Session 2008/2009

Second Report

Committee for Finance and Personnel

Submission to the Executive's Strategic Stocktake of the Budget Position for 2009/10 & 2010/11

Together with the Minutes of Proceedings of the committee relating to the report, written submissions, memoranda and the minutes of evidence

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Tel: 028 9052 1078

Membership of 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 since its establishment on 9 May 2007 has been as follows:
Mr Mitchel McLaughlin (Chairperson)
Mr Simon Hamilton (Deputy Chairperson)
Dr Stephen Farry
Mr Fra McCann
Ms Jennifer McCann
Mr David McNarry**
Mr Adrian McQuillan
Mr Declan O'Loan
Mr Ian Paisley Jnr*
Ms Dawn Purvis
Mr Peter Weir

* Mr Ian Paisley Jnr replaced Mr Mervyn Storey on the Committee on 30 June 2008.
** Mr David McNarry replaced Mr Roy Beggs on 29 September 2008.

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19 November 2008

26 November 2008

3 December 2008 (unapproved)

List of Abbreviations used in the Report

APD	Air Passenger Duty
Br	Brucellosis
CSR	Comprehensive Spending Review
DA	Devolved Administrations
DARD	Department of Agriculture and Rural Development
DBFO	Design Build Finance Operate
DCAL	Department of Culture, Arts and Leisure
DE	Department of Education
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DH	Department of Health (UK)
DHSSPS	Department of Health, Social Services and Public Safety
DoE	Department of the Environment
DoH	Department of Housing
DRD	Department for Regional Development
DSD	Department for Social Development
ESA	Education and Skills Authority
EU	European Union
EYF	End Year Flexibility
GB	Great Britain
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HSENI	Health and Safety Executive Northern Ireland
ISNI	Investment Strategy for Northern Ireland
MLA	Member of the Legislative Assembly
NI	Northern Ireland
NICS	Northern Ireland Civil Service
NIE	Northern Ireland Electricity
NILGOSC	Northern Ireland Local Government Officers Superannuation Committee
NIR	Northern Ireland Railway
NITHC	Northern Ireland Transport Holding Company
NIW	Northern Ireland Water
OFMDFM	Office of the First Minister and deputy First Minister

PBR	Pre-Budget Report
PfG	Programme for Government
PPP	Public Private Partnership
PPS	Planning Policy Statement
PSA	Public Service Agreement
PSO	Public Service Obligation
PTU	Permit to Use
RVH	Royal Victoria Hospital
SME	Small Medium-sized Enterprise
TB	Tuberculosis
UK	United Kingdom
VAT	Value Added Tax
VED	Vehicle Excise Duty

Executive Summary

This report presents a co-ordinated submission by the Assembly statutory committees to the NI Executive's Strategic Stocktake of the Budget position for 2009/10 and 2010/11.

The Executive decided in March 2008 that a Strategic Stocktake would be undertaken in place of a comprehensive local Budget process for 2008/09. The main emphasis of the Stocktake would be to assess the overall financial position in advance of the 2009/10 in-year monitoring process. The terms of reference for the exercise indicated that it would include a review of departmental progress against plans, the identification of reduced requirements and emerging pressures for the next two years and proposals for addressing the pressures through adjustments to existing plans and priorities.

In addition to co-ordinating the views of the statutory committees on the Strategic Stocktake, the Committee for Finance and Personnel (CFP) has given some initial consideration to the implications for NI of both the Chancellor's Pre-Budget Report and the recent financial settlement between the Executive and the Treasury. A range of budgetary concerns, both at a cross-cutting and a departmental level, arise from the submissions of the statutory committees and from the evidence presented by Department of Finance and Personnel (DFP) officials. These issues have a particular resonance in the current economic and financial climate.

In terms of strategic considerations, the following are highlighted in particular:

- doubt as to the reliability of information in departmental submissions to the Stocktake and, thus, the evidence base upon which Executive decisions may be based;
- the failure by departments to fully address the Stocktake terms of reference, in identifying significant increased requirements without setting out how they will address these through adjustments to their existing plans and priorities;
- the potential for additional efficiency savings being required, in the context of possible slippage by departments in achieving existing efficiency targets;
- the budget implications of not achieving previously planned asset realisations;
- doubt as to the capacity of departments to deliver accelerated capital expenditure, in circumstances in which they are required to raise their standard of financial management and performance generally;

- the need for clarity on the implications for departmental budgets of the Chancellor's Pre-Budget Report and of the outworking of the recent financial settlement between the Executive and Treasury; and
- general concern at the range and quantum of new and emerging pressures on existing budget allocations which remain to be addressed.

The Committee considers that the economic downturn and the mounting pressures on the NI Block over the Stocktake period make it vital that the maximum impact and value for money is achieved from available resources. In the immediate term, this will require DFP to take the lead in identifying pre-emptive measures to safeguard against significant year-end underspend. The pattern of departments declaring reduced requirements late in the financial year has resulted in unacceptable levels of year-end underspend and accumulating stocks of End Year Flexibility (EYF). The Committee has previously called for an end to the 'culture of underspend' in departments and considers that it would be intolerable for this to continue in the current economic climate, especially given that the Executive's access to its EYF stock is likely to be further restricted by Treasury. Going forward, the Committee will also wish to see a general improvement in the performance of the public sector in managing programmes, finances and other resources and in achieving business targets.

The Committee calls on DFP and the wider Executive to consider carefully the concerns which have been raised in this submission. The Committee looks forward to the Assembly receiving the necessary clarification and assurances on these issues when the Minister of Finance and Personnel makes a statement to the Assembly on 13 January 2009. This will set out the budget position for 2009/10, as reflected in the 2008-11 Budget approved by the Assembly on 29 January 2008, in the context of the Strategic Stocktake. The Committee will subsequently table a "take note" motion for plenary debate, which will provide the Assembly with an opportunity to debate the issues more fully.

Introduction

1. On 10 September 2008, CFP considered the terms of reference from DFP for the Strategic Stocktake of the Budget position for 2009/10 and 2010/11. This stated that the Stocktake would allow Ministers and their Departments to:

- review progress against their 3-years plans to date and register any reduced requirements for 2009/10 and 2010/11 against Budget allocations; and
- identify any significant increased requirements for 2009/10 and 2010/11 only and propose how these might be addressed, by departments, through an adjustment of existing plans and priorities.

2. The Department also outlined the process and timetable for the Stocktake and this has been included at Appendix 1. In addition, DFP has recently agreed an approach for Assembly involvement to take forward the Stocktake following Executive approval on 11 December 2008. This will include a Ministerial statement to the Assembly on 13 January 2009, "on the budget position for 2009/10, as reflected in the 2008-11 Budget approved by the Assembly on 29 January 2008, in the context of the strategic stocktake". Following the Ministerial statement, the Committee will table a "take note" motion for plenary debate on 19 or 20 January 2009 "on the budget position for next year, in the context of the strategic stocktake as conveyed in the Ministerial statement on 13 January". (Appendix 2)

3. At its meeting on 15 October 2008, CFP decided to prepare a co-ordinated submission to the Stocktake on behalf of all the Assembly statutory committees. As such, the other statutory

committees were asked to make submissions on the Stocktake positions of their respective departments by 14 November 2008. These are summarised below and the full submissions are attached at Appendix 3.

4. In addition to considering the DFP position in relation to the Stocktake (Appendix 4), the Committee also took written and oral evidence from officials from DFP's Central Finance Group on the cross-cutting themes emerging from their analysis of individual departmental submissions (Appendices 5 and 6). Against the backdrop of the ongoing Stocktake, CFP has also given some initial consideration to the implications for NI of both the Chancellor's Pre-Budget Report and the outcome of the recent negotiations between the Executive and HM Treasury, which focused on deferment of water charges.

5. Arising from its evidence gathering exercise, CFP agreed the following submission at its meeting on 3rd December 2008, in advance of the Executive's consideration of the Stocktake on 11 December.

Strategic and Cross-cutting Issues

Chancellor's Pre-Budget Report and Executive-Treasury Financial Settlement

6. During the evidence session with DFP officials on 26 November, the Committee was informed that approximately £23m of additional current expenditure for NI, which was highlighted by the Minister of Finance and Personnel following the Chancellor's statement, is a Barnett consequential of a myriad of changes being made to individual departmental allocations in GB and means that there is an additional £11.8m available in 2009/10 and £11.7m in 2010/11. Additionally, the Pre-Budget announcement has given the Executive an opportunity to accelerate £86.5m capital expenditure into 2008/09 and 2009/10, effectively bringing forward spend which was earmarked for 2010/11 into the current and following financial years.

7. Whilst the Committee welcomes the flexibility on offer, it has previously voiced concerns at the amount of capital underspend by NI departments and would urge the Executive to ensure that any capital funds accelerated in this way can be spent efficiently in the years to which they are allocated. The Committee is also aware of the risk that insufficient funds could be available in 2010/11 to deliver capital plans in that financial year and care will need to be taken to ensure that this risk is managed effectively.

8. The Committee has also been briefed by DFP officials on the substance of the press statement issued after the Executive meeting on 20 November (Appendix 8). It was explained that Treasury has allocated £400m in both 2008/09 and 2009/10 to relieve pressures and has agreed to make a further £100m available. Members were informed that these allocations will not create additional spending power, but will be used to address pressures which would otherwise have had to be addressed in the Stocktake.

9. The £800m (£400m per annum for 2008/09 and 2009/10) is related to the non-cash consequentials of the treatment of the assets of NI Water (i.e. depreciation and costs of capital). DFP officials explained that, as the sums are associated with the accounting treatment of NI Water, there is no cash associated with the allocation and therefore it could not have been used to address other pressures. When questioned further by the Committee, the DFP officials stated that departmental cash positions could subsequently be affected if there is insufficient non-cash cover in place. The Committee was informed that the relaxation was made by Treasury as the Executive wished to defer the introduction of any form of water charging for domestic consumers and approached Treasury for a solution.

10. The Committee also noted that the Department for Regional Development (DRD) faces a loss of income of £200m over the two years due to the deferment of water charges, which will have to be considered as part of the Stocktake.

11. The remaining £100m made available by Treasury has been provided to deal with a range of other potential pressures in the NI Block. The Committee is aware that quantifying these other potential pressures remains uncertain and wishes to be kept informed as the amounts involved become more certain. Whilst the additional £100m is welcome, the Committee believes that it will not significantly address all the current pressures on the NI Block. The Committee also seeks clarification as to the source of this £100m and, in particular, whether it is truly additional money to the NI Block.

12. The Committee expressed concern that it had not been informed of the pressures faced by NI Water at an earlier stage in the Stocktake process and has asked for more clarity in future from DFP on major alterations/pressures faced by the Budget to enable the Committee to perform its strategic scrutiny role.

13. The Committee requested further written information from DFP on the implications of the Chancellor's Pre-Budget Report for NI. Whilst this has been included at Appendix 9, the Committee did not have the opportunity to include comment on the paper in this submission. The Committee will wish to examine this information in the wider context of the Strategic Stocktake.

Current Stocktake Position

14. On 26 November, the Committee was briefed by DFP officials on the issues emerging from departmental Stocktake submissions. The Committee expressed concern at DFP's statement in its submission to the Committee, that "questions remain about the scale of some of the bids and about whether these bids represent pressures at all". Whilst the Committee accepts that negotiations between DFP and departments are ongoing, the Committee is aware that the Executive is to consider the Strategic Stocktake on 11 December and is concerned at the potential inaccuracy of the information on which Executive decisions may be based.

15. Whilst accepting that DFP considers some of the bids submitted by departments as discretionary, the Committee is concerned at the approximate £1 billion gap between bids submitted and reduced requirements declared to date from 2009-2011. Over the two years covered by the Stocktake, £493m in additional revenue pressures have been identified, against £51m in reduced requirements. Capital pressures of £611m have been submitted by departments, with only £1m in reduced requirements to date. The Committee is aware that approximately £150m of both revenue and capital reduced requirements are usually declared during a financial year, but is still concerned at how the pressures identified will be met, especially given the major strategic pressures already faced by the Executive. The Committee will, therefore, wish to receive clarification and assurance in this regard.

16. The Committee is aware that, as part of the Stocktake's terms of reference, departments were to identify any significant increased requirements for 2009/10 and 2010/11 only, and propose how these might be addressed, by departments, through an adjustment of existing plans and priorities.

17. Members expressed concern that this was not addressed in DFP's own Stocktake submission and it emerged during DFP officials' evidence to the Committee on 26 November, that this may well be the case in other departments, in that they have merely submitted bids to be addressed, as opposed to proposals as to how these might be addressed from within departmental budgets.

18. The Committee also raised the fact that many of the new pressures submitted by departments do not relate to the current economic downturn and was informed by DFP officials that, as the Executive's Budget agreed in January 2008 targeted economic growth issues, departments should have resources in place to relieve the range of pressures which they face in this area.

19. When questioned on the fact that capital pressures of £611m have been submitted, with only £1m in reduced requirements, the Committee was advised that DFP would have expected more reduced requirements to be declared by departments, due to the lower cost of taking forward capital projects, resulting from the fall in property prices and the more competitive market conditions for public procurement in the construction sector. Given that reduced requirements are necessary to cover emerging pressures, the Committee believes that more needs to be done by DFP to ensure that these are identified as soon as possible.

20. The Committee also noted that the NICS equal pay claim was not identified as an increased pressure in DFP's submission to the Committee. DFP officials confirmed that no specific commitment had been obtained from Treasury to date, in respect of equal pay and that DFP officials were still seeking to establish what the final bill will be.

21. The Committee also noted that bids for administration costs have not been included by DFP in the list of emerging pressures. Officials confirmed that bids totalling £40m had been received, but had been excluded due to the Budget target for administration costs to fall in real terms by 5% per annum cumulative from 2008–2011. The Committee was informed that the allocation of money now to cover these administration bids would breach that target.

Financial and Performance Management

22. At a strategic level, the Committee is of the view that the economic downturn and the emerging pressures on the NI Block over the Stocktake period make it vital that maximum impact and value for money is achieved from the resources available. This will require improved performance by the public sector in managing resources and programmes and in achieving business targets. In this regard, the Committee makes the following points:

23. A higher priority should be given to implementing the recommendations in last year's Pannell Kerr and Foster (PKF) Report to improve financial management in the NICS. The Committee recognises that DFP is working on programmes of mandatory financial training for senior civil servants and on standard models of good practice on the monthly information which should be made available to departmental boards, in an attempt to improve financial skills and experience at budget holder level. However, more needs to be done to move from an incremental to an output-based approach to budgeting and expenditure, as recommended in the PKF report.

24. The Committee has been informed that NICS accounting systems are not fit for purpose and anticipates an improvement in financial management when financial and accounting services are provided through Account NI which, according to the Programme for Government (PfG), is to be fully implemented by 1 April 2009.

25. The Committee believes that more management analysis of expenditure needs to be undertaken, both in departments and centrally by DFP. Whilst the level of spend is an important measure of performance, it should be seen in the important context of delivery of the Executive's priorities in the PfG. The Committee notes the view of DFP officials that there is currently an information gap to be filled to enable such analysis to be carried out.

26. The Committee is aware of the target in DFP's Business Plan for 2008/09 for the Department, in conjunction with OFMDFM, to establish a performance management and monitoring framework for PfG targets by April 2008. The Committee has been informed that this deadline has not been met and that the framework is now with the Executive for agreement. The Committee considers that this could offer an extremely important tool to improve analysis which should be implemented as soon as possible, as it has already been delayed. The Committee believes that failure to deliver is the main reason for departments returning reduced requirements in quarterly monitoring rounds and for underspend at year end. Regular reports against the framework should therefore be shared with statutory committees to enhance their statutory scrutiny role.

27. The Committee noted that the main focus of the Stocktake was to monitor progress on PfG targets and is concerned by DFP's assertion that 'more work is required to provide the necessary assurances that services are being delivered as planned and that the majority of Public Service Agreements require improvements in governance and risk management.' The Committee noted that DFP is to examine the arrangements in place to achieve PfG targets and agreed that this should be completed as soon as possible. Again, the Committee will keep a watching brief on the outcome of this examination.

Project Management

28. In its Report on the Executive's Draft Budget 2008-11, the Committee highlighted the fact that delays in capital projects can add significantly, both directly and indirectly, to overall costs and called 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 the current economic climate, the Committee repeats this call, especially in light of evidence taken from the Construction Industry Forum for Northern Ireland, which highlighted delays in getting capital projects up and running and the problems which this poses for the local construction industry.

Baseline Reviews

29. In relation to the need for improved information, the Committee is aware of DFP Central Finance Group's intention to commence a programme of rolling baseline reviews, with the ultimate aim of subjecting all departmental expenditure to this zero-based analysis over 3-5 years. The Committee believes that such an analysis will have a key role to play in future budget processes and will include outcomes from these examinations in future work programmes.

Review of In-Year Monitoring

30. DFP is also to review the in-year monitoring process by March 2009, with the aim of improving financial management. The outcome of this Review will be important as the Strategic Stocktake findings are taken forward in-year during 2009/10 and 2010/11. The Committee will wish to be briefed on the outcome of this exercise.

Evidence Base

31. DFP's Strategic Policy Division is developing an evidence base on long-term trends and wider strategic issues which will be available to influence the Stocktake process. Given the current economic uncertainty, this will be an extremely important project to ensure that the strategic economic environment is taken into account when decisions on the Stocktake are being considered. The Committee looks forward to being apprised on the outcome of this exercise.

Capital Realisations and PEDU

32. Given the restricted Budget environment governing the two years covered by the Stocktake, the Committee considers that progress in implementing the Capital Realisation Taskforce (CRT) report and in the work of the Performance and Efficiency Delivery Unit (PEDU) will have a key role in freeing up resources. During evidence given to the Committee by DFP officials on 2 April, members were informed that outcomes from these initiatives will be factored into the Stocktake. On 8 October, the Committee asked for an update on how CRT's report has been progressed, but this has not been received to date. Whilst the Committee recognises that the context for asset realisation has been altered by the fall in land and property values, it will be important that contingency measures are put in place to avoid gaps in budgets arising from the failure to achieve asset realisation targets. The Committee will also wish to examine the performance of PEDU in fulfilling its functions at the earliest opportunity.

33. The Executive's Budget for 2008-2011 included capital receipts for departments over the three financial years of £486m, £266m and £612m respectively. DFP officials informed the Committee that £60m of receipts which were to be generated by the Capital Asset Realisation Team will probably not be delivered this year and that, following the suspension of Workplace 2010, the £175m capital receipt that was designated for DFP will not materialise. DFP officials also stated that the £200m capital receipt for the Crossnacreevy lands, due in 2010/11, is uncertain, if not completely unlikely. The Committee has therefore requested a current forecast of likely capital receipts against Budget targets.

Efficiencies

34. The Committee has been informed by DFP of the challenges in meeting efficiencies within the Department for 2009/10 and 2010/11 and is aware that the achievement of efficiencies is posing problems for other departments. The Committee sought further detail from DFP officials on the Minister's comment on the Chancellor's Pre-Budget Report that the Executive would need to consider higher efficiency/value-for-money savings (Appendix 7). The DFP officials informed the Committee that there were no proposals to increase current efficiency targets in place until the end of 2010/11, but that the Chancellor's report included a requirement for £5 billion efficiencies from central government departments in GB, which may have Barnett consequentials for the devolved administrations. The Committee was advised that the detail will not be known until the Chancellor's Budget in March 2009, but members have noted that, in the interim, press reports suggest that the First Minister has already clarified that efficiencies will increase to 3.5%, meaning that an additional £100m will need to be found in efficiency savings. The Committee will wish to be apprised both of progress in achieving existing efficiency targets at a cross-departmental level and of the approaches being proposed for achieving any additional efficiencies.

End Year Flexibility (EYF)

35. DFP officials confirmed that NI received full access to its EYF stock in the January 2008 Budget and that this was subsequently allocated to departments as part of the Budget process. A stock of approximately £200m capital and £200m revenue remains from 2007/08 and Treasury has granted access to £42m capital of this to compensate for a reduction in Barnett allocations arising from the last CSR. Discussions with Treasury in relation to accessing the remaining EYF are ongoing, however DFP officials confirmed that the difficult financial position at UK-level will have implications for future access to EYF. The Committee considers that this further underscores the need for improved financial management within departments to minimise revenue and capital underspend at year end.

Departmental Stocktake Positions

DFP Position

36. DFP is seeking £17.9m additional resources in 2009/10 and a further £16.8m in 2010/11. The Committee noted that the terms of reference for the Stocktake issued to all departments asked them to submit proposals on how increased requirements could be met 'through an adjustment of existing plans and priorities.' The Committee is concerned that DFP has not addressed this. Indeed, there may not be sufficient scope in DFP's Budget to do so, as departmental officials informed the Committee that 'only pressures of the highest priority had been submitted and that there is limited scope for additional efficiencies and contingency measures.'

37. Several of DFP's bids are for more money for the NICS reform programmes, which DFP is taking forward on behalf of all government departments. In its consideration of the Executive's Draft Budget, the Committee raised concerns at the funding of the reform programmes and was informed of the intention to allocate money during monitoring rounds in 2008/09. DFP submitted bids of £15.8m in relation to the reform programmes in the June Monitoring Round, none of which were met. Subsequently, reform bids of £16.5m were submitted in the September Monitoring Round, against which DFP received only £1.9m. In his statement to the Assembly on the outcome of the September 2008 Monitoring Round, the Minister announced that the collection of rate arrears by Land and Property Services (LPS) will be used to meet the residual costs of civil service reform. Given the concerns which the Committee has previously expressed around the performance of LPS, the Committee's concerns around the funding of the reform programmes remain and it will continue to scrutinise this area.

38. The Committee also believes that the recent suspension of Workplace 2010 has implications for DFP's Budget, certainly for the current year, but also potentially for the 2009–2011 period covered by the Stocktake. The Committee understands that the absence of the £175m capital receipt for 2008/09, on which DFP's capital budget was largely predicated, will be addressed in the December 2008 Monitoring Round. However, decisions on how to take forward Workplace 2010 are to be made by the end of January 2009 and may well affect DFP's Budget for 2009/10 and beyond. The Committee has requested a briefing from DFP officials in late January 2009 on the outcome of these considerations and how these will affect future budgets.

39. The Committee considers that, of all the reform programmes, NI Direct has most public expectation surrounding it. The Committee has been informed that the £8.7m total bid submitted for 2009/11 will address the total cost of the programme as planned in the final business case of £17.9m and thus ensure delivery of PfG targets in relation to the programme.

40. Another area where the Committee has ongoing concerns is LPS. The Committee has been assured that the £5.5m Stocktake bid for rating reform will be sufficient to implement the new measures introduced in April 2008 – Lone Pensioner Allowance and an increase in the savings limit for pensioners claiming rate relief, and to implement the rates reliefs for green rebates, rate rebates for home owning pensioners and the rating of empty homes which are currently under consideration.

41. The Committee has noted that DFP has reclassified £5.4m of its expenditure for 2009/11 as administration, as part of its Stocktake submission and that this has been a recurring theme in this year's monitoring rounds. Departmental officials have informed the Committee that DFP's administration spend for the three years 2008–2011 is currently £166m/£158m/£157m respectively. The Committee is concerned that this is well in excess of the Administration Cost

Limits set out in the 2008-2011 Budget document for DFP of £142.8m/£135.5m/£132m respectively and seeks further explanation as to the ramifications of this.

42. The Committee notes that DFP has not identified any reduced requirements for 2009–2011 in its Stocktake submission and sees this as a positive reflection that the Department will use its resources effectively to achieve targets in this period and therefore minimise resources handed back due to slippage and ultimately end-of-year underspend.

43. DFP has previously informed the Committee of potential difficulties in achieving its Efficiency Delivery Plan (EDP) over the two financial years covered by the Stocktake (2009-2011). These difficulties relate especially to the proposals to increase charging for DFP services, which are in doubt given the difficult climate across the public sector and efficiencies in accommodation services. Whilst the Committee acknowledges that DFP remains focused on delivering these efficiencies, there remains the potential for added pressures on the DFP budget over this period and the Committee plans to keep this issue on its work programme.

