made to the Department of Justice for the training college at Desertcreat. Funding has been allocated for the green new deal project. The Executive regard that as very important because it provides them with an opportunity to make an initial allocation to an initiative that will generate significant employment in the short term, for example, in the local construction industry. At the same time, it levers in significant private-sector spend — some £180 million of private sector spend will come in after the Executive's contribution has been made.

2171. Another issue to flag up is that the concept of ring-fencing for the Department of Justice stays over the Budget period. That was important as it emphasises to the Treasury the importance that the Executive attach to the Department of Justice. It was also needed to ensure that we maintain our access to the end-year flexibility that was guaranteed as a result of the policing and justice settlement and the arrangements that we had with the Treasury.

2172. Dr Farry: Thank you, Michael. I appreciate that there are a probably many political issues of concern to members. The departmental spending plans are a source of great consternation. That goes back to the lack of detail on the draft Budget. I would like clarification on the obligation on Departments to publish their plans. What enforcement powers does DFP have? How can the consultation have any credibility if there is no detail to which to respond?

2173. Mr Brennan: You will appreciate that that is a matter of grave concern to our Minister. For a considerable time he has expressed concern about the lack of detail available to assist the consultation process.

2174. DFP does not have any specific power to enforce publication. However, a recommendation to publish plans was contained in the Executive paper. The night that the draft Budget was approved by the Executive, Ministers signed up to a clear recommendation to release the information that should be there to assist stakeholders and the wider public; for example, savings delivery plans, equality impact assessments and departmental allocations to spending areas. All that information should be available.

2175. Dr Farry: I appreciate that this may be a question for a different unit in DFP, but should Departments have been doing plenty of planning so that the logistics of publishing their departmental plans within seven days of the draft Budget being issued should, in theory, be fairly minimal?

2176. Mr Brennan: Departments were asked last May to start work on their savings delivery plans. When the Executive met at Greenmount College on 6 July last year, there was a commitment that savings delivery plans would be made available. Therefore, work on that should have been progressing over the past six or seven months.

2177. Dr Farry: Therefore the notion that a Department gets figures in mid-December, stops for the Christmas holidays and starts work now is utterly far-fetched.

2178. Mr Brennan: Last May, Departments were asked to plan on the basis of a cut of 5% per annum to their budgets. If you look at the allocations now, you will see that most Departments' figures are better than 5%, so, in many ways, money is being put back into their initial savings delivery plan position.

2179. Dr Farry: I want to find out where we go from here with the timetable. I appreciate that the consultation is, in the broadest sense, compressed, which is not good practice. The Committee is concerned that virtually every recommendation on best practice and budgets is not being observed in this process, which is perhaps the most critical Budget that Northern Ireland has had for quite some time and may well have for many years to come. That is deeply disappointing.

2180. Can you give us some indication from a departmental perspective of how you see things unfolding, particularly from 9 February onwards? Is there potential to extend the 9 February deadline? What do you see the timetable being for the formal adoption of a Budget through the Executive and the Assembly?

2181. Mr Brennan: The timescale will be incredibly tight. The best-case scenario is that formal consultation will conclude on 9 February. That does not preclude organisations and individuals putting submissions in after that date; they will still be considered. However, once the consultation period ends, Ministers will have to take a view on the representations that have been made to them; they will need to decide what material issues have to be factored in. A draft Budget position has to be prepared, taken to the Executive, discussed in bilaterals with Ministers and, finally, signed by the Executive. Assuming that the Assembly goes into recess on 24 or 25 March, there will be an incredibly tight window in which to operate.

2182. Dr Farry: I will ask two questions on content. Michael, I was encouraged by your comments on the green new deal. My reading of the draft Budget is that, at this stage, the only funding for the green new deal that has been agreed formally is a very small amount based on the plastic bag levy. However, the wider proposals put forward by the Green New Deal Group are still to be agreed. There seems to be a willingness to do it, but there is still work to be done on confirmation. Will you clarify how the process will unfold and the prospects for a formal agreement on that money in the final Budget statement?

2183. Mr Brennan: A working group involving officials from key Departments is already working on that, beginning well in advance of the publication of the draft Budget and led by the Department for Social Development. The key issue is the profile of spend. For example, there is no way that the green new deal was looking for a complete upfront allocation from the whole Executive from day one; the initiative will be phased in over several years. Therefore, the group was tasked with looking at the profile of the spend required; the £4 million is just to establish the floor in order to take the initiative forward. For example, the decision on the additional revenue resources that materialise will have to be factored in. Nevertheless, officials need to work with the wider stakeholder group on the green new deal initiative to see what the spend profile looks like. For example, the £181 million contribution might be leveraged in from the private sector. What does the spend profile of that look like over time? Work started before the draft Budget was published; it is not a recent development.

2184. Dr Farry: I am sure that there is a whole host of issues concerning the credibility of figures. However, the biggest is probably the reliability of the capital realisation figures, given that much of the revenue raising is premised on that money being leveraged in. As we are aware, the property market is still very flat, and some banks and economists predict that it will be flat for a number of years. What assurance can you give us that that is a realistic figure and that our Budget will not be quickly knocked off course during the four-year period?

2185. Mr Brennan: In the days after the announcement of the draft Budget, many commentators talked about the Executive identifying additional spend of £1·6 billion. That was rather misleading. The draft Budget position only factored in £842 million in additional spend over and above the Treasury spending review allocation. The outstanding balance of £800 million equates to the additional revenue resources that Ministers and the Budget review group were looking at. That has not been factored into the draft Budget position. Of the £842 million that has been factored in, £442 million comprises receipts that Departments have already assured us they can deliver, and that has been factored into departmental baselines; it is work that is guaranteed and done and dusted. The other £100 million of receipts was built in after Ministers' discussions with the central asset management unit in OFMDFM. It is profiled at 5, 10, 15, 25 and 50, and it is tiered towards years 3 and 4, when the bulk of those receipts are due to come through, allowing, for example, for any upturn in the property market. It is not as though we are expecting the £100 million receipt to hit us on 1 April 2011.

2186. Ms Purvis: Will the £100 million come through the central asset management unit?

2187. Mr Brennan: The central asset management unit in OFMDFM has identified specific projects that it thinks it can bring to the market to realise a receipt.

2188. Ms Purvis: Why is there no detail of that in the draft Budget?

2189. Mr Brennan: That is for OFMDFM to provide. Some of it is commercially confidential, because it relates to projects that it wants to bring to market.

2190. Ms Purvis: We are being asked to have an opinion on something that we cannot see.

2191. Mr O'Loan: Thank you for your submission. On a technical point, why did your draft Budget document not present the reduction in real terms, Department by Department? We have since received that information from the Assembly Research and Library Service; it is a key piece of information for anyone analysing the Budget. It seems obvious that that should have been in the draft Budget paper.

2192. Mr Brennan: It is custom and practice that budgets are always presented in cash terms, but we can make the GDP deflators available. However, GDP deflators change regularly. If the document was presented in real terms, it would be meaningless a month later when new GDP figures come out.

2193. Mr O'Loan: You said that the Treasury reduction was 8% on the revenue side and 40% on the capital side. That is how you prefaced your comments and set the context for the discussion. In light of that, I think that that information ought to have been included.

2194. I want to mention the extra revenue, and, again, it relates to how information was presented. When the draft Budget was issued, there was information in the draft Budget paper, in the Minister's statement to the Assembly and in the press. We can only assume that that information was on the basis of briefings that were given to journalists. The different types of information concern me, and it was noticeable that the more official the published draft document became, the less was in it. Can you give us more clarity on that? The extra revenue has been described, I think, as £842 million. Will you split that between current and capital streams? You said that there was a further £800 million of potential revenue. Will you split that between current and capital streams? Will that £800 million be made certain between the publication of the draft Budget and the final Budget and will it be in the final Budget? It would make a significant difference to departmental positions.

2195. Mr Brennan: I agree that the departmental level information provided is sparse. The published document was the Executive's agreed position with regard to the funding envelope to be made available to each Department. That is why the Executive agreed that it was vital that all Departments would publish their detailed information within seven days. Before Christmas, all that detailed information should have been made available to the public.

2196. We can give you a current and capital breakdown of the £842 million additional revenue factored into the Budget position. I can give it to you now or I can send it to you. As I said earlier, capital receipts of £442 million have been factored in; those are the receipts that the Departments say that they can deliver. There is an additional £100 million of capital receipts, which the central asset management unit in OFMDFM says is reliable and robust. There is also £146 million in additional receipts from the increase in rates that I mentioned and £23 million from the carry-over of capital departmental expenditure limit. Furthermore, there is £16 million from the plastic bags levy and £80 million from housing associations' contributions to new house starts. That gives a total of £842 million, which is built into the Budget position.

2197. At this point, I cannot give you a breakdown of the additional £800 million that has not been built in but which the Ministers on the review group are looking at, because they are still exploring the viability of those issues. Therefore we do not have a current/capital split; it is up to Ministers to decide how robust they are. The DFP view is that unless they are genuinely deliverable, they will not go into the final Budget position.

2198. The Chairperson: Hansard staff say that they are having difficulty in hearing some members, so will you please speak up?

2199. Mr O'Loan: Is it envisaged that the £800 million will, in the round, be solidified by the time the full Budget is published?

2200. Mr Brennan: The Executive tasked the ministerial Budget review group with delivering a yea or nay on whether those proposals are factored in.

2201. Mr O'Loan: I presume that that work will continue beyond the Budget and that initiatives will still be set to raise further revenue. Do you expect to have the opportunity to factor some of that in over the four-year period?

2202. Mr Brennan: I expect so. A significant number of proposals emerged from Departments; some looked very innovative and something that we should pursue. However, as Mr O'Loan said, that would take a couple of years to bottom out.

2203. Mr O'Loan: I welcome that freshness; that is a very new and extremely good position. Why was there such variation across Departments? The Health Department's budget was ring-fenced and subject to the smallest reduction of, I think, -2·6%. I do not agree with that; it should have been subject to the same level of scrutiny as other Departments. I cannot believe that there is no significant opportunity to make savings from a £4 billion budget. DRD's budget will be reduced by 20·6%, although, in light of recent events, one might question that. DCAL's budget — I am a member of the CAL Committee — is reduced by 17·7%. I have concerns about that. Because of its small budget such a cut does not yield very much money but makes a huge difference to the sectors involved.

2204. There is no information at all on the broad argument. Why does one Department get a far greater reduction than another? For example, the Department of Education's budget was reduced by 12% or 13%. What discussions went on with Departments? Are those agreed positions with Departments? What was the overall rationale behind the allocations?

2205. Mr Brennan: The starting point in the allocation process was the envelope of available funds. We then looked at the resources that are necessary to meet the protection of health, and that left a balance of resources to be allocated to Departments. Ministers took a view on what were inescapable pressures on Departments, and resources were added accordingly. There was significant ministerial engagement not just in the Executive — the Finance Minister repeatedly met Ministers on a bilateral basis. Therefore, Departments certainly have signed up, and Ministers were at the Executive meeting when the allocations were approved. There was an explicit recommendation in the Executive paper that Ministers approved the current and capital allocations for Departments.

2206. Mr O'Loan: One could debate that further, but I will leave it there. I want to ask about public sector pay. There is a small pay increase below £21,000 and, essentially, a freeze above it. There is a guarantee that increments and contractual arrangements will be honoured. How much will have to be delivered for contractual arrangements that are already in place? What is the effect of that? Furthermore, what is the justification for the figure of £21,000 beyond the fact that it emerged from Westminster? Given that inflation is now running at 4% or 5%, people who earn £21,000 a year are on small pay levels and do not have much margin. Given the pressures that they are under, what was the justification for that level?

2207. Mr Brennan: In the public sector there are normally two elements to pay settlements: an inflation uplift and what is called scale progression, which is an employee's contractual entitlement to move up a predefined scale. The Executive took the view that the scale progression element should be met, and the pay bill increase will cost some 2%. That should apply to the Civil Service as well as to the wider public sector. The £21,000 threshold was set by the Treasury. As I understand it, it is a reflection of the average earnings in the UK, excluding London, although I am not certain of the detail.

2208. Mr O'Loan: Are there not multi-year pay agreements in place in some cases?

2209. Mr Brennan: If there are and it is a contractual entitlement, they have to be honoured.

2210. Mr O'Loan: Do you note how many of those are in place and what contribution they make to the overall figures?

2211. Mr Brennan: I do not have the figures to hand.

2212. Mr O'Loan: My final point is about the Assembly Commission. This is a new Assembly, and it is very important that it be given the opportunity to do its job effectively. It seems to me entirely wrong that such a cut is being made in a budget that is critical in enabling the Assembly to do its job of scrutinising what Departments do. We can see that the professional side of the Assembly — the staffing side — is just building up its capacity to do the job that we, as Committee members, need. There were discussions with the Assembly Commission, but I have seen no indication that there was any agreement by the Assembly Commission that such a degree of cuts was acceptable or could be delivered without seriously impairing the functioning of the Assembly. Can you comment on how the Department reads that?

2213. Mr Brennan: I know that there have been significant discussions between the Finance Minister and the Assembly Commission and the Speaker on the issue. However, it is important to note that, in the last financial year, the Assembly and the Audit Office had an underspend of 5·9%. That was the starting point in looking at how resources were best used. I should also point out that there is a convention that the Assembly and the Audit Office have the safety net of monitoring rounds where, in effect, they bid for what they need and they get it; they have never had a bid rejected. The starting point was an acknowledgement of last year's significant underspend. If genuine pressures emerge, they will be addressed through the monitoring process.

2214. Mr McLaughlin: I want to pick up on that point. Is it true that the Commission more than satisfied the guidance that was given in projecting its savings?

2215. Ms Joanne McBurney (Department of Finance and Personnel): We have not received a savings delivery plan for the Assembly. In formal discussions, the Commission said that it was working towards identifying savings of about 5%, the same as Departments; however, we have not seen anything formal from it to back up those savings.

2216. Mr McLaughlin: I understand that the Commission is among the better performing units in addressing the requirement to identify savings. There is a serious and interesting issue here, given the role and the sovereignty of the Commission. What happens if it does not accept the allocation? Have you considered that?

2217. Mr Brennan: If the Assembly Commission tells the Executive that it is not —

2218. Mr McLaughlin: What if the Commission makes it clear that, because of its function and its constitutional independence of departmental oversight, it requires a budget? Are we picking a fight that we do not need? It is clear that the Commission is deeply unhappy and that there will be an issue, in the middle of all the other issues and the timetables and deadlines that we are trying to meet. Given the scale of the Budget, is that an issue that we need to get involved in at this time?

2219. Mr Brennan: If the Assembly Commission were to make representations to the Executive that it genuinely needs all the resources that it says it does and had a case to support that, I am sure that that would be an important issue that the Executive would have to factor in and could not ignore, despite the record of underspend last year.

2220. Mr McLaughlin: My understanding is that the Commission's projections took that into account and that it exceeded the targets. That seemed a credible response, although perhaps not enough for DFP.

2221. Mr Brennan: DFP does not make the allocation; the Executive do. Therefore if —

2222. Mr McLaughlin: I am sorry, but all the figure work and recommendations come from —

2223. Ms McBurney: The Assembly did not have any levels of initial baselines and indicative savings; that was an Executive decision taken later. Therefore it could easily have exceeded the initial guidance because it contained no level of savings for the Assembly.

2224. Mr McLaughlin: The Committee is considering informing itself better. However, perhaps Ministers on the Executive were blind-sided on the implications of the indicative allocation. I wonder why we get ourselves into these situations.

2225. Mr Brennan: The Executive will have to take on board whatever representations the Commission makes to them before the final Budget is endorsed.

2226. Mr McLaughlin: OK. It is interesting that the issue has arisen. It seems to me that there is an agenda.

2227. Mr Brennan: I am not aware of one.

2228. Mr McLaughlin: No, of course not. On the issue of capital realisation, there is the vexed question of what property values were five years ago, what they are now, and what they may be in five years' time. With regard to projected receipts, we are simply committed to moving forward on the basis of today's market prices to get the best deal that we can and not agonising over what used to be or what may be in future. Will that not be an inhibitor?

2229. Mr Brennan: No. The £442 million that Departments have keyed into the system are the receipts that Departments say they can realise at today's valuations.

2230. Mr McLaughlin: Looking forward over the Budget period, will that not be an inhibitor in year one?

2231. Mr Brennan: No.

2232. Mr McLaughlin: OK. I strongly endorse that, because we need to get on with it.

2233. The Chairperson: I want to pick up on a point that you raised about the 5·9% underspend. Was it not the case that DFP also had a substantial underspend last year?

2234. Mr Brennan: I am not sure about the departmental level, unless my colleagues know.

2235. Ms McBurney: Yes, it did have an underspend, although I cannot remember the actual figure.

2236. The Chairperson: Was it not greater than other Departments'?

2237. Ms McBurney: Yes; but DFP also has to meet a level of savings.

2238. Mr Hamilton: Despite concerns, I understand, as, I think, does everyone, why the consultation period was truncated, although that is not for going into detail on today. I also note that most of the dissatisfaction emanates from Departments' failure to do their bit subsequent to the publication of the draft Budget. It is worth stressing again that it is not simply because the draft Budget was published a bit later than people might have liked. Departments' subsequent behaviour has not been satisfactory either.

2239. A suggestion was put to the Committee today on the Vote on Account that may allow us to extend the period of consultation. I do not want to offer any view on that or on the desirability of extending the period at all. It seemed fairly technical, which is partly why I will not offer an opinion, because I do not entirely understand it. Can you outline the ability of the Assembly to do that in the first instance and whether it could be done legally and within the time available to us before the end of the financial year and what its effectiveness or limitations might be?

2240. Mr Brennan: Having to rely on the Vote on Account to allocate resources to Departments for the early stages of 2011-12 would become an issue only if the Executive failed to have a final Budget approved. If a Budget was not in process, the Vote on Account would be the mechanism to give Departments the authority to spend money. However, that would be only an initial allocation, and there are material drawbacks to it. For example, Departments would not have the authority to spend on capital projects, nor could they draw down any receipts that they generated.

2241. For example, MOT centre receipts, fees and suchlike could not be utilised. That is probably the worst-case scenario, because it would signal that the Executive had not agreed a final

Budget and it would impose considerable constraints on the ability of some Departments to spend money in the early stages of the new financial year.

2242. Mr Hamilton: As a device to buy a couple of weeks' additional consultation, are the negatives considerable?

2243. Mr Brennan: Yes.

2244. Ms Purvis: You say that the plastic bag levy would amount to £16 million over four years. There is no legislation in place, so does that include the first year?

2245. Mr Brennan: Yes. There is £4 million for each of the four years of the Budget, so £4 million is built into 2011-12. The Environment Minister is charged with introducing a mechanism to bring that in. I am not sure whether that will be through legislation or whether existing regulations give him the authority to do that.

2246. Ms Purvis: How can you access housing associations' reserves and those of the Harbour Commissioners?

2247. Mr Brennan: I understand that the Regional Development Minister's paper will state that, for example, the £15 million allocated in years three and four will be in the form of a dividend that he will, through new legislation, ask to be paid. The £20 million from housing associations to the Housing Executive in each of the four years will not be a matter of asking housing associations to give the Housing Executive £20 million. It will be generated by reducing housing associations' grants by £20 million in each of those four years, so the associations will have to use their reserves for new house-building starts.

2248. Ms Purvis: What consultation is there on that with housing associations?

2249. Mr Brennan: That is a matter for the Minister for Social Development.

2250. Ms Purvis: Was that factored into the Budget without consultation?

2251. Mr Brennan: I know that the Minister for Social Development has consulted housing associations on those issues.

2252. Ms Purvis: Formally?

2253. Mr Brennan: I do not know what the format of the consultation was.

2254. Ms Purvis: There is a funding allocation for the first year of the social protection fund only. Where is the rest to come from?

2255. Mr Brennan: It is to be funded in later years through any additional receipts generated by the other revenue-raising mechanisms that the ministerial Budget review group is considering.

2256. Ms Purvis: The draft Budget stated that administrative cost controls have been successful in bearing down on administrative costs, so why is that approach being scrapped?

2257. Ms McBurney: Because we feel that it has gone as far as it can. We have borne down on administrative costs, and the feedback that our Minister is getting from other Ministers is that it is taking up more ministerial and officials' time than any benefit gained merited. We will continue to record administrative costs, but Ministers will be able to move money between the two controls. We envisage that Ministers will continue to bear down on costs. There will not be free rein to up administrative costs at the expense of front line services. We still expect such costs to be borne down, but the responsibility for doing so is to be put on the Ministers concerned.

2258. Ms Purvis: Given that there has been no mechanism to ensure that budgets are spent on front line services — there is no scrutiny of that — how would we know that administrative costs are at their limit?

2259. Ms McBurney: Departments provide information at that level of detail to us, and we monitor it. Were spending on administrative costs to go up following this decision, such a rise would become clear and could be brought back to the Executive. We also expect Committees to focus on that with their Departments.

2260. Ms Purvis: It has been a good control mechanism to ensure that Departments focus on front line services. It seems strange that it is being scrapped when a key plank of the Executive is to ensure that front line services are protected as far as possible.

2261. Ms McBurney: The idea is to continue to protect front line services while allowing Ministers discretion to manage their budget in the way that best suits their Department.

2262. Ms Purvis: It makes no sense at all. There is no detail in the draft Budget of previous invest-to-save projects that have been funded and whether they have worked or achieved their aims. Yet we are asked to give an opinion on more money that is going to invest-to-save programmes.

2263. Mr Brennan: Departments have put forward invest-to-save projects. If Departments had published their spending plans as we had hoped, you would have seen the specific invest-to-save proposals. DFP has asked Departments to produce robust business cases to support the invest-to-save allocations. We want to see in those business cases the extent to which long-term value for money will be generated through those investments. I will give you an insight into the type of projects that are being taken forward. In the 2010-11 revised spending plans, some £26 million of invest-to-save funding was allocated to Departments. The projects that were supported were detailed in the revised document, which gives you an idea of the sort of projects that Departments are rolling out.

2264. Mr Jeff McGuinness (Department of Finance and Personnel): There are no formal monitoring arrangements in place. However, at the start of the Budget 2010 process, we looked at taking off the savings from Departments. The £26 million investment in 2010-11 has released more than £88 million for redistribution across the four years.

2265. Ms Purvis: OK. It would have been helpful if that level of information and detail had been included. There is public consultation but, although we may remember that, the public may not. The level of detail is an issue.

2266. I also have concerns about the Assembly Commission and the Assembly budget. I want to pick up on some of the points that were raised earlier. As far as I am aware, the Assembly agreed a real-terms reduction of 13·3% over four years. That seems to take into account last year's underspend as well as reductions over the four years. However, in the figures that we have seen the real-terms reduction over four years will be 26·3%, which is nearly double what the Commission agreed to.

2267. On 8 November, the Assembly resolved:

"That this Assembly notes with concern the likely reduction in the block grant that will be brought about by the comprehensive spending review; and calls on the Assembly Commission to reduce its running costs in line with the level of reduction faced by Executive Departments." — [Official Report, Vol 57, No 4, p197, col 1].

2268. A reduction of 26·3% is over and above any reduction faced by a Department. The largest reduction in any Department is 20·6%. The proposed 26·3% reduction will interfere with the Assembly's authority, independence and ability to do its work.

2269. Mr Brennan: The critical issue in relation to funding the Assembly is that if the Assembly and the Assembly Commission make their concerns known to the Executive and the Finance Minister, they will be a material issue in the deliberations to construct a final Budget position.

2270. Ms Purvis: Did DFP not provide advice to the Minister that went to the Executive?

2271. Mr Brennan: We have given you an insight into some of the material issues that we had, such as the degree of underspend in the past. There is a safety net: if pressures emerge, the monitoring round gives the Assembly Commission an automatic redress mechanism to ensure that its pressures are covered.

2272. Ms Purvis: Therefore Members' ability to carry out their scrutiny work and their legislative responsibilities depends on making a bid to the Executive if we run out of resources. Surely there is something constitutionally wrong with that.

2273. Mr Brennan: If you believe it to be constitutionally wrong, I presume that the Executive will have to acknowledge that.

2274. Ms Purvis: Finally, when can we expect to have sight of the strategic level equality impact assessment on the draft Budget? Surely, that would help to inform our deliberations on the consultation.

2275. Mr Brennan: The critical issue is that we do not have the equality impact assessments from Departments, nor do we have the Programme for Government, which is supposed to set the framework for the construction of strategic priorities and areas of impact assessment. I do not know how one can possibly construct a strategic assessment without insight into what Departments think the impacts will be.

2276. Ms Purvis: This is going from the sublime to the ridiculous.

2277. The Chairperson: Thank you very much for your attendance. If there is anything on which we need more clarification, we will write to you.

19 January 2011

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin

Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Ms Pamela Galloway	
Mr Peter Jakobsen	Department of Finance and Personnel
Ms Deborah McNeilly	

2278. The Chairperson (Ms J McCann): I welcome Pamela Galloway, from the central expenditure division, Deborah McNeilly and Mr Peter Jakobsen. We are a bit pushed for time today, but we already have the Minister's statement, and the issue was debated the other day, so we will just move straight into questions, unless there is something specific that you want to outline.

2279. Mr Peter Jakobsen (Department of Finance and Personnel): Not from my perspective; I am happy enough.

2280. Mr O'Loan: I want to ask you a number of things on the issue of end-year flexibility (EYF). Will you explain how the Executive can carry forward £23 million capital from this year into next year? What are the rules around that, and how did the figure of £23 million emerge?

2281. Will you also clarify the figure of £217 million for current year EYF, which was referred to in a recent NIO press release dated 14 January 2011, stating:

"And so the Treasury agreed to honour the amount of EYF for NI for the current year.

This amounts to some £217m and has been agreed with the Executive."

Will you further reconcile that with the media storm around the £300 million of historic EYF that has been lost? What are the actual implications for public bodies, including schools, that thought that they had a surplus in their budget that they felt they could use but are evidently now being told that they have not.

2282. Mr Jakobsen: I will start with the £23 million. As you know, the Treasury has ended the existing EYF scheme, which is linked to the £300 million that I will talk about later. However, as part of the spending review settlement for Northern Ireland, Treasury gave all the devolved administrations special treatment so that we could carry forward any underspend that we declared at the supplementary estimate stage, which was in December. The Executive then decided, as part of the monitoring process and Budget process, to carry forward £23 million capital to next year. The process dictates that we have to declare that now; anything declared after December was too late.

2283. Mr O'Loan: Was that figure of £23 million snatched out of mid-air?

2284. Mr Jakobsen: It was arrived at by looking at what bids came in during December monitoring and what was available and by assessing what we thought Departments could and should spend in December monitoring. The £23 million was what was left over.

2285. Mr O'Loan: And what about the £217 million referred to by the NIO?

2286. Mr Jakobsen: I do not recognise that figure but, as I understand, it is this year's EYF, which was given out in June monitoring. I do not recognise that figure.

2287. Mr O'Loan: I will quote the press release again:

"And so the Treasury agreed to honour the amount of EYF for NI for the current year.

This amounts to some £217m and has been agreed with the Executive."

2288. Mr Jakobsen: It is true that we got access to EYF this year, because we gave up EYF in the June monitoring round. We had EYF to give out this year, but it was all allocated in the June monitoring round.

2289. Mr O'Loan: But you think the figure of £217 million is wrong?

2290. Mr Jakobsen: I certainly do not recognise it, but there are different ways of calculating EYF at different stages in the year.

2291. Mr O'Loan: OK. What do the end of the general EYF scheme and the historic figure of £300 million mean? What are the actual implications of that for public bodies?

2292. Mr Jakobsen: Under the scheme, which has now ended, we had access to £300 million of stock, which could be carried forward. However, when Treasury ended that scheme, it also ended access to any of that stock. That means that that money cannot be spent and will have to go back to Treasury.

2293. Mr O'Loan: What does that mean for bodies such as schools?

2294. Mr Jakobsen: It means that some of the schools that had built up reserves in previous years cannot now spend that money in future years.

2295. Mr O'Loan: Before the scheme ended, when money sat notionally in a pot labelled "NI's EYF" at the Treasury, had a school wanted to spend money, where would that have actually come from?

2296. Mr Jakobsen: The school would have had to go through the Department of Education.

2297. Mr O'Loan: However, undoubtedly, the school could have spent it.

2298. Mr Jakobsen: I do not know the detail of whether it could have done that.

2299. Mr O'Loan: Answers are needed to these mysteries. Earlier in the meeting, I referred to the fact that school principals are asking these basic questions. They have either historic surplus or this year's surplus sitting in their budgets, and they want to know what to do about that. Can you clarify even whether they have a surplus this year?

2300. Mr Jakobsen: As regards this year's surplus, the Executive may look at whether they can do something about that internally in Northern Ireland. However, that is for them to look at in the coming weeks. I am sure that the Minister will be talking to the Minister of Education about that.

2301. Mr O'Loan: OK. There is not a huge amount of light there.

2302. Mr McLaughlin: When you said that you "do not recognise" the figure, was that a euphemism? What does it mean?

2303. Mr Jakobsen: That is not the figure that we had for this year's EYF.

2304. Mr McLaughlin: An NIO statement from Friday 14 January states:

"the Treasury agreed to honour the amount of the EYF... for the current year.

This amounts to some £217 million and has been agreed with the Executive."

That is fairly explicit.

2305. In preparation for this meeting, were you briefed on the fact that the NIO had put out that figure — it also came up in the Minister's statement the other day — and that the Committee would evidently ask you questions about it? If you do not recognise that figure, have the Minister and the NIO got it wrong? Is there a figure that is approximate to that £217 million?

2306. Ms Pamela Galloway (Department of Finance and Personnel): There is a figure approximate to that. The amount of EYF that we have drawn down in this year is just over £200 million. A certain portion of that is drawn down —

2307. Mr McLaughlin: For clarification, what is the differential between those two figures?

2308. Ms Galloway: Approximately £3 million.

2309. Mr O'Loan: There is not too much to get excited about there.

2310. Mr McLaughlin: It helps. I thought that we had lost £200 million somewhere.

2311. Mr Jakobsen: It is probably because it has been worked out at different times of the year.

2312. Mr McLaughlin: Fair enough. Peter, your answer was even more opaque than DFP answers usually are.

2313. Ms Purvis: I have a supplementary question that relates to Declan's question about the issue of school reserves. Schools were allowed to carry over a percentage of their budget, particularly if, for example, they wanted to buy new furniture but did not have enough money in one year. However, are you saying that schools are not now allowed to touch their reserves, some of which could date back five years, or does that apply to only this year's reserves?

2314. Mr Jakobsen: It applies to everything that has been built up over all the past years. It is the entire stock that has been built up to date.

2315. Ms Purvis: What flexibility do the Executive have to do something about that?

2316. Mr Jakobsen: We do not have extra money, so we cannot have reserves. However, if the Department of Education (DE), for example, planned to spend that money in the coming years, there would be flexibility for the Executive to allocate extra capital to DE to cover that shortfall. However, that would have to be taken from elsewhere in the Northern Ireland Budget; it is not that we have any extra money.

2317. Mr McKay: I am well aware of the figures for the Department of Education. However, what are the figures for the other Departments' EYF loss?

2318. Mr Jakobsen: I do not have with me a breakdown of what sits where in each Department.

2319. Mr McKay: May we get that?

2320. Mr Jakobsen: We should be able to get it.

2321. Ms Galloway: The underspend generated by each Department each year is publicly available at the provisional outturn stage.

2322. Mr Jakobsen: However, that is not quite the same as EYF stock.

2323. Mr McKay: Are there actual figures for that?

2324. Mr Jakobsen: The closet that you will get to that are the underspend figures.

2325. Ms Galloway: The EYF draw down for each year was built into the previous Budget.

2326. Mr McKay: Another issue that was raised during the Minister's statement to the House on Monday was a potential replacement for EYF. Do we have any idea when the Treasury will make a decision about that? What sort of communication has there been with Treasury on that?

2327. Mr Jakobsen: We do not know when a decision will be made. We are in contact with the Treasury weekly and regularly ask it when it thinks that an updated scheme will be available. However, we have not yet got a date for that.

2328. Mr McKay: Is there a time by which we must have something in place?

2329. Mr Jakobsen: Something needs to be in place by the next financial year. However, we have not yet got a fixed date for that.

2330. Mr Frew: To date, is there any evidence from front line services, including schools, Departments, institutions and other bodies, all of which will be greatly affected this, to suggest that they are relying on this year's reserves in their budgetary processes?

2331. Mr Jakobsen: No. If they were, they would have had to draw down those moneys earlier in the year, because allocations were made in the June monitoring round. No one is relying on those reserves this year, but some might have been banking on them for future years.

2332. Mr Frew: You understand my point, though? Some of their budgets could be up the air, because they are trying to draw down the reserves that they had set aside as part of a saving plan.

2333. The Chairperson: There are no further questions. Should we require clarity on any other points, we will write to you. Thanks very much for coming along.

19 January 2011

Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton

Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Bill Pauley Department of Finance and Personnel

2334. The Chairperson (Ms J McCann): I welcome Mr Bill Pauley. Please make an opening statement and then members will ask questions.

2335. Mr Bill Pauley (Department of Finance and Personnel): Thank you. Department of Finance and Personnel (DFP) provided a paper to the Committee in December 2010. In short, the paper is accurate. As of today, we do not have any additional update or further points to make in respect of the current position, the budgetary implications or DFP responsibilities. I am happy to answer questions about that.

2336. Ms Purvis: Thanks, Bill. Many of the savers with the Presbyterian Mutual Society (PMS) are elderly people, and I have just been reading that the solution has to be finalised and that it is subject to the agreement of the Executive, the Assembly, the EU and the creditors and members. Do you have a timeline for that process? It seems that it will be pretty long and drawn out.

2337. Mr Pauley: Much of the detailed work in developing the schemes is being done in the Department of Enterprise, Trade and Investment (DETI), as is the process of securing EU state-aid approval for the loan element of the proposed PMS solution. From DFP's perspective, the provision that has been made in the Government's spending review and in our proposed Budget 2010 is for the 2011-12 financial year. We need those payments to be made in that financial year. Everyone hopes that it will not happen at the end of that financial year, but some of the processes involved, including the EU state-aid approval and the Assembly legislating, probably mean that it will not happen in the first quarter. However, soon after that, people will start to see it moving forward to creditors and members of the society.

2338. Ms Purvis: I take it that the discussions with the EU around state-aid rules are ongoing?

2339. Mr Pauley: I understand that DETI has sent details of the proposed loan to the European Commission. Initially, the European Commission processes usually involve an informal paper in which people send in their plans before they submit a formal paper. I understand it to be at that first stage, but that is being taken forward by DETI. Just before the Christmas break, the Minister of Enterprise, Trade and Investment said that it was sent to the European Commission in December.

2340. Ms Purvis: In relation to the £175 million of borrowing from the reinvestment and reform initiative (RRI), a research paper that we received the week before last said that there will be an increase in the interest rate of borrowing from the RRI. It states that in future years the administrator will make both interest and principal repayments on the loan. Who makes the repayments on the loan initially? How will the administrator be able to make those interest repayments in the future?

2341. Mr Pauley: When the administrator was preparing his business plan, as part of the guidance that we were involved in, we advised him of the National Loan Fund's rate of interest that applied at that time, which was 3·03%. Obviously, the rate at which the Government can borrow can change, potentially, on a daily basis. The fact remains that he prepared his business plan at 3·03%.

2342. The rate that will apply to any loan that we take out will be the rate that applies on the day that it is taken out. I have not checked the rate since before Christmas. At that time, it was 2·2% or 2·3%. The key point is that it was less than the interest rate on which the administrator prepared his business plan. Therefore, as we sit here today, we have some headroom, if you like, between the figure on which the administrator prepared his business plan and the rate that we would get if we were to borrow that money today from the National Loans Fund. However, the figure that will matter will be the figure that is in place on the day that we take out the loan. Obviously, in light of inflation figures that were announced yesterday, people are speculating on the way that rates will go. We cannot be sure exactly what the rate will be on the day that we might take out a loan. However, at this time, some headroom remains with regard to the basis on which his business plan was prepared and the current rate at which we would borrow money from the National Loans Fund.

2343. Ms Purvis: Initially, when the loan comes out, who is responsible for interest repayments?

2344. Mr Pauley: DFP will be responsible for making repayments of the loan fund. The loan to the administrator is separate from that. It is envisaged that that money will flow through DETI. The Department will produce a letter-of-offer loan agreement with the administrator that will specify the terms of the loan to him. That agreement will include a requirement for him to pay interest. He will pay that through DETI. His business plan used a rate of 3·03%. The plan showed that, from the income that he receives from some PMS assets, he will be able to make principal and interest repayments in line with our loan requirements so that the income that DETI will receive from him should, at least, cover the interest that we have to pay to the National Loans Fund. Therefore, in overall public expenditure terms, it will be zero or, depending on the rate of the day, a small plus or minus [Inaudible.].

2345. Ms Purvis: Forgive my ignorance. When was the administrator's business plan finalised?

2346. Mr Pauley: It was initiated in July 2010. I believe that we got a final copy in September 2010, at which time it was subjected to a due-diligence test prior to the report of the ministerial working group just before the spending review announcement of 20 October 2010. Therefore, we got it around September. Its assumptions were subjected to due-diligence testing in time for decisions that were made by the Government and announced as part of the the spending review on 20 October 2010.

2347. Ms Purvis: Is there any mechanism for review of that business case given the current state of the market and changes and fluctuations in prices? If the administrator's business case is based on a certain market value in order to sell off assets and make repayments, and that changes drastically or something else happens, is the administrator able to review the business case and negotiate with Departments, for example, to increase payments and pay off the loan more quickly or to reduce payments if the assets are not realised?

2348. Mr Pauley: I think that the simple answer to that is yes. At this minute, no money has changed hands, as everyone is all too aware. As with any new scheme that the Government might bring forward, whether it is for the PMS or anything else, DFP approval is required. It has been approved since the first business plan was prepared last summer and since it was subjected to its due diligence test in October. I anticipate that we will ask DETI for an update of any key assumptions that were made in the business plan as part of its submission to us to seek approval for a new scheme.

2349. Ms Purvis: Finally, is there ongoing consultation with creditors and members of the PMS to keep them updated as the process comes to final agreement?

2350. Mr Pauley: DFP is not formally discussing progress with creditors or members of the PMS, but DETI is in discussion with the administrator. The Department has received correspondence from interested parties in the PMS, and we have responded in line with all correspondence, but DFP has no formal communication process with creditors and members. As they communicate with the Department, we speak to them in the same way that we speak to anyone else in that position.

2351. Mr O'Loan: Thank you for coming to talk to the Committee. It is very important that we get evidence around this issue. At the outset, I will state my broad stance in relation to the matter. I am hopeful that there will be a resolution that will benefit all the different types of savers of the Presbyterian Mutual Society. I have particular sympathy for people who are most vulnerable in society, such as those who have small savings for their latter days. There are other categories of savers, some of whom were speculative. However, there must be a balance, and the scheme must be fair to the whole of our electorate, recognising that it was a closed society that was open only to members of the Presbyterian Church. It also has to represent a proper discharge of public moneys, and there are large public moneys involved: £25 million from the British Government; £25 million from the Northern Ireland Executive; and a large loan of £175 million. There have to be sound protections around the use of that money. That is my perspective.

2352. Given how long this matter has been going on, I find it amazing that so little information has been given to elected representatives of the Assembly. It is now part of the draft Budget, and, very soon, Members of the Assembly will have to make a decision around a final Budget, and this scheme will be one significant element of it. To do that, we are entitled to information, but we do not have that. The paper that the Department provided is not fair to elected Members and does not give us the kind of information that we need and want.

2353. Recent questions for written answer to the Department, including some questions from me, are virtually all prefaced with, "the details of the scheme are not yet finalised." Yet, we are told that a business plan has been written, and an initial request for approval to the EU has been made on the basis of that. A further example relates to the nature of the £25 million from the British Government. Many people have assumed that to be a gift, but a recent answer to me states clearly that it is not a gift and that the British Government expect that to be paid back.

2354. Can you give us the broad architecture of the scheme, the nature of the mutual access fund, as distinct — if it is distinct — from the borrowing of the £175 million? How will that operate? When money is made available to the administrator to administer a scheme, what will be the nature of the queue for beneficiaries of that? I will come back to the point about the public money. However, in broad terms, how will that money then be used?

2355. Mr Pauley: The full details of the two separate elements of the proposed solution have not yet been finalised. That makes it difficult to give a precise answer as to how it may operate. However, DFP has been involved and was closely involved with the proposed solution right up to the point at which the ministerial working group reported to the Prime Minister in October 2010. The key features of the scheme are that there would be a £175 million loan to the administrator, which would enable him to provide that money to the creditors of the PMS. That would allow time for PMS assets to recover over an approximate, but not yet definitive, 10-year period, over which, the hope is, the assets of the PMS will recover sufficiently to allow everyone, members and creditors of the society, to get back all resources that they may have in the society. That is the broad premise.

2356. Recognising that that covers a 10-year period, the second element is a mutual access fund to enable smaller members of the Presbyterian Mutual Society to have early and immediate — if next year is immediate — access to their money. That is why the Government, in the spending review, provided £175 million in additional money and made a £25 million contribution to the fund.

2357. As you said in your introduction, the desire was to have a fair and just solution to the Presbyterian Mutual Society's situation, which included, as a consideration of the ministerial working group, fairness to taxpayers and wider society. The Government were anxious that the solution also had to be fair to others who had suffered loss during the downturn of the past few years. Therefore, the proposed solution attempts to have minimum impact on our budgetary situation and the expenditure that we have available within that.

2358. Principal and interest on the £175 million loan will have to be repaid on broadly commercial terms, which is the phrase currently being used. What precisely those commercial terms are will depend on the interest rates that prevail at the time at which the loan is made. We also understand that that will be a requirement of the European Union in making such a loan. As part of state-aid requirements, the loan would be set at a commercial level, otherwise, the difference between the commercial level and the rate applied could be considered aid. However, that is not to say that that could not be approved.

2359. The intention of the mutual access fund, the £25 million contribution from the Government and the £25 million from the Executive is that those amounts would allow early or immediate access to money for smaller members. However, the requirement is that, at the end of the 10-year workout period, those amounts would be repaid prior to any further distribution to members of the society. In that way, the impact on the amount of public expenditure that is available to us is minimised.

2360. The Department has been asked whether that money is a gift, a loan or a donation. In all situations to date, we have called it a contribution. I have not looked up the dictionary definitions of some of those terms. However, it is not a gift, because we hope that the assets will recover sufficiently for the money to be paid back. Indeed, the administrator's business plan shows that that can be achieved if the assets recover sufficiently, and we would, therefore, be able to get that money back, just as everyone else might be able to get all of their money back. In that sense, it is not a gift or a donation.

2361. I do not think that "loan" is the correct word either. Up to now, as far as I am aware, there has been no discussion about an interest rate that is normally part of any loan being applied to either of those £25 million amounts. It is, therefore, not a loan. We have used the word "contribution" to describe it, and the term "repayable grant" is indicative of what is hoped for and intended here.

2362. All of that is designed to enable smaller savers in particular in the Presbyterian Mutual Society to get early access to their money and to allow enough time for the assets to recover so that everyone who has put in to this proposed solution will hopefully get their money returned to them in full. However, that cannot be guaranteed, because we are depending on the recovery of mostly property-based assets. That is uncertain, particularly over a period as long as 10 years.

2363. Mr O'Loan: I am grateful for that answer, which is helpful and clarifying. However, I endorse my point that that kind of information should have been given to us formally in writing, and I, therefore, ask that that be done.

2364. Before I move to further substantive questions, I have a couple of supplementary questions about that point. You say that there is no suggestion of interest being applied to the two £25 million amounts. However, I think that there ought to be. There ought to be at least the creation of a fund that includes interest so that, at the end of the day, if the assets accumulate in a substantial way, that money can then be returned to the Northern Ireland Executive with interest.

2365. As we know, a court case established that the creditors — those who had large investments in and made loans to the PMS — had first call on any of the PMS's disposable assets following administration, and payment has already been made to them. Is it legally clear that it is possible to separate out the support scheme in such a way that a payout may be made to the shareholders before full payment is made to creditors?

2366. Mr Pauley: At the end of the 10-year work out of that —

2367. Mr O'Loan: This is the problem: we do not know the full dynamics. In the first instance, will there be enough money to completely pay the creditors so that this issue disappears? Will there then be some money that can be given to shareholders initially? Is that the nature of it, or does a certain division of money have to be made to creditors and shareholders from the outset?

2368. Mr Pauley: My understanding is that the £175 million loan is to facilitate the necessary payment to the creditors.

2369. Mr O'Loan: In its entirety?

2370. Mr Pauley: In its entirety; that is my understanding. DFP is not working up the detail of the scheme with the administrator or looking at the precise numbers of that at this moment in time, but my understanding is that the £175 million will be sufficient to meet the outstanding moneys owed to the creditors. That will allow the interests that the creditors hold to pass to whoever is administering the loan, whether that is DETI as a Department or someone appointed to do so. If, in the future, the assets recover, the creditors would no longer have that entitlement, because it will have been provided for in the loan put in place by the administrator. It is that that buys the time, and it is subject to the creditors' agreement as well.

2371. Mr O'Loan: Some might question the fairness of that scheme. The people who had very big investments, some of whom were — crudely — investors, will get reimbursed much more easily than people who may be very dependent on relatively small sums of money. To those people, they may be very considerable sums of money — up to £20,000.

2372. In relation to risk, we are told that, at current property values, if there was a liquidation of the society at this point in time it would be around £123 million — that figure was recently stated — short of what would be needed. You have already said that for the scheme to work it depends on property values rising over the notional 10-year period. What assessment of risk has there been on that? It seems to put public money in considerable jeopardy.

2373. That is my single biggest concern about the scheme from the public interest perspective. Has there been any independent judgement of that? In the past we were used to property prices rising, but we now know that we live in a very different world. I understand that the portfolio consists of good commercial properties, and you might want to comment on that, but, nonetheless, nobody can say that prices will definitely rise to any extent. It is even possible that they might fall. What is the nature of the risk to public money in that matter?

2374. Mr Pauley: The ministerial working group commissioned KPMG, after a competition, to carry out a due diligence assessment of the administrator's business plan. That due diligence assessment was carried out on a conservative basis, and the hope was that all of the risks would be considered, if not on the upside, in the possible worst-case scenarios of what might happen in that period. That due diligence assessment was able to conclude — at the time it was carried out, which was October — that the loan could be repaid in full over the 10-year period.

2375. Mr O'Loan: The private sector would not touch the scheme, even with an offer of governmental support. I have to assume that that was because it thought the risks were too great. That suggests to me that I, as a representative of the public, am being asked to carry a risk that I should worry about.

2376. Do you have any reaction to that?

2377. Mr Pauley: The report was commissioned by DETI, but we saw the report, as our Minister was on the ministerial working group. The due diligence assessment was carried out by a team in KPMG who were as qualified as anyone we could find to carry out the assessment. Based on the analysis —

2378. Mr O'Loan: Why would the private sector not touch it?

2379. Mr Pauley: It is for the private sector to answer that. As far as I am aware, the reasons why people who considered it and turned it down were not specified.

2380. Mr O'Loan: The first stage of the application process for state-aid approval went to them on 5 or 6 January. Why was it so late? We have been told that it could take many months. What is the likelihood of success? Could it be turned down?

2381. Mr Pauley: DETI prepared it, so you would have to ask its officials. However, as I understand it, certain details need to be included on whether, and at what point, we are confident that we have the money to make a proposal to the European Union. That is linked to the Budget timetable, but you would have to ask DETI about the detail.

2382. There is always a chance that Europe will turn down a proposal. However, analysis of other situations where state aid has been approved in this situation has been carried out. Although there is nothing exactly similar to the Presbyterian Mutual Society situation, the expectation is that, in time, we will get state-aid approval.

2383. Mr O'Loan: The Minister of Enterprise, Trade and Investment, Arlene Foster, recently referred to a contribution from the Presbyterian Church of at least £1 million. That opened up the idea that governmental thinking might be that there should be a greater contribution than £1 million, and that is also my view. The Church is closely involved and its duties are considerable, given its links to the governance of the PMS and given that PMS's members are exclusively members of the Church. What is Executive or ministerial thinking on an appropriate contribution from the Church?

2384. Mr Pauley: The Minister of Enterprise, Trade and Investment is taking that forward. I am not certain of the precise position that she has reached on it.

2385. Mr McKay: Some of my questions have already been covered. When do you foresee the assistance package being put in place, when and if approval is cleared by the Executive, the Assembly and the EU? Will it happen before the summer? How certain are you of it?

2386. Mr Pauley: Some things that we have identified as requiring approval before the money can hit the ground can be done in tandem with that. Our expectation is that state-aid approval might take until the summer. Our hope is that we can complete many of the other tasks prior to that. It needs to go to court to get agreement before it can be presented to the creditors and members of the society to allow them to accept a solution. However, I am unsure of the timing. I am also unsure how the administrator will put that to the court, how long it might take to decide, and how long it will take in the processes that are required to arrange it.

2387. I am not aware of the detail of any legislative requirements for giving a certain number of weeks' or days' notice to call such meetings. However, our hope is that we can complete the agreements of which we are in control concurrently with the process of getting EU state-aid approval, which we hope to have by the summer.

2388. Mr McKay: I appreciate that there is a lack of detail, as Declan said. However, I want to talk about the Executive and the Assembly's contribution of £200 million and, in particular, the £175 million under RRI. Repayments will be principally in interest, but when will the public money for the 10-year loan start to be recouped?

2389. Mr Pauley: The administrator's business plan was carried out on the basis that he would make principal and interest repayments on a biannual basis. Therefore, he would start paying back money at the end of year 1 and throughout the 10-year period. If we borrowed from the National Loans Fund on an interest-only basis, the interest rate would be higher. The plan was carried out on the basis that principal and interest repayments would be made on a profile basis starting in year 1 and continuing each year to cover that. Our guidance to the administrator was that, for the public expenditure effects in Northern Ireland to be zero, we needed the interest payments that the Executive would make to the National Loans Fund to be covered by the income that we received from him. Therefore, the basis on which this has been constructed is that he will make principal and interest repayments that are at least in line with what we have to make on the loan that would be taken out on RRI.

2390. Mr McKay: Is there a breakdown of figures for how the £175 million will be repaid in each of those 10 years?

2391. Mr Pauley: If you put "£175 million 10-year loan" into the National Loans Fund website, you can see what would be required to be repaid on such a loan at the interest rate that prevails on the day on which the loan is taken out. Those numbers can be plus or minus given the interest rate changes because we operate under those. We are watching that as changes occur.

2392. Mr McLaughlin: We have covered many of the issues of concern. I want to focus on one point: the lack of detail is unacceptable. When we consider the private sector's attitude to becoming involved in any recovery programme or project, and when we take into account issues such as the global economic situation that are completely beyond the control of the Executive, and which, of course, affect the value of the portfolio under discussion, it seems to me that the Assembly is being asked to carry a very high risk, notwithstanding the assurances — vague assurances, given that no detail has been given to back them up — that we can manage the process of principal and interest repayments over the period.

2393. What concerns me is the less than satisfactory input from the Presbyterian Church. The figure of £1 million will resonate in the wider community as a less than satisfactory attempt to meet its responsibilities. Secondly, small savers are at the bottom of the food chain with regard to their being protected. If those two issues were addressed satisfactorily — and let me say, personally, that I would like the matter to be resolved — the public would be more much more prepared to carry that risk at a time when the Executive cannot build schools or carry out work that they want to do in the Health Service. We are being asked not to pose too many questions and to send it through on a nod and a wink.

2394. I want to address the circumstances in which I, personally, would be prepared to say that that is acceptable. I do not speak for anyone else. Many small savers and older people have been dealt a cruel blow, and I am anxious to assist them. The fact that a court has found in favour of the speculators and those who gambled on PMS's performance to give them a hierarchy of interest, if you like, grates with me. We are still dealing with the business plan; when it will be finalised is indeterminate. Unless the issue is dealt with on the basis of fair play to all, it will be extremely difficult to justify.

2395. Mr Pauley: You commented on the court decision and said that small savers are at the bottom of the food chain. That is the situation in which we find ourselves; it is why the proposed solution has come forward in that way. The DETI Minister and her officials are in discussions on the £1 million.

2396. Mr McLaughlin: That figure is in your report.

2397. Mr Pauley: The figure of at least £1 million is in the report. It is known that discussions on that amount are taking place. I want to comment on the suggestion that assurances about the assessment that has been carried out on the administrator's business plan are vague. It was an extremely thorough assessment. It was carried out —

2398. Mr McLaughlin: Who carried out the assessment?

2399. Mr Pauley: KPMG.

2400. Mr McLaughlin: I will not comment on the assessment because I do not know about it; therefore it is vague to me and to the Committee. We have not been told about it. We do not know what the portfolio is or of what it consists, nor do we know whether the projections are based on market recovery. How could we? I see the very real possibility of the Executive being exposed. It could almost be guaranteed that small savers would lose out. That is not an equitable approach.

2401. Notwithstanding that, I am not saying that we defy the court ruling in favour of creditors; I am saying that the entire issue needs to be revisited with regard to the business plan. The plan can address both the requirement of the court judgement and small savers' interests. A more upfront and robust approach is needed from the Presbyterian Church towards its responsibilities, which are evident to many people. That is against the background of the Executive's being forced to accept that they cannot build schools and support public services as they would like. There is trouble ahead with the current trajectory. As one who is prepared to support that and to step up to the line, I am not convinced that I could stand over that package.

2402. Mr Pauley: The mutual access fund has been put in place to assist small savers. It has been structured in such a way that the smallest of small savers get higher proportions of their money back, although the precise percentages are among the details that have not yet been worked out. However, it will focus on the smaller savers, if that is clear.

2403. Mr McLaughlin: Where is that clear? Where do I see that? Is it in the report and I am not seeing it?

2404. Mr Pauley: DFP is not working on that aspect; that work is being done in detail by DETI. We have not seen the proposed nature of the scheme.

2405. Mr McLaughlin: Will the elected representatives in the Assembly see the detail before they are asked to sign off on the scheme?

2406. Mr Pauley: It would be for DETI to bring forward through its Minister to the Executive for approval in the way that we have described. The Assembly will have to approve legislation for the scheme and for the loan scheme under the Financial Assistance Act (Northern Ireland) 2009, and we will see the detail at that time.

2407. Mr McLaughlin: I hope that someone is listening to this and paying attention to a point that I am going to make; others may agree or disagree: the Assembly wants to help — it wants to help small savers in particular — but you need to give us the arguments to justify any decision to approve the proposal. We have not had those today.

2408. Mr Girvan: Thank you for your presentation, Bill. I am sympathetic to the small investors. You said earlier that the £175 million would cover all creditors; is that correct?

2409. Mr Pauley: That is my understanding.

2410. Mr Girvan: If that were the case, as soon as that money is injected into the PMS, could it start a second run on the PMS, with every investor pulling their money out? That would create a difficulty. What mechanism is in place to ensure that a second run on the PMS does not ensue as soon as the cash injection is made?

2411. Mr Pauley: The proposal would require that the interests of the creditors of the PMS who were in receipt — through the administrator — of the amounts that they held in PMS would transfer either to the Department, if it is DETI, or to the body appointed to administer the loan agreement. If their full interest is dealt with through the £175 million loan, their interest in it would end and their shares in the society would transfer to the body established to administer the loan. At the end of the period they cannot get additional money on top of what their interest is at this moment in time.

2412. Mr Girvan: I appreciate that they will not get any more than what they have in there as currently held on record. That is not the point. The point is that, as soon as the money is injected into the PMS or the administrator to deliver, whether through the Department or another agency, as soon as it is available they will all grab it or say that they have held on long enough and that they want their money now.

2413. The other point that I would like to see more detail on is the payback on interest. Primarily, we are dealing with property, which will not necessarily all be offloaded; much of it will receive rental income over time. Perhaps there is more detail in the business plan, but we do not have that information here. It would probably be of comfort to members if they could see a revenue base that would allow them to make the payments to the body that has lent to them.

2414. There is also a further £50 million, which is made up of two blocks of £25 million. If the £175 million covers all creditors, what is the further £50 million for?

2415. Mr Pauley: It is for members, typically those who had under £20,000 invested in the society.

2416. Mr Girvan: Therefore, the total cover is not £175 million; it is £225 million.

2417. Mr Pauley: It is £225 million in total, but that will not provide for all the amounts available in the society; there needs to be a recovery in the assets for that to happen. The administrator's business plan anticipates a revenue stream that includes rent from commercial properties that are part of the society's assets and repayments of other loans that the society has made and that people are making throughout that. Therefore, one element of the income comes from the commercial assets that the society owns, and another comes from the loans that the society has made to its members and creditors being repaid over the period, in line with the profile on which they originally made mortgages or other loans. Therefore, the administrator has an income flow.

2418. In December, the administrator produced his normal six-monthly report, which shows the income that he has received in the past six months against what was in his business plan, which was prepared last summer, and roughly in line with what was expected or at that level of income. The court requires him to produce that on a six-monthly basis, and he has done so.

2419. Mr McNarry: Many listening to this will be hoping that there will be no more setbacks; it seems to be dragging on. I declare an interest as a proud Presbyterian. I am not a PMS saver, but, like most people around the table and in the Assembly, I, too, have heard from many savers who are totally devastated and still unsure of the way forward, despite all the nice words.

2420. The Government have dealt with the casino playing that we witnessed from the banks; however, I personally feel aggrieved by the manner in which they have dealt with the banks. I feel that I am paying for those who played with my money and lost it. I am anxious about that. Many people might get overexcited, as they did when they gambled with other people's money, and we need to be able to tell society that that culture is over. I hope that we can take steps in that direction.

2421. Has the moral case for savers been secured to the extent that it now outweighs any legal impediment that might be put in the way of doing what is right by savers? Will the outcome and the direction in which your report seems to be heading be fully contained in the current Budget process, which is what we are interested in? If not, how will it be dealt with? Does it require to be separately resolved in the Executive and then in the Assembly?

2422. In other words, I am reasonably comfortable that the Assembly can deal with it where it sits at the moment; however, if it is incomplete and is not addressed in the Budget process, it may be extracted and put into something else and more time will be lost.

2423. Will the Executive be responsible for the risk that may be in the scheme or will the administrator be responsible? How is the administrator to be made accountable to those who are lending the money? How will he be made accountable over the 10-year period that we hope the fund will see us all through? `

2424. Finally, will the Executive be entitled to — or will your Department request that the Executive should — have influence over the distribution of the moneys to be paid back? Anybody who has been hit by this is hit; if you are damaged, you are damaged. I am not saying that anybody can afford it. Some high rollers took a risk, but — as has been said often before — many people thought that they were supporting a Presbyterian activity and put small savings into the society, which they can ill afford to lose.

2425. I would like clarity on the distribution. Who rolls out the numbers and decides that if a person has a certain amount of money, they might get it at such and such a date, and if they have twice or three times that amount, they might get it at such and such a date. The scheme could go haywire unless there is something agreed and some consent form from the savers themselves. It is wrong to say that someone who has £5,000 invested in the society is not hurting every bit as much as someone who may have £50,000 or £100,000. What it tells me is that the person who put £5,000 in could only really afford to put that amount in, and the person who put the big money in could afford that. I am anxious to know about the distribution. You can add that to the list of things that I have spoken about.

2426. Mr Pauley: You began with the moral case. Ministers who have been working on the issue have accepted that the words most often used are that a fair and just solution to the PMS situation is there. We are working under the direction of those Ministers, and I am clear that the desire for that fair and just solution exists. That is what we are trying to achieve.

2427. Can it be achieved in the current Budget process? Budget 2010 proposes that the Executive make a £25 million contribution to the mutual access fund, and the Budget, when agreed, needs to include that element. The Government have made provision for the £175 million loan and their £25 million contribution to it. Those amounts are in for 2011-12, and we believe that the necessary agreements that we have listed can be in place in that financial year.

2428. Mr McNarry: If I may interrupt, we are taking a major position. You are saying that, within the budget process and the enabling of that process through the Assembly, the money will be there.

2429. Mr Pauley: That budget process will put in place the £200 million that the Government have given to the Executive and the £25 million. The intention is for all those payments to be made in 2011-12. We no longer have end-year flexibility (EYF) arrangements, and the provision is being sought for 2011-12.

2430. Mr McNarry: We will not go into EYF.

2431. Mr Pauley: I raise that only in the context that the public expenditure (PE) planning process that we are undertaking has put that money in 2011-12.

2432. Mr McNarry: That is a key comment. That gives direction and timing, so that people may be able to say, "We're on".

2433. Mr Pauley: That provision is proposed in our budget process for 2011-12.

2434. You talked about the loan and the risk to that. I am not personally working on the conditions of the loan to the administrator. That is happening in DETI. However, there will be conditions whereby he will have to report to the Department on performance against the repayment of the principal and interest elements of the loan and where he is or is not with that. As well as looking at the current year, I am absolutely certain that that will include an assessment of the roll-out of that into future years, to ensure that the loan can be repaid into the future with the applied conditions.

2435. Mr McNarry: I wonder whether, somewhere down the line, we could get sight of the conditions pertaining to the loan. Would that also tell us about the administrator's role? Is he being paid out of that £175 million?

2436. Mr Pauley: Whoever is put in place to administer the £175 million —

2437. Mr McNarry: He or she then.

2438. Mr Pauley: He or she; the administrator or another could potentially be appointed to administer the loan.

2439. Mr McNarry: Will they be paid out of the money that is being given primarily for the savers?

2440. Mr Pauley: There will be an administration charge. The business plan that the administrator prepared last summer looked at all the costs, benefits and cash flow of what would be needed over the 10-year period, and that included a need to manage the assets and to continue to ensure that they provide the maximum revenue possible over the period.

2441. Mr McNarry: Do you have any idea what that charge or cost is likely to be over the 10 years?

2442. Mr Pauley: The administrator has published the amounts that he has charged so far.

2443. Mr McNarry: I know that he has.

2444. Mr Pauley: I have not seen what he is proposing or discussing with DETI under whatever arrangements are now in place for the detailed management of the loan into the future.

2445. The Chairperson: A figure of £1 million has been mentioned for the administrator's fee.

2446. Mr Pauley: He has charged for his work so far. However, he has published those charges. Currently, as an administrator, he is required by the court to publish a six-monthly report. He does that.

2447. Mr McNarry: Having come through what we have come through, and seem to still be going through on water and charges — I do not want to get into that — I do not want to compromise, delay or stand in the way of getting this within the budget process, because that is where it is going to be sealed. I hope that the information that our sister Committee for Enterprise, Trade and Investment may have on these things will come through. I am happy enough to leave it at that.

2448. Mr Pauley: Your other point was about the distribution of moneys in the scheme. The options that are being looked at indicate that the smallest savers, rather than the larger elements, will receive a higher proportion of their savings from the mutual access fund. Many different permutations of that can be put forward. How far you can go with people getting high percentages and perhaps all their money back at the smallest end and people who have more savings getting a lower percentage depends on the total amount in the mutual access fund.

2449. Mr McNarry: It is based on the money that is available to do that, and that is very important. I am mindful that some of my colleagues queried various aspects of it, such as the risks and the details. However, I hope that the Assembly decides that it will to take the issue forward as part of the Budget process, because that is the responsible thing for us to do. It would address the moral argument and the legal process that has been gone through. That is where it has taken us.

2450. No one will be happy about this if they are a saver, but when it gets down to the nitty-gritty of distribution, as you said, someone might get a higher percentage and a bit more money, or the smaller savers might get in first, but there will be a queue. I would be uncomfortable if this institution were involved in that. I do not think that that is part of our job. Our job is to see that the funds are there. However, I would not want to just leave it at that, because the additional part of our duty is to be sure that the distribution is fair, because it involves our constituents. I would like you to address that and to tell me your thoughts on that. Will it be thought about after we secure everything and go to distribution?

2451. Mr Pauley: It is being thought about now and being looked at in detail. My understanding is that there are Excel spreadsheets of many permutations of different amounts of money from the mutual access fund, including whether or not the church contributes £1 million or more and the different elements of it and percentages for different amounts of money, with different conditions and provisions made. There could be thousands of permutations, but certain elements are looking at what is fair and what is the best way to use whatever resources are available in the mutual access fund to focus on the smaller savers.

2452. Will the Assembly get to see that? To get a solution, legislation will be required for two schemes that DETI will have to bring forward. One will be the loan scheme that will be given to the administrator, and that will allow the Assembly to look at the detail of what is proposed for that loan. The other, the mutual access scheme, will have to be brought forward, which will allow the Assembly to look at the detail of it. The details are not finalised yet, but they must be brought to the Assembly to get the necessary legal cover to make the schemes.

2453. You talked about whether creditors and members of the society would agree. The court will have to agree to the PMS solution, because it is currently in the hands of the court. The legal requirement is also that the PMS creditors and members agree to the proposed solution. Those agreements are needed, or it cannot happen.

2454. Mr McNarry: I am raising it because clear protection is required for the people involved and also in the interests of fairness. I am also mindful — as we all are — that a deal was brought to us and concluded on Civil Service equal pay and we thought that that was over. We now find that 1,000 people seem to be excluded from it, and they seem to have legitimate rights.

2455. The reason why I am being cautious about this scheme is that, when we actually do have it, we must be very clear that no one is excluded, because those who now feel grievances over Civil Service back pay feel as bad as many of those savers who found themselves in their current position. Because of that instance I cannot actually be sure, but I hope that with this scheme, given the number and type of people involved, no one will be excluded and everybody will feel that their position has been addressed. I am sure you will give me that assurance.

2456. Mr Pauley: Every effort will be made. There are many permutations, and many of those throw up an anomaly some time in the middle by their nature or because of the change in the thresholds right at the threshold points. That happens on any such piece of work. However, people are working towards a fair and just solution.

2457. Mr McNarry: Thank you.

2458. The Chairperson: Thanks very much, Bill. You have heard the concerns of members of the Committee. During the debate in the Assembly on the issue, serious concerns were raised. You spoke about a just solution. Constituents and others, particularly people who put their life savings into the fund, have written to members. What we are hearing today is that there has to be a just solution.

2459. You mentioned the Executive's £25 million contribution to the mutual access fund. We heard evidence from businesses and church leaders when the banks had public money injected into them to enable the building up of the economy. It turned out that that did not cascade down to small businesses and others who needed that money to keep going and keep people in employment. I would like to think that, in particular, the £25 million contribution from the Executive will ensure or in some way guarantee that the smaller savers, especially elderly people who invested their life savings will be top of the list and not bottom of the list when they try to get their money back again.

2460. We would like some sort of guarantee to be written in for those savers who invested and abided by the guidelines of the society and only invested what they believed was being invested.

They were not speculating with their savings; they were saving up for their retirement and old age. Members are saying that those people should be at the top of the list and not bottom of the list when the moneys are given out again.

2461. I want to mention two other things. You referred to the Executive's £25 million contribution, and said that it was not a gift or a loan. Can we have some clarity on exactly what that is? It is public money from the block grant. Will that be given back to the Executive in the longer term? Someone also mentioned the administrator's fee. I know that the figure of £1 million has been bandied around. Could we have some clarity on whether that is the fee that the administrator will charge and where that money will come from?

2462. I really would like some clarity on whether the just solution will include the smaller savers, who we have talked about here and on the Floor of the Assembly, and ensure that they get their money back. They did nothing wrong.

2463. Mr Pauley: On your point about whether the £25 million was a gift or a loan, the basis on which we are working falls out of the work of the ministerial working groups, and the basis on which the coalition Government gave their contribution to the mutual access fund is that, at the end of the workout period, the mutual access fund would be repaid prior to any further distribution to members. Therefore, the money is certainly repayable at the end of the period, if the assets recover sufficiently to enable that to happen.

2464. People have talked about risk. I repeat that, although the administrator's business plan and our due diligence work shows that the money will be able to be repaid, there is an acknowledgement that, should those assets not recover, it may not be repaid. If the money to do that is not there, it may not be repaid. However, I do not want to give the impression that either the administrator's plan or our due diligence work made any suggestion that the loan element would not be repaid.

2465. The money is not a gift, in that we expect it to be repaid. The money is not a donation, in that we expect it to be repaid. However, at the moment, I do not think that the word "loan" is right either, because of the proposal in the ministerial working group report. I have heard some comments that interest should be applied to that money, which is something that can be considered. However, for me, nothing is a loan unless interest is being charged on it.

2466. I know that there is some confusion. I have answered Assembly questions about the issue and had correspondence from some PMS members seeking clarification of that point. That is why the words are being used as they are at the minute. Although there is frustration that all the details are not yet worked out, when the details are fully known, we will know exactly the correct word to use to describe the contributions.

2467. As an administrator of the court, the current administrator is able to make charges in line with the way in which he has been appointed to act by the court. My DETI colleagues are looking at the loan arrangements that will be made with the administrator and, I am sure, will consider the need for any administration charges for the eventual outcome and the detail of how that is managed to take into account everyone's concerns. Those concerns are that we ensure that administration costs are kept to the minimum necessary to secure what needs to be done for the assets to recover and be managed in a way in which we expect and require them to so that a solution can be secured.

2468. The mutual access fund is being put in place specifically for smaller savers who the court decided could not be viewed in exactly the same way as the creditors of the society. The fund is focused on the smaller savers. The work that is being done on the delivery of the mutual access fund will, as I have intimated, focus on the smallest of those smaller savers to come up with a mechanism that enables those people to immediately get back higher proportions of the funds that they have in the society in any eventual solution.

2469. The Chairperson: Thank you very much for coming along.

26 January 2011

Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan

Witnesses:

Mr Colm Doran Ms Deborah McNeilly Mr David Orr Ms Brigitte Worth	Department of Finance and Personnel

2470. The Chairperson (Mr McKay): I welcome the following Department of Finance and Personnel officials: Mr David Orr, director of the corporate services group; Ms Deborah McNeilly, finance director; Ms Brigitte Worth, finance division, corporate services group; and Mr Colm Doran, head of business planning and corporate governance. I assume that members have read the papers and so we can go straight to members' questions.

2471. Mr David Orr (Department of Finance and Personnel): That is fine, Chairperson.

2472. Mr McLaughlin: Good morning. The Department published its draft spending and savings plan for 2011-15 on 22 December, following the launch of the Executive's draft Budget statement. Page 4 of the consultation document refers to engagement with the Finance Committee and the trades unions side. What consultation has there been with other stakeholders and with the wider public on the departmental plans and how many responses have been received?

2473. Ms Deborah McNeilly (Department of Finance and Personnel): Our consultation paper has been issued to permanent secretaries because, given the nature of the services that DFP provides, many of them are delivered to other Departments. As you see, we have issued it to the trades unions side, given the staffing implications, and we are meeting the trades unions on Monday.

2474. Business areas have been asked to engage with their stakeholders as part of their ongoing engagement. For example, NI Direct had a working group recently to discuss the services that it provides and intends to provide, and the Budget was discussed in that group as well. Engagement with stakeholders is ongoing. We have also put material on the Department's staff brief to highlight the implications for staff.

2475. Mr McLaughlin: A recent Assembly research paper noted judicial review decisions regarding proper consultation. One judgement outlined four requirements of consultation:

"To be proper, consultation must be undertaken at a time when proposals are still at a formative stage; it must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response; adequate time must be given for this purpose; and the product of consultation must be conscientiously taken into account when the ultimate decision is taken."

2476. How can DFP assure the Committee that it will meet the requirements for proper consultation on its spending and savings plans?

2477. Mr Orr: We have published our draft spending and savings proposals. It is a comprehensive document and is recognised as such by our stakeholders. We are engaging with the key stakeholders with whom we do business, not least the Finance and Personnel Committee. We are keen to take on board the consultation responses.

2478. Mr McLaughlin: Were any objections or concerns raised about the timescale in the responses to date?

2479. Mr Orr: No concerns were expressed about the timescale. As you said, the proposals were published on 22 December 2010. Our initial deadline for consultation responses was 9 February 2011, but we have since extended that until 16 February 2011 in line with the general Budget consultation.

2480. Dr Farry: I welcome the witnesses. How can the Department be sure that the proposed allocations will, as stated in paragraph 12 of your report: "underpin the department's Programme for Government commitments once they are finalised"?

2481. Mr Orr: The Programme for Government (PFG) has not yet been published or finalised. As you will know, the process is being taken forward by the Office of the First Minister and the deputy First Minister (OFMDFM). We have provided material to it, and we see DFP playing a key role in delivering government services efficiently and effectively. We are working on the basis that some of the key objectives in our draft business plan will feed into the Programme for Government. If we are asked to do something differently or to prioritise something else in the Programme for Government, we will do so. We would have to respond to that.

2482. Dr Farry: On the issue of how DFP's plans relate to the wider plans of government, you said that what is in the proposals could feed in to other Departments as part of wider government efficiencies. To what extent is DFP a hostage to what other Departments do and to the overall shape of the Programme for Government? To what extent can DFP proceed with — dare I say it? — a silo mentality with its work feeding out rather than other Departments impacting on it?

2483. Mr Orr: There are clear cross-cutting issues for government not just in important shared services but also with NI Direct, for example, through which we provide a single website and telephony service to support all Departments. We will have to respond and revisit our plans if the Programme for Government takes a different tack from what we anticipated.

2484. Mr O'Loan: I want to examine a couple of areas. As it was required to do, DFP published the results of the high-level equality impact assessment associated with its spending and saving plans. However, in its 'Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure', this Committee also called for Departments to publish details of the equality-screening exercises that were undertaken on each spending proposal, as doing so sets out the bases of analysis behind the higher-level impact assessments. Have you done that and if not why not?

2485. Ms McNeilly: We have not published any additional information other than what is in the paper. We can go back and see if there are any gaps and, if necessary, put some more stuff on our website.

2486. Mr O'Loan: Were you aware of that recommendation of the Committee's report?

2487. Ms McNeilly: The priority was to get the information on our website at the earliest opportunity. We worked through the information on that basis.

2488. Mr O'Loan: Are you committed to doing further work in that area?

2489. Ms McNeilly: Yes.

2490. Mr O'Loan: Will you come back to the Committee on that?

2491. Ms McNeilly: Yes.

2492. Mr O'Loan: The research paper that was presented to the Committee showed that DFP will have a current expenditure reduction of 10·5% in real terms over the four years while the average departmental reduction is 12%. What methodology was used to determine the proposed DFP allocation over each of the four years?

2493. What justification is there for DFP's getting a smaller than average reduction when its recent underspend was higher than average? I am looking for an explanation of the variation over the four years and why DFP got off relatively lightly.

2494. Mr Orr: The Executive determined the relative allocations for Departments on a draft basis. We were not involved in that process. We have been given an envelope within which DFP must work; that is what we have been focusing on and what our paper addresses. I have not studied our spending and savings plans compared with other Departments'. That is a matter for the Executive.

2495. Mr O'Loan: I will come back to that. What about the ups and downs over the four-year period? I do not have the figures before me, but it is one of the striking things across all Departments' budgets. Will you explain what is going on with your Department's budget over the four years?

2496. Ms McNeilly: In years 1 and 2, the Department has obtained £5 million per annum specifically for Land and Property Services (LPS) under the Invest to Save initiative. That largely accounts for the higher allocations in the first two years. Moreover, in the first year, £2·1 million has been allocated to the funding requirement for the 2011 census. Taken together, those two amounts roughly comprise the largest proportion. The allocations are higher in the first two years and then drop off in years 3 and 4 because the money will not be continued in those years.

2497. Mr O'Loan: I want to go back to the departmental reductions and the striking variations in them. As senior DFP officials, are you telling me that you know nothing about that? If not, who does?

2498. Mr Orr: The Executive produced the draft Budget document, and we have to work within the envelope that the Executive gave us. My Department is treated no differently from any other Department; we do not have an inside track because the Minister of Finance and Personnel produces the Budget. Our budget is dealt with as strictly as that of other Departments. I do not have any insight into the Executive's discussions.

2499. Mr O'Loan: Would your departmental colleagues who were before us last week know?

2500. Mr Orr: Do you mean those from the central finance group?

2501. Mr O'Loan: Yes. I cannot remember whether we asked them about it when they were before us last week; however, I do not remember getting any clarity on it. It is very important.

2502. Mr Orr: They would have been involved in supporting the Executive and the Budget review group. However, decisions on the draft Budget are matters for the Executive, and I certainly was not privy to discussions about the relative reductions.

2503. Mr McNarry: Good morning. I understand that the Department's savings are to be delivered in six main ways: reducing procurement costs; maximising revenue; reducing the cost of delivering Northern Ireland Civil Service (NICS) shared corporate services; reducing staff numbers in administration and policy areas; and reducing funding to arm's-length and independent bodies.

2504. Paragraphs 10 and 11 of the savings delivery plan outline the Department's approach. Will you elaborate on the guiding principles that the Department used to identify specific areas for delivering budgetary savings? What evidence is there that those guidelines have been applied consistently in selecting the options chosen?

2505. Mr Orr: The process started in June 2010 with a full-day workshop for the departmental board. At that workshop, each business area was asked to propose areas for savings and, indeed, provide detailed savings proposals. Over the summer and early autumn, we developed those proposals and ranked them low-, medium- or high-severity measures.

2506. The ranking was designed to reflect the severity of the measures on our service delivery. We outlined the savings that each measure would deliver and an associated reduction in posts, if any, in each of the four years. The paper shows the ranking of those savings. We have been quite methodical.

2507. Mr McNarry: I can see that, David. However, I want to know about the guiding principles. How did you reach those decisions?

2508. Mr Orr: The low-severity measures are ones that we could implement without any impact on services, an example of which is lease consolidations, where people move into more space-efficient accommodation. At the higher end of the scale, the more severe measures included moving away from the 10-day prompt payment, which we discussed with the Committee in December. As Mr McNarry said, that will have a significant impact on the business sector. Therefore, we took account of the impact on service delivery when we prioritised the savings.

2509. Mr McNarry: I will take you back. It is good management that the process began as far back as June. I welcome that. I take it that you did not have a crystal ball and that you worked on assumptions.

2510. Mr Orr: Yes.

2511. Mr McNarry: The assumptions were pretty close to what was determined in the end. When you made those assumptions did the issue of reductions to the Assembly secretariat arise?

2512. Mr Orr: My DFP budget does not have a budget for the Assembly secretariat; that is a separate departmental budget line.

2513. Mr McNarry: Who took that decision? Did you not discuss reductions to the Assembly secretariat as far back as June or since then?

2514. Mr Orr: The reductions that I described were for the DFP budget.

2515. Mr McNarry: I am trying to probe a wee bit, but you just stuck to the DFP budget.

2516. Mr Orr: That is what we are here to do.

2517. Mr McNarry: That puts me in my place. Thank you. Paragraph 9 of the savings plan states:

"The level of inescapable commitments limits the savings options available to the department."

How is the term "inescapable" defined in that context? Can you show me the proof that expenditure on specific inescapables will provide value for money?

2518. Ms McNeilly: We looked at the areas on which, in the short-to-medium term, the Department could have little impact. For example, depreciation costs across our asset base are largely inescapable.

2519. Mr McNarry: Were inescapables part of the configuration of the guiding principles that we just discussed?

2520. Ms McNeilly: The Department has to recognise that it must pay certain costs, such as running costs. Paragraph 9 tries to illustrate that the level of inescapables in areas such as depreciation, rent, rates and other contractual commitments that we are obliged to meet reduces the balance of where we can apply and deliver savings.

2521. We will, of course, look — in fact, we have already — at how we can reduce some contract costs. That is reflected in the long list of draft savings delivery options, which the Committee has. We have also looked at whether we can extend asset lives and therefore reduce depreciation costs. Those are other areas in which we can apply and deliver savings. However, the sheer quantum of our budget is a factor. There is £122 million in 2009-2010 in those particular areas. Although we take every opportunity to extend asset lives where possible and to reduce rates —for example, in lease consolidation — that nonetheless represents a significant chunk of our spending power and, as such, reduces the extent to which we can achieve savings in those areas.

2522. Mr McNarry: As far as you are concerned, that is the proof that I am looking for? Where you have addressed those specific inescapables, are you saying to me and the Committee that you are providing value for money?

2523. Ms McNeilly: Yes. We are continually reviewing costs and taking every opportunity to make savings. For example, lease consolidation is one of our key savings.

2524. Mr McNarry: I understand that you are continually reviewing things. You say that to me every time that you come before the Committee. However, are you saying to me and the

Committee that you guarantee that what you have put in front of us regarding specific inescapables will provide value for money?

2525. Mr Orr: Yes. One would need to look at each individual line, but if you —

2526. Mr McNarry: You have written all the lines. I am just asking a simple question.

2527. Mr Orr: The answer is yes. I can give an example.

2528. Mr McNarry: No. If yes is your answer, that is your answer. Thank you.

2529. Mr McLaughlin: There are issues to do with inescapables that have to be addressed, including contractual obligations and recurring costs. People must be assured transparently that that term is not going to be used to build a bit of fat into the system. Who quality-assures inescapables? Who decides what is inescapable and what is not? Does it fall to DFP?

2530. Mr Orr: It falls to Deborah McNeilly, as finance director, and to me. We take an overview of all the departmental business areas.

2531. Mr McLaughlin: On any issue that would be given the subheading "inescapable", Deborah provides the assurance to the Executive and Assembly that it represents value for money?

2532. Mr Orr: Yes.

2533. Mr McLaughlin: It may fit snugly enough into the category of "inescapable" because it deals with some recurring or contractual cost, but value for money is a different test.

2534. Mr Orr: Let me give you the example of the contract for Network NI, which is the broadband network for the Civil Service and further afield. We could have taken the view that that is an inescapable medium- to long-term contract for which we just have to pay. In fact, in our savings plan, at line 26, we are taking out £600,000 from that over the four years as a result of negotiations. An element of that is inescapable, but it did not stop the relevant business area, enterprise shared services (ESS), from negotiating that down. Therefore, we are taking a hard look at things that one might think are inescapable.

2535. Mr McLaughlin: Is ESS in the Department?

2536. Mr Orr: Yes, as part of —

2537. Mr McLaughlin: Did it require Deborah to challenge the figure? Are there examples, not of good housekeeping such as you have just given me but where you have been concerned about the bids or opinions of officials in other Departments and sent them back to be reconsidered?

2538. Ms McNeilly: The amounts reflected in the various paragraphs on inescapables are reflected in our resource accounts, which are subject to audit. In the ordinary challenge of our own business areas, it is fair to say that we challenge them, based on what is proposed and the reasons given. We have that role on an ongoing basis.

2539. Mr McLaughlin: Therefore, your role is before the fact and the audit is after it.

2540. Ms McNeilly: Yes, if you like.

2541. Mr McLaughlin: Are we producing any evidence that the assumptions about inescapables are robust and consistent, or are there issues there?

2542. Ms McNeilly: We have identified depreciation. We are required to account for fixed assets in a certain way, to give them an asset life and to get them revalued. The deprecation cost, which is an unavoidable, comes from all those calculations. There is a standard approach across the NICS to asset lives, and the revaluation and the indexation that affect it is standardised across the Civil Service.

2543. We have undertaken a professional revaluation of the office estate, and the professional valuers may increase the asset lives if they feel that to be appropriate. That goes into a calculation for depreciation. Many technical aspects are involved, and, based on them, the answer is what it is. A business area cannot circumvent it and try to make it something different.

2544. We have called rent and rates inescapable because they involve contractual commitments to pay lease costs over a certain period. Although we have built reviews into lease consolidation to take every opportunity to reduce costs, calling them inescapable recognises that, in the short to medium term, there is less likelihood of making material inroads into them. That is the assurance role that we take on those issues. If temporary staff are listed as an expenditure item, one has more influence over it in the short term. That is where we are trying to make the distinction in the definition.

2545. Mr Hamilton: The savings plan includes planned additional receipts for the provision of expert services, business consultancy and legal advice. What assurances are there that those will represent a real saving rather than merely moving costs from one Department to your Department?

2546. Mr Orr: Let me give the example of internal business consultancy, where we have built in increased receipts of £600,000 over the four-year period. The alternative to Departments engaging internal business consultancy is to go to external consultants. Internal business consultancy rates and costs are less than external ones. We know from customer satisfaction that internal consultants are getting good ratings. That is a clear example of our capturing a share of the market and doing things more efficiently. I think that the Departmental Solicitor's Office (DSO) has done likewise; its advice is highly rated by Departments.

2547. Mr Hamilton: That is fair enough. The spending and savings proposals document also talks about a review of opportunities for income generation from surplus land or buildings. When is it anticipated that that review will take place? Have you indications of what those opportunities might raise? Would any savings be for the Department to utilise or would they be handed back to the centre?

2548. Mr Orr: We have no vacant buildings at the moment, apart from Bankmore House, which was recently vacated, and another one in College Street that is being refurbished for occupation and for which we have a tenant.

2549. Our strategy for workplace accommodation is to recognise that now is not a great time to sell buildings. Therefore, in years 1 and 2, we are focusing on consolidating the leases that we take, as roughly 50% of our office accommodation is leased. Getting out of leases by consolidating the workforce into more space-efficient accommodation would be a real resource saving. That is valuable to us and has counted for a good chunk of our savings. That is, at least in years 1 and 2, a better option than trying to flog off our own buildings.

2550. Mr Girvan: The report states that 91 jobs will, basically, be done away with over the next four years. Is there a programme by which to redeploy those people in the organisation or can that be done through natural wastage — not filling vacant posts — so that no one is made redundant or redeployed?

2551. Mr Orr: We have been transparent with trade union colleagues and staff throughout the process. In the January staff brief, we stated that our draft savings plan could result in 90 posts being lost over the four years. We are confident that that, over that period, the number of staff who will leave DFP through natural wastage, retirement or to take up other employment will be around 500. The Northern Ireland Statistics and Research Agency (NISRA) has modelled that for us taking into account the tighter job market.

2552. Of course, the people who will leave through natural wastage will not necessarily be in the posts that we need to reduce. Therefore, we will engage in redeployment. In his new year message to staff, our permanent secretary said that we are doing everything that we can to avoid any redundancies and that staff would be redeployed. At present, I am confident that that will be the case.

2553. On 31 January, we will meet trade union colleagues for a detailed discussion of the savings plans. They have worked with us well on the issue. It is difficult for them.

2554. Mr Girvan: I appreciate your answer. When those posts are made vacant, there will be a management issue to try to ensure that full cover is available. I want assurances that that will not impact directly on service delivery in the public sector.

2555. Mr Orr: As I mentioned earlier, the posts that we have identified as having to be reduced are directly related to the saving measures. We prioritised those savings measures so that posts that have least impact on delivery are those that we will reduce first. Therefore, by definition, the posts that will go are those that are least likely to impact on service delivery.

2556. Mr Girvan: You say "least impact". That does not mean that there will be no impact.

2557. Mr Orr: We can go through the list of savings options. High-priority options are those that will not cost any jobs at all. When we move into posts being removed, we focus on back-office services, corporate services and support services, rather than on front line services.

2558. Mr Girvan: I want to move on to the £5 million savings that are being delivered through the Invest to Save programme for Land and Property Services. What would happen if those anticipated savings failed to materialise?

2559. Mr Orr: The £5 million that you quite rightly mention is an additional allocation to LPS under the Invest to Save category. We have discussed LPS's finances frequently in Committee. I believe that we all recognise that, throughout the Budget period, there was an underlying deficit in LPS's budget of around £5 million arising from the additional rating reforms that were introduced. Therefore, I am pleased that that structural deficit has been addressed. If we do not give LPS that £5 million, it will not be able to bring in the rating income and reduce the debt, which we and the Committee expect of it.

2560. We have not quite finalised the figures for next year, but I expect that LPS will bring in approximately £1 billion worth of rating income, split between the councils and the block. If it does not receive the additional funding of £5 million, it will not be able to bring in anything like that amount. Therefore, it is a good Invest to Save bid.

2561. Mr Girvan: Given the reliance on Invest to Save and the realisation of savings, is it fair to say that a firm baseline for Land and Property Services has still not been established?

2562. Mr Orr: The Executive provided LPS with an Invest to Save budget of £5 million in years 1 and 2. The Department provided it with £5 million from its savings in years 3 and 4, because it recognises that LPS is important. Its budget is now on an even keel and its chief executive John Wilkinson has welcomed that. It has been put on a firm financial footing, which is a good thing.

2563. The Chairperson: You said that 500 staff are to go in the next four years, which is a reduction of around 15%.

2564. Mr Orr: No. Ninety will go over the next four years. Did I pick you up wrong?

2565. The Chairperson: You said that 500 will go.

2566. Mr Orr: Five hundred will go from the Department —

2567. The Chairperson: The Department will be minus 500 staff over the next four years.

2568. Mr Orr: Yes.

2569. The Chairperson: That represents around15%.

2570. Mr Orr: I do not want to frighten anyone back at base. If there were no job reductions and the number of posts in DFP stayed stable over the four years, we would probably lose around 500 people through retirement, natural wastage and people escaping. Those posts would be replaced through recruitment and promotion, through what is a natural ongoing process. The proposals that we are making as a result of the draft Budget mean that the number of posts will reduce by 90 over the period, and we should be able to manage that.

2571. The Chairperson: Are you saying that those 500 posts will be replaced?

2572. Mr Orr: On these figures, 410 posts will be replaced.

2573. The Chairperson: You outlined that that Senior Civil Service posts have reduced by 43, and the paper indicates that further reductions are in the pipeline. How many of the 91 posts that will go are Senior Civil Service posts?

2574. Mr Orr: We have reduced our Senior Civil Service numbers by approximately 10% since March 2009, and our savings delivery plan identified the potential for some other savings to be made. I can outline those if you want, but, as I would be dealing with individual posts, I would prefer to send you a written response on which posts were identified.

2575. The Chairperson: That is OK.

2576. Mr Orr: A further two or three will come out over the next year.

2577. Mr Frew: I thank the witnesses for their answers so far. Page 30 of the paper deals with procurement and refers to the opportunity to renegotiate contracts. You have partly addressed the issue through lease consolidation over the years, but what measures are in place to reassure us that the Department will not just take the low-cost option when renegotiating contracts? In my previous life, I dealt with contracting a great deal, albeit a different type of contracting, and, in my experience, there was always a tendency for the client to go for the cheapest option, which was not always best for value for money, let alone service delivery. What reassurances will you give the Committee that the Department will not do that when renegotiating contracts?

2578. Mr Orr: I fully agree with your point that lowest cost does not mean best value. Government procurement policy is to procure on the basis of quality and price, and that measure is monitored carefully by the procurement board. The starting point for centres of procurement expertise — Central Procurement Directorate (CPD) is our centre of procurement expertise — is that, when clients come to them and say that they want to buy a new public records office, or whatever, they should ask what quality measures the clients want to take account of in the procurement. Typically, we find that the proportion of quality to price in the assessment is around 30% to 70%. We are keen on that, and that is the starting point of the policy.

2579. Mr Frew: Thank you for your answer. Page 10 talks about accommodation. It states:

"As a result, we have had to reduce maintenance expenditure to unsatisfactory levels in order to live within our means and this has contributed to the deterioration of the estate."

In view of that, how was properties division able to declare a reduced requirement of £2 million in the December monitoring round? How do you account for that? Have any buildings deteriorated to below the minimum standards that are required by health and safety regulations?

2580. Mr Orr: The reduced requirements in the monitoring round were to do with depreciation of the estate. In the Government's accounting system, which we have to live with, we have to find non-cash cover for whenever our property depreciates. There is a revaluation of the estate. The value went down, and that means that we have non-cash to give up. That is not the same money that we are using to maintain the estate but is a technical financial provision.

2581. Mr Frew asked a very appropriate question about the maintenance of the estate. I make no bones about the fact that large parts of our estate are not maintained as we wish them to be. We simply do not have the money to do that. We have ranked our buildings in order of merit, and the worst ones are Dundonald House and Rathgael House. However, I assure the Committee that there is a level of statutory health and safety maintenance below which we will not go. We will not compromise on lift inspections, legionella inspections, water quality, and so on.

2582. We want to spend money on areas such as repainting offices and keeping them in good condition but cannot. If window frames are painted at home, they will not have to be replaced in a few years. Had we not received the allocation, we might have had to postpone maintenance in some of those areas. However, thankfully, we received that bid and, together with the savings from lease consolidations, it puts us on a better footing.

2583. Mr Frew: You mentioned Dundonald House as one of many buildings that are high up the order of merit.

2584. Mr Orr: The order of demerit.

2585. Mr Frew: That is probably the best way to put it. I am not 100% sure where we are with Dundonald House, but we are aware that the Department of Agriculture and Rural Development (DARD) is looking to move out. In what timescale will that take place, and is there an argument in favour of keeping it to the minimum? What will happen to Dundonald House when it is vacated?

2586. Mr Orr: The permanent secretary of DARD has contacted me to talk about his Department's plans for Dundonald House, which were announced as part of that Department's spending and savings plans. It looks on that as a DARD project. That is one of the interdependencies that we have to manage, and it is one of the reasons that, sometimes, we cannot be as precise with our plans as the Committee wants us to be. DARD is starting a project to look at that. It is not for me to speak on behalf of DARD, but I know that it has earmarked money in year 4 in its departmental plan. We will have to react and tailor our plans to deal with DARD's as its plans progress. We need to be flexible and agile in order to tie in with other Departments' plans.

2587. Mr Frew: Do we know what we will do with Dundonald House when DARD moves out? Do we sell it on or maintain it and move someone else in?

2588. Mr Orr: We have looked at Dundonald House, and there are some associated buildings that we would package together with it. The cost of refurbishing it, or demolishing and rebuilding it, is in the region of £60 million. In our initial calculations, it was much of a muchness as to which we should do. As the picture becomes clearer, we will make a business case and look at the options. We have not our minds made up yet. It will require detailed study.

2589. Mr McQuillan: My question follows from Paul Girvan's on Land and Property Services. An extra £5 million revenue has been granted it by the Invest to Save scheme. Are there targets so that we will be able to see an improvement in performance?

2590. Mr Orr: In our business plan, we will put in place targets. It is at R4 on page 6. The targets are not set out in the initial document, but Land and Property Services will have a target to collect a certain amount of rates revenue and a target to reduce year-end debt. We are currently working on a model of what those targets should be, on a stretching and challenging basis.

2591. Mr McQuillan: I will move on to NI Direct. Some £2·8 million has been allocated to it under the Invest to Save programme. During the consultation period, the Department will carry out a review to see whether it fits into the Invest to Save scheme.

2592. Mr Orr: We are well on with that and have developed a business case to fit within the £2·8 million. To be open with the Committee, £2·8 million is a reduced amount. The initial money this year for Northern Ireland Direct was £4·8 million, but, like everyone else, we have had to reduce our aspirations and cut our cloth accordingly. We have discussed what could be delivered for that £2·8 million with our sponsor group and some external stakeholders.

2593. We are confident that we can deliver value within the £2·8 million. We will build on the NI Direct single website, include more transactions on it and further improve and consolidate it. At the moment, any citizen who wants to know anything about government business should go to the Northern Ireland Direct website. It is all there by themes, which mean things to the citizen, not by Departments, which are meaningful only to us. On the telephony side, over the first year of the Budget period, we will work with Departments to reduce their numbers to a limited range of service numbers so that if the citizen wants to report a pothole or a street light failure, there will be service number for that. At the moment, the citizen has to look up the number for the local office, perhaps not get the right one and be bounced around the system. Therefore, there will be service numbers for specific services. We will also introduce our 101 number as a general inquiry number. If the citizen does not know the service number, he or she can dial 101 to be put through. We have thought that through, and we think that we can deliver something that will be of value to the citizen within the £2·8 million.

2594. I again extend a welcome to the Committee to come, perhaps not in this mandate but in the next one, to the contact centre in either the Causeway Exchange or Derry to see that in operation.

2595. Mr McQuillan: I would be interested to see that in operation. Are you sure that the review will show that the programme fits that?

2596. Mr Orr: Yes; we have put a great deal of work into making it work.

2597. The Chairperson: It is marked down in the paper that £21·5 million of capital has been allocated to enterprise shared services (ESS) systems maintenance. According page 16, that would, among other things:

"ensure that all of ESS's services remain responsive to customers' needs, particularly given the level of change which is likely to be required as a result of policy and legislative changes over the period."

Will you give us more detail about what those changes will be over the forthcoming Budget period?

2598. Mr Orr: Was Paul Wickens here last week or recently or is he due to come before the Committee?

2599. The Chairperson: No.

2600. Mr Orr: It may be an idea for us to schedule a session at which Paul can speak about that in more detail. That capital funding is largely for refreshing desktops and important infrastructure on the IT side, such as data centres, because it is vital that data be stored resiliently and securely. Capital is going towards that sort of programme. As regards expansion, now that policing and justice powers have been devolved and the Department of Justice has come into the Northern Ireland Civil Service family, ESS is working closely with that Department, because there are clear benefits to be had from its using some of the shared services.

2601. However, we need further detail in order to answer that question fully, and Paul Wickens, the director of shared services, is the person best placed to do that.

2602. The Chairperson: The capital budget over the four years seems to be very heavily weighted towards the final year as a result of the accommodation services allocation. Does that need to be spaced out so widely? Your document states that the reason for that is to allow the Department to plan and implement major investment in the last financial year. However, could some items of construction work be brought forward, given the pressures on the construction sector at the moment?

2603. Mr Orr: Such work could be brought forward by a year or 18 months. If someone said to me today that we could get that £16 million at the beginning or middle of year 3, we would be able to procure, plan and get planning approval, and so on. In practice, however, we are restricted by the fact that the Executive gave us the money for that funding year. The Executive have a capital profile that they have to disperse, and our capital happens to have been allocated in year 4. That is not, therefore, really within our control; to a certain extent, that is the funding profile that we have been given. However, to answer your question, if someone brought that forward into year 3, we could deal with it.

2604. The Chairperson: I thank you and your officials for answering our questions today. Would you please provide the Committee with any follow-up information that was mentioned during the presentation?

2605. Mr Orr: Yes, of course.

26 January 2011

Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan

Witness:

Mr Trevor Reaney Northern Ireland Assembly

2606. The Chairperson (Mr McKay): I welcome Trevor Reaney, the Clerk to the Assembly/Director General to the meeting. Trevor, I invite you to make an opening statement.

2607. Mr Trevor Reaney (Northern Ireland Assembly): Thank you, Chairman, for the opportunity to attend the meeting on behalf of the Assembly Commission and to make some remarks. Committee members will have received the Commission's submission, on which I will make some comments and draw out some points. Following that, I am happy to take questions and to follow up on any detail that Committee members may seek.

2608. The Commission's approach to the spending review process has been to play a full part in dealing with the pressures on public sector spending. It took the view that it should at least match savings that are expected in other parts of the public service, and it is mindful of the resolution on the Assembly's running costs that was passed in the House on 8 November 2010. It is fair to highlight that the Commission and the secretariat that seek to support Members, Committees and the Assembly are, in parliamentary institutional terms, still in their infancy. As such, over the past few years since the restoration of devolution, the Commission has sought to build the capacity and effectiveness of the institution through the support that it provides. That has been an important part of the Commission's work in recent years.

2609. In approaching the spending review, the Commission established a target of a real cut of 13%, which exceeds the view of the House in November, the reduction in the block grant and the reduction required of Departments. Ultimately, the Commission agreed a reduction of 13·3% together with a commitment to undertake efficiency reviews to drive out further cost savings as we go through the spending review period.

2610. It may be useful if I took a moment to explain the make-up of the Commission's budget. I ask Committee members to turn to annexe A to the report, which provides a few broad headings for costs in the Commission's 2010-11 budget and projected budgets. I will briefly explain each to assist members' understanding. The first heading is "Members costs (subject to IFRP)". The IFRP is the independent financial review panel, which is in the process of being established as the Assembly Members (Independent Financial Review and Standards) Bill passes through the House. The budget for Members' costs this year is £16·4 million. There will be an increase next year to £17·4 million, with an estimated £1 million being used to pay winding-up allowances and resettlement allowances following the election in May. That money is a one-off cost every four years. Within the budgets and estimates, we have been able to absorb that cost without seeking to bid for any additional funds.

2611. In the remaining years, you will see that the figure is, in a sense, frozen, although there is a slight adjustment for rounding. The reason for that budget line applies equally to office costs, allowances, Members' salaries and other administrative costs. The independent panel will, in due course, establish the rates of Members' salaries and the allowances that go with that. That will be outwith the control of the Assembly and the Commission; therefore it is impossible to predict and control what those figures will be. In constructing its budget, the Commission has, in a sense, flat-lined those costs. If the outcome of the independent panel's deliberations is to increase the budget, it would be necessary for us to seek to bid for additional funds as and when that need may arise.

2612. The second line relates to the party allowance, which is the financial assistance to political parties. Again, the Commission takes the view in its budget to freeze that over the four years. To give effect to that would require an alteration to the regulations on party allowances. However, they have, in a sense, been frozen over that period.

2613. Secretariat costs are, if you like, the Assembly's running costs; they represent the current budget of £26·9 million. Members will see that falling over the four years. Those costs are largely for staff who support the Assembly. They also include all the Assembly's other running costs: property, the Building's running costs, and Committee support, such as travel, refreshments, specialist advice, and so on. That is the totality of the Assembly's running costs for salaries and goods and services.

2614. The final category is non-cash costs that relate to, as members will appreciate, depreciation and other issues such as charges for capital. Our total budget for 2010-11 is £48·4 million. Members will see the reductions. The total real cut in costs is the 13·3 % that is shown below the table. Ultimately, there is a total cash cut of 4·9%. Chairman, that gives you a breakdown of the resource element of the Commission's costs.

2615. Perhaps I could take a moment to discuss capital costs. I refer members to paragraphs 11 to 13 on pages 5 and 6, which show the capital costs for the Assembly Commission's bids. Members will see that we have a total bid of some £11·5 million over the four years. At the top of page 6 members will see how that is broken down. The significant element of it relates to proposed repairs to the roof of Parliament Buildings. Members who have offices on the third or fourth floors might be aware that, from time to time, there are buckets in the corridors and various patching repairs have been done over the years. That significant piece of work is required.

2616. The phasing of that, which is estimated at £6 million, is £1 million in 2011-12; £4 million in 2012-13; and £1 million in 2013-14. The other capital costs relate to IT and other matters that are required, including investments and further works to improve Parliament Buildings. Members will be aware of our desire to make the best use of facilities in Parliament Buildings. That requires some investment of costs in, for example, Committee rooms and office accommodation.

2617. That is a brief overview of the Commission's submission. I am happy to take questions on it. I want to draw your attention to paragraph 8 on page 3, which sets out the comparisons and benchmarks of figures that the Commission has adopted in its budget. Making comparisons against the block grant — the resolution that was passed in the House in November 2010 — and, indeed, with regard to point 8.4, which shows the 12% savings that are being introduced in the Scottish Parliament and the Welsh Assembly Government, we see that the Assembly is slightly above that. By comparison, the Commission believes that it has gone beyond the will of the House and has, indeed, exceeded some of the other comparators that are set out in the paper. That is probably enough by way of brief introduction, and I am very happy to respond to questions and provide more information.

2618. The Chairperson: A number of members have concerns about the extent of the real cuts to your budget, particularly about the fact that, before the Budget was announced in December, the Assembly Commission seemed to be under the impression that the cut would be about 13·3% whereas the real cut was almost 12% more than that — almost double. Can you outline the communication between departmental officials and the Assembly in the lead-up to that? Did you expect such a significant cut in December?

2619. Mr Reaney: It might be useful to refer to paragraph 3 on page 2. By way of background, the Commission examined the mechanism by which the Assembly is funded or, in other words, its constitutional position. It has been the practice since the establishment of the Assembly — it has worked to date — that the Assembly is provided with the funds that the Assembly Commission deems that it needs to fund the running of the Assembly. In the normal course of events, that has allowed communication between my officials and DFP officials to obtain the necessary funds and to deal with that through monitoring rounds.

2620. Members will note that a DFP document set the Assembly Commission outwith DFP's spending review process. In that sense, the Commission's work ran in parallel with what DFP was undertaking. I had some meetings with officials, and, indeed, the Speaker met the Finance Minister at our request. However, that highlights the need for us to find a mechanism that is more formal and more appropriate for dealing with the Assembly Commission's budget. The dual process has not, perhaps, been as helpful as it could have been. Indeed, the end product was not what the Commission expected from the draft Budget figure, and there was some surprise and disappointment at that.

2621. Paragraphs 17 and 18 show that we have looked at the position in other places, specifically at the mechanisms by which the Scottish Parliament and the Welsh Assembly Government are funded. There is a relationship there with a Committee of their respective Houses, and the Commission presents its budget for scrutiny. As we look at what mechanisms are most appropriate in the new mandate, the initial contact between the Commission and this Committee might develop in the future in a helpful way to determine and scrutinise the Assembly Commission's budget.

2622. Mr Hamilton: I apologise to you, Chairperson, to members and to Trevor, as I must leave shortly to attend a funeral. Thank you for your presentation and your paper, Trevor. At the outset, I must express my unease. I knew that we had sought information from the Assembly about its budget, but I was not aware that we had explicitly sought an oral briefing on it. However, that is neither here nor there. I am a bit uneasy about the Committee delving into one particular budget area only. We have not done that in the past, and I do not think that we propose to look at other Departments' budgets this time. I am concerned about the perception of unfairness that could be created by the Committee's looking into a budget line that deals with Members' allowances and party allowances. I want to put that on record.

2623. As with most budgets, staffing costs seem to take up by far the bulk of your budget. Your submission shows that staff costs account for about £25 million or £26 million out of a £48 million total budget. I notice that a pay-and-grading review is referred to. What provoked that?

2624. Mr Reaney: That issue arose shortly after the Assembly was first instituted in 2002, if my memory serves me correctly.

2625. It was an exercise that was commenced by the then Commission to determine the appropriate rates of pay for staff in a parliamentary institution. In Scotland, Wales and Westminster, there are different arrangements and pay structures relevant to the work of a parliamentary institution. In 2002, the Commission commenced a process that was put in abeyance during suspension; it was picked up again on the restoration of devolution. The

Commission has been anxious to move that exercise to a conclusion, and it seeks to do so in the pay negotiations for the past financial year.

2626. Mr Hamilton: Have you an estimate of what that might cost or can you not reveal that?

2627. Mr Reaney: You will forgive me for being a little bit hesitant, as the Commission needs to enter into negotiations; therefore I am reluctant to divulge publicly specific figures that might compromise those negotiations. However, in making a decision, the Commission is very aware of the current pressures and has sought to be modest in its approach.

2628. Mr Hamilton: In my experience, very few pay-and-grading reviews result in a reduction or freezing of wages. What is the overall pay bill made up of? I realise that there are salaries, wages and national insurance, but are bonuses included?

2629. Mr Reaney: Perhaps, Chairperson, I could return to an earlier point. Of the £26·9 million that was voted for 2010-11, £17 million is salary; the other £9 million or £10 million is running costs: goods, services, utilities and so on.

2630. Mr Hamilton: Fair enough. Does that £17 million for salaries, wages and national insurance include bonuses?

2631. Mr Reaney: It covers wages, insurance and pension costs, including some allowances for IT, for example, and typing. Staff also receive a £1,000 allowance in respect of their work at the Assembly. Those are all issues that the Commission has been seeking to resolve in the pay-and-grading exercise.

2632. Mr Hamilton: You said "staff"; what staff receive that allowance and for what?

2633. Mr Reaney: If my memory serves me correctly, it was introduced by the Commission in 2001. At that time, the Commission determined that it was a necessary addition to reflect the work of the Assembly. It is a contractual condition, and it has remained in staff's pay and conditions. It is something that the Commission is mindful to try and address to have a salary scale for staff that is appropriate to the work of the Assembly without any allowances being added to it.

2634. Mr Hamilton: Do all staff receive it?

2635. Mr Reaney: Yes.

2636. Mr Hamilton: A £1,000 bonus every year for all staff?

2637. Mr Reaney: All staff.

2638. Mr Hamilton: It is not related to performance; it is just a standard bonus. Is there a particular reason for it?

2639. Mr Reaney: It is a standard allowance; it is not a bonus. I should differentiate between the terms. It is related to the work of the Assembly.

2640. Mr Hamilton: And that is being maintained?

2641. Mr Reaney: It is currently there, and —

2642. Mr Hamilton: And it is factored in?

2643. Mr Reaney: It is factored in, yes.

2644. The Chairperson: The Committee met two weeks ago to discuss this issue. We invited the Audit Office and the Assembly Commission to provide a written submission and the option of presenting oral evidence to the Committee. The Assembly Commission took up the latter option. That is why Trevor is here today.

2645. Mr McNarry: Welcome, Trevor. Can you outline for me the impact that the proposed reductions would have on the Commission's legal responsibilities?

2646. Mr Reaney: If you are referring to the draft Budget proposals —

2647. Mr McNarry: I have to refer to the draft Budget proposals —

2648. Mr Reaney: Rather than the Commission's budget —

2649. Mr McNarry: And the draft Budget.

2650. Mr Reaney: In bald terms, the draft Budget would have a very severe impact on the ability of the secretariat to support Members and Committees. It could impact across a range of services: clerking services to Committees, research services, legal advice and so. In simple terms, if the draft Budget figures were adopted, by year 4 the Commission would be some £6·5 million short of what it estimates it needs to support the Assembly effectively. To implement that level of cuts would require a significant reduction in staffing. It may also, if the Commission and Assembly were so minded, result in a reduction in Members' salaries, office costs allowance and the financial assistance that is given to political parties to try to recover that £6·5 million. It would have a significant impact.

2651. Mr McNarry: From what you see at the moment, is there any prospect that the draft Budget will reduce the Commission's own budget to such a level that it would interfere with the Commission's performance of its legal responsibilities?

2652. Mr Reaney: The Commission is engaged in discussions on the broader point of the differential between the Commission's budget and the draft Budget figures, and it hopes that that differential can be resolved. It is helpful to emphasise the work that will be undertaken by the proposed efficiency reviews. The Commission recognises that it can achieve further savings — but through a process of review and identification and in a planned and managed way. At its meeting yesterday, the Commission agreed the establishment of a project board to take forward that work and we expect it to deliver some additional savings. However, the extent of the proposed savings in the draft Budget would have a severe impact on the services that are provided.

2653. Mr McNarry: In the same manner, will you outline the direct effect there could be on services to Committees such as this and to MLAs such as us? Will you also outline what effect there could be on the excellent assistance that Members receive from the Business Office and Hansard, which is evident here today? If the draft Budget was to go through, would those services be downgraded? Will those services be maintained at the level to which we are accustomed, or is there room for some shaving that would not be detrimental to their performance?

2654. Mr Reaney: The broad principle of "can we do better and can we be more efficient?" has been accepted. The Commission recognises that and is moving forward with reviews that will help to drive out great savings and efficiencies.

2655. Mr McNarry: I get this every time, Trevor. Everyone who sits in that seat tells me that they are carrying out reviews, yet those reviews always seem to be carried out after the horse has bolted. We have an issue that directly impinges on a Budget on which we must make up our minds. I am more interested in the now rather than tomorrow, which is why I am asking the question. I am happy — although I am a bit cross sometimes — with the assistance that MLAs receive. I will not embarrass the staff here, but the staff on this Committee, like other Committees on which I serve, are very good and reliable and I want to protect that. However, I am anxious that, despite what you are looking to in the future and what might happen with efficiencies, we will lose some of it if the draft Budget is implemented. Is that the case?

2656. Mr Reaney: Yes. It would not be possible to maintain the same level of service that is provided for Committee and plenary meetings. We would also have problems dealing with the significant volume of legislation; it simply could not be coped with if we had to absorb such significant cuts, because we would have to make a significant number of staff redundant if the proposed cuts were introduced. If the 5% year-on-year cuts were also applied to Members' costs, it would result in a significant reduction in the OCA. Furthermore, and forgive me for straying into this territory, but as we cannot reduce the number of MLAs, the only way to reduce costs would be to reduce the salaries that are paid to MLAs, and that would have to be done to try to balance the books. However, that is a very worst-case scenario.

2657. As I said earlier, the Commission is seeking to resolve that —

2658. Mr McNarry: Are you saying that, if we were to reduce the number of MLAs — I note that you have not given a number — and make other reductions in our organisation, perhaps this budget would fit? Is this a draft budget designed for something that has not happened yet?

2659. Mr Reaney: Mr Speaker. Sorry, Chairperson —

2660. Mr McNarry: Gosh, you are doing well.

2661. Mr Girvan: Promoted twice in two days.

2662. Mr Reaney: It is not be for me to comment on what motivates a particular draft budget. It is for those who put the figures there to present them. However, on the number of MLAs, the structure of this organisation, the number of Committees, and so on, we all recognise that at some point in the future there will be some change. However, those are political decisions. All I can say about that is that, when those changes take place, the Commission will respond to them. In the interim, the budget that the Commission has approved is to support the 108 MLAs and the range of Statutory and Standing Committees that exist at present.

2663. Mr McNarry: In particular over the four years?

2664. Mr Reaney: Yes, over the four years.

2665. Mr McNarry: I will now let you look into your crystal ball. How do you defend the Commission against the accusation that is out there? It is implicit in the paper. It is strange that, of all the cuts that are to be made, the severest ones are into the Commission, in percentages. You have already addressed that. How do you defend the Commission from the accusation — there is nothing personal in this — that it is too fat? It is said that it is overweight, that it should be leaner and that you are not doing anything to make it leaner, but the Minister of Finance and Personnel and the Executive are doing something. They are doing that for you.

2666. Mr Reaney: The Commission is mindful of the need to be as lean and mean as it can be. As such, the staffing levels and the complement of the Commission have been reducing. If we look back to 2007, when a review of the secretariat was undertaken, the staffing level at that time was 463. Our current budget is for 440, and, under these figures, we are pushing that down to 410. With efficiency reviews, we anticipate going beyond that. Therefore, the Commission is addressing its need to be efficient and streamlined, and it will continue to do that.

2667. Mr O'Loan: Thank you for attending, Trevor. Let me address the point that Simon Hamilton made about his anxieties about the chief executive of the Assembly coming before the Committee. The Assembly Commission's role is different to that of any other Department. Departments are Executive Departments. They have scrutiny Committees and, we take opinion from those Committees. However, there is nothing equivalent in nature to the Assembly Commission, which runs the Assembly. It has a very important task in ensuring that there are resources available to enable the Assembly to carry out its important democratic function. When there is an important debate about the resource that is given to the Assembly Commission to do its job, it is proper that this Committee asserts itself and gets the full evidence in front of it.

2668. A very unsavoury situation has emerged, in that the Assembly is now challenging one of the Executive Departments — the Department of Finance and Personnel — and others involved in the leadership of the executive process. For that to happen in the public arena does not paint the whole workings of government in a good light. It does absolutely the opposite. I place the blame where it rests. It is a situation that should not have arisen.

2669. The Assembly Commission did its job very well. It faced the responsibilities well ahead of time. It saw the difficult economic situation that we were in and that there was an onus on it to take its share of the burden. Trevor has explained very well how it addressed that. It offered a 13·3% reduction in real terms, which, as he points out, is significantly ahead of the overall budgetary reduction coming from London. It was putting into effect the will of the Assembly and ahead of reductions that were emerging in equivalent legislatures in the devolved regions of the UK. We have seen no reason at all why such a different view was taken in the draft Budget.

2670. Quite a bit of my question has already been addressed. However, you spoke in very broad terms about the effect on the running of the Assembly and on individual Members, but you did not quantify that in detail. Is there a reason that you did not do that? Can you say how many staff would be lost if the draft Budget were to go through?

2671. Mr Reaney: I am happy to go into the detail. Obviously, there have been some projections around suggested reductions in staff numbers and office cost allowance (OCA). However, the figures are indicative and are not, therefore, precise. Nevertheless, if all the cuts in the draft Budget were applied to the secretariat's running costs — this does not touch Members — our staff numbers would fall to well below 300.

2672. Mr O'Loan: From?

2673. Mr Reaney: Our current projection of 410.

2674. Mr O'Loan: Therefore, more than a quarter of the staff would be lost should all the cuts be applied. What is the scope for a broader apportionment, and what would the consequences of that be?

2675. Mr Reaney: If there were a broader apportionment, we would probably be looking at perhaps another 70 or 80 below the 410 staff having to go; and if we applied that to office cost allowance, we would see that drop from where it currently sits at almost £76,000 to £61,000 or £62,000. There would, therefore, be a reduction there of around £14,000 a Member. Indeed, as I mentioned earlier, although we cannot reduce the number of MLAs to try to constrain the pay bill, the salary of an MLA would probably fall by £8,000 to accommodate that cut. Those are indicative, blue sky figures. However, they indicate the scale of the impact of the draft Budget figures.

2676. Mr O'Loan: Over the years, I have seen the service that staff provide directly to Committees here improve, in particular the service from Research and Library staff and the very important background staff. We get very high-quality research and support, which are necessary to the Committee. Significant recruitment exercises had been going on during that time. Are you, therefore, content that staffing has got a level at which Members of the Assembly are being adequately supported to do their job?

2677. Mr Reaney: The Commission undertook a Members' survey around 18 months ago, and, at that time, very high levels of satisfaction were reported with the range of services provided. Indeed, another survey will be undertaken within the next few weeks to gauge the response again. Generally, the level of service is of a high quality and is very supportive to Members and their work. However, there is always room for improvement, and we will continue to seek to do that. Nevertheless, the level of service is high, and it serves the institution well.

2678. Mr O'Loan: Simply, is the draft Budget acceptable to the Assembly Commission?

2679. Mr Reaney: The simple answer is no. The Commission has come to its position, and it believes that the budget that it has agreed is the appropriate way forward. I indicated that the Commission is in discussions and seeks to resolve the issue, and I sincerely hope that that can be done.

2680. Mr O'Loan: Finally, you say that the process to set the Assembly's budget requires further consideration. That is clearly right. As I said at the outset, this is a very unsavoury business and should not have been allowed to happen.

2681. I note the quotation that you took from the departmental guidance. I know for a fact that what DFP says there about the Northern Ireland Audit Office (NIAO) is plain wrong. That is not a full statement of the due process, as currently stated, that is used to support the NIAO. We certainly should not take that statement at face value or even as a proper statement of what should pertain at the moment. Does the Assembly Commission feel that, under what it understands to be the current rules, it has been adequately and properly dealt with by the Department?

2682. Mr Reaney: The Commission views the current situation as very unfortunate but is making every effort to resolve that and to reach a satisfactory outcome.

2683. Mr O'Loan: I fully understand the discretion that Trevor exercises. I hope that we can get out of this one. As I say, it has cast the whole Assembly in a very bad light.

2684. Mr McLaughlin: I will pick up on issues that you have, to some extent, touched on in answers to previous questions. I take on board that we are not the relevant scrutiny Committee, but the issues are referred to in your presentation. The issue of the Assembly-specific allowance was raised, and I have heard it quoted as an extravagance or as an issue that must be addressed, partly in defence of the approach that is reflected in the Commission's draft budget.

The wording is: "the Commission's desire to have a pay structure which does not include an Assembly specific allowance."

2685. Is that the actual position or does the Commission have a policy direction? You said earlier that it is a contractual obligation. Are you in a position to indicate how that issue can be resolved and, in a sense, regularised?

2686. Mr Reaney: To repeat an earlier answer, the Commission wants to set salary scales for staff in the Assembly that are appropriate for the work that they do and that do not require any additional allowances, such as the one to which you refer. The pay and grading exercise is just concluding, and we will shortly enter into negotiations with trade union side. The Commission's strategy to address that issue is included in that.

2687. Mr McLaughlin: You mentioned contractual obligations. Does that mean that you cannot simply change terms of reference or terms of employment? Is it a legacy issue that goes back to days when the Assembly's ability to sustain itself may have been open to question? I understand that that was part of the rationale, going back to 2002. However, does the review include the removal of that allowance as a specific term of reference?

2688. Mr Reaney: Yes. You mentioned the contractual entitlement. It is a contractual —

2689. Mr McLaughlin: I understand that.

2690. Mr Reaney: We cannot unilaterally make any change. The aim, in consultation with trade union side, is to negotiate an agreement that resolves the issue.

2691. Mr McLaughlin: I am interested in paragraph 17, which I interpret to indicate considerable unease with how the process of setting the Commission's budget is conducted at present. If issues arise from the draft Budget, can you give us an indication that, as the person responsible, you were consulted before that figure emerged?

2692. Mr Reaney: We received an informal indication — although there was no formal communication — that that was the thinking. The Speaker wrote to the Minister of Finance and Personnel on 15 November to advise him that the Commission's target was a 13% real cut. That was the basis on which the Commission proceeded and kept the Minister informed —

2693. Mr McLaughlin: That is in your presentation. I am quite sure that other Departments were consulted and engaged with. Did anyone from DFP or someone who represents the Executive sit down with you specifically to discuss the variance between the position that was indicated and the final position?

2694. Mr Reaney: In advance of this, the Commission was operating to establish its own budget in the normal way that it does. I made contact on a small number of occasions with DFP officials and met to discuss the issues to inform them of the Commission's approach. In the course of those discussions, they indicated the view that has appeared in the draft Budget.

2695. Mr McLaughlin: I want to associate myself with the remarks about the due diligence that the Commission has taken to match and surpass some of the targets set. Your performance, and your submission compared with other Departments', indicates and vindicates that.

2696. I am particularly interested to know how such a significant difference of opinion can emerge in a process that is meant to be dynamic and interactive. The draft Budget contains a figure that is approaching twice what you submitted. You have given us a clear rationale and set out the basis on which you approached the task and the savings that you identified. I hear, from what you say today, that you may be able to identify some further savings.

2697. How can such a difference emerge? Or are we talking about something else altogether? Is this about putting manners on the Commission and, by extension, the Members? Has there been any engagement, prior to the setting of the draft Budget, that indicates that at least there was a genuine discussion and debate, even if people had different outcomes in mind? Or are we dealing with a different dynamic altogether?

2698. Mr Reaney: Let me go back to the quotation from the DFP document. There was not an expectation on DFP's side that it would engage with the Commission. That is clear from DFP's document. In previous Budget discussions, the Commission has not proactively engaged with DFP. The understanding has been that the Assembly Commission determines its budget and then that is provided. It is for the Assembly Commission to determine. I took the view that I should keep in contact with DFP officials during the process, as did the Speaker with the Minister of Finance and Personnel. The Commission's position throughout those discussions was very clear, and that was articulated formally to the Minister on 15 November.

2699. Is that a satisfactory process? From the Commission's point of view, it is not. That is why it has previously looked at systems in other places and wishes to have in the next mandate some discussion around having a system that is more effective and appropriate to a parliamentary institution, rather than to a Government Department, which is under the control of the executive arm of government.

2700. Mr McLaughlin: Before the Assembly comes to the debate and the final decision on the Budget, is the engagement of a quality that would indicate that some kind of accommodation or acceptable joint position can be achieved?

2701. Mr Reaney: It is my sincere desire, and the Commission, which met yesterday, is hopeful that that can be achieved.

2702. Mr McLaughlin: That does not quite answer my question. This Committee has to consider for its report whether this is something that it wishes to comment on. The process is already under some significant time pressure. If there are loose ends to be tied up or issues that need to be resolved, the Committee should consider how it can use its influence with DFP to facilitate that.

2703. I accept absolutely that you would wish to have that agreement. This is not fair to say, but I am looking for some indication as to whether you are engaged in the type of meaningful dialogue that makes a resolution of the issue possible.

2704. Mr Reaney: The answer to that is yes. I am hopeful, and the dialogue is ongoing. I sincerely hope that an accommodation can be reached at the end that is satisfactory.

2705. Mr McLaughlin: The Committee may want to consider recording its concerns with the Department and to seek an assurance from the Minister.

2706. Mr McNarry: Supplementary to what Mitchel has said, there will be a take-note debate on the draft Budget in the Assembly on Monday. Will the Chairperson of the Commission or someone nominated by the Commission speak in that debate to put forward the Commission's view on the draft Budget?

2707. Mr Reaney: I do not think that the Commission has considered whether it will make a contribution to that debate, but it will keep it in mind.

2708. Mr McNarry: Hang on, this is Wednesday and the debate is on Monday. There are elected representatives on the Commission who should be putting forward their views in the House. I would welcome hearing those views, and I would be concerned if Commission members were reluctant to speak in the debate. They take questions in the Assembly, and I would be concerned that the Commission is pushing something on to this Committee that it is not prepared to do itself. Indeed, a doubt is creeping into my mind that that may be the case.

2709. Mr Reaney: There is no hesitance on the part of the Commission to explain or defend its budget submission; that is not the issue. As I expressed earlier, there is a desire to get a resolution, and, if that can be achieved quickly, the issue will have been dealt with. The Commission will consider whether it wants to make a contribution in due course.

2710. Mr McNarry: I am all for you. However, it seems that you are hedging your bets, and if you are going to do that, you should not waste my time. I am all for giving people any assistance that I can, but, until such times as I know what your Commission is going to do, I am reluctant to give it my support. Furthermore, although I welcome you here, I would have thought that the Chairperson of the Commission should be sitting beside you today and giving this Committee the respect that it deserves. You have put a doubt in my mind that must be cleared. I will not be used.

2711. Mr Reaney: The Commission is not seeking to use this Committee in any shape or form. Commission members are happy for me to come and provide evidence and information. They will seek to fight their own corner in their own way.

2712. The Chairperson: Mitchel, are you proposing that the Committee should record its concerns in writing now, make those concerns part of its report or both?

2713. Mr McLaughlin: I do not want to pre-empt the report. However, if we were to communicate now a concern about how the issue of the Commission's budget has been addressed, the response could inform whether we make any further comment in the report.

2714. The Chairperson: Do Committee Members agree with that approach?

2715. Mr O'Loan: I do not want to nit-pick, but the Committee normally does its decision-making after evidence has been heard. I am unsure how you want to proceed.

2716. The Chairperson: That is OK.

2717. Mr O'Loan: Sorry, what way do you want to do it?

2718. The Chairperson: We will take the decision after Stephen speaks.

2719. Dr Farry: I do not want to rehearse everything that has been said, Trevor. However, there is an institutional issue with the independence of the Assembly versus the Executive of which we must be conscious. There is also a parallel to be drawn with the technical arrangements for the funding of the Audit Office, which is also independent of the Executive. Those new arrangements could be of interest. What happened in the past in the context of an ever-rising tide did not really bring those issues into stark relief, and it is only when the tide begins to fall that things become a lot more acute.

2720. Have you explored the nature of the relationships between the Executives and the other Parliaments and Assemblies in these islands, and whether those provide any lessons on how we should handle the issue over the coming weeks? We should be particularly mindful of the fact that we have at least one Parliament with an 800-year tradition that is well used to fighting its corner. How do things work in Westminster, Cardiff and Edinburgh?

2721. Mr Reaney: In the other institutions, which are referred to in paragraphs 17 and 18 of the paper, particularly the two devolved institutions in Cardiff and Edinburgh, there is a relationship between the Commission or corporate body and a Committee, and, in some cases, the institution's Finance Committee, which scrutinises the Budget.

2722. The relationship and decision-making is between the Commission and a Committee of the House. The executive side is advised of the figures that have been agreed. Those figures are automatically incorporated into any Budget figures, which are dealt with at a later date. The Commission will look to that model. Exactly how it might work in practice in the Northern Ireland Assembly is a matter for debate. That is where the Commission wishes to go.

2723. Dr Farry: What happens in Westminster?

2724. Mr Reaney: In Westminster, the relationship is perhaps even cruder. The House Commission decides what it wants and is given it automatically. There is no relationship with any Committee of the House.

2725. Dr Farry: The Assembly may not want to strike out that far.

2726. Mr McQuillan: I want to raise one wee point before we finish. I agree with what David said. I, too, would have expected the Commission to come out on Monday with the gloves off to fight for its budget determinedly. Now we hear that it might speak on it or it might not. Certainly, it should have taken that decision yesterday. It will not meet again before Monday. Is that correct?

2727. Mr Reaney: I can only repeat that discussions are ongoing that will, hopefully, resolve the issue. In which case, it may not be necessary to say anything in the House. To go back to comments that other Committee members made, the Commission believes that the matter is not one that should be sorted out in the Chamber but is for another place. If progress is not made, the Commission may review its position.

2728. Mr McQuillan: No position will be finalised before Monday. I would have thought that it would do no harm at least to put a marker down.

2729. Mr Reaney: We will discuss that issue with the Commission again before Monday.

2730. The Chairperson: Thank you very much, Trevor.

2731. Mr Reaney: Thank you very much for your time, Chairman. Thank you, members.

2 February 2011

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:

Mr Michael Brennan Mr Jeff McGuinness	Department of Finance and Personnel

2732. The Chairperson (Mr McKay): I welcome Michael Brennan, who is head of the central expenditure division of the Department's central finance group; and Jeff McGuinness, also from central expenditure division. We will move straight into questions.

2733. Ms Purvis: I want to ask you about the Executive's Budget review group, which is looking at revenue-raising proposals that can be deliverable. Some discrepancy emerged during the debate the other day on whether the additional revenue is realisable. To what extent are such measures being examined by the review group? In other words, does the group have all the relevant information available to it? When will it be able to report on the revenue-raising powers?

2734. Mr Michael Brennan (Department of Finance and Personnel): The draft Budget published by the Executive had £842 million in additional revenue-raising policies built into that position, ranging from increases in rates, to a plastic bag tax, to reducing housing association grants. That £842 million was deemed robust enough to be factored into allocations to Departments. On top of that, there was £750 million of other revenue-raising options that some Ministers thought were robust enough to be put into the draft Budget position. However, the Finance Minister thought that further work was needed.

2735. Over the next few weeks, the ministerial Budget review group has been tasked with exploring whether it is feasible to bring any or all of that £750 million into the final Budget position. Therefore, as we progress towards the final Budget presentation to the Assembly in March, the ministerial subgroup has been meeting and will continue to meet over the next few weeks to explore options such as the feasibility of introducing a tax or levy on mobile phone masts in Northern Ireland. There are incredibly complex issues, and Departments are taking legal advice. Papers are being submitted to Ministers on the Budget review group to try to decide whether those issues are deliverable in the tight time frame of three to four weeks.

2736. Ms Purvis: When will that report be available for this Committee and other Committees to scrutinise prior to the Budget debate?

2737. Mr Brennan: The timescale is very tight. There are three or four weeks left for the Executive to decide what measures can be brought into the preparation of a final Budget position. Once the Executive have that, it will be for the Finance Minister to present the details of the final Budget position to the Assembly for consideration and approval.

2738. Ms Purvis: Is there no timescale on that yet?

2739. Mr Brennan: No.

2740. Ms Purvis: In times of recession, the demand for public services tends to increase. We will see that in respect of the Department of Health, and probably the Department of Justice. When you were considering departmental budget allocations, did you have access to forecasts and to how demand is likely to change over the next four years?

2741. Mr Brennan: The bids that the Department submitted were ranked in terms of priority, so, for example, a number of Departments had what were deemed inescapable pressures. Those bids had to be factored in and met for legal and statutory reasons. After that, Departments submitted a range of prioritisation bids. They were ranked, and resources were allocated accordingly. Therefore, for example, health bids reflected statements made by the Health Minister and the Department of Health, Social Services and Public Safety that there are pressing needs in respect of issues such as demographics and an ageing population. Those issues would have been to the forefront as Departments formulated the bids that came into the draft Budget position.

2742. Ms Purvis: Is that information published? Can those forecasts be provided to the Committee for scrutiny?

2743. Mr Brennan: There is a difficulty with the quality of information that Departments have provided in publishing their spending and savings-delivery plans. There is a wide range of quality and transparency in the information that Departments have made available on their websites and have published. You can see where some Departments' priorities lie in respect of drivers and meeting bids. The information provided by other Departments provides virtually no insight into the demand pressures that forced them to construct the bids that went to the Executive.

2744. Ms Purvis: Do you have sight of those when making your allocations? Are they available?

2745. Mr Brennan: All that we have is information that is keyed into what is known as the DFP database by Departments. That information is available to us.

2746. Ms Purvis: We mentioned inflation before when the figures were first publicised in the draft Budget. Inflation changes; it has changed since the draft Budget was published. What mechanism have you put in place to ensure that Departments can work collectively to moderate the pressure of core inflation over the next four years?

2747. Mr Brennan: Last summer, Departments were asked to produce efficiency savings plans that would generate a 5% efficiency saving per annum; that was the cut imposed. Inflation has gone up, and we constructed a draft Budget position. For example, the inflation factor for 2011-12 was 1·9%, but it has now gone up to 2·5% — quite a significant rise. As we understand it, the inflation assumptions for the latter three years of the Budget period are reduced.

2748. The inflation assumption will have a number of effects, both positive and negative. For example, applying the higher inflation uplift to the regional rates figure would bring in higher regional rate receipts, but if, for example, the Executive hold a position that the health element of the DHSSPS budget is protected in real terms, the inflation uplift to Health would be higher. The health element of the draft Budget decision got 1·9% inflation plus 0·2%, but the Executive might decide that, because inflation has increased, they would have to put through 2·5% plus 0·2%. Inflation exerts pressures to the benefit of the Executive as well as to their detriment.

2749. Mr McLaughlin: Departments have a role in strategic budget co-ordination. What action is taken to ensure that cuts made by one Department do not significantly increase the demand for services from another? I am thinking about fairly obvious interfaces between the Departments of Employment and Learning (DEL) and Enterprise, Trade and Investment (DETI) and other policy areas; the Department for Social Development (DSD), DHSSPS and Education. Have you considered the collateral impact of cuts in one Department on Departments that have to work closely together in provision of services?

2750. Mr Brennan: Departments have two avenues to raise concerns. If the Department of Employment and Learning is concerned that a policy of the Department of Enterprise, Trade and Investment impacts on it in a negative way, it has two avenues through which to express or register concern: either make an additional bid, or ask for the DETI position to be revised.

2751. One avenue is through the finance director meetings, which are chaired by DFP on a regular basis. At those meetings, finance directors from all Departments come together to discuss the emerging budgetary position. That is when, for example, the Department of Employment and Learning finance director would register concerns about the impact of a policy flowing from DETI or any other Department. The second avenue is through the ministerial budget review group, where many of the issues discussed tend to be cross-cutting and are not looked at in terms of departmental silos. The wider implications are considered there as well.

2752. Mr McLaughlin: Is that process time-bound by the publication of the draft Budget document or the publication of the final Budget decision? Is it ongoing as we speak?

2753. Mr Brennan: Yes, it is. The ministerial budget review group has met since the draft Budget publication, and there are meetings next week at a ministerial level on a range of these specific issues that cross departmental boundaries. As I said, the finance director meetings are regular occurrences; they are added to diaries every two or three weeks.

2754. Mr McLaughlin: Presumably, that is serviced by the publication of the departmental spending priorities.

2755. Mr Brennan: Yes; also individual ones. For example, permanent secretaries and Ministers make representations about their concerns.

2756. Mr Frew: The Committee gets correspondence from all other Committees on their concerns, worries and, indeed, support for their respective Departments' budgets. As regards cross-cutting measures that affect other Departments and society as a whole, it would be useful to know a Committee's views on another Department's budget. Is there any mechanism by which that could be achieved? How does the Department of Finance and Personnel envisage that that might happen in an instance whereby, for example, the Committee for Health is concerned about an aspect of the DSD budget that might impinge on its respective Department? Is there a mechanism for that? How does the Department gauge or get a feel for that?

2757. Mr Brennan: The ideal mechanism would be that all information that is published by individual Departments is completely transparent and detailed enough to give the various Committees sufficient insight in respect of what is going on in order for them to register concerns. The fact that so many Committee Chairpersons expressed concern in the take-note debate on Monday 31 January 2011 signals that that ideal mechanism is not working and that there is no transparency, as I mentioned earlier.

2758. The fallback position, which I mentioned a short while ago, is that we have to use the finance-director network and ministerial Budget review group sessions to try to embrace any cross-cutting concerns. For example, the green new deal is a high-profile key issue in the draft Budget position that embraces five or six Departments. The ideal scenario would be that five or six Committees formulated a collective view and represented that back through the Committee for Finance and Personnel. At present, however, we have to take comfort from the fact that DSD chairs a working group of officials which brings their views back through the finance director network to us. We are also able to relay views directly to Ministers on the Budget review group.

2759. Mr McLaughlin: In recent days, it has been mentioned in the press that £3.3 billion is being held by NAMA. The deputy First Minister also referred to that in the Assembly. How robust are assurances that there will not be a fire sale of those assets, especially considering the election scenario?

2760. Mr Brennan: I am aware that Brian Lenihan has given an assurance to the Minister of Finance that there will not be a fire sale of those toxic assets. In many ways, one can understand the logic behind that. It is in no one's interest to have a fire sale. It is not in the interests of the Dublin exchequer, the property market here or the Executive.

2761. Mr McLaughlin: I applauded the Minister of Finance for moving quickly with the establishment of NAMA to secure an arrangement whereby the Assembly could register its concerns and views. As of today, what is the likely timescale for realisation of those assets? What do you believe are the implications for the local economy?

2762. Mr Brennan: I will have to get back to you on that. I am not close enough to the detail of NAMA with regard to the timescale for disposal of assets. I will contact the relevant official and relay that information back to the Committee.

2763. Mr McLaughlin: Given the mechanism that was agreed between the two finance Ministers, can we get an up-to-date position on the extent to which they are consulted before action is taken or whether they receive a report after the event?

2764. Mr Brennan: I am aware that there are Northern Ireland representatives on the roll-out of NAMA. I can certainly ask them to provide an update on where they see the NAMA wind-down going in Northern Ireland.

2765. Mr Jeff McGuinness (Department of Finance and Personnel): On 13 January 2011, the Minister of Finance met Brian Lenihan to discuss NAMA, among other issues. He raised concerns of a similar vein.

2766. The Chairperson: Assembly research showed us that, in real terms, capital allocations will rise for only four Departments and that, in the remaining eight, capital budgets could be cut by up to 96·2%, which is quite significant. Can you explain the rationale for underpinning those capital allocations across the Departments and how they were assessed for the highest social and economic value?

2767. Last week, we raised with officials the proposed capital allocation for DFP. There is a proposal to increase that by 69·1%. What is the rationale for skewing the majority of that towards year 4 of the Budget? Given the pressure on the construction sector, can that be reviewed so that it is brought forward?

2768. Mr Brennan: The biggest driver in determining the capital allocations to Departments was the review of Departments' contractual commitments over the next four years. We did not start with a zero base, with all the Departments having no capital allocations. The difficulty was that, in all Departments, there are a number of contractual commitments that have to be rolled out. For example, over the next three or four years, road schemes are being rolled out, the contracts for which had been signed before the draft Budget position was constructed. Those contractual commitments have to be honoured, and they are built into the capital allocations to Departments. That was the single biggest driver.

2769. The Chairperson: What percentage of the capital allocation does that account for?

2770. Mr Brennan: It is roughly 50% in year 1, decreasing to around 10% or 15% by year 4. That was the biggest constraint in allocating capital. Effectively, it meant that, in the first year, for example, there was very little left in the envelope to allocate to the Executive's priorities in the capital process.

2771. The difficulty with moving resources across years is that the constraint over moving capital from one year to another is set by the Treasury, and we cannot break that. However, the Executive have reclassified some £252 million of current spend into capital spend over the four-year period to increase the capacity on the capital side. The difficulty that we now have is that some individual Ministers are looking to move resources back from capital to current to ease some of their immediate, upfront resource pressures. That will change as we get to final Budget stage.

2772. That a lot of capital seems to be end-loaded to year 4 is, primarily, because of the point that I made about the capital commitments being so heavily biased in year 1, and tapering away in years 2, 3 and 4. There are very few contractual commitments in year 4, so a significant amount of bids will be able to be met then. Virtually all of the Departments' capital bids were considered, and a lot of them were met, so that is why there is a heavy emphasis on new bids in year 4.

2773. Consideration will be given to bringing forward bids into years 2 and 3 only when we realise the extent to which individual Ministers want to move from capital back into current. For example, the Education Minister is seeking to move just over £40 million from capital to current in year 1. The total amount of resources that the Executive put from current into capital at block level was only £38·5 million. You can see that one Minister from one Department seeking to move more capital into current would break the totality of what the Executive moved across for all Departments. Only after we address those individual ministerial concerns will we able to look at the issue of skewing and bringing forward projects.

2774. Dr Farry: I understand the point about the switch from capital to current and that, under Treasury rules, we are allowed to do that in the confines of the overall block allocation. Personally, I think that that it is bad practice; it is almost like extending your mortgage to cover your running costs, and that sits uneasily with me. Is that, ultimately, a decision for DFP to take, or will the full Executive have to decide whether individual Ministers can make those types of reallocations?

2775. Mr Brennan: The Executive have agreed that individual Ministers will have discretion. The draft Budget paper gives individual Ministers the discretion to reclassify current expenditure as capital expenditure. The Executive also agreed that, in certain circumstances, Ministers can approach the Finance Minister, and then the Executive, when seeking permission to move money the other way. Obviously, it has to be policed at an aggregate level to make sure that we do not breach the Treasury control totals for current and capital switching. Nevertheless, there is a mechanism in the Executive's draft Budget position. The Health Minister has already put a marker down that she wants to move from capital to current, and I am sure that other Ministers will be in the same position.

2776. Dr Farry: Do you mean the Education Minister?

2777. Mr Brennan: Sorry, yes; the Education Minister. Other Ministers will certainly be in the same position.

2778. Dr Farry: To return to the departmental spending plans, the issue is really about their ultimate presentation, because, if memory serves me right, the 2007 position, going into 2008-11, was that, from a high-level perspective, the departmental spending plans were attached to the draft Budget document. Concerns have been articulated here today and elsewhere about the variations in the quality and detail in those. I appreciate that we are up against time, but is it the intention to integrate those plans into the final Budget statement that goes to the Assembly, or will the Assembly be asked to vote on a document with a level of detail similar to that in the draft Budget statement, with each Department producing its spending plan almost in isolation and based on headline figures?

2779. Mr Brennan: DFP's working assumption is that the final Budget document that is brought to the Assembly will include that disaggregated, detailed information under spending area and unit of business. I mentioned the fact that the Departments are populating the DFP database with details of where they think they will spend money. We will be able to construct and publish the tables that you are talking about for the final Budget document. Our worry is that some Departments might be less forthcoming than others when providing that information. If that is the case, DFP will publish what it has on the database for each Department at that particular time.

2780. Dr Farry: That will be your as opposed to their interpretation of what they are doing.

2781. Mr Brennan: It is the only way in which we can provide any sort of transparency. We cannot have a Budget document coming out in March that has detailed spending area and unit of business allocations for 10 Departments and, for example, one line for a Department containing a single figure of, say, £3 billion going into area A. That would undermine the analysis of, and the debate on, the Budget position.

2782. Dr Farry: The document on which the Assembly will vote will have legal effect under the Northern Ireland Act 1998, as opposed to anything that the Department might wish to argue to the contrary. Nevertheless, a massive amount of work has to be done to reconcile all that.

2783. Mr Brennan: Yes.

2784. Dr Farry: Perhaps we should let you get away as quickly as we can to allow you to get on with that.

2785. We received a fairly detailed submission on preventative spending from the Assembly's Research and Library Service. Preventative spending has come up in this and other Committees and on the Floor of the Assembly. I appreciate that you will probably tell me that it is not an issue for the Executive to address, because it is for individual Departments to do that. However, is there scope for the Executive's central, final document to endorse, at a very high level, preventative and early-intervention spending and for the Executive to collectively urge individual Ministers to address the matter in their four-year plans? Presumably, there are other things that you can bring in, such as North/South co-operation. Is active consideration being given to getting such high level strategic steering into the final document?

2786. Mr Brennan: In many ways, preventative spending is already a critical issue in the draft Budget position, because what you would term "preventative spending" I would call "the invest-to-save allocations of £400 million". For example, in the Department of Agriculture and Rural Development, for the sake of an investment of £18 million in the land parcel and identification scheme now, there is the potential to save many tens of millions of pounds in EU fines. That is preventative spending. The draft Budget position is allocated £75 million in each of those four years, so £25 million a year is still unallocated in that area across the four years.

2787. Dr Farry: I take your point, Michael. However, we would be thinking of a much broader concept than preventative spending. The invest-to-save fund is worthy, but there are concerns about the amount of money actually allocated to it. Also, there does not seem to be any evidence of cross-cutting preventative spending. In fact, there is still a silo mentality.

2788. Individual Departments need to tackle cross-cutting issues such as early-years intervention and education and the need to reduce offending. A lot of people will think of preventative spending when they talk about those issues. However, we are obviously not yet at the policy level where we can address a lot of them. Nevertheless, there needs to be a very clear steer from the top, whether it is through the Programme for Government, which is another issue entirely, or the Budget statement, to give Assembly Members and Departments the opportunity to push ahead with this over the next number of years, because things will have to shift. I will take your nod as a sign that you agree with my point.

2789. Finally, a lot of us accept the need for a four-year Budget for advanced planning. However — I think that Declan made this point — we do not see this as set in stone for four years because the economic circumstances and the property market will eventually change. The Department needs to think beyond the traditional monitoring process of adjusting to changing circumstances and to build something in that allows the Executive to drill down slightly deeper as the situation changes, while accepting that we have to go for four years.

2790. Mr Brennan: Setting a Budget for four years is a unique experience. The fact that the UK coalition Government have time-bounded the spending review for four years shows their intention and commitment to try to force the Whitehall Departments into living within that envelope. If a three-year envelope were sent, people may not take that as seriously as a four-year constrained envelope and may not, therefore, necessarily drive forward efficiencies and savings. Therefore, constructing a Budget is a unique experience. The extent to which the Northern Ireland Budget will really open depends on where the UK Government go and on what additional resources will come from Barnett over the next four years.

2791. The obvious avenue of discretion available to the Executive to enable them to move resources around over the next four years is the monitoring round process. However, the number of resources moved around in the four monitoring rounds over recent years has diminished quite significantly. As the financial regime tightens, the amount of resources that are free to move around also tightens considerably. EYF is getting progressively smaller year on year, as is the amount of resources being moved around and reallocated. Given that the overall Budget settlement for the block grant over four years is so tight, I would question the scope for monitoring rounds to be able to make a material difference to the direction of the Budget, and the Programme for Government, when that emerges.

2792. Dr Farry: That does not reassure me terribly. I will leave it there. However, I will return to it.

2793. Mr O'Loan: I want to come back to a couple of points that have already been raised, and I will start with the one that Stephen has just opened up.

2794. You already indicated that ongoing work is taking place between creating the draft Budget and the creation of the final Budget to gain further resources. I asked you whether that work would continue even after the final Budget has been created, and you indicated that it would. When I asked the First Minister about that, he was extremely enthusiastic about it. Speaking at the launch of the jobs plan issued by the eight big business bodies yesterday, the Finance Minister was also very open to the idea of having — I believe that he used this term — a living document for the Budget. I take all of that as very positive. However, in response to the research paper that we sent, all that we got back from you was a line and half stating that reviews of Budget allocations are routinely done as part of the in-year monitoring process. You said that again just now, and even went on to emphasise that less and less happens in the monitoring rounds. It is a much more negative approach.

2795. I note that the point in the research paper that we asked you to respond to referred to annual reviews. That seems like a statement that, no, there will not be any annual reviews of the Budget. I understand the need to achieve stability. Departments need to be able to plan ahead, and that is the point of a four-year Budget, but there is a fundamental political point: are we going to try to be imaginative; do we just batten down the hatches and try to get through these four years; or are we trying to achieve something? There is a world of difference in the messages coming from the Department. Is the Budget is a living document, which a very creative way of describing it, or is it locked down? Will monitoring rounds be the most we will have, through which not much will happen? Do you have a clear departmental position on that?

2796. Mr Brennan: I do not think that there is a problem at all. The Budget document sets out the allocations at a point in time. A range of revenue-raising options are being considered, some of which may materialise in time to be factored into the final Budget. Others may not, but they will still be pursued. If they are pursued and they come to fruition by way of generating receipts, they can be brought into the system and allocated to Departments. The Budget process is a living one that constantly changes.

2797. Assumptions are built into the Budget position about receipts to be generated; there is an additional £100 million above what Departments have factored in. If a Department decides to sell off an asset in June or September, after the Budget has been published, which would generate a significant receipt for the Executive, then that would be reallocated as part of the monitoring process. There is a regular process to allocate receipts that come in after the Budget is agreed by the Assembly. The Budget is a living process and the monitoring rounds are the mechanism to get the resources out, including significant resources.

2798. However, it also works the other way. In the 2010-11 financial year, it became apparent that the financial allocations at the start of the year were not sustainable, which is why the Executive had to publish a revised spending plan for 2010-11. A Budget process is constantly changing; that is always ongoing. That is the rationale for having monitoring rounds; that is the mechanism whereby we can make the adjustments and reallocate the resources.

2799. Mr O'Loan: Do you see any potential gains or new resources as being entirely on the capital side?

2800. Mr Brennan: I cannot foretell what will happen in the UK Budget process. The coalition Government have an annual Budget whereby it moves allocations around Whitehall Departments. We receive Barnett consequentials as a result of that, so a significant decision could be taken in Westminster that has consequences for us on the capital or resource side. We cannot foretell that.

2801. Mr O'Loan: Fundamentally, it comes back to attitudes and how aggressive we are or how keen we are to achieve change around matters that we are in control of; not just what comes from the Treasury. I still think that we are getting mixed messages and that we do not know where we are on that point.

2802. On the issue of efficiencies, the performance and efficiency delivery unit (PEDU) is not specifically referred to in the draft Budget. One would have thought that, given the severe pressure on all Departments and the desire to maintain our level of service, there would be a more enhanced view of how we do things better and make Departments operate more efficiently. That point was made by the business leaders at the 'Jobs Plan' launch yesterday. I think I am right in saying that there is a decision not to have administrative savings targets, and I do not see a positive, coherent and overarching approach to achieving efficiency and ensuring that our public sector is operating far more efficiently. I find it startling that that is not there.

2803. Mr Brennan: Although PEDU was not specifically referred to in the draft Budget document, its work goes to the core of the efficiency agenda in our two biggest Departments, Health and Education. The Health Minister and the Education Minister have agreed to work with PEDU on an efficiency assessment agenda.

2804. Two conditions were imposed as part of the June monitoring round this year. For example, a £20 billion efficiency target was imposed on the NHS in England as part of the NHS settlement there. No efficiency target was imposed on DHSSPS here, but PEDU is working with it on an efficiency assessment exercise. A recent paper from the Assembly's Research and Library Services compared health funding in Northern Ireland to that in England. It quoted two leading health economists who said that, although no allocation had been made for efficiency improvements in the Health Service here, a figure of between 5% and 8% should be able to be found. Any efficiency savings that are driven out of DHSSPS are for the betterment for the health services in Northern Ireland. Work is ongoing by PEDU and DHSSPS to drive forward efficiencies in that Department, although that is not explicitly referred to in the draft Budget document.

2805. The decision was taken to do away with the policing of the admin cost regime. That regime was a control mechanism that was imposed at a time when the public expenditure system was awash with money, and there was a concern that Departments would go on a spending splurge and recruit staff right, left and centre, without any mind to the long-term consequences. However, we are now in a materially different world in which the resource budgets in Departments have decreased dramatically and departmental expenditure limit resource budgets effectively take on the role of admin cost control.

2806. Mr O'Loan: I cannot help thinking that the challenges and the opportunities of creating efficiencies and the little unit that is PEDU, which has no specific expertise, do not quite match up. One cannot see that little unit coming to grips with the Department of Health, Social Services and Public Safety, which spends £4 billion a year, employs thousands of people and is organised and structured in different ways. I am sure it will find something good, but we are not getting to grips with the scale of the challenges and the opportunities for efficiencies. A cultural change is needed as much in the political community as the administrative community, and if there were a will to do that, we would at least have embarked on it. It is not happening as it should, but I will leave that as a comment, rather than demand a response.

2807. Mr Girvan: You referred to the health expert from the Republic of Ireland who commented that 5% to 8% savings could be made in the Health Service here, year on year. To back up what Stephen said, there are opportunities for efficiencies. Are Departments engaged to work outside their silos? The overarching Department is the Department of Finance and Personnel, and although collaboration could effect change, I do not think that Departments are willing to give up their wee empires. PEDU is an area that could develop the expertise to make those changes throughout the Civil Service. Is that engagement taking place?

2808. Mr Brennan: As I said, PEDU is currently working with the two largest Departments. In the early days of the ministerial Budget review group, a wide range of work was commissioned by Departments, not just on creating additional revenue sources, but on activities such as cutting back on discretionary spends, rationalising arm's-length bodies or merging existing functions to drive our efficiency savings. We saw those papers, and a great deal of genuine and valuable work could be explored. However, the time constraints in constructing the Budget unfortunately mean that we will be unable to deliver those results, and the Executive will not be able to factor those into the final Budget position. I expect that Ministers will want to pursue all of those options when the Assembly and Executive come back after the election. There is a great deal of good material. It should not sit on the shelf and gather dust.

2809. Mr Girvan: You referred to arm's-length bodies. A number of us believe that there needs to be more focus on that issue. It was mentioned in the December ministerial statement. I know that work has been under way. Perhaps other members will want to come in on that issue. What work has been undertaken to rationalise those arm's-length bodies? How is it progressing?

2810. Mr Brennan: Work is under way in the Office of the First Minister and deputy First Minister to bring a paper to the Executive on rationalisation. The difficulty is that it takes considerable time to rationalise and close bodies. That is why, a short while ago, I made the point that, although it is not deliverable in time for the final Budget stage, that work will have to be progressed as a matter of urgency, I would have thought, post May.

2811. Mr Girvan: Will the final Budget include an indicative figure of savings that could be achieved and how they will be allocated?

2812. Mr Brennan: I have not seen the final paper from OFMDFM. Therefore, I cannot comment.

2813. Mr Frew: I have been sympathetic to the decision to move revenue to capital. However, economists have told us that there is no such thing as a free lunch. I believe that that was the precise phrase that they used. Now we see Departments and Ministers trying to claw capital back to revenue. We were told to be careful with regard to job losses. Are we confident that what has been moved from revenue to capital will not impact directly on job losses?

2814. Mr Brennan: Trying to judge what its net effect will be on employment is an incredibly complex area. If you look at capital spend, for example, by the time we get to the end of the Budget period in 2014, it will be around £1·5 billion. That is above the long-term trend for Northern Ireland's capital spend. Therefore, although the capital position takes a dip for a couple of years, it gets back to above the long-term trend. The issue is whether, for example, the local construction industry should plan on a long-term basis for delivering projects, employment trends, and so on.

2815. The worry when you start to look at what the employment impact will be is that, yes, the Executive took a position to transfer £252 million from current to capital. Because that will benefit capital projects, there will be short-term construction employment benefits. However, if, as a consequence of that, significant pressures are created on the current side — I mentioned that the Minister of Education wanted to move £40 million from capital to current, which may be used to pay teachers or classroom assistants — you have a trade-off. Therefore, cutting current spend could actually lead to a reduction in employment on the current side. That gets you into a debate as to whether it is better to safeguard teaching or classroom assistant jobs than jobs in the construction industry. To say that money should be put into capital because it increases employment is not a clear-cut argument. The matter is not as simple or logical as that.

2816. Mr Frew: I suppose that the Department of Education is a bad example in that regard because of its large front line element. However, in a general, strategic sense, I said in the take-note debate that the Budget's strategy must be to protect the most vulnerable people while also to enhance the economy, which is the Government's priority. When you look at individual comments and submissions from Committees, you see that the Committee for Enterprise, Trade and Investment is very concerned with Invest NI's slice of the Budget. It talks about wanting to provide end-year flexibility for Invest NI. The Committee for Employment and Learning is concerned about how the economy can be controlled and enhanced. The Committee for Regional Development is concerned about the level of investment in road schemes, which will have an impact on the economy. Is the Department sure that the Budget goes hand in hand with the Government's priorities and economic strategy? Is the Department confident that it can do that, or does the Programme for Government see the economy going one way with the draft Budget effectively sending it the other way? Are you confident that those can work hand in hand to achieve the common goal?

2817. Mr Brennan: The construction of the draft Budget was an incredibly complex challenge for the Executive in matching competing tensions. For example, the Executive's protection for the health budget effectively ring-fenced 50% of the block automatically. There was an acknowledgement that the only long-term way to address the wealth and vibrancy of the Northern Ireland economy is to boost employment and invest in the future. That is why the DETI settlement, for example, looks quite good when you look at the headline numbers. I know that Invest Northern Ireland has some concern about its budget and that it is looking for additional resources and increased discretion and flexibility around EYF carry-over.

2818. Those are issues with which Ministers will have to grapple over the four or five weeks, but the bottom line is that, if you decide to allocate more resources to the economy, either through DEL or DETI, you will have to take resources away from other areas. There has to be losers, so it is an incredibly difficult balancing act for the Executive to get right.

2819. Mr Frew: As I remarked in the debate, we do not want to find that we have bound and gagged the tools and instruments of the economy and left it as a hostage tied up in a room as the world economy passes us by. This is the time to plan how to get the economy out of recession. It is important that all Members and Departments remember that.

2820. The Chairperson: That brings this session to an end. Michael and Jeff, thank you very much.

2821. Mr J McGuinness: Chairman, I would just like to clarify something that was said earlier in response to Dr Farry. The revised Budget is published at unit-of-service level, not unit-of-business level. That is to reassure all of the finance people who are listening.

2822. The Chairperson: Thank you.

9 February 2011

Members present for all or part of the proceedings:

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

Witnesses:

Mr Sammy Wilson	The Minister of Finance and Personnel
Mr Michael Brennan	Department of Finance and Personnel

2823. The Chairperson (Mr McKay): Minister, you are very welcome. I welcome again Mike Brennan, head of the central expenditure division. Minister, we will go straight into questions if that is OK with you.

2824. The Minister of Finance and Personnel (Mr S Wilson): Do I not get a chance to put my spin on this?

2825. The Chairperson: Mervyn King recently forecast that there could be a worrying inflation rise of 5% over the next few months. The Committee is interested to know what the implications of that higher than expected inflation rate would be on the draft Budget allocations and on the revision of rates in particular.

2826. The Minister of Finance and Personnel: When the Budget figures were given to us we were told that we had a real decrease of 8% in the block grant and current spending and 40% on capital spending. That was based on the gross domestic product (GDP) deflator at that stage. The GDP deflator is used as a measure because it includes investment spending and spending on government services as well as consumer spending, so it is probably the more accurate measure, for public spending at least.

2827. If the GDP deflator changes, and the Chairman quite rightly pointed out that it has, the impact on all government spending across the United Kingdom will be to make the real decrease greater. I am not too sure by how much the GDP deflator will change. I do not know whether Mike has the exact figure, but you are right that a higher rate is being spoken about. When we got our Budget allocation, figures were being deflated by 2·5%. I am not too sure what that figure is now, but it will lead to a greater real decrease than was anticipated when the allocations were made to us.

2828. Mr Michael Brennan (Department of Finance and Personnel): When the draft Budget was being constructed, the GDP deflator built into the draft Budget position was 1·9% over the financial year 2011-12. As the Minister said, it is now set at 2·5%. That will have implications. For example, when it comes to make real-terms allocations to some Departments, we will have to make material adjustments to the cash amounts that they get.

2829. The Chairperson: I know that there has been a great deal of debate about revenue generation over recent weeks and that the Budget review group is looking at additional revenue streams. How is the Department tying in with that group? Is it providing papers and information, and has it abided by all requests?

2830. The Minister of Finance and Personnel: So far, from the additional revenue that we have looked at, we have generated an added £842 million on top of the block grant. That comprises the money from the increase in rates, which will give us an increase of £146 million over the period. Mike has just given me that figure. The additional capital receipts, which have been identified by Departments, work out at £440 million. We hope to bring in £100 million over the four years from the assets that will be a result of the assets realisation management. Most of that is loaded towards the end of the period because we want to make sure that the opportunities are maximised, and, hopefully, the market will have changed by then.

2831. We also have to get bundles of assets together and determine whether we will go for sale and lease back or for whatever else happens to be there. There is also the money from Belfast harbour and money that we hope to get housing associations to put to better use. There is a misconception that we will take money from housing associations; that is not the case. We simply intend to try to get associations to use the reserves that they have more fully, and we will reduce the amount of grant that we give them. That is where the £842 million comes from.

2832. Other revenue raising has not been included. I do not want to pre-empt the decisions of the Budget review group, but some will be about reducing the number of quangos; that will involve the information that the Department of Finance and Personnel (DFP) and other Departments can bring to the table. There was the issue of whether a tax on phone masts could realise money. There are legal issues to be looked at in that regard, and the Departmental Solicitor's Office, the Attorney General and others can bring information to the table about those.

2833. The Minister for Regional Development contended that we could get far more money from the port than what is in the Budget. That has not been included because we were not satisfied that the money could be realised. Those things have to be teased out. The Department for Regional Development (DRD) will have to bring some information to the table; it is not just about DFP. We can provide the likely figures and papers. However, Departments will provide information about the arm's-length bodies that can be brought in and about savings that can be made from legislative changes that might need to be made in Departments, et cetera. That is why the Budget review group needs to continue its work throughout the Budget period. If savings become realisable — and we are convinced that they are realisable — only then will we put those figures into the Budget. I am sure that you appreciate why, Chairman. There is no point in putting figures into the Budget on which Departments plan their spending only for the money not to be realised.

2834. Mr O'Loan: Minister, you are very welcome. Minister, if I am critical of the Budget, it is not to score political points. The public is eager for the Assembly to do its business. We saw the public euphoria when the draft Budget was agreed; people want the Assembly to do well because we all live here and have a joint interest in progress.

2835. The Budget is a disappointingly slim volume. The documentation that we received when the Assembly was getting up and running was substantial, particularly the Programme for Government. I cannot see a vision of where we are going, even over the four-year period, or setting that in a framework of 10 or 20 years ahead and explaining where we want to get to. There is no evidence of an Executive that is cohering and working together. When the Budget was being put together, what was your basis? The spending plans in Departments make no connection to one another and do not refer to their parent document to show how they contribute to an overall plan. What, if anything, was in your mind beyond doing sums that will, to some degree, add up? What were you trying to achieve?

2836. The Minister of Finance and Personnel: Those of us who work in the Assembly take pride in our work, as we believe it to be important. I counted my first opportunity to do a four-year Budget as an important event.

2837. We wanted to a number of things. When the new Government took over at Westminster, we had fears and concerns about its impact on regions such as Northern Ireland, especially if there were huge cutbacks in public spending. A constant in all the representations that I received from industry and consumer groups was the need for stability. We need a Budget that at least guides us through where Departments will have money to spend for the next four years.

2838. The first objective was to create stability by getting a four-year Budget. Many people said that we could not do it and that we would duck the issue by giving people a nice soft Budget for the first year until we got the election over and people would get the truth after that. We have succeeded at least in looking at what resources Departments will be able to spend so that Ministers can plan spending over a four-year period. That is a singular achievement, especially given all the pressures that we are under and the fact that many people may have wanted to sweeten the pill before an election.

2839. The second point with which I take issue is the suggestion that there is no vision in the Budget. It would have been good if we could have married it up with a Programme for Government that set targets. I am sure that someone will ask me that question at some stage today. The Programme for Government was not within the gift of DFP; it is the responsibility of the Office of the First Minister and the deputy First Minister (OFMDFM). I am sure that they will explain why it has not been possible to make a new Programme for Government available.

2840. Some argue that the new Assembly should set the Programme for Government. However, although there may be some tweaking, I cannot see the new Programme for Government not reflecting many of the main objectives and priorities of the current one, the first of which was to grow the economy, and the second to show the importance of the Health Service.

2841. The decisions outlined in the Budget reflect that, for example, the commitment to job creation. We have schemes, including growing the infrastructure of the economy and the additional money that we have put into the capital programme by moving some current money into the capital programme and looking for additional receipts that can go into the capital infrastructure. There has also been an emphasis on the Department of Enterprise, Trade and Investment (DETI) and the Department for Employment and Learning (DEL). Secondly, there is the protection that has been afforded to the Health Service, despite what the Health Minister says, and has been saying again this morning. It is unfair to say that there has not been a vision and that we have not seen a way of driving things through to achieve our objectives.

2842. The third thing, whether we like it or not — it may seem like the mundane, grubby side — is that we had a Budget with a certain amount of money allocated to us, and we had to divvy it up among Departments. That has to be done. I hope that I have shown that, in divvying it up, we have tried to have a longer-term view of how we want that money spent, how we believe it can be best spent in the economy, and how we believe that we can get some stability into the system with the money that has been allocated to us, by making sure that we took four-year decisions.

2843. Mr O'Loan: We have seen the criticisms from NICVA about the PWC report. I will refer to another report from the Poverty and Social Exclusion in the UK project out of the school of sociology at Queen's University and the Economic and Social Research Council. It says that the Budget will reduce living standards and increase poverty.

2844. If there were a Programme for Government, it would include the economy and, surely, reducing poverty and bringing our society together. I note the absence in some plans of the equality impact assessment (EQIA). Remarkably, OFMDFM, which should be leading on it, says that it will do that work after the Budget has been allocated when looking at individual programmes.

2845. Does that mean that if they did not stack up against an EQIA, it would hand the money back? I doubt it. Do you not have concerns about the lack of equality impact assessment in the creation of the draft Budget?

2846. The Minister of Finance and Personnel: First, we are responsible only for the high-level equality impact assessments. It is up to each Department to do its own equality impact assessments. I am not going to answer, and I cannot answer, for other Departments on how far they have progressed with those assessments. As far as the high-level equality impact assessments are concerned, that is work for the Department, and we are undertaking that work.

2847. When it comes to dealing with poverty and equality in our society, the best way of ensuring that people are lifted out of poverty is to do what we can to grow the economy and create jobs. That is the bottom line in all this. The stability that a four-year Budget gives will help to encourage, even in difficult economic circumstances, growth in Northern Ireland. However, that has to be viewed against the background of all the national and international pressures that there will be on a very small and open economy such as ours.

2848. Secondly, we have put in place in the draft Budget some measures in the social development fund and the social investment fund to try to address some of the issues among those groups that find themselves more vulnerable. Therefore, with the limited resources that we have available, we have tried to give at least some recognition to those particular issues. Again, the draft Budget illustrates that we have not been ignorant of those particular problems.

2849. However, at the end of the day, many of the criticisms that you have levelled at our draft Budget will be levelled at the national Budget, because many groups say that when public spending is reduced, some people are left more vulnerable than others. We have to live within the context of a Budget that is 90% made up of money from a budget-cutting Government at Westminster.

2850. Mr O'Loan: Of the extra money that you have identified as already having been found — I think that it is around £840 million — more than £400 million is already being offered by Departments. When I look at the table for that, I see that the lion's share — around £400 million — is coming from the Department for Social Development (DSD). That is not new money at all but consists substantially of repayments of Housing Executive debt. Am I right in what I am saying? If so, in factoring that in, have you not been very unimaginative in identifying new sources of revenue? As you agreed with me recently elsewhere, are you not essentially presenting a Budget that is made in Whitehall instead of one that is made by a devolved region that is in charge of its own affairs?

2851. The Minister of Finance and Personnel: First, to a certain extent, the Budget has to be one that is made in Whitehall, because 90% of the money that we have available comes from Whitehall. Time and time again, people in the Assembly have asked me — in fact, Mr O'Loan, you have asked me — why a Barnett consequential handed down to us from Whitehall is not spent in the same way. The reason that we do not is that we try to put our own imprint on the money that comes to us. Nevertheless, that is a big part of the money that we have available to us.

2852. As far as the money coming from DSD is concerned, we asked Departments to identify where they might have assets that could realise money in the future. DSD, for various reasons, probably because of its housing stock, may be better placed to sell off some assets quickly than some other Departments are.

2853. As far as the question about new money is concerned, it is not money that we have available at present, so, although it may be from a familiar source, it is money that we would not have had in the past, so we can add it to the Budget for the next four years. Other Departments have identified some revenue streams from the sale of assets, and I take it that, since they have offered them up, they are assets that are realisable and that we will be able to sell over the Budget period.

2854. I am not sure what you mean by new and more imaginative sources of asset sales or revenue generation by Departments. However, if Departments can identify other means by which money can be brought to the table, they will not be knocked down for being imaginative. I am sure that you would be the last person in the world to insist that DFP should plunder through the other Departments and tell them what they should be doing.

2855. Mr O'Loan: I question some of the detail in what the Minister said, but I will move on. Minister, you opened up and usefully described the draft Budget as a living document, and the First Minister was also open in his thinking when he spoke about it recently. We do not know who will be re-elected to the Assembly or who will hold what Department, but it is helpful when you describe the draft Budget as a living document. How open will you be in the process and in the outcomes of significant changes in the Budget? Will those be presented in an annualised budgetary process over the four years of the comprehensive spending review (CSR), as this Committee has continually suggested?

2856. The Minister of Finance and Personnel: We have kept the Budget review group in place, and it has retained its work stream. If all the issues that the review group is currently looking at were to come to fruition, some would argue that £800 million could be realised, which would give us the ability to change allocations and put new money into the Budget over the CSR period. However, it would be reckless to assume that all those things will happen. We have retained the Budget review group, which consists of Minister from all the parties, to do that work, and hopefully some of the £800 million can be realised.

2857. The Budget is a living document. Monitoring rounds occur four times each year, and, through them, Departments have the opportunity to review what they spent money on, what they promised to spend money on and whether they will be able to do that. They also give Departments the opportunity to return money and to make bids on any returns that there may be. Given that we are in a period of economic development that is not likely to be stable, we do not know what will happen with growth nationally. The world economy has been subject to huge shocks in the past few years that impact here, so it would be foolish for anyone to refuse to revisit some decisions. It is important that we retain flexibility, and we have put in place the structures to do that and to consider how we might improve the Budget position over the CSR period.

2858. Mr Hamilton: Minister, you are very welcome. On the way in this morning, I heard the Minister of Health, Social Services and Public Safety and the Chief Medical Officer on the radio complaining about the allocation to the Department of Health, Social Services and Public Safety (DHSSPS) in the draft Budget. I am not sure whether you heard that interview or, indeed, whether you have a radio on the motorbike.

2859. The Minister of Finance and Personnel: I always avoid 'The Stephen Nolan Show' if I can.

2860. Ms Purvis: He listens to Radio 4.

2861. Mr Hamilton: Yes, I forgot. It would be well worth listening to that interview later.

2862. The Minister of Finance and Personnel: I am upmarket in my radio listening.

2863. Mr Hamilton: I am sure that that will be noted by the said DJ.

2864. I noted in particular the very courageous comment from the Minister of Health, Social Services and Public Safety that the Chancellor had sent Northern Ireland enough money in the block grant. He also claimed that Northern Ireland's allocation for health was worse than that in the other devolved regions. I fully understand that all Minister passionate about their brief and will want to fight for money for their Department. However, Minister, perhaps you can clear up the confusion over the health allocation here versus the allocations for Scotland and Wales and make clear it that there are savings options available to the Health Minister. Those savings options may require the Health Minister or, indeed, his successor to take some difficult decisions. However, if difficult decisions are taken, savings possibilities exist.

2865. The Minister of Finance and Personnel: First, during the Budget process, we sought to engage all Ministers. There is not a Minister in the Assembly who will not have to make difficult decisions over the Budget period, because we have had a real-terms reduction of 8% in current spending and 40% in capital spending. Therefore, nobody will escape that. By and large, during my engagements with Ministers, it has not been a case of DFP's saying: "Here, there is the money that you are getting. That is it." Extensive discussions took place with Ministers from June

2010 onwards. Over the summer, I had meetings with Ministers, and my officials had meetings with accounting officers and Departments coming up to the publication of the draft Budget. Once we knew the allocation on 20 October, there was another round of meetings with Ministers to get the draft Budget agreed. There has been an attempt to understand the pressures that all Departments are under. I have no doubt that pressures exist in DHSSPS just as there are pressures in the Department of Education, DETI, DEL, and the rest of them. However, it is up to Ministers to manage those pressures.

2866. Secondly, the Executive and I recognised at an early stage that health was a high priority in the current Programme for Government and that, given the kinds of demands on the Health Service, which all of us know about from our constituency work, we would afford it a degree of protection. That was an Executive decision. We did that within the confines of the money allocation made to us and did a number of things that we felt would help to relieve the pressures on the health budget.

2867. We protected the health element of the DHSSPS in real terms. I am going to read out these figures, because I want to put them on the record and because I do not want to make the mistake of missing out a decimal point, thereby annoying people or having them wondering how I worked this out. As far as the current and capital positions of DHSPSS are concerned — I will give the position for 2011-12, because that is the only comparison that I can make with Scotland — there was a percentage real-terms change of 0·3%, and that was the same for Scotland. In Wales, there was a 2·5% real-terms reduction. As far as capital is concerned, health in Northern Ireland will receive a 4·5% real-terms increase in that financial year; whereas there will be a -17·1% increase in Scotland and a -14·2% increase in Wales. As far as current spending for the health elements of the DHSSPS budget is concerned, it represents 0·2% of an increase. In Scotland, it is 0·6% of an increase, and in Wales, it is 1·9% of a decrease in real terms.

2868. The figures for England are more difficult to compare because of the definitions there. However, even if one takes the figures that England has plus the £20 billion efficiency savings that were imposed on the Health Service in England, Northern Ireland is better off in those terms. Those are the statistics.

2869. Thirdly, the Minister of Health, Social Services and Public Safety asked me whether he could have flexibility to move money around in his budget, and I have given him greater flexibility. Therefore, if he does not spend money in one area, it does not, in many instances, have to come back in monitoring rounds. It can simply be moved around. It is worth a lot for any Minister to have that flexibility.

2870. Given the fact that his capital position is much better than that in Scotland and Wales, he asked for the ability to move money from capital into current spending. Normally, that would not be possible under Treasury rules — one can move money from current to capital but not from capital to current. However, because we had moved £252 million from current to capital, that meant that we had some flexibility internally, and that flexibility has been afforded to the Health Minister if he so wishes. If he finds that there are running-cost pressures, he can stop some capital projects and move money into current spending.

2871. Between the protection that was given to the total amount of money and the flexibility that was given in the draft Budget, we have done what we can to relieve the pressure with the allocation of money that is available to us. It is easy to use the throwaway line, "I need another £200 million a year for DHSSPS." However, in my discussions, I have yet to have any indication as to where that money will come from. It is a huge sum of money, and it has to be brought from other Departments. The question is which Department would take that kind of hit. To be truthful, the only Departments whose budgets would be big enough to take that kind of hit would be the Department of Education or the Department of Justice. If £200 million were taken off some other Departments, they would almost be wiped out. One is limited in from where the money can be taken.

2872. Are efficiencies and savings to be found? I am sure that the Committee would not expect me to do the Health Minister's job for him. The Committee for Health, Social Services and Public Safety tried to get to the bottom of it and see whether there was an ability to make savings. It was hoping that the research would throw up the fact that there was not much scope for savings to be made. However, two health economists said that, with a budget of that size, it should not be difficult to find between 5% and 8% of efficiency savings if there was a squeeze, and we are asking for 2%. That is the kind of scope that is available.

2873. It is an unfortunate situation. All the other Ministers have played ball, and some of them have as much grounds, or possibly more, to complain about the budget that they have been allocated and the pressures that have been placed on them as a result of those budget allocations. It is not easy for anybody, but other Ministers have got down to the job rather than create a public furore about it.

2874. Mr Purvis: I have a supplementary question about the health figures that you cited. Are you comparing like with like? Are you comparing Northern Ireland's four-year Budget to Scotland's one-year Budget?

2875. The Minister of Finance and Personnel: No, I am not. I said that I could have given you the four-year figures, which would have appeared even better. However, I cannot do that. Wales has produced a three-year Budget, Scotland a one-year Budget and Northern Ireland a four-year Budget. I have just given the figures for the first year, Dawn.

2876. Ms Purvis: Is the Health Minister's flexibility just with the health element of his budget, or is he able to move money into social services and public safety?

2877. The Minister of Finance and Personnel: Yes, and that is the point that I was making earlier in reply to Simon Hamilton. There is total flexibility to move money around. At the end of the day, he makes the decisions. If he wants to make savings in one part of this budget, he can move money into another part of his budget. He has probably been given greater flexibility than some other Ministers have been given in that regard.

2878. I have given the figures for Scotland and Wales compared with those for Northern Ireland. We have given certainty to the Health Service in Northern Ireland as to what its spending will be over the four years. Who knows what the Scottish Government will do after the election? They have played cleverly and given a Budget for one year. I do not know, but we might find that when a four-year Budget is revealed for Scotland, given the pressures that exist there, there might be far worse news for its Health Service.

2879. I am not underplaying the difficulties that Ministers will have. All that I am saying is that I believe that we have played fair by DHSSPS. As an Executive, we have treated that Department more generously than we have some others. I must point out that some other Ministers could have kicked up a far bigger stink. They have accepted that their budget is part of a negotiated process. They have accepted that they were engaged fully in that process and that they had an opportunity to make their points and highlight pressures that they face. They have been given their allocations on the back of that. Obviously, some of them are fighting with me privately about those allocations. At least, we are trying to show some collegiality.

2880. Mr Frew: Thank you for your answers so far, Minister. You have covered many of my questions. What is your assessment of how the speed, or lack of it, of individual Ministers — I am talking about them all to a certain degree — in publishing their savings and spending plans has damaged the very character and reputation of the Executive and the Assembly as a whole?

2881. The fact is that there are Ministers from different parties and they have different attitudes to the Budget process. Some have courted the media, while some have not. Some have got on with the job at hand. In effect, parties here go their different ways. They have their own social elements and belief structures. How do you feel that that has affected the running of the Executive?

2882. The Minister of Finance and Personnel: First, I will probably get bashed all around the place for saying this, but I will say it anyhow: of all the Administrations in the United Kingdom and, indeed, the Irish Republic, we give people far more opportunities to scrutinise our Budget. With regard to the Irish Republic, I scratch my head thinking, "You gave them how long to talk about the Budget?" There is no consultation on the Budget in Scotland or England. We give people a good opportunity to know what we are spending money on and for them to give feedback. Is good or bad? All that I will say is let us put it in context. People complain about not having enough time to have their say on the Budget. However, they have far more say in Northern Ireland than they would have anywhere else.

2883. Secondly, we knew that we would have a fairly tight deadline because the Government made it clear that we would not know the final figures until 20 October 2010. We knew that we had a tight period in which to get a Budget in place, through the Executive, through the consultation period and through the Assembly process. Moreover, we had to give Departments some warning before the end of the financial year. We wanted to avoid Ministers having to come to this cold. That is why, way back in June 2010, Ministers were told to make an assumption that they would have to make a 5% cut in their budget in real terms. That was our best guess at that stage from discussions that officials, such as Mike, were having with Westminster officials. We probably erred on the side of caution and asked people to look at savings plans that included bigger savings than they would finally have to make.

2884. The idea was that those would be available by, I think, the end of August. There was then an opportunity to discuss savings plans with Committees during the period between the Assembly coming back from the summer recess and the draft Budget being made available. My officials had an opportunity to talk to the Committee for Finance and Personnel about how we would realise 5% savings year on year if we had to do so in DFP. A number of other Departments did that.

2885. Departments that worked on the basis of the information that we gave them and the requests that we made to them should have had in place a list of savings that could be made. If they had a reduction of less than 5%, they could have scrapped the savings that were the lowest priority and said that those spending cuts would not be made. The highest priority savings would obviously have stayed in. It should not have been too difficult for Departments, once they got their final allocation, to produce a document quickly that showed savings. Part of the Budget discussions in the Executive centred on having Departments publish their savings plans within a week, which was not unrealistic, given of the previous work that was expected to have been done. It is a bit of a disappointment that that did not happen. Indeed, some Departments did not publish a document until the middle of January, and that obviously impacted on the ability of Committees to scrutinise and on the public to have the detail.

2886. Mr O'Loan made the point that we, in the previous four-year Budget, had the luxury of not being up against the tight deadline that we are up against here and that, therefore, a lot of the departmental spending plans and whatnot were included in the draft Budget proposals. We did not have that opportunity this time because of time constraints, but Departments could have had them out fairly quickly.

2887. Having said that, there has been a good opportunity for people to respond. I do not have the latest figures, but all the major groups have been interviewed and spoken to, and they have given high-level responses to the draft Budget. At the last count, there were 117 submissions.

2888. Mr Brennan: I think that there are now more than 400 formal responses to the information provided on the Budget website.

2889. The Minister of Finance and Personnel: There have been plenty of opportunities for people to respond. We have extended the consultation period for a week. Departments did not play ball as much as they should have done, which is disappointing. We cannot force them to, but Committees should hold Ministers and Departments to account for not doing that. Nevertheless, there has been an opportunity for people to respond.

2890. During the Budget process, I was mildly surprised. We can be critical of individual Ministers, some of whom have made a bit of noise about the Budget and everything else. However, there was a maturity about the process. Do not forget that we are operating a five-party coalition, which is under far more pressure than the coalitions in Scotland and Wales. We were only two or three weeks behind the Scotland and Wales Administrations, and they did not have five different parties to negotiate with. People settled down, got the thing done and got it out reasonably quickly. I would have liked it to have been done quicker. I would have liked to have had certainty sooner, but it is still something of which the Assembly can be a bit proud. Despite all the pressures and differences, we agreed a four-year draft Budget in time to allow for a considerable consultation period.

2891. Mr Frew: Will you give us your assessment of where the Budget lies with our priority for government, which is to enhance the economy? Invest Northern Ireland has called for some sort of end-year flexibility. A concern has been expressed that the economy will not be able to be enhanced when we get to full-time recovery at full speed.

2892. The CBI says that Invest NI needs an additional £5 million to £8 million a year for the first two years. We have contractual agreements with Invest NI for the first two years, after which the money takes a deep fall in years three and four, which is when, it could be argued, recovery kicks in. What is your assessment of how that walks side-by-side with the Programme for Government's priority, which is the economy?

2893. The Minister of Finance and Personnel: The two are not incompatible. First, DETI's bids and its previous commitments have been fully funded in its settlement. Secondly, additional money over and above that settlement is available. However, I am sure that you will appreciate that at a time when money is tight we do not want to build speculative allocations into Departments.

2894. Perhaps they will get the business in and will have to spend that money. There is a balance there. How much do we realistically think DETI can spend? What trends is it looking at? Of course, DETI is particularly prone to such situations. Someone may come out of the blue, wanting to invest in Northern Ireland and create 400 jobs but needs a degree of help. DETI could find that there is a demand for the money that it had not known it was going to spend or, perhaps, did not have an inkling that it could have spent.

2895. That is where the priorities in the Programme for Government come in. We retain the monitoring rounds. When money is surrendered in the monitoring rounds, we make assessments about how it ought to be allocated among competing bids. First, the priority in the Programme for Government will be an important factor in determining allocations. Secondly, we have to consider the pressing nature of Departments' bids. Thirdly, we have to assess how all that fits into the objectives that we have set ourselves.

2896. It has happened before. Any time that DETI has come through with a real proposition for spending and where jobs have been at stake, the money has been found. On one occasion, because there was not enough money in the monitoring round, we simply top-sliced money off Departments to ensure that we did not lose the job opportunities. That is the assurance. I am sure that Invest NI cannot give examples of situations in which a bid for a project could not be met.

2897. The Government indicated that they may look for a replacement for end-year flexibility. If I was a cynic, I would say that they simply stopped the current end-year flexibility because they saw the big pot of money and thought that they could swipe it. They could stop it, take the money back and then reinstate it, calling it something else. Meanwhile, they got £316 million from Northern Ireland on top of whatever they got from Scotland and Wales. Looking at it from DFP's view of the prudent use of public money, there has to be a means of allowing some carry-over from one year to another to avoid the obscene end-year blowing of money on anything just to avoid giving it back.

2898. Mr Frew: Do you feel that we have taken full advantage of our economic position? There is an argument that we have missed the opportunity to rebalance the economy between the public and private sectors in order to make the public sector more efficient and more business-like. I welcome the transfer of resource from current to capital, as it will be a relief to the construction industry. However, some Ministers are trying to reverse that trend.

2899. The Minister of Finance and Personnel: There will be opportunities and demands on Ministers over the next four years to look at how money in the public sector is used and what efficiencies can be realised in it. As pressures grow on Ministers, it will be important that they take those opportunities that have not been taken so far or which did not have to be taken when public expenditure was plentiful. There is work to be done to make the public sector more efficient and slim line. We will be forced to do that because the money will not be available.

2900. I hope that, in their spending plans, Committees are looking at the priority that Ministers have given to reducing bureaucracy and administrative costs in their Departments as opposed to cutting front-line services. That is a question that each Committee needs to ask of Ministers.

2901. We have switched £252 million from current to capital. I have used the example of the Health Minister, where, in order to help him, we have given him his capital allocation, which is more generous than elsewhere; but to help him to manage his budget, the Department is affording him the opportunity to switch some of that back if he so desires. Again, that is a compromise between what we would like to see ideally — money being spent on improving infrastructure — and recognising that there are pressures on Ministers. We genuinely want to help a Minister who finds himself in that situation. The Health Minister has been vociferous about that, and that is why it has been afforded to him.

2902. I am sure that many people will say that a health centre was promised for their area to deliver a more efficient service for them; however, that is a decision for the Minister. If he decides that capital spending in a particular area might have longer-term savings and deliver health more efficiently, but he decides against it, it has to be justified.

2903. Mr Brennan: The Education Minister said that she wants to move £41 million from capital into current expenditure. Many Ministers are looking at their immediate pressures in 2011-12, but that has to be balanced against the overall aggregate control that the Minister referred to earlier that must be exercised on current and capital switching at block level.

2904. The Chairperson: Before I let Stephen in, I am conscious that we are running over time, and another five members wish to speak. I ask members to be as brief as possible in their questions and answers.

2905. Dr Farry: Chairman, you are shifting the goalposts half-way through the game. [Laughter.]

2906. The Minister of Finance and Personnel: That is not fair.

2907. Dr Farry: I want to pick up on the point about the shift from current to capital and capital to current. Given Ministers' discretion, is it not a little self-defeating and indicative of a lack of strategic approach to investment in our infrastructure?

2908. The Minister of Finance and Personnel: First, there will be a limit, because Ministers cannot shift expenditure it ad infinitum insofar as the limit is set by how much money we switched. That is the only area in which we have freedom; we do not have freedom to switch money that was given to us in the block grant as capital spending to current spending. There would be a danger if everyone took that as the easy way out. That is why I gave the illustration that, in some cases, sticking to the capital plan might be beneficial because putting a new or a more efficient infrastructure in place might lead to revenue savings. However, those are decisions for individual Ministers. We would be accused of interfering if we did not allow a Minister to transfer from capital to current even though that Minister had identified an immense pressure that they could overcome by no other means.

2909. That is where the collegiate approach is important. We have corporately set a strategic objective: we want to grow our infrastructure, because we believe that that is important to growing the economy. We also believe that, in the short run, it helps the construction industry, as Mr Frew said, and that Ministers, having signed up to those broad principles, exercise them in their own Departments, even if that means taking difficult decisions.

2910. Dr Farry: I say this with some qualification, but it might encourage you to interfere a little bit more rather than the Executive collegiately seeking to interfere. There is a serious point. Seamus McAleavey this morning made the valid point that there is no sense of a strategic approach to how things have been done. You have divvied up a budget among 12 Departments, and Ministers are doing their own thing on their own spending plans. There seems to be no mechanism for Ministers to make a cross-reference with what another Minister is doing to see whether there can be synergies from collaboration.

2911. The Minister of Finance and Personnel: Although there may be no formal mechanism, there are opportunities for it in Executive discussions. Secondly, there is an economic imperative on Ministers to ask those questions, because there is no better discipline than the kind of straitened budget circumstances in which we find ourselves to get Ministers to ask whether they really need to spend money or whether spending in conjunction with another Minister would relieve a pressure. Those are the kinds of things that I expect Ministers to do, even if only for selfish reasons, insofar as it helps them to manage their budget.

2912. Dr Farry: Is there any evidence of that occurring? Give us one example.

2913. The Minister of Finance and Personnel: I am trying to think of one. Not being past the nitty-gritty of departmental spends, I cannot really think of one.

2914. Mr Brennan: An example of Departments being forced to co-operate is that DEL has a bid in for assured skills under the Invest to Save scheme, but the main beneficiaries of that are DETI and Invest NI.

2915. Mr McLaughlin: That is a good example.

2916. Dr Farry: We are moving in that direction. I want to make two points about the economy. I take on board the Chairperson's comment about moving on as quickly as we can, but there seems to be a real concern from the business community regarding the Budget. I appreciate that we are developing our economic strategy as an Executive, we are in discussions with the Treasury about a paper on rebalancing the economy, and a Programme for Government is to come down the line.

2917. The Budget seems to say that the economy is important, but it sets out different allocations to Departments. There seems to be no evidence of that being joined-up. No one can take from the Budget statement any sense of how the rhetoric about the economy being the priority will be followed through in how the different allocations have been made.

2918. The Minister of Finance and Personnel: Let me give a couple of examples. One of the things that the business community has been saying is that if we are to grow the economy and the private sector, we need an infrastructure that allows us to do that and to communicate better, etc. We have sought additional money — despite the 30% reduction in capital spending — to bring back capital spending to the long-term trend of £1,500 million of capital spend by the end of the Budget period in 2015.

2919. First, we are doing that by looking at whether there are assets in the government sector that we can divest ourselves of in order to invest in the infrastructure and do the very thing that the business community says that it wants us to do. That could be in relation to broadband, roads, and transport, for example. Secondly, we have sought to ensure that by allocating money to the two Departments that will drive that, whether in relation to skills or attracting investment.

2920. The other big role for individual Departments will be looking at what they can do to remove some of the administrative and bureaucratic burden. I hope that the Assembly will get down to addressing that in the long run.

2921. Dr Farry: One other issue with the economy is corporation tax. I appreciate that you are at the sceptical end of the spectrum on the issue of lowering corporation tax, but a considerable bandwagon of opinion from local economists is in favour of it. There is also support from the Secretary of State.

2922. Lowering corporation tax would be a major strategic opportunity during the four-year period of the Budget. There is no reference in the Budget documentation to it, and there is no contingency on how it may be funded. I appreciate that we have the monitoring rounds, but trying to fund something of that magnitude and central importance through monitoring rounds would seem odd. Is there a plan B — or even a plan A — to accommodate a lowering of corporation tax during the four-year period?

2923. The Minister of Finance and Personnel: You are right: we have not identified any money in the four-year Budget. However, we have not done so for very good reasons. First, we are not clear what the cost would be. As you say, I am on the sceptical wing because we have to protect services, and we have already taken a bit of a hit. We cannot rush into this headlong without thinking of the consequences.

2924. The first thing that we have to do is ascertain what the costs will be, and there is still a great deal of work to be done with the Treasury on that. We have already identified flaws in the Treasury's calculations and analysis of the total cost. We are not talking about a couple of million pounds; we are talking about tens of millions of pounds of difference between what we believe it will cost and what the Treasury says it will cost. That has to be nailed down.

2925. Secondly, we have to work with Europe to see what exactly it will include as off-sets in the Azores judgement, as that could reduce the bill for us. We want to reduce any Bill to an absolute minimum. Therefore, given how woolly the figures are, it would have been difficult to factor a sum into the Budget.

2926. Thirdly, even with the best will in the world, if we were to agree with the Treasury that we wanted the powers devolved to us, that would probably have to be done through a finance Bill in the House of Commons. Therefore even with the best wind, the power would likely not be devolved until this time next year or later. There would be a time lag.

2927. Fourthly, even once the power is devolved, you would not immediately reduce corporation tax, because you would just be giving a gift to existing firms that would have to do nothing at all. We have to look at the lead-in decision time for investment by outside investors, which is normally two or three years. The prospect of investors being able to capitalise on lower corporation tax is probably enough to make them think about investing in Northern Ireland.

2928. Therefore even if we decide to go ahead with it, the cost may not be borne at all in this Budget period. For all those reasons, it was not imperative to put lower corporation tax into the four-year plan.

2929. Mr McLaughlin: That discussion was very helpful. Minister, you are very welcome to the Committee. Michael and ourselves have become great friends in recent times.

2930. The Minister of Finance and Personnel: Michael says that he enjoys his sessions with the Committee; he says that he looks forward to them.

2931. Mr McLaughlin: He does, and I think that he keeps a score sheet on just how much he has told us. We are keeping a score sheet as well; you should see our report on him.

2932. I want to touch briefly on end-year flexibility. In the context of the comprehensive spending review (CSR) statement and the enormous pressure on developing the draft Budget, I welcome the fact that the Scottish Government, the Welsh Assembly Government and ourselves made a joint statement in protest at the CSR. I wonder whether, as a result of the pressure, we have overlooked what might be a significant strategic, or even constitutional, issue. I am sure that the Treasury did not operate without the strongest support of the Government at the highest level. The Treasury has, in effect, intervened in the financial management powers of the Assemblies. If the response from the three devolved Administrations has been welcome, it has also been muted, possibly because we are all distracted with trying to get the Budget together.

2933. This a key issue, because it can happen again, and I share your theory that the Treasury could not resist getting its hands on the money. Can we mount a legal challenge? The Assemblies and devolved Administrations got good advice on the record directly from the Treasury and the British Government to manage their money carefully, to plan ahead and to avoid end-of-year splurge. This smash-and-grab of the stock that was built up runs against the entire principle and logic of devolution. Are we going to do anything more about that?

2934. The Minister of Finance and Personnel: Unfortunately, the statement of funding policy allows the Treasury to do that. The statement of funding policy is open to interpretation, and this is not the only dispute that we have with the Treasury. We have a dispute about how it changed the rules on the Barnett consequentials of police spending for the Department of Justice in Northern Ireland. We have had long discussions with the Treasury. With Scotland and Wales, we have also had discussions with it about Olympic funding.

2935. The statement of funding policy is written in a way that allows the Treasury to interpret it as widely as possible. It always uses it as a justification. There is an obligation on the Treasury to consult us on some issues, although its definition of consultation seems to be fairly ropey. On some occasions, the policing issue, for example, there is no discussion with us at all. I am not sure that we have the basis for a legal challenge. However, the way that the Treasury carried out what is, in my view, a smash-and-grab means that we have a political gripe and we should keep the political pressure on.

2936. Mr McLaughlin: I think that we have both a legal and a political gripe. I wonder whether any thought has been given to asking the respective Attorney Generals to consider the issue, as such raids could continue. During this mandate, for various reasons, the Treasury took chunks out of the block grant, which had already been reduced by about £500 million before the CSR announcement. We need to see that we are defending, as properly and effectively as we can, the resource that is supposedly available.

2937. The Minister of Finance and Personnel: Mike is more familiar with the detail of the statement of funding policy than I am, but the advice that I have been given is that the Treasury probably acted within its rights, albeit we might feel that it is very unfair.

2938. Mr Brennan: We had discussions with the Treasury on that very issue yesterday evening. The Treasury's position is that EYF draw-down is a call on the reserve that it manages, so it says that it is a reserved policy that it controls. It also says that the devolved Administrations have been treated more favourably than any other Whitehall Department because the devolved Administrations were, for 2010-11, given the flexibility to carry EYF into 2011-12. It regards that as a magnificent dispensation that it has granted to the devolved Administrations. The critical issue will come with the Budget on 23 March, when the Treasury will set out the new regime that will apply to EYF. As a consequence of the letter to which you referred, they are now aware of the three devolved Administrations' sensitivity about going back to Whitehall to express concern. Once we see what the new EYF regime looks like, we will be able to determine whether, at that stage, for example, further correspondence from Ministers to Treasury Ministers and to Number 10 is required to ensure that the positions of the devolved Administrations are ring-fenced and protected.

2939. Mr McLaughlin: There might be little that we can do about the fact that the money is gone, in so far as they are going to introduce some scheme or other. At the end of the day, the stocks were as large as they were because Departments had been encouraged to be prudent in deploying their money. In fact, moving it into future years was sensible. At the very least, the point on any new definition has to be pressed in order to avoid repetition.

2940. On a related issue, there is a need to revisit the Barnett formula at a very early stage, although I accept absolutely that this is not an opportune time to do that because of the work that is needed to finalise the Budget. Last year, a review addressed the issue of needs, and had needs been built into the criteria, we would have had a different settlement. It would also have provided more protection from the top-slicing of the CSR period. I would like an indication of whether we will return to the fray on Barnett, because the Treasury thinks that, as Barnett stands, it is magnificent and very generous. However, it does not take account of the particular and unique socio-economic difficulties with which we have to cope here.

2941. The Minister of Finance and Personnel: On the other hand, as we have seen in the past, opening that Pandora's box is not always advantageous. There may be some tinkering where there are disputes about the Barnett outcome, such as whether there should be a more independent assessment if the Treasury takes a different view from the devolved Administrations or whether there should be an independent assessor. However, I would be very wary of opening a debate on the Barnett formula, because there would be pressures and we might not come out of it just so well.

2942. Whether we like it or not, Whitehall's view is that the devolved Administrations are treated far too generously. Apart from anything else, weight of numbers is likely to push the debate in a direction not necessarily to our benefit, so I would caution you on that one. Nonetheless, I have had discussions with Scottish and Welsh Ministers on how, especially if there are disputes about the Barnett formula, we might get a more independent assessment. I am certainly happy to pursue some of those issues.

2943. Mr McLaughlin: I respect the fact that there will be different perspectives on the matter; nevertheless, it should be explored fully. We should explore it to the point at which people can make informed decisions. Your concerns may be valid, but I happen to have a different perspective, so I would like to see it examined properly.

2944. The Budget review group has been given several tasks, including identifying whether we can make savings, particularly on arm's-length bodies and quangos, and exploring options for new revenue streams. When can we expect the earliest responses to that? Presumably we will not wait until the end of the process, because there will be progress reports and, perhaps, proposals.

2945. The Minister of Finance and Personnel: As discussions on proposals firm up and we realise that such and such can be done to release new money, reports will become available. One can only guess how quickly that will happen. However, we need to take legal advice on many of the things that we are considering to see whether we would need to make legislative changes.

2946. Mr McLaughlin: I should say that we mentioned the monitoring rounds several times.

2947. Those seem to be the logical kinds of milestones to aim for and to put into the mix when interim reviews are going on. Will you comment on that?

2948. The Minister of Finance and Personnel: As I say, I am not so sure that decisions will coincide with those monitoring rounds. However, if we found that a particular work stream was going to realise money that we believe could be delivered at that stage, we would use it.

2949. I must add a note of caution. Much of the stuff that we are talking about now is long term and probably very tentative. We cannot be sure that those proposals will realise a huge deal of revenue. In fact, to come back to the point that Declan O'Loan and Stephen Farry made, we must be careful that some of the proposals being made do not conflict with some of the other things that we are trying to do.

2950. The Chairperson: To return to Mitchel's original point, a number of memorandums of understanding were set up around the time of devolution. Do those have any particular bearing? I know that they do not have any legal standing, but perhaps they place a moral obligation on the Treasury to prevent it from making such unilateral decisions.

2951. Mr Brennan: The Treasury will always say that control of the public expenditure system is a reserved policy and that it therefore controls it.

2952. The Chairperson: Is it under no obligation to consult?

2953. Mr Brennan: It would say that it does consult. For example, when it comes to Budget notifications, we usually get the Minister on the phone to the Chancellor for a half-hour consultation. In fact, the Chancellor is usually on his feet when we get such notifications. Therefore, we do not know what the Barnett consequentials will be until that point in time. However, the degree to which there is consultation is open to interpretation.

2954. The Chairperson: This comes back to my earlier point to Mr Frew. We are actually very generous in our consultation.

2955. Mr McNarry: You are very welcome, and it is nice that you could make it, Minister. To return to an earlier issue, what has been built into the Budget to offset rising inflation?

2956. The Minister of Finance and Personnel: As we said, the inflation element was shown by the GDP deflator. At that stage, we were assuming that the deflator would be 1·9%. It is now 2·5%. That is the inflationary element that has been used to calculate the real impact on spending changes.

2957. Mr McNarry: I understand that bit. However, in real terms, what impact would an increase of, say, 4·5%, which is possible, have on the Budget?

2958. The Minister of Finance and Personnel: In terms of?

2959. Mr McNarry: Inflation.

2960. The Minister of Finance and Personnel: Let us make it 3·8% rather than 4·5%, because it might be easier to work out then.

2961. Mr McNarry: OK, you have doubled 1·9%.

2962. The Minister of Finance and Personnel: If it were double the rate of inflation, there would be a 12% real-terms decrease in spending as opposed to an 8% decrease.

2963. Mr McNarry: Minister, I have asked you about contingency plans many times. Sometimes, you are in good form about them and, at other times, you are in bad form about them. When I ask you about it, I do so on behalf of the Committee, which has discussed contingency plans quite a lot. Has a contingency plan been built in should inflation increase to the types of figures that have been talked about today?

2964. Mr Brennan: The draft Budget position is that the settlements made to Departments are cash settlements that have to be spent over the next four-year period. Inflation is a material issue for only one Department — the Department of Health, Social Services and Public Safety — because it is getting 0·2% over and above the rate of inflation. Therefore, DHSSPS is the only Department for which inflation is a concern in determining or changing its settlement. That is the key issue.

2965. As the Minister said, the reason that we use GDP is that it embraces and factors in the totality of spend in the economy rather than just consumer or private individual spend. There are competing tensions on the inflation front. Inflation may rise, but, given that we are in an economic depression, savings could be made at the same time in sectors in which there is deflation, such as construction, where price indices are collapsing. Deflation could occur in some sectors. Therefore, inflation is not a concern for the headline numbers allocated to Departments, other than those for DHSSPS.

2966. Mr McNarry: I understand that. However, the other aspect, which we pick up in our daily work, is that inflation is a major factor for organisations and groups that are waiting to see what funding they will get. Inflation is bound to have an impact. I am worried about £1 of funding being worth 80p all of a sudden and how that will work its way through the system. It just seems inevitable.

2967. I am conscious that the Harbour Commissioners are giving evidence in another part of the Building today. Minister, last June, you said:

"DRD ... is entitled, at any time, to make an equity withdrawal from the reserves." — [Official Report, Vol 53, No 1, p33, col 1].

2968. Do you stand by that?

2969. The Minister of Finance and Personnel: What I said was that the Harbour Commissioners currently have the power to make a contribution to port-related expenditure if it improves infrastructure that has an impact on the port. That has always been the case. Indeed, the Harbour Commissioners have said that they are prepared to make a net contribution to, for example, various road improvements.

2970. As for DRD's making a demand from the port, that would require a change in legislation. The Minister indicated that he believed that he could access £125 million from the port, but that would require legislation. In fact, I made it clear that the reason that we included sums of £15 million from the harbour in each of the past two years only in the past two years was because, if there were no schemes to which the harbour could commit voluntarily, that would require a change in legislation, which would be up to the Minister for Regional Development to introduce.

2971. Mr McNarry: I actually agreed with your earlier comments about the Treasury coming in here and raiding our funds. We are now clear that we in Northern Ireland cannot raid the Harbour Commissioners' funds.

2972. The Minister of Finance and Personnel: I do not think that anyone ever suggested that we could raid the Harbour Commissioners' funds.

2973. Mr McNarry: That is the interpretation of your comment, only last June: "DRD ... is entitled, at any time, to make an equity withdrawal from the reserves."

2974. The Minister of Finance and Personnel: DRD can only make a contribution to expenditure that the port is entitled to make under its trust status. I am not too sure about the quotation that you gave.

2975. Mr McNarry: Let me assure you of its accuracy. I would not try to be inaccurate.

2976. The Minister of Finance and Personnel: Under its trust status, the port is entitled to make contributions to infrastructure development that benefits the port. The port is entitled to contribute to the £5 million expenditure on the Paint Hall refurbishment in year 1, for example, because that will benefit the port's land and work.

2977. Mr McNarry: Do you have that £5 million to spend?

2978. The Minister of Finance and Personnel: That £5 million is for work that will be done to provide extra studios. A decision has to be made on whether to spend it, but the port can spend it on the Paint Hall. The reason that we included two sums of £15 million at the end of the period is that legislation may well be required if there are no infrastructure projects coming forward.

2979. Let me give you a couple of examples. Anyone who travels down the road to Bangor in the mornings or evenings will know that there is a huge problem at the entrance to the port at Dee Street.

2980. As development occurs in Titanic Quarter, quite significant infrastructure development will be needed. It would not be unrealistic for DRD to say that it will do that work, which would directly benefit port land and the port, and so a contribution should be made to that, which, of course, would release spending for roads elsewhere. If that were the case, no change at all in legislation would be required to release some of that money.

2981. If, on the other hand, no schemes that were directly related to the port came forward in the next four years, and we wanted to get the money just for general spending, we would have to change the law. There was no point in including that at an early stage of the Budget, because the legislation could not be changed that quickly. We have had that discussion with the port.

2982. Mr McNarry: I am sure that you will have it again in more detail, but I appreciate your explanation this morning.

2983. I was very interested to hear what you said about the monitoring rounds, particularly in the realms of people underspending. It will be very interesting to see how that develops. Can it be taken that you, as the Minister of Finance and Personnel, will say that money that is surrendered will go to the priority needs of health?

2984. The Minister of Finance and Personnel: There will be a number of competing priorities. There are a number of ways of judging how the money that is surrendered in monitoring rounds should be allocated, including looking at the bids from each Department, how they fit in with the priorities for government, how immediate some of them are and the pressures on that Department. For example, in the most recent monitoring round, there were immediate student finance pressures on DEL because of increases in student numbers, and suchlike. It could not possibly have met those within its budget. That was regarded as a pressing need, so money was allocated. Each bid will be looked at, and a number of criteria will be used, including the priorities in the Programme for Government; determining how pressing and immediate the issue is in the Department; identifying the other pressures that the Department is facing; and the benefit that they will be to the economy or other parts of the service. Judgements will be made on that basis. Not just one criterion is used when coming to such a judgment but a whole plethora. At the end of the day, the Executive make the decision as to whether DFP's recommendations will be accepted.

2985. Mr McNarry: That is OK. I was going to add that.

2986. Come the day, you will present the Budget on behalf of the Executive. I think that you called it a great Christmas present not so long ago. I have picked up from Committee members this morning and from sitting on other Committees that there is no spark; it is not a confidence driver. I have heard you say that we know where we are. Listening to you this morning — only weeks away from presenting the final Budget — it is all ifs and buts and maybes. There is no coherence at all. You seem very uncomfortable in this Budget process; you are not your usual ebullient self. You can sometimes wing it — or spin it, as you said earlier — but this is worrying. That lack of confidence is dripping down to almost everybody with whom you come into contact. However, I will not make any reference to some newspaper from this morning.

2987. You made a valid reference earlier to the impact that the new Government had on us. If Labour had been re-elected, did you not have any fears that the cuts that it intended to implement would have been scary also? When you made the assumptions — you and your

Department were pretty close to the mark — before and after the general election, how far off the mark were you in preparing for what we are going through now?

2988. The Minister of Finance and Personnel: I think that we were spot on. We indicated that Departments should be assuming that they needed to find savings of 5%. It did not turn out to be as bad as that, but we were very close to the eventual outcome in current and capital, and I think that that is because of the good contact that my officials kept with officials in the Treasury. We receive feedback on that regularly. From that point of view, I think that Ministers were well informed about the level of savings that they should be looking towards and preparing for.

2989. Mr McNarry: I appreciate that it hurt, and I appreciate what you are doing, but the fact is that what this new Government have introduced is not miles away from Labour's plans. I am making an assumption, but I think that you should be complemented, in that you and your Department hit the right buttons in your assumptions. What the new Government introduced was not such a big shock because you say that you were spot on, and we are now seeing the fruits of the preparation that was done at that time. Am I correct?

2990. The Minister of Finance and Personnel: At the high level, that preparation gave a good indication to Departments and Ministers of what they had to look at. In answer to earlier questions, whether that preparation then fed down into prompt preparation by individual Departments will come through only as Committees interrogate Ministers and officials to see whether they have thought through savings plans.

2991. Ms Purvis: One of the biggest criticisms levelled at the draft Budget is its lack of detail. I acknowledge what the Minister said about departmental spending plans since it was published. One issue referred to earlier was an understanding of the rationale behind the departmental allocations. You said earlier that you had the money and it had to be divvied up and that the priority is to grow the economy and create jobs, yet there is no analysis in the draft Budget of where those jobs are coming from or how they will be created. That is another criticism of the draft Budget that you may want to talk about.

2992. Another thing struck me about the draft Budget. Unlike your Department, which provided the Committee with very detailed information, particularly around prioritised savings options and their impact, there is no strategic analysis or assessment of job losses as a result of cuts in public spending as an impact of the draft Budget. We are in an era of rising unemployment. We have restricted opportunities for people to access employment and more than 250,000 illiterate and innumerate adults. There does not seem to be any analysis in the draft Budget of the direct job losses in both the public and the private sector and of the knock-on effect that those losses will have for the economy. The priority is to grow the economy and create jobs, but there is no analysis or assessment of how cuts in public spending are going to lead to job losses. Can you answer that?

2993. The Minister of Finance and Personnel: Several proposals in the draft Budget look at from where some of the job increases would come. For example, DETI made a bid for £18 million, which has been included in the draft Budget, that, it believes, will create 4,000 new jobs. Money is being put into the green new deal, and we have already allocated some money through the plastic bag tax. We will be looking at other ways of drawing in money. The £72 million that we put in it will draw down approximately £186 million and should create around 3,500 jobs. Most of those jobs will be construction-type jobs in the small and medium-sized enterprise (SME) sector. A multiplier for construction spend can be done to see the impact that it has on construction jobs. I cannot give you the figure off the top of my head.

2994. Ms Purvis: But it is not in the draft Budget document.

2995. The Minister of Finance and Personnel: It will not be possible to do so until the specific projects are identified.

2996. One will not know what the job-creation impact will be until the detail of the Budget is known. I will come back to your point about detail, because it is important. However, without knowing the detail of how and what the money will be spent on, it is difficult to work out the exact job impact. I will give you a good example. If one decides to build new houses as opposed to doing maintenance on existing housing stock, the number of jobs that will be created will be radically different because one project is much more labour-intensive than the other, and, until the Minister for Social Development makes his mind up, that is how I am going to spend the capital allocations that have been made available to me. The job impact will not be known. Although we could stick a figure in, there is no point in sticking a figure in for the sake of it until the detail is known.

2997. Many people have criticised the fact that there is not enough detail. It does not really matter where one looks — whether it is at the Budget process in England or Scotland — one gets the high-level allocations to Departments, and it is only after that that one gets the detail. The detail is not even given in one go: it tends to get rolled out over a period. The budget allocations in England were made in October, and we are still finding out what the detail is likely to be in each Westminster Department. That is not an unreasonable outcome. We have got used to having consultation in Northern Ireland, whereas other places do not have consultation. For the consultation to be meaningful, it is felt that it must contain an awful lot of detail. People expect the minutiae of the Budget to be poured out in the initial documentation, but that is not how it works. That comes back to the point that I made earlier. There sometimes will be variations, even over the period.

2998. There are some specific job proposals because Ministers have said what they will spend the money on, and they have done the detailed work to show what they are getting for it. Where we have had that, we have put it in, and where we have not had that, we have not put it in. That is a more honest way of doing it, rather than just to make a figure up and hope that it will be realised. However, we should see the impact as the spending plans and the detail of that spending are revealed.

2999. We have tried to quantify some of the public sector spending. I hope that my figures are correct. When we decided on the freeze on public sector pay, we reckoned that it would probably save around 800 redundancies, because the money saved would mean that we could continue to employ people. Again, where such decisions have been made and where we have been able to quantify them, we have.

3000. Ms Purvis: You understand that I am talking about a strategic, high-level, overarching assessment of the overall impact of the Budget. For people to be consulted and have a considered opinion, and give that considered opinion, they must have that level of detail. They must see the assessment of the impact of the Budget and what the strategic priorities are. One of the strategic priorities of the current Programme for Government, along with growing the economy, is protecting vulnerable citizens. Cuts in public spending have a direct impact on vulnerable families and citizens down the line.

3001. I know that it is an aspiration of the Executive to protect front line services. However, there is no mechanism to ensure that, because individual Ministers get their budget and it is up to them what they do with it. I know that DFP, in particular, would like to look at how Ministers are spending and how budgets are allocated to ensure that front line services be protected. However, there is no mechanism for doing that. Without an assessment of the impact of the Budget, it is very difficult to give a considered opinion on it.

3002. One of the things that you said last week at the Northern Ireland Assembly and Business Trust (NIABT) briefing on the Budget was that you understood why there was a reticence from Ministers to give a particular level of detail, given that there is an election coming up, there may be new Ministers in position after that, and priorities for those Ministers may change. It is important that we now have that level of detail, because we are being asked to give an opinion on something. The Budget will be finalised at the end of March and will go out for the next year or so. Ministers should not be reticent about giving the priorities now.

3003. That comment of yours concerns me, because, when the final Budget is published, we expect there to be a specific level of detail, disaggregated down to unit of service level. Are you confident that we are going to get that?

3004. The Minister of Finance and Personnel: I will let Mike deal with your comment on disaggregating down to unit of service level. Although I understand Ministers' reticence, I think that you have accepted that DFP has sought to try to give as much detail as possible. I think that that is the correct way of doing it, as much as it is possible to do that in the circumstances. However, you have to bear in mind that, once there is a new Assembly and new Ministers, in their Departments they will have the opportunity to rejig some of the priorities and some of the things that they most want to do.

3005. Even if one has a fairly detailed plan for spending, that may not necessarily be the way in which it turns out, because one cannot expect a Minister to simply walk in and say that he or she is going to do the same thing that the previous Minister was going to do. That caution has to be attached to it.

3006. Secondly, there is a role there for Assembly Committees to play in seeking to find out what their Minister is doing with the budget, how the Minister intend to use that budget to protect front line services and whether all the possible savings on back-office administration, and so on, have been explored. That is the real, meaty work that the Assembly and its Committees have to do. Committees have an important role to play.

3007. As for disaggregating down to unit of service level, there is a requirement to do that. We need to know where money is going under the various heads. Do not forget that, when it comes to monitoring rounds, there can be declassifications and Ministers can move money around, so there has to be a word of caution sounded even on that. I will let Mike take you through the disaggregation and what flexibility there might be there.

3008. Mr Brennan: The final budget document will look radically different from the draft document in the level of detail that is provided. The intention is that, when it is published, the final Budget document will have the disaggregated information down to unit of service level for each Department, so you will see in much greater detail where the resources are going within each departmental boundary. All Departments have keyed that detailed information on to the DFP central database, so we have that information. At this stage, some of it has not been endorsed or formally cleared by some Ministers, but the intention is that all the information will be put out in the final document, so the public will be able to see exactly where the resources are going in individual Departments at unit of service level.

3009. Ms Purvis: One of the aims of the current Programme for Government is to eradicate or tackle child poverty. It is a cross-departmental, Executive issue.

3010. One thing that I have been particularly keen on is children's budgeting throughout all Departments, and I know that you and the Department have consulted many children's organisations. How can you measure exactly how the Programme for Government is being achieved — that is what I mean about the detail on where the Budget is and where it is focused

— without a Programme for Government? Declan mentioned that earlier. We have to base it on the current Programme for Government. After all, we have talked about growing the economy and other areas. Without a high-level impact assessment on the Budget, particularly in cross-departmental areas such as addressing child poverty and its impact on vulnerable groups such as women, lone-parent families and low-income households, how will the Executive work towards achieving those goals?

3011. The Minister of Finance and Personnel: It comes down to the detail that Ministers provide in their budgets and the information that they give on all their policies that will affect the various groups in their remit. An equality impact assessment is meant to be done on each budget; that is not the responsibility of my Department but of individual Departments. That is where Committees have to play a role.

3012. Ms Purvis: You are responsible for the high-level impact assessment. What detail will it have with regard to the Budget? Will it just look at strategic cross-cutting themes? When can we expect to see it? Will it be published alongside the final Budget?

3013. Mr Brennan: We have already published a strategic impact assessment, which gives a broad overview of where the draft Budget is at present. At the final Budget stage, the key issue will be that although we have detailed information from Departments, we will also need to see their detailed impact assessments, because only when you have individual departmental assessments can you start to construct the overarching strategic assessment at block level. Therefore, it will be critical that Departments co-operate to provide us with their departmental impact assessments.

3014. Ms Purvis: Can we expect to see that after the Budget?

3015. Mr Brennan: Yes.

3016. Mr McLaughlin: Do you see how I aged during those questions?

3017. Ms Purvis: Daithí was sitting for that long.

3018. Mr McNarry: After an hour and a half with the Minister of Finance, what do you expect? [Laughter.]

3019. The Minister of Finance and Personnel: An hour and a half with you has aged me more. [Laughter.]

3020. Mr Girvan: Minister, I will make this as painless as possible. I will be brief, unlike everyone else. There is a lack of opportunity for revenue generation from taxation in the Assembly's remit, and rates are a blunt tool for raising revenue. What mechanisms are being put in place to ensure that there are ways to go down the route of surcharges with different sectors that are, perhaps, not working or making contributions to rates at present?

3021. Land and Property Services has focused on identifying properties from which rates have not been lifted for some years to identify voids. What other mechanism is available to allow the Department to review rating policy and take it forward equitably? There is, probably, also a necessity to look at the ability to pay in some areas.

3022. The Minister of Finance and Personnel: There are no plans for a general review of rating policy. Do not forget that we had a recent review and moved to capital valuations. Work continues to identify properties where rates are not being paid; for example, through a combination of work with local councils. Often, a council carries information about when a property becomes occupied and who the owner or occupier is in order to bill them. It will know when it started collecting bins from a property, for example. Work has been done by councils' building control departments; they have been helpful in identifying such properties. Some councils have had a considerable increase in their rates base as a result of that work.

3023. We are also working with NIE, because utility companies send out bills and will know when the electricity was turned on in a property and so will have an idea of when a property is occupied. Such work helps to increase the collection of rates from properties. By October, we will be collecting rates on vacant domestic properties, so work also needs to be done to identify the owners of those properties. We are looking at the work that can be done with estate agents or solicitors so that, once a house has been sold, they will notify us that their client is now the owner of a certain address.

3024. We want to have as much information as possible to ensure that we move in quickly to collect rates. That is also good for the ratepayer, because it means that they are not hit with a shock rates bill two years after moving into a house. The most up-to-date information allows us to collect the revenue and also allows people to know what their liabilities are as soon as possible. Those are the measures that we are considering, but there are no plans for a general rate reform.

3025. Mr Girvan: I want to ask about the viability of holding on to all that we have in the public-sector estate, and I know that each Department will probably have to consider that. Has a full needs assessment been made of the requirement of the estate and what can be offloaded? I appreciate that figures are included in the £842 million of revenue generation that, hopefully, will be brought back in through savings and through capital receipts from properties that will be sold or moved on. Have properties been identified so that the estate can be rationalised?

3026. The Minister of Finance and Personnel: It surprised me that we do not have a comprehensive list of all the assets that are held across Departments. Work is under way to assess and compile a comprehensive list of the properties and land that we own to identify which of them are surplus to requirements and saleable. It is the job of my Department to look at the estate and decide whether it is being put to the best use. For example, two or three Departments may occupy two or three buildings that are coming to the end of their lease or are expensive while one big building is half empty. There would need to be co-operation with Departments to see whether we could move them from those three offices into one big one and sell the other properties if we own them or cease paying rent if we are leasing them.

3027. That work is ongoing. In fact, last year we made savings of £2·6 million in lease renegotiations based on that type of assessment. The Budget review group has commissioned work to get a comprehensive list of all the assets that are owned by Departments in order to work through it to see whether there is potential for raising money from them.

3028. Mr McLaughlin: Was nothing done about the call for the establishment of a central register of assets?

3029. The Minister of Finance and Personnel: We are working on that, as it is important that we get that information as quickly as possible.

3030. The Deputy Chairperson: As there are no further questions, I thank the Minister for his attendance and his valuable time. I am sure that the Committee found it useful and that it will help us in our deliberations on the next stage.

3031. The Minister of Finance and Personnel: I thank the Committee for this morning's useful discussion. I assure you that I am not downhearted, nor am I in any way pessimistic about the prospects for the Budget. You may have worn me down after two hours, but I think that we have achieved something that will be good for Northern Ireland. It will create a degree of certainty during a difficult spending period. We have done our best to protect jobs, meet our priorities and ensure that the Budget has been divided as fairly as possible.

3032. The Deputy Chairperson: Thank you. I will pass those remarks on to Michael McGimpsey; he will be glad to know that there will be no stress. If we need to follow up on any information, I am sure that, as usual, your officials will be only too glad to facilitate us. Once again, I thank you both very much for your attendance.

Appendix 3

Ministerial Statement and Assembly Debate

Draft Budget 2011-15

Mr Speaker: I have received notice from the Minister of Finance and Personnel that he wishes to make a statement.

The Minister of Finance and Personnel (Mr S Wilson): I wish to make a statement on the draft Budget 2011-15. Late on 14 December 2010, the Executive met and agreed a draft Budget for 2011-15. I am grateful for the early opportunity to present it to the House. Although the draft Budget document that has now been circulated provides considerable detail, I appreciate that Members are getting copies only now. Unfortunately, that is because of the rather late conclusion of the Executive meeting early this morning.

I will now turn to the strategic context of the draft Budget. Less than two months ago, the UK spending review announcement left Northern Ireland facing its most difficult fiscal environment in decades. After years of sustained public expenditure growth, the coalition Government's proposals will result in real term reductions in spending throughout the United Kingdom.

Some people said that the agreement of a draft Budget in Northern Ireland would be the biggest challenge that the Executive may face. Many said that in such circumstances, Executive agreement on the draft Budget would be impossible. Make no mistake: the ability to agree a draft Budget in such circumstances was a litmus test for the Executive. However, I am pleased to present the Executive's draft Budget, which is not just for one year, as some cynics said that it would be just to get us through the election, but for the next four years. On that basis, the Executive can say that we have passed the test of facing up to difficult issues, looking to the future and giving people some certainty about the economic future during the lifetime of the next Assembly. It is an important day for the new devolved arrangements. It is a day when the Executive have come of age. We have proved that we can take difficult decisions and reach agreement. We have proved that we can work together to the benefit of people in Northern Ireland.

Before I turn to the detail, I thank my officials for the assistance that they have given in preparation of the draft Budget. Believe you me, there were long hours of work into the middle of the night to draft, redraft, consult, and so forth. A lot of work has been done on the Budget by officials and advisers, and I thank them for the tireless and enthusiastic way in which they undertook the work that they were allocated to do.

The Budget is not something that can be dreamt up in a couple of weeks; it is a culmination of months of hard work and input from a wide range of people. I believe that the Budget is evidence of the growing maturity of the Executive. We sought to achieve consensus around the Executive table. That did not prove possible, but, at least, no Minister voted to oppose the Budget. I understand that with less than six months to the next Assembly election it is always possible that some may choose to play politics with the Budget, but the search for unanimity around the Executive table cannot hold back the delivery of a Budget that will allow Departments to plan for the future. We may not have a Budget that is endorsed by all five parties in the Executive, but, crucially, we have a Budget for the next four years.

Considering the difficult economic times, this is not the time to play politics with people's lives. This is a time for us, collectively, to step up to the mark and take responsibilities for the decisions that we have to take. That is what we were elected to do, and that is what I have sought to do in constructing the Budget.

In the spirit of co-operation, let those who earlier this year advocated reductions in the level of public expenditure in Northern Ireland at least play their part in helping to administer those reductions in the level of public expenditure.

This has not been a quick process, but in the most difficult of circumstances it was essential that we took our time and got it right. I believe that we have done that.

Three years ago, my predecessor as Finance Minister, Peter Robinson, declared that after years of direct rule, the Executive's first Budget had been made in Northern Ireland. Today, we face problems and challenges that are not of our making, but we have sought to produce home-grown solutions to the problems that we have faced.

The real benefit of devolution is how we react in tough times. Although the global economic downturn has dramatically changed the financial environment in which we operate, the priorities that we set out as an Executive at the start of the term remain. Our priority in this Budget is to stimulate the economy, tackle disadvantage, protect the most vulnerable in our society and protect front line services. Members will be aware that it has been a daunting task to deliver the draft Budget. The UK spending review announcement on 20 October presented the Executive with a much reduced funding envelope for the coming four-year period. Let me remind Members of the implications of that announcement. Current expenditure resources from Treasury will decline by 8% in real terms, and capital investment resources allocated to us will decline by 40%, over the next spending period.

Rather than burying our heads in the sand, we took responsibility for our future. We argued the case for Northern Ireland at every opportunity, and, significantly, we will continue to do so, because there will be opportunities to do that. When the time came to set the Budget, we got on with it. The task confronting the Executive was to seek to enhance our spending power and to allocate the scarce resources at a time when our economy is in recession and our key public services are experiencing higher levels of demand from the public.

This has been a long and rigorous process. The Executive, through the ministerial subgroup, examined the wide range of issues directly relevant to the establishment of the Budget. I pay tribute to the members of the subgroup for the role that they played in helping to shape the Budget. The issues considered by the group included exercises to identify new sources of revenue, options for maximising receipts, constraining public sector pay, and rationalising the number and scope of public bodies. We also looked at how best to reduce bureaucracy and assessed a number of proposals for new and increased charges.

11.45 am

The outcome of that work has been incorporated into this Budget, and significant additional allocations have been made. Indeed, £842 million has been included in the proposed allocations in the draft Budget, and the remainder will be allocated over the Budget period. We have also identified a number of proposals that have some merit but need further exploration before they can be definitely included in the Budget position. The one thing that we do not want to do is to include figures in the Budget where we are not sure that the money is actually forthcoming. We have exercised that prudence in the statement today. I know that Ministers will vigorously investigate those proposals over the coming weeks and beyond, if necessary. The capacity of the Executive and Ministers to think imaginatively in months and years ahead will play a significant factor in determining how much we can improve on the present allocations.

We are also taking significant steps to limit the pressure on public expenditure without affecting front line services. At this time of limited employment opportunity in the private sector, it is essential that we seek to protect jobs in the public sector. That is why we will mirror the UK Government's arrangements for public sector pay and put a freeze on annual inflationary increases for all those earning over £21,000 for the next two years. We are also putting a moratorium on Civil Service recruitment, other than in exceptional circumstances. I believe that there is consensus among Ministers that, in the current times, all Ministers agree to an arrangement that equates to a voluntary salary reduction.

We are also taking action on the use of consultants. In the last few years, the annual spend on consultants has been reduced from £42 million in 2006-07 to £21 million in 2009-2010, but we want to go further. For the Budget period, the Executive have agreed a target of year-on-year reductions of 10% for consultancy spend, and all proposed consultancy spend of £10,000 or more will require specific prior approval from the relevant departmental Minister. In that way, we can keep track of what is happening with consultancy spend.

In addition, the Executive will take action on arm's-length bodies, or quangos, as they are also known. The Budget review group will review all the arm's-length bodies against agreed criteria and bring a final set of recommendations to the Executive, in anticipation of a final decision in May, to facilitate a Bill to rationalise quangos early in the next Assembly term.

There are specific announcements that will be welcomed across Northern Ireland. In the last Budget, the Executive froze the domestic regional rate in cash terms for three years. We also deferred the introduction of water charges. As a result of those two decisions, the average household in Northern Ireland is £1,600 better off over the term of this Assembly than would have been the case under direct rule. While a continued real-terms cut in the domestic regional rate is unsustainable in the present fiscal environment, I am committed to protecting household budgets. I therefore propose that domestic regional rates will only increase by inflation over the next four years. That modest increase is well below the trend for the last decade. I also announce that the Executive have no plans to introduce separate water charges during this Budget period. As a result, Northern Ireland householders will continue to have the lowest household bills in any part of the United Kingdom.

We will continue to help business too. I propose that the non-domestic regional rate should also be limited to inflation increases over the Budget period. In relation to industrial derating, I propose continuing, over the course of the Budget, with the 30% cap on the liability for manufacturing.

Unemployment has risen significantly over the past three years, and, although the rate of unemployment remains significantly below levels recorded in the 1980s, Northern Ireland is the only part of the United Kingdom where unemployment has continued to increase over the past six months. It is, therefore, crucial that the Executive react to tackle the issue wherever possible.

In response to the growing unemployment problem, the draft Budget agreed by the Executive includes funding for a package of measures to increase employment opportunities. It is essential that we attempt to maximise job opportunities to reduce the amount of time that people are unemployed. For that reason, the range of programmes and policies will focus on those sectors with the greatest scope to maximise the number of jobs created.

The current proposals include a range of measures, such as grants for business starts in neighbourhood renewal areas; contact centres; the food processing sector; social enterprise; knowledge process outsourcing; enhanced enterprise support to disadvantaged young people; and a proposed programme for export starts. The cost of the proposed package of measures is £18·8 million over the next three years, and Invest Northern Ireland estimates that it will result in the creation of around 4,000 additional jobs over that period, growing to 5,000 jobs over the longer term. The package demonstrates the Executive's commitment to helping people in Northern Ireland through the current economic difficulties.

Corporation tax is a key strategic issue, and the Executive will have to take time to deliberate on the outcome of the UK Government's paper on rebalancing the Northern Ireland economy. I am also pleased to announce that the draft Budget includes a provision for an assistance package for the Presbyterian Mutual Society (PMS) savers.

Some Members: Hear, hear.

The Minister of Finance and Personnel: That package is financed by an additional £175 million of borrowing under the reinvestment and reform initiative in 2011-12 and a contribution of £25 million from the Treasury, which will be matched by an equal contribution from the Executive. When the proposals are implemented, that will put an end to the long nightmare faced by many PMS savers.

The most difficult decision that any Finance Minister has to address is that of resource allocation. What is a difficult task even in benign financial times has proved extremely difficult and challenging this year. Ministers have many pressures on their departmental budgets, and the bids that they advanced carried considerable merit. The key to constructing the draft Budget position was to determine the relative priorities of the Executive going forward.

Our key goal is, I believe, to put in place a Budget that facilitates economic growth and recovery. It is only through economic growth that our wider society can advance and prosper. Being able to offer people jobs, attract foreign investment and improve the skills base of our young people are the bedrock elements on which regional wealth and prosperity are founded. This draft Budget reflects that prioritisation. The current expenditure allocated to the key economic departments — the Department of Enterprise, Trade and Investment (DETI) and the Department for Employment and Learning (DEL) — will increase by 3% and 1·9% by the end of the four-year period, which will ensure that Northern Ireland is an attractive place for businesses to locate to and flourish in.

Other Departments will have an important role to play in creating future economic growth. One cutting-edge example of that is the growing contribution of Northern Ireland Screen to the local economy. Northern Ireland has a wealth of creative talent, and the Executive recognise the positive impact that major productions have on our economy. We are committed to ensuring that quality production facilities are in place to foster that growth, and we will, therefore, allocate some £5 million to that area.

It is also essential that the Budget reflects the priorities of the people of Northern Ireland. In that regard, no service is more important than the Health Service. That is why, even in the most difficult financial situation, the Executive have agreed to afford a degree of protection to the health budget. That is why we have ring-fenced and put in place full protection for the health element of the Department of Health, Social Services and Public Safety (DHSSPS) budget. Indeed, when factoring in the efficiency targets and service reductions that will apply in other UK regions, I would suggest that the Health Service in Northern Ireland has received the most beneficial settlement anywhere in the UK. It will now be for the Health Minister to determine how best to use those resources. I expect him to put in place plans to take forward productivity and efficiency improvements in that sector. Although we are determined to continue to invest in the Health Service, investment must be accompanied by the requirement to continually improve its performance.

This draft Budget also reflects the concern of Ministers to assist those most in need in the current economic environment. The Executive will therefore set up a social investment fund, administered by the Office of the First Minister and deputy First Minister (OFMDFM), that will provide some £20 million annually to take forward specific area improvement projects in those communities. The Executive will also establish a £20 million social protection fund to assist those in severe hardship as a result of the economic downturn. That fund will have an initial allocation of £20 million in 2011-12 and will then draw on the additional new revenue streams that Ministers are to take forward.

Other initiatives in the draft Budget include a commitment to participate in the green new deal, an initiative that will leverage significant private sector investment and result in lower levels of waste, greater energy efficiency and many thousands of new jobs in the local construction industry.

The Executive have also commissioned the Environment Minister to take forward the introduction of a plastic bags levy in Northern Ireland and, although the amount generated — some £4 million per annum — is low, it bestows significant wider benefits on the environment.

As I have indicated, there is a strong commitment on the part of the Executive to ensure that every possible measure is taken to assist the local economy. When the UK spending review was published in October, there was much comment on the negative impact that the cut in capital investment would have on our construction sector. In the light of that concern, the Executive have agreed to reclassify in excess of £250 million of current expenditure as capital investment over the Budget period. This will mean that, by 2014-15, capital spending will total some £1·5 billion, reflecting a level of spending recorded in 2005-06. Therefore, there is still a significant amount of capital projects to take forward over the next four years, and spending in that area will be well above the long-term trend. As a result of our investment, many key projects will be able to proceed over the Budget period. They include the new police and Fire and Rescue Service training centre, the Altnagelvin Area Hospital radiotherapy centre, and the sports stadiums and water and sewerage network upgrades.

In recent weeks, we have heard from those who suggest that the solution to all our problems is simply to increase taxes and charges on hard-pressed households. That not only fails to appreciate the relatively small proportion of our public expenditure that can be raised locally, but punishes those whom we are seeking to protect. It is not a path that this Executive will follow. Our priority has been to protect hard-working families, not to punish them through ever-higher levels of taxation. We have constructed a Budget to help people as much as possible in this difficult economic environment.

Budget allocations are not the end but the start of the process. Our challenge will be to deliver quality public services with the resources that have been allocated to us. This will be more difficult in the present environment than in recent years. However, I believe that we can rise to that challenge. The public consultation process will now begin, and I urge all members of the public to participate. It will not be led by the Department of Finance and Personnel (DFP), but by individual Departments, which will now publish their savings plans and spending proposals. It will allow interested parties to provide the views that will shape the final Budget position that I will bring before the Assembly in February.

This has been a most challenging Budget process, but it leaves us with the capacity to deliver quality public services and to continue to invest in the future. We can protect the advances that we have made in recent years, such as free prescriptions and free public transport for those over 60. We will continue to have the lowest household taxes anywhere in the United Kingdom.

12.00 noon

We are extending the liability cap on industrial derating for the next four years, which will protect jobs in our vital manufacturing sector. Despite the reduction in the available public spending, we continue to make the Health Service a key priority by providing it with a better budget settlement than in either Scotland or Wales.

The draft Budget honours the financial package for policing and justice by ring-fencing its budget and providing additional funding where it is most required. It delivers a much-needed package to help PMS savers. It funds the green new deal to deliver thousands of jobs across the construction sector. It funds assistance for thousands of jobs to help us through the recession.

The draft Budget will allow the Executive and the Assembly to continue to deliver for people in Northern Ireland. It shows the benefits of local decision-making for local people. It reflects the priorities of the people of Northern Ireland. It is good for families and businesses, and it lays the foundation for a better future. It also demonstrates that Northern Ireland can and will continue to move forward. I, therefore, commend the draft Budget to the House.

Some Members: Hear, hear.

Mr Speaker: Before I call Ms Jennifer McCann as Chairperson of the Finance Committee, Members will know that it is the convention that the Chairperson has some latitude in putting his or her question. However, I warn the House that more than 30 Members wish to ask a question on the draft Budget statement. Some Members may have the urge to deliver their own draft Budget statement to the House. [Laughter.] I warn Members that what we need from them is a focused question about the draft Budget statement. If that is forthcoming, I believe that every Member will be able to speak. Therefore, I make it clear that I will ask any Members who deliberate too long before coming to their question to retake their seat, and I will move on to the next Member's question.

The Chairperson of the Committee for Finance and Personnel (Ms J McCann): Go raibh maith agat, a Cheann Comhairle. I welcome the Minister's statement. We have not had a chance to go through the draft Budget in much detail, but I particularly welcome the revenue-raising measures that will be adopted to deliver additional allocations. I will make a few points and ask a question.

The setting up of the social investment fund to tackle poverty and to invest in areas of disadvantage and need will be welcome, as will the package of measures outlined by the Minister to increase employment in neighbourhood renewal areas, the social economy sector and the green new deal, which will also combat fuel poverty and help those in the construction industry, which has been particularly badly hit. The social protection fund to protect vulnerable people affected by welfare cuts is also welcome.

As I said, I have not had time to go into the draft Budget in detail. The Minister's statement touched on the timetable. However, on behalf of the Committee, I ask him to provide more detail on that to the Assembly and wider public? Will we all be given adequate time to fully consider and respond to the draft Budget?

The Minister of Finance and Personnel: I thank the Member for her comments and for welcoming certain points in my statement. Immediately on completion of the statement to the House, the draft Budget will be published, and it will be available for consultation over an eight-week period. Committees will have a vital role to play in gathering some of those consultation responses and in questioning Ministers and officials about the draft Budget.

I know that there will be the fullest interest in the draft Budget and that Members and the general public will play their part and give their views. Once those responses are in, we will deliberate on them, and, in the same way that we gave full consideration to ideas provided in the preparation of the draft Budget, we will fully consider the points that are made during the consultation period.

Mr Hamilton: I congratulate the Finance Minister and his Executive colleagues on achieving what some Members of the House told us on the radio just 48 hours ago could not be achieved. The Finance Minister will know of my interest in tackling fuel poverty, so I am pleased to see support for the green new deal included in the draft Budget. Will the Minister tell the House when he expects to be able to come back with final proposals for the green new deal?

The Minister of Finance and Personnel: First, some money is already allocated to the green new deal. A business case that is being looked at by the Department of Finance and Personnel shows the things that the money is to be spent on, the jobs that will be created, the savings to be made and the private money that will be drawn in. For every pound that we spend, I think that about £2 or £3 will come in from the private sector. So, it is good value from that point of view.

Initial allocations can be supplemented as we bring in new revenue over the time of the Budget. In the longer term, about £72 million of public money will generate about another £180 million of private money. I think that that will affect 100,000 households and create over 3,000 new jobs, probably in small local construction firms that use local materials, which is, of course, the benefit. The other aspect of this is that in doing so there is also the social benefit of addressing fuel poverty. From memory, some of the work that we did means that individual households can save up to about £300 a year on household fuel bills, which is a significant saving for individuals.

The Deputy Chairperson of the Committee for Finance and Personnel (Mr McNarry): The Committee has previously queried the capacity of the in-year monitoring process as a mechanism for managing significant new or unforeseen pressures, especially given that the level of reduced requirements declared by Departments has diminished. Related to that, the Committee was advised by Department of Finance and Personnel officials that an urgent review would be undertaken to consider the reliance of in-year monitoring rounds with no contingency fund —

Mr Speaker: I urge the Member to come to his question.

Some Members: Hear, hear.

The Deputy Chairperson of the Committee for Finance and Personnel: Will the Minister provide an update to the House on the progress that has been made regarding the reliance on the contingency fund, the creation of such a fund, and the use of overcommitment? What assurances will he give that robust systems will be in place to manage unforeseen pressures during the forthcoming budgetary period?

The Minister of Finance and Personnel: I thought that the Member would, first, have apologised for the disgraceful way in which he moved around radio and TV studios over the past number of days and said that there was no chance that we would ever get a Budget —

The Deputy Chairperson of the Committee for Finance and Personnel: [Interruption.]

