



Northern Ireland  
Assembly

**Committee for Education**

**OFFICIAL REPORT  
(Hansard)**

**Budget 2012-13: Allocation Plans and  
Aggregated Schools Budget**

**22 February 2012**

# NORTHERN IRELAND ASSEMBLY

## Committee for Education

### **Budget 2012-13: Allocation Plans and Aggregated Schools Budget**

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**Members present for all or part of the proceedings:**

Mr Mervyn Storey (Chairperson)  
Mr Mike Nesbitt (Deputy Chairperson)  
Ms Michaela Boyle  
Mrs Jo-Anne Dobson  
Mrs Brenda Hale  
Mr Trevor Lunn  
Mr Conall McDevitt  
Miss Michelle McIlveen  
Mr Daithí McKay

**Witnesses:**

Mr Trevor Connolly	Department of Education
Mr John McGrath	Department of Education
Mrs La'Verne Montgomery	Department of Education

**The Chairperson:** La'Verne, you are very welcome. It is good to see you again, and you, too, Trevor. Obviously, Trevor, you have been extremely busy over the past few weeks. John, I ask you to speak to the issue and then members will have a discussion.

**Mr John McGrath (Department of Education):** Thank you very much. As always, we appreciate the opportunity to attend the Committee and discuss the budget — the never-ending story of the education budget. I will make some remarks, and, as usual, the three of us will be happy to deal with any queries, either directly related to what we have said or anything else that the Committee wants to raise.

Since we last attended the Committee to discuss budgets, there have been some developments, which have clearly had an impact on the level of funding available to schools in 2012-13. In November last year, the Minister reallocated from additional resources a total of £40 million over three years: £10 million will go into the aggregated schools budget (ASB) next year and £15 million in each of the two subsequent years. Also, as a result of decisions by the First Minister and deputy First Minister and the Minister of Finance and Personnel, it was agreed that an additional £120 million would go into the education budget over the next three years, with a profile of £30 million next year, £15 million the

following year and £75 million the year after. The cumulative effect of those two changes is to reduce the savings target in next year's aggregated schools budget from £85 million to £45 million. We have provided the Committee with a number of briefing papers to keep it fully abreast of those changes, the resulting impact on the aggregated schools budget and, more specifically, the impact on the age-weighted pupil unit (AWPU) over the next three years. Schools were also advised of those planning assumptions as they developed, and all grant-aided schools were notified of their common funding formula allocation for the 2012-13 financial year on 3 February. Although that additional funding is clearly to be welcomed, it is important to recognise that it will help only to alleviate, rather than eradicate, the pressures facing schools and, indeed, the overall education budget. That overall budget still faces a real-terms reduction of £180 million, or 9.2%, in resource funding by 2014-15 when compared with the 2010-11 baseline. That is not far short of a 10% cut in real terms, even after the welcome funds made available by the First Minister and deputy First Minister. Schools will still have difficult decisions to take, and boards of governors must continue to plan and take the decisions necessary to ensure that they live within their budgets. In that regard, the Minister has set aside funding to assist cost reduction through the funding of redundancies in both teaching and non-teaching settings.

Work is ongoing to finalise the 2012-13 budgets, and we intend to have proposals with the Minister in the very near future. Those proposals will, however, take account of lessons that emerged from our experience in 2011-12, particularly the resource allocation plan (RAP) process and rolling out the savings delivery plan. The Minister has also asked that we interrogate a number of smaller central budgets to assess the scope for further savings there, which might go to the front line. We also want to factor in the stage 2 performance and efficiency delivery unit (PEDU) reports, which will be published shortly. At this stage, I propose to conclude my remarks and leave it to you to take up any issues with us.

**The Chairperson:** I am glad to hear, John, that the Minister is interrogating you as well as the Education Committee. At least the Committee and the Minister have something in common.

**Mr McGrath:** I just cannot work out which one is the preparation for the other.

**The Chairperson:** You would need to be very careful how you answer that one.

I think that all members of the Committee have been contacted by schools. We also declare interests as members of boards of governors of schools that have had to go through the painful process of matching final allocations with their current needs. What other areas of concern or budgetary interest need to be interrogated to provide the financial resource to produce a better outcome? We understand that there is currently a review of the common funding formula, but we have not seen any information on that. As soon as you start to change the formula, you change the dynamic in nearly every school, because all schools will use the formula in the best possible way and to their best possible advantage. That is the nature of formulae. So there is a review of the common funding formula, a reduced aggregated schools budget and a reduced amount of money going into the capital side. That said, you still have a huge budget, which is the second largest in the Executive. Where else does the Department see scope for change in respect of the amount of money available to schools?

