Northern Ireland
Assembly

COMMITTEE FOR AGRICULTURE AND RURAL DEVELOPMENT

OFFICIAL REPORT
(Hansard)

June Monitoring Round

31 May 2011

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Paul Frew (Chairperson)
Mrs Dolores Kelly (Deputy Chairperson)
Mr Thomas Buchanan
Mrs Jo-Anne Dobson
Mr William Irwin
Mr Oliver McMullan
Mr Robin Swann

Witness:
Mr John Smith) Department of Agriculture and Rural Development

The Chairperson:
I draw members' attention to the Department of Agriculture and Rural Development's (DARD) submission to the Department of Finance and Personnel (DFP) on the June monitoring round. It sets out the areas in which the Department feels that financial pressures and unforeseen circumstances led to the redistribution of applications for further funding. I invite John Smith to speak to the paper.

Mr John Smith (Department of Agriculture and Rural Development):
Thank you. I will give a short overview of the overall expenditure cycle for those members who are new to the Committee. Given the new mandate, it is probably a good time to set that context.

The Budget process sets the allocations for the forward years. The Budget 2010 process sets the allocations for the next four years. The legal authority to spend those allocations is conferred on Departments via the Main and Supplementary Estimates process, which is enshrined in law via the Budget Act. Therefore, the allocation for 2011-12 receives parliamentary and Assembly approval. The Main Estimates process is under way and will be considered by the Assembly later this month.

On an in-year basis, the adjustments to the approved budget at departmental level are sought via the in-year monitoring process. We are at the first stage of the process for this year with June monitoring. You will hear a number of terms that we use regularly in the context of public expenditure. The two predominant terms are the departmental expenditure limit and annually managed expenditure (AME). The departmental expenditure limit is the key control for public expenditure, and it is within that overall total that resources are planned, managed and redistributed around Departments in the monitoring rounds.

There is a clear distinction between resource departmental expenditure limit, which is our budget to cover day-to-day items of expenditure such as salaries, wages and general administration, and capital departmental expenditure limit, which covers investment in infrastructure, capital projects and capital grants. Annually managed expenditure is a more volatile, demand-led expenditure, and it is not subject to the same multi-year control limits as departmental expenditure limit. For example, social security benefits form part of the AME budget. DARD does not have a great deal in the way of AME, other than Rivers Agency culvert depreciation, which is a highly technical area that I do not propose to get into at this stage.

On the subject of in-year monitoring, the Executive and the Assembly have approved the Budget, and in common with all other Departments, we aligned our strategic priorities with the Budget outcome. However, recognising that priorities will change over the four years — indeed, unforeseen pressures may emerge on an in-year basis — it is desirable that Departments have the ability to change spending plans in-year to react to changing circumstances. The Executive give us that flexibility in the in-year monitoring process, which provides the Executive with a formal process four times a year to review its priorities and move underspends from one Department to another to meet competing and emerging priorities. It is important to note that the in-year monitoring process is not intended to facilitate the opening of the whole Budget process. It is just there to fine-tune on an in-year basis, and it is incumbent on all Departments to treat their Budget allocations as ceilings and to manage activities within those ceilings until and unless any increase is agreed by the Executive.

Previously, we had four monitoring rounds a year: June, September, December and February. This year, the timing of the monitoring rounds is not yet finalised because of factors outside the control of DFP and the Executive. For example, as part of the spending review, the Treasury abolished the end-year flexibility scheme, which enabled the block to carry forward unspent resources, replacing it with a different regime. However, until we have details on that, DFP is not able to finalise the number or the timing of in-year monitoring rounds locally.

That is an overview of the process, and, if members need more detail, I am happy to brief you on the technicalities of the monitoring rounds as we go on.

I will turn to the June position. We have to put in our returns to DFP by 2 June. As is customary, we have been asked to provide details of bids, reduced requirements and technical issues. On the overall block context, the Budget 2011-15 outcome included £30 million of overcommitment on current expenditure and £30 million on capital expenditure this year. Some Barnett consequentials need to be factored into the June monitoring rounds, where we have been given about £20 million at block level, which is, therefore, available for reallocation. We expect the Executive to look at that in the June monitoring round.

There are also a number of changes to the process this year, principally the de minimis threshold, which is the amount beneath which we are not allowed to submit bids to the Executive. That has increased from £0·5 million to £1 million. In other words, we are not able to bid for single pressures of less than £1 million. We have to consume those within the baselines that we have. The Executive have also agreed some additional delegations to DFP to try to speed up the process. For example, if we want to make proactive reductions from one business area and put money in others in which there are pressures, we can do it through DFP. We do not need to wait for Executive approval.

DARD faces two major issues in this round: animal disease compensation and flooding. We have no reduced requirements to declare to DFP in this round, which is not unusual given that it is early in the financial year. Our priority bid is for capital expenditure for the Rivers Agency. We need just over £2 million to make good a shortfall in capital works on the flood alleviation baselines, principally in association with the Greenway environmental improvement scheme. Over its life, that project will take roughly 1,700 properties out of the risk of significant flooding over the next three years. We have a shortfall in that baseline of around £2 million in 2011-12, and we are bidding to DFP and the Executive to have that baseline topped up.

As regards current expenditure, we have one bid to DFP for statutory animal disease compensation on TB. A number of years ago, DARD held TB and brucellosis compensation baselines that were in excess of what we needed to pay out in-year. That meant that, in monitoring rounds, we would give back money to DFP, and the Executive would reallocate it. That does not make for the most efficient use of public money because by the time we give the money back, it may be too late for the Executive to reallocate. Therefore, we came to an agreement with DFP that we would pare back those baselines a number of years ago to a more realistic level. That freed up the resources that could be baselined elsewhere. The agreement was that we would bid in-year to top up the baselines on the basis of need.

Forecasting animal disease is not an exact science. Disease cannot be an exact science; it changes because of a number of factors, including the weather and the time of year. We use some fairly robust statistical techniques to forecast the number of reactors and animals for which we need to compensate in-year. We apply confidence limits to those forecasts. Suffice it to say that, in the June round, the point estimate, which is the number of TB reactors for which we expect to compensate this year, is 8,147, which is in a range of a low level of 7,200 to an upper limit at 90% confidence of just over 9,000. Based on the mid-value, which is 8,147 reactors, that will lead us to a pressure of about £4·39 million on our baselines, and we would bid on that basis.

On the other side, we have an agreed TB eradication plan with the European Commission, which will bring in some European receipts in the form of its contribution to our work on TB. We expect to get additional receipts this year from the European Commission, and we will seek to use those to offset the pressure on TB compensation and reduce it to £2·98 million. At this stage, our proposal is to bid to DFP for TB compensation for £2·98 million, which will top up the baseline to the amount that we think is necessary, based on our statistical forecast of the number of reactors that we will encounter this year.

We need to reclassify an amount of current expenditure into capital for the land parcel identification system project. You will recall from my earlier presentation that we have an allocation this year of £9·5 million in current expenditure. Since we received that allocation, we have looked at how we will spend that money and what we need it for. A slight amount of realignment is needed, so we need to seek approval to move £420,000 out of current and into capital to enable the purchase of some IT equipment by Land and Property Services.

That is our June monitoring position. Obviously, we would welcome the Committee's support for our bids in the monitoring round and for the technical reallocation and reclassification. I propose to stop there and take any questions.

The Chairperson:
Thank you, Mr Smith. With regard to the switch from current to capital, did you say £4 million?

Mr Smith:
No; I said £420,000. The overall allocation is £9·5 million. At present, that is all badged as current, and we need to switch so that there is about £9·1 million current and £0·4 million capital.

The Chairperson:
That is covered in paragraph 13 of the briefing paper, which deals with technical issues.

Mr Smith:
That is right.

The Chairperson:
I thought for a moment that the switch was additional to the information in the paper, but that is not the case.

Mr Smith:

No, it is within the totality of our resources. We are just seeking to reclassify the money.

The Chairperson:

With regard to the information that has been provided today, the lateness with which it came to the Committee and DARD obviously wanting the Committee to support its bids, is there another means by which the Department could send information to the Committee in future monitoring rounds? Will the June monitoring round be the only one in which we see the issues and the detail so late? Was that to do with the elections? Will you explain why we received the information late?

Mr Smith:

The short answer is that we have always done it this way. In the previous mandate, we had a special agreement with the Committee that because monitoring rounds are a live issue, and we want to get our latest best estimates to DFP right up to the wire, we would get monitoring submissions to the Committee by the Thursday before its meeting on the Tuesday. There was an assumption that that would continue this time.

Obviously, we will want to work with you on that issue, and if necessary, we will see whether we can bring forward an earlier submission. We need to balance the need for transparency and to report to you to give you due process with the need to avoid accelerating the time spent on the bids in the Department, because what you see is the culmination of a process that has lasted a number of weeks and takes in all areas of DARD business. If we commission the monitoring round earlier to get material to you earlier, the information will by necessity be less up to date, because it is asking business areas to forecast their requirements earlier than normal. However, as I said, we are happy to work with you on that.

The Chairperson:

When will you submit this bid to DFP?

Mr Smith:

This will go in on 2 June.

The Chairperson:

Is there any leeway that could help us with the timings?

Mr Smith:

DFP deadlines tend to be fixed.

The Chairperson:

Is that the same for every Department?

Mr Smith:

Yes, it is.

The Chairperson:

Were the bid areas known at the time of the Budget negotiations and debate, or had you agreed to come back to them with regard to in-year monitoring? What would it mean for you not to be successful in this bid?

Mr Smith:

On animal disease compensation, as I explained, we have an agreement with DFP to bid in-year. Therefore, it is appropriate to bid in-year for that, and we took that into account when we were setting our budget. So we bid in-year on the basis of need.

With regard to rivers, flood alleviation was a live issue when we were compiling the budget. The issue with the Greenway scheme is that it has been late to start. The Rivers Agency is not taking the lead on the project; it is a much wider project with a number of different organisations involved. Due to certain circumstances, the project has been late to start, and as a result, spend has been pushed forward into this financial year. We were not able to build that into the budget, because it became known only late in the year that that would be the case. That is why we are bidding for it this year.

If the animal disease compensation bid is not met, as I said, it is a live issue, and requirements cannot be forecast with accuracy. So it is not the end of the world if the bid is not met in June. Indeed, this bid is not usually met in June; it generally happens later in the financial year when we have six months of statistics behind us and have a better feeling for what the disease is doing and its trends. At that point, it becomes more critical to have the bid met. At this stage, it is more about lodging the bid so that it is in the collective psyche.

If the Rivers Agency capital bid is not met, we need to look again at our capital programme. That pressure is about 10% of DARD's net capital baseline. This year, we have an overall baseline of only £20 million net, so £2 million is 10%. It is a big pressure for us. If it is not met, we will need to look again to see what the Department can scale back. The Rivers Agency will need to look at what it can scale back or defer, particularly on this project. We will look closely at the contract in that context.

Mrs D Kelly:

Thank you for your presentation, John. This is the first June monitoring round of the new four-year Budget allocation. If I have listened to you properly and read your paper correctly, we are already finding it hard to make ends meet. That causes considerable concern at this early stage, particularly about flooding schemes, given the costs of doing nothing or not being properly prepared. I would like some reassurance on that.

On page 1 of your paper, under the heading "NI Block Strategic Context", there is reference to the fact that the 2011-15 Budget outcome incorporated capital receipts that have not yet been realised and some £13·3 million that has not yet been allocated. On capital investment, a £30 million per annum overcommitment is included. I do a wee bit of that myself every now and again when trying to juggle the household accounts. However, you usually come a cropper, and I do not know too many people to bid to.

The 2011 Budget allocation incorporated a current to capital classification switch, and there is also mention of receipts that have not been realised. What exactly does that mean, and how much does it represent? Is that the £11·3 million, or is it a greater amount of money than is listed in your paper?

Mr Smith:

I will take your points in order. You said that it is alarming that we are already short of money. I suppose that that is to be expected in the context of the Budget that we are coming on the back of. As I said, on current expenditure, the resources that are coming from the Treasury are flat in cash terms. In real terms, there has been an 8% reduction. On the capital side, there will be a 40% reduction by year 4. Capital is really tight. DARD's capital allocation is £93 million over four years. That sounds like a lot, but it is less than we have been used to historically. We were not able to give the Rivers Agency all that it bid for. In fact, we were able to allocate only about 50% of what the agency assessed as its capital requirements. Similarly, the Department's plant, vehicles and machinery baselines are also under pressure. It is not unusual.

I am pleased to say that we do not have any asset disposals and capital receipts targets in the Executive's Budget allocation. Those do not relate to DARD. I am aware that the Executive's agreed Budget includes a planned level of capital receipts from either European sources or asset disposals. The challenge for the relevant Departments will be to ensure that those asset sales turn into cash receipts.

You mentioned the overcommitments of £30 million capital and £30 million current per annum. Again, that is an issue for the Executive, and they have decided on it. However, that is set in the context that Departments have traditionally underspent by a small amount at the end of the year. To try to minimise that underspend and ensure that Departments spend all the allocated budget, if a planned level of overcommitment is factored in, an out-turn around the real budget is more likely. For a number of years, the Executive used overcommitment as a tool, but over the past three to four years, the Executive have made specific efforts to reduce that level of overcommitment, year on year. It is at a much lower level now than it was two, three or four years ago. During the monitoring rounds, the Executive will look at that to weigh up what easements are coming out from Departments and what pressures are being bid for in-year, such as those that we are putting on the table today. They will factor that in in the context of the overcommitment so that they can make a balanced judgement about what to do with the resources that are available to them.

Mrs D Kelly:

I understand some of that, but at some stage, it would be interesting to know what the impact of the reduced expenditure by the Rivers Agency will be on the flood alleviation scheme. Surely there is an analysis of that somewhere.

Mr Smith:

The agency will have that. Generally, given that it got less money than it bid for, it will look really closely at all the schemes that it would like to do and ensure that the ones that it does over the next four years are its top priority schemes. It will look innovatively at whether there is a way that it can scale back, re-phase or defer some expenditure to try to spread its resources to best effect.

The Chairperson:

There is a proposed presentation by the Rivers Agency on 21 June, and we could talk about that issue. You will be glad to know that we are finished with you this time. Thank you very much for your time, your presentation and your answers for the time being. We look forward to working closely with you over the next few months and years.

Mr Smith:

Thank you very much. It has been nice to meet you all, and I will see you again soon.