44. The Committee had previously raised the possibility of DFP charging for shared services and notes that the Department is currently reviewing proposals submitted by the shared service centres on hard-charging arrangements for their services. The Committee has been informed that centrally, DFP will shortly be producing a report on progress to date against departmental EDPs and projecting this across the two years covered by the Stocktake. This report will be an important part of the analysis of the Stocktake position.

45. The Committee notes that DFP is content with its capital profiles for 2009–11 and remains focussed on delivering planned capital investment over this period. However, the Committee is concerned at being informed that DFP's Investment Delivery Plan is already out of date and will need to be amended. This may well be the case for other departments as a review of investment is currently ongoing.

The Committee for Finance and Personnel invited the Assembly's other statutory committees to forward any high level concerns which they may have in relation to their respective departments' submissions. Seven committees made returns and these are attached at Appendix 3. The key issues arising from these submissions are as follows:

Committee for Agriculture and Rural Development

46. The Department of Agriculture and Rural Development (DARD) did not identify any reduced requirements in its Stocktake submission. However, the Committee remains concerned as DARD had historically declared significant underspends at the end of the financial year.

47. DARD has made substantive bids for £28.5m in 2009/10 and £35.1m in 2010/11, with the latter figure net of a very significant shortfall in receipts of £200m due to a considerable over-valuation of the Crossnacreevy site. The Committee believes that this over-valuation has placed a huge financial pressure on DARD and the NI Block as a whole, as receipts of this magnitude will not be realised solely within DARD.

48. The Committee states that DARD has not sought to adjust existing plans and priorities to meet increased requirements, but has simply made bids, presumably expecting these to be met from the NI Block.

49. The Committee is concerned that the targets in DARD's efficiency delivery plan will not be met.

Committee for Culture, Arts and Leisure

50. The Committee has no high level concerns with its Department's proposals.

Committee for the Environment

51. The Committee was particularly concerned to learn that the Department of Environment anticipates a reduced requirement of £185.6m in relation to Planning and Environmental Policy Group.

52. The Department received £200m during the 2008-2011 budget period to provide funding to district councils to cover up to 50% of the overall capital costs associated with compliance with the EU Landfill Directive targets. The expenditure profile of the three Waste Management Groups representing the 26 councils has slipped and the Department now wishes to rephase the bulk of this expenditure to match their anticipated requirements in 2011-2012 and 2012-13.

53. In the current economic climate, the Committee is particularly concerned about the future availability of this funding for local councils through the Department, to ensure NI meets its international waste management obligations.

Committee for Enterprise, Trade and Investment

54. The Committee noted that there were few reduced capital requirements declared in the Department of Enterprise, Trade and Investment's (DETI) stocktake submission and this was explained by the fact that it is difficult to predict investment levels over the next two years as DETI projects are largely demand-led.

55. The Committee questioned the extent of the flexibility in DETI's Budget to respond to the economic downturn and was informed that capacity existed in Invest NI to reallocate resource budgets to local projects and to the social economy.

Committee for Health, Social Services and Public Safety

56. The Executive Budget agreed in January included a number of measures that gave the Department of Health, Social Services and Public Safety (DHSSPS) financial flexibility to manage the pressures within the health and social care sector. One of the consequences of this was that the Department would not present any in-year bids for routine pressures except in the event of major or unforeseeable circumstances. The Department has advised that it is therefore not making any revenue bids.

57. In relation to capital, the Department has made two bids, one of which is for £8m, enabling works as the first stage of the RVH Women's and Children's Hospitals. This issue was the subject of a debate in the Assembly recently and the Motion was strongly supported by the Committee.

Committee for Regional Development

58. The Committee reiterated its view that the financial implications of any Executive decision on the future funding of water and sewerage charges are for the Executive as a whole to address.

59. The Committee was concerned that departments will only be able to bid for additional resources on the basis that the pressure is inescapable, was unknown at the time of the budget and cannot be fully met from changes to the department's budget due to the extent of the

pressure. The Committee is of the view that the economic and social context has changed significantly since the preparation and agreement of Budget 2007.

60. The Committee concurred with the Department's view that there are no reduced requirements within DRD's budget for the period 2009-11.

61. The Committee's comments on the seven inescapable resource pressures and six inescapable capital pressures are included in the Committee's full submission at Appendix 3.

62. Members had some reservations as to whether a number of the Department's bids, in particular those for 'blight', Sprucefield Park and Ride, and the NILGOSC pension contributions, could genuinely not have been foreseen or anticipated at Budget 2007.

Committee for Social Development

63. The Committee highlighted concerns around the equal pay issue, as the Department for Social Development (DSD) will be most affected as the largest employer in the NICS, and noted that DSD had been advised by DFP not to bid for additional resources in the Stocktake to cover this issue.

64. The Committee was informed that a projected shortfall in house and land sales receipts would lead to a budget shortfall for the New Build programme of £55m in 2009/10 and £35m in 2010/11 and that DSD was currently exploring options to alleviate the impact of this reduction in capital receipts.

65. DSD highlighted a number of emerging pressures relating to the crisis in housing and wider economic difficulties.

Conclusion

66. This co-ordinated submission on behalf of the Assembly statutory committees identifies a range of budgetary issues and concerns, both at a cross-cutting and a departmental level. In terms of strategic considerations, the following are highlighted in particular:

- doubt as to the robustness of the departmental information submitted to the Stocktake and thus the evidence base upon which Executive decisions may be based;
- the failure by departments to fully address the Stocktake terms of reference, in identifying significant increased requirements without setting out how they will address these through adjustments to their existing plans and priorities;
- the potential for additional efficiency savings being required, in the context of possible slippage by departments in achieving existing efficiency targets;
- the budget implications of not achieving previously planned asset realisations;
- doubt as to the capacity of departments to deliver accelerated capital expenditure, in circumstances in which they require to raise their standard of financial management and performance generally;
- the need for clarity on the implications for departmental budgets of the Chancellor's Pre-Budget Report and of the outworking of the recent financial settlement between the Executive and Treasury; and
- general concern at the range and quantum of new and emerging pressures on existing budget allocations and which remain to be addressed.

67. CFP calls on DFP and the wider Executive to give careful consideration to these issues and to the other concerns which have been raised at a departmental level in this submission. The Committee looks forward to the Assembly receiving the necessary clarification and assurances on these issues when the Minister of Finance and Personnel makes a statement to the Assembly on 13 January 2009. This will set out the budget position for 2009-10, as reflected in the 2008-11 Budget approved by the Assembly on 29 January 2008, in the context of the strategic stocktake. CFP will subsequently table a “take note” motion for plenary debate on 19 or 20 January, which will provide the Assembly with an opportunity to debate the issues more fully.

Appendix 1

DFP: Background to the Budget 2009-11 Strategic Stocktake

Budget Stocktake

From: Norman Irwin
Date: 26 SEPTEMBER 2008

Summary

Business Area : Central Finance Group

Issue: This paper outlines background to the Budget 2009 – 11 Strategic Stocktake

Restrictions: None

Action Required: To Note

Background

Following the outcome of the Comprehensive Spending Review in October 2007 there is no expectation of any material additional resources becoming available to the NI Executive for the financial year 2009-10, and probably 2010-11. In this context, the Executive agreed in March 2008, that there would be little to be gained from commissioning a comprehensive local Budget process for 2008-09.

However, it was recognised that NI Departments may have financial issues that may need to be considered. Therefore the Executive agreed to conduct a strategic stocktake of the Budget position for forward years (2009-10 and 2010-11) this autumn to allow Ministers and their Departments to:

- review progress against their 3-years plans to date and register any reduced requirements for 2009-10 and 2010-11 against Budget allocations; and
- identify any significant increased requirements for 2009-10 and 2010-11 only and propose how these might be addressed, by departments, through an adjustment of existing plans and priorities.

Draft Indicative Timetable

Returns due from Departments - 24 October

Executive Meeting - End November / Early December

Statement to the Assembly - December

It should be noted that the later two dates are dependent on the nature of the returns received from Departments.

Appendix 2

DFP: Letter following the Minister's meeting with the Chairperson and Deputy Chairperson of CFP

Letter from DFP following Meeting with Minister 25.11.2008

Assembly Section

Department of Finance and Personnel
www.dfpni.gov.uk

Craigantlet Buildings
Stormont
BT4 3SX
Tel No: 02890 529147
Fax No: 02890 529148
email: Norman.Irwin@dfpni.gov.uk

Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

25 November 2008

Dear Shane

Further to the meeting yesterday between the Minister, the Chair and deputy Chair I can confirm that the Minister has agreed to the following Assembly involvement to take forward the strategic stocktake following Executive approval on 11 December:-

- A ministerial statement on 13 January on the budget position for 2009-10, as reflected in the 2008-11 Budget approved by the Assembly on 29 January 2008, in the context of the strategic stocktake;

- A take note motion by the Committee on 19 or 20 January on the budget position for next year, in the context of the strategic stocktake as conveyed in the Ministerial statement on 13 January.

Many thanks

Norman.

NORMAN IRWIN

Appendix 3

Written Submissions from Statutory Committees

Statutory Committee Submissions

Committee for Agriculture and Rural Development

The Committee for Agriculture and Rural Development (the Committee) formally considered the Department of Agriculture and Rural Development's (DARD) strategic stocktake at the meeting of 21 October 2008and would make it's response to you below. I have recorded these comments using the themes suggested in your letter of 16 October.

Reduced Requirements

The Department did not identify any reduced requirements for the budget period. However, the Committee remains concerned as, historically, the Department will normally announce significant underspends as part of there Provisional Outturns (approximately £31 million from the 2007/2008 budget). The Committee has requested that it be provided with a strategic breakdown of actual spend against budgets on a monthly basis to enable it to conduct ongoing monitoring and scrutiny of departmental expenditure.

Increased Requirements

The Department states that it has made substantive bids for £28.5 million in 2009/10 and £35.1 million in 2010/2011. However, the latter figure is net of a very significant shortfall in receipts of £200 million due to a considerable over-valuation of the Plant Testing site at Crossnacreevy. If the Committee understanding, that receipts identified in departmental baselines must be realised, is correct, the total increased requirement for the next two budget years is £263.6 million.

The above increased requirement includes a total resource bid of £47.613 million largely in respect of animal health issues. The Department would intend using £40.756 million of this to pay compensation in respect of cattle that have tested positively for Tuberculosis (TB) and Brucellosis (Br). This is in addition to the £28.734 million already allocated for the budget period.

The departmental priority, as published in the Programme for Government, in respect of these diseases is to reduce incidence levels by up to 27% during the budget period. The Committee has previously commented on the need for the Department to reprioritise away from seeking a year-on-year reduction in these diseases and towards a total eradication. The Committee believes that the Department could achieve very substantial resource efficiencies through savings of compensation payments currently being paid by means of introducing an eradication programme.

In addition, the Committee is opposed to the allocation of £6 million of the above bid towards a study into the prevalence of TB in the badger population. A number of major scientific studies, including that presented to the Committee for Environment, Food and Rural Affairs in Westminster have confirmed there is a link between bovine TB and badgers. The Committee has called on the Department to abandon this study and to use the resources to conduct culls of badgers in areas with high disease incidence levels. This is supported by the Minister for the Environment who has granted licenses for the culling of up to 1,000 badgers.

Adjustment of Existing Plans

The DARD strategic stocktake does not seek to adjust existing plans and priorities to meet with their increased requirements. The Department has used the stocktake to make bids, presumably expecting these to be met from within the overall NI block vote.

Efficiency Delivery Plans

The Committee would not be confident that the efficiency delivery plans will be met within the budget period. Disease incidence levels in respect of TB and Br are currently increasing. The Committee believes that the mere fact that the Department is seeking to amplify the baselines for controlling these diseases by in excess of £40 million is evidence that they believe the levels will continue to increase over the budget period.

In addition, the Committee remains opposed to a number of the plans, in particular the proposals for animal health and cost sharing. The Committee awaits the policy for this and other plans to be presented to it.

(e) Significant financial issues

The Committee believes that the over-valuation of the Crossnacreevy site has placed a huge financial pressure not only on the Department of Agriculture and Rural Development but also on the entire Northern Ireland block vote, as receipts of this magnitude will not be realised solely within DARD. The Department recognised this fact themselves in the draft letter to DFP presented to Committee on 21 October 2008 when they stated:

“We will do all in our power to maximise receipts from the active management of the DARD estate, but you will want to redress the receipts target”.

The Committee is convinced that the Department will not be able to generate a receipt of this magnitude without seriously impacting on the delivery of their services to the farming and rural communities. This would have serious consequential effects not only on farm businesses but the entire Northern Ireland economy reliant on a strong and successful agricultural industry.

Committee for Culture Arts and Leisure

The Committee for Culture, Arts and Leisure considered the Department's proposed return on the Budget 2008 – 2011 stocktake at its meetings of 23 October and 6 November 2008. The Committee agreed it had no high level concerns with regard to its department's proposals.

Committee for the Environment

At its meeting on 20 November the Committee for the Environment heard evidence from officials on the Departmental Strategic Budget Stocktake.

Members were particularly concerned to learn that the Department anticipates a reduced requirement of £185.62m in relation to Planning and Environmental Policy Group. This is a significant expenditure for this Department.

The Department received 200m during the 2008-2011 budget period to provide funding to district councils to cover up to 50% of the overall capital costs associated with compliance with the EU Landfill Directive targets. The expenditure profile of the three Waste Management Groups representing the 26 councils has slipped and the Department now wishes to rephase the bulk of this expenditure to match their anticipated requirements in 2011-2012 and 2012-13.

In the current economic climate, the Committee is particularly concerned about the future availability of this funding for local councils through the Department, to ensure Northern Ireland meets its international waste management obligations.

Committee for Enterprise, Trade and Investment

The Committee considered the 'Budget 2008-2011 Strategic Stocktake: DETI Return' at it's meeting on 23 October. It welcomes the opportunity to respond to the issues raised in your letter of 16 October, which are detailed below.

Officials from the Department briefed the Committee on the Budget Stocktake on 23 October. The Committee expressed dissatisfaction at receiving the papers at short notice and had not had the opportunity to fully scrutinise the papers prior to the meeting. Some Committee members expressed concern about the absence of a draft annual budget with associated Assembly consideration and consultation processes.

The Committee registered some concerns that DETI's return did not provide a full picture of the overall change in the DETI budget and that the Stocktake could not therefore, be put into the context of the overall budget. Consequently the Committee was not in a position to consider the impact that these changes would have on the overall implementation of the budget.

In response to this point, Officials outlined the figure for the reprofiling of the overall budget as:

- 2009-2010 from £312million to £297million
- 2010-2011 from £308million to £304million

Officials also agreed to provide further information to the Committee on specific budget lines.

The Committee noted the Department's reduced resource requirements of £15.9million in 2009-10 and £10.5million in 2010-11. Officials were questioned on the issue of land valuation. Officials explained that the Department had taken a neutral stance on the issue in view of Invest NI's £25million acquisition budget for the next two years and its £15million land disposals budget. This was noted by the Committee.

The Committee further noted that there were few reduced requirements for capital expenditure in the Budget Stocktake. Officials explained the difficulties in predicting the level of investment for the next two years as, unlike other Departments, projects in DETI are largely demand led. They further highlighted the need for Invest NI to be in a position to negotiate for projects in the knowledge that the budget will be available to fund them.

The Committee questioned if there was flexibility in the budget to respond to the economic downturn. In response to this, Officials explained that capacity existed within Invest NI to reallocate resource budgets to local projects and to the social economy. They also explained that the proposed reduced requirement for resource budget gave sufficient scope for this to happen. The Committee highlighted the need for prudence in this area during the current economic downturn.

Officials explained the reduced requirement of £0.9million in the 2009-2010 resource budget for IntertradeIreland. Officials explained that this was tied to match funding from RoI and that it was only in a position to confirm next years reduction in line with what had been agreed. This was noted by the Committee.

The Committee noted a transfer of £6.5million from DETI Energy from Waste capital budget to the Invest NI Capital budget.

In relation to Signature Projects, the Committee noted an overall reduction in the Giant Causeway's Visitor Centre project of £9.5million due to the lead role that the National Trust was now taking in delivering this project. Officials explained that the expected overall cost to Government of £10million would consist of £3million in 2009-2010 and £7million in 2010-2011 with completion expected in 2010-2011. In relation to the Titanic project, officials agreed to provide information on the overall total of this Investment.

The Committee noted that there were some areas in the briefing paper which could be considered 'commercial in confidence' and that this had not been taken into account by DETI prior to the meeting. Consequently the Committee was unable to discuss these aspects of the paper in open session.

Finally the Committee notes that the Committee for Finance and Personnel has requested further information from DFP on what provision is being made for the Assembly input, both by Committees and Plenary, before the outcome of the Stocktake is announced. The Committee welcomes this initiative and looks forward to receiving further information in this regard.

Committee for Health, Social Service and Public Safety

The Health Committee considered this issue at its meeting on 6 November. The Committee noted correspondence from the DHSSPS to DFP in which it pointed to the Final Executive Budget agreed in January. This included a number of measures that gave the Department financial flexibility to manage the pressures within the health and social care sector. One of the consequences of this was that the Department would not present any in-year bids for routine pressures except in the event of major or unforeseeable circumstances. The Department has advised that it is therefore not making any revenue bids.

In relation to capital the Department has made two bids, one of which is for £8m enabling works as the first stage of the RVH Women's and Children's Hospitals. This issue was the subject of a debate in the Assembly last week and the Motion was strongly supported by the Committee.

Committee for Regional Development

1. The Committee for Regional Development considered the Department's Strategic Stocktake return, papers on the Department's Efficiency Delivery Plans and asset disposals, and the briefing provided by officials at its meeting of 22 October 2008.

2. Members noted the context within which the Strategic Stocktake occurs, in particular;

- NICS Equal Pay Claim;
- the Executive's approach to the future funding of water and sewerage charges;
- the downturn in the property market;
- the challenging economic and business climate; and increasing pressures on households' budgets; and
- the residual pressures in terms of Civil Service Reform and the Integrated Development Fund.

3. The Committee would reiterate its view that the financial implications of any Executive decision on the future funding of water and sewerage charges are for the Executive as a whole to address.

4. The Committee also noted that that there is no expectation of a significant increase in public expenditure at the UK level in the near future, and hence no Barnett consequentials; and that any allocations made as part of the Budget Stocktake must be funded from offsetting reductions elsewhere.

5. In addition, the Committee is concerned to note that departments will only be able to bid for additional resources on the basis that the pressure the department faces is inescapable, was unknown at the time of the budget and that it cannot be fully met from changes to the department's budget due to the extent of the pressure. The Committee is of the view that the economic and social context has changed significantly since the preparation and agreement of Budget 2007.

Reduced requirements

6. The Committee concurred with the Department's view that there are no reduced requirements within the Department for Regional Development's budget for the period 2009-11.

Resource pressures

7. The Committee noted the Department's pressures, the seven inescapable resource pressures and six inescapable capital pressures, as set out in your Tables 1 and 2 of the Strategic Stocktake return.

8. The Committee noted DRD's top inescapable resource bid relating to the deferral of additional water payments by the Executive, and the basis for Scenarios A and B. The Committee is of the view that as the issue is subject to Executive decision, it will be a matter for the Executive to cover the financial pressures arising from its decision.

9. The Committee noted the Department's second inescapable bid of £2.3 / 2.6m to maintain the existing levels of subsidy for the demand-led bus and rail concessionary fares schemes, and the basis for the higher costs identified by DRD in its submission.

10. The Committee is of the view that the concessionary fares scheme must not be capped, and a switch to public transport must not be jeopardised. The Committee was also concerned to note that the Department anticipated an additional fare increase, with a consequential increased subsidy requirement.

11. The Committee noted DRD's third new inescapable bid of £3 / 3.5m to cover cost increases on the Railway Public Service Obligation (PSO). Members noted that, aside from the NILGOSC Rail bid, the Department did not make a PSO bid in Budget 2007. The Committee understands that although there were upward pressures on Northern Ireland Railway (NIR) costs, the underlying assumption for that exercise was that the rapid increase in passenger services from approx 6 million to 10 million per annum would help offset increases. The Committee also noted that this anticipated offsetting has not been possible as there have been significant increases in costs (which were difficult to assess accurately at Budget 2007).

12. The Committee is particularly concerned to note that if this bid is not met NIR has indicated that further fare increases may be necessary together with the following two likely options for service reductions:

i) the cessation of Sunday services; and

ii) the cessation of Sunday services and curtailment of Monday to Saturday operations after 10pm including two Enterprise trains.

13. The Committee was very concerned by the fact that the scale of these fare rises, when combined with the NILGOSC pension liability pressures referred to below could be of the order of 20-30%. Members recognised the knock-on impacts of fare increases on concessionary fare claims, and the difficulties arising from this, as well as the likely reductions in passenger numbers and a failure to meet the targets on PSA 13.

14. Members noted the Department's fourth inescapable pressure of £4.5 / 4.7m to meet the exceptional increase in the public lighting energy tariff expected in 2008. The Committee understands that, based on the increases already announced to domestic and commercial customers, the impact of this increase is anticipated to be around 50% on the 2007-08 outturn, and noted that Budget 2007 allocated a 5% inflationary increase to this programme. Therefore, there remains an uncovered 45% increase which leads to this bid. The Committee supports this bid on the grounds that it improves both the strategic road network and road safety after dark (thereby contributing to PSAs 13 and 14) and also contributes to reducing crime and enhancing the environment for the night-time economy.

15. The Committee noted the Department's comments and safety and cost concerns in relation to trials in Great Britain to examine the feasibility of turning off street lights to save energy costs.

16. Members noted DRD's fifth inescapable pressure of £0.6 / 0.9m to meet the increase in NITHC rail employer pension contributions to NILGOSC. The Committee understands that this bid represents a further increase in the contribution rate from that identified in DRD's Budget 2007 submission to 18.5% by 2010-11 (which results from the recent downturn in the economic climate and the impact on the ongoing deficit) and also takes account of the impact of the implementation of the Working Time Directive. Members were concerned that failure to fund this pressure is likely to result in implementing the service reduction options outlined above, and that service reductions would jeopardise the achievement of the PSA 13 target of 77 million passenger journeys.

17. The Committee noted the Department's sixth pressure of £6 / 5m for structural maintenance, and that this bid has arisen from the significant increases in oil prices (which impact on the

bitumen related products used in resurfacing and patching the road network), with consequent increases to construction costs. The Committee was concerned that an estimated 38 / 35 lane kilometres of resurfacing could be affected by this rise in oil prices. The Committee was of the view that as construction inflation (particularly for oil-based products) is currently running at 11.5%, as against the 4% used in calculating bids at Budget 2007, this bid should be met.

18. The Committee's views on the economic, safety, and value for money benefits of adequate structural maintenance are well known, and Members want to reiterate to DRD and the Executive, the importance of funding for structural maintenance, and their support for this bid, as well as the need to bring total structural maintenance spending up to the levels recommended in the Structural Maintenance Funding Plan.

19. The Committee noted DRD's seventh inescapable bid of £1.5 / 2.4m to meet the increase in NITHC bus employer pension contributions to NILGOSC. As discussed above, the Committee is keen to ensure that this pressure is met, and reductions in service and / or fare increases, do not negate the recent positive growth in public transport usage figures.

20. The Committee notes that bids five and seven refer to pressures in 2009-11 only, and are additional to the unmet NILGOSC bids for bus and rail at Budget 2007.

Capital pressures

21. The Committee noted DRD's six inescapable capital bids including legal obligations totalling some £33.9 / 12m in this exercise, as summarised in your table 2.

22. The Committee noted and supported DRD's top inescapable capital pressure related to the Deep Water Quay project at Warrenpoint Harbour Authority. The £0.5m bid in 2009-10 relates to the remaining Capital Grant element of this project that has been firmed up since Budget 2007.