**Mr McGrath:** First, the outcome we have now is clearly not as bad as it was going to be, but it is still serious. We have endeavoured to make the point in many settings recently that just because the Executive have found some additional funds, we should not necessarily assume that they will find any more, otherwise we will not have realistic financial planning. We have a savings delivery plan that, as I said, was formulated as far as possible to protect the front line. I repeat the point that no one has come to tell us that we have missed some blindingly obvious source of savings. As I said, the Minister has asked us to interrogate a number of central budgets that were not the subject of savings originally. The total quantum of those budgets is only £40 million and, therefore, the savings from them are

unlikely to be hugely significant. However, the Minister is very clear that he wants to be able to assure the Committee and, indeed, the Assembly that every pound he has is being best used.

We have made the point, as you have, Chair, that it is important to recognise that we still have the best part of £2 billion to run an education system. We need to concentrate on the positives of that, which means that we need to re-engineer the system to make it more fit for purpose. In the next couple of years, we will, therefore, look at the impact of the additional funds that went into the system. Nevertheless, there is still a lot of uncertainty. As you know, surpluses were protected as a result of the agreement between Caitríona Ruane and Minister Wilson last year, and we have seen a very volatile approach to that this year. The likely drawdown has plummeted this year as it has become clear that the next two or three years will be difficult, and schools have, therefore, decided that they want to keep that money for a rainy day. That has caused some uncertainty. Some schools are using their surpluses as a buffer to deal with the squeeze on their budgets. It is still not clear how that process will work out.

We will have some pressures. We just talked about the fact that there will be issues around what further resources need to go into preschool provision to deliver the commitment on that. We think that there will be some issues around the extension of the entitlement to free school meals that Caitríona Ruane announced. There is some indication that take-up of free school meals is rising. Take-up has never been on a level with eligibility. However, there is some evidence to suggest that, for unsurprising reasons, take-up is rising as a result of difficult circumstances at the minute. Helpfully, a lot of the new schools that we have built have the technology that allows pupils to access free school meals through the use of fingerprint recognition. There is, therefore, no risk of such kids being identified as the free school meal kids, and the stigma that is sometimes attached to that, about which parents worry, will not arise in those cases. We have seen demand rising in some places, such as in the Western Education and Library Board area. So there may be demands that we have to take account of, as well as the issues with preschool provision.

We have talked to the Minister about whether there is any scope for developmental things or whether it is still a case of battenning down the hatches for the next year or two. We have just finished a programme of seminars for boards of governors. We did 10 such seminars everywhere from Enniskillen to Derry. I am not sure whether we got to Ballymoney.

**The Chairperson:** It was covered. The reports have come back, and I have to say that not all of them are positive. However, I will give the Department credit for the fact that it was the right thing to do, even though it was difficult for the Department and those who attended the various briefings. I saw the overheads that were used. It was useful because I think that it gave the Department a sense of what is really going on out there. The allegation that is always made is that you live in ivory towers in Rathgael and have no sense of what is going on in schools. From that point of view, the exercise was useful, and we commend you for that.

**Mr McGrath:** We found it very helpful. It allowed us to give messages to people at the coalface, particularly boards of governors, who now face difficult decisions on redundancies and budgets. It allowed us to explain why things are happening, and it also gave us the opportunity to hear from the people there and get local intelligence and local feeling. We are doing a debrief at the minute, and it is likely that we will come to the conclusion that we should get out and about far more often. Boards of governors, in particular, feel a bit beleaguered. A lot of them did not come into the education system to deal with the sorts of issues that they now have to deal with. So there are issues about support, training and information, and we are thinking seriously about racking up all that we do for governors in that respect. They have a pivotal role, whether it is around budget management or standards, and we had intelligence on that.

We have made it very clear to people that they should not assume that, just because additional funds were found in the past weeks, there will be more. We also said that whatever emerges from the review of the common funding formula will allow us to decide how we divide up the cake but will not increase the size of the cake. We have made the point that no school should work on the assumption that changes to the funding formula will automatically rescue it. As you said, changes to any formula are

difficult. There will be winners and losers, and, in a flat resource line, it could be very difficult to bring in changes for the schools that are the losers. There will be fraught times ahead.

**Mr Trevor Connolly (Department of Education):** I totally agree. It is something that we reinforced at all of the seminars, because a lot of the governors were asking about it. Some people felt that the review would be the panacea for all ills. However, I kept emphasising the slide that showed the amount of ASB, which is the amount that we have to disseminate: that is what the formula does. Effectively, there is a fixed amount of money, and we have 1,200 schools. As John said, whatever way we work it, there will be winners and losers. We cannot have a situation where people believe that they can simply defer difficult decisions because the review will help them. Some people clearly will benefit, and there will be positive and negative changes, but it is not the panacea for all ills.

**The Chairperson:** In light of all that information, John, which was clearly the information that you conveyed to the Minister, I cannot understand why the Minister was then able to negotiate a deal with the unions. What is the cost differential for the redundancy package? I had a discussion with the unions the other day, and I expressed my concern at what has been agreed. Originally, it was 60 weeks' pay and it is now, as the unions would put it, "up to 90 weeks". There will be very few who will want 63 weeks' pay if they have the opportunity to get 89 weeks' pay. The cost of that redundancy deal must be huge. I know that negotiations and discussions go on; that is the nature of the business. However, why did we end up making such a dramatic jump from 60 weeks to 90 weeks, given the fact that we have huge financial pressures? You have just outlined them, and we all know them, yet the Minister seemed to be able to say, "I tell you what we will do; we will go from 60 weeks to 90 weeks." What is the cost of that? If we had stayed at 60 weeks, would it have been £10 million? If we go to 90 weeks, will it be £14 million? What is the differential?

**Mr McGrath:** I will start and La'Verne might chip in. This is set in the context of the need to get cost reductions in the schools sector, which, in most cases, will mean that there will need to be reductions in the workforce, because that is where most schools spend their money. It is unpalatable, but it is a fact. At the overall level, we have made provision to fund redundancies and severances over the four years of the budget. It has been very clear that the funding is there, and we discussed that in Committee previously. Judgements had to be made. We had to identify sufficient numbers of teachers who would want to go and avoid, as far as possible, compulsory redundancies. We had to decide how we would pitch the offer and what contribution that might make to more highly paid teachers, those at the top of the scale, taking redundancy, which would, therefore, mean greater savings. We worked through this with the Minister, and he made the judgement. Under the scheme we have, we can go from 40 to 104 weeks. There is no norm in this: that is the range set down in statute. The Minister decided that, at 90 weeks, we would strike a balance to make the package attractive and get people to come forward to take redundancy so that we could make the cost reductions.

There was also a sense that, if there were significant compulsory redundancies, the process at individual school level could grind to a halt, recourse to the Labour Relations Agency would silt up the process and we would simply not get the savings that we needed. The Minister made a judgement. At this stage, it applies only to teachers who will leave by 31 August this year. That is the extent of it at this stage. Therefore, the differential cost between the 60 weeks and the 90 weeks is only for this year.

**Mrs La'verne Montgomery (Department of Education):** We have worked out the figures for the average teacher cost, but, obviously, the figures will vary, depending on how many years' service the teacher has. For 60 weeks' pay, we are looking at an average cost of £45,000 per teacher, and for up to 90 weeks, we are looking at £60,000 per teacher.

**Mr McGrath:** Clearly, the overall cost will be determined by the number of teachers who go, and the point we make is that it is up to that amount. It depends on the individual circumstances of each teacher. Some simply might not qualify for the 60 weeks. La'Verne's figures are at the top end.

**Mrs Montgomery:** It is the average cost.

**The Chairperson:** You can see why the unions are quite happy with the deal. On this issue, I am less than happy with what the unions have done. They have a right to negotiate for their members but, equally, they give the Committee, the Department and the Executive considerable grief about being prudent. When I look at the package, I see a jump from £45,000 to £60,000, with teachers still having the opportunity to reinvent themselves and come back into the system at some stage. Legally, we cannot say to them that, as soon as they get that amount of money, they are no longer allowed to be in the system. Others are very critical of that practice in other areas, namely, in the police service. We have seen the whole row that is going on there. We all need to have a very open and honest debate about that issue.

**Mr McGrath:** The previous Minister —

**The Chairperson:** Steps were taken, and we appreciate that.

**Mr McGrath:** — expressed concern that, through substitution and the rest, so many retired teachers — remember that these people are being made redundant; they are not retired — are coming back in. That is not helpful, particularly given the number of newly qualified teachers that we have. If we could find a legal way of preventing that, I think that there would be a consensus on that.

**The Chairperson:** Given that this is time-bound until 31 August, have we any sense of what the uptake has been?

**Mr McGrath:** We have had expressions of interest. The critical thing is that schools have to identify that they want to make people redundant, and then you have to identify the appropriate people who may volunteer. We have written to schools and given copious details about the process. We have also made it clear that this is about cost reduction; it is not about letting people go.

**The Chairperson:** I think that that message is getting through.

**Mr McGrath:** It has to have a payback period, and it has to demonstrate cost reduction. Schools have to start the process by saying that they need to get their workforce down. People need to come forward and be identified. You can have transferred redundancies in the system, and we have set up mechanisms. At the minute, we have a number of people who have asked Waterside House what it would mean for them and what their terms would be.

**Mrs Montgomery:** We have had 566 requests for information on what the terms would be for those 566 individuals. As John said, that does not necessarily match where the compulsory redundancies exist, and it will be a job of work for boards of governors and employing authorities to match the volunteers to the redundant posts.

**The Chairperson:** That involves only teaching posts. If all those 566 people were able to be processed, would that mean that you would be near to reaching the allocation set under the invest-to-save initiative? Was £50 million the amount that was set?

**Mr Connolly:** Yes, it was approximately £50 million for the current year.

**The Chairperson:** Would that exceed the amount?

**Mr McGrath:** Yes, if we got that level, it would.

**Mrs Montgomery:** It would meet the need, effectively.

**Mr McGrath:** This is quite sophisticated. If a teacher comes forward and the processing can be done by the end of March, it would score this year. If it is not done by then, it can score against next year's provision, so the cash flow for this is different for each financial year.

**Mr Connolly:** The other key point is that the individuals will not be made redundant until August, so there is only seven twelfths of a saving in the financial year. It is not until the following year that the school will get a full year of saving in the salaries. Effectively, you will save only half the salary next year, so it takes time for this to filter through. Even with all of the additional money, under our savings delivery plan, we still require £90 million to come out of the ASB by 2014-15. That is after the £120 million and the additional £40 million. Your first question was: why? At the seminars, we were trying to reinforce the point that, even with all the additional funds, there is still £90 million in savings to come out of the ASB.

**The Chairperson:** I am sorry for hogging the meeting on this point, but it is an interesting and important issue. Trevor, if, based on a projection, you were to accept that those 566 people were the people who would go and that that would achieve savings within the requirement of £50 million, how would that profile in relation to reducing the £80 million that needs to come out, despite the £120 million and the £40 million that were put in? Where would that leave us? If they were all to go, the system would not be funding 566 posts after 31 August this year. How much of that would go towards the £80 million in savings that you have to find? Do you have a sense of whether you still have to find £60 million or £65 million? Is that the type of calculation that is being made to try to deal with that £80 million deficit?

**Mr McGrath:** If, for example, 600 people volunteered, around £24 million in costs would come out.

**Mr Connolly:** In salary terms.

**Mr McGrath:** However, as Trevor said, only seven twelfths of that would be realised next year, but the full effect would be realised in the next financial year.

**The Chairperson:** In 2013-14, you would expect to save £24 million.

**Mr McGrath:** That would be £24 million out of the full £80 million. You might ask whether the seven twelfths would even be enough to bridge the gap in the schools budgets next year. As I said, a lot of schools still have surpluses. When their budgets are going down, they can draw on those surpluses to put off the evil day. It is very hard to work out, because you are working on the aggregation of 1,200 individual budget holders.

**The Chairperson:** That point ties into something that I wanted to ask about end-year flexibility (EYF) and the Finance Minister's comments on forecasting. Clearly, that was raised as a serious issue, and it appears from your earlier comments that it is an issue on which the Department of Education is working with the Department of Finance and Personnel (DFP) to try to resolve. What more needs to be done to convince schools that they can have an open and honest exchange with the board and the Department? When there was a threat of EYF disappearing, people were going out and buying 600 tins of paint or whatever just to make sure that they spent the money. This is public money, and there is a reluctance among boards of governors to always declare what they plan to do because they are not sure whether they are allowed to save for X, Y or Z. They feel that, if they declare their plans, the Department or board might tell them that they are not allowed to do that and that they must scrap the whole process. How does Trevor, the person who ultimately has to make recommendations to the Minister and so on, get a system that allows us to have good, sound financial management?

**Mr McGrath:** There is good financial management and there is good financial information. What we have tried to do in the past three or four months is to make it clear that there are rules under the local management of schools (LMS) arrangements and that schools have a threshold of £75,000, or 5%, that they should not go over. It is not there as an indicative figure. We have tried to convey through the funding authorities — we are the funding authority for voluntary grammar schools (VGS) and grant-maintained integrated (GMI) schools — that there needs to be active management of budgets and bearing down on people. In the past, it was more of an administrative task. If a school said that it had run up a bit of a deficit but that it would retrieve it in three years and could produce a set of numbers to show that, it might have been allowed to do that. With the numbers we have now and the reducing budget, if a school were to go into deficit, it would be very hard to see how we could rescue it.

We have given very strong messages to the funding authorities about their responsibilities. They are responsible for the overall school deficits. We have sent very strong messages to schools. We used the seminars with the boards of governors to hammer home the fact that they have responsibilities and cannot simply translate deficits into an overdraft in the education system. That is simply not on.

I think that it is fair to say that this is probably the most volatile year that schools have every faced. They went into it with a hit on the schools budgets that no one had experienced before, even though this year was not going to be the worst year. There were new arrangements for EYF, and then more information about the next couple of years came out in November, which was clearly quite stark for a lot of them. Just as they were beginning to adjust to the implications of that, additional money from the Executive appeared. Although that was helpful, that meant that they had to redo their numbers. They have had a really difficult time, and that must be taken seriously.

On the specific issue of EYF, we agreed new arrangements with DFP that separated the handling of surpluses from the handling of deficits. Previously in the system, 800-odd schools had surpluses and 400-odd schools had deficits, and there was a net surplus between the two. So there was not so much active management within boards. Now, with the separation, the surpluses are being dealt with by DFP and the deficits are quite clear. That is why the point was made to boards and, indeed, to ourselves that they need to be managed. If there is an overall movement in school deficits over a financial year, that has to be covered. It is a call on boards' budgets and, ultimately, the Department's budget.

The arrangement with DFP on surpluses was that, early in the financial year, we would flag up what we thought the drawdown was going to be — we would, in a sense, get in early and secure that — and we would have the opportunity to refine that later in the year through in-year monitoring, which is what happened. However, what happened on the ground was that, very early in the financial year — we are talking about June — schools were not thinking about the next academic year. The best guess the boards had with schools was that the drawdown would be in the territory of £20 million. When we got to the autumn, schools began to look at what they really planned to do and, by October or November, could see that it was really going to be bad. There is clear evidence that schools are looking at the situation and saying, "Maybe, I will not buy the minibus this year because I might not be able to keep a teacher next year". So the indications from individual schools on their drawdown are that the trend went downwards suddenly.

We had to make a call then in the December monitoring round. The figure we worked out at the time was higher; we assumed that it would drop further, and we ended up with £10 million. We went back and said that our final figure in the monitoring rounds was £10 million rather than £20 million. I will come back to the Finance Minister's comments. The figure was £10 million and it is dropping still. These are schools that have the right to decide how to spend the money. The figure is heading for the floor at the minute. It could end up at £5 million. That is a product of changed circumstances and a combination of all those things.

We made the point at all the seminars with boards of governors that we need harder information earlier. I have a lot of sympathy for boards of governors sitting with budget lines that are going down, with some people saying that they need to make cost reductions and others saying, for example, "We have got £60,000 or £70,000 of surplus. What do we do with it?" People could change their minds towards the end of the year and keep it going to keep a teacher longer. Monitoring 1,200 decision-makers in that volatile environment is incredibly difficult.

**The Chairperson:** Also, John, they cannot make a decision to employ an additional teacher if they have made a teacher redundant, because the rules do not allow them to do that.

**Mr McGrath:** It is the other way around: you use your surplus to avoid having to make a teacher redundant for another 12 months.

**The Chairperson:** It is only for another 12 months.

**Mr McGrath:** This is the issue for schools: if you have a surplus that you have kept for a rainy day, is this the rainy day? Or, do you keep the money in the bank for something else and let the teachers go? That is the story behind why the figure went from £20 million to £10 million. This is difficult. We take a bit of umbrage at being criticised, because it was not sloppy monitoring; we have been sitting on this all year. We will bear down again next year. We will probably be in the position of having to say, "That was the trend last year". No matter what people are telling us, we will apply our best guess and hope it does not plummet further. Alternatively, you could start off next year with a low figure that might end up higher at the end of the year, but, unlike this year, we would have no guarantee by the time we got to December monitoring that there would be money available. We work very closely with our colleagues in DFP on this.

**The Chairperson:** The audits are all in and, in light of Paul Sweeney's letter that was sent out, the financial element of the audit was quickly turned around and the information was sent back to the Department. What is the current level of debt in our schools? You said earlier that, if you took the 800 schools with surpluses and the 400 schools with deficits, because of the arrangements previously, that almost cancelled itself out. Whatever the reasons and whatever shenanigans went on, I have to say that the Department was right about some elements of this, because it was scandalous how we ended up getting a 50% issue on a piece of paper going back to the Department. I just do not know how that happened. It was not the fault of the Department. All the information is in, and you have the audits. Do we know what the debt is in our schools estate?

**Mr McGrath:** We know separately from that.

**The Chairperson:** Surely, John, someone in Trevor's office has sat down with a calculator and made —

**Mr McGrath:** That is my point. Aside from the viability audit, which is about looking at individual schools and projecting where they are going, we do —

**The Chairperson:** Roughly, what is that figure at this minute in time?

**Mr Connolly:** It is about £8 million. That is the last figure that we got. We get monthly updates from the boards. Because of the volatility, we have asked the boards to itemise where each school is with its surplus and deficit and whether they increasing or decreasing. As John says, effectively, this is a spreadsheet that has 1,200 rows on it, which is how you come to the total. The most up-to-date position, at December 2011, was approximately £8 million.

**The Chairperson:** How did that compare, roughly, with the previous two years? Has it increased dramatically?

**Mr Connolly:** That is the in-year movement. That is the overspend that schools have, so it is the pressure that the boards have to fund. There are, say, 300 or 400 schools overspending to the tune of £8 million. The five individual boards are saying that they have a net pressure centrally of £8 million.

**Mr McGrath:** That figure is moving. In fact, it is dropping, because schools are getting a grip on things. The whole situation has been extremely volatile and difficult this year. We are bearing down on the funding authorities to make it clear that they have to manage the budget, not administer it. They have to sit down with schools, ask them what they will do to come back into balance and tell them to start taking hard decisions. A critical issue for us next year will be to sit very heavily on that to ensure that the deficit figure does not start going north.

**The Chairperson:** I would like some clarity, please. The Committee has received different versions of the information. Appendix 1 to the paper submitted by the Department, the revised education budget distribution, is in the standard format, which is appreciated. Appendix 1 sets out the budget distribution by function, the first of which is the resource departmental expenditure limit element. At 2011-12, it states that the departmental expenditure limit is 59.4% of the overall resource budget. Am I correct in my reading?

**Mr Connolly:** No. The aggregated schools budget is 59.4% of our total departmental expenditure limit budget. That, added to the percentages against the next two headings, both of which relate to the education and library boards, amounts to 92%. If you were looking at it in a pie chart, the ASB would be almost 60% of the Department's total resource budget.

**The Chairperson:** How do we get that figure higher? The ASB is really the amount of delegated budget. Is that right?

**Mr Connolly:** Yes.

**The Chairperson:** Is it not the case that in other jurisdictions, the delegated budget would be 75%? John, I know that you are going to say, "If we had the Education and Skills Authority (ESA)." That is not the answer, certainly according to what I have seen. However, I will not go there now. It would not give us 15% savings to allow us to increase the delegated budget from 60% to 75%. How do we make that transition? I do not want to hear the normal answer about how ESA would save the world. In layman's terms, the delegated budget simply means the money going to schools.

**Mr McGrath:** You need to make sure that you are comparing like with like when making comparisons with anywhere else.

**The Chairperson:** That is a fair point, because there are different administrative arrangements.

**Mr McGrath:** We have the delegated budget of 60%. The next function listed is the first of two relating to the education and library boards.

**The Chairperson:** Yes, and in 2011-12, that is 20%.

**Mr McGrath:** That money goes to schools and is spent there. Someone might ask whether the objective was to get as much money as possible spent in schools, or to get as much money as possible within what is technically the delegated budget. So it depends on what our objective is. Much of the budget held at the centre is for special schools, for example. They are not part of the delegated budget.

**The Chairperson:** That comes under the second function.

**Mr McGrath:** No, it is the next one down.

**The Chairperson:** Sorry, special schools are under the third function listed which is ELB earmarked money.

**Mr McGrath:** There is a sizeable sum there, which is front line school expenditure, but, because of the current arrangement, special schools do not get delegated budgets. That issue should be at the front of the review of the common funding formula. If we were to look at the table and work out how much of that money was being spent on the front line, we would have a different answer. It is not a false picture, but one issue in the review of the common funding formula is whether, for the purpose of simplification, areas that are earmarked should just be put into the delegated budget.

**The Chairperson:** Under the resource departmental expenditure limit function, the figure for grant maintained and voluntary grammars schools is basically for salaries. So the 1.4% delegated to them under the GMI function is not for salaries; it is for running costs.

**Mr Connolly:** That is a fair comment. Yes, that is the additional amount that they get because they get their share of the aggregated schools budget. For instance, the age-weighted pupil unit will go out to all schools based on the number of pupils that they have. The difference is that the board does not provide their transport, etc.

In answer to your earlier point, Chair, we wrote to the Committee Clerk just yesterday about the amount of money that goes in. This is a classic case of comparing apples with oranges, because it all depends on what functions you want to delegate to schools. The funding follows the function. For instance, if you were to tell all schools that they will be in charge of all their transport and school meals, all the money for that, which currently goes through the boards, would go straight to the schools. However, then you have to take a step back and ask whether it is a good idea for 1,200 schools to do that individually rather than it being done on a regional basis. That is the rationale.

**The Chairperson:** Members, that letter was tabled earlier today.

**Mrs Dobson:** The £120 million has certainly eased the pressure. It is a bit of good news, but, as we know, redundancies will still happen in many schools because of the cuts. I would like to find out a bit more about how the £120 million was divided. What was your economic argument for leaving the largest amount of £75 million until the third year? If I were cynical, I would say that one eye was focused on a possible election, but I will wait to hear your opinion on that.

**Mr McGrath:** The additional funding and its profile resulted from discussions between the First Minister, deputy First Minister, our Minister and the Minister of Finance and Personnel. Those are the figures that emerged from the room.

**Mrs Dobson:** What was your economic argument?

**Mr McGrath:** Those are the figures that emerged from the room.

**Mrs Dobson:** Do you not have an economic argument for it?

**Mr McGrath:** The argument came very clearly from the rehearsal that we had — that was when our Minister and Minister Wilson met — in advance of the discussions that I mentioned. Our Minister simply ran over the entire canvass: the budget settlement and the fact that we had savings to come out. He identified the nature of those savings and identified the mitigating action to be taken by readjusting the £40 million. However, he then outlined to Minister Wilson the impact that the data that we sent out in November and the stark AWPU and ASB figures would have on different pupil groups. So he left Minister Wilson, I think, with a very full understanding of the fairly serious and stark impact that the Budget, as set at that stage, would have on the education sector.

**Mrs Dobson:** Did you have any input into how the £30 million, £15 million and £75 million was divided?

**Mr McGrath:** No. The rehearsal was the same argument that we have had here, which is that there would be a draconian impact, particularly by year four. However, if someone were to ask whether I wanted £120 million divided into £30 million, £15 million and £75 million or £40 million, £40 million and £40 million, I would settle for the former. It is the destination that is important. At this point, we have reduced by £75 million the overall level of savings required by the end. That is significant.

**Mrs Dobson:** Trevor, do you not have an economic argument for why the bulk of the money is in the final year?

**Mr Connolly:** Our original savings delivery plan published last October, before any change, stated that, by 2014-15, we had to find £306 million of savings. In the aggregated schools budget, that was £180 million in 2014-15. Inflation means that the amount is cumulative. For instance, looking at where the money would go, you will see that most of it would have to go into 2014-15, because that is where the biggest individual saving will be.

**Mrs Dobson:** How does that compare with the original 5%, 1%, 5% proposed reductions in the AWPU?

**Mr Connolly:** The original figures were -5%, -1% and -5%; the revised figures are -1%, -2% and +1.5%. We copied to the Committee the letter of 16 January that went out to all schools to notify them of the additional £120 million. However, on the same basis that the letter of 25 November gave the AWPU over the next three years as -5%, -1% and -5%, the letter of 16 January did the same thing. It outlined the change to the overall aggregated schools budget, but, instead of being a drop of -5%, -1% and -5%, our forecast AWPU will now be a drop of -1%, - 2% and an increase in 2014-15 of +1.5%.

**Mrs Dobson:** Is the £120 million for the next three years ring-fenced ?

**Mr Connolly:** All that money has gone straight into the aggregated schools budget, so definitely, yes. It is published on that basis.

**Mr Nesbitt:** Apologies; I had to pop out. I hope that I am not going back over anything, Trevor. You wrote to the chairpersons of all grant-aided schools on 16 January. Point 10 of that letter states:

*"It is still anticipated that actual budgets for 2012/13, including this additional funding will be notified by the end of January 2012."*

Did that happen?

**Mr Connolly:** It did, on 3 February.

**Mr Nesbitt:** You said, and I understand, that the ASB is fixed and the number of schools is fixed. However, you went on to say that, naturally, there will be "winners and losers". I do not want to leave that hanging. What do you mean? Who will win and who will lose?

**Mr Connolly:** It is to do with the review of the common funding formula. At the moment, each school gets an allocation based on the current formula. Once you change that formula — this comes back to the Chair's point — some of the 1,200 schools will get more under the revised formula and others will get less. "Winners and losers" is simply the terminology used and means that the picture will change. Some schools will see this as a benefit because their funding will increase; some schools will see a decrease.

**Mr Nesbitt:** Why is there not a uniform loss? Why are we not saying that we have to spread this very thinly, with a uniform hit for everybody?

**Mr Connolly:** That is because of the age-weighted pupil unit. What we are trying to do is differentiate: certain streams of pupils accrue differential costs. For instance, foundation year, P1 and P2 cost proportionately more, as does post-16.

**Mr McGrath:** Let me just distinguish between the two, In the way in which the current reductions are worked out, they have a differential impact because of the nature of schools.

**Mr Nesbitt:** Or is it because of the nature of the formula that you apply?

**Mr McGrath:** Yes, it relates to the nature of the formula. There are schools for which the main determinant of their budget is the AWPU — that would apply to, for example, a large secondary school.

However, in a small rural primary school, there might be the small school factor and foundation year issues.

**Mr Nesbitt:** Do you think that, in applying the age-weighted pupil unit, you could be open to a legal challenge?

**Mr McGrath:** No. We have a formula. That has been fully consulted on, and any changes to it are consulted on. Like any such formula, it is sensitised and takes accounts of all the facts, but it has a different impact. In the same way, I suppose that, if more money was going out as opposed to less, it would have a different impact, and the schools that rely on AWPU would get proportionately more.

**Mr Nesbitt:** Yes, but it is a formula that, as Trevor admits, leads to winners and losers.

**Mr McGrath:** No. Let me be very clear about the winners and losers comment. If we make any material change to the formula that divvies up the cake, that would mean that some schools would be getting a bigger share and some schools would get a smaller share. If we do that in a situation in which the cake remains the same size, some schools will be winners and some will be losers. Much of my experience is in the health service, and the norm in any allocative mechanism like this is that, if you have sufficient additional money in the system when you get to the point of changing the formula, no one actually loses: some just stay where they are and let others rise. As the budget sits now, we do not have that capacity. Therefore, all that we are saying is that changes to the funding formula are likely to mean that some schools will gain and some will lose, because the sum of the gain is zero.

**Mr Nesbitt:** