



Northern Ireland
Assembly

Committee for Culture, Arts and Leisure

OFFICIAL REPORT (Hansard)

January Monitoring Round: DCAL Officials

28 November 2013

NORTHERN IRELAND ASSEMBLY

Committee for Culture, Arts and Leisure

January Monitoring Round: DCAL Officials

28 November 2013

Members present for all or part of the proceedings:

Miss Michelle McIlveen (Chairperson)
Mr Dominic Bradley
Mr David Hilditch
Mr William Humphrey
Ms Rosaleen McCorley
Mr Basil McCrea
Mr Michael McGimpsey
Mrs Karen McKeivitt
Mr Oliver McMullan
Mr Cathal Ó hOisín

Witnesses:

Ms Deborah Brown	Department of Culture, Arts and Leisure
Mr Michael O'Dowd	Department of Culture, Arts and Leisure

The Chairperson: Good morning. We welcome Deborah Brown, who is director of finance and corporate services in the Department of Culture, Arts and Leisure (DCAL), and Michael O'Dowd, who is head of finance in the Department. I advise you that Hansard will be taking note of the presentation and the questions. I ask you to make an opening statement, which we will follow up with questions.

Ms Deborah Brown (Department of Culture, Arts and Leisure): Thank you to the Committee for inviting the Department to present its position for the January monitoring round. I am Deborah Brown, director of finance and corporate services, and I am accompanied by my colleague Michael O'Dowd, who is the head of finance in the Department.

I will set out some of the generalities on the monitoring rounds. As you are aware, Budget 2010 set out the departmental budget allocations for the four years from 2011-12 to 2014-15. That was approved by the Northern Ireland Executive and the Assembly in March 2011. As part of that process, all Departments aligned their strategic priorities to the Budget outcome and set out in detail their planned expenditure against those key objectives. However, priorities change over a four-year period, and Departments may face some unforeseen pressures or easements in their financial plans. Therefore, it is desirable that Departments have the ability to adapt their detailed four-year spending plans to those changing circumstances. The formal method of doing that is through these budget monitoring rounds. These in-year monitoring rounds are the process by which Departments are allowed to bid to the Department of Finance and Personnel (DFP) for additional resources to meet any unexpected pressures, to surrender any reduced requirements and to transfer de minimis budgets between service areas or to submit a bid that is linked between a reduced requirement to transfer a larger amount.

As part of the 2011-15 process, a review was carried out, and at that point, the number of monitoring rounds was changed from four to three. So, this is the last monitoring round in this financial year and the last opportunity for us to make any amendments to those budgets. The spring Supplementary Estimates are the method of obtaining the statutory authority to spend and draw down cash, and that is drawn from the confirmed January position that we are reporting on today. It is therefore essential that all the budget amendments, including the easements and the internal reallocations, are actioned in this final round. As with last year, DFP has commissioned this final monitoring round in two stages. DFP must be informed of all transactions that do not require Executive approval by 6 December, and that includes internal reallocations or other technical adjustments. All the transactions that require Executive approval — bids, easements and reclassifications — have to be submitted to DFP by 3 January. However, due to the timing of this, the need to obtain the relevant levels of approval and to ensure that reallocated budget is spent by the year end, the Department has treated this monitoring round as one exercise with all bids easements, internal reallocations and technical transfers collected together. The results of that are in the paper. Should any changes occur between the DFP deadlines of 6 December and 3 January, an update paper will then be provided to the Committee.

Moving on to the public expenditure structure, very briefly, as you aware, they are split into three categories: recurrent, which includes administration and resource; capital, which includes capital and capital grant; and other ring-fenced areas, for example, invest-to-save. Any movements between those categories must be approved by DFP and are regarded as reclassifications.

In recurrent, the budget for depreciation and impairments is ring-fenced, and movements into or out of depreciation or impairments are subject to DFP approval and may be limited to corresponding movements in the opposite direction from other Departments. Departments also use monitoring rounds as an opportunity to manage their emerging pressures through internal interventions by requesting that reduced requirements in one area can be transferred to an area experiencing a pressure. The flexibility to move between service areas, for example, in DCAL, between sport and arts, is restricted by the de minimis rule. Any moves over and above the de minimis threshold require DFP approval. The de minimis threshold is £1 million, and DCAL usually actions a number of de minimis internal reallocations during a monitoring round.

Turning to the details of the DCAL submission in the January monitoring round, at this stage, we are not proposing any bids in resource or capital, and we are not proposing to declare any reduced requirements in resource or capital. We are proposing a reclassification of £547,000 to cover a pressure that has been identified in our depreciation in the Department. DCAL is seeking no internal reallocations above the de minimis threshold. However, we are proposing a number of reallocations below the de minimis threshold. Those are a mixture of housekeeping, where we are realigning our budget in a business area or managing some of our internal pressures.

The Department is proposing a number of minor technical transfers between Departments. We are transferring £10,000 from the Department of Agriculture and Rural Development (DARD) to DCAL on the libraries Health in Mind. We are transferring £50,000 to the Office of the First Minister and deputy First Minister (OFMDFM) on a contract that we have in place to deliver on the World Police and Fire Games legacy.

So, to summarise, the planned resource spend for the current year is £122 million. That is set out in annex 1 of your budget tracking table. The planned capital spend for the financial year is as it was previously, which is £37.7 million. That is also set out in annex 1.

Those are the proposals for the January monitoring round. As I said, it is a bit early, but if anything changes between now and 3 January, we will write to the Committee and will be happy to come back and report on anything that might happen. At this point, it is just internal reallocations that are being made, a reclassification on depreciation and a number of internal reallocations that we do normally to meet any small pressures that we have.

The Chairperson: Thank you, Deborah. Can you provide an update on the capital exercise that you presented to the Committee in October?

Ms D Brown: Yes. You may be aware that we were awarded £2 million of capital for the City of Culture legacy. The Minister made an announcement on that, and that money is going to Daisyfield playing grounds. We await any further moneys that might come forward as part of that exercise, but that was what we secured in the October monitoring round announcement.

The Chairperson: The Minister recently announced her intention to establish a committee limited by guarantee, which concerns the legacy project following the UK City of Culture, and she mentioned the establishment of a DCAL office for the north-west to support that. Can you provide the financial implications of that at this stage?

Ms D Brown: I do not have that detail at this stage. We are still working our way through what that would mean in practice and what the financial requirements would be to resource both the office and the company.

The Chairperson: She mentioned in that announcement that:

"I have approved over £2million for projects in this current financial year and I will make a bid through the Executive for funding to continue the department's support in the next financial year.

Where is the business case for that?

Ms D Brown: We are still working our way through that. The £2 million that you refer to is £1 million of resource that we got for the City of Culture legacy, which covers the January to March period and then £1 million of capital, which also covers the January to March period. In addition to that, we got the other £2 million, which is for 2014-15, so that is already secured. If we work our way through the business case, we will obviously come forward with a proposal on what the actual financial requirements will be to take this forward through both the office that has been announced and the company.

The Chairperson: Libraries NI has submitted its business case for the central library. At what stage of the process is that?

Ms D Brown: That was one of the proposals for the October monitoring round that went forward and that we spoke about. So, that is all in that, and it is being considered, obviously, by DFP and the Executive. Those proposals have gone to the Treasury, because they were under the particular scheme that had been announced. So, we have no details on that at this stage.

The Chairperson: Do you have a timescale for that?

Ms D Brown: No, I do not.

Mr D Bradley: Good morning. In your statement, you say that you have "internal inescapable pressures". What exactly are those?

Ms D Brown: We have £547,000 in inescapable pressures because of depreciation. That has arisen because we have to revalue our assets every year. That revaluation has increased the value of the assets, which means that the depreciation charge has increased. That £547,000 is deemed to be inescapable, because we have to meet that charge.

There are a couple of other smaller elements for which we reallocate money in between a small pressure in one branch and an easement in another. They are very small amounts. We are going to provide some bridge funding for some jobs under the science, technology, engineering, arts and mathematics (STEAM) initiative. We are going to give some more money to libraries to buy some more book stock. There are lots of small amounts. I can give you a breakdown of those, if that is what you want.

Mr D Bradley: Please do. Am I right in saying that you are reclassifying £547,000 from resource to capital?

Ms D Brown: No. It is from ordinary resource to depreciation. Depreciation is a ring-fenced amount of budget that has to be reclassified. It has to be asked for in that particular currency, so we have to ask for that reclassification.

Mr D Bradley: OK.

Ms D Brown: So, it is not actually capital but is a result of an increase in the capital value of our assets because of the revaluation exercise that we undertook, which we are required to do every year.

Mr D Bradley: The two easements that you mentioned were for £509,000 and £479,000 in resource and capital respectively. How did they come about?

Ms D Brown: I can give you some details about those easements. An easement arose because of a reprofiling of the Lisnaskea library after the tender was approved. We have some easements in general fixtures and fittings to do with some work in National Museums Northern Ireland (NMNI). We also have a few easements arising in Sport NI on the capital side.

On the resource side, we have easements arising, because, as you are aware, the Balmoral premises were sold, and we had budgeted for running costs for that site for the full year. We have some easements arising from the World Police and Fire Games. When the games organisers completed their business case, they had assumed that an element of VAT would not be recoverable. They had budgeted for that quite prudently, but it turns out that some of that VAT is recoverable, so there is some money coming back on that. There is some slippage on a couple of small programmes in the Arts Council. We also have some slippage in Waterways Ireland, which does not need some of its budget. So, there are lots of small easements in the system that we accumulated and reallocated.

Mr D Bradley: Can you send us the detail of that?

Ms D Brown: Yes.

Mr D Bradley: What about the resource side?

Ms D Brown: That was the resource side. I just mentioned easements.

Mr D Bradley: It was; yes. What about the capital side?

Ms D Brown: I discussed the capital at the start. That was —

Mr D Bradley: Maybe you could send us the detail of that as well.

Ms D Brown: Yes, I can give you that.

Mr B McCrea: What period do you depreciate over?

Ms D Brown: It is done annually.

Mr B McCrea: What is the period — the term of depreciation?

Mr Michael O'Dowd (Department of Culture, Arts and Leisure): That depends on our estimate of the useful life of the underlying asset. So, buildings will have a fairly long useful life, whereas plant and equipment would have a much shorter life. Typically, it may be five to 10 years on plant, and it could be 50 to 70 years on buildings.

Mr B McCrea: So, would I be right in saying that half a million pounds represents an increase in value of around £10 million or £15 million of the asset value?

Mr M O'Dowd: It depends. This is across an entire range of assets. It will be buildings plus plant, so it is impossible to give an answer to that question right now. However, if you want further detail on where the value is —

Mr B McCrea: I just think that it is unlikely to be property appreciation, given that the property market is not in great shape.

Mr M O'Dowd: Land at the moment will not be increasing in value, but the replacement cost of buildings will. So, we are looking at various aspects of the value of a building. For instance, the underlying land of the Public Record Office of Northern Ireland (PRONI) building may not be

appreciating, but the cost of replacing that building — the bricks, mortar, steelwork and cost of labour — will increase over time and inflation. So, the value of that building can increase, although the market is still depressed.

Mr B McCrea: The only significant sum that comes forward in the monitoring round is half a million pounds of reallocation to depreciation. I would have thought that, by its very nature, depreciation was fairly predictable.

Mr M O'Dowd: The problem is that, these days, it is not, because property values are so volatile. Land prices can go down and building prices go up. It is harder now than it was, say, 10 years ago to predict depreciation values much into the future.

Mr B McCrea: OK. So will you tell us what it is that is being revalued?

Mr M O'Dowd: Yes.

Mr B McCrea: So, are you saying that the only way that you can deal with this is through an easement or somewhere where you cannot plan? Normally, you would plan depreciation over 25 years or whatever term you are using, and it is fairly predictable in the round of things. Now, you are saying to me that it is not.

Mr M O'Dowd: Over the longer term, it probably is, but over the short term —

Mr B McCrea: I am just saying that it would normally be planned expenditure. So, I am just wondering why it needs to be done in a monitoring round. What has gone above the —

Mr M O'Dowd: One of the Budget rules is that depreciation and similar costs are ring-fenced, so we cannot move budget in or out of that area without DFP permission. Hence, it appears in a monitoring round, otherwise we would simply move budget from where we do not need it to where we do need it. Given that a special rule is involved, it has to be publicised and made transparent.

As to the underlying reason for those pressures, it is the case the depreciation costs will be predictable over the longer term of the 50 or 70 years of a building's life. In the short term, however, land prices and replacement building costs can be volatile, so it is difficult to predict accurately a depreciation charge for the year a year or two in advance.

Mr B McCrea: It is very difficult for we non-accountants to understand what non-money transactions means.

Ms D Brown: This is the Budget that was set back in 2011, so this is our baseline that we are dealing with. Again, it was set a long time ago.

Mr M O'Dowd: It is a somewhat technical matter as well, because we are dependent on Land and Property Services (LPS) giving us valuations or indices that reflect movements in the property market. So, this is not some sort of exercise that is internal to DCAL; it is part of a —

Mr B McCrea: I understand that. I just want to finish the point that it just strikes me as strange that we have to deal with volatility, which, I am sure, all Departments face, through monitoring rounds. That seems to be the mainstream and the de facto way that we deal with this. I am just surprised that that is how we have to deal with it. Nevertheless, if you send me and the Committee details of whatever it is that you have revalued, that would be fantastic.

The Chairperson: No one else has indicated that they wish to ask a question. That was a relatively easy go this time, so thank you very much.