23. Members were also pleased to note the £3.2m capital grant recently allocated to this project in September monitoring and this bid represents the final part of the Department's current approved grant funding limit of £14.7m for this project.

24. The Committee noted and strongly supported DRD's second capital bid of £1.4 / 9m relating to the borrowing requirements of trust ports.

25. Trust ports play a vital role in the economy and competitiveness of Northern Ireland and in the difficult economic circumstances faced by Northern Ireland businesses, the Committee was of the view that everything possible should be done to enable Northern Ireland's trust ports to remain efficient and responsive to commercial opportunities and pressures.

26. Members noted DRD's third new inescapable capital pressure of £20m in 2009-10 to make available the loan note which DRD is legally obliged to provide to Northern Ireland Water (NIW). Members noted that the Department's suggested reallocation in September monitoring was not accepted by DFP.

27. The Committee noted and supports the Department's fourth bid, which is for Home to School Transport signage and lighting. Members noted that the new buses have been purchased, and that this scheme will go ahead as soon as legislation from DOE is in place, which is expected in 2009/10.

28. The Committee noted that the Department's fifth inescapable pressure of £4m in 2009-10 related to increased compensation and disturbance claims arising from the purchase of land for the A4 / A5 schemes in Roads DBFO 2.

29. Members noted the Department's sixth inescapable pressure of £3 / 3m to meet the 'blight' costs on the A2 Greenisland scheme which have arisen since Budget 2007.

30. Members noted and supported DRD's seventh capital pressure of £5m in 2009-10 to vest the land currently being leased for the Sprucefield Park and Ride site.

Water reform capital DEL requirements

31. In addition to DRD's capital bid three above (loan note facility), Members noted that the Department has uncovered capital pressures of £55m in respect of the revolving credit facility in 2009-10 and £37.9 / 33.8m in respect of the accelerated programme facility in 2009-10 and 2010-11. Members also noted that the Department could also have an uncovered pressure of up to £30m on the baseline loan note in 2010-11, due to timing differences between the completion of capital works by NIW and the requirement to draw down the cash.

32. The Committee recognises the legal requirements to provide for the water reform capital requirements; however, Members remain concerned that the figurework in the Strategic Business Plan, and the base data on which it is based, is proving problematic. While supporting the Department in its bids to have these requirements recognised and covered, the Committee has serious reservations as to the quantum of cover that may ultimately be required.

Other pressures

33. The Committee noted and supported the other inescapable and high priority resource and capital pressures, either not funded at Budget 2007 or emerging since that exercise, as set out in your Tables in Annex A.

Internal reallocations and reductions

34. The Committee noted the Department's view that, having considered the options for internal reallocation or reductions, none can be identified that would not impact on the Department's existing PSA targets.

Technical issues

35. Members noted that the current budget cover for the loan interest from NIW in 2008-09 and 2009-10 only reflects the interest due on the opening loan note of £150m. The Committee noted that further loans have been and will be issued to NIW and, increased baseline cover in the order of £20 / 29m in 2009/10 and 2010/11 respectively is needed to cover:

- the opening loan;
- the loans issued in 2007-08;
- those loans currently forecast to be issued in 2008-09; and
- those loans currently predicted to be drawn down by NIW in 2009-10 and 2010-11.

36. The Committee noted that this increase in loan interest income is offset by the increased cost of capital charge on the Department's investment in NIW, and supports these technical adjustments as the DEL impact is nil.

37. The Committee noted the DRD technical transfers to DFP relating to the central reform programmes that will be actioned as part of this exercise.

Admin reclassification

38. The Committee noted and supports the proposed other resource to administration reclassification proposals for 2009-10 and 2010-11 to ease administration pressures in Public Transport Reform, Roads Service ISNI and Rapid Transit. This support is given on the understanding that no frontline services would be reduced to meet these administration pressures and that the funding would largely be switched from allocations earmarked to fund technical adviser costs for each of the programmes. Thus the Department would be spending money on civil servants instead of consultants.

Potential Roads DBFO slippage

39. The Committee noted the risk of slippage on PPP Packages 1 and 2 arising from Permit to Use (PTU) charges. Members understand that the timing of these charges depends on acceptance procedures which are in part outside the control of Roads Service, and would support DRD in bringing this matter to the attention of DFP at this time.

40. Finally, the Committee noted your update on achievement of the Department's Efficiency Delivery Plans and asset disposals.

General comments

41. In reaching a view on the pressures and other issues identified by the Department in the 2009-11 Strategic Stocktake the Committee considered the detail of the issues presented by officials and in the Department's Stocktake response and written briefing. Following which, Members had some reservations as to whether a number of the Department's bids, in particular those for 'blight', Sprucefield Park and Ride, and the NILGOSC pension contributions, could genuinely not have been foreseen or anticipated at Budget 2007.

Committee for Social Development

At its meeting on 23 October 2008, the Committee for Social Development considered the Department's Budget Stocktake submission.

The Department advised of several significant pressures in respect of budgets for the period 2008-2011 relating to Equal Pay; a potential shortfall in receipts from house and lands sales and other new emerging issues.

Equal Pay

As the potential amounts due in back pay or in ongoing payments are not yet known, and in-line with advice from the Department for Finance & Personnel, the Department did not make a bid for additional resources in the budget stocktake. The Department did however indicate that as the largest employer in the NI Civil Service, the implications of the Equal Pay issue on its future spending plans could be considerable. Clearly, the potential impact on future Departmental budgets of the Equal Pay issue are a concern for the Committee.

House and Land Sale Receipts

The Department indicated that a projected shortfall in house and land sales receipts would lead to a budget shortfall for the New Build Programme of £55m in 2009/10 and £35m in 2010/11. The Committee expressed its concern that the collapse in the property market and the consequent reduction in house and land sale receipts would adversely and significantly affect the delivery of the New Housing Agenda. The Department indicated that it was exploring options to alleviate the impact of the reduction in capital receipts.

Emerging Pressures

The Department identified a number of emerging pressures on its budget, relating to the crisis in housing and wider economic difficulties, including: a Mortgage Rescue Scheme; a revised Warm Homes Scheme; a Mortgage Interest Support Scheme and the Supporting People Programme. The Committee views these increased requirements as necessary for the delivery of the New Housing Agenda and the Department's other PSA targets.

The Committee believes that the shortfall in house and land sales receipts is a significant financial issue which could potentially undermine the delivery of key priorities and the Department's efficiency targets. The Department has yet to set out in detail how it intends to address this issue. The Committee will seek further clarification at its meeting of 20 November 2008, as part of its scrutiny of the December Monitoring Round.

Appendix 4

DFP: Departmental Financial Planning 2009/10 and 2010/11 – Strategic Stocktake Review

Pressures

1. The department has taken a pragmatic approach to the Strategic Stocktake Review and the pressures which have been identified reflect the priority funding pressures facing the department over the Stocktake period. Details of the department's pressures are outlined below and include those of civil service-wide reform programmes provided on behalf of all NI departments. All pressures are shown with figures for the two years.

Civil Service Reform Programmes

- Account NI - £3.4m/£1.5m resource. Additional funding is required in order to address the residual funding issues for Account NI, including non-cash costs associated with the asset and consultancy costs essential for delivering the programme.
- IT Assist and Network NI - £7.3m/£5.2m resource. Additional funding is required in order to address the residual funding issues for these two ICT reform programmes arising from a number of contractual commitments in respect of the new public service network and data centre rental contracts. This pressure also covers a shortfall in administration non-cash costs.

- NI Direct - £4.0m/£4.7m resource. This pressure represents the funding to take forward the NI Direct programme. The aim of the NI Direct programme is to provide citizens with simplified and improved access to government services in Northern Ireland, including a single telephone number point of contact for agreed services and a single thematic web presence.

DFP Pressures

Census 2011 - £0.7m/£2.9m resource. This is necessary to meet the residual contractual costs associated with the 2011 Census and associated work on advancing migration statistics. The statistics from the census are widely used both with government and the private sector to allow informed decisions to be taken.

Rating Reform - £2.5m/£2.5m resource and £0.5m/£nil capital. Additional resources are required arising from the NI Executive review of Domestic Rating Reform, and will enable Land and Property Services to carry out the new rate reform programme. This includes two new measures, Lone Pensioners Allowance, and an increase in the savings limit for pensioners claiming rate relief.

Reduced Requirements

2. No reduced requirements have been identified within this Stocktake Review period.

Capital Re-profiling

The Strategic Stocktake review provides an opportunity to re-profile capital budgets within the framework of the Investment Strategy NI. We have reviewed our capital profiles across 2009-11 and are largely content. However at this stage to reflect acceleration in the census project, we intend to re-profile £110k from 2010/11 to 2009/10. The department will continue to review its capital profiling requirements on an ongoing basis.

Reclassification of Resources

3. In addition to the requests outlined above, certain resources need to be reclassified from Resource to Admin. The net effect of these adjustments over the 2009-11 period is:

2009/10

- Admin to increase by £1.2 m
- Other Resource to decrease by £1.2m

2010/11

- Admin to increase by £4.2 m
- Other Resource to decrease by £4.2m

Enclosures

A summary of the department’s pressures is provided at Appendix 1.

A summary of the department's overall position is provided at Appendix 2.

Appendix 1 – DFP 2009/10 and 2010/11 Strategic Stocktake Pressures

Pressures	2009/10				2010/11			
Admin	Admin Non-Cash	Other Res	Capital	Admin	Admin Non-Cash	Other Res	Capital	
Civil Service Reform Pressures	£m	£m	£m	£m	£m	£m	£m	£m
Account NI		2.8	0.6			1.5		
It Assist & Network NI	4.1	3.2			1.7	3.5		
NI Direct	3.1	0.1	0.8		3.7		1.0	
DFP Pressures								
2011 Census	0.7				2.9			
Rating Reform			2.5	0.5			2.5	
Pressures Total	7.9	6.1	3.9	0.5	8.3	5.0	3.5	0.0

Appendix 2 - 2008-11 Overall Summary

	£m					
	2008-09		2009-10		2010-11	
Resource	Capital	Resource	Capital	Resource	Capital	
Opening Baseline	192.4	-146.8	167.1	22.7	165.2	16.0
Reduced Requirements						
Pressures			17.9	0.5	16.8	0.0
Proposed Reductions / Reallocations						
End Year Flexibility						
Reclassifications						
Reprofiling				0.1		-0.1
Transfers/Technical Adjustments			3.2		3.2	
Projected Baseline	192.4	-146.8	188.2	23.3	185.2	15.9

Appendix 5

DFP: Public Expenditure: 2008 Strategic Stocktake

Introduction

1. The purpose of this paper is to inform the Committee for Finance and Personnel of the main issues arising out of the Strategic Stocktake of the 2009-10 and 2010-11 expenditure plans for NI Departments. The main emphasis of this exercise is on assessing the overall financial position in advance of the 2009-10 in-year monitoring process.

Background

2. Following the outcome of the Comprehensive Spending Review in October 2007 there remains no expectation of any material additional resources becoming available to the NI Executive for the financial year 2009-10 and 2010-11. In this context, the Executive agreed in March 2008, that there would be little to be gained from commissioning a comprehensive local Budget process for 2008-09.

3. However, it was recognised that NI Departments would have emerging financial issues on which early sight would be useful in terms of considering the strategic approach to the 2009-10 in-year process. Therefore the Executive agreed to conduct a strategic stocktake of the Budget position for forward years (2009-10 and 2010-11) to allow Ministers and their Departments to:

- review progress against their 3-years plans to date and register any reduced requirements for 2009-10 and 2010-11 against Budget allocations; and
- identify any significant increased requirements for 2009-10 and 2010-11 only and propose how these might be addressed, by departments, through an adjustment of existing plans and priorities.

4. In terms of process, the focus of the exercise was intended to be built on the plans for early and robust monitoring of progress against PfG targets, thus providing a good evidence basis for any adjustments to budgets being sought by departments Although, the formal monitoring arrangements, in relation to PfG commitments, have yet to be agreed by the Executive, to maintain progress on this fundamentally important strand of work, DFP commissioned returns from departments as part of September Monitoring in terms of progress to date and details of the systems put in place by departments to ensure delivery. The analysis of these returns would suggest that although some good progress has been made in developing the overall delivery frameworks in respect of most Public Service Agreements (PSA's), further work is needed in order to provide the necessary assurances that services are being delivered as planned.

Additional Resources Available to the NI Executive

5. The expenditure plans agreed by the Executive and approved by the Assembly in January 2008, involved the allocation of all the resources available at that time. Going forward, set out below is the current position regarding the main sources of additional income available to the NI Executive:

- Barnett consequentials from UK Budgets- in light of the slowdown in economic growth and the recent commitments made by the UK Government there is no expectation of any material increase in public expenditure in the near future. Although the Prime Minister and the Chancellor of the Exchequer has recently indicated some flexibility in terms of the interpretation of the Fiscal Rules the implications will only become clearer as part of the Pre-Budget Report which will be announced later today;
- End Year Flexibility EYF- as part of the NI Executive CSR07 settlement, Treasury agreed a drawdown profile for all available EYF at that time. Apart from the sums required to manage the transition between years, all amounts have been allocated to spending programmes. There is no expectation of any additional access to EYF stock in respect of the 2007-08 and 2008-09 underspend.
- Increased Efficiencies- current target is 3% whilst each 1% increase would yield a further £85 million;
- Increased Asset Sales- NI Departments are already indicating that the downturn in the property market will have a significant impact on the level of capital receipts this year, and over the medium term, and thus a further increase in the target level of disposals is not considered deliverable at this time. Although it is expected that the CART receipts

planned for in 2008-09 but not achieved, will be available for 2009-10 and 2010-11 the experience of 2008-09 is that there should be greater certainty as regards receipts before the corresponding allocations are made to departments.

6. In overall terms it is unlikely that there will be significant levels of additional resources available to the Executive over the next two years. Therefore, in the first instance, the extent to which specific pressures in one area can be addressed will be contingent upon the level of reduced requirements declared by Departments.

Reduced Requirements

7. In their returns to the Strategic Stocktake exercise, NI departments have declared £29.6 million in current expenditure reduced requirements for 2009-10 with a further £21.1 million for 2010-11. The relatively low level of easements means that the Executive would be required to consider a more aggressive approach if significant allocations were to be made at this time- this would include pro-active reductions in some spending areas to fund pressures in others.

8. In terms of capital expenditure NI departments have declared £1.2 million in reduced requirements for 2009-10 and nothing for 2010-11 although DoE have indicated that there will be slippage in Strategic Waste Infrastructure Projects into 2011-12 and 2012-13. In light of the downturn in the property market additional reduced requirements would have been expected as a consequence of the lower cost of taking forward capital projects as a result of the fall in property prices and the more competitive market conditions for public procurement in the construction sector. Further details of the reduced requirements declared by departments are set out in Annex A.

Pressures Identified by Departments

9. Following on from the 2008-09 in-year process NI departments have identified a range of pressures in their Strategic Stocktake returns. In total Departments have identified £212.8 million of current expenditure pressures in 2009-10 and £280.7 million in 2010-11 as part of their Strategic Stocktake returns as set out in Table 1 with further details in Annex B. The most significant pressures have been identified by DE, DARD and DRD. In terms of the latter this is mainly due to the lost income from a deferral of water charges which is an additional cost over and above the non-cash costs being covered by Treasury. A further, as yet unresolved issue, is the cost associated with the NICS Equal Pay claim which is the subject of on-going negotiations with the Trade Union.

10. In total the pressures identified by departments are equivalent to 2.5-3.1% of their Budget 2009-11 settlements in comparison to for example the 4.8% of resources declared by departments as surplus (reduced requirements and underspend) in the 2007-08 financial year. Furthermore, our initial evaluation suggests that questions remain regarding the scale of some of the bids and indeed whether they represent pressures at all.

Table 1: Expenditure Pressures Identified by NI Departments

£ million1	2009-10		2010-11	
Current	Capital	Current	Capital	
DARD	21.0	3.8	26.6	203.8
DCAL	8.1	0.0	7.0	0.0
DE	56.0	0.0	46.6	90.0
DEL	1.6	0.0	1.6	0.0

£ million1	2009-10		2010-11	
Current	Capital	Current	Capital	
DETI	0.0	0.0	0.0	5.0
DFP	3.9	0.5	3.5	0.0
DHSSPS	20.0	6.0	20.0	18.0
DOE	0.8	4.8	0.8	0.5
DRD	88.2	37.3	147.8	12.0
DSD	9.2	120.9	20.3	88.1
OFMDFM	0.0	0.0	0.0	2.2
Minors	4.1	2.4	6.6	15.9
NI Departments	212.8	175.6	280.7	435.4

1 These figures do not include administration bids.

11. Table 1 also shows that NI departments have identified £175.6 million of capital expenditure pressures in 2009-10 and £435.4 million in 2010-11. The most significant pressures have been identified in terms of shortfalls in capital receipts in respect of the Crossnacreevy site and the housing programme, which in addition to a shortfall on social housing, has exposed substantial pressures in other housing related areas.

Next Steps

12. Although the pressures identified by departments as part of the Strategic Stocktake are in excess of the resources immediately available, they are not particularly significant in terms of existing allocations or the level of resources that would normally be available to the Executive as part of the in-year monitoring process. In addition, there is still a significant degree of uncertainty regarding the overall scale of the some of the pressures as well as the nature of support we can expect from Treasury.

13. The overall financial context for 2009-10 and 2010-11 as set out above underpins the validity of the previous Executive decision to not make a significant reallocation of resources at this time with the position to be considered as part of the in-year monitoring process. However, consideration will be given to the allocation of the amounts declared as reduced requirements as well as any amounts that become available as part of the Pre-Budget Report.

14. Work is on-going to assess Departments’ returns and, in due course, the Executive will consider the Finance Minister’s overall assessment of the position. The Committee is invited to submit it own assessment of the position and this will be taken into consideration as part of this work.

15. The Minister has confirmed that he will inform the Assembly of the outcome of the Stocktake.

Department of Finance and Personnel
November 2008

Table of Annexes

Annex A Reduced Requirements

Annex B Pressures Identified by departments

Annex A

Table A1: Current Expenditure Reduced Requirements (£ million)

Department	Description	2009-10 Admin	2009-10 Resource	2010-11 Admin	2010-11 Resource
DCAL	Establishment of an Ulster-Scots Academy		-1.8		
DEL	Departmental Cost of Capital		-2.0		-2.0
	Grant to Ulster Supported Employment Ltd		-2.4		-2.4
	European Social Fund - Training Programmes		-6.2		-6.2
Total Department DEL			-10.6		-10.6
DETI	CRNI - Transfer of functions		-0.1		-0.2
	Corp services reduction in costs of IT function		-0.3		
	HSENI – Delay in Welfare Reform Initiative		-0.4		-0.2
	Insolvency - increase in fees		-0.1		-0.1
	Intertrade Ireland – reduced Programme Activity		-0.9		
	Invest - reduction in Projects		-14.0		-10.0
	Reduction in Interreg IV Projects		-0.1		
Total Department DETI			-16.0		-10.5
OFMDFM	Public Service Commission		-0.0		
	Maze Long Kesh Regeneration Project		-1.1		
	Delay appointing Commissioner for Older People		-0.0		
Total Department OFMDFM			-1.2		
Total Reduced Requirements			-29.6		-21.1

Table A2: Capital Expenditure Reduced Requirements (£ million)

Department	Description	2009-10	2010-11
DETI	Interreg IV Match Funding – Profiling Changes	-0.7	
	Renewable Energy - EU Competitive Match Funding	-0.5	
Total Department DETI		-1.2	
Total Reduced Requirements		-1.2	0.0

Annex B

Table B1: Current Expenditure Issues (£ million)

Department	Description	2009-10 Admin	2009-10 Resource	2010-11 Admin	2010-11 Resource
DARD	Animal Disease Testing & Compensation		16.8		18.0
	Community Development NIRDP		0.8		1.8
	Departmental Capital Charges - CAFRE				0.5
	Shortfall in Receipts		1.3		1.3
	Institute of Agri-Food & Land Use Grant funding				0.6
	National Fallen Stock Scheme		0.6		
	TB Policy - Badger Research		1.5		4.5
Total Department DARD			21.0		26.6
DCAL	Personnel – restructuring costs	1.2	0.5	1.5	
	NI Library Authority establishment costs		0.8		0.6
	Reimaging Communities Project		1.0		1.0
	Irrecoverable VAT on revenue expenditure		1.6		1.6
	Library Authority redundancy costs		1.2		
	Sport NI - Health & Safety Issues		0.5		0.6
	NI Museums Council Grant				0.3
	Armagh Observatory Planetarium Pension Liability		0.4		0.4
	Recurrent costs of new venues		0.2		0.8
	Capital Programme Delivery Costs		1.0		0.6
	Special Olympics deficit funding		0.7		0.7
	World Police and Fire Games		0.3		0.5
Total Department DCAL		1.2	8.1	1.5	7.0
DE	Funding of RPA workstreams	4.0		3.5	
	Early Years Strategy		1.0		3.0
	Energy and Utilities Costs		8.8		9.1
	Extended Schools		6.4		
	Continuation of former IDF projects		1.4		1.4
	Job Evaluations / Pay Reviews		8.4		7.9
	Primary School Uniforms		1.5		1.6

Department	Description	2009-10 Admin	2009-10 Resource	2010-11 Admin	2010-11 Resource
	School Rationalisation		22.7		19.5
	VGS/GMIS Job Evaluations		3.2		1.6
	Youth Services Capacity		2.5		2.6
Total Department DE		4.0	56.0	3.5	46.6
DEL	Further Education Awards		1.6		1.6
DFP	ACNI Asset Costs & External consultancy	2.8	0.6	1.5	
	Census 2011	0.7		2.7	
	IT Assist/Network NI	7.3		5.2	
	NI Direct Service Costs	3.1	0.8	3.7	1.0
	Rating Reform		2.5		2.5
Total Department DFP		13.9	3.9	13.0	3.5
DHSSPS	Cardiovascular Services		2.0		2.0
	Child Services - Foster Care		4.0		4.0
	Elective Care		4.0		4.0
	Learning Disability		4.0		4.0
	Long-Term Conditions		6.0		6.0
Total Department DHSSPS			20.0		20.0
DOE	Local Government Reform Salary Costs			1.8	
	Planner 20/20 System Support		0.5		
	Planning Reform Salary Costs	1.2		1.2	
	Water Framework Directive		0.3		0.8
Total Department DOE		1.2	0.8	3.0	0.8
DRD	Bus and Rail pension contributions to NILGOSC		2.0		3.3
	Subsidy for bus and rail concessionary fares		2.3		2.6
	PSO Increased Fuel & Safety Costs - Rail		3.0		3.5
	Roads Strategic Maintenance - oil price increase		6.0		5.0
	Street Lighting - Increased energy costs		4.5		4.7
	Lost Income from Deferral of Water Charges		70.4		128.7

		2009-10		2010-11	
Department	Description	Admin	Resource	Admin	Resource
Total Department DRD			88.2		147.8
DSD	Hostels & Homeless Funding		1.0		1.0
	Housing Assoc Loan Repay (Interest) Shortfall		0.9		1.0
	Impact Rising Unemployment - SSA		1.2		1.2
	Incapacity Benefit - Work Capability Assessment				2.0
	Mortgage Rescue Scheme		0.1		0.1
	Support for Mortgage Interest Scheme		3.0		6.0
	Supporting People Funding		2.0		4.0
	Welfare Reform & Modernisation Programme		1.0		5.0
Total Department DSD			9.2		20.3
NIA	Full Cost of Assembly Operations		4.1		6.6
Total		20.2	212.8	21.0	280.7

Table B2: Capital Expenditure Issues (£ million)

Department	Description	2009-10	2010-11
DARD	AFBI - Autoclaves and Steam Generation	0.7	
	AFBI - Electron Microscope/genome sequencer	0.6	
	AFBI - Nutrient Management Package	0.5	
	AFBI - Replace VSD Incinerator		1.8
	CAFRE - Dairy Unit and Fulton Hall		1.0
	Crossnacreevy Receipts		200.0
	Electronic ID for Cattle and Sheep	2.0	
	NIRDP Special Environmental Projects		1.0
Total Department DARD		3.8	203.8
DE	ELB Schools Capital		45.0
	Vol/GMIS Schools Capital		45.0
Total Department DE			90.0
DETI	Broadband – Next Generation Networks		5.0

Department	Description	2009-10	2010-11
DFP	Rating Reform	0.5	
DHSSPS	Enabling Works Women & Childrens Hospitals		8.0
	Regional Strategy for Decontamination	6.0	10.0
Total Department DHSSPS		6.0	18.0
DOE	DVA Licensing IS Enhancements	0.6	0.5
	Planning Service ePIC Project	4.2	
Total Department DOE		4.8	0.5
DRD	Warrenpoint Harbour Deep Water Quay	0.5	
	Home to School Signage and Lighting	3.4	
	Increased Land Costs - A4/A5 Schemes	4.0	
	Blight Costs -A2 Greenisland Scheme	3.0	3.0
	Loan Note - NIW	20.0	
	Trust Port Loan Requirements	1.4	9.0
	Sprucefield Park & Ride – Vest Land	5.0	
Total Department DRD		37.3	12.0
DSD	Slippage from IDF - Arterial Routes project	1.8	
	Belfast Public Realm Slippage	3.5	
	Developer Contributions	16.0	16.0
	Extension Warm Homes Scheme	5.0	5.0
	House Land Sales	60.0	50.0
	Housing Assoc Grant Repayments Shortfall	3.2	3.2
DSD	Mortgage Rescue Scheme	4.9	4.9
	URCDG Land Sales	24.0	8.0
	Slippage from 07-08 IDF- Waterloo Place Project	2.5	1.0
Total Department DSD		120.9	88.1
NIA	Replacement Hardware/Software	2.3	15.8
NIAUR	Telecoms and IT Upgrade	0.1	0.1
OFMDFM	Maze Long Kesh project – remediation of site		2.2
Total		175.6	435.4

Appendix 6

Minutes of Evidence

15 October 2008

Members present for all or part of the proceedings:
Mr Mitchel McLaughlin (Chairperson)
Mr Simon Hamilton (Deputy Chairperson)
Dr Stephen Farry
Mr Fra McCann
Ms Jennifer McCann
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan

Witnesses:

Mr Richard Pengelly, Budget Director Mr Michael Daly, Head of Central Expenditure Division Mr Jack Layberry, Head of Supply 1	Department of Finance and Personnel

1. The Chairperson: We are joined by the Department of Finance and Personnel's budget director, Richard Pengelly; head of the central expenditure division, Michael Daly, and Jack Layberry, head of supply 1. I refer members to the DFP and secretariat papers which have been circulated.

2. The witnesses are here early, and we have had a slight delay in getting through the early part of our agenda. Apologies for that. You have all been here before, and you are all welcome back. This session is being recorded by Hansard, so please ensure that all mobile telephones are switched off.

3. Mr Richard Pengelly (Department of Finance and Personnel): I will not take up too much time with opening comments. I will say a few words about the strategic overview position, then Michael Daly, who is head of the central expenditure division, and Jack Layberry, who is head of one of the supply divisions, will talk about some of the issues from the divisional perspective.

4. In overview and public expenditure management terms, today, the central finance group— of which central expenditure and supply are key elements — deal with four key issues. First, it is concerned with securing the Northern Ireland public expenditure total through dialogue with the Treasury, and by working through the UK public-expenditure system. Secondly, it deals with analysis and makes recommendations to Ministers as to how moneys are allocated between different services and Departments in Northern Ireland. Thirdly, throughout the course of the year it undertakes a process of monitoring and reallocating expenditure allocation, and, finally, it is concerned with reporting spend. However, we will not address that final element as that is the remit of the Departments, carried out through their annual accounts and by our colleagues in the accountability division of DFP.

5. The central expenditure division — which is Michael's area — lead the dialogue with the Treasury and the Northern Ireland interface into the UK public-expenditure system. They also review the operation of the Barnett formula, both in conceptual terms and in the arithmetic workings of it, thus ensuring that we receive our entitlement.

6. Supply divisions represent the DFP interface with Departments. That division is the main day-to-day point of contact with the 11 Departments. It seeks inputs from all Departments, analyses those inputs and passes them to the central expenditure division, which then collates the information to form an overview Northern Ireland perspective, which forms the basis of advice to Ministers. The two divisions inevitably work closely together in performing that task.

7. Sometimes our colleagues in Departments struggle with the concept of supply. Jack Layberry might say more about that. Supply is in a uniquely challenging position, as those divisions must, effectively, wear two hats. On the one hand, with the DFP departmental interface they perform a robust challenge function and act as something of a pushback to departmental aspirations. Having carried out that process of scrutiny and analysis, they then turn to the internal DFP debate and become an advocate for the Department, presenting a case for it during the competitive process for funding in the block.

8. That should provide Committee members with an overview. Michael will now say a few words about CED and Jack will deal with supply. Following that, we will deal with any points or questions that members may have.

9. Mr Michael Daly (Department of Finance and Personnel): Richard has provided a fairly high-level overview of the work carried out by CED, which is the part of the central finance group that supports the Minister. We do that by achieving the best possible settlement for the NI block from the Treasury, and by supporting the Minister in the overall management of the devolved public-expenditure processes. In that way, we are the advisers on planning management and control of expenditure, advising on the prioritisation of public spending during the Budget and monitoring rounds and — as members will be aware — supporting the Minister through the relevant Assembly processes.

10. In a practical sense, we are the main interface with the Treasury and the devolved Administration on spending reviews. We also advise on any other public expenditure matters, as and when those arise. In relation to budget processes and monitoring rounds, we are responsible for managing arrangements and the operation of those arrangements between the various Departments, allowing the development of proposals that fit in with the block figure work. In doing so, we work closely with the supply divisions and, depending on the nature of the issue, with another part of the central finance group — the strategic policy division.

11. Outside of the Department — but again as part of that process — we liaise closely with our colleagues in OFMDFM, specifically the economic policy unit and the SIB. That close liaison ensures that interfaces are established between budget processes and monitoring arrangements on one hand, and the Programme for Government and the investment strategy for Northern Ireland on the other.

12. CED also manages the public expenditure database and you can see the output of that work when you look through the detailed estimate booklets, published during the estimates process. As part of that we must ensure that the database is maintained in a manner consistent with the corresponding database in the Treasury. CED also provides routine financial information to the Treasury at key points during the financial cycle.

13. That is a general overview of what the division does and how it fits into the process.

14. Mr Jack Layberry (Department of Finance and Personnel): As Richard said, supply has as an unusual role in that it acts as the interface between DFP and the other Departments. Supply has two main functions: to provide advice to the centre on the allocation of public expenditure and to ensure that value for money is achieved in the Departments. That role requires supply to have a sound understanding of the policy priorities and responsibilities of the Departments and, at the same time, to be seen to be impartial and independent. That facilitates a robust and transparent challenge by supply to policy proposals that are put forward, either as part of the budget or as spending proposals for approval by DFP.

15. The key to doing the job well lies in the quality of relationships with the Departments. There is a perception that DFP's role is largely one of saying no. That is not the case; the key is to be

seen by Departments as willing to challenge robustly their proposals to ensure value for money and, at the same time, to champion those ideas at the centre, if DFP thinks that they are worthwhile.

16. Mr Hamilton: Thank you for that run-through. The Committee understands and appreciates the important role of the central finance group in overseeing expenditure and improving financial management. The Department's business plan contains a target to ensure no overspend and acceptable underspend against Treasury controls. Can you outline the role that the group plays in combating and robustly challenging underspend? Although the elimination of underspend is desirable, everyone accepts that there are always acceptable reasons for it. What level of underspend do you consider to be acceptable?

17. During the past year, a vote on supply on the overspend on the pensions of the Department of Health, Social Services and Public Safety went through the Assembly. How frequently has that occurred in the past five years? Given the persistent problems of underspend across Departments, how do you critically assess the central finance group's performance in managing that problem?

18. Mr Pengelly: The in-year monitoring process, which represents the safety valve for Departments, is our main vehicle for meeting the target to ensure no overspend and acceptable underspend. Four times a year, we ask Departments to survey their business areas to identify pressures that they feel are unfunded and to identify areas in which they are not spending to their full capacities. Our main response is strategically to pull those issues to the centre and provide advice to the Executive on how the areas of slippage could be reallocated to areas of pressure. In providing advice to the Executive, DFP and Committees feel difficulty and frustration that they are in the hands of Departments; we can deal only with the information provided by Departments.

19. At any point in the cycle, when we ask Departments whether they will spend their full budget, the answer is always yes. At a human level, I understand that, because the Departments fear that if they tell DFP that they will underspend by a couple of percentage points, DFP will remove the money and reallocate it. We keep challenging Departments by asking that question. Jack Layberry may talk about the specific dialogue that he has with Departments. Our main tool is an analysis that we regularly present to Departments that shows their performance over a period of three or four years.

20. While it is unfair to go too far into the detail of any single Department perhaps an example would help. The Department of Agriculture and Rural Development, for example, faced some considerable pressures this year and we worked with it to try to resolve those. A crude analysis shows a track record of several percentage points of underspend in that Department and, during the in-year monitoring process, the Department continually seeks, and is given, additional funding. That is an issue of culture and behaviour. In the Department's favour, some of the areas it deals with are particularly volatile. It is difficult for the Department to predict what lies around the corner with respect to outbreaks of animal disease and compensation claims.

21. Our main approach is to maintain dialogue and build up an understanding with each Department. We challenge the information each provides. Departments such as Education, or Health, Social Services and Public Safety, are huge and have a diverse range of business activities across volatile, demand-determined, areas. It is difficult for us, limited as we are by resources, to understand a Department's business in anything like the detail it does. That is why, in Assembly debates, current and previous Finance Ministers were keen, through this Committee, to encourage departmental Committees to improve that dialogue, acquire an understanding and look at the figures associated with underspend.

22. As a part of the annual monitoring paper that we present to both the Executive and the Assembly, we suggest that a ministerial statement to the Assembly should include the latest from his or her Department on its forecast expenditure. Our Minister has requested that the September monitoring papers are cleared by the Executive through the urgent procedures. An annex to that will, I hope, in the fullness of time, be presented to the Assembly, showing that, as at the end of September, all of the Departments forecast that they will spend all of their budgets for the year. This time last year, Departments said that; however, in the event, the total underspend by Departments was over £170 million. That is a huge opportunity cost to key public services, many of which face enormous pressures. It is a challenge that takes probing and dialogue.

23. Is there an acceptable level of underspend? The benchmark we set is about 2%. The analogy that many Departments use is that managing a budget is like trying to land a jumbo jet on a postage stamp. It is difficult: however, if we continue to move in the right direction and year-on-year continue to reduce the underspend, none of us would get too hung up on hitting a target of 2% or 1·5% immediately. However, we need to see a steady improvement and quantifiable forward steps.

24. The Committee must understand that there are two levels of overspend faced by the Northern Ireland Administration. If we overspend the block, so that public expenditure in Northern Ireland is higher than the Treasury-approved total, the Treasury response to that is to reduce public expenditure the following year by the amount of the overspend. That is a severe sanction, so it is important to get that right. In my time at DFP, there has never been an overspend at block level. We have faced some issues internally, when elements of Departments have overspent. One example is the overspend on health pensions. In block terms, that is a small amount and there has been no great impact.

25. Last year, Departments underspent ove £160 million in total: if, within that figure, there were a couple of overspends of a few million pounds by Departments, that, in numerical terms, would not present a big problem. The problem, rather, is one of management control and how overspend occurs. We see that as a management control, rather than a numerical, issue, and we continue to watch that.

26. Our group’s performance in managing the block position is judged by the block position, which must be good. To give some detail, the steps we have taken include programmes of mandatory financial management training for all senior civil servants. We try to work with Departments to produce standard models of good practice regarding the sorts of information that should be made available to departmental boards on a monthly basis, to allow senior management and organisations to fully understand and analyse the financial position to seek to reduce underspend and minimise the risk of overspend. We continue to work on that and provide advice and guidance.

27. A great deal is happening; however, it has not yet produced the dividend of better performance, and we must soon move into that new environment. The pressure on the block of public expenditure is such that we simply cannot afford to have big chunks of money remaining unspent. That is especially the case if the Treasury restricts end year flexibility and money is not returned immediately for deployment in Northern Ireland.

28. Mr Hamilton: How does the supply division achieve its target of ensuring that Departments carry out post-project evaluations on a timely basis? What is the target for performing those evaluations? What is current performance against that target?

29. Mr Layberry: An annual monitoring exercise ensures that all necessary post-project evaluations are carried out. Furthermore, we ensure that decisions on post-project appraisals of spending proposals are informed by previous post-project evaluations.

30. I am not sure what Departments' performance is against the targets for post-project evaluations.

31. Mr Pengelly: We can follow up with that information.

32. The Chairperson: There are many more in-year declarations of reduced requirements, which I thought would have impacted on the projected out-turn for the year. However, the underspend for this year could be higher than it has been for the last four years. That is serious. What is your explanation for the ongoing weakness in financial projection? When did the central finance group realise that that could well be the out-turn for this year? What steps have you taken to address the problem? You indicated that there are weaknesses in control and management, and people must be held to account as well as being educated.

33. Mr Pengelly: Departments have told the central finance group that there will be zero underspend. However, our experience is that we tend to be told that at this stage of the cycle every year. The total departmental underspend has never been lower than £100 million or more in recent years. We expect that the underspend will be in line with those figures, but we have no evidence for that other than gut feeling and experience.

34. The Chairperson: Do you have a provisional out-turn figure that is above the 2% target?

35. Mr Pengelly: We do not receive provisional out-turn figures until May, which is a couple of months after the end of the financial year. Departments have forecast that they will spend their entire budget and that there will be zero underspend. I can understand that, because it is very difficult for Departments to forecast their spend on public services. Departments are nervous that some of their budget will be reduced if they put their hand up and suggest that there might be an underspend. We have provided absolute guarantees that it is not about removing money from Departments. We need quality information to enable the Executive to make informed decisions about over-commitment levels and the amounts that can be allocated at this point in the year.

36. There is a range of issues at play in Departments, such as the difficult nature of the subject; the level of financial skills and experience at budget-holder level, which we are trying to improve through more structured programmes; and nervousness about declaring that there will be no underspend. There is a time lag in information; for example, if we ask a Department to forecast spend for the rest of the year at the end of September, we like that forecast to be based on the position of actual spend to the end of September. We are also in a difficult position because the historic accounting systems in Departments, in some cases, are not fit for purpose. However, Account NI will transform those systems. Several Departments have already moved across to new systems, and the transition for all Departments will be complete by the end of 2009.

37. That will remove the excuse for poor-quality information. Real-time quality information on actual spend, which can be analysed in any way, will be available a few days after the end of every month. Once we are at that stage, we should start to see step-changes in the quality of information from Departments.

38. The Chairperson: Therefore, at this stage — October — central finance group has no indication about whether Departments will achieve their targets at the end of the financial year?

39. Mr Pengelly: We have no evidence base. However, we did ask the Departments —

40. The Chairperson: It is not a play on words. Therefore, at this point, you have no basis for being concerned or for taking action?

41. Mr Pengelly: The Departments have said that they will not underspend. However, given that, in the previous three or four years, they have said the same thing, the reality is that there will probably be some underspend. My guess is that Departments will have material underspend.

42. Previously, we discussed the nature of the public-control environment where the incentive is to underspend rather than to overspend. My experience also suggests that during times of economic downturn, when public expenditure is incredibly tight, the system sometimes overcompensates. Budget holders become exceptionally nervous about overspending, which — perversely — can have the effect of a slightly higher` underspend, because everyone slows down their spending.

43. Based on what the Departments have said, underspend should be less than last year. Overall, underspend should be in the region of 1 5% to 2% at block level. However, my assessment is based on intuition, not evidence.

44. The Chairperson: Given the looseness in the financial-management profile, could underspend be heavily skewed towards the last quarter of this financial year, as has happened in previous years?

45. Mr Pengelly: That could not be ruled out at this stage.

46. Mr Layberry: From a supply perspective, we meet the Departments regularly for stocktakes to try to reduce underspend. Departments find that extremely difficult, because some have perhaps 70 to 100 budget holders. Civil servants are risk-averse; they are very concerned about having an excess vote. When 100 budget holders play it safe, the degree of underspend is multiplied by 100. That all adds up and results in the Department playing it safe. The role of supply division and the central expenditure division is to work with the Departments to focus minds on that.

47. Certainly, during the September monitoring round, there were a couple of times when we forced Departments to return extra money by pressuring them to think about ways in which they had saved money in the past.

48. Mr McQuillan: Do budget holders have a role within Departments during in-year monitoring rounds?

49. Mr Layberry: Yes, budget holders have a role within Departments during monitoring rounds. That role fits in with financial management training.

50. Mr McQuiallan: Does the extent of a Department’s underspend become apparent during that process?

51. Mr Layberry: Yes, but a Department will still play it safe to try to avoid an excess vote.

52. Mr Pengelly: During that process, Departments have some flexibility to reallocate any unspent money internally. That helps to manage some internal departmental pressures.

53. Mr O’Loan: I do not want you to duplicate your answers on underspend and return of funds, but please add more detail if you can.

54. Three fairly obvious reasons for the return of funds are, first, that the Department may have been more efficient than expected, resulting in money being left over. Secondly, funds may be returned because the Department overstated the resources that it needed. Thirdly, funds may be returned because the Department failed to deliver the planned level of service.

55. What has been the dominant reason for return of funds in recent years and, in particular, last year? Last February, you assured us that you were developing a monitoring system that would examine the reasoning behind reduced requirements. Will you elaborate on the progress of that? Are there any preliminary results? Will you detail the Departments' reasoning for their returns? How critically do you examine that?

56. Mr Pengelly: You highlighted a fundamental point. Over the last number of years, the focus of departmental performance has been on a year-end figure of underspend; the position is that a Department is thought to have performed poorly if it has significantly underspent.

57. The level of spend is only one measure of performance, which we highlighted and talked about previously. It should be seen in the broader — and more important — context of the delivery of the Executive's priorities. At the moment, a Department that underspends by 5% is deemed to have performed poorly. However, a Department that delivers all of the Executive's priorities that are attributed to it and underspends by 5% should perhaps be regarded as the one that is the best-performing and most efficient. There is an information gap there.

58. I cannot go into too much detail about the monitoring system, because we are still trying to develop a system that monitors performance against the key PSA targets that were agreed by the Executive as part of the Programme for Government. We, and colleagues in OFMDFM, have been working on proposals and engaging with Ministers; however, in the current political situation, there are difficulties in rolling that out.

59. As part of the September monitoring round, we asked Departments for some preliminary information. However, as with a range of other issues, we cannot implement the process without Executive agreement, and we do not currently have that. In the absence of Executive authority, we are trying to implement a hybrid approach that is based on DFP authority. We hope that the Executive will consider and approve the proposal, and that it will then be rolled out over time.

60. Instead of asking each Department about financial pressures and about what money could be returned to the system, each Department should regularly be reminded about the targets that were set by the Executive and should be asked for detailed progress against those targets in relation to trajectories, milestones, and whether it is on track to deliver. As a second order issue, the financial position of each Department should be studied, and performance in the round should be judged, rather than just an examination of how much money was spent. When that is achieved, performances will be driven on a much better basis.

61. In the absence of detail, the assessment and scrutiny of the three reasons that you identified for underspend are very difficult. However, I understand that Departments do overbid. Jack and his colleagues rigorously and robustly scrutinise departmental bids by studying the evidence bases for the bids and previous performances. Thus I hope that element is not the most significant issue. Following the bid Departments and DFP participate in a process of dialogue and negotiation. That leads to overbidding; however, the initial bids do not ultimately determine how much the Department in question receives.

62. There are areas in which some Departments are more efficient than others. The most significant reason for inefficiency is probably the failure to deliver as planned, owing to programmes rolling out slowly, capital expenditure not being delivered as intended; or because the level of service-provision uptakes was not as great as anticipated when budgets were set.

We cannot be absolutely certain until the full, objective monitoring position becomes clear, but — based on our knowledge and experience — the failure to deliver is the most significant of the three areas.

63. Mr Layberry: I agree, although there are sometimes reasons for that. The Farm Nutrient Management Scheme (Northern Ireland) 2005 springs to mind, where farmers filled in application forms for a slurry tank grant schemes, but we could not spend any money until those slurry tanks were built and the money was claimed. The Department budgeted on the basis of the completed application forms and the money that it anticipated being claimed. However, the money has been slow to be claimed, which has held the entire process up.

64. Mr O'Loan: Thank you for that answer. It is an important one that indicates that there is a great deal of work that has to be done.

65. There is so much time and energy put into putting the figures in place and getting the money returned and redistributed that there is not enough management analysis going on, either in Departments or centrally, over how our money is spent.

66. My second question concerns the surge of activity in the last quarter, both in terms of spend, which we have seen in current and capital — previously there may have been a defence that it was around capital — and the late declaration of reduced requirements, to which you referred. Very large figures have been reported to us recently. None of that gives any suggestion of well-managed expenditure. It is not as if Departments must await their budgets before they make any decisions on the next year's spend. They know that they are not going out of business next year and that they have a continuing role. Why, therefore, are there such dramatic surges in spending at the end of the year? Why can they not manage their affairs? They only make these declarations late in the year when it can be difficult to redistribute the money, and we are put in the embarrassing position of having demands which cannot be met and yet very significant returns at the end of the year. It is not a good scenario.

67. Mr Pengelly: I take your point. The late declaration of reduced requirements is a huge frustration, both at official level within DFP and to wider Executive Ministers in charge of spending Departments. I can only imagine the frustration of a Minister in a spending Department, facing a range of acute pressures around front-line public service provision, at being told that there are no resources available to deal with that pressure and to help individuals who need public help, only to see a Department putting its hand up some three or four months later and saying that it has £10 million or £15 million that has not been spent.

68. The Chairperson: For some of them, it is much more than that.

69. Mr Pengelly: Yes, for some Departments it is more than that. The Finance Minister will continue to press that point: he makes the point to Executive colleagues at every opportunity and he seeks assurances. The way around that is for a Member of the Executive, who feels hugely frustrated at pressures not being addressed because of that reason, to start by making sure that his or her Department is beyond criticism on those terms. All Departments should do that.

70. The evidence and data show that there is a year-end surge in activity. I liken that to my earlier point about a possible failure to deliver. Furthermore, we must bear in mind that in some cases, when seeking budgets, Departments view the year in totality rather than on a month-by-month basis. In some cases, therefore, spending is skewed towards later in the year. For example, in cases such as student awards programmes, grants are paid at set times, and that can distort analysis.

71. With regard to securing funding, there can be a necessary lead and preparation time before a service is ready to start. If we were to stratify the data, we would see that in the steady-state service provision that runs from year to year, there is not much of a change in monthly activity. That tends to be on new programmes, and it may be because of some delay in the early part of the year in getting the programme up and running, then activity ramping up towards the end of the year.

72. I am as confident as I can be, and that confidence is based on the evidence from the Northern Ireland Audit Office reports, the Public Accounts Committee and the certification of annual accounts. In the 1970s and the 1980s, before end year flexibility, it was a case of just spending at any price at the end of the year because it was better to have spent the full budget than to have an underspend. Anecdotally, money was thrown out of the door, and there were stories, back in the bad old days of the 80s, that every public sector building was repainted in March and had new furniture. Departments are not doing that. I do not think that they spend for spend's sake, but better planning and performance management might result in a quicker flow. We would address the year-end surge by putting the services in place earlier, and that is the more important point about making the services available to the public as soon as possible.

73. The Chairperson: Thank you. The targets that are being reduced in relation to over-commitment — £100 million this year and I think it goes down to £60 million by 2011 — are we reviewing those in the light of experience, or can we measure improvement in project and financial management?

74. Mr Pengelly: We will certainly keep an eye on that.

75. Some in the system argue that we should have a zero overcommitment; others that it should be £200 million or £300 million. My advice to the Minister — and I think that he has accepted it, given the profile that has been set — was that there is a trade-off. Conceptually, the earlier that spending money is planned, the more lead and preparation time there will be, and so better value for money will be achieved, and that will result in a better public service.

76. I am concerned that, with a zero overcommitment, money will inevitably come back through reduced in-year requirements. If it were all available, it would be turned and recycled; in some cases at the expense of value for money with in respect of a proper lead time for planning. Similarly, if there is a very high overcommitment, flexibility, as well as the capacity to address newly identified pressures, is lost.

77. The right balance is in and around £80 million or £100 million. Public expenditure of £80 million can be planned now, setting up the process and the shape in which to deliver it next year, in the knowledge that it will absorb the first £80 million of reduced requirements. We know that in-year reduced requirements will be higher than that; therefore that will provide the flexibility to deal with emerging pressures. We will keep an eye on that in light of the emerging year-end position.

78. At the moment, we have no plans to amend the figures before —

79. The Chairperson: That is where the question was leading. There are two constituencies arguing two different perspectives, but there is no indication that we should review the decision that was taken.

80. Mr Pengelly: The point at which formal review will take place, is in the next annual Budget process.

81. The Chairperson: So you will give it a bit longer?

82. Mr Pengelly: We will not do it for now; we want to review it in light of how the current situation plays out.

83. Mr McNarry: I wish to talk about sanctions at organisational and individual levels, which take into greater account the Department's underspend performance when prioritising funding, or — as is the currently topical issue — revisit the Budget allocations in that respect. What new initiatives are there, concerning sanctions, to ensure that Departments are maximising the impact from available resources?

84. The formal underspend targets have been set for individual Departments. Nothing personal, gentlemen, but we have all been treated to the sight of chief executives from the banking industry — quite rightly — having their bonuses docked and removed. Do the criteria for awarding bonuses to senior civil servants take into account an individual's performance in managing finances, particularly a lamentable and poor performance?

85. Mr Pengelly: I shall separate, as you did, the individual and the organisation, and I will deal first with the individual. In the senior Civil Service, individual performance assessment is a matter for the Permanent Secretary of each Department, who puts in place performance measures for his or her senior team in the Department.

86. Mr McNarry: Are you saying that there is no corporate policy or rules?

87. Mr Pengelly: There are. Ultimately, the sign-off on performance is done by the Permanent Secretary in each individual Department. I cannot, with any authority, give an overview, as that involves the Central Personnel Group, the head of the Civil Service and his dialogue with the Permanent Secretaries. I am not privy to those conversations.

88. Mr McNarry: Is there a procedure?

89. Mr Pengelly: There is a procedure; every year, members of the senior Civil Service must draw up a performance agreement for approval by their line manager. In the Department of Finance, my personal performance agreement has a measure in it —

90. Mr McNarry: Try not to make it too personal.

91. Mr Pengelly: In the Department of Finance, the culture is that, for each member of the senior Civil Service, a target is included concerning underspend performance in his or her own business area. My performance agreement does not take into account the underspend performance of all Departments. Ultimately, however, I will be judged against the central finance group's budget, so fingers crossed.

92. Mr McNarry: The story with the banks is that they have been gambling and overspending, whereas we would be looking to sanction people who continually underspend.

93. Mr Pengelly: Compared to other performance measures, the beauty of monitoring departmental spending is that it is perfectly quantifiable and totally objective. Having said that, departmental spending is only one of a range of performance measures. Although I do not know the extent to which that performance measurement is used by senior civil servants in other Departments, that is the culture in DFP. My colleagues in the DFP's central personnel group are probably best placed to inform you about that.

94. Mr McNarry: I do not criticise Richard for being unable to answer that question; however, we might solicit an answer from those who know.

95. The Chairperson: That is exactly what I have been talking to the Committee Clerk about.

96. Mr McNarry: That would be interesting.

97. The Chairperson: We received answers previously, so we will pursue that matter for Mr McNarry.

98. Mr Pengelly: With regard to organisational sanctions, DFP's normal reaction to Departments — which some people might describe as somewhat ruthless and vindictive — is to insist that underspends must be less than 2%. Any more than that may elicit sanctions. A simple sanction would be to reduce a Department's budget the following year. For example, if a Department were to underspend by 5%, it clearly did not require that 5%, and therefore we could reduce the subsequent budget by that amount. Our fundamental difficulty with that approach is that, in many respects, underspend is a management performance measure. We are acutely aware that we are dealing, through all Departments, with key public services that are provided, in many instances, to extremely vulnerable groups in society. We are hugely reluctant potentially to penalise such vulnerable groups because the senior civil servants who are charged with managing that service cannot get their budget right. If a senior civil servant in Department X happens to underspend by 3%, reducing that Department's budget the following year would mean that 3% less money would be available for services required by vulnerable people in society. We are incredibly uncomfortable with using such measures as an automatic sanction. In practice, we use that information on underspend performance and factor it into discussions with the Executive when budgets are set.

99. Mr McNarry: Who carries the can — the Minister or senior civil servants?

100. Mr Pengelly: In the Budget process, both carry the can, because that forms part of the relevant information base that is made available to the Finance Minister to consider his recommendations to the Executive, and to the Executive so that they can arrive at a set of conclusions about future public-expenditure allocations for those services.

101. Mr McNarry: The Committee's report on the Budget found that the record for average annual underspends in Northern Ireland compares unfavourably with the record of Departments in Scotland, Wales and Whitehall, particularly concerning current expenditure. We proposed a figure below your figure of 2%; underspends need be no more than 1%. Will you explain why there are generally higher underspend levels in Northern Ireland compared to other regions? Furthermore, do you compare underspend performances in Northern Ireland Departments with performances in those other Administrations, and are you able to provide the Committee with up-to-date information that analyses current and capital expenditure patterns?

102. Mr Pengelly: You have asked three questions, which I will address in a slightly different order. With regard to monitoring, information from the other devolved Administrations and the Whitehall Departments is made available to us only once a year — in August or September — in the provisional Public Expenditure Outturn White Paper. We monitor Northern Ireland's overall performance against to that, and that was the basis for the information that we gave to the Committee.

103. I do not wish to suggest that we are comfortable with Northern Ireland's performance; it ranks about mid-table compared to Whitehall Departments and, with some variation, it has been materially poorer than performances in Scotland and Wales. The main reason —

104. Mr McNarry: We are not in the premier league. In certain circumstances, we are non-league, and we cannot just talk that away.

105. Mr Pengelly: To understand the most fundamental reason for that one must consider the control position.

106. In terms of size, the Northern Ireland block is effectively a Whitehall Department indeed many Whitehall Departments have a bigger grant than the Northern Ireland block. In any Whitehall Department there is complete flexibility, and, every month, activity is monitored, and pressures and areas of underspend are identified.

107. The Chairperson: Can they reprioritise and re-allocate every month?

108. Mr Pengelly: The Department and its Minister have complete autonomy to do that. They do not need to wait for a quarterly monitoring system and present their case to a group of other Ministers to consider. However, the nature of the Northern Ireland system —

109. Mr McNarry: Are you bartering for a voluntary coalition?

110. Mr Pengelly: No. If Northern Ireland were to abandon the monitoring system tomorrow in favour of a Budget process, which set a budget that each of the 11 Departments could spend as they wished, with complete flexibility to redeploy any reduced requirements to whatever areas they saw fit —

111. Mr McNarry: We have one for three years; we have a fair idea about what we are doing. The block grant for 2008-2011 has been settled. However, I understand the need for the flexibility that Whitehall Departments have been given. We have a three-year settlement, but what flexibility is built into it?

112. Mr Pengelly: A Whitehall Department is allocated its budget, and it top-slices an element of it. That is called a departmental unallocated provision (DUP).

113. Mr McNarry: Does it work? [Laughter.]

114. Mr Pengelly: That money is set aside, and it acts as that Department's contingency fund. Ministers in Northern Ireland have always taken the view that we simply cannot afford to take a chunk of money and set it to one side. Therefore, we have a monitoring process whereby, four times a year, we review the position and take reduced requirements from Departments. The price of that system is a loss of flexibility at individual departmental level. If Departments had complete flexibility, I would be absolutely astonished if underspend in any Department were greater than 1·5%.

115. Mr McNarry: I suppose there is something in it. When we were a proper Parliament, we were able to build up reserves, but it appears that we cannot do that now.

116. On a final point, what is your division's view on revisiting Budget allocations in the circumstances in which we now find ourselves?

117. Mr Pengelly: My division does not have a view on that. The Executive have decided that there will be a strategic stocktake this year, instead of a normal Budget process. Therefore, we will implement the Executive's decision on that.

118. Mr McNarry: You are implementers rather than policy-makers or decision-takers?

119. Mr Pengelly: Ministers are policy-makers. We implement the policy as decided by Ministers.

120. Mr McNarry: But you said earlier that you gave advice to your Minister?

121. Mr Pengelly: That is correct.

122. Mr McNarry: Would you consider advising the Minister to revisit the Budget allocations?

123. Mr Pengelly: For now, we will just get on with the job of delivering the decisions of the Executive.

124. Mr McNarry: That is fair enough.

125. The Chairperson: That was a good try.

126. Ms J McCann: My question relates to planned capital spend on projects. The construction industry recently asked all Departments that have planned capital spend to bring their projects forward to alleviate the difficulties in which the industry currently finds itself. Is there scope for that to happen? Do Departments have the capacity to bring those projects forward? I know that there was concern about the delays in underspend that previously went into capital-build projects. Is there scope to bring those projects forward to aid the construction industry?

127. Mr Pengelly: There are different issues here. There is no possibility of accelerating or bringing forward capital spend projects from next year to this year, because there is a finite amount of money available this year. Therefore, we cannot do things this year that are planned for next year.

128. The Chairperson: Will you explain why you cannot do that?

129. Mr Pengelly: Using crude numbers, if our planned capital spend in the context of the formal control totals is 100 this year, next year and the year after, we cannot spend more than 100 this year. We cannot, say, bring forward 50 from next year and spend 150.

130. We can, however, look to compensate. If a Department planned to start a project this year that cost, say, £20 million, and that project could not happen this year for whatever reason — project management issues, or because planning approval had not been secured — that £20 million will not be spent on that project this year. The Department could possibly accelerate something costing £20 million that it had planned for the next year to absorb the £20 million underspend.

131. We continually make the point to Departments that some flexibility has been provided. Departments can do that unilaterally without the delay of having to seek Executive approval. If the Executive has approved a series of projects over the three years of the Budget, then Departments have the flexibility to juggle the timing of those projects, as long as they do not overspend that amount in any year. We are creating flexibility and the environment in which Departments can do that.

132. Ms J McCann: Even if that is from a block grant that has already been given? Can it still not be spent unless the year has finished?

133. Mr Pengelly: A Department cannot overspend. If it is unable to spend money on a certain project this year, then it could bring a project forward from next year to replace it. That means that overall spending will not go above the control limit. If, however, the Department is doing everything that it had planned to do this year, then it cannot do some of next year's workload as well. It cannot —

134. The Chairperson: It would not have the capacity. It is a capacity issue.

135. Mr Pengelly: No, they would not have the capacity because there is an annual budgetary limit.

136. There is a genuine issue — and I think that the Committee is particularly aware of the underspend and capital expenditure of previous years. With regard to acceleration, in many respects I would advise Departments do the things they planned to do this year. There are plans for £1·8 billion of capital expenditure in this year's Budget. The actual expenditure in 2007-08 was around £1·1 billion, so delivering projects that the Executive have approved and put in place alone will lead to a massive increase in the level of construction activity in Northern Ireland. Even if there is some reasonable underspend of that £1·8 billion, it would still lead to a significant increase in construction. I do not think that we need to focus too much on trying to be too clever about accelerating projects for future years; rather, we ask Departments to get their heads down and start the projects for which they sought money from the Executive this year. If those are delivered, many of the concerns about both public service provision and the construction industry will be addressed.

137. Ms J McCann: Are you saying that there is already a level of underspend in capital build that could be spent this year but has not yet been spent?

138. Mr Pengelly: No. Capital expenditure of £1·8 billion is planned for this year. Even if we ultimately underspend by £200 million — which I do not suggest is acceptable — that would mean that £1·6 billion was spent on construction this year, compared to a little over £1 billion last year. That is a 60% increase. I think that the construction industry would bite off our hands to get that sort of surge in activity.

139. Departments need to focus on starting approved projects. That £1·8 billion capital expenditure is in place because Departments asked the Executive for certain amounts of money for their projects, and not because the Executive told any Department to take the money and go and do something. The Executive responded by putting the money in place, so the Department should deliver the project that they have asked the Executive to authorise. We will address those concerns.

140. The Chairperson: In terms of the budgetary limit — just to help the Committee to understand what powers the Executive and Assembly have — could we, for example, review that budgetary limit as part of the strategic review?

141. Mr Pengelly: The limit for Northern Ireland is set by the Treasury. If we have £1·8 billion capital available this year, that it is an issue for the Executive and the Assembly as to how that £1·8 billion is allocated to Departments and projects in Northern Ireland.

142. Mr McNarry: May I ask a supplementary question? Perhaps it is due to my ignorance, but when the Executive had their first meeting and stated that they were going to introduce measures, did they receive costings from day one, or did they pull them out of the sky as a wish list? Where did it start? It seems important that we might have this money for the construction industry.

143. Mr Pengelly: I will retrace the steps. The Executive appeared on the scene in May 2007, when expenditure plans, drawn up by the direct rule Administration, were already in place for the year 2007-08. One of the first steps taken by the Executive was to endorse those plans: that is normal for an incoming Government so close to the start of a financial year. That allowed the Executive to run the Budget process throughout 2007, culminating in Assembly approval in January 2008 to a set of plans for the current financial year and the next two financial years.

Those plans were based on specific project inputs from Departments in respect of capital: the costs of each and the estimated delivery time. That information was compiled through the investment strategy and included in the capital Budget.

144. Ms J McCann: In the DFP Business Plan 2008-09, there is a target for the establishment by OFMDFM of a performance management and monitoring framework for targets in the Programme for Government by April 2008. Has that framework been finalised? Will it provide a basis for setting the next Budget and Programme for Government process?

145. Mr Pengelly: The Programme for Government includes 23 public-service agreements, some 40 goals and 27 commitments. In most cases, they are numerically quantified. There is no common set of dates. The key economic growth target is halving the GVA gap with GB by 2015. Other target dates may be 2010, still others 2008.

146. As a starting point, we have asked each Department to map out a delivery plan, stating what actions each will take to deliver its targets. Whatever the end point of the target, be it 2010 or 2015, from this point forward we want to know what the milestones and trajectories are for reaching it. For example, if the target is to achieve 75% employment by 2012, we want to know what the percentage figure should be by the end of 2009, or 2010. That is the basis, or context, for monitoring performance.

147. The Executive agreement to the monitoring of the management system remains outstanding. In the meantime, DFP has a range of powers which allow it to ask some questions about the performance of Departments. As a part of the September monitoring round, we have asked for an update on the performance of each Department. The returns have just come in and we are analysing them. That information, and the information that we hope will be available as and when the Executive agree the wider performance-management system, will be a key component of all the Executive's future budget deliberations. A key issue for any Department seeking resources is its track record of delivery. That will be fundamental.

148. Dr Farry: I wish to follow up on Richard's point about GVA targets. In a bizarre way, there is now an enhanced chance that the target will be met more easily than would previously have been the case. That is because, rather than our economy improving, the economy of the rest of the UK is declining.

149. Mr Pengelly: The GVA position for GB is completely skewed by London and the southeast. Our target excludes that.

150. Dr Farry: I know. I warned you against taking that out.

151. Mr Pengelly: That is where the hiatus lies at the moment.

152. Dr Farry: If you want to go back and revise the target for the UK average, be my guest and include London.

153. Mr Hamilton: London's problems are Northern Ireland's opportunity.

154. The Chairperson: As long as you get credit for it, Stephen.

155. Dr Farry: It is more important that the economy grows.

156. I turn to the issue of the PKF report. What is the status as regards the implementation of the report's recommendations? Bearing in mind the wider discussions on budget processes,

could consideration be given to starting from the current baseline and making adjustments up or down, setting goals and working out what resources to allocate against them, rather than starting the budget processes every three years?

157. Mr Pengelly: The PKF report contained a series of recommendations. The Department appointed an individual from its financial management directorate — which is the other side of the house from us — to work specifically on that matter. Much good work has been done and continues to be done. A short-term issue has arisen in that that individual has been promoted and moved to another Department — fortunate for him, but not for us. His promotion is perhaps an indication of his success in dealing with those recommendations. Therefore, some progress has been made, but more remains to be done. It is one of our key objectives, and we continue to focus on it.

158. Essentially, your question is whether we should carry out zero-based budgeting. Ideally, yes, we should. The scale of the task for public services is huge. Equally, incremental budgeting takes one into some very bad places. The combination of the enhanced performance-management framework and system, and better information about delivering on targets, will go a long way towards bridging the gap.

159. Separately, the central finance group wants to start a programme of rolling-baseline reviews. It would be a task beyond us to carry out a zero-based review of everything as part of every Budget cycle. Over a period of three or five years, I would like to subject 100% of each Department to that sort of zero-based analysis — that could mean doing 20% a year in a five-year cycle or 33% in a three-year cycle. That would fall very much to Jack's side of the house as part of the normal supply dialogue. We want to build an information base to do that.

160. Dr Farry: Where do matters stand with Treasury on the negotiations on end-year flexibility?

161. Mr Pengelly: A position was agreed as part of the comprehensive spending review in October 2007, and the Treasury has no plans to revisit the matter for the duration of the comprehensive spending review. As you can appreciate, the Treasury is in a pretty dark place at the moment.

162. Dr Farry: Given that David McNarry was shown a wee bit of latitude earlier, I want to throw in a question from left field.

163. The Chairperson: It wouldn't be like you.

164. Dr Farry: Michael is being very quiet there. He mentioned the Barnett formula and how it was one of the issues of responsibility in Treasury discussions. I do not suggest that we open a wider debate on the matter; however, I am particularly conscious of the potential devolution of policing and justice in the next months or years. As I said, I do not want to get into the pros and cons of that debate —

165. The Chairperson: I was wondering why you sat on that side of the table.

166. Mr Hamilton: I thought that it was bad enough opening up the debate on the Barnett formula.

167. Dr Farry: My question is important. The NIO is responsible for the policing and justice budget, and it is not considered as part of the Barnett formula. Thus, when those policing and justice powers are transferred, funding responsibility will transfer to the Northern Ireland block

grant. Given that, is there work to be done to establish at what level the baseline for the Barnett formula will be set?

168. Mr Daly: The simple answer is that if policing and justice powers are transferred, we will have to consider the Barnett formula again. It will have to be adjusted, and we will have to ensure that it is still appropriate, given the addition of those new responsibilities.

169. Dr Farry: At what stage should those discussions take place? I appreciate that this issue is more relevant to the next UK-wide comprehensive spending review, but how proactive should we be in working out our own arguments as to what the baseline should be? I am sure that Treasury will have its own view on that matter.

170. Mr Daly: It will have its own view. Obviously, some work is under way in the system, but we have not engaged in those detailed discussions with the Treasury.

171. Mr Pengelly: Wearing his hat as Finance Minister, as opposed to any political hat, our Minister has made his position very clear`. Notwithstanding the politics of the devolution of policing and justice, he has indicated we will not accept that responsibility unless and until the funding position is adjusted to accommodate it. It would be imprudent to accept responsibility for a new function when the consequence would be reduced spending on other functions because of insufficient money. That marker has been put down.

172. Dr Farry: That marker is broader than simply the transfer within the current CSR framework, and relates to the future with regard to Barnett baselines and suchlike. I wanted to flag that up as an important issue.

173. The Chairperson: I thought that he was going to declare an interest in policing and justice. – [Laughter.]

174. Mr F McCann: The DFP business plan 2008-09 explains that CFG, among other things:

“leads the work to see through the implications of the efficiency measures which were conducted as part of the 2007 Budget process”.

175. What does that role entail, and can CFG provide a strategic view on the outworking of the efficiency measures to date?

176. Mr Pengelly: The Executive agreed that as part of the three-year Budget process, Departments should deliver 3% cumulative efficiency-savings annually. As part of that process, Departments were required to produce, and to publish on their departmental websites, detailed plans as to how they would deliver those savings.

177. We had a preliminary look at those plans and gave the Departments feedback. The 3% efficiency savings in money terms have been removed from the budgets of each Department. The money is gone and has been allocated to other services. It is very much for individual departmental Ministers to work out how they will deliver savings. We are not challenging how they do that; however, we will, in the near future, ask Departments in for progress reports against their planned level of efficiency savings. An update report will be produced on how they are progressing this year, and projecting across the remaining two years of the Budget process.

178. Mr F McCann: When the Committee raised questions with regard to the negative impact of efficiency savings on various programmes, it was always told that it was never the intention of DFP or any Department that frontline services would be affected by efficiency savings.

179. Supporting People is one of the key programmes, dealing with the homeless, the elderly and the mentally ill; yet we have already been told that an inflationary freeze has been placed on any increases. That will have a serious impact on the ability of groups to deliver services.

180. The Simon Community, to mention but one group, says that, in addition to the impact of the freeze on the programme that they have set themselves, they may have to shed jobs in essential parts of their service. In such cases, will the Department of Finance and Personnel remind Departments that such was never the intention of efficiency saving?

181. Mr Pengelly: The Department was forceful in making that point during the Executive Budget deliberations. The 3% cumulative target over three years released, I believe, just under £800 million. All of that money has been re-allocated; therefore £800 million of additional service provision would not have happened but for the efficiency savings.

182. As part of that, the onus has been on Departments to look at sensible, robust efficiency measures. The message from the Finance Minister and the broader Executive was about delivering the same level of services for less. In some cases, there has been an inevitable scaling-back of some services, but that was to be done on a clear, prioritised basis.

183. The reality of the public-expenditure position is that not everything that Ministers would like to be done can be done. There was to be clear prioritisation. The Executive concluded that it was for the relevant departmental Minister to decide on the relative priorities in individual Departments. Therefore, if a service is scaled back, it is because the relevant departmental Minister has judged that service to be of lower priority, given that Department's broad range of aims and objectives.

184. Mr F McCann: So, if there is a cutback in the Supporting People programme, especially with the inflationary freeze, that will be the result of the departmental Minister's making a decision?

185. Mr Pengelly: Neither the Executive nor the Finance Minister prescribed to any Department how it should make efficiencies. I do not know the detail of the Supporting People programme. I do not know whether the Department is saying that for less money the same level of services can be provided, or whether it says that that has a lower priority and, therefore, can be scaled back.

186. Mr F McCann: The programme deals with those who are most in need in society. One would have thought that such a programme would have been protected against a decrease in budget or an inflationary freeze.

187. Mr Pengelly: I do not know; perhaps the Department has concluded that the model of delivery could have been better, or that the same level of service could be provided for less money.

188. Mr F McCann: The Department of Finance and Personnel's business plan for 2008 states that CFG will develop a deeper evidence base on long-term trends and wider strategic issues to inform Departments' decision-making, and will ensure that that will be available to influence the Budget 2008 process. Given that departmental returns are due by the end of the month on Budget 2008, when was the evidence base made available to Departments and what are the key issues in it?

189. Mr Pengelly: Our colleagues in the strategic policy division deal with the evidence base. That division's core remit is to examine the longer-term, and broader, economic agenda, as well as the public-service agenda.

190. As the evidence base emerges it will be factored into the strategic stock-take position rather than the fundamental budget process. The evidence base was never intended to be a formalised public report. Essentially, it was intended to contain various pieces of interconnected evidence for availability to Ministers on consideration of the position.

191. Mr McQuillan: The CFG has a role to play with the performance and efficiency delivery unit (PEDU) and the capital realisation taskforce, according to DFP's business plan. Those were seen as vital tools when the Budget was announced earlier this year. Can you quantify their role since then?

192. Mr Pengelly: Michael perhaps has more detail on the capital realisation taskforce (CRT) than I do. However, CRT is underpinned by a central assets realisation team (CART). It sounds like death by acronyms. That team works with Departments to identify assets that could be disposed of during the Budget period. CART has external expertise on the market available. Given current economic conditions, it is aware that assets that were marketable six or eight months ago, are perhaps not so now.

193. There is no question that there has been a headlong rush by Departments to sell a range of assets simply to meet targets. Similarly, some Departments have said that they might delay selling assets for three or four years, because, in the present market, they might not get as much for them as they had first anticipated.

194. We must pause on that, because Government is not in the business of property speculation. A business case must be made as to whether a Department should be allowed to let an asset sit idle for two or three years, while incurring maintenance and site security costs, in the hope that its value increases, or whether it should sell the asset, take what value the market delivers and reinvest that money to work in another service. A complex set of issues exists around the issue, and CART continues to work on that.

195. Mr Daly: For the last few months, CART is recruiting additional staff for that and for consultancy work. CART works with some Departments on assets for disposal and provides much external assistance in bringing forward business plans. We expect those over the next few months

196. Mr McQuillan: What is CART's performance?

197. Mr Daly: CART works with the Departments for Regional Development and Social Development, and the Department of Health, Social Services and Public Safety. I do not have the precise details of that with me, but those are the main Departments involved. Over the next few months, those business cases will focus on the supply side of things.

198. Mr Pengelly: Given present market conditions, no assets should be sold unless a business case demonstrates that that is good value for money.

199. Peter Robinson issued a statement on 15 April outlining that PEDU's main focus is planning. In late spring and early summer, much preparatory work was done to gather background data and information about the overview position of planning. Members will be aware that we wanted to build the prime minister's delivery unit model as an example of best practice.

200. The PMDU model says that the best way to carry out the work is to conduct an intensive and focused six- or eight-week study, using a dedicated team with tight terms of reference. That specific piece of work began a couple of weeks ago, so we are two weeks into an eight-week, intensive piece of work. According to the PMDU model, for the work to have the maximum benefit, it must be collaborative in nature. We have put together a team that includes four full-

time PEDU staff and two people on secondment from the Planning Service who will work full-time on the team.

201. Our terms of reference are focused around the PSA targets set by the Executive for reducing the average time for planning applications. That work began two weeks ago, and it will conclude on or before 25 November 2008. I say that with certainty because, that day, the team will meet the Minister of Finance and Personnel and the Minister of the Environment to report the outcome of its work. As far as possible, the Ministers tried to lock that date in so that it cannot be moved, to give a definitive end point to that piece of work.

202. The emerging signs are that the work is highlighting some good issues, which will facilitate good improvement to the Planning Service. I have had several meetings with the Minister of Finance and Personnel and the Minister of the Environment, both of whom are 100% committed to the work and, more fundamentally, to making a material improvement in the timeliness of planning applications. Everything that we need to be in place is in place, and we will make good progress.

203. Mr McQuillan: Will the Committee see the outcome of the work?

204. Mr Pengelly: I always quote the example of the Prime Minister’s delivery unit, which, by all accounts, was a marvellously effective organisation. No reports were ever available from PMDU. The reporting structure of our work is that we will have a session with the two Ministers, and we will report our findings. More importantly, we will set in place an action plan, which will commit the Planning Service to making improvements over the next few months. We will report progress, the key output of which will be a report to the two Ministers, which, it is hoped, they will endorse and stand behind.

205. The type of report that the Audit Office normally produces, hammering the Planning Service, would not be helpful. The Audit Office is about to publish a fairly critical report on the Planning Service. I will certainly speak to the Minister of Finance and Personnel and suggest to him that there may be merit, perhaps in a closed session, in providing feedback to the Committee. There will not be a published report on our work.

206. Mr McQuillan: I understand where you are coming from. According to the business plan, the in-year financial monitoring process was to be reviewed and rationalised by March 2009. What is happening with that?

207. Mr Pengelly: There is a long time between now and March 2009.

208. The Chairperson: A splurge of activity will take place, Adrian.

209. Mr Pengelly: A fundamental review of monitoring must relate to the improvement of financial management. Earlier, Mr McNarry asked about departmental flexibility. Similar to the issue of overcommitment, there are two schools of thought at the extreme ends of the spectrum.

210. Some people think that four monitoring rounds is too many and is unnecessarily bureaucratic. However, if I were to tell the Departments that only one monitoring round a year would take place, people would pull their hair out in horror. Decisions would not be able to be made until the Executive endorsed a monitoring round; they would be tied up for up to eight months. Some people push the other way in favour of a monitoring round every month. That would provide maximum flexibility and help with reducing underspend, but it would be quite an intensive and bureaucratic process.

211. My longer term aspiration is for Departments to get to such a level and quality of financial management skills that they are doing everything that is necessary to underpin a model that is part of their normal and routine monthly business process. At any time, DFP could skim along the top of that and suck the information out with no addition to anyone's workload and do a quick monitoring round. That must be progressed in tandem with the improvements in financial management generally.

212. Mr McQuillan: Will that be done by March 2009?

213. Mr Pengelly: We will have carried out a review by March 2009, and I suspect that that review may recommend no substantive change, but with the long-term aspiration of laying the foundations for a better basis to improve monitoring.

214. The Chairperson: It will be interesting to see how that develops. I presume that everyone is using the same financial modelling and project management skills.

215. Just finally, Richard, you raised an issue that we spoke to you about and that came up during the question and answer session. It concerns the ability of the Committee to scrutinise DFP's role in overseeing departmental spending, with particular emphasis on reducing the overall underspend, as was reflected in the discussion.

216. On a previous occasion, DFP provided the Committee with a table of monthly projected out-turn against the departmental spend. There now seems to be a reluctance to continue to provide that information to the Committee, which is causing members some concern, the argument being that each Department would be better placed to contextualise variances with their respective Committees directly. We cannot understand how that would help us to help you in identifying indications across in-year departmental underspend, and scrutinising the central finances group's performance in challenging such underspend by all Departments. The Committee feels that that information is essential for us to be able to carry out our function and to satisfy the Assembly that the central finance group is doing the same.

217. Mr Pengelly: I can only relay those concerns to the Minister. In discussion with the Minister, the view was that the available monthly information consists of raw data. We get nothing by way of an explanation from the Departments. There is a process of ongoing dialogue that includes many sources of evidence. It would be difficult to quantify that evidence into a couple of neat paragraphs about an understanding of the position; that take many years of experience.

218. I will happily relay your concerns to the Minister; however, our view is that the best way to deal with that issue is for other Committees to obtain information from their respective Departments, which will then be the focus of a monthly dialogue with the relevant officials, and will filter back to this Committee from those sources, rather than in the form of raw data, which does not give this Committee the information base that it requires in adding value to the process.

219. The Chairperson: Furthermore, we want a planned programme of work, rather than relying on some kind of stream of consciousness between other Committees, who may wish to address other priorities at other times of the year.

220. Mr Pengelly: I am also conscious that the previous Minister of Finance and Personnel, if not this one, specifically sought your support in the Chamber. I will take those concerns back to the Minister.

221. The Chairperson: Thank you very much. It was a long but interesting discussion.

26 November 2008

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

Witnesses:

Mr Leo O'Reilly	
Mr Michael Daly	Department of Finance and Personnel
Mr Paul Montgomery	

222. The Chairperson (Mr McLaughlin): The subject for discussion is an overview of issues emerging from the strategic stocktake 2009-11. May I refer members to their folders which include a paper from the Department of Finance and Personnel, a statement from the Minister of Finance and Personnel, Mr Nigel Dodds, on the pre-Budget report designed to stimulate the UK economy, and a 'Belfast Telegraph' article headlined 'Green light for Stormont's £86 billion projects'.

223. I welcome the officials from the Department of Finance and Personnel, who we have come to know quite well in recent weeks: Leo O'Reilly, permanent secretary; Michael Daly, head of central expenditure division; and Paul Montgomery, from the central expenditure division.

224. Leo, I am not sure whether you have any pressing need to make opening remarks, or would it be ok with you if we proceed directly to discussion?

225. Mr Leo O'Reilly (Department of Finance and Personnel): I would just like to clarify that the 'Belfast Telegraph' article should have read £86 million, not £86 billion.

226. The Chairperson: Yes; I was wondering where they got all that money. [Laughter.] I do not know whether that was a mistake by the 'Belfast Telegraph' or by someone else.

227. Ms Purvis: It was a mistake by the 'Belfast Telegraph'.

228. The Chairperson: It was? I did not see it.

229. Members are welcome to jump straight in with their questions.

230. Mr Hamilton: I want to discuss the Chancellor's pre-Budget report, specifically in relation to his remark that it would support individual businesses in the economy generally. Will you clarify for the Committee what the £23·6 million of additional current expenditure for Northern Ireland that the Minister mentioned in his statement consists of, or how it will help those businesses?

231. Mr O'Reilly: The additional allocation of £23 million is simply a Barnett consequential of a myriad of changes being made to individual departmental allocations in GB. Using a formula,

those translate across to the Barnett formula, which means that there is an additional £11·8 million in the next financial year, and an additional £11·7 million in the following financial year. Therefore, it is simply an additional allocation to our Barnett position consequential on allocations being made to GB Departments.

232. Mr Hamilton: In his statement responding to the pre-Budget report, the Minister said that it gave Northern Ireland the opportunity to accelerate £86·5 million in capital expenditure over the next two years. Will you provide some more clarity on that and indicate whether assurance can be provided that the required skills and so forth will be put in place to accelerate those capital projects successfully? The Committee is well aware of, and concerned about, the lack of speed and urgency at times in getting some capital projects delivered and the sizeable capital sum that is under spent in basically every Department every year.

233. Mr O'Reilly: The proposal to accelerate capital investment effectively means bringing forward spend that is earmarked for later years, and that has been trailed in the media and press over recent weeks. In offers Northern Ireland flexibility and opportunity if the Executive and Departments decide that they wish to use it in order to bring forward capital spend from year 3 — that is, 2010-11 — into the present year and the next financial year, that is, 2009-10. The sums involved for this year —up to £12·8 million — could be brought forward into the present financial year, and £76·8 million could be brought forward into 2009-10.

234. There are a couple of things to say about that. Mr Hamilton rightly alluded to the fact that the pattern of underspends across the system in recent years, which shows that our levels of underspend were much higher than the additional £12·8 million that is earmarked for the present year. I know that the Committee has a strong interest in that matter. I know, too, that the Minister of Finance and Personnel and the First Minister and deputy First Ministers have emphasised to the Executive the need for Departments rigorously to examine their present position on capital. That is to ensure that Departments will spend the bulk of the funding that they have been allocated for the present year, and to identify any projects, programmes or specific pieces of work that could be accelerated into the present financial year in order to take advantage of that additional flexibility.

235. The second point is that we need to think carefully about what we are doing here because although that option is open to us, by taking advantage of it, as it were, money will be drawn out of 2010-11 and into forward years. The issue there is, obviously, whether sufficient funding will be left in 2010-11 to do what we were planning to do. In addition, we need to be cautious that lots of additional capital is not drawn forward into the next financial year, and then have difficulty in delivering. That could leave us in an equally difficult position. There is, therefore, a balancing act to be carried out.

236. Mr O'Loan: I believe that you state in your submission that there is no expectation of any additional material resources for 2009-10 and 2010-11, but a recent Executive press release said that:

"The Executive was also brought up to date on the successful financial negotiations in Downing Street earlier this week, the nett effect of which has been to remove pressures facing the Executive amounting to up to £400 million in this and next year".

237. The press release adds that the Prime Minister also agreed to make available access to an additional £100 million. There seems, therefore, to be a contradiction between those two statements, which raises a lot of questions.

238. It is, on occasion, extraordinary that we sit poring over these figures time after time. Amounts of hundreds of millions of pounds get bandied about, often without straightforward

clarity on what are the overall budgetary changes. Perhaps you could give clarification on that £400 million and £100 million. Do those figures take account of all of the things that have been discussed, such as the £130 million for the reclassification of NI Water, and the £175 million for Workplace 2010? The Committee was also told, I believe, that receipts looked as though they may be down by £100 million, and there are many other matters, including the equal pay issue.

239. That does not even to take account of additional things that might be needed, such as measures to deal with fuel poverty, the recommendations of the Bain Report and the five-year plan to achieve the decentralisation of jobs. I could name a lot more issues. Can you, therefore, explain the apparent contradiction between those statements, and provide a lot more clarity on the budgetary alterations, specifically in relation to those figures of £400 million and £100 million?

240. Mr O’Reilly: Specifically on those figures, the key words to note in that statement are “relieve pressures”. In other words, those allocations will relieve new pressures that would have come forward but which will not now come forward because of the allocations. That is, it does not create additional spending power over and above the spending power that was already available. The concern was that certain specific things — and I will come to the detail in a second — were happing which, if they were not addressed by the Executive and the Treasury, would have created enormous new pressures for which we had not been budgeted in our financial profiles for this year, next year and the following year. The £400 million in this year and next year that you mention is, I am afraid, a technical issue but is related to the non-cash consequentials of the treatment of the assets of Northern Ireland Water.

241. Mr O’Loan: Yes, I am aware of that issue. That is £130 million, is that correct?

242. Mr O’Reilly: No.

243. Mr O’Loan: Is that something different again?

244. The Chairperson: You are throwing hundreds of millions of pounds around again, Declan.

245. Mr O’Reilly: The approximately £400 million in each year relates to what are referred to as non-cash costs — basically, costs of capital and depreciation costs in each of the years. Those relate to the assets held by Northern Ireland Water, which, under present valuation arrangements, are valued at around £6 billion. Because the Office for National Statistics — stop me if this is getting too boring — has, for technical reasons, reclassified Northern Ireland Water as a non-departmental public body, different accounting treatments apply to how those costs should be scored for public expenditure purposes. The net effect was that, because the Department had not taken provision, and had assumed that it would be scored as a Government company, the rules changed, which meant that it was now being scored as a —

246. Mr O’Loan: It shifted from annually managed expenditure (AME) to departmental expenditure limit, is that right, or is it much more complicated than that?

247. Mr O’Reilly: No, it is simpler. — [Laughter.]

248. The Chairperson: That depends on your point of view, really.

249. Mr O’Reilly: Simply because Northern Ireland Water had been reclassified, there were new, non-cash pressures on the Department. In theory, we would have had to find that non-cash provision. The problem is that non-cash sounds somewhat abstract, but if there is insufficient

“non-cash” cover in one’s baselines, it starts eating into one’s cash provision. That was the major pressure that was removed in that case.

250. Mr O’Loan: Therefore, did that reference to £400 million relate entirely to NI Water issues?

251. Mr O’Reilly: Yes.

252. Mr O’Loan: That is new to me. I do not mind admitting that I understand about 10% of the issue [Laughter.] but I understand £400 million, and I believe that the Committee had not heard about that before. The Committee should be receiving straightforward clarity with regard to alterations of budgetary considerations. I referred to the £130 million, and I believe that in the Minister’s statement on the September monitoring round he made reference to the reclassification of NI Water, which required a figure of £130 million. That was a shift, as I understand it, a shift from annually managed expenditure to departmental expenditure limit.

253. This is, I think, a different issue and one about which the Committee seems not to have heard. It is extremely difficult to monitor departmental performance in relation to those issues when the Committee does not receive simple clarity about them.

254. Mr O’Reilly: I hope that I have provided clarity this morning. Without getting philosophical, the challenge in dealing with these issues with the Treasury is that Treasury staff tend to talk in large, round numbers. They do not want to get into the detail of what a specific range of pressures might be in Northern Ireland, but they will look at the sum totals, identify what they see as enormous pressures — for example, the need for £400 million for those two years — and address those. The other £100 million that you mention, Mr O’Loan, is simply a round sum that has been provided to deal with a range of other potential pressures in the system, some of which you identified in your question.

255. That gives the Executive additional flexibility to address the range of other potential pressures that are around at the moment. Quantifying some of those potential pressures remains uncertain simply because some of the numbers have not yet crystallised. The key point is that that £100 million gives the Executive additional flexibility to deal with some of those other pressures.

256. Mr O’Loan: A sum of £100 million seems small compared to the figures that apply to the global pressures.

257. Mr O’Reilly: One could take that view.

258. Mr O’Loan: That sounds like an agreement.

259. Dr Farry: Was the relaxation of the pressures and the £400 million in each of the two financial years granted specifically on the grounds that the Northern Ireland Executive would use that money to defer water charges for two years, or did the Executive decide that they would use the money thus? If it is the latter, surely there is an argument that those proceeds should have been considered in the context of the wider strategic stocktake, as opposed to any decision that could be taken in anticipation of the wider stocktake, and for the Executive — and, in turn, the Assembly — to consider all the pressures in the round in light of the additional resources that may or may not be available to us.

260. Mr O’Reilly: First, the £400 million per year is for two years — the present year and next year. Secondly, the relaxation was made only because the Executive wished to defer the introduction of any form of water charging for domestic consumers. That was the starting

objective, but in doing that it ran the risk of incurring the additional costs that I mentioned. The sole objection of the negotiation, therefore, was to get those costs covered.

261. Dr Farry: Am I right in saying that our Ministers would have been refused if they had said that they wanted that money to address other pressures in Northern Ireland? We got more money only because the Ministers wanted to defer water charges.

262. Mr O'Reilly: That is correct. A specific case was made for water charges.

263. Mr Michael Daly (Department of Finance and Personnel): As Leo said, the sums are associated with the accounting treatment for the body, so it is non-cash; that is all that it is. That sum could not have been used to address other pressures, because there is no cash associated with it.

264. Mr O'Loan: You said that the focus of the stocktake was to monitor progress on Programme for Government (PFG) targets, and your analysis states that more work is required in order to provide the necessary assurances that services are being delivered as planned. What proportion of PFG targets do you estimate to be at risk of not being met? Will you update the Committee on the progress of the performance-management framework, which was to be implemented last April to measure the delivery of PFG targets?

265. Mr Daly: I do not have the fine detail of that with me. However, the Department has examined all the PSAs and delivery agreements and tried to assess whether they have measurable targets, whether their actions are readily identifiable, and to identify the governance and risk-management arrangements associated with each of them. By and large, the majority of the agreements that are in place require work in some areas, such as governance or risk management. My colleagues in the supply divisions will engage with the Departments bilaterally on that.

266. Several of the agreements, possibly three or four, are very good and could be held up as examples of how a delivery agreement should be done. A very small number require considerable work. As I said, when we finish this piece of work shortly, our colleagues in the supply divisions will engage with the Departments to try to get those agreements brought into line as we move into the next year.

267. Mr O'Loan: I wondered whether you might be so remote from the action that the answers that you received would not be at all meaningful. However, you gave me some reassurance when you said that the evidence that you get enables you to say that there has been real delivery.

268. Mr Daly: It is a case of examining the arrangements that Department's have implemented to manage the delivery — at this point we do not necessarily have to look at a target. We want Departments to have well-established milestone targets that they will achieve regularly, rather than in 20 years' time. That way progress can be monitored by identifying whether there are good governance arrangements in Departments that contribute to an agreement at senior level, and on whether the risks have been considered. After that, one begins to get an assurance that the systems in place are working.

269. Mr O'Loan: We do not want a situation where all the boxes are apparently ticked, but people are screaming that they are not receiving the service that was promised.

270. Mr McNarry: Part of DFP's terms of reference for the stocktake was for Departments to:

"identify any significant increased requirements for 2009-10 and 2010-11 only and propose how these might be addressed, by departments, through an adjustment of existing plans and priorities".

271. Using the premise that DFP did not address that fully in its stocktake submission, did other Departments address fully the terms of reference? If not, what action will the central finance group take?

272. Mr O'Reilly: We always encourage Departments to seek to address emerging pressures in the first instance with their own resources, particularly if they feel that there is scope to redeploy resources in their existing allocations to meet certain pressures. The reality, however, is that Departments, because that is their best assessment and the best assessment of their Ministers, will take the view that it would be very difficult for them to meet with their own resources all of the pressures that they expect. They will, therefore, identify to DFP those pressures that they want the central process to address. Therefore, although we ask Departments to address internal pressures, it is not unusual for them to identify pressures back to us at the centre.

273. Mr McNarry: How dependent is DFP on other Departments delivering underspends?

274. Mr O'Reilly: We are entirely dependent on Departments managing their allocations each year within the sums that they have identified as necessary and which have been allocated for budgetary purposes. We hope that that process means that Departments keep their end-year underspends to a minimum.

275. The Chairperson: Were you referring to the release of easements?

276. Mr McNarry: I am satisfied with the answer.

277. Ms J McCann: The Department's paper states that each 1% increase to the current efficiency target of 3% would yield a further £85 million. Commenting on the Chancellor's pre-Budget report, the Minister of Finance and Personnel said that the Executive would need to consider higher efficiency value-for-money targets. Are further efficiencies being considered on top of those that are being taken?

278. It was clearly stated that those efficiency targets would not affect the delivery of front-line services. Some community and voluntary organisations are saying that efficiencies are affecting front-line services in that some Departments are paying less for those services as a result of targets. What is your analysis of that? Have front-line services been affected, and are the Executive considering raising the efficiency target of 3%?

279. Mr O'Reilly: The figure that is quoted in the Department's paper is illustrative. We said that every 1% increase in efficiency targets would yield a further £85 million. I am not aware of any intention by, or proposals from, Ministers to increase over the next two years of the planning cycle the efficiency targets that are already in place. It is difficult to comment on your point about community and voluntary organisations because they are dealt with by individual Departments. Unless individual Departments report back to DFP on specific issues to do with a particular organisation, we would not necessarily be aware of that centrally.

280. Ms J McCann: Are you saying that a rise in efficiency targets will not be considered?

281. Mr O'Reilly: There are no proposals at the moment to increase the present levels of efficiency targets in the system. To complete the picture, part of the Chancellor's pre-Budget report announcement, to which the Minister referred in his press release, included a statement

that a further £5 billion of efficiencies would be delivered by central Government Departments in GB. That means that if Department X reduces its budgetary provision for 2010-11 because of those efficiencies, there will be Barnett consequentials for the devolved Administrations.

282. That is coded language, so we are not clear on exactly what that means, but it could mean that Barnett reductions could be applied to our 2010-11 settlement. However, we will not know any of the detail of that until the UK Budget in March 2009. I have given that information in order to provide a complete picture of what is happening with efficiencies.

283. Ms J McCann: From your analysis, has that affected front-line services?

284. Mr Daly: I have heard the same comments that you have made. Without knowing the detail of what is happening on the ground, if the level of a service is reduced, that is not necessarily a cut. It can still be an efficiency measure if less of what is being delivered is needed.

285. Ms J McCann: If Departments are paying community and voluntary organisations less for delivering those services, those organisations will have to cut back on what they deliver. If that is happening then those services are being affected.

286. Mr Daly: I am not aware of that level of detail.

287. Mr Paul Montgomery (Department of Finance and Personnel): The alternative is for those organisations to become more efficient. I presume that the Department's underlying rationale is that, with less funding and by becoming more efficient, the same levels of service can still be delivered to the public.

288. Ms J McCann: I do not necessarily agree with that.

289. In your briefing paper, you stated that questions remain about the scale of some of the bids submitted by some Departments and about whether those bids represent pressures at all. Before the Departments submitted their bids, what discussions were there between DFP and other Departments about the contents of the strategic stocktake? In addition, how can you advise the Minister about the outcome of the stocktake if doubts exist about the validity of submitted information?

290. Mr Daly: Discussions with Departments are ongoing, and they will continue until the assessment is finalised. The Committee asked for an initial update on the emerging picture, so that is the purpose of this meeting.

291. Returning to the terms of reference for submitting bids, we asked to be informed about new and significant pressures that had arisen. We have seen many of the pressures that were reported before in monitoring rounds. Consequently we must consider whether to fund such bids. The initial assessment for many of those bids is that they are desirable but not essential, so we must decide whether they should be funded at the expense of something else that might be inescapable.

292. That answer should give members an initial feeling for the situation. Nevertheless, before completing the overall assessment, we will get to the bottom of many of those questions with the Departments and, if necessary, with our colleagues in Supply division.

293. Mr Weir: When the Budget was presented in January 2008, it included detailed capital receipts for Departments, amounting to £486 million, £266 million and £612 million respectively for the three financial years. Obviously, we are now in a different economic environment, and

your submission states that the 2008-09 target will not be achieved. Although I appreciate that you may need to get back to us, what are the latest estimates for capital receipts for those three years and what actions are you taking in that area?

294. Mr O'Reilly: I shall give you my best recollection of those figures; Paul may have them in front of him. In addition, we will produce a —

295. Mr Weir: It may be better to wait until you are certain about them.

296. Mr O'Reilly: As I recall, following the suspension of the procurement, the £175 million capital receipt for Workplace 2010 that was designated for DFP will not materialise. In addition, members will be aware that the £200 million capital receipt for the Crossnacreevy lands that was due in year three is now uncertain, if not completely unlikely. Furthermore, £60 million of central assets realisation team (CART) receipts will probably not be delivered this year. Some, although not all, of those outcomes relate to the state of property markets here and elsewhere. My colleagues may have some supplementary details.

297. Mr Daly: The only other item that I can see is the capital receipt for house land sales. Our submission may not fully explain that, but that is what it refers to.

298. Mr Weir: Although, given the state of the property market, specifying dates and figures for some of those matters can be like hitting a moving target. Apart from the Crossnacreevy lands and exceptional circumstances in which assets are heavily overvalued, rather than massively reducing our expectations, should we accept that there are legitimate reasons for the delay in getting in those capital receipts and that they will be deferred rather than disappear altogether?

299. Mr O'Reilly: Apart from Crossnacreevy and Workplace 2010, we put the rest entirely down to the state of the property market.

300. Mr McNarry: Do you have the figures for Workplace 2010 and Crossnacreevy?

301. Mr O'Reilly: My recollection is that the figure for Workplace 2010 is £175 million and for Crossnacreevy it is £200 million.

302. Mr McNarry: So, should I add those figures together?

303. Mr Daly: They relate to different years.

304. Mr O'Reilly: It is always interesting to add numbers together.

305. Ms Purvis: In relation to what you said about house land sales, does that relate to the sale of land at Ballee?

306. Mr Montgomery: No. The land at Ballee was in respect of 2007-08, so the Department was given money because the land sale did not go through. We have been continuing to press the Department to put the issue back on the table again at some time.

307. Dr Farry: Turning to the detail of the figures, over the two years, there has been £51 million in reduced requirements against a combined figure of about £493 million in additional revenue pressures, which is a gap of more than £400 million. With regard to capital expenditure, there is a grand total of £1 million in reduced requirements against increased pressures of £611 million, which is a gap of £600 million. Therefore, there seems to be a billion-pound gap between the reduced requirements and the additional pressures. No doubt you will tell us that

the Department is not giving you figures on time and underspend, but there seems to be a considerable gap between the two different positions.

308. Mr Daly: As I said earlier, those are the figures that the Departments have presented. However, when we go through those figures, we will find that a lot of them are discretionary. Even if Departments are asked to include only big things that are inescapable, and things that we did not know about, everything will be thrown in. That is the game that Departments play, because they always worry that someone else will throw in such issues, and that the money will go there instead. Nevertheless, those are the figures that have been handed in, and, when we go through those figures, they will be whittled down to the critical few that need to be addressed.

309. Dr Farry: I presume that reduced requirements will not increase by much until the end of the financial year, when most Departments suddenly hand back a large wad of cash that they have found at the bottom of the drawer.

310. Mr O'Reilly: Hopefully, Departments will not hand back money at the end of the financial year. It is much better if they do it earlier in the year, because that allows it to be redeployed to other purposes as soon as possible.

311. If the numbers are added up, they look comparatively large. However, if one considers the pattern of recent reduced requirements declared by Departments in the course of any financial year, over the past three years, it has been at least £150 million in each year and more than £200 million in some years. That is just current expenditure, but, similarly, between £150 million and £200 million of capital expenditure comes out of the system every year for deployment. Therefore, although the figures might look stark now, we are not long into the year, and a lot can happen during the course of a year.

312. Mr Daly: Before the start of the financial year, Departments, and the Department of Enterprise, Trade and Investment (DETI) in particular, declare their hands with regard to reduced requirements. One would expect that as they get further into the year and their plans firm up, more will come out.

313. Dr Farry: I appreciate that the figures have come from the Departments, so you may not be able to respond; nevertheless, it seems bizarre that a lot of the new pressures that Departments are identifying do not seem to be overly focused on the current situation. For example, the Department of Education has come in with additional energy costs, which is fair enough. There are also difficulties with house land sales, additional bids and the warm homes scheme, but, apart from that, there is not a huge amount that could be related directly to the current situation. Is that surprising?

314. Mr Montgomery: We found it surprising that energy costs have increased, as we would have expected them to be falling. Crude oil prices are lower now than they were when the Budget was settled, and we are talking about emerging pressures and expecting that to be reflected in utility costs. Therefore, it was unclear to us how the Department perceived that there would be additional costs in 2009-10 and 2010-11.

315. Mr O'Reilly: Arguably, the best way of addressing some of the significant emerging pressures caused by the wider economic situation is to stick with the strategy that was agreed in the Budget last year — for example, with regard to the various allocations of resources, which were targeted at that time on seeking to address economic-growth issues. Perhaps the answer is that Departments should have the resources in place to relieve a range of the pressures that they face.

316. Dr Farry: Under the Department of Education, the two figures given for school rationalisation are £22·7 million in 2009-10 and £19·5 million in 2010-11. It seems slightly counterintuitive to be asking for considerable sums to rationalise schools when you are seeking to reduce costs. Does school rationalisation relate to the education and skills authority (ESA)?

317. Mr Montgomery: Given that £20 million is a significant amount, we are in discussion with the Department of Education. It appears that the Department has the money and that it is simply a case of shifting it around. Given that that is the case, the Department is concerned that the incentive may no longer exist, because the people making the decisions now have direct responsibility for the one-off costs associated with rationalisation. Therefore, asking for additional money is designed to ensure that people have the incentive to make, what is in our view, the right choice. To achieve that from the budget could be challenging as it falls under the category of nice but not necessary.

318. Dr Farry: That is a topic for discussion.

319. I want to return to the issue of water charges. Under the Department for Regional Development's (DRD) revenue figures, it faces a loss of income from the deferment of water charges of £70 million next year and £128 million in the following year. Its capital expenditure issues include a loan note of £20 million for Northern Ireland Water. Thus a total cost of £220 million of additional pressures has now emerged. How can that be reconciled with the announcement that it will cost £400 million to defer water charges for two years?

320. Mr O'Reilly: As I explained in response to Mr O'Loan's question, the £400 million in each of the two years refers to the non-cash consequences of deferring water charges. We will still have to manage the cash consequences. In layman's terms, that means that the anticipated revenue from water charges — £70·4 million and £128·7 million — will not now be received.

321. Dr Farry: Those costs are unlikely to be negotiated via the system, and the Assembly will have to deal with them.

322. Mr O'Reilly: At present, we have to consider those pressures as part of the strategic stocktake.

323. Dr Farry: I do not expect Leo to respond to my next comment, but the transparency of announcements is a huge issue. The Executive announced, with a great fanfare, that water charges are to be deferred without cost. However, at the same time, £200 million cash consequence that the system must absorb is contained in the detailed figures — and that amounts to fine print. That was more of a political comment than something to which the officials must necessarily respond.

324. Mr O'Reilly: You asked a question about the loan note of £20 million.

325. Mr Daly: I understand that the loan relates to the timing of payments. I do not have much detail, but although Northern Ireland Water's capital plans are on course, there is a timing issue involving cash inflows and outflows. The company is getting to the point at which it will not be able to accrue the necessary expenditure and the loan of £20 million, detailed under 2009-10, is to cover that.

326. Dr Farry: Paragraph 8 states that DFP expects more reduced requirements due to:

"the lower cost of taking forward capital projects as a result of the fall in property prices and the more competitive market conditions for public procurement in the construction sector."

What actions will DFP take to challenge Departments to ensure the early identification of reduced requirements, so that the impact of the available resources can be maximised?

327. Mr O'Reilly: In general terms, it is a perennial task that we must constantly ask Departments to review their positions regularly and to come back to us with reduced requirements. I do not need to go into the reasons again, as the Committee has scrutinised the matter on several occasions. It is fundamentally important to achieve the best value for money, the best return, and the best use of total available resources.

328. On the specific point about capital projects, obviously, the way that the manifestation of greater competition in the market should feed through to us is via the procurement process. I am sure that you will want to discuss that subject later.

329. Mr McNarry: Have you actually calculated the shortfall between the value of property two months ago and the value of property now?

330. Mr Montgomery: Land and Property Services (LPS) provides advice on the property market. It indicates what property values are, although there is a general expectation that — due to purely economic factors, such as supply and demand — value will fall.

331. Mr McNarry: It is just a simple calculation: if it was worth x then, for example, is it now worth x-? What is x-? Do you have those figures?

332. Mr Montgomery: No.

333. Mr O'Reilly: That is probably due to the fact that, as you know, it is difficult to make such generic cross-cutting assumptions because there are so many variables in the marketplace from one day or month to the next. We rely primarily on Departments to come to us and say:

"We have £x million forecast receipts next year. Valuations that we have received from Land and Property Services and work that we have done with Central Procurement Directorate (CPD and the Strategic Investment Board (SIB) indicates that we will not get that amount of money next year. Therefore, we now have a problem that must be managed."

334. Mr O'Reilly: That is the process.

335. Mr McNarry: Do they tell you how much they will get?

336. Mr O'Reilly: Yes. If they tell us that they are due to get £100 million, but that they have a problem with £40 million, by definition, therefore, they are telling us that they still expect to get £60 million. At present, the situation is fluid.

337. Mr McNarry: Is it possible that we can obtain the breakdown information that you have? I accept the way that the matter is being handled. However, it seems inconceivable that anyone who is in business does not know what their business assets were worth yesterday and does not have a baldy what they are worth tomorrow.

338. Mr O'Reilly: In normal times, that would be an accurate comment.

339. Mr McNarry: We are living in unusual times. However, figures do not fluctuate that much at present.

340. Mr O'Reilly: That probably goes back to a question from another member of the Committee about the overall position as regards forecast asset receipts from asset disposals.

341. Mr McNarry: Is it all right to request that information?

342. Mr O'Reilly: We have already undertaken to provide information on what we understand the current position to be.

343. The Chairperson: Obviously, due to continuous market change, that will be a snapshot of one moment in time.

344. Mr McNarry: I just want to know what people consider to be the shortfall; how much did we have to play with and how much do we have now?

345. Mr O'Reilly: There is a straightforward answer to that. A forecast figure for the next three years of receipts was published in the Budget. Therefore, we can give you our best assessment of where the situation is at present.

346. Mr McNarry: For the next three years? That is crystal-ball gazing. I am glad that you are nodding.

347. Mr O'Reilly: Well, for the next two and a half years. We must underline that the information that we provide is very much a forecast that is based on figures at the present moment in time.

348. Ms Purvis: Can you provide an update on negotiations on the current Civil Service equal-pay claim?

349. Mr O'Reilly: Negotiations continue. It is difficult to provide an update because, by definition, negotiations are an ongoing process. I do not want to damage the prospect of reaching an early agreement with trade unions by going into too much detail about the ins and outs of it. I will say as much as I think that I can: if you think that that is not enough, let me know. You have probably heard the same information from Derek Baker and his colleagues.

350. In simple terms, strand one of the negotiations deals with the back pay for up to six years for people who are eligible under the Equal Pay Act (Northern Ireland) 1970. The second, and most complex, strand, seeks to rectify the position for the future so that we do not find ourselves in the same position again. Individuals who receive a back-payment lump sum will become liable for tax, which will, in some cases, affect the individual's access to benefits, such as tax credits, to which they are currently entitled. The third strand of negotiations will address those situations. We want to explore with the trade unions whether there is scope for agreement on an outcome in which the ultimate payment could be free from tax liabilities, for instance. That would affect the overall quantum of the payment made, but it is an attempt to permit individuals to avoid having to deal with the significant tax consequences of, unexpectedly, receiving amounts of money.

351. Ms Purvis: You talked about the equal pay claim, but table 1 does not identify that as an increased pressure. Do you expect to receive funds from Treasury to cover the pay claim? Or, will the required funds come from departmental administration budgets?

352. Mr O'Reilly: We have not received a specific commitment from Treasury in respect of equal pay. As I said earlier, the Executive have been given additional flexibilities to deal with a range of pressures that Mr O'Loan listed — among which is equal pay. Part of the difficulty is that we do not know what the final bill will be. We have a rough idea of how it will pan out, but we are

still seeking to establish how much the final bill will be. However, it will become clear in the negotiations.

353. The Committee will not be surprised to hear that, as part of the negotiations, the Department is seeking to minimise the bill but, at the same time, meet fully the Executive's and the previous Government's legal obligations to the employees.

354. Ms Purvis: Why does table 1 not include figures for administration bids?

355. Mr O'Reilly: The Executive, as members will know, set a target for Civil Service administration costs to fall in real terms by 5% a year cumulative over the three years of the planning period. Therefore, we believe that Departments have to continue to manage within the allocations they received to enable them to achieve that target. The allocation of money now would be a breach of that Executive target, and that could happen only if the whole Executive decided that they did not want to stick to that target. That is why administration bids are not included in table 1.

356. Ms Purvis: Is it likely that any of the administration bids or any of the pressures that you have identified will increase?

357. Mr O'Reilly: There are always administrative pressures at the margins of Departments, but experience tells us that most Departments are capable of managing their systems throughout the year. We do not rush to provide additional administrative-costs cover for Departments before the start of a financial year; we prefer to wait and see how they get on during the year.

358. Ms Purvis: Have you not identified anything yet?

359. Mr O'Reilly: There were bids of £20 million for each year for administration costs, and that was from a total administration budget of £500 million. The Department of Finance and Personnel is not known to be sympathetic to those sorts of bids, as other Departments will tell you.

360. Ms Purvis: Departmental officials who have already provided evidence to the Committee said that the work of the capital realisation task force and the performance and efficiency delivery unit (PEDU) would be factored into the stocktake. Has that been the case? In particular, what impact has that had?

361. Mr Daly: The capital realisation task force, particularly the capital assets realisation team (CART), has been mentioned implicitly, if not explicitly. It deals with securing the additional receipts, and, as Leo said earlier, we do not think that the receipts that we were expecting this year as a result of the work of CART will be coming in. We have taken account of that.

362. Earlier, we gave a brief update on the situation with delivery agreements, and I worked with PEDU in doing that. The other strand of PEDU, efficiency, is built in to the requirements for Departments to deliver within their budgets. That is implicit, but we have not mentioned it.

363. Ms Purvis: What has their overall impact been?

364. Mr Daly: We had expected the CART to deliver £60 million this year. It has not achieved that, but it is getting up to speed. We are working with our colleagues in the Office of the First Minister and deputy First Minister (OFMDFM) and SIB to try to move that work forward.

365. Ms Purvis: Do you expect the next full Budget process to take place at the time of the next comprehensive spending review (CSR)?

366. Mr O'Reilly: It will be an important factor in the consideration of the Finance Minister and the Executive. There is no explicit information on when the next comprehensive spending review at UK level will happen. We had anticipated that that might have become apparent with the pre-Budget report, but that has not happened. The next CSR has to happen either next year or the following year, otherwise the Government will run out of plans.

367. Ms Purvis: Do you plan to continue with a Budget strategic stocktake next year before you know whether there will be a CSR?

368. Mr O'Reilly: That will be for the Minister to consider in due course.

369. The Chairperson: You are only considering the possible pressures with which the Treasury must deal when it decides whether to have a CSR. You are not predicting that there will be a CSR, but you think that a CSR is a definite option.

370. Mr O'Reilly: As I said, a CSR has to take place either next year or the following year. Even if it were held next year, it could still relate to 2011-12, which is beyond the current planning period. As you know, decisions on when CSRs are held are entirely in the hands of the Treasury.

371. Mr McQuillan: In the Minister's statement to the Assembly on the September monitoring round, he referred to ongoing negotiations with the Treasury on end-year flexibility (EYF). In his comments on the pre-Budget report, the Minister said that there was less scope for the Treasury to provide access to subsequent underspent resources. What was the outcome of those negotiations, and what steps will DFP take to overcome the difficulty of access?

372. Mr Montgomery: The Minister's response to the pre-Budget report related to the difficult financial position at UK level, which will have implications on the access to EYF. EYF access was imposed on us as part of the pre-Budget report, because there was a CSR-set reduction in the allocation to the Department of Health, Social Services and Public Safety (DHSSPS). As a result of that, our Barnett allocation was reduced by £42 million. To compensate for that, the Treasury has said that we will have access to £42 million of EYF. That is the only part-access to EYF of which we are currently aware. However, discussions are ongoing, and we will continue to press the case for EYF.

373. Mr O'Reilly: As you know, Northern Ireland received full access to all its EYF stock in January's Budget. That money was subsequently allocated to Departments as part of the Budget process. Therefore, any new EYF will be available from the end of 2007-08. We are only now beginning to build up an additional stock of end-year flexibility. As Paul Montgomery said, if we access and bring forward that EYF now, it will reduce the scope for additional EYF to be available in future years.

374. Mr McQuillan: Are you saying that there is there no budget problem?

375. Mr O'Reilly: I would not say that. A stock of EYF remains from the end of the previous financial year, of which £42 million has already been pre-empted on the capital side because of the health position at a national level. The remaining money is available. What are the totals?

376. Mr Montgomery: The totals are approximately £200 million in capital and current.

377. The Chairperson: Before the session began, the Committee agreed to add the issue of the pre-Budget report to the agenda for next week's meeting. It would be helpful if the Department could provide a briefing paper on how the elements of the pre-Budget report apply in this region. Is that possible?

378. Mr O'Reilly: Yes of course. There are two strands to the pre-Budget report. The UK-wide strand includes all the measures that were introduced. We can provide that factual background information to the Committee. Although we did not produce that information, we will seek to explain it. We will provide supplementary information that focuses specifically on the implications for Northern Ireland.

379. The Chairperson: The Committee recognises that it is a dynamic situation and that people are merely drawing down.

380. Mr O'Reilly: Although some implications — such as bringing forward pensions payments and the postponement of the 1% increase in corporation tax — originate from the Treasury, they affect Northern Ireland.

381. The Chairperson: The Committee needs to consider those factors.

382. Dr Farry: I presume that those issues will be factored into the redraft of the regional economic strategy?

383. Mr O'Reilly: Yes, they should do.

384. The Chairperson: Thank you very much for your participation in that comprehensive session. As usual, if we uncover any other issues, we will send correspondence. Thank you for your assistance.

Appendix 7

DFP Press Release: Dodds Welcomes Measures in Pre-Budget Report to Stimulate the UK Economy

DFP Press Release on Pre Budget Report

Duncan Morris
DFP Assembly Section
Phone 028 90529183 ext 29183
24 November 2008

Dodds Welcomes Measures in Pre-Budget Report to Stimulate the UK Economy

Finance Minister, Nigel Dodds, has welcomed the Chancellor's announcement of measures to stimulate growth in the national economy as well as the £23.6 million in additional current expenditure funding for Northern Ireland.

Responding to Alistair Darling's Pre-Budget Report to Parliament, Mr Dodds said this afternoon:

“The measures announced today in the Pre-Budget Report to stimulate growth in the UK economy, and in particular the reduction in VAT, are most welcome. In addition, the package of measures targeted at supporting small business will be of benefit to 132,000 firms in Northern Ireland. The Chancellor faced a difficult task in balancing the need to kick start the economy against the recognition that the additional borrowing will need to be paid back in the future.

“In terms of capital expenditure we have the opportunity to accelerate up to £86.5 million funding for investment in the local economy over the next two years. I have listened in recent weeks to the concerns of the local construction industry. This measure provides the flexibility we need to respond to the needs of local firms currently experiencing difficulties.”

The Minister welcomed some of the other measures in the Pre-Budget Report:

“I welcome the decision to bring forward to January the increases in Child Benefit and the Basic State Pension. This will benefit over 300,000 young families in Northern Ireland and offer additional help to older people just when they need it most.

Looking forward the Minister raised concern at some of the measures to increase the level of resources available to the Government in later years:

“Whilst it is almost inevitable that the burden of taxation will have to rise in 2010 and beyond to pay for the measures announced today, I would ask that the Chancellor considers options other than an increase in National Insurance rates from 2011 which will simply act as a disincentive on employers to retain and create jobs and on employees to work.

“I also note that Whitehall departments are being expected to achieve a higher value for money target to release additional resources for public services. This is something that will also need to be considered by the Executive.”

Summing up the Pre-Budget Report, the Minister highlighted the importance of the financial support measures negotiated with the Prime Minister last week:

“The wider fiscal position set out in the Pre-Budget Report highlights the challenging context in which the additional financial support was negotiated with the Prime Minister last week which means that the Executive will be able to defer the introduction of water charges.

“However, the more constrained financial position also means that there is less scope for the Treasury to provide access in subsequent years to the resources left unspent by Northern Ireland departments this year. Therefore, local departments need to take all possible steps to reduce the level of underspend.”

In conclusion, the Minister said:

“Although it could be argued that more should have been done by the Chancellor today, the response to the downturn in the global economy needs to be sustainable in the longer term. Only time will tell whether the measures announced today will be sufficient to bring the economy out of recession”.

Notes to Editors:

Details of the Government’s Pre-Budget Report are available on the HM Treasury website: http://www.hm-treasury.gov.uk

Appendix 8

Executive Press Release:
20 November 2008 – Executive back in business and making a difference

20 November 2008 - Executive back in business and making a difference

The Executive has decided there will be no water charges next year, saving the average household here around £160.

At a time when families are already under mounting financial pressure Ministers said it would be unfair to add a further burden.

The Executive was also brought up to date on the successful financial negotiations in Downing Street earlier in the week, the nett effect of which has been to remove pressures facing the Executive amounting to up to £400million in this and next year, allowing water bills to be deferred next year. In terms of the wider issues facing the Executive, the Prime Minister also agreed to make available access to £100million to address a range of issues.

There was a lengthy discussion at the Executive meeting about the credit crunch and the global economic downturn and it was decided the next meeting on Thursday, November 27, would be entirely devoted to finding ways to help cushion the effects of the recession. Ministers have been asked to submit their costed proposals to that meeting.

The Executive agreed to ramp up the number of meetings between now and Christmas at which the economy will be a key agenda item and the December monitoring process is to be accelerated so that decisions can be debated in the Assembly before Christmas.

The Assembly is to be asked to delay its recess to consider those decisions.

There was good news for people living in rural areas when ministers approved new planning guidelines that will both protect the rural environment and provide a boost for the building trade which has been under enormous pressure for some time.

Planning Policy Statement (PPS) 21 will replace PPS 14 and remove some of the restrictions imposed by Direct Rule Ministers. The new policy will allow some planning applications previously recommended for refusal under PPS 14 to be reversed.

The Executive also agreed the establishment of the Education and Skills Authority (ESA) which is a key part of the Review of Public Administration and heralds a wholesale reform and modernisation of the education system.

The creation of a single authority will raise standards and deal with underachievement. The objective is to achieve savings of £20million by the third year of its existence and will shift resources from administration into the classroom.

Ministers also approved the scrapping of prescriptions charges proposed by the Health Minister which will also make a financial difference.

Appendix 9

DFP: Chancellor's Pre-Budget Report 2008

Chancellor's Pre-Budget Report 2008

Introduction

1. The Chancellor of the Exchequer delivered his 2008 Pre-Budget Report (PBR) statement to Parliament on 24 November 2008.

Public Expenditure

2. There are some increases to the NI DEL as a result, amounting to £0.1/11.8/11.7 million in current expenditure and £1.7/1.7/0.0 million in capital expenditure over the period 2008-09 to 20010-11 as the NI share (Barnett based) of changes in the plans for Whitehall departments.

3. In addition, the acceleration of investment plans for Whitehall departments means that the Executive has the option that an additional £9.4 million could be made available for 2008-09 and £76. 8 million for 2009-10. It will be for the Executive to decide whether and to what extent we want to avail of this flexibility. The corollary would be that the capital DEL would be reduced by up to £86.2 million in 2010-11.

4. The NI Executive's Capital DEL has also been reduced by £42.7 million in 2010-11 as a consequence of an adjustment to the CSR07 capital plans for DoH. However, HMT have indicated that the NI Executive will be able to increase the drawdown of capital EYF by the same amount to compensate.

5. The Executive has full discretion to allocate the additional funding in line with local needs and priorities. The additional allocations for 2008-09 will be considered as part of the December monitoring round whilst the 2009-10 and 2010-11 position will be considered as part of the Strategic Stocktake.

6. The Chancellor also indicated that UK departments would be expected to deliver £5 billion in additional current expenditure value for money savings in 20101-11 which DFP estimates as an increase the savings target from 3% to around 4.5% in 2010-11 for Whitehall departments. The PBR08 document indicates that Barnett will be applied to the associated reductions to Whitehall departments spending plans for 2010-11. It is not yet clear where the savings will be derived and hence the extent to which Barnett will apply with resultant reduction in available funding to the NI Executive.

Economic Measures

7. In terms of the economy, the Chancellor indicated that the level of Gross Domestic Product (GDP) will fall by between 0.75 and 1.25% in 2009 whilst inflation will fall to 0.5%. In light of declining economic growth and the need for a fiscal stimulus, Government borrowing is projected to rise to 8.0% of GDP next year.

8. The Chancellor also announced a range of measures including:

- A temporary reduction in the rate of VAT from 17.5% to 15% from 1 December 2008 to 31 December 2009;
- Increasing the employee, employer and self-employed rates of national insurance contributions by 0.5 per cent from April 2011;
- Introducing a new income tax higher rate of 45% from April 2011 for those which income over £150,000
- Two pence per litre increase in fuel duty from 1 December 2008 whilst plans to increase Vehicle Excise Duty (VED) will be implemented on a more gradual basis;
- Making permanent the £600 increase in the income tax personal allowance announced in May 2008 with a further increase of £130 meaning basic rate taxpayers will pay £145 less tax a year in 2009-10;
- Bringing forward the April 2009 planned increase in Child Benefit and Basic State Pension from April to January 2009; and
- Deferral of the 1% increase in small company's rate of corporation tax (currently 21%) until April 2010.

9. Attached at Annex A is the news release which issued from the Finance Minister in response to the PBR. Annex B includes the Treasury Press Release. A further Treasury background briefing is attached at Annex C.

Department of Finance and Personnel
28 November 2008

DFP News Release

24 November 2008 - Dodds welcomes measures in pre-budget report to stimulate the economy

Finance Minister, Nigel Dodds, has welcomed the Chancellor's announcement of measures to stimulate growth in the national economy as well as the £23.6 million in additional current expenditure funding for Northern Ireland.

Responding to Alistair Darling's Pre-Budget Report to Parliament, Mr Dodds said this afternoon:

"The measures announced today in the Pre-Budget Report to stimulate growth in the UK economy, and in particular the reduction in VAT, are most welcome. In addition, the package of measures targeted at supporting small business will be of benefit to 132,000 firms in Northern Ireland. The Chancellor faced a difficult task in balancing the need to kick start the economy against the recognition that the additional borrowing will need to be paid back in the future.

"In terms of capital expenditure we have the opportunity to accelerate up to £86.5 million funding for investment in the local economy over the next two years. I have listened in recent weeks to the concerns of the local construction industry. This measure provides the flexibility we need to respond to the needs of local firms currently experiencing difficulties."

The Minister welcomed some of the other measures in the Pre-Budget Report:

"I welcome the decision to bring forward to January the increases in Child Benefit and the Basic State Pension. This will benefit over 300,000 young families in Northern Ireland and offer additional help to older people just when they need it most.

Looking forward the Minister raised concern at some of the measures to increase the level of resources available to the Government in later years:

"Whilst it is almost inevitable that the burden of taxation will have to rise in 2010 and beyond to pay for the measures announced today, I would ask that the Chancellor considers options other than an increase in National Insurance rates from 2011 which will simply act as a disincentive on employers to retain and create jobs and on employees to work.

"I also note that Whitehall departments are being expected to achieve a higher value for money target to release additional resources for public services. This is something that will also need to be considered by the Executive."

Summing up the Pre-Budget Report, the Minister highlighted the importance of the financial support measures negotiated with the Prime Minister last week:

"The wider fiscal position set out in the Pre-Budget Report highlights the challenging context in which the additional financial support was negotiated with the Prime Minister last week which means that the Executive will be able to defer the introduction of water charges.

"However, the more constrained financial position also means that there is less scope for the Treasury to provide access in subsequent years to the resources left unspent by Northern Ireland departments this year. Therefore, local departments need to take all possible steps to reduce the level of underspend."

In conclusion, the Minister said:

"Although it could be argued that more should have been done by the Chancellor today, the response to the downturn in the global economy needs to be sustainable in the longer term. Only time will tell whether the measures announced today will be sufficient to bring the economy out of recession".

Notes to editors:

1. Details of the Government's Pre-Budget Report are available on the HM Treasury website: http://www.hm-treasury.gov.uk

HM Treasury Regional Press Release for Northern Ireland

Pre-Budget Report 2008
24 November 2008
Regional Press Notice

Pre Budget Report 2008 in Northern Ireland

Key Facts

- Today, the Chancellor has announced a package of measures targeted at supporting small businesses to access the capital and manage the cash flow they require, which may be of particular benefit to the 132,040 SME's in Northern Ireland.
- The Government also announces a package of housing measures to support the objectives of promoting long-term stability of the housing market and supporting

homeowners facing difficulties, providing support for the housing market and homeowners in Northern Ireland.

- As part of a fiscal stimulus package, there will be a temporary reduction in the standard rate of VAT to 15% from 1 December 2008 until 31 December 2009 to provide further support for growth and incomes during the economic downturn. This is the equivalent, for the average household, of £275 a year for extra spending. The Government is also bringing forward capital spending from 2010-11 to 2008-09 and 2009-10. Bringing forward valuable public investment will impact directly on economic activity in the UK, in particular supporting the construction sector, which is expected to be disproportionately affected by the economic downturn. The Northern Ireland Executive will be able to bring forward £86m if it wishes as a consequence of changes to UK departments' programmes.
- The Chancellor has also announced a substantial package of measures to ensure that those facing redundancy and those seeking employment are helped back into work as quickly and efficiently as possible. The Northern Ireland Executive has been provided with an additional £12m as a consequence of increased provision in GB.
- In addition further EYF drawdown will be made available in 2010 – 2011 to ensure there is no reduction in the Northern Ireland Executive's spending power following an adjustment to DH's capital budget.

Quotes

The Chancellor said: "The Government has set out a programme that takes immediate action to meet short term priorities to support individuals, business and the economy with a balanced fiscal programme that sets out a stable and sustainable future for Northern Ireland."

Additional HM Treasury Briefing

PBR 2008 in Northern Ireland

The Government is working with the devolved administrations to promote economic prosperity for all. Northern Ireland will benefit from the UK Government's successful management of the economy in difficult world economic conditions. Measures announced in the PBR benefiting for Northern Ireland includes:

Maintaining fiscal stability: The PBR details a fiscal stimulus package that will benefit all countries of the UK, including a temporary reduction in VAT to 15 per cent and bringing forward capital spending. And over the medium term fiscal consolidation to ensure the sustainability of public finances. The PBR announces that the Government has met its fiscal rules; and introduces a new temporary operating rule and two fiscal targets.

Ensuring financial stability: the PBR confirms the measures announced in October 2008 to support stability in the financial system. These measures will provide financial stability in all countries of the UK

Supporting Business and Competitiveness: the PBR announces measures to: a major package to support small business and enterprise; increase the competitiveness of the corporate tax system making the UK an attractive location for multinational groups; further simplify the tax system

Helping people: the PBR announces a radical package of measures in response to rising unemployment; confirms increases in Child Element of Child Tax Credit and Child Benefit; increases in state pensions and pension credit; additional support for low and middle income households in 2009-10 and 2010-11; a major package of measures to support homeowners and households in difficulty while promoting the long term stability of the housing market

Protecting public services: the PBR announces that the Northern Ireland Executive can bring forward £86 million from 2010-2011 to 2008-09 and 2009-2010 if they wish

Protecting the environment: the PBR announces: fuel duty increases consistent with policy to reduce emissions; progress on measures to tackle climate change; and new Air Passenger Duty system in response to consultation on aviation duty.

Maintaining Macroeconomic Stability

As part of a fiscal stimulus package, there will be a temporary reduction in the standard rate of VAT to 15% from 1 December 2008 until 31 December 2009 to provide further support for growth and incomes during the economic downturn. This is the equivalent, for the average household, of £275 a year for extra spending. The Government is also bringing forward £3bn of capital spending from 2010- 11 to 2008-09 and 2009-10. Bringing forward valuable public investment will impact directly on economic activity in the UK, in particular supporting the construction sector, which is expected to be disproportionately affected by the economic downturn. This will be of benefit to businesses and consumers in Northern Ireland

Supporting Business and Competitiveness

PBR announces a package of measures targeted at supporting small businesses access to the capital and manage the cash flow they require to endure the challenging economic climate. Elements of the package include:

- More generous tax relief for businesses now experiencing losses, by allowing temporary additional carry-back of up to £50,000 of losses to be set against taxable profits from the last three years;
- A new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to spread payment of their HMRC tax bills over a timetable they can afford, with no additional surcharges or penalties; and
- A new Small Business Finance Scheme to support up to £1 billion of bank lending; a separate £1 billion guarantee facility to support bank lending to small exporters; a £50 million fund to convert businesses' debt into equity; and a £25 million regional loan transition fund.

These measures will be available to all UK - based businesses, and may be of particular benefit to the 132,040 SME's in Northern Ireland

The Glover Committee was announced in 2008 Budget to provide advice on helping small firms win a greater share of public procurement. The Government accepts the recommendations in the Committee's report, published today and will introduce measures to help small firms that cover transparency, simplicity and making procurement strategic across the public sector. In devolved areas of procurement it is for the Devolved Administration to decide. Potentially of benefit to the 132,040 SME's in Northern Ireland.

Helping People

PBR announces a package of housing measures to support Govt's objectives of promoting long-term stability of the housing market while supporting homeowners facing difficulties. Measures include:

- Additional funding to ensure access to free and independent debt advice at the earliest possible opportunity for all householders in financial difficulty;
- Establishment of a Home Finance Forum bringing together Government, regulators, industry and consumer groups to help protect borrowers from repossession, alongside commitments from mortgage lenders on fair treatment of borrowers facing difficulties;
- Further strengthening of the Support for Mortgage Interest benefit and extension of the Government Mortgage Rescue scheme;
- Bringing forward spending to stimulate the economy and increase housing supply through investing in social housing, the Decent Homes programme, regeneration projects and housing infrastructure.

Provides support for the housing market/homeowners in Northern Ireland.

PBR 2008 announces measures to increase the take up of Working Tax Credit among childless people across the UK. Ongoing work has been targeted on areas where research has shown that take-up is not as high as elsewhere In Northern Ireland, Belfast, Dunmurray, Newtownards, Antrim and Craigovon are being targeted.

PBR 2008 announces that the match rate for the Saving Gateway will be 50p for every pound saved in the scheme. The Saving Gateway will be available to: Northern Ireland - 258, 000 people

Govt will bring forward its commitment to increase the child element of the Child Tax Credit by £25 above indexation in April 2010 to April 2009. The child element will therefore increase by £75 above indexation to £2,235 230,140 children benefiting

Govt will bring forward its commitment to increase Child Benefit from £18.80 to £20pw for the first child, and from £12.55 to £13.20pw for subsequent children to January 2009 Benefiting 316,665 families

Protecting Public Services

The devolved administrations may if they wish reprofile capital spending as a fiscal stimulus. The DAs are also receiving Barnett consequentials of other PBR spending decisions. Up to £86m reprofilng for NIE

Delivering on Environmental Goals

The Government has decided to reform the air passenger duty regime rather than proceed with a per plane tax The decision to reform APD rather than proceed with the per-plane tax will impact customers of the 5 airports and aerodromes in Northern Ireland

Appendix 10

Minutes of Proceedings

Wednesday, 15 October 2008
Room 152, Parliament Buildings

Present:
Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Jennifer McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA

In Attendance:

Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)
Dr Robert Barry (Assembly Research)

Apologies:
Ian Paisley Jnr MLA
Peter Weir MLA

The meeting commenced at 10.08 am in open session.

3. Matters Arising

Members considered DFP's response to the Committee's query on how the requirements of Section 64 of the Northern Ireland Act 1998 will be met if a Draft Budget for 2009/10 is not laid.

Agreed: that further, more substantive, information will be requested from DFP on the extent of the ongoing Budget Stocktake for 2009/10 and 2010/11, including the process and timescale for assessing departmental returns, the scope for changes to existing budget allocations and on what provision will be made for Assembly input before the outcome of the Stocktake is announced. The request will be included in packs for the next meeting.

Agreed: that the other statutory committees will be asked to forward the outcome of their consideration of their respective departments' positions in relation to the Budget Stocktake to the Committee for Finance and Personnel and that members would subsequently consider the extent of the Committee's co-ordination role.

Agreed: that a copy of the DFP response on meeting the requirements of Section 64 of the Northern Ireland Act 1998, will be forwarded to the Committee for the Office of the First Minister and deputy First Minister as requested.

Wednesday, 22 October 2008
Room 152, Parliament Buildings

Present:
Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Fra McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance:
Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies:
Dr Stephen Farry MLA
Jennifer McCann MLA

The meeting commenced at 10.05 am in open session.

3. Matters Arising

Members noted the correspondence which, as agreed at the last meeting, had been issued to both the Minister of Finance and Personnel and the other statutory committees in relation to the Budget Stocktake. It was also noted that DFP officials had advised that they were working on a response and that, due to the sensitivity of the issue and the Minister's desire to properly address the matter, the response could not be sent in time for today's meeting, but will issue as soon as possible.

5. DFP Position on Budget Stocktake: Evidence from DFP

Agreed: that, as the previous session had taken more time than anticipated, the Committee's questions will be forwarded to DFP officials for a written response by Friday 31 October 2008.

Agreed: that members will forward any further issues to the Clerk by Friday 24 October 2008 for submission to DFP.

Members noted that a DFP briefing on the strategic and cross-cutting departmental aspects of the Stocktake had been provisionally scheduled for 12 November and that responses from the other statutory committees were due by 14 November.

Agreed: that, following the DFP briefing and consideration of statutory committee responses, the Committee will be in a position to consider a co-ordinated response to the Stocktake to DFP.

Wednesday, 5 November 2008
Room 152, Parliament Buildings

Present:
Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)

Dr Stephen Farry MLA
Fra McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jnr MLA
Peter Weir MLA

In Attendance:
Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies:
Jennifer McCann MLA

The meeting commenced at 10.03 am in open session.

3. Matters Arising

Members considered DFP's response to questions posed by the Committee on the Department's position in relation to the Budget Stocktake.

Agreed: that an initial submission will be drafted for tabling at next week's meeting.

Members noted that submissions from the other statutory committees on the Budget Stocktake were due by 14 November and will be considered by the Committee at its meeting on 19 November.

The Committee considered the response from the Minister to the Committee's request for substantive information on the Budget Stocktake, which was requested to enable the Committee to determine how it can fulfil its statutory scrutiny and advisory role in relation to budgetary matters.

Agreed: that the Committee will respond to the Minister, expressing its concern that the Committee and the Assembly in general, was not being afforded appropriate opportunity to scrutinise any forthcoming changes to the budget allocations for 2009 – 2011, especially given the major pressures emerging. It was also agreed that the response to the Minister should clarify the basis for the Committee's request for an oral briefing by DFP officials on the strategic issues emerging from the Budget Stocktake.

Wednesday, 12 November 2008
Room 152, Parliament Buildings

Present:
Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Jennifer McCann MLA
David McNarry MLA

Declan O'Loan MLA
Ian Paisley Jnr MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance:
Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies: None.

The meeting commenced at 10.03 am in open session.

3. Matters Arising

Members noted the Committee's response to the Minister of Finance and Personnel on the Budget Stocktake. The Committee is currently awaiting a reply from DFP on this issue.

Members were advised that an initial draft Committee submission on the Budget Stocktake had been prepared and that this will be developed further after the forthcoming DFP briefings and once responses are received from other statutory committees.

Wednesday, 19 November 2008
Room 152, Parliament Buildings

Present:
Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Jennifer McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jnr MLA
Dawn Purvis MLA

In Attendance:
Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies:
Peter Weir MLA.

The meeting commenced at 10.08 am in open session.

3. Matters Arising

Members considered a response from the Minister of Finance and Personnel to the Committee's concerns around the arrangements for Assembly scrutiny of the Strategic Stocktake of the Budget position for 2009 – 2011, together with a secretariat paper on Assembly involvement in the budget process, which had been requested by the Chairperson.

Members noted that the Minister had agreed to his officials briefing the Committee on emerging themes from departmental stocktake returns in advance of the Executive's consideration of the material and that DFP officials will also brief the Committee on the outcome of the Stocktake, once it had been announced in the Assembly.

Agreed: that, before the Committee makes a final decision on whether it will seek legal advice on the budget process, the Chairperson and Deputy Chairperson will meet with the Minister to discuss the Stocktake arrangements and will report back to the Committee at next week's meeting.

In relation to the Executive's Review of the Budget Process, members noted that DFP officials will provide a formal response to the Committee report and will brief the Committee on the detail of future budget processes once the Executive has considered DFP's findings and recommendations.

Wednesday, 26 November 2008
Room 152, Parliament Buildings

Present:
Mitchel McLaughlin MLA (Chairperson)
Simon Hamilton MLA (Deputy Chairperson)
Dr Stephen Farry MLA
Jennifer McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance:
Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)

Apologies:
Fra McCann MLA
Ian Paisley Jnr MLA

The meeting commenced at 10.10 am in open session.

3. Matters Arising

Strategic Stocktake

The Committee considered a Secretariat paper on the Assembly involvement in the budget process.

The Chairperson briefed members on the outcome of the meeting which he and the Deputy Chairperson had with the Minister of Finance and Personnel on 24 November. The Committee considered the Department's written follow up to this meeting, which set out proposed new arrangements for taking the Strategic Stocktake to the Assembly. This would include a Ministerial statement to the Assembly on 13 January 2009, "on the budget position for 2009-10, as reflected in the 2008-11 Budget approved by the Assembly on 29 January 2008, in the context of the strategic stocktake". Following the Ministerial statement, the Committee would table a "take note" motion for plenary debate on 19 or 20 January 2009 "on the budget position for next year, in the context of the strategic stocktake as conveyed in the Ministerial statement on 13 January". The Committee welcomed these developments.

Agreed: that clarification will be sought from DFP that documentation will be laid formally before the Assembly to accompany the Ministerial statement on 13 January 2009.

Mr McNarry indicated that he wished to reserve his position on whether the new arrangements for the Strategic Stocktake would meet the legal requirements in respect of the budget process.

The Committee deliberated on whether it should seek legal advice in relation to the Assembly involvement in the budget process.

Declan O'Loan and Dawn Purvis, proposed:

That, in proceeding with DFP's proposed new arrangements for Assembly involvement to take forward the Strategic Stocktake, the Committee will also seek legal advice on the requirements of section 64 of the Northern Ireland Act 1998.

Question put.

The Committee divided: Ayes 4; Noes 5; Abstentions None.

AYES

Dr Farry, Mr McNarry, Mr O'Loan, Ms Purvis.

NOES

Mr McLaughlin, Mr Hamilton, Ms McCann, Mr McQuillan, Mr Weir.

ABSTENTIONS

None

Question accordingly negatived.

Dr Farry proposed:

That DFP should be asked to provide detail on how it reached its conclusion that the requirements of section 64 of the Northern Ireland Act 1998 have been met in respect of 2009-10 and 2010-11.

Question put and agreed to.

4. Overview of Issues Emerging from Strategic Stocktake 2009-11: Evidence from DFP

The Committee took evidence from Leo O'Reilly, Permanent Secretary, DFP; Michael Daly, Head of Central Expenditure Division, DFP and Paul Montgomery, Central Expenditure Division, DFP. The session was recorded by Hansard.

Mr McNarry returned to the meeting at 10.57 am.

Agreed: that DFP will provide up-to-date forecasts for capital receipts against figures in the Executive's Budget 2008-2011.

Ms McCann left the meeting at 11.16 am.

Ms McCann returned to the meeting at 11.19 am.

Mr Weir left the meeting at 11.22 am.

Mr Weir returned to the meeting at 11.30 am.

Ms Purvis left the meeting at 11.45 am.

Ms Purvis returned to the meeting at 11.47 am.

Agreed: that DFP will provide a briefing paper to the Committee on the implications of the Pre-Budget Report for Northern Ireland.

Members considered the working draft of the Committee's submission on the Strategic Stocktake.

Agreed: that the Secretariat will provide a revised version of the draft submission which will be considered by the Committee at next week's meeting.

Wednesday, 3 December 2008
Room 152, Parliament Buildings

Unapproved

Present:
Mitchel McLaughlin MLA (Chairperson)
Dr Stephen Farry MLA
Fra McCann MLA
Jennifer McCann MLA
David McNarry MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Ian Paisley Jnr MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance:
Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Chris McCreery (Clerical Officer)

Apologies:
Simon Hamilton MLA (Deputy Chairperson)

9. Consideration of Committee Submission on Strategic Stocktake

Members noted that the Committee's draft submission to the Executive's Strategic Stocktake needed to be agreed today as the Executive was to consider the Stocktake at its meeting on 11 December 2008.

Agreed: that the Committee's submission will be published as a Report to the Assembly to inform all Assembly Members, in advance of the Minister's statement on the outcome of the Stocktake in January 2009 and the Committee's motion for a subsequent plenary debate.

Members considered the Committee's draft submission to the Executive's Strategic Stocktake on a paragraph-by-paragraph basis, as follows:

Agreed: that paragraphs 1-5 stand part of the Report.

Agreed: that paragraphs 6-11 stand part of the Report.

Agreed: that paragraphs 12-18 stand part of the Report.

Agreed: that paragraphs 19-25 stand part of the Report.

Agreed: that paragraphs 26-31 stand part of the Report.

Agreed: that paragraphs 32-34 stand part of the Report.

Agreed: that paragraphs 35-39 stand part of the Report.

Agreed: that paragraphs 40-46 stand part of the Report.

Agreed: that paragraphs 47-56 stand part of the Report.

Agreed: that paragraphs 57-66 stand part of the Report.

Agreed: that paragraphs 67-68 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 Report be the Second Report of the Committee for Finance and Personnel to the Assembly for session 2008/09.

Agreed: that the Report on the Committee for Finance and Personnel's submission to the Executive's Strategic Stocktake be printed.

Members noted that a typescript copy of the Report will issue to DFP by the end of the week, in line with normal protocol. The Report will be published shortly thereafter and copies issued to all MLAs.