Mr Speaker: Order.

The Minister of Finance and Personnel: At least he —

The Deputy Chairperson of the Committee for Finance and Personnel: [Interruption.]

Mr Speaker: Order. The Member has asked a question. He should allow the Minister to continue.

Some Members: Hear, hear.

Mr Speaker: Order.

The Deputy Chairperson of the Committee for Finance and Personnel: [Interruption.]

Mr Speaker: Order. If I have to name the Member, I will put him out. The Member should take his seat. He has asked a question and he should allow the Minister to continue.

The Minister of Finance and Personnel: At least he might have had a bit of humility now that we have delivered a four-year Budget that achieved significant support in the Executive. Apart from the fact that some have decided to play party politics with it, we may have had far wider support.

The Member talked about a contingency fund and how tight the Budget is. If he looked at the logic of his position, a contingency fund could only have money in it if we took money out of the existing available Budget. We cannot talk about tight Budgets and then take a whack out of those tight Budgets for a contingency fund. We would have to hold on to a contingency fund until very close to the end of the financial year in case an emergency arose, which would deny Departments the opportunity to spend that money in a planned way. Either the Budget that we have to finance is tight, or we have stacks of money to put into a contingency fund. The Member condemned overcommitment, but there is no difference between that and a contingency fund because an overcommitment means deciding to spend more money than one has and then, during the year, having to find ways to claw that back.

In-year monitoring is not a flawless process, but in the absence of hearing any other ideas about how to reallocate money and have money allocated during the year, we have to stick with it. However, as I have said and as I have made clear to the Committee, I am always happy to explore practical and workable measures. However, given the confusion in the Member's mind, I am not so sure that he has got it clear.

Ms Ritchie: I thank the Minister for his statement and acknowledge his hard work in bringing us to this point. Given that a four-year Budget ought to be the financial outworking of a four-year Programme for Government, when will we see that Programme for Government? Furthermore, in the absence of a Programme for Government, how did he determine the financial priorities for Departments for the next four years, noting that the Minister's own DFP budget for the next year will increase by 4·2% while the education budget will be reduced by 3·3%?

The Minister of Finance and Personnel: With respect to how priorities were established, we have a Programme for Government, and there is no indication that the priorities in that, namely the growth of the economy, the protection of front line services and the protection of disadvantaged people in the face of the recession, will be any different in a new Programme for Government. I notice that the Member who was out of the SDLP, but is now back in, is making faces beside the party leader. Perhaps the SDLP has different priorities. Perhaps the SDLP does not want to protect jobs and front line services or to help disadvantaged people. Those are the issues on which we reached consensus to move forward, and that is how we have spent money.

As far as the departmental allocations are concerned, the Member will know, of course, that DFP carries the costs for a wide range of central services that apply to all Departments, including their properties and office accommodation and many shared services such as HR Connect, IT Assist and Account NI. Of course, that money for the other Departments is held in the DFP budget.

Dr Farry: I also thank the Minister for his statement. As an individual party, Alliance might have chosen to do things differently, perhaps even more radically. However, I recognise the fact that it is a product of a partnership and a collective effort, so, on that basis, we are prepared to give it a fair wind. In what has been agreed so far, what contingency is in place in the event that the Executive are given the power to lower corporation tax, given that we would then have to allocate resources to that?

The Minister of Finance and Personnel: In my Budget statement, I pointed out that we will examine the Government's paper on corporation tax when it is brought forward. If we decide to move forward on that, there will be costs to the Executive and the Assembly. We have said that we will look first at some of the revenue streams to see whether they and other means could be used to finance any costs involved in the corporation tax proposal. As we have made clear in the past, once a decision is made on corporation tax, it may mean us having to revisit the Budget. If it is decided that that is the way forward, we will introduce lower corporation tax either on a phased or an immediate basis, and the financial implications will have to be absorbed in the Budget. Of course, that has been one of the big debates, and we will have to continue to debate whether we can afford the change or whether there are other ways to finance it. I hope that those discussions will be ongoing.

Although we have decided on this Budget at this particular time, as Members have said time and again, as financial circumstances change, we should always be receptive to and work towards those changes. That is why the Budget review group will continue to look at savings, revenue-raising methods and other adjustments that might need to be made.

12.15 pm

Mr McQuillan: I thank the Minister for his statement. What consultation did he have with the other Executive Ministers during the process?

Mr Speaker: That is an example of a focused question.

The Minister of Finance and Personnel: The Member has learnt well.

During the process, we sought to make this an Executive Budget and looked to find ways to include all the Executive Ministers. I am a bit disappointed because, despite that, there have been attempts to present this as a draft Budget from two parties. It is not the draft Budget of two parties; rather, it is the product of long months of work in which all parties were involved. [Interruption.]

Mr Speaker: Order.

The Minister of Finance and Personnel: I will outline the consultation for Members. First, we set up a Budget review group, which included all parties. That group had sight of the first draft paper at an early stage. Indeed, that happened weeks ago. On the basis of that paper, I had numerous meetings with individual Ministers about their departmental allocations and some of the general themes in the paper. The Budget review group met regularly and received comments and proposals from most parties. However, I think that one party did not make any proposals, but we will leave that for the moment.

There was then a new round of discussions with Ministers to make adjustments and to talk about issues such as whether we should protect the Health Service budget, whether we should have an invest to save fund and whether we should increase the regional rate in line with inflation. All those issues were discussed individually with Ministers and with the Budget review group.

Over the past two weeks, when the Budget review group was not meeting, there were discussions between parties. I kept all the parties informed about the discussions between the parties and between me and the parties. The one party that has accused me of being in some way partisan and of excluding it is the Ulster Unionist Party. However, I am sure that the Minister for Employment and Learning will acknowledge that I kept him informed and was in constant contact with him, because he thanked me for that. If he did not inform his colleagues, that was up to him. However, every party was involved at all stages of the process, and a collegiate approach was taken. I am, therefore, disappointed that some are now, maybe for political reasons, trying to distance themselves from that.

Mr W Clarke: Go raibh maith agat, a Cheann Comhairle. I thank the Minister for his statement. It is certainly a better and much improved draft Budget than would have been the case had we rushed into it. Given that this is a four-year Budget, I welcome — [Interruption.] A bit of manners, please.

Mr Speaker: Order.

Mr W Clarke: Given that this is a four-year Budget, I welcome that there is no provision for the introduction of water charges. Will the Minister confirm that that is now off the agenda?

The Minister of Finance and Personnel: I made it clear that the spending proposals in the Budget do not depend on and are not predicated by money from water charges.

The Chairperson of the Committee for Education (Mr Storey): I thank the Minister for the statement. Given his earlier comments about engagement with other Executive Ministers, I know that he sent correspondence to the Education Minister requesting a service delivery plan to clearly set out what would happen in particular Budget scenarios. Will the Minister confirm that, to date, he has not received that plan, the decision and announcement made in the House today are in the absence of such a plan, and no scenario planning has been done —

Mr Speaker: I ask the Member to come to his question.

The Chairperson of the Committee for Education: Will he confirm that no Budget scenario planning has been done by the Department of Education?

Mr Speaker: Order.

The Minister of Finance and Personnel: A number of Ministers have not yet delivered savings delivery plans to their Committees. However, when the Executive met and discussed the issue, it was agreed that, as part of the Budget agreement, savings delivery plans would be available for Committees to discuss with Ministers and officials as part of the process.

Mr Cobain: I thank the Minister for his statement. The Minister said that the draft Budget shows the benefits of local decision-making, reflects the priorities of people in Northern Ireland, is good for families and business and lays the foundations for a better future. If things are as good as that, the first thing that we need to do is ask the Government to take another £6 billion out of the Budget.

A number of weeks ago, the Minister for Regional Development assured the House about the funding for the A5 and A8 roads. In view of the recent statements by the leader of the Irish Labour Party —

Mr Speaker: The Member must come to his question.

Mr Cobain: I am coming to the point, Mr Speaker. [Interruption.]

Mr Speaker: Order.

Mr Cobain: I am coming to the point. [Interruption.]

Mr Speaker: Order. The Member should not challenge the authority of the Chair. Order. That applies to all Members. I warn the Member. I asked him to come to his question, and he should come to his question.

Mr Cobain: Thank you, Mr Speaker. In view of the recent statement by the leader of the Irish Labour Party and today's draft Budget statement, can the Minister give any assurances about the future of those two projects?

The Minister of Finance and Personnel: First, I will comment on the Budget and on whether it is a good Budget. This is our best attempt to address the problems that have been laid at the door of this Executive by the party that he and his colleagues —

Mr Speaker: Order. I ask the Minister not to point.

The Minister of Finance and Personnel: He and his party encouraged the people of Northern Ireland to vote for that party. It now seems, of course, that they are more Tory than the Tories. They think that because this is such a good Budget, we should have another £6 billion in cuts. [Interruption.]

Mr Speaker: Order.

The Minister of Finance and Personnel: Just like any other part of the Budget, the A5 and A8 capital projects are included on the basis that finance is available. In this case, that finance is from the Government of the Irish Republic. I mentioned corporation tax. If corporation tax comes on stream and we make a decision to do that, there will have to be adjustments. If the money is not forthcoming from the Irish Republic after the next election there, we will, of course, have to review that capital spending. That is the only sensible approach that we could take.

Mr O'Loan: A pupil premium has been established in England that pays approximately £430 to schools for each disadvantaged pupil. Of course, money for that will have been reflected in the Northern Ireland block. Was any bid made or money allocated for an equivalent scheme here?

The Minister of Finance and Personnel: It is up to the Minister of Education to decide how the spending that is available to her Department should be allocated and whether proposals should be put in place for such a scheme. The Member may have suggestions about or a desire for that. I know that the Member's grasp of economics is sometimes fairly tenuous, but he knows full well that if money is to be spent on a pupil premium, it will have to be taken from something else. It might be more useful if, when he asks such questions of and makes such suggestions to the Minister of Education, he would at least identify where he thinks the money to finance such a proposal should come from. That is a fairly reasonable question to ask, rather than simply saying that something is a good idea and we should act on it while totally disregarding its financial implications for other parts of the Budget.

Mr Sheehan: Go raibh maith agat, a Cheann Comhairle. We welcome the fact that there is to be further consideration of public sector pay and the annual increment increases will not be affected. However, will the Minister confirm that the withholding of inflationary pay increases is a direct result of the policies of the Tory-led Government?

The Minister of Finance and Personnel: We have a Barnett consequential handed down to us as a result of decisions made about pay in the rest of the United Kingdom. To have moved away from that would have meant that although some people may have had more pay, fewer people would be getting any pay. The emphasis in this Budget is on protecting jobs. The only way in which we could have financed a different pay deal in Northern Ireland would have been to take money from other services or jobs to give an increase, because, as the Member rightly pointed out, we had a Barnett consequential.

Mr Ross: I also welcome the fact that we have a draft Budget in front of us today. A key issue that society faces is the increased dissident threat. Therefore, how will the draft Budget impact on policing and, more specifically, on the funding that will be available to enable the police college at Desertcreat to proceed?

The Minister of Finance and Personnel: The Department of Justice budget has been ring-fenced. We always said that when the devolution of policing and justice took place, we did not want the police budget and demands for policing to have implications for other spending programmes in Northern Ireland. Equally, ring-fencing the budget means that we have stronger leverage with the Treasury when making applications for additional funds in the event of increased terrorist activity in Northern Ireland.

The Member asked about the police college. I have been told by the Minister of Justice that it is not a police college but an integrated college because it will also contain the Fire and Rescue Service and the Prison Service. That element comes from other budgets, but we have made sure that the capital element for the Fire and Rescue Service has now been included so that the project will be able to proceed.

Mr McKay: Go raibh maith agat, a Cheann Comhairle. I thank the Minister for his statement and welcome his announcement that the Executive will adopt proposals from my Single Use Plastic Bags Bill, which I brought to the Assembly quite recently. I also welcome the Executive's approach of identifying additional revenue streams and refusing to be restricted by the Tory-imposed comprehensive spending review. Will the Minister confirm that that work will continue and further avenues for new revenue will be considered, including additional tax-varying and borrowing powers?

The Minister of Finance and Personnel: My only regret about the plastic bag tax is that leaflets will probably go all round north Antrim saying what a great triumph it is for Daithí McKay. He has caused me to have second thoughts about that proposal.

We have already hammered down and nailed down some revenue proposals, and £842 million worth of them are in the Budget. There is still work to be done on a large number of other proposals, and we have sought ways to ensure that they are followed up. Rather than simply saying that they are good ideas and hoping that Ministers work at them in their Departments, they will be pushed forward by the Budget review group. Therefore, there will be some central drive. The Member is quite right: the strength of our Budget proposals and some of the discussions that we had will be that they can supplement the amount of money available for public spending in Northern Ireland.

Mr Weir: I thank the Minister for his statement and congratulate him on the Budget. In light of the ordinance of the Speaker to keep questions brief, I will ask how the health settlement in the draft Budget compares with that in other parts of the United Kingdom.

The Minister of Finance and Personnel: One of our priorities was the protection of front line services, and it was quite clear from my discussions with other Ministers, from the questions that I was asked in the Assembly and from the views of the public, that the public were concerned about the provision of an adequate Health Service in Northern Ireland. For that reason, we have protected the health budget.

Members can look at the table and work out the increases, but the biggest increase by far in spending over the next four years will be in the health budget. Although most other budgets have taken not only a real decrease but a cash decrease, the health budget will, I think, increase by 7% over that period. That compares favourably with the situation in Wales, where there was a 2·5% real reduction, and in Scotland, where there was a 3·03% real reduction.

The health element of the Department of Health, Social Services and Public Safety budget has been protected by 0·2% in Northern Ireland. In addition, the Health Minister has been given flexibility to move money around. He indicated some willingness to move money from his capital budget to his current budget to meet some of those pressures, and he has been given flexibility to do so.

All in all, this is a good settlement for the Health Minister. There has been some discussion about the £20 billion of efficiency savings that are required from the health budget in England. We have not required those in Northern Ireland, and it is up to the Minister to manage his budget. Having said that, there are still challenges, and it is up to the Minister to look at where the savings might be and how productivity can be increased and to take the necessary actions.

12.30 pm

Mr B McCrea: I welcome the publication of the draft Budget for consultation, and it is a good thing that it is for a four-year period. I note the Minister's statement that this is not a time to play politics with people's lives. Accordingly, I will ask him about the capital expenditure element of his statement, where he states that he wants to reclassify in excess of £250 million. What would be the actual impact on our capital expenditure if there were a fall in that? Just below that, he mentions a number of projects that he has kept going. What have the discussions been about the police training centre vis-à-vis more capital expenditure for our schools?

The Minister of Finance and Personnel: We have sought ways of supplementing the capital budget. The Member mentioned one element, the switch from current expenditure to capital expenditure of some £250 million over the four-year period. We have also sought ways of increasing capital receipts. We have a total of capital receipts of over £500 million over the period. Some of that will come from the better use of assets that we hold — for example, government offices — and from how we can raise revenue from the capital estate that we have. We will look at the reserves held by other bodies such as housing associations, which hold reserves of over £250 million, and the Harbour Commissioners, who hold reserves of nearly £60 million.

We have looked around to see where there is unused capital that we can bring into the Budget to mitigate the impact of the savage reduction of 40% in our capital budget. We have to be inventive to make up the gap, and, as I said, by the end of the four-year period, we will be spending £1·5 billion on capital investment, which is the same as was spent in 2005-06 and reflects the long-term trend. There was, of course, a peak during the last couple of years of this Executive's mandate, when additional capital became available and we spent it. We are probably back on to the long-term trend, and the important thing that I get from the construction industry is that it has available at least some idea of the trend, so that it can plan its investment and recruitment.

There has been a long-term commitment to the building of the police college, and that has been held back because the fire service training centre is included with it. That has now been secured as a result of the allocation that has been made.

Mr P Ramsey: In light of the worry, concern and stress across Northern Ireland among vulnerable low-income and working-class families surrounding any increase in student fees and the loss or reduction of education maintenance allowance, what assurance can the Minister give that that will not happen in this Budget?

The Minister of Finance and Personnel: It will be for the Minister for Employment and Learning to bring forward proposals on the financing of universities and the implications that that may have for those who attend universities. Looking at the Department for Employment and Learning's budget, one can see that, despite the fact that there were Barnett consequentials as a result of the decision made in England, it is growing over the four years by 1·9%, which should help the Minister in making those decisions. However, ultimately, that is something that he will have to look at.

I emphasise that the one thing that we cannot afford not to have in Northern Ireland — the Minister of Enterprise, Trade and Investment will confirm this — is a first-class higher education sector. That is needed to produce the kind of student required to attract the high-quality international investment that we seek to bring into Northern Ireland. Such students have higher than average incomes, which, of course, would add to the productivity of our industry in Northern Ireland. There is a balance between ensuring a first-class higher education sector with a good flow of able students going through it and the financing of that. However, the details of that are not for me to say.

Mr I McCrea: I welcome the draft Budget laid before the House today. Given the slight increase in the regional rate, there is no doubt that there will be some pain for households in Northern Ireland. Will the Finance Minister tell us how much households will benefit from water rates not being brought in?

I welcome the fact that money for the policing college has now been ring-fenced by the Executive.

The Minister of Finance and Personnel: If water rates had been introduced there would have been an increase of around £400 a year in household bills. Therefore, households have been saved that money. Households are £1,600 better off as a result of decisions made by the

Executive over the past number of years on the regional rate and water charges. We are mindful that, before we start dipping into people's pockets, we must make sure that we have the most efficient form of public spending in Northern Ireland.

The Chairperson of the Committee for Culture, Arts and Leisure (Mr McElduff): Go raibh maith agat, a Cheann Comhairle. Given the importance and potential of our creative industries, which employ approximately 36,000 people in the North, will the Executive acknowledge the importance of maintaining that key growth area in our economy and ensure that a cross-departmental approach is taken to stimulating it? On that point, I welcome the commitment to financial support for NI Screen, which will ensure that high-quality production facilities will continue to be supported.

The Minister of Finance and Personnel: A decision was made to invest in NI Screen and that part of the creative industries. People sometimes think of the creative industries as being simply arty stuff. However, as the Member rightly points out, real jobs are created there. When we talk about creating jobs in Northern Ireland, we should remember that a range of industries create a wide variety of jobs. There is potential within the creative industries to create jobs.

I am very pleased that we have announced the investment for NI Screen, which will enable it to chase after more productions and bring them to Northern Ireland. I have seen the impact of that in my area. As a result of one set being built in Magheramorne quarry, £2 million has been brought into the Larne economy in the past year. Local people were employed as joiners and caterers and in building sets and supplying transport and so on. From that, we can see where the real jobs come from.

Mr Lunn: I welcome the Minister's statement. Will he give us a further breakdown of the £842 million of revenue raising? How much of that depends on asset sales, given the instability of the property market at the present time?

The Minister of Finance and Personnel: That is a very good question. The one thing that I did not want to have in this Budget was fantasy figures or Monopoly money that would never materialise, hitting us, therefore, with problems further down the road.

Of the £842 million, over £500 million is coming from asset sales. All those figures have been tested, and, although I cannot remember the figure offhand, Departments identified something like £400 million of assets that could be sold. They surrendered those assets, and the indication from Departments is that those are available and saleable. A second amount of £100 million was realised as a result of the work of the asset realisation team. That team identified a number of opportunities, most of which, as I indicated earlier, relate to the sale and leaseback or other disposal of government buildings.

We asked for professional advice on that area, and, if Members look at the table of figures, they will see that that stream of spending is loaded towards the back end of the Budget period. We knew that it would not be delivered on quickly, that we would have to advertise and get people interested and that some work needed to be done. The figure rises to around £15 million in year four of the Budget period, and that is further evidence of our prudence. The implication of the Member's question was that we should not just stick figures in for the sake of it.

Mr Spratt: I also welcome the Minister's statement and his reference to the assistance package for the savers of the Presbyterian Mutual Society. When does the Minister expect that those savers will receive a payout?

The Minister of Finance and Personnel: It was a good thing that the draft Budget was endorsed last night and not just sent out for consultation. Indeed, it is ironic that some of those who wanted to abstain and put it out for consultation were in the vanguard of advocating a quick resolution to the problems of the savers of the Presbyterian Mutual Society. As the draft Budget was endorsed, we can take the next step and approach the European Union and talk to it about the state aid implications of making payments to savers. I understand that the Minister of Enterprise, Trade and Investment will approach Europe in the near future to ascertain that it has no difficulties with that approach. At the same time, the Minister will work up the scheme, because there is now certainty that the money is available to her. The endorsement of the draft Budget is, therefore, a step forward for the savers. The money for the payments is included in next year's Budget, and, therefore, we will be unable to make any payments until the next financial year. There are other steps that must be taken, and the administrator and savers must also be consulted on the details of the scheme.

Mr Elliott: I also welcome the draft Budget being brought forward. We heard reports this morning about the raising of finance through the Port of Belfast. Can the Minister elaborate on that?

The Minister of Finance and Personnel: I can. Again, we applied the prudence principle in relation to the Port of Belfast. The figure in the press is that some £125 million might be achievable from the Port of Belfast over the four years of the Budget. However, most of that will require a change in legislation, and, rather than simply sticking all of that money into the Budget now, we have been fairly prudent. The immediate financing of a project for Northern Ireland Screen in the port can, we believe, be obtained from that source. We will also put £15 million from the Port of Belfast into the final two years of the Budget. That will give us time to pass legislation if legislative changes are needed. Therefore, we are not anticipating money that we cannot get, because we do not have the legal power to do so. We have not yet built into the Budget the additional money that might be available. That money is likely to be an additional £90 million, and we have simply said that, if it comes on stream, it will be allocated to future projects. I hope that the Member can see that we have included an element of caution in that proposal, rather than assuming that that money will be there.

12.45 pm

Ms S Ramsey: Go raibh maith agat, a Cheann Comhairle. Like others, I thank the Minister for his statement. This has been a mature debate, which leads me to believe that the Health Minister may have handed out sedatives on the way in. However, there is no increase in his budget.

I agree with the Minister that the Budget facilitates economic growth and recovery. He went on to talk about improving the skills base of our young people, who are the bedrock upon which we will achieve that growth and recovery. Considering that the Minister voted against student fees in Westminster last week, does his previous answer indicate that there is no provision in the Budget to increase student fees and that the decision will be left to the Minister for Employment and Learning?

The Minister of Finance and Personnel: I just wish that the Sinn Féin MPs had been with me to join in the debate at Westminster and vote against the proposal; they would have reduced the Government's majority even further. I have made my personal position on student fees and that of my party very clear: I want people to be able to go to higher education on the basis of their ability to benefit from it rather than their ability to pay. I, and many other Assembly Members, benefited from that opportunity, and I do not want it to be lost. However, I must say a word of caution. One reason why I went to Westminster last week to speak and vote against the proposal was that I believed that it was wrong. The consequentials of the proposal have already been passed to our Budget. If the proposal had been defeated, the issue of resource restrictions would not have arisen.

The Minister for Employment and Learning is consulting Joanne Stuart about a revision of her original paper. There is also need for a conversation with the universities about how they spend the money that they get. Every effort should be made to ensure that the principle that I elucidated at the beginning of my answer is upheld: people should receive higher education on the basis of their ability to benefit from it rather than their ability to pay. I hope that we will follow that principle in the debate.

Mrs D Kelly: I thank the Minister for his statement. However, can he explain to me and all the children in the North why the Executive decided to take £70 million out of the education budget but create a new £80 million social investment fund so that the many will pay for the needs of the few?

The Minister of Finance and Personnel: I am surprised that a member of the Social Democratic and Labour Party should adopt such an attitude. I hear members of her party paying lip service to their concern about the many communities in Northern Ireland that have been left behind. Those communities have huge problems of youth unemployment; underskilled and underqualified youths; households in poverty; and estates with poor living conditions that do not give people any aspiration to lift their vision and look to a better future for themselves and their family. Even though those people may not be the majority in our community, there are good grounds for saying that we cannot afford for them to be left behind. That is why the fund has been set up.

The proposals for the fund will come to the Executive. Let me say this to the Member: that fund will give Departments, such as the Department of Education, an opportunity to bid for projects to help young people in those estates who have not benefited from their time in school because of family, social or other circumstances. It will create an opportunity to bring those young people along as part of society, which is something that, I thought, the Member would have welcomed. [Interruption.]

Mr Speaker: Order.

Lord Morrow: I, too, welcome the statement. If some people were to be listened to during the week, the draft Budget has been achieved against all odds. It must come as a bitter disappointment to those who declared that it would never happen.

The Minister referred to quangos in his statement. I welcome that because this country has become "quango land". The Minister intends to introduce a Bill to rationalise quangos. Is there not a more effective, more efficient and quicker way to deal with quangos? How many does he envisage doing away with? I suspect that he could get rid of a couple of thousand and he still would not have them all away.

The Minister of Finance and Personnel: I am not sure whether there are a couple of thousand of them. The Member might be exaggerating a wee bit there. Nevertheless, there are a lot of arm's-length bodies and quangos. A Bill is required because some of those bodies are ensconced in legislation, and further legislation will be required to remove them. The issue is being left with the Budget review group, which includes Ministers from all the parties, because sometimes there is an understandable reluctance in Departments to deal with it. Furthermore, a Minister might listen to the departmental view on that issue. We want to take an Executive view on the issue, bring forward proposals and make savings.

Ms Purvis: I welcome the Minister's statement and the fact that the Executive have agreed a Budget. In his statement, the Minister referred to the four key priorities of the Budget. I agree with those priorities, although perhaps not in the order that they were listed. One of those priorities is to protect front line services. What mechanism or process has the Minister and his

Executive colleagues put in place to monitor the implementation of the Budget to ensure that front line services are protected?

The Minister of Finance and Personnel: That is not just a job for me as Finance Minister or for other Ministers. The real work to ensure that Departments protect front line services is for Assembly Members. The whole point of Committees is to bring Ministers along and question them about their spending plans, their savings plans and why they are deciding to save money in one area and not in another. That is the role of Committees, and I hope that they continue to fulfil it effectively. As Finance Minister, I have the job of ensuring that resources are allocated as effectively as possible within a limited Budget to Departments with responsibility for the front line services that have the greatest impact on the public. This Budget settlement has, by and large, done that in very difficult circumstances.

Mr Bell: In spite of the devastation that the Ulster Conservatives and Unionists have imposed on us, does the Minister feel that we can still make a positive contribution to the young people who are currently not in education, employment or training? Is it not the case that, after the cuts that the Ulster Conservatives and Unionists imposed, they are now the Ulster Conservatives — New Farce?

Mr Speaker: Order. I insist that parties are referred to by their official name in this House. That goes for all parties.

The Minister of Finance and Personnel: First, it is important to give our young people skills so that they can take up employment opportunities, not be a burden on society, make a contribution and raise their self-esteem. That is why, for example, the budget for the Department for Employment and Learning, which will deal with a lot of those young people and their training needs, has been protected. That is also why, in my answer to the Member for Upper Bann Dolores Kelly, I pointed out that the social investment fund will be important in how we deal with some of those people. Within the limited resources available to us, we have sought to remain true to the principle of having a skilled workforce in Northern Ireland. That means trying to reach those who are hard to reach and helping them towards productive activity in our society.

Mr Speaker: I call Mr Kinahan.

Mr Kinahan: Sorry, Mr Speaker, I cannot find my question.

Mr Dallat: Given that this Assembly was established against a background of inequality, particularly on a regional basis, and given that we learned today that capital expenditure is to be savagely cut, what hope can the Minister give to regions that still lack infrastructure and a lot of other things that people take for granted? What hope is there that those people are not now mothballed for the next three years?

The Minister of Finance and Personnel: Capital projects have been undertaken in the past in Northern Ireland. I take the time, maybe one morning or afternoon a week, to go around the Province to see the expenditure. That expenditure is spread across Northern Ireland. It is not located in just one area. I have visited projects in the west, south and north of the Province and here in the east. So, it is unfair to say that there is not a distribution of those projects across Northern Ireland.

As far as areas that may have been left behind are concerned, part of the social investment fund is to deal with that issue, albeit that it is a very limited amount of money. Nevertheless, that fund will deliberately target areas where people feel that they have been left behind and where, perhaps, there has not been the investment that we would have liked to see.

Again, of course, it is up to Members to ensure that, when capital programmes that are brought forward to Committees appear to be skewed in one way or another, Ministers are challenged about them. However, it is not a good idea to allocate capital purely to make sure that there is an even geographical spread. It has to be done on the basis of where the projects and infrastructure decisions can have the greatest return for Northern Ireland. In some cases, that may mean a huge bias towards one area in one year and not as much to another area. However, the basis should be whether the capital project is a sound capital project and whether it will contribute to the betterment of Northern Ireland and to our ability to compete in the world.

Mr Givan: I congratulate the Finance Minister and the Executive Ministers who constructively engaged in producing a Budget that goes some way to minimising the pain that would have been inflicted on us through the Tories' block grant to Northern Ireland. Undoubtedly, there will still be some pain, and the freeze on public sector pay will hit some individuals. Had the Executive decided not to introduce a pay freeze, would people in the public sector ultimately have lost their job?

The Minister of Finance and Personnel: The answer is, quite clearly, yes. I should have the figures because, in the Budget review group, we did an exercise to show what the impact would be if we did not abide by the pay freeze at £21,000 and set it at a higher level or did not implement it at all. I do not want to give a misleading answer to the House, but we would be talking about hundreds of jobs had we not implemented the pay freeze, for which we already had a Barnett consequential and in respect of which we had our spending reduced on the basis of a decision elsewhere.

Mr Kinahan: Thank you very much, Mr Speaker, for letting me have another chance. We are very pleased to see a draft Budget in place. However, when we look at the funding for the Department of the Environment, it is hard to tell in which of the four years the review of public administration is planned to take place, along with the vital planning and financing of the councils. As you know, those go hand in hand. Can the Minister guarantee that the funding is in place for that to happen in the first year?

The Minister of Finance and Personnel: I am not past the detail of every line in the Department of the Environment budget or any other departmental budget. All I do know is that the Minister has made a commitment that he will move to try to rationalise and make better use of the finance available for local government. Anyway, those sorts of decisions are reflected in the Budget allocation. The Budget allocations will drive Ministers to look at how savings can be made.

1.00 pm

Sir Reg Empey: The draft Budget refers to progress on the creation of a new Education and Skills Authority (ESA). I would like to bring it to the Finance Minister's attention that two weeks ago, the Education Committee was briefed by senior departmental officials that they had not been authorised to carry out work on money-saving schemes. I ask the Minister, especially in light of the controversy surrounding the ESA, what exactly has been agreed and how senior officials in the Department of Education are supposed to produce detailed proposals within one week of the launch of the consultation process?

The Minister of Finance and Personnel: The tables show that money has been put in under the invest to save proposals for some of the upfront costs of establishing a single body to oversee the administration of education in Northern Ireland; I think that it is £10 million in each of the first two years. Therefore, finance has been made available to the Department of Education for that purpose, and I hope that progress can be made on it. I am sure that the Member will know well the difficulties that have held that up. However, just as there has been goodwill among parties in getting this draft Budget agreed, I am sure that we will try to build on that goodwill to make the kind of savings that can be made in education administration. Given the size of the education budget, there is a need to find ways of making savings on administration so that as much money as possible goes to schools.

Mr Speaker: I call Ms Anna Lo.

Ms Lo: At last; I thought that I was never going to get called. I welcome the statement from the Minister. Has the Minister considered the costs of division in our society and the potential savings from the promotion of a shared future?

The Minister of Finance and Personnel: Not only has thought been given to that, the comments that have been made over the last number of weeks by the First Minister have reflected the need for a huge debate on that. Huge savings can be made, not least in education. There are many ways in which money can be saved. All Ministers should be looking at every opportunity to save that money. However, with the issue that the Member raised, one has to be mindful of the situation on the ground, and you cannot do these things overnight. Nevertheless, it will be music to my ears if I hear of innovative ways in which Ministers believe that they can save money, so that the money that is being used is being used for the good, practical purposes of delivering services.

Mr Speaker: That concludes questions on the ministerial statement. I ask the House to take its ease as we move to the next item of business.

Budget 2011-15

Mr Deputy Speaker: The Business Committee has agreed to allow up to three hours for the debate. The proposer will have 15 minutes in which to propose the motion and 15 minutes in which to make a winding-up speech. All other Members who wish to speak will have seven minutes.

The Chairperson of the Committee for Finance and Personnel (Mr McKay): I beg to move

That this Assembly takes note of the draft Budget announced on 15 December 2010 by the Minister of Finance and Personnel.

Go raibh maith agat, a LeasCheann Comhairle. The Finance Committee tabled the motion for the purpose of providing all Members, as representatives of Committees or as individual Assembly Members, with the opportunity to debate the Executive's draft Budget 2011-15, which was launched by the Minister of Finance and Personnel on 15 December 2010. By convention, the Committee for Finance and Personnel prepares a co-ordinated report in response to the Executive's draft Budget on behalf of all Assembly Statutory Committees. The debate will help to inform that report.

Undoubtedly, there has been concern from Members, Committees, stakeholders and the public about the delay in bringing forward the draft Budget. However, it is positive that an Executive-agreed draft Budget is now out to consultation. At the outset, it has to be acknowledged that the lateness of the London Government's spending review contributed significantly to that delay, given that it was not announced until 20 October 2010, by which time the Executive's draft Budget proposals would normally have been announced. Nevertheless, it must also be pointed out that Departments were initially tasked with the development of spending proposals and savings plans as far back as June 2010. In July 2010, the Executive established a Budget review group to take forward budgetary and financial issues. The Executive have now brought forward a four-year Budget, which is beneficial in that it allows for longer-term strategic planning.

Some Departments have raised concerns about the level of detail in the draft Budget document. Those include the basis for the proposed departmental allocations; the rationale and methodology that underpin those allocations; the assumptions that have been made for the additional revenue that has been factored into the Budget calculations; the additional revenue-raising measures that are under active consideration for inclusion in the final Budget; and when the Budget review group report will be published on the ongoing work being undertaken by Departments to realise the additional revenue.

The Executive adopted a twin-track approach to the consultation on the proposals, whereby DFP is taking forward the consultation at a high level, while individual Departments are responsible for the consultation on their detailed spending plans. The consultation period has been extended by one week to 16 February, and that is to be welcomed.

As the Finance Committee prepares its co-ordinated report on the draft Budget, it will consider a range of strategic as well as DFP-specific issues. After the outcome of the spending review and in preparation for the forthcoming Budget, the Committee invited a wide range of witnesses to give evidence on cross-cutting public finance issues and commissioned research on specific areas. Some issues that were raised in evidence and by Members merit further consideration. I wish to take a few moments to highlight some of those key points.

It has been pointed out that there is a lack of detail about the strategic priority of rebalancing the economy in the draft Budget. The Committee also noted that the London Government shared their draft paper on rebalancing the economy with the Executive before Christmas. Perhaps during the debate, the Minister will tell the House when that paper might be available to the Committee for consideration and when the final paper is expected to be published.

On the topical issue of corporation tax and fiscal flexibility, we heard persuasive arguments for powers to be transferred to the Assembly, a case that was restated, although cautiously in some instances, by economists who appeared before the Committee. Although the Committee appreciates the Minister's concerns about the short-term costs of a more competitive rate of corporation tax, it considers that long-term gains could be made by adopting that approach. However, Committee members are also mindful that a reduction in corporation tax can be a game changer only if the Executive introduce other initiatives to strengthen the local economy. Perhaps the Minister will update the House today on the progress being made on the issue of corporation tax and any potential implications for the draft Budget.

1.30 pm

The Committee noted that, during the Budget period, the Executive will seek to raise £100 million through capital assets realisation. The Committee has been pressing for further information more generally on capital assets realisation from the Strategic Investment Board. The achievement of longer-term efficiencies is another issue of strategic concern. The Committee is mindful that the public sector here has been working to achieve cumulative efficiencies of between 2% and 3% over the past six years. There is a need for the Executive to set out clearly the essential services and strategic policies that are to receive priority.

The Committee is also considering the issue of preventative spending. Earlier this month, the Committee received a briefing from the Assembly Research and Library Service on the use of early intervention strategies to, at the earliest possible opportunity, lower the chance of the development of negative social problems. Prevention can be a cost effective way of tackling social problems, of which immunisation policies in the Health Service are just one example. Such a cost effective approach could also be used in early years intervention or in justice rehabilitation.

Equally, economists and representatives from the voluntary sector have impressed on the Committee the need to adopt that approach. The draft Budget sets out the Executive's proposals to fund a £20 million social investment fund and a £20 million social protection fund. It has not been possible for the Committee to determine whether those funds might be used for preventative spending or whether they will merely be used reactively. Preventative spending requires a joined-up, long-term approach. That is because many of the benefits of such programmes are often not realised in the short term; neither are they always realised in the Department that made the initial funding available.

Members are aware that, during an economic downturn, preventative spending programmes can help to protect social and economic outcomes. The development of invest to save initiatives may be one way to further that aim. The Committee will, therefore, be giving that concept further consideration as it develops its report on the draft Budget. Members may also wish to pick up on that issue in this debate. In addition to the issues that I have already mentioned, the Committee will also give further consideration to a range of other strategic and cross-cutting issues, including the removal of end-year flexibility, public sector pay, capital funding and revenue-raising options.

I will turn briefly to the Department of Finance and Personnel's spending and savings proposals. It is probably expected that DFP should be leading by example when it comes to budgetary and financial matters. Nonetheless, on behalf of the Committee, I commend the Department for the timely publication of its plans on 22 December and for the level of detail included in those plans. The Committee is also grateful for the level of engagement with departmental officials on strategic and departmental issues.

During last week's evidence session with departmental officials on DFP's plans, the Committee raised a wide range of issues. At the strategic level, for example, members queried why the real-terms cut to DFP's current expenditure budget is, at 10·5%, lower than the average of 12% across other Departments. Questions were also asked about the guiding principles behind the Department's proposed savings and the basis for the term "inescapable expenditure", including the extent to which expenditure that is classified as such is reviewed and assessed for value for money.

Members have also sought a response from the Department on whether it intends to publish the results of the equality screening work that underpins the high-level impact assessments as previously recommended by the Committee. In considering its response to DFP's spending plans and savings proposals the Committee will also wish to be sure that a firm funding base is established for Land and Property Services, given its important rate assessment and collection functions and its reliance on additional funding via monitoring rounds throughout the 2008-2011 Budget period.

Other areas that will be given further consideration in the Committee's report include the delivery of shared services for the NICS, office accommodation and workplace strategies, procurement and potential revenue gains. The Committee has also received representations and correspondence from the Assembly Commission and Audit Office respectively, and a number of Committee members expressed concern about draft Budget proposals for those bodies. The Committee will be keen to hear the Minister of Finance and Personnel's views on those matters.

As I mentioned, a LeasCheann Comhairle, the Committee looked at a wide range of issues at strategic and departmental level. Those will be discussed in more detail in the forthcoming report. I look forward to the contributions of other Committees and Members to the debate, which will help to shape that report.

Mr Deputy Speaker: There are Members listed to speak who are Chairpersons of Committees. It is not clear whether all those Members wish to speak as Chairperson. It would be very much appreciated if Members would advise the Table whether they wish to speak as Chairperson.

The Chairperson of the Committee for Education (Mr Storey): As Chairperson, I wish to inform the House of the Committee's scrutiny, to date, of the Department of Education's (DE) allocations in the Executive's draft Budget and, in particular, the Department of Education's draft budget proposals as published on 13 January 2011.

The Committee was proactive and wrote to the Minister of Education in early July 2010 stressing the need for timely and detailed information, particularly on the impact of the Minister's options for savings proposals. Having received some information on the Department's spending pressures in late August and early September, the Committee held dedicated budget scrutiny sessions at its first two meetings in September. It wrote to the Minister of Education listing eight key issues of resource and capital spending.

In October, November and December, the Committee continued its scrutiny of the initial spending pressures information. The education stakeholders examined, for example, spending on school transport, ICT and non-permanent staff. I highlight to the House a particular response that senior education officials gave to the Committee on 1 December 2010 when they were asked whether the Department was undertaking any option or scenario planning on draft spending and savings proposals. The response greatly concerned me and a number of Committee members:

"Our Department, like any other Department, works under the direction and control of the Minister … beyond the high-level figures at block level that are available, I have no figures on which to commission any work, nor do I have the authority to commission any work on scenarios."

Following publication of the Executive's draft Budget, the Committee wrote to the Minister again on 17 December 2010 stating that it was imperative that the Committee receive revised spending proposals, made in response to the Executive's draft allocation for education, as soon as possible. I must report to the House that the Committee still awaits the Minister's spending proposals. When the Committee asked senior education officials where the Minister's spending proposals were in the draft Budget published on 13 January, they pointed to two spending areas that totalled £4 million out of a total education budget of nearly £1·9 billion.

On 14 January 2011, the Minister of Education wrote to the Committee stating that she was keen to meet and engage with the Committee at the earliest opportunity to hear the views on her proposals. On 18 January 2011, the Minister attended the Committee, and that was followed by two meetings with senior departmental officials that were dedicated exclusively to the scrutiny of the draft budget.

Immediately after the meeting with the Minister, the Committee wrote to the Department to raise the absence of draft spending proposals and ask key questions on several specific areas. The Committee's key concerns with the Department's draft budget at this point are detailed in an interim response that was made to the Committee for Finance and Personnel last Friday and posted on the Committee's website today. I will give the House a flavour of those issues. I ask Members to listen carefully to what the Department said. On 26 January 2011, the Department's view on the absence of spending proposals was:

"to provide something at this stage could, in fact, be misleading for Committee members … the Minister is determined to increase the amount of funding available for education … a further £800 million is yet to be allocated".

Some members questioned the wisdom of that response. They quoted the Executive's draft Budget, which refers to other possible revenue sources and states that, if any have merit, they will be factored into the final allocations.

The Committee heard from officials about a voluntary severance programme, which has been launched and targeted at the non-teaching education management workforce. However, no take-up figures, estimates of savings generated or plans are available. Some Committee members questioned the wisdom of not targeting potential savings from the 11,200 non-permanent non-teaching staff and focusing on natural wastage from retirees and leavers, bearing in mind that the total education workforce comprises some 60,000 staff.

The Committee thanks the Finance Minister for his work on end-year flexibility and particularly welcomes his guarantee of 21 January to put arrangements in place to ensure that schools have access to the £56·7 million surplus that has been accumulated. Committee members noted the co-operation and consensus on the issue.

Although the Committee is concerned about the overall amount of proposed capital budget allocation that is available to DE, some members questioned the Minister's proposal to reclassify £41 million from capital to resource in 2011-12.

On the Minister's proposal to extend free school meals entitlement, the Committee noted the significantly reduced estimates of costs. However, some members remained concerned that the extension of free school meals had not been taken forward by other parts of the United Kingdom and questioned its affordability in the context of the Budget.

I will close with the most worrying aspect of the budget proposals; the proposed list of savings that build from £143 million in year one to £309 million in year four of the Budget period. Some Committee members had serious concerns that the Department's budget document and follow-up paper had little information on how those savings would be achieved and their actual impacts. For example, it is proposed that there will be a saving of £60 million from arm's-length bodies and £105 million from professional support for schools over the four years. However, there is no evidence of plans, consultations or timescales despite the fact that significant savings are proposed from the 1 April 2011. Some Committee members also questioned and had concerns about the remaining spending on special educational needs (SEN) capacity building given that the SEN strategy is not in place. Others questioned whether the proposed level of savings from teacher substitution costs is achievable. Finally, some Committee members questioned the savings from primary school principal transfer interviews, given that no consultation has yet been undertaken.

I will finish by talking about an area of the savings proposals where all Committee members had major concerns; the aggregated schools budget, which is the money that goes directly to schools and classrooms.

Mr Deputy Speaker: The Member should draw his remarks to a close.

The Chairperson of the Committee for Education: That is an outline of the Committee's concerns about the draft Budget proposals.

The Chairperson of the Committee for the Office of the First Minister and deputy First Minister (Mr Elliott): I wish to make a number of comments, first, on behalf of the Committee for the Office of the First Minister and deputy First Minister and then, if time permits, on behalf of the Ulster Unionist Party. I welcome the opportunity to participate in this important debate and thank the Committee for Finance and Personnel for tabling the motion.

Even though this is a take note debate, the Assembly recognises that, to a large extent, this is a significant opportunity to influence the allocations that will be given to public services in the coming years. It is our responsibility to try to influence the Minister of Finance and Personnel to re-examine allocations and spending areas where we, as Committees, parties or, indeed, constituency representatives, have major concerns.

The Office of the First Minister and deputy First Minister published its proposals for the draft Budget 2011-15 on Thursday 13 January. The First Minister and deputy First Minister then briefed the Committee on the proposals at its meeting on 19 January. During the briefing, the Ministers provided further information on the budget proposals and provided an overview of some of the savings proposals. The Committee looks forward to receiving and scrutinising the detailed savings plans once they have been agreed by Ministers. However, I inform the House that we still have not had sight of those plans.

Committee members discussed a number of issues with the Ministers, including the strategic value of the Department's capital projects and the importance of maintaining momentum on the regeneration of sites to attract investment and provide jobs for local areas. Ministers also provided further information about the social investment fund and the social protection fund, which the Executive will be taking forward. Members were assured that those funds would be directed towards the most vulnerable and that Ministers were still considering areas and possible themes in which to direct them.

1.45 pm

Members also had a discussion with the Ministers about European funding and the possibility of introducing targets for drawing down funding from the European Union. There were also discussions around a possible Peace IV package, and Ministers advised that the Barroso task force was due to return to Northern Ireland in the next few weeks. The Committee welcomes its return and hopes that this opportunity will provide renewed energy and focus on Europe and the opportunities that it makes available to Northern Ireland.

Ministers advised of success in attracting inward investment to Northern Ireland from the United States, and particular mention was made of the success of the Titanic Quarter area in attracting companies such as HBO. There was also a discussion highlighting the benefits of such investment to the local economy. Over the Budget period, the Committee for the Office of the First Minister and deputy First Minister will monitor carefully how the specific budgets allocated to OFMDFM are used to deliver priorities. However, given the Committee's responsibility for cross-cutting policies on sustainable development, European issues, tackling poverty, and equality and good relations, we will take a keen interest in how the Executive's cross-cutting objectives are being resourced and delivered by all Departments and will work with other statutory Committees to ensure that there is real delivery in those areas.

I will make some comments as a party and constituency representative. There are a number of questions around some of the proposals from the Finance Minister and his Department. I would like to record that, although it was slow to come, we appreciate that a draft Budget eventually came forward.

I will be grateful if the Minister can clarify a number of issues when he eventually gets to his feet. He has publicly stated that an additional capital funding stream of up to £125 million over the initial four-year period will be made available from Belfast Port. I am interested to hear the Finance Minister clarify the legal status of Belfast Port. What legal right does the Executive have to access the assets of the Port, and in what way can it impose a levy on the activity of the port? Belfast Port is an extremely important part of Northern Ireland's economy. The Ulster Unionist Party is concerned that the proposals in the draft Budget have not been properly thought through and could simultaneously jeopardise planned public spending and a key strategic player in our local economy. Clarification of the Executive's position is crucial on that point.

Although I do not want to impinge on Mr Storey's point, I have heard about the education issues. However, the Minister of Education announced to the Education Committee that:

"the Executive identified an additional £1·6 billion revenue over the Budget period. Half of that has yet to be deployed in the Budget figures … As members know, a further £800 million is yet to be allocated."

I will be grateful if the Finance Minister can inform the house where the Minister of Education is getting those figures from.

Mr Frew: Her dreams.

The Chairperson of the Committee for the Office of the First Minister and deputy First Minister: That is one of the key things that I would like to hear the Minister of Finance say on record here.

Before I leave, I am surprised that no one has yet said that all this is the fault of the Ulster Unionist Party combined with the Tory cuts. I am sure that we will hear that, so, before anybody else raises it, I think it is important that I do. Obviously, it was other parties, through their support for the Labour Party, that put Northern Ireland and the UK in such a difficult economic position. When the DUP voted to keep Labour in power and continue the economic downturn —

The Minister of Finance and Personnel (Mr S Wilson): Will the Member give way?

Mr Deputy Speaker: Will the Member draw his remarks to a close?

The Chairperson of the Committee for the Office of the First Minister and deputy First Minister: Yes, I will give way.

The Minister of Finance and Personnel: I have just earned him another extra minute. Since the Member throws this wild allegation around, perhaps he will give us the date, the occasion and the vote in which the DUP kept the Labour Party in power.

The Chairperson of the Committee for the Office of the First Minister and deputy First Minister: I am surprised that the Finance Minister has such as short memory. Perhaps he was not there to vote — like his Sinn Féin colleagues, who do not even turn up to Westminster to vote. Anyway, they are in partnership now, so maybe the two of them can do all of that together.

Ms Ritchie: The SDLP welcomes the fact that we have a draft Budget, as it means that people now have some idea of what the future holds. Credit is due to the Finance Minister for compiling an Executive position against a backdrop of less money. Wait for it, however: there are fundamental deficiencies in the draft Budget, but we can put them right.

The draft Budget is largely the application of what was handed down by the coalition Government. The settlement envisaged cuts of £4 billion. When we net out receipts and a rates increase, the draft Budget envisages cuts of £3·2 billion. Bizarrely, one party that negotiated the Budget, including the £3·2 billion of cuts, still invites us to fight the Tory cuts. It agreed to the £3·2 billion of cuts, but it wants us to fight the cuts. Is that stupid or dishonest, or both?

We can mitigate the cuts. The SDLP has produced a Budget document called 'Partnership and Economic Recovery', in which there are detailed proposals for additional new revenue streams and receipts and for cash-releasing efficiency savings. Again, one party pretends that the Budget already contains billions in net or new revenue. That is not true. When normal receipts are stripped away, there is little new money: less than 1% of the total Budget.

The Budget is vital over the next four years as currency, interest rates and taxation matters are decided elsewhere. The Executive's only real economic lever is public expenditure. That means that the Budget must be about much more than who gets what outcome; it must deliver on an economic strategy. That is our second criticism. All economic commentators recognise the need to rebalance the Northern Ireland economy. That means reducing the public sector and making it more efficient. It means focusing job creation and investing scarce capital in the right areas.

Where are the proposals to move assets and activities from the public to the private sector? Where is the plan to generate jobs in the short term and get the economy moving? 'Partnership and Economic Recovery' provides some answers. Let us sell Department for Regional Development (DRD) car parks. They would do better in the private sector as they would generate a major receipt to fund other priorities. We should dispose of other assets that have a revenue stream. We should not be dogmatic about the transfer out of state control of Belfast port, a proportion of the forestry assets or any other appropriate infrastructure. Indeed, consider Northern Ireland Water. The solution to the problem of making Northern Ireland Water perform better simply does not lie in bring it back into DRD, as the Minister proposes. Will it really do better as a branch of the Civil Service? We should mutualise Northern Ireland Water so that it performs to commercial standards but does so in the public interest rather than for shareholder gain. Where is the job creation? There needs to be more investment in the tourism and construction sectors, which are indigenous and job-rich.

Our third criticism is that the draft Budget is simply not joined up. Each Department has been given its haircut, but there has been little thinking outside of departmental silos. The result is a Budget that has been generated by the DUP and Sinn Féin in a private negotiation. I do not condemn that; we would be in a worse place if the DUP and Sinn Féin had failed to reach agreement.

However, we now have the Minister of Health, Social Services and Public Safety saying that he has been allocated a capital budget to build a radiotherapy centre in Derry but not the budget to run it.

In education, we need funding and provision for the schools' modernisation programme, because many schools throughout Northern Ireland are still in a state of disrepair, and we face the unacceptable prospect of hiking up student fees, the consequence of which will be to make third-level education the preserve of the rich once again.

Furthermore, there is housing. With the 40% overall reduction in capital, the housing budget has been cut by — would you believe it? — 40%. We have not reprioritised our capital programme honestly but have just spread the pain around. Incidentally, if any Member can identify a programme that does more than investment in social housing to stimulate job creation, reduce human misery and meet important social policy objectives, let us find more money for it. Despite such shortfalls in funding for health, education, student finance and housing, £80 million has been provided for a new Sinn Féin/DUP community fund to be directed to their chosen groups. I can only call such a slush fund a disgrace.

Nevertheless, we have to find solutions. How can we sort all this out? We should forget about personalities and genuinely do what is best for the North, such as abandoning the silo approach. The SDLP will not be territorial about the Budget. I have listed improvements that are needed, and, as a party, we have shown how they can be achieved. I hope that the Executive will work to arrive at a final Budget that my party can support.

Dr Farry: The Alliance Party welcomes the fact that we have a draft Budget before us. It is almost certainly not the Budget that the Alliance Party would have sought to strike as a single party. For that, I refer people to our paper 'Shared Solutions', which was published in November 2010. Nonetheless, we respect the nature of government that we have in Northern Ireland and the fact that we are in a power-sharing arrangement, so the Budget has to be progressed by a process of negotiation among parties. Indeed, the two party leaders who spoke before me need to make clear their long-term intentions on the Budget and decide whether they are in or out of the Executive, because passing a Budget goes to the heart of participation in an Executive. Parties cannot be in and out at the same time. If the Executive do pass a final Budget, even on a majority basis, every Minister will be bound by collective responsibility to support it. In the coming weeks, therefore, that issue will come up for a number of parties in the Chamber.

For our part, we accept the need to address the UK national deficit. However, we are concerned by the pace at which it is being done and, indeed, by its differential impact on regions such as Northern Ireland. Nevertheless, although the comprehensive spending review may be objectionable to us all, we have a duty to strike a Budget within the limits set out and to bear in mind local revenue-raising opportunities. We also have to pass comment on the process. It is important that we have a four-year Budget in order to allow proper forward planning and the efficient use of resources, not just for Departments but for those whom the Departments fund. That said, a Budget need not be set in stone, and there will be situations in which circumstances change and requiring fresh thinking, so we need something broader than the monitoring rounds that we have had in the past. I would like the Minister to give that some thought.

I also ask him to reflect on what, up until now, has been a flawed consultation process. First, the Executive were late in striking the draft Budget, which is down to more than the simple fact that the UK Government did not give us figures until 20 October 2010. Our Scottish and Welsh counterparts were quicker than Northern Ireland by several weeks, if not longer. We were extremely slow, and that has curtailed the consultation process. Beyond that, we have had an absolute fiasco around the departmental spending plans, which should have been integrated into the overall draft Budget statement. If that was not possible, there was an obligation to produce them within seven days. Only three Departments — Justice, Finance and Personnel, and Culture, Arts and Leisure — came anywhere close to meeting that time frame. The others, including some major spending Departments, failed miserably to do so. Consequently, we have a consultation process in which the detail came out very late.

Even then, the level of detail varies considerably across Departments. The Department of Education and the Department of Health, Social Services and Public Safety are the two biggest offenders in that regard and the two biggest spenders. It is shocking how our Government treat the people of Northern Ireland over what is the most important decision facing this society.

2.00 pm

I will also comment on the lack of strategic approach to the Budget so far. We need a very clear statement as to how it links in to the economic drivers of change in this society. Indeed, we should have also seen a Programme for Government and investment strategy possibly even ahead of a Budget, because the policy should inform the finance rather than the finance informing the policy. We need to focus on three economic issues at this stage. First, we need to ask ourselves whether we are directing enough from current expenditure to capital to continue to invest in our infrastructure and to address the downturn in the construction sector. Secondly, what contingencies are we putting in place to give us the ability to potentially lower the rate of corporation tax, if that happens over the lifetime of the Budget? Thirdly, are we prepared to give a commitment to a green new deal beyond the simple plastic bag tax, which will generate £4 million a year?

A number of important cross-cutting issues have not been properly addressed by the Executive. I would like certain issues to have been addressed clearly in the draft Budget statement. Although one may argue that some of the issues can be left to individual Departments, there is no evidence of Departments, apart from a few examples such as the Department of Justice, following through on any of those issues. For example, what are we doing to address the cost of managing a divided society and to realise the savings that can be found from investing in shared services? What will we do to try to find shared services on a North/South basis? Leaving aside the issue of politics, which is completely different, I would hate to see a situation where the two jurisdictions on this island retreat into their own silos due to the enormous financial pressures that they are under rather than trying to find opportunities for new shared services.

We also have to focus on early intervention and prevention. The evidence is quite stark that intervening early can save money down the line. We need to take a leap of faith in that regard. That is also linked to greater use of the voluntary and community sector. We also have to do a proper benchmarking exercise and ask ourselves whether the profile of expenditure in Northern Ireland, compared with that of our neighbours, is justified. Let us do those comparisons and see how we are doing, and we may learn some lessons about how to find additional savings. We should not be afraid of initiatives such as market testing.

The Budget is very heavily premised around assumptions on revenue raising. At this stage, a commitment to raising £842 million is set firmly in stone. However, some people question the assumptions behind that, such as the property market situation over the coming years. People are not overly optimistic about how quickly that will recover. Beyond that, we have a purely speculative figure of another £800 million that may or may not be raised, and I rather fear that a lot of parties are making commitments and assumptions on the basis of that money being generated.

We also continue to run away from the issue of how we fund our water infrastructure in Northern Ireland. The events at Christmas have brought that into extremely stark relief. We cannot continue to fund water on the cheap, and we cannot continue to have a situation where water has to compete against health and education for extremely scarce resources. We have to be realistic about that issue, look to what our neighbours are doing and make a commitment to face up to charging for water. If we do that, we must ensure that it is done on a fair basis and is linked to water usage.

Mr Deputy Speaker: Will the Member draw his remarks to a close?

Mr Neeson: Will the Member give way?

Dr Farry: Yes, sure.

Mr Neeson: Does my honourable friend share my concerns that the money that was supposed to be set aside for improvements to the A2 does not seem to be there and that, once again, the scheme has been put back by the Minister for Regional Development?

Dr Farry: I thank my colleague for that comment. It reflects concerns that we have about a whole host of departmental spending plans. Hopefully, we will have the chance to outline those over the coming days. In regional development, we are in danger of losing important investments in infrastructure because we are not prepared to take brave decisions elsewhere. The long-term sustainability of this society and our economy may well suffer because of our short-sightedness and continued populous approaches to decisions. In education, I am concerned about the redirection of money from capital to current. That goes against the whole thread of Treasury rules and is, essentially, recognition of the failure to address the inefficiencies in the education system. We are pouring good money after bad rather than being prepared to take difficult decisions.

The Chairperson of the Committee for Agriculture and Rural Development (Mr Moutray): The Committee for Agriculture and Rural Development welcomes the opportunity to provide its comments to the House as part of this debate. The Committee and, indeed, the rural community have been waiting for the Department's proposals and are now identifying their impact in Northern Ireland.

As is always the case, these budgets have been rushed out at the last minute, and Statutory Committees and the industry are asked for comments. The Committee believes that the Executive need to re-examine the scheduling of the budgets, particularly where they have coincided with an extremely heavy legislative programme. The scrutiny of budgets and departmental spends has been an ongoing difficulty throughout this mandate and is an area on which the Committee wishes to see improvement in the next mandate.

The Committee is pleased to see the commitment to the land parcel identification system in the budget. The Northern Ireland economy cannot support the continued application of extreme penalty disallowances by the EU. The Committee is disappointed that the savings will result in the loss of 80 posts in the Department and has received guarantees that those savings will be achieved without the need for redundancies. However, the Committee has requested additional information on the specific areas from which those posts will be lost to ensure that front line services are not depleted.

The Committee is disappointed at the absence of detail in the proposed plan, and it is concerned at the number of aspirational savings that are identified, such as a reliance on the reduction in animal diseases, particularly given the fact that the Department has not achieved its targets on those areas in the current CSR. On a number of occasions, the Committee has stated, and has been supported by the Public Accounts Committee, the Northern Ireland Audit Office and the industry, that the Department should eradicate TB rather than study and control it. That would release between £80 million and £100 million over the course of the next CSR spending period.

The Committee is concerned, therefore, that other as yet undeclared savings would have to be brought into effect if the proposed reductions in animal diseases are not realised. That could potentially have a more serious impact on the delivery of front line services to the industry and to rural communities. The Committee has been advised that the proposed savings will be achieved not through the eradication of TB but by a reduction of the amounts of compensation that are paid directly to farmers. The Committee will want to see the detail of those proposals in a timely fashion to allow for consultation with stakeholders on the matter.

It is disappointing to see a reduction in the commitment to the food strategy, particularly as the agrifood sector has been one of the few to expand and to create jobs during the recession. The Department is being short-sighted, particularly as that sector contributes some £3 billion to our economy.

Although the Committee does not disagree with the principle of dispersing Civil Service offices outside of greater Belfast, it is concerned at the timing and the cost of the proposed relocation of the Department's headquarters. The Committee agreed that that was not appropriate, given the fiscal constraints facing the economy, and noted that the overall capital cost of the relocation was estimated to be £26 million, which was to be split across the next two CSR periods. The Department has not been able to provide an economic appraisal indicating how that figure has been arrived at and what other ancillary costs are expected, such as the costs of relocating up to 1,000 officials. In addition, the notional charges for maintenance for Dundonald House that were levied on the Department by DFP over the past three years total £5·96 million. Relocation and restraining costs alone could, potentially, be a similar amount.

The Committee believes that this is not the time to test the viability of placing a departmental headquarters at a location outside the greater Belfast area, as indicated in the Minister's statement, particularly when the economy is under such severe pressure as a result of the cuts. The proposed move could have been shelved for a more affluent time when, quite frankly, it could be afforded. The Committee also seeks assurances that the national contributions to the Northern Ireland rural development programme, co-funded with the European Union, will be protected. The Committee previously expressed grave concerns at the programme's lack of progress, particularly with regard to axis 3, and believes that it is imperative that the funds continue to be made available and dispersed in the rural community.

The Committee welcomes the Department's commitment towards the countryside management scheme, as it is an important and well-supported programme, but it is disappointed that the Department will fall short of its Programme for Government target of land covered by agrienvironment agreements.

As I said, the proposals in DARD's draft budget lack detail and ambition. The Committee that will be constituted in the new mandate will have a very important task in ensuring that the Department does not waiver from those plans because the consequence would be an immediate and devastating impact on the delivery of front line services.

Mr McLaughlin: Go raibh maith agat, a Cheann Comhairle. I will make a key strategic point that has been drawn to the attention of the Assembly on more than one occasion in relation to the Budget process: the Finance Committee, in its deliberations and in its second report into the Executive's Budget and expenditure process, recommended that although it considers the setting of a clear timetable to include key milestones at the start of each Budget process, it is vital that there be clarity on the shape, frequency and duration of future Budget cycles.

In noting that, it is disappointing that the draft Budget statement makes no reference whatsoever to an annual formalised review. To reiterate: the benefits of the in-year monitoring process are clear, but it is not obvious to me that the quarterly exercises are uniformly beneficial. Two monitoring reviews at the beginning of the third and fourth quartiles would retain all the existing benefits while freeing up timing resources to pursue the Finance Committee's proposal. It is disappointing, and perhaps the Minister will reflect on that. The proposal will have the benefit of greater transparency and buy-in, which is of significant importance. It should be considered, and perhaps we will get some indication that the Minister will respond to that consideration.

In fairness to members of Committees, some of the issues have been addressed already. Therefore I will confine myself to two points that I think are overarching. The first is the proposed allocation to the Commission, that is, the Assembly operation, and the second relates to the Audit Office. There is considerable concern in each of them, which is reflected across the parties, that those bodies are an essential element in the accountability mechanisms that the Assembly has devised and which it applies.

Legislation makes it abundantly clear that there should be no interference by the Executive in the Audit Office. I welcome the Minister's attendance here, and I draw his attention to the excellent research report that was prepared for the Finance Committee, which, to some extent, deals with that and explicitly spells out the statutory independence of the Audit Committee. There should be no reduction of resources that would affect the ability of the Audit Committee to do its work.

2.15 pm

During the lifetime of the current mandate, which is the first full term that the Assembly has completed, one can see quite clearly that Committees, in their scrutiny and advisory role, have begun to develop an understanding of their powers and their ability to hold to account Ministers and departmental officials, some of whom are highly paid and powerful individuals. During the past four years, scrutiny Committees have demonstrated an ability to get to grips with the amount of detail and, in fact, have started to provide evidence-based confidence that the process of checks and balances is not only important but effective.

That brings me to the role of the Commission. Scrutiny Committees cannot function unless the Commission has sufficient resources to ensure that they are all properly serviced, not just with experience and senior secretariat leadership, but, in fact, within that leadership, with the high-level administrative skill, experience and research ability that is necessary to track through legislative proposals, policy developments or performance assessment on a step-by-step basis, as required.

It is of considerable concern to me and my party that both the Assembly Commission and the Audit Office have been singled out. Their treatment stands out from that of all the Departments, some of which are high spenders. I defy anyone to challenge my view that had the scrutiny process actually discovered examples of malpractice — work in which procurement guidance was not properly followed or areas where savings could have been identified and applied to sustain, maintain and develop front line services — it would be extremely short-sighted of the Assembly to limit in any way scrutiny Committees' ability to continue to develop and enhance that role. I ask for a significant review of that to be undertaken.

I sought a rationale from DFP officials who appeared before the Committee, particularly with regard to the Assembly Commission. I did not get it. Officials pointed to the fact that both the Commission and the Audit Office had an element of underspend. However, the Department of Finance and Personnel also had underspend. I find it somewhat ironic, therefore, that officials would use that argument to justify what I believe to be an attempt to put manners on two bodies that provide vital muscle, resource and strength to the scrutiny process. It behoves Ministers to recognise and to respect that and it is for the Assembly to defend it.

The Chairperson of the Committee for Social Development (Mr Hamilton): The Committee for Social Development, like others, has been hampered in its scrutiny of its Department's work on the draft Budget by a lack of information, the timeliness of the availability of that information, and, indeed, a lack of clarification being delivered to the Committee even though it was sought after a meeting with the Minister.

That being said, the Committee has largely supported the bulk of the draft budget that has been presented to it by the Minister for Social Development. Down through the years, and particularly in recent months, the Committee has pushed issues in many areas that the Minister has taken on board in his draft budget and savings and expenditure plan. In particular, I am thinking about a large measure of protection for the voluntary and community sector. My Committee colleagues and I had thought that that sector would be seen as an easy target for cuts. Therefore, we welcome the protection that has been afforded to it.

Not unrelated to that is the Committee's long, keen interest down through the years in funding for neighbourhood renewal, areas of risk and small pockets of deprivation. Again, it welcomes the measure of protection that has been offered to those funds. We note with interest and, again, with support that the Minister has reiterated to that sector his desire to see further collaboration and savings. Therefore, although protection has been put in place, there is a push for further efficiencies. That is to be welcomed. Other Ministers should do likewise.

There is also support for what appears to be a freeze — pardon the pun — for funding for the warm homes scheme. Although funding for that scheme has been protected, concern has been expressed about where additional moneys that would have been put into the anti-fuel poverty budget line have gone to and about what is to be done with that funding, which amounts to roughly £10 million.

On a slightly more negative side, concern has been expressed in the Committee about possible job losses in the Housing Executive and how that is to be managed. However, we note that a decision on a rent increase may mitigate that and, indeed, allow the Housing Executive to have additional funds to invest elsewhere.

We have also noted with interest the proposal to save some £20 million from the housing associations on an ongoing annual basis, which is a total of £80 million over the Budget period. The Minister has come to the Committee with his view that that might be ambitious, but, upon questioning from me, I noted that he did not disagree with the principle behind that. We look forward to seeing his proposals on how that might be achieved. I have been supportive of that approach, which is included in the draft Budget, for some time, but would like to see more detail on it.

There is not as much money available for capital expenditure in the Department for Social Development as anybody would like, but we are dealing with a difficult capital expenditure settlement. If there was more money, we would like to see it spent on the maintenance of existing stock or on housing newbuild, but everybody appreciates that we are dealing with a difficult capital settlement.

I will speak now in a personal and party capacity. I have heard it said that there are certain deficiencies in the draft Budget process. If there are deficiencies in the draft Budget, they are only as deficient as the system that created it. It is difficult to set a Budget in any circumstances, but it is particularly difficult to do so in the sort of circumstances that we face in the Northern Ireland Assembly, which is a five-party mandatory coalition. I ask Members to take a look at other jurisdictions and at the time that they took to get agreement. In fact, there was a lack of agreement at times. They did not have the political complexities that we had to juggle with.

Those complexities were confounded further by the fact that we were facing a Budget settlement that had some 40% cuts in our capital expenditure and close to 10% cuts in our current expenditure. I do not think that I need to remind people which party in the House canvassed for that degree of cuts. I do not think that I need to go into any detail. If anyone is confused, they can refer to the Ulster Unionist Party manifesto from May of last year, which reveals all the answers as to which party canvassed for those cuts. [Interruption.]

Mr Deputy Speaker: Order.

The Chairperson of the Committee for Social Development: I note the yelping from the Member for North Belfast. I know that he was not a fan of that particular linkage, but, like the rest of his colleagues, he is caught by it.

The 22 October conclusion to the CSR settlement should also be factored in. When the context of political complexity, the late settlement notice and the very difficult Budget settlement are taken into account, it is a miracle that we have come up with a draft Budget at all, never mind a four-year draft Budget, which is unique in the devolved regions across the United Kingdom.

I have also heard complaints about the consultation process. I understand those complaints. It baffles me as to why there has been a delay. As far back as May and June last year, the Finance Minister was warning every Department in the Executive to come forward with savings plans.

Many of those Departments received settlements that were more advantageous to them than what they were planning for or being asked to plan for in May or June. One would think that to come forward with savings in expenditure plans would have been an easy operation for them, but some took weeks and weeks to do that. If there is any blame to be bandied around for the consultation, it must go to those Departments that are to blame for it.

Dr Farry: I am grateful to the Member for giving way. Will he comment on the fact that some Ministers have formally provided answers to questions for written answer saying that they have received the settlement from the draft Budget and that they will commence sitting down with their officials to work out what it means for the Department? What does that sort of statement say about the respect that those Ministers have for the public of Northern Ireland?

The Chairperson of the Committee for Social Development: I find that baffling as well. Every Department should have been planning well in advance. We knew what was coming, by and large. We did not know the precise figures, but we should have at least known the ballpark, and we did. In fact, some Departments have done much better than they thought they would have done back in June of last year.

The Budget is not everything that everybody wanted it to be — it could not be — yet there is much that is positive in it. There are no water charges factored in over the four-year period. There is a real-terms freeze for domestic regional ratepayers, thus protecting people in difficult times. There is support for the green new deal, support for a social protection fund, and provision for a social investment fund.

I note that the leader of the SDLP said that it was a DUP/Sinn Féin community development fund. If she looks at the draft Budget, she will see that it is to be administered by the Office of the First Minister and deputy First Minister. The leader of the SDLP has not only written off her own chances of success in the upcoming Assembly election, but has done that for the Ulster Unionist Party. I know that everybody is all for honesty and frankness in politics, but I am sure that her party colleagues will not appreciate that, never mind the Ulster Unionist Party.

The Budget is certainly not without difficulties and deficiencies, but it is only as deficient as the process that set it.

Mr Deputy Speaker: The Member's time is up.

As Question Time commences at 2.30 pm, I suggest that the House takes its ease until that time. The debate will continue after Question Time, when the next Member to speak will be John McCallister.

The debate stood suspended.

(Mr Speaker in the Chair)

2.30 pm

Committee Business

Budget 2011-15

Debate resumed on motion:

That this Assembly takes note of the draft Budget announced on 15 December 2010 by the Minister of Finance and Personnel. — [The Chairperson of the Committee for Finance and Personnel (Mr McKay).]

Mr McCallister: In opening, I will make some general comments about the budgeting process. I agree with colleagues that the lateness of the draft Budget has caused problems. I am sure that, in his response, the Minister will give some indication of how he plans to deal with that.

The lateness of the draft Budget and the consultation process will cause huge problems for how budgets will be managed and implemented, particularly during such a difficult period, in a matter of weeks and perhaps less from the Budget being agreed — if the Executive agree a Budget in this mandate.

(Mr Deputy Speaker [Mr Dallat] in the Chair)

3.30 pm

I will set in context the state of public finances across the United Kingdom and the challenges that we face as a nation: for us to put right our public finances and clear up the mess from 13 disastrous years of a Labour Government will be very difficult, and there will be challenging times ahead. I agree with my party leader that it would have been much better to have brought that Government to an end earlier rather than leaving them to run their course for the full 13 years. However, it was for others to decide what way they voted in contributing to that.

I turn to some of the issues that are reflected by the Committees on which I represent the Ulster Unionist Party. The Chairperson of the Committee for Social Development reflected some of the comments that have been made at Committee on the contribution of £80 million, or £20 million a year, from housing associations. It is interesting that I brought up that issue with the Minister for Social Development during Question Time. There are issues about whether it is wise to proceed with that and whether the figures of £20 million a year and £80 million over the cycle can be realised. Most housing associations doubt that it can.

How will the Department get that money from housing associations? Minister Attwood said that some of their grant rate could be changed, but it seems unlikely that that would equate to the £80 million that is stated in the draft Budget. It would be difficult, and it is somewhat reckless to throw out a figure when there is no evidence to back up that it can be achieved. It is difficult to see how the 2,500 houses a year that are needed can continue to be built —

The Minister of Finance and Personnel (Mr S Wilson): Will the Member give way?

Mr McCallister: Yes.

The Minister of Finance and Personnel: The Member said that the figures are reckless and that it does not seem likely that they can be realised. On what basis does he make that judgement? Given that £220 million in reserves are held by housing associations, and based on the information that benchmarks them against housing associations and housing bodies elsewhere, is it not possible that they could borrow more and that they do not need the level of reserves that they hold? If he is to make that suggestion, he at least must justify it.

Mr McCallister: I am grateful to the Minister. I make that judgement on the same basis as he thinks that it is proper that he can simply write into the draft Budget a figure for which there is no basis. His colleague the Minister for Social Development, who is the lead Minister on the issue, did not give any indication to the House or to the Committee that that was achievable. On that basis, I am quite content to stand over my remark. I feel that it was reckless simply to write into the draft Budget a figure that the Minister for Social Development thinks might not be entirely possible to achieve, as he has said to the Committee and to the House. Therefore, my questioning that figure is based on a sound argument, and I look forward to hearing the Minister provide detail on where he can get the £80 million and how he can build houses. At a time when the need for houses is rising, Minister Attwood said that we may be lucky to build half the number of houses that are being built currently. The Minister of Finance and Personnel must address those issues in his response.

I turn to the other Committee on which I sit, the Committee for Health, Social Services and Public Safety. There has been an interesting debate between the Minister of Finance and Personnel and the Minister of Health, Social Services and Public Safety. It is interesting how the figures have been reached and whether the Department of Health is getting the level of protection that colleagues in England are affording to health around other parts of the UK.

Just before Question Time, the Minister's colleague Mr Hamilton was laying into us for standing on a manifesto last year with the Conservatives. I was one of the candidates who stood on that manifesto, and one of the proudest bits of that manifesto was our rock-solid commitment to protect health across the United Kingdom and to stick with that, recognising that it is one of the most important government functions to protect and defend. When the Conservatives got into power with the Lib Dems, they delivered on that, and they have protected health. However, according not only to the Department but to Research Services in the Assembly, Northern Ireland is £80 million a year short of the protection that England has, building that up over a four-year period. That makes a significant difference to the way that this is protected.

Mrs O'Neill: If health was to receive the same capital allocation as England, there would be a reduction of £120 million. Would you support that?

Mr McCallister: The Member knows very well that they would then have to try to convert moneys from capital to revenue or revenue back to capital, and other Departments are struggling with how to do that. She is only taking one issue out of this because it will affect Altnagelvin. Projects have been announced, but the Department of Health does not know whether they have been funded.

If the monitoring process goes ahead, there is a mystery around the £20 million that health has been promised, according to the Chairperson of the Committee and to Alex Easton. They were assured by the Finance Minister that that was the case, yet the Department and the Health Minister have no evidence to back that up. Health needs to be protected. We need the same protection with a revenue spend that other parts of the UK are getting. I hope that the Deputy Chairperson of the Committee will help and join us in supporting that.

Mr O'Loan: I am pleased to take part in this important debate. It is the first significant debate that we have had on the draft Budget, but we will have other opportunities. It is a critical debate because how we plan to apply our resources, even over a four-year period, is a very significant decision for the Assembly. It is critical that the Assembly engage with that debate in a very serious way.

We should look back on the euphoria, and no less a word could describe it, that existed throughout our community and the media in particular, who conveyed the public sentiment when the draft Budget emerged just before Christmas. There had been a huge delay in producing the draft Budget, and people even feared that we might create an emergency Budget on 31 March, with the permanent secretary having to intervene. Fortunately, that did not happen, but around the great delight among the public that a draft Budget had emerged, the delay and the tedious and often ill-judged arguments were very quickly forgiven and forgotten, and there was real pleasure among the public that the Assembly was doing its business. There is a lesson for us there. The public really want to see the Assembly working, and they surely deserve that from us.

At the outset, I declare my stance on the draft Budget. I do not think that it is a good Budget, and I want to see it improved. Ultimately, I will look for the Minister to see that he is open to that. I will say more about that, but, first, I want to say something about the process of creating the Budget. The process in the Executive has not been healthy. Stephen Farry made a remark earlier about parties having to consider their position when they address the Budget.

I think that he was expressing a view towards parties such as mine. He might have been as wise to direct his remarks to the parties in the Office of the First Minister and deputy First Minister about how they have conducted the process. Although there was a Budget review group, Members know that the real meat of the work to create the Budget was done between the two parties that are represented in that office. That achieved neither a good Budget nor political coherence or agreement on it. The Alliance Party, which, because it is "alliance" in name, believes that it has a prerogative to comment on bringing the community together in a political sense, might, as I say, direct its criticisms at those parties because of how they go about much of their business, and the Budget in particular.

I want to remark on the lack of opportunity for the public and the Assembly to comment on such issues as the time frame and detail in the Budget process. The last of the draft departmental spending plans emerged only about 12 January 2011. A response to the Budget is needed by 16 February 2011. That timeframe is hopelessly inadequate, especially if we are to allow key stakeholders to respond. Even when departmental spending plans were seen, the detail was nowhere near adequate. In many cases, key stakeholders do not know where they stand when they look at those documents.

I want to return to my view on the draft Budget. Its first major failing is its lack of an overall plan; I do not know what the Budget is about. Is it just about getting through the next four years, or does the Assembly have any strategic vision? The documentation that appeared with the previous Budget four years ago was an inch thick; compare that with the slim volume that has appeared on this occasion. After four years of bedding in this phase of the Assembly, one would expect that it would have more to say in a focused way about its strategic direction.

Mrs D Kelly: Does the Member share my concern that, as yet, there is no Programme for Government? Surely a Programme for Government should have come before the draft Budget was presented to the Assembly?

Mr O'Loan: The Member emphasises my point. That is absolutely what I am getting at: what are the Assembly and Executive now about? That is no longer defined. People say that if one does not know where one wants to go, one could end up anywhere. When one ends up somewhere, one has no way of knowing whether that is where one wanted to be. The Assembly is bound to have an economic goal that it wants to reach; however, no real focus towards that goal is presented in the draft Budget.

There are huge variations in departmental spending cuts. The Department for Regional Development's budget has been cut by 20·6%. As Deputy Chairperson of the Committee for Culture, Arts and Leisure, I am highly critical of the budget for its respective Department, which has been cut by 17·7%. The budget for the Department of Health has been cut by 2·6%. In between, there are many huge variations for which no rationale has been provided.

Departmental spending plans vary hugely in their presentation, size, structure and style. Indeed, in some cases, there is still an absence of saving plans, and plans have not been subject to equality impact assessment. Remarkably, that includes the plan from the Office of the First

Minister and deputy First Minister, which one would expect to take the lead. It states that equality impact will be assessed when it comes to look at programmes. I could expand on the absolute inadequacy of that approach. However, I will not.

As I say, there are huge variations in departmental cuts. That comes back to my point that no overall plan has been presented to the Assembly in the draft Budget. How does the draft Budget respond to the Treasury's cuts of 8% on the revenue side and 40% on the capital side? Largely, those cuts have been passed on. When the previous Budget was created, the phrase that was used by the First Minister and echoed by the deputy First Minister was that it had been "made in Ulster". This Budget was not made in Ulster: it was made in Whitehall and passed on. For example, the pay freeze on salaries over £21,000 has been replicated. This is not a case of devolved government thinking for itself.

3.45 pm

If Members look at the final table in the draft Budget document, they will see that about half of the supposed £842 million is coming from the DSD; and they might ask why. Those are the repayments of Housing Executive debt. That is simply replicating what was there in the past.

The actual changes in the draft Budget are of the order of £400 million, which is about 10% of the £4 billion deficit that we were presented with by the Treasury. This is a Budget that was made in Whitehall; it is not one that was made here by the people for the people.

The Minister of Finance and Personnel: Will the Member give way?

Mr O'Loan: I am not sure whether the Deputy Speaker will allow me to give way.

Mr Deputy Speaker: Please bring your remarks to a close.

Mr O'Loan: I have to bring my remarks to a close.

Mr O'Dowd: Go raibh maith agat, a LeasCheann Comhairle. I will start with some commentary on the education budget. In particular, I urge Members to read the report that the Education Committee sent back to the Department of Finance and Personnel, because, alas, the response given by the Chairperson of the Education Committee was somewhat partisan and edited.

The Education Committee has taken a detailed look at the education budget. With regard to where we are, it makes bleak reading. [Interruption.] Apologies, Mr Deputy Speaker; I am missing the joke.

Mr Deputy Speaker: It seems to be one that is being shared between two.

Mr O'Dowd: Go raibh maith agat, a LeasCheann Comhairle. The budget faced by the Department of Education is a very difficult one, without doubt. Some £150 million will be lost in the first year of a four-year budget. In the timescale within which the Department has to work, that is causing potential difficulties, not only due to the size of the cuts, but in the planning for them. I welcome the fact that, by and large, the Department and the Minister have ensured that front line services and jobs have been secured in the first year.

Mr O'Loan: Will you give way?

Mr Deputy Speaker: Members must make their remarks through the Chair.

Mr O'Dowd: By and large, front line services and jobs have been protected in the first year. I also welcome the fact that there has been an appeal for a reallocation of £41 million of capital to revenue. That is a matter that the Executive will have to take seriously when they look at the figures with which the Department of Education has to deal.

Following the Committee's discussion, one area of concern that I have relates to the particular interest that was paid by some parties to free school meals. Free school meals were referred to as a luxury and as an airy-fairy idea that we cannot afford. I argue that we cannot afford to do without them. It is very well for Members and others to refer to free school meals as luxuries, but the fact is that more and more families are relying on the free school meal entitlement to ensure that their children receive a substantial meal through the day. Although some will argue that it is not the role of the Department of Education to provide nutrition to children, I argue that it is, because a child who is well fed and warm will learn more than one who is hungry and cold.

Mr O'Loan: Will the Member give way?

Mr O'Dowd: Please give me one second. It appears that those Members who have targeted the extension of the free school meals entitlement are politically rather than financially driven. They are driven by a thought process that says that if this is not happening in England, Scotland and Wales, it should not happen here. We are our own bosses on this matter, and I believe that it should happen here.

Mr O'Loan: I thank the Member for giving way. I want to go back to his earlier point when he said, if I heard him right, that front line services in the Department of Education would be maintained in the first year. Subsequently, he said that they would be largely maintained in the first year. The figures that I am reading show that the Department of Education's budget for this year is £1,915 million, and then goes down to £1,807 million in the next year. That is a savage reduction. The overall reduction over the four years is 12·7%. I do not criticise the Minister, necessarily, although I do not know what case she made. Her budget has got a very savage cut.

Mr O'Dowd: I am aware of the figures in the Department of Education's budget.

Mr O'Loan: Reflecting that figure, how are front line services —

Mr O'Dowd: Mr Deputy Speaker, I am no longer giving way. The Member had a chance to make his speech. I acknowledge the budgetary outcomes, and I will come to them. However, I urge Members to be aware that the entitlement to free school meals and school uniform grants is vital to low-income families and should not become an easy target for cuts now or in the future.

I move on to the Budget allocations. The Budget is certainly not one that we in Sinn Féin would introduce if we were in a Government that had full economic powers and budgetary control. We have learned many lessons over the past number of months. I hear commentary from the SDLP Benches. We have seen the performance of Fianna Fáil, Fine Gael and whoever the SDLP's sister party is at the moment — it might be Labour; they swap and change so often that it is hard to keep up with. We will not be taking economic lessons from any of the political parties that the SDLP has aligned itself to.

Mrs D Kelly: At least they know about economics.

Mr O'Dowd: I will not be deflected by the commentary, because I will return to those issues. However, people can be assured that this is not a Sinn Féin Budget. It is a Budget brought about by a coalition Government of an institution that does not have full economic powers and is not in control of its economic destiny. That is the reality. Sinn Féin's vision of the future will be much more about a society that cares for the most vulnerable, and about bringing forward a Budget that cares for the vulnerable and builds a sustainable economy.

We are discussing what is ungraciously known as the block grant, and how we divide that up. That ignores the fact that tens of millions of pounds — indeed, billions of pounds — of tax and revenue flow from this island to Britain, and that Britain still has economic dominance on this island, which means that we do not have full control of our economic destiny.

The Chairperson of the Committee for Education (Mr Storey): Will the Member give way?

Mr O'Dowd: Give me one minute and I will. When we talk about a Budget, let us be conscious of what we are talking about. We are talking about the division of the ungraciously named block grant. We must aspire to something more than that. Surely even those in unionism believe that they are capable of taking control of their own economic levers to move this society forward. I will allow a quick intervention.

The Chairperson of the Committee for Education: I thank the Member for giving way. Given the great economic success of the Irish Republic and the Member's aspirations for a united Ireland, does he want to tell the House where the money would come from if he ever got his way — which he will never get — and we had a united Ireland?

Mr O'Dowd: Let us agree on one note as I come to the end. I agree that the parties down South made a complete hames of the potential economic wealth that would have benefitted all the people of the island. However, I believe that the people in this Chamber could do as good a job of driving the economy forward as those behind the Whitehall Budget that the Member from the SDLP put forward. I say to the Members opposite: let us take control of our economic destiny, instead of dividing up the ungraciously known block grant.

Mr Deputy Speaker: I call Mr Paul Frew, and I remind Members that we are supposed to be discussing the Budget.

The Chairperson of the Committee for Education: On a point of order, Mr Deputy Speaker. I missed the previous comments, but, as you know, I came speedily into the Chamber. I was accused, as Chairperson of the Committee for Education, of making a partisan contribution. Will you refer the comments of the Member to the Speaker in order to clarify that I was reflecting the comments of the Committee? Although that may not suit some people, those were the comments that were made.

Mr Deputy Speaker: You have made your point. I call Mr Frew.

Mr McLaughlin: Further to that point of order, Mr Deputy Speaker.

Mr Deputy Speaker: I am not taking any more points of order. I call Mr Frew.

Mr Frew: Eventually. I welcome the chance to debate the draft Budget. These are very challenging times and it is a challenging draft Budget to go with those times. The economic landscape has changed dramatically over the past number of years. Many people find themselves unemployed, especially in the private sector. Construction has suffered greatly, as has manufacturing, business and finance. I am very concerned about retail in the coming year, especially our independent retailers, of which there are many in my constituency of North Antrim.

Unemployment in Northern Ireland has more than doubled since 2008, and many in the private sector, if they are fortunate enough to have a job, have had to take a pay freeze or even a pay cut of 10%, 12% or 15%. It is certainly clear that the form of government that we have has not helped the Budget process and, one could argue, it has not helped our country during these challenging times.

Therefore, I support getting back to a voluntary coalition as soon as possible so that government will be much more focused and driven in its policy and decisions. I quote the previous SDLP leader's words about the "ugly scaffolding" around Stormont. The people of this country deserve that we move as quickly as possible to the point when we can have a voluntary coalition Government.

I turn to the draft Budget. Having talked to many who work in the public sector, I believe that they are prepared to take a share of the pain that the private sector has endured over the past number of years. They are sympathetic to a pay freeze. They realise why that has to be done, and the difficulty that Northern Ireland and the UK face. There is also a one-year moratorium on Civil Service recruitment. That needs to be reviewed because young people are coming through and leaving education. I support that freeze being revisited after the first year.

The employment of external consultants is of great concern to the wider public. There is a desire to exert further downward pressure in the Budget to reduce reliance on external consultants, and I welcome that. I also welcome the transfer of resources from current expenditure to capital investment. That will relieve some of the pressure on the private sector, particularly the construction industry, which will see that not as a shot in the arm, but as less pain than was first thought when seeing the Conservative and Lib Dem plans. I would not say that it is any better than that, but that transfer will aid the building and maintaining of our infrastructure.

The social investment fund, which has £20 million a year to spend on revitalising the most deprived and marginalised communities, and the social protection fund, which has £20 million in the first year and relies on additional receipts after that, will be badly needed to counter the negative outcomes of the welfare reform agenda and to provide assistance and support to those who suffer most as a consequence. I welcome those funds, but we need to see their mechanics: how they work in practice and how that money will get deep down to benefiting the most vulnerable.

Mrs D Kelly: I share the Member's concerns about the most vulnerable. Does the Member share my concern about the health budget taking an immediate hit of £200 million cash out of its budget come 1 April and the impact that that will have on poverty and ill health?

Mr Frew: We certainly need to be worried and concerned about that. However, we also have to look at the Budget as a whole and how the Executive have tried to support and protect health as best they can. On that point, if we contrast the attitude of the Health Minister with his colleague the Minister for Employment and Learning, we can certainly see a difference between two Ministers from the same party.

As Members of the House and representatives of our people, we can say to the people that we are in a bad place and that it will be very difficult over the next couple of years. However, a Minister should be able to state that he or she has a plan to get us out of this mess. If Ministers were to say such things, it would be much more encouraging to the public and would instil confidence in the House.

Mr A Maginness: As a member of the Committee for Enterprise, Trade and Investment, does the Member agree that one way to assist Invest Northern Ireland to get around its problems with lack of funding would be for the Minister to introduce, as the independent review of economic policy recommended, the ability for Invest Northern Ireland to include end-year flexibility where required?

That would really ease the situation for Invest Northern Ireland and would assist us in trying to create jobs in Northern Ireland.

4.00 pm

Mr Frew: I thank the Member for his intervention. He brings me on to my next point. As a member of the Enterprise, Trade and Investment Committee, I am concerned. Although this Budget should be about protecting our most vulnerable, it should also be about enhancing our economy, because when we are in recession and getting it tight, this is the time to plan. We have an economic strategy, and we have to make sure that this Budget works in tandem with it. We have to make sure that the economic strategy and the Budget go together toe-to-toe, so that they lift Northern Ireland out of the recession and make it a better place for our people. We should be looking at that.

Allow me to paint a picture in my remaining minute. We do not want our economy to be in a position where it has been bound, gagged and locked in a room with a window. We do not want it to look out the window to see the world's economies passing by, unable to influence them or speak to them. We have to be careful with our Budget and make sure that it works in tandem with our economic strategy. Our economic strategy is the priority for the Government.

Mrs O'Neill: Go raibh maith agat, a LeasCheann Comhairle. I want to address the draft health budget in particular. Sinn Féin fully recognises the historic underfunding of the Health Service, and we fully understand the rising demand in it. We should be maximising the funding available to health and education services. We should be protecting and prioritising job retention in front line services.

There is no doubt that the draft health budget is challenging in general terms, but the biggest problem for Health Committee members has been a lack of information and detail to allow us to properly scrutinise the impact that it will have. The Minister frequently calls for support for additional funding for his Department, yet he has failed to publish the PEDU report, he has failed to publish detailed spending plans and we do not have a proper breakdown of his proposed expenditure.

When the Minister of Finance and Personnel delivered the draft Budget, he talked about some protection being afforded to the health element. However, the Health Minister, Michael McGimpsey, has said that that was a bogus claim. Perhaps the Minister of Finance and Personnel will pick up on that and provide some clarification.

One area that is particularly lacking in the draft departmental budget is identified efficiencies. The Minister is not putting any clearly identified efficiencies on the table for us. Some of the major areas that stand out to us as potential areas for savings include the prescribing of drugs; the procurement of goods and services; increasing investment in the public health agenda; improving attendances at hospital appointments; addressing our overreliance on private healthcare providers; examining the salaries of senior health sector staff, including bonuses amounting to £11 million in one year and £57 million over the past four years; and our overuse of agency staff. The list goes on.

In the North, we are reported to spend more on medicines compared with England, Scotland and Wales. Figures show that £400 million a year is spent on medicines here. That equates to £224 a person, which is £60 per head more than is spent in England. It appears that one reason for that high cost is our overreliance on high-cost pharmaceutical drugs. We need to move more towards generic medicine tendering, and more needs to be done to push that agenda, because it will save money for the Health Service in the long run. Those drugs are not lesser drugs; they are equally good. The other thing that we need to tackle is the culture of a pill for every ill. We need to do some homework with GPs on the culture of prescribing tablets instead of looking at alternatives.

As I said at the start, Sinn Féin recognises the demand on the Health Service. That demand will continue to grow if we do not start to seriously tackle the public health agenda. Let us educate people to make better choices and let us target areas of social deprivation, where life expectancy is lower than it is in more affluent areas. There needs to be more effort and more resources directed at that area. What has the Minister done in his term to address that issue?

Mrs D Kelly: Will the Member give way?

Mrs O'Neill: I will finish my point and then let you in.

Of the entire health budget, 1·6 % is spent on the public health agenda. That is not a long-term approach to tackling rising demand on the Health Service. If we do not tackle the reasons why people get sick in the first place, increased demands will be placed on the Health Service.

Mrs D Kelly: I thank the Member for giving way. I welcome her comments about the public health agenda, but does she share my concerns that that area is most likely to be hit and funding reduced across the trusts? Indeed, the Southern Trust recently said that public health is an area of business that it may not be able to support in the near future.

Mrs O'Neill: I thank the Member for her intervention. The figure of 1·6% is a minute portion of the health budget to be spent on the public health agenda. Increasing demands will be placed on the Health Service if we do not tackle why people get sick. Therefore, I welcome the Member's comments.

The Committee for Health, Social Services and Public Safety examined the Department's bids. I was particularly interested in the demographic changes and the bid that was made to meet the cost of our ageing population. The Committee heard from two leading health economists, who suggested that that bid could be more modest. Both referred to the proximity-to-death effect, with those in the last year of their lives requiring more from the Health Service. Up until then, there is a lesser cost to the Health Service. The Department must factor that into its calculations, yet when the Committee challenged it on the issue, officials did not appear to have taken it on board.

Another interesting point that the two health economists brought to the table was their view that it is reasonable for an organisation of the Health Service's size to find efficiency savings of between 5% and 8% each year when pushed to do so. The Health Service is not being asked to come up with savings of that level, and although departmental officials dismissed the idea out of hand, it is something that needs to be explored further.

The other issue of concern is jobs. Michael McGimpsey has thrown out a figure of 4,000 job losses in the Health Service, yet he has never once stated that he will cut bonuses for consultants, who received £11 million this year and £57 million over the past four years. I wonder where the Minister did his calculations. Indeed, they must have been done on the back of an envelope, because, despite three calls for information, the figures have not been made available.

Staff morale is low. The Minister keeps talking about job losses, but he is not tackling —

Mr Frew: Will the Member give way?

Mrs O'Neill: OK.

Mr Frew: Does the Member agree that the Department's website has 14 bullet-pointed negatives, including 4,000 job losses, an extension of waiting lists, further closure of beds and the downgrading of fire stations? How does that help public morale?

Mrs O'Neill: Morale is low, and the Minister needs to address that. Not once has he made a statement to say that he will prioritise jobs in the Health Service.

In the remaining time that I have, I want to pick up on the Minister's threat that he does not have the revenue to go ahead either with the cancer unit at Altnagelvin Hospital or the Desertcreat police training college. There is no choice in the matter — the cancer unit at Altnagelvin Hospital must go ahead. The cancer unit at the City Hospital in Belfast cannot cope with the additional demand, and Health Service figures suggest that it will be full to capacity in the next three years. Where will cancer patients go then? The funding must be found.

Desertcreat police college is also a necessity. I declare an interest, as it is in my constituency. I am glad that the Committee has supported the call for Desertcreat police college and the cancer unit at Altnagelvin Hospital to proceed. Additional funding is coming from the Dublin Government for the project at Altnagelvin Hospital and from the Department of Justice for Desertcreat police college. Those projects cannot be dismissed and set to one side.

The Minister must also publish the North/South feasibility study, which he has so far refused to do. That document will highlight efficiencies that can be made by working together on this small island.

In conclusion, Michael McGimpsey's attitude throughout the draft Budget process has been flippant and not good enough. We all need to work to maximise funding for the Health Service. Michael McGimpsey cannot be allowed to wash his hands of it and walk away.

The Chairperson of the Audit Committee (Mr Craig): It is important that I begin by clarifying the strange role of the Audit Committee. It has a narrow but important and significant role to consider, agree and lay the Estimates of the Northern Ireland Audit Office (NIAO) before the Assembly. It has the role by virtue of the Northern Ireland Act 1998, which makes it explicit that the Committee carry out that role in place of DFP. I find that a very strange anomaly. However, there is a reason why that is the case. The Comptroller and Auditor General and the Northern Ireland Audit Office are servants of the Assembly, not servants of the Executive. The Northern Ireland Audit Office's role is to provide effective support to the Assembly in its task of holding Departments, Executive agencies and other public bodies to account for their use of public money. For that reason, the Northern Ireland Audit Office must be independent of the Executive, and, therefore, its budget is not set by the Executive.

Nevertheless, the Northern Ireland Executive's departmental expenditure limits are there and figures are included in the draft Budget for reductions in the Northern Ireland Audit Office. Although it certainly does not take its direction from the Executive, the Audit Committee fully recognises the significant reduction in the levels of funding available from the Northern Ireland Executive's departmental expenditure limit over the Budget period. The Audit Committee thinks that it is important, therefore, that the Northern Ireland Audit Office should take its share of the pain, and there is clear logic in that. How could the Audit Office audit the Departments that are taking a lot of the pain when it would be getting away scot free? There has been a look at reducing the cost to the public purse, and it will be demonstrated in the near future that the

Northern Ireland Audit Office is willing and ready to bear its fair share of the savings that must be made.

The Audit Committee met on 9 December 2010 and received a presentation from the Comptroller and Auditor General on the efficiency savings that could be made by the Northern Ireland Audit Office over the Budget period. The presentation set out how the Northern Ireland Audit Office intends to build on efficiencies already made this year by, among other things, reducing significantly its outsourcing requirements, reducing recruitment and implementing a two-year pay freeze.

The Committee considered carefully the proposed savings outlined by the Comptroller and Auditor General. It also considered the overall reduction in the Northern Ireland Executive's departmental expenditure limit and to the planned reductions to the budgets of the other Audit Office bodies in the rest of the UK. Having considered all that, the Audit Committee agreed that it would expect to see the Northern Ireland Audit Office reduce its budgetary expenditure by at least 10% in cash terms by 2014-15.

The Comptroller and Auditor General has advised that the proposed savings represent the maximum reduction that could be made by the Northern Ireland Audit Office while still maintaining the same quality and extent of service to the Assembly that has been offered in recent years. In the present climate, it is important that maximum savings are made. However, the Audit Committee is committed to ensuring that the Audit Office has the resources necessary to ensure that it continues to support the Assembly in its task of holding other bodies to account.

It has been painful for the Audit Office, but it has been painful for just about every Department in Northern Ireland to face up to the realities of the cuts that are being imposed in our Budget. The Audit Office made it clear that it will take its share of those cuts, deliver what are recognised as the average savings for all the Departments and set an example. There was a very clear feeling from the Comptroller and Auditor General that, if that were not the case, it would impinge on his ability to audit other Departments.

4.15 pm

I hope that those savings are made. The Comptroller and Auditor General gave clear commitments that they would not reduce the Audit Office's effectiveness in any way, shape or form. Therefore, it was only on those grounds that the Audit Committee accepted the budget that he brought forward.

Mr B McCrea: A number of points were made on which I did not bother to intervene, because I will deal with them in my speech. However, I would like to find out some things from Ms O'Neill. Does she recognise the statement that the Minister of Education made saying:

"We are undoubtedly in very difficult times and, in difficult times, we have to maximise the funding to our education system"

as well as to our health system? Those are the key areas, are they not? We should maximise funding to them. Therefore, it is not fair to describe the Minister of Health, Social Services and Public Safety as "flippant" when he is trying to point out that there is serious structural underfunding that will have grave implications.

Mrs O'Neill: Does the Member not agree that the Minister is flippant when he says things in Committee that suggest that he will not be Minister next time around, so it does not really matter to him?

Mr B McCrea: The Member can take it that way if she wants. [Interruption.] I hear truculent voices left of centre to me. I will get on to the DUP Members in just a moment. If they will wait their turn, I will get round to them.

I have not heard as much trivial drivel in a very long time. When people start to get into this issue, they ask whether there is sufficient capital in the draft Budget. Ms O'Neill mentioned something about calculations for jobs being done on the back of a fag packet, which is how I think she put it. I asked the Minister of Education four times whether she could tell us how many jobs are going to go in the Department of Education and whether she could tell us, with all the savings that she has made, what the eventual saving to the Department will be. Eventually, after discussion, the deputy permanent secretary said that he did not know, because there are 1,200 cost centres, but the figure that was given in the past was £200 million. That was the bid that was put in but not accepted. We have a situation in education where we have been asked to take cuts of £150 million in year one, yet we have no way of making them happen. No one will tell us what the financial plan is. That is why it is disingenuous for certain Members to say that it is wrong for one Minister to do hide a financial plan, when their Minister is even worse. People must be honest with one another.

I would like to hear what the Minister of Finance and Personnel has to say about capital availability. A rather interesting proposal has been made, which is that the Minister of Education plans to transfer £41 million of capital to resource. I would be interested to hear the Minister of Finance and Personnel's stance on that. I have never heard the like of it. I have never heard it done before, and I do not think that it is the right thing to do. It is certainly not the right thing to do without a proper investigation of the knock-on effects. We have a situation in our schools where we have £300 million of maintenance work that must be done. Some £100 million of that is category one, which concerns health and safety issues. Therefore, that work must be done. We have a budget of only £10 million. If we are not to have a capital budget, how will we deal with those issues? Is the Minister of Finance and Personnel going to tell me?

The Minister of Finance and Personnel (Mr S Wilson): Does the Member want a technical explanation of whether that is possible, or does he want a political explanation of whether it is desirable? Technically, it is possible because the Executive have changed current spending into capital spending. That can be changed back up to the limit of the change that we have made, but not beyond that. He is, of course, right to say that Whitehall would not allow us to change capital allocations into resource spending. Is it politically desirable? I think that that is for the Minister of Education to decide.

Mr B McCrea: I think that the Minister of Education will bounce that decision to the Executive. It may well end up at the Minister of Finance and Personnel's table for guidance. Given that the Minister of Finance and Personnel has now joined the debate, will he comment on the issue of the outstanding £800 million? In a Hansard report of an Education Committee meeting, Mr O'Dowd said to the Minister of Education:

"You said during your presentation and on a number of occasions that there are additional outstanding moneys in the Executive in the region of £800 million. The Executive identified £1·6 billion. How will we go about lobbying to secure funding for education?"

An interesting dialogue follows about where that money might come from and how the Minister of Education might access it. Minister, is there any such money? If the money is not there, the Minister of Education is simply crossing her fingers and hoping for the best. There is no plan, no mission of sorting out these issues, redundancies will have to be made, and there are insufficient revenue resources. This issue was raised only at an Education Committee meeting. Nobody has brought it to the attention of the Finance Minister, so I am doing so now for his consideration. These are serious issues. Has £800 million gone missing?

The Minister of Finance and Personnel: No. [Laughter.]

Mr B McCrea: So, when the Members opposite are talking about plans and fiscal issues, they are talking nonsense. We have a real issue with unfunded liabilities, and education has been hit particularly hard. I have a general interest in the issue of capital. It is clear to me that there is insufficient capital in the Budget for the projects that we want to take forward, and I do not know how we will deal with that. People have spoken about constructive approaches, but there may be other ways. No doubt the Minister will enlighten us. Other methods are available: the Minister could persuade Westminster to give us more money, or consideration could be given to PFIs, PPPs or venture capital, which is not exactly the flavour of the month.

Mrs D Kelly: Does the Member not find it somewhat hypocritical that parties here pretend to be against the Budget cuts that their Executive Ministers voted for?

Mr B McCrea: Mrs Kelly's question brings me to a point on which I was going to conclude. Mr Frew spoke about the dichotomy of views in the Ulster Unionist Party. That is pretty rich coming from his party. People talk about cuts, and say that these are Tory cuts. I will not argue one way or the other. However, which party maintained Gordon Brown in office for so long? Which party gave the nine-finger salute that kept people going? Which party had the opportunity to vote for or against the party? Which party promised us never, never, never? Which party talks the good talk but when it comes round to it, they turn tail —

Mr Deputy Speaker: Order, please.

Mr B McCrea:They run for cover, and they cannot deliver —

Mr Deputy Speaker: Order, please.

Mr B McCrea: That party over there is disingenuous —

Mr Deputy Speaker: Order, please.

Mr B McCrea: The people of Northern Ireland will find that out, and we look forward to the election.

Mr Deputy Speaker: Order, please. The Member will resume his seat. Mr McCrea, I think that your time is up anyway.

Mr P Ramsey: I will speak on behalf of the Assembly Commission. On 8 November 2010, I outlined the work undertaken by the Commission in response to the impending comprehensive spending review when I spoke on a motion in the name of Peter Robinson MLA. I made it clear then that the Commission recognised the fact that Budget cuts would affect all areas of the public sector. Equally, the Commission recognised the fact that the Assembly must play its part in ensuring that it operates efficiently and in line with the cuts being applied across the wider public sector. After that debate, the will of the House was clear, and it endorsed a move to reduce expenditure by at least 8% in line with the levels of reductions being sought from other Executive Departments. With that in mind, the Commission asked officials to prepare proposals to achieve a 13% real reduction in its budget by 2014-15, taking account of previous expenditure and future pressures. The budget approved by the Commission on 7 December 2010 achieved an overall real saving on its 2010-11 budget of 13·3% over the four years of the comprehensive spending review period.

It is worth noting that the Assembly Commission's proposed real reduction of 13·3% compares favourably with external comparators. For example, it exceeds the overall real reduction in the Northern Ireland block grant of 8% — a figure quoted by the Department of Finance and Personnel. The Assembly Commission's cash savings also exceed the individual cash savings to be made by eight of the 12 Departments. The agreed savings exceed the real cuts imposed by the Scottish Parliament and the Welsh Assembly Government of 12% and 12·5% respectively.

The Assembly Commission exceeded its own spending review target and has fully complied with the resolution that was passed in the Assembly on 8 November 2010. However, I must express my surprise and disappointment and that of other Assembly Commission members when it was revealed that the Executive's draft Budget included a significantly higher level of savings — almost double those that were agreed by the Commission.

At its meeting on 15 December 2010, the Assembly Commission reaffirmed its agreed budget reduction of 13·3%. At its meeting on 25 January 2011, the Commission committed itself to a programme of efficiency reviews across the Assembly secretariat, which will, over the CSR period, lead to future savings. The Commission welcomed the opportunity to provide written evidence to the Committee for Finance and Personnel on 26 January 2011. The Clerk/Director General, as accounting officer, attended the meeting to outline his budgetary position and to discuss the likely adverse effect on the quality of service and support for Members in the discharge of their duties in the Assembly and across the community arising from the proposed expenditure reduction of 25·7%.

In the course of that meeting, we also discussed the issue of a more appropriate future process for agreeing the budget for the Assembly as a parliamentary institution. Further work is required to establish a system that avoids any greying of the constitutional lines between the Assembly and the Executive with regard to appropriate governance and accountability. I can confirm that the funding that has been proposed is not sufficient to enable the Assembly Commission to continue to provide an effective service to the Assembly. The Commission will continue to seek a way forward that provides the necessary funding to ensure the continued delivery of high-quality services and financial support to Members in the discharge of their duties.

I want to raise some personal points directly with the Minister of Finance and Personnel. The most worrying, distressing and traumatic incident in any family's life is when one of its members is told that they have cancer. It is a major issue, not only in my constituency but throughout the north-west of Ireland. When a mother, sister, brother or father is told that their relative has cancer and will likely have to travel for radiotherapy three or four days a week for five or six months, the distress and trauma is just as great on the family members as it is on the patient. It is further pressure and strain that they could do without. We welcome in the Budget the agreed commitment for a radiotherapy unit in Altnagelvin Hospital in Derry and the commitment that the deputy First Minister made today that the Irish Government have pledged one third of the revenue required to manage that service at Altnagelvin Hospital. I want to ask the Minister of Finance and Personnel, given the effect that it would have on ensuring quality of service and access to treatment, whether he will support that.

Mr Wells: I totally concur with the Member's views on Altnagelvin Hospital. I assure him that the Minister of Finance and Personnel has provided the capital funding for the new radiotherapy unit, which will be enormously beneficial, not only to the people of his city but to the people of Donegal, Sligo and other places. However, the Minister of Health, Social Services and Public Safety is using this issue as a pawn in a chess game with DFP. He is threatening that he will not go ahead with the project, not because he does not have the capital but because, in year four, he will not have the money for the running costs. Despite that, he is already paying the running costs of the unit at Belfast City Hospital. It is extremely cynical of him to use such a high-profile project and to risk losing the funding from the Irish Republic simply to gain some sort of credence with the Minister of Finance and Personnel.

4.30 pm

Mr P Ramsey: I thank the Chairperson of the Health Committee for his intervention. Mr Deputy Speaker, as you know from your constituency, the anger, frustration and deep hurt felt by so many people is clear. We have the revenue and capital commitment from the Irish Government, and we want to give assurances to the many people in Derry who suffer from cancer.

I will make a few final points about the draft Budget as a member of the Committee for Employment and Learning and wearing my constituency hat. It is clear that, in coming years, there will be an ever greater likelihood of our young people wanting to remain in Northern Ireland to study in full-time higher education. Therefore, we need extended courses and a commitment from the Minister of Finance and Personnel to what the Minister for Employment and Learning has already agreed in principle, namely the expansion of numbers at Magee College, which is part of the University of Ulster. The biggest commitment in respect of capital, projects —

Mr Deputy Speaker: Bring your remarks to a close, please.

Mr P Ramsey: — and regeneration is the commitment to extend the Magee campus for the city's future generations.

Mr Bell: As someone who read psychology, I sometimes hesitate to speak on economic matters. However, having witnessed the economic performance of the Crown Steward and Bailiff of the Manor of Northstead, I feel somewhat more secure in doing so today.

There are important matters in the draft Budget. The First Minister stated very early on that employment and learning and the promotion of jobs were critical to success. We do not just want a recovery, we want a jobs-led recovery. Any objective observer of the draft Budget will acknowledge that the Department for Employment and Learning has got perhaps the second most generous allocation, which is right. If we are to come out of recession, we will have to come out of it with an employment-led format. We were promised a light touch by the First Minister. The draft Budget has done exactly what he said as regards employment and learning, which is helpful.

There is a lot of speculation about the future of student fees and access to university. I am proud of the fact that more students from low socio-economic groups go to university in Northern Ireland than in any other part of the United Kingdom. I am proud that I came from a working-class community and accessed university. Few of us — certainly no one on these Benches — wishes to pull the drawbridge up behind us. It is vital that we maintain learning on the basis of people's ability to learn as opposed to their ability to pay.

There has been some speculation and, indeed, very premature comment today about the extent by which student fees will rise. Given that we in the House have not had access to the Stuart report — we will not see it until next week — and the Committee has not had a chance to look at it, it would be inappropriate to comment further. It suffices to say that the Ulster Unionist Party and the Conservative Party campaigned on a series of cuts for Northern Ireland. It is difficult to disguise their nakedness in having promoted those cuts. The Conservative and Ulster Unionist manifesto was clear, and Northern Ireland is living today with the consequences of that for which the Ulster Unionists and Conservatives sought a mandate.

We will have to deal with those cuts. We will have to deal with them in a way that maximises the potential to promote a jobs-led recovery from recession. However, I understand from what Professor Barnett and others have said — I had some discussions with them today — that the reality, given the cuts that the Ulster Unionists, Conservatives and Liberals have put together for Northern Ireland, is that there is no way to avoid a rise in student fees. We need to take a cautious approach to that.

Mrs D Kelly: I thank the Member for giving way. The Member is right to point out that the DEL budget did not suffer the same level of cuts as those of other Departments. However, the DEL budget has inescapable commitments and elements. Statutory responsibilities account for a large part of the budget allocation.

The point about tuition fees is a matter of grave concern. Some £40 million is to come out of the DEL budget in year 3, which coincidentally coincides with the introduction of higher tuition fees in GB. However, the Assembly will decide on the level of tuition fees in the North. It is, therefore, up to Ministers and the House to ensure that tuition fees are set at a level that allows the maximum number of students to go to higher education.

Mr Bell: I fully support the need to ensure that student fees are set at a level that affords accessibility. However, we cannot shy away from the fact that the allocation given and the severe cut inherited from the Ulster Unionists and Conservatives will mean that student fees will inevitably rise. However, they will have to justify that, not us.

The other major issue is the education maintenance allowance. Many young people in Strangford who attend either the South Eastern Regional College or another college depend on that allowance. It has been put in the public domain, particularly by the Conservatives in England, that the education maintenance allowance is just pocket money that people do not need. However, I make a strong appeal on behalf of my constituents in Strangford who attend the South Eastern Regional College in Newtownards, because they literally would not be able to do so but for the education maintenance allowance. We bailed out the bankers, so surely we should not penalise those at the lowest level of our society who are seeking to get an education and are only looking for a hand up not a handout, which is what the education maintenance allowance affords them.

I am disappointed at the number of hoax calls being made in Northern Ireland and at the amount of public money being wasted on that when it could be used to invest in services in Northern Ireland. At the weekend, the police were forced into a situation when they as public servants legitimately responded to a call. Six vehicles were damaged at a massive cost to the public purse, and missiles, fireworks, paint and petrol bombs were inflicted on the police. That all cost the public money, money that could have gone towards cancer units or the education maintenance allowance.

Mr Givan: The Member will be aware that a bid of £200 million to deal with the dissident threat and front line policing is currently before the Treasury and that the Justice Department's budget is based on it receiving that allocation. Does the Member share my concern that we need that information from the Treasury?

Mr Bell: I fully share that concern. It is important that Northern Ireland's security comes first. My point is that money is being wasted in Northern Ireland. In south Belfast, the Fire and Rescue Service responded to five hoax calls in 48 minutes. Public money is being drained through a waste of resources that are desperately needed in many other areas. What we desperately need from the Budget and what we will be looking to do with the employment and learning budget is to ensure that, when we come out of this, we have a richly educated population rather than reverting to the old stage of the educated rich.

Ms S Ramsey: Go raibh maith agat, a LeasCheann Comhairle. Like most, if not all, of the Members who spoke, I welcome the opportunity to speak in this debate. I am interested and keen to hear the Minister's response, because I listened to Members say that, when they go to Committees and get down to the nitty-gritty of this, they find that there seems to be some confusion about what the Minister has said previously and about what information has and has not been brought to Committees. It will, therefore, be interesting to get some more of that information.

For my sins — I know that I am big sinner — I sit on the Health Committee and the Employment and Learning Committee. I am also party spokesperson for children and young people. Jonathan Bell made a point earlier about intervention programmes for children and young people. We saw over the weekend what happens when money is taken away from such intervention programmes. A bigger mess is out there waiting to be created, and other people are stepping into that gap. We need to focus on what impact the Budget will have on people from the cradle to the grave if we do not get it right.

In my constituency this morning, I attended the funeral of a young man of 13 who took his own life, and, on Wednesday, I will attend the funeral of a young girl of 11 who died prematurely. It would be remiss of me not to mention that or to recognise the good work being done to combat suicide and self-harm and on the Protect Life strategy. It is an indictment of us as a society when children of 11 and 13 and other ages die for no reason other than that they can see no future and have no hope. In planning for the future, we say that the Budget will protect this or that, but I appeal to the Minister and to other Ministers here not to do what we have always done or what the British Government did which was to take money away from children and young people's services.

Mrs M Bradley: Will the Member give way?

Ms S Ramsey: I will in two seconds, Mary.

We must not have a knee-jerk reaction to the provision of children and young people's services, because they are our future.

Mrs M Bradley: Will the Member join me in calling for the First Minister and deputy First Minister to reinstate the Executive's fund for children?

Ms S Ramsey: The Executive's fund for children and young people had a good headline ethos, but I have difficulties with it, and I will use this opportunity to explain why. That fund was supposed to be used to provide additional money for the areas of greatest need, but it was never used in that way. The Health and Education Departments, as well as DSD, did not fund projects, and, therefore, the projects had to get money from the children and young people's fund. I am concerned about that. If it is additional money, it must be ring-fenced as such. It is not to be used to do the job of the statutory agencies. We are all aware of that. We need to be careful about how that money works for community groups.

The responsibility for children and young people cuts across all Departments. We need to ensure that all Ministers play their part and we protect those services. If it was announced tomorrow that the Royal was to close, I have no doubt that thousands of people would take to the street. However, it is hard to motivate people by talking about individual children and families. As political leaders, we need to give that leadership and ensure that we protect our future by not targeting that funding.

I will raise a couple of points about student fees. The University of Ulster said that there should be no increase in fees. I am unsure where Queen's University sits on that point, although I have an idea. The Stuart report questioned the benefit to students of fees.

Mr Bell: The Member may not have noticed, but I saw some breaking news on the lunchtime broadcast. It was reported that the University of Ulster's vice chancellor, Richard Barnett, said today that, given the level of cuts to which the Conservatives and Ulster Unionists have led us, there is now no chance of student fees in Northern Ireland not being raised.

Ms S Ramsey: I did not see that report, although I picked up on the story. When the draft Budget was published a couple of weeks ago, he said that there should not be any increase in student fees, so I do not know what is happening there.

The Minister for Employment and Learning, Danny Kennedy, keeps saying that DEL is the engine room for economic recovery, and I agree with him. The Programme for Government put the economy at its heart, and I am concerned about what will happen if we increase fees and stop young people getting involved in third-level education. If those young people were to go elsewhere to continue their education, who would man that engine room? We need to strike a balance that ensures that young people are able to go on to third-level education or to go down the vocational route, depending on their choice. There is talk about adult apprenticeships going to the wall and about the increase in student fees. The Minister told me that the issue is the ability to learn, not the ability to pay. I would like clarification today on whether there is any resource in the current draft Budget that would mean that student fees would not need to increase.

I agree with Jonathan that kids do not want a handout; they want a hand up. We have talked about the targeted approach to EMA, and the issue is protecting and targeting those in the most vulnerable positions. It is not just a matter of people getting £30 and putting it in their pocket, and we assume that they are doing this, that or the other with it. It is about kids being able to access up-to-date clothes, for example, so that they do not get bullied in school and helping kids from low-income families. That money gives them a bit of independence.

Young people have taken to the streets; they say that EMA works. We have just finished a NEETs inquiry; we know that EMA works. I want clarity from the Minister that there is nothing in the draft Budget that says that EMA should be abolished.

4.45 pm

My last couple of points are about clarity on health budget issues. I have said, time and again, that health has been underfunded. I would not trust the British Government to go shopping for me. They have underfunded health. However, there are issues, and we have been — [Interruption.]

Ms S Ramsey: I will probably go — no, I will not. [Laughter.]

Mr Bell: Go on.

Ms S Ramsey: No, I will leave it. Big John is there.

Investing for Health is a cross-departmental strategy and is one of the most radical documents of its time. Where is it? We are still waiting for it, and I am sick of asking for it. We should be given that and other information so that we can support the Minister and confirm that he needs £56 million or £57 million for consultant fees and £78 million to put aside for increments.

Negotiations that affect our staff here are taking place in London. Let us take control of that. Let us decide a suitable wage. The Minister says that he is freezing bonuses, but that is not for another five years, and bonuses can go on for 30 years. We need to get to the bottom of all of that stuff, and I appreciate that the Minister will come to some of that information.

I end with an appeal: we should not rifle the budget that deals with children and young people. We need to wrap this around our future, which is our children and young people.

The Minister of Finance and Personnel: I thank everyone who participated in today's debate. I am sure that this debate will be replicated on a number of occasions between now and the end of March as we go through the Supplementary Estimates and then the debate on the final Budget. Many of the points will be raised time and again. I thank the Committee for making the opportunity available so that we can draw together the main issues in the important process that we are going through. I am also grateful for Members' comments on the Executive's proposals. I will attempt to respond to as many of the points as I can.

First of all, I will make some comments about the strategic context underlying the Budget. It has been made against a backdrop of one of the most difficult Budget settlements that we have had during the whole time of devolution. There is an 8% reduction in real terms in current spending and a 40% reduction in capital spending. Although the First Minister, the deputy First Minister and I have argued the case for Northern Ireland with the Prime Minister and the Chancellor at every opportunity that we have had, nevertheless we have got the outcome that we have today. Mr O'Loan referred to the Budget as being made in Whitehall rather than Northern Ireland. To a certain extent, he is right, given that 90% of the money that we have to spend comes as a result of the block grant. Therefore, the options were limited. However, I hope that, as I develop some of the answers today, we will see where we have tried to put our Assembly and Executive fingerprint on the Budget for Northern Ireland.

We were faced with a difficult task. We had to deal with a block grant that had been reduced by the kind of figures that I have just given the Assembly, and we had to maximise revenue at a time when it was very difficult. Trying to raise extra taxes at a time of recession, when people are already feeling the difficulties with their personal finances, was not going to be very politically appealing. Raising revenue through the sale of assets at a time of recession was also going to be difficult. Nevertheless, some £842 million of additional revenue streams has been incorporated into the draft Budget. A number of Members, including the Chairman of the Committee, Mr Farry and Mr O'Loan, raised the issue of how secure those are. We will look at them in a moment or two and see just how secure and realistic they are.

Another key objective of the Budget was to give protection to the Health Service, and Members asked what protection has been given. I can say that the health element of the Health Service has been given a real increase of 0·2%, which, once you have allowed for inflation, means that additional resources will still be available to the Health Service. That compares favourably with Scotland — I know that Mr McNarry gets very concerned about me getting the decimal point in the right place, so I hope that I get it right this time — where the increase was 0·3% — not 3·0%, just in case I make the same mistake again — and, of course, with Wales, where there was a real reduction of 1·6%. So, we have given that protection. In addition, of course — I know that Members raised this point — in England, although protection of 0·4% was given, £20 billion of efficiencies have to be found during the Budget period. We have not imposed those efficiency constraints on the Northern Ireland Health Minister.

We have also imposed a pay freeze on those earning more than £21,000 a year. I believe that that was the correct thing to do. Members asked what we were doing to protect jobs. Here is one thing that we are doing: ensuring that people at least have a pay packet to take home. It may be frozen for two years, but that is better than having no pay packet to take home.

Therefore, the decision was a wise one. Mr O'Loan dismissed it as aping what they did in England. Perhaps he would have preferred us not to ape that, but we would then have about 800 civil servants not taking any pay home. It was the correct thing for the Executive to do, and it was a good decision to make.

On top of all that, we have the provision for the Presbyterian Mutual Society. The Treasury agreed to give us £170 million of additional borrowing, and it has contributed £25 million towards the access fund, which the Executive will make available as well.

A number of Members raised the issue of capital spending. What have we done to protect jobs in the construction industry? Over the five-year period, we have switched £250 million from current to capital spending. That will help the construction industry. Despite what the naysayers in the debate have said, that again illustrates that we have tried to think strategically in the Budget, looking at where the problems are, where we need to build up infrastructure and, within the limited resources available to us, how we will do that. That means that, by 2014-15, we will be spending £1·5 billion on capital investment, which is in keeping with the long-term trend in capital spending. Some people compare it to the spikes that there have been in the past two years; however, according to the long-term figures, we will be back on trend as a result of our decisions to switch some money and to try to raise additional receipts from various sources, which I will outline in a moment or two.

I turn now to comments by individual Members. First, Mr McKay, the Chairperson of the Committee for Finance and Personnel, raised the issue of the lack of detail in some of the submissions made by Departments. I hope that he does not get his knuckles rapped by some of his own Ministers; they were guilty of that as well. Perhaps the fact that the Chairperson of the Committee was prepared to condemn Ministers who did not supply details in time shows that there is some independence in Sinn Féin. It is something about which I had some concern, and I expressed that concern publicly. I believe that, if we are to scrutinise how money is spent, it is right to make information available in a timely manner. However, if individual Committees feel that that detail has not been given, they must take it up with their Minister.

Mr McKay also raised the issue of the UK Government's rebalancing paper on corporation tax. The First Minister, the deputy First Minister, myself and, I think, the Minister of Enterprise, Trade and Investment are to meet David Gauke on Wednesday to discuss the paper. We have the first draft, but I regret that there has been no input so far from the Northern Ireland Executive or the Departments. Again, that is not in keeping with the terms of reference, and we should have had our input by now. We wish to query some figures in that and have an input. Only once all that information has been incorporated and the Treasury has given us some answers about how it reached the figures in the document will it be right to publish it. I cannot give a date for publication because I do not know how quickly the Treasury will respond. To a certain extent, it is not totally in our hands.

Mr McKay also raised the issue of capital assets disposal, as did Mr Farry and Mr O'Loan. From what I could gather from what he said, I think Mr McCallister did so too, though he maybe put it in a much more convoluted way than some other Members. Nevertheless, there are concerns about how robust the figures are. First, £447 million has been identified by Departments over the four years as capital receipts. Since those amounts have been provided by the Departments and have been included in the departmental baselines, it is safe to assume that those receipts are safe and will be delivered on. In addition, the Executive have agreed to include £100 million over the four-year period to be realised through the central assets management unit. That will happen mostly through the use of our own assets, either by selling them and leasing them back or, if they are no longer required, selling them and getting the capital receipt. Again, we have been ultra-cautious, and we have loaded that towards the end of the period, when we believe that the market will be a bit more secure. It will be £10 million next year, then £20 million, £30 million and £40 million in subsequent years. It is spread over a longer period. That is a fairly conservative estimate, and we will be disappointed if we do not get more than that.

We have also anticipated that we will get some money from the harbour. A total of £5 million has been allocated next year for the extension to the Paint Hall, which will be important for the development of the film industry in Northern Ireland. Moreover, there will be two lots of £15 million towards the end of the period. It is not, as Mr Elliott suggested, £125 million. He got a lot of other things wrong, and I do not know where he got that figure. The Minister for Regional Development had suggested £125 million, but it was never included in the Budget figures. There are a number of ways to do that. The harbour can surrender it to the Budget for infrastructure projects that are related to the port. That is fairly wide terminology. One of the reasons why the £30 million is in the last two years of the Budget period is that, if we require a change in legislation, there will be a change in legislation and we will have plenty of time to get that through to deliver on the figures.

Mr McKay also mentioned the allocation for the Northern Ireland Assembly and the Northern Ireland Audit Office, as did Mr McLaughlin and Mr Ramsey. In previous Budget exercises, it was normal practice to exempt non-ministerial departments from savings and efficiencies. Therefore, over the past four years, the Assembly and the Audit Office have had no requirement to find efficiencies. When one looks at the returns that they have made every year and the degree of underspend, it becomes fairly clear that there is a fair amount of fat in the budgets of both bodies. Some people have tried to make a constitutional issue out of this and say that, somehow or other, we are interfering with the ability of Members to do their job and the ability of the Audit Office to scrutinise Departments and the work of Ministers.

Nothing could be further from the truth. At the end of the day, it is the Assembly that has to vote on the Budget; so this is not DFP imposing some restriction on the Assembly Commission or the Audit Office because it is afraid that they might do their job too effectively. It is the Assembly that will make the decision.

5.00 pm

At the time when we are dealing with difficult budget allocations, let us look at the Northern Ireland Assembly. Over the past four years, it has had an average capital underspend of more than 50%. On resource, or current spending, it has had an average underspend of nearly 6%, so a 5% efficiency saving should not be too difficult for it to find. The Northern Ireland Audit Office, which, ironically, has condemned Departments for not spending all of their money and for having huge underspends, has had an average underspend of 7% over the past two years. A 5% efficiency saving is not too much to ask from it, and I would have thought that the Northern Ireland Audit Office would have wanted to lead by example. It should not condemn Departments if it has underspends itself. I should also point out that, when we were making the figures for the Budget, the Audit Committee had not even submitted the figures that it had anticipated would be needed —

Mr P Ramsey: Will the Minister give way?

The Minister of Finance and Personnel: I will give way, yes.

Mr P Ramsey: Earlier, I spoke on behalf of the Assembly Commission. The Commission agreed 13·3% budget cuts, which is more than what eight of the Government Departments were expected to produce. Does the Minister think that it is reasonable to double that to over 26% and not expect wholesale redundancies from clerical positions, research positions and Committee staff? Does the Minister really believe that there can be effective accountability of Departments with the effects of reduced services to Members, office allowance costs and staffing? There is no doubt that, at the very least, there will be a 25% loss in staff in the Assembly if the Minister persists and lets the Budget go through.

The Minister of Finance and Personnel: I do not want to start debating the intricacies of the Northern Ireland Assembly budget with the Member across the Floor, but the Assembly was exempt from efficiencies for four years when other Departments were subject to efficiencies. Given the Assembly Commission's level of underspend in capital and in revenue over the past four years, that indicates that funds had not been spent. We could look at some of the practices, including the bonus practices and equal pay decisions that the Assembly Commission has made to see whether it really has been spending its money effectively. All I am saying is that, when Departments are having to face tight budgets, it would be very difficult if the Assembly were not seen to be bearing its part of the burden. I hope that that has dealt with the Member's query, and I have no doubt that we will come back to that because it seems to be exercising a large number of Members.

Mr McLaughlin: I have two brief points. I raised the issue of the statutory remit and the protection of the independence of the Audit Office. Last October, the Assembly passed a motion supporting the view that the Commission should experience the same levels of efficiencies as the Departments, not twice the level that has been applied to the Departments.

The Minister of Finance and Personnel: I do not want to hark back to the points that I have made already, but the Assembly will vote on the Budget and decide whether sufficient resources have been made available for carrying out the scrutiny function that the Member has mentioned and which we all recognise is an important scrutiny function. All I will say is that levels of underspend by the Audit Office suggest that savings of the order of 5% can be made, which should not damage the ability of the Audit Office to carry out the work that it needs to do.

Mr McKay, Mr Elliott and a number of other Members raised the issue of revenue-raising options. There is £1·6 billion of additional revenue, and only £842 million of it was included in this Budget, so where is the rest of it? Basil McCrea, who is now absent — I thought that he wanted some information on this issue, but clearly not — raised the issue of the Minister of Education indicating that she was going to bid for that money. That money is not available. There are revenue-raising proposals that the Budget review group should look at, could look at and would look at. That is being done. Some of them might be delivered and some might not. Some might be delivered quickly and some more slowly.

Only — I emphasise the word "only" — when we are sure that the money will be available will it be allocated to Departments. I have not presided, as Mr McNarry knows, and I will not preside over a black hole in the Budget that could have been anticipated. For that reason, any kind of revenue measures that have been suggested, which we cannot be sure will be delivered on, have not been and will not be included in the Budget. Ministers can make all the bids they want, but if the money is not there, they cannot make bids for it. It is as simple as that.

Mr Elliott had to defend his position — I want to come back to this — that, somehow or other, the problems that we face are not the problems of those who advocated that we vote for a party that wanted to cut quickly and deeply, but that they are the problems caused by people like me who he says kept the Labour Party as the Government. When I asked him when that happened, he could not tell me, but Basil McCrea indicated that it was during the vote on the 42-day detention plan.

I do not know how to give a nine-finger salute, because I have only eight of them, but counting does not seem to be the forte of some Members anyway. Anyhow, my party was very proud that it kept the proposal that the Government wished for the detention of terrorists for 42 days if it was for the safety of the country. Mr Elliott and his party may think that it is better to make a political point against a Labour Government than to leave the country unsafe. We took a judgement. It was a good thing to do, and it would not have brought the Government down anyway. They would have come back the next day with a proposal of 28 days or something else. Therefore, first of all, he does not understand what the issue was in Parliament, and he did not even remember when it was. Secondly, it seems that he has gone soft on terrorism. Therefore, it is a double whammy.

Mr Storey raised a very important issue, and I want to take the opportunity to give some reassurance again on end-year flexibility and the impact on schools. It is an issue that I believe caused unnecessary distress to schools. It was not handled well, and it caused a lot of distress to schools and principals. The fact of the matter is that end-year flexibility has been lost, and £316 million has been removed from our Budget as a result. To me, it was a gratuitous raid on our Budget by the Conservative/Liberal Democrat Government at Westminster. I do not mind taking our part in the pain of whatever national adjustment needs to be made to our finances, but that was over and above whatever reduction needed to be made. The Chancellor saw an opportunity to grab some money that was allocated to Northern Ireland, which Northern Ireland Departments were encouraged to save. So much for the special relationship that we were supposed to have when the Tories said that they would stand for election here and the Ulster Unionist Party said that that special relationship would safeguard Northern Ireland. Blow the safeguard; that is all that I can say. There has been a smash-and-grab raid on Northern Ireland's Budget.

Some people thought that the impact of that would be to take away from schools money that they had rightly and prudently saved. I want that saving to continue, as does the Minister of Education. I assure the Assembly that we will put in place arrangements for schools that have saved money to enable them to access it; to enable those that want to save money in the future to save it; and to enable those that want to access money in the future to do so. Only in that way can we ensure that school budgets are used properly. I was glad that —

Mr D Bradley: I thank the Minister for giving way. I noted the joint press release on end-year flexibility that was issued by him and the Minister of Education, which stated that arrangements would be put in place to replace money that, as he says, was stolen by the Tory Government. Will he give the House some detail as to what those arrangements are and where that money will come from?

The Minister of Finance and Personnel: I can give that detail. Basically, to put it in a nutshell, the Assembly will operate its own end-year flexibility scheme, to use terminology that people understand. Given that the flow of money into the scheme every year, by and large, equals the flow of money out of it — sometimes, there is a bit of a difference — and provided that there is assurance that the money will be available, there should be no difficulty in meeting the demand. That is the simplest way that I can explain it in a debate such as this. I am more than happy to talk to the Member privately. The system has worked, by and large, for the past number of years. The money that schools save in one year is drawn down by other schools that are not saving or are spending. It assures schools that they can save and have access to that money. It should be almost self-financing. Indeed, it will be. In years when there is a difference, of course, additional money will have to be found.

Ms Ritchie, among others, raised the issue of funding for housing. When I look at plans in the DSD consultation document, it appears that the Minister has decided that the housing programme should bear the brunt of reductions in resource and capital. While resource reductions are targeted on back-office functions, capital reductions will have an impact on the social housing programme. However, I believe that that can be offset in a number of ways. For one thing, housing associations' reserves can be used. We believe that housing associations are capable of using £20 million from reserves for newbuild. We do not actually take that money from them; we simply give them a lower grant for every house that they build. Given the fact that housing associations in Northern Ireland appear to have higher reserves and borrow much less than housing associations throughout the rest of the United Kingdom, that is perfectly deliverable. Of course, given the fact that houses cost at least 20% less to build than they did two years ago, more houses can be built for every pound that is spent.

Mr Farry raised the issues of the green new deal and a divided society. I welcome his comments on the four-year Budget. It is important to have the certainty that it brings. As far as the green new deal is concerned, the Executive have committed £4 million per year. If we could spend £72 million during the period, that would lever in around £181 million. Of course, that would tend to be for labour-intensive work, such as insulating houses, and so on. It is a good job-creation project. Although I do not care too much for the "green new deal" title, anything that saves people money on their heating Bills is a good long-term investment, especially when it helps to reduce fuel poverty. The group met with an interdepartmental group on 17 January, and it was agreed that it would submit a robust business plan with the final costings for the scheme by mid-February.

5.15 pm

We have talked about the costs of a divided society before, so the Member can probably give the answer for me. There are certain things that we will not deal with quickly, and there are some costs, more social than economic, that he will say are part of a divided society. Nevertheless, it is important to look for a better way of doing the things that we do and of delivering our services, especially at a time of scarce resources.

I am sorry that I have not got to the points that some Members made. I thank Members for their contributions. I look forward to having this debate again and again and again before the end of the Assembly term. As we come to the final Budget, I am sure that that many of the comments that have been made will be looked at and addressed by Committees and looked at seriously by the Executive.

The Deputy Chairperson of the Committee for Finance and Personnel (Mr McNarry): On behalf of the Committee, I thank those who contributed to the take-note debate. Having listened carefully to their opinions and views, I ask Ministers and Members, first, to consider whether the Assembly is exercising a worthwhile function and, secondly, to consider whether it can make a difference in improving how Northern Ireland is governed, how our constituents are represented, how public money is spent and how public services are delivered for the betterment of all our people. It would be surprising if any Member disagreed with the belief that this locally elected body can exercise a vital role in ensuring more accountable and accessible government, particularly when one considers how far we have come since the time prior to devolution.

If it is the case that there is consensus on the value of the Assembly as an institution, surely we must affirm the right of the Assembly to be allowed to fulfil its role effectively. In that regard, however, I regretfully detected several key themes from today's debate that would lead one to believe that there is a process at play, whether by accident or design, effectively to marginalise the Assembly and to clip its wings. Serious concerns have been raised around the lack of proper engagement with Committees and the wider public. During today's debate, we heard Committee members talk about how they are being stymied in doing their work. To date, seven out of the 11 Statutory Committees, in addition to the Chairpersons' Liaison Group, have indicated to the Committee for Finance and Personnel their dissatisfaction with the timescale and the availability of information to enable them to scrutinise their Department's proposals effectively.

It is not only Committees that are affected in that way. The wider public is presented with difficulties in responding to a high-level Budget document that lacks detail and delegates responsibility to each of the 12 Departments for the substantiation of their figures within an exceedingly tight timescale. At its meeting last week, members of the Committee for Finance and Personnel sought assurance from DFP officials on the extent to which the Department is meeting the requirements for proper consultation on its draft spending and saving plans. The Committee had previously noted judicial review decisions regarding proper consultation. One judgement in particular outlined the four requirements of consultation. It stated:

"To be proper, consultation must be undertaken at a time when proposals are still at a formative stage; it must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response; adequate time must be given for this purpose; and the product of consultation must be conscientiously taken into account when the ultimate decision is taken."

If those elements of good practice in consultation are not demonstrated by engagement with Assembly Committees and the wider public, it is open to challenge as a flawed process.

The Committee has undertaken detailed work in respect of the Budget process throughout this mandate. It has contributed to DFP's Budget review process and put forward many recommendations on how things could be improved. It is therefore very disappointing that we are where we are with this important Budget, which will set the spending for the whole of the next Assembly mandate.

Judging by the evidence presented by both the Assembly's corporate body — the Assembly Commission — and the Audit Committee, we can detect a real threat to the future capability of the Assembly and its independent scrutineer, the Northern Ireland Audit Office, arising from the allocations proposed in the draft Budget 2011-15. As has been noted during the debate, the draft Budget proposes real cuts for both bodies that are far in excess of any that they consider necessary in order to carry out their functions effectively.

In recent evidence to the Committee, senior DFP officials have pointed the finger at the Assembly Commission and the Northern Ireland Audit Office because of the level of underspend by both bodies. It was indicated that that was taken into account in determining the proposed allocations for those bodies. Today, I heard the Minister's firmness on the issue. He was brilliantly disappointing in what was probably his most unconvincing and unassured performance yet in the House. Therefore, although I had intended to focus on the more strategic picture, because that issue has been raised by so many others, it is only proper that I refer to the Committee's considerable experience of examining underspend across all Departments.

In fact, most Departments and public bodies have had some level of underspend over the years. That is borne out by the fact —

Mr Bell: On a point of order, Mr Deputy Speaker. Is it permissible to read before summing up? If the Member is reading before the Minister has spoken, is he reading something that was written before the summing up?

Mr Deputy Speaker: That is not a point of order.

Mr McNarry: You should never underestimate my cleverness, Mr Bell. In fact, most Departments and public bodies have had some level of underspend over the years. That is borne out by the fact that over £300 million in EYF stock had accumulated, which was, for the most part, lost to the Executive as a result of the spending review. Therefore, it is surely important not to take a simplistic approach to the issue, but to examine the reasons for any underspend and to establish whether they were due, for example, to overestimating our bad prior-year forecasting, to poor in-year monitoring, to unforeseen or extenuating circumstances or to things being done more efficiently. It is also crucial to examine whether in-year reduced requirements were declared early enough in the monitoring process to allow redistribution to other Departments. It is only after a robust assessment of those issues that informed decisions can be made on the extent to which there is fat, if any, in allocations.

It is ironic that DFP points the finger at the Assembly and the Audit Office on underspend. Perhaps it should examine its own house first because, rather than leading by example on that matter, the Minister, on his own watch, has in fact been a leading culprit in underspending in recent years, as have his predecessors. Over the past three years, his Department's underspend in current expenditure has been above average. In 2009-2010, it was 3·4% compared to 0·7% across Departments, for 2008-09 it was 0·9% compared to 0·5% across Departments, and for 2007-08 it was 3·1% compared to 2·1% across Departments. I am pretty sure that I have my decimal points in the right place this time.

Using that logic, does it not follow that we should at least be asking DFP to take a higher cut in its budget than other Departments, particularly those with primary responsibility for frontline services? The Minister may argue, and he does so fairly competently, that the in-year monitoring process would always provide a mechanism to ensure that the bodies had access to whatever funding was necessary and that no bids previously made have been left uncovered. Surely that misses the point about ensuring the independence desired by all, leaving aside that we all know, given the diminishing level of reduced requirements being declared by Departments during the in-year process, that no guarantees can be provided.

Our Assembly is a young institution that is only now proudly completing its first full mandate; it can undoubtedly point to many successes in the exercise of its scrutiny functions of issues that heretofore went unchecked. We cannot underestimate and risk diminishing the role of Assembly Committees in holding local Ministers to account or for keeping on their toes the departmental accounting officers and senior civil servants who hold positions of considerable influence. Therefore let us give the Committees credit that in carrying out that scrutiny work, along with their role of offering advice to Ministers, they are valuably assisting the Executive in overseeing the delivery of their strategic objectives.

Collectively, we can agree that all public bodies should endeavour to maximise efficiencies, and the Assembly should be no exception. However, there is a strong argument that lean times require stronger, not weaker, scrutiny. Therefore given DFP's role in ensuring that:

"public expenditure is managed effectively to deliver best value for the people of Northern Ireland"

I expect that it would be the Minister who would most value the scrutiny and challenge function of the Assembly and the Audit Office.

If there is to be a recognition of the vital role that the Assembly can play over the next four years and the importance of allowing it to demonstrate its worth, it follows that we should expect to see an improved engagement between the Executive and the Assembly, including its scrutiny Committees, necessitating significant improvements to the Budget process and, more immediately, requiring things to be put right in the final Budget allocations for the Assembly and the Audit Office.

It is clear that many Members are not content or comfortable with where we are on this issue. Doing things in a hurry is far from satisfactory, which is why it is fortuitous that this is a take-note debate. In its co-ordinated report on the draft Budget the Committee will be reflecting the outcome of the debate and the issues raised by Assembly Committees and external stakeholders.

I trust that the recommendations in that report will be taken into account in the final draft Budget presented to the Assembly for debate and approval in March.

I thank all who contributed to this take-note debate and who see its merits.

Question put and agreed to.

Resolved:

That this Assembly takes note of the draft Budget announced on 15 December 2010 by the Minister of Finance and Personnel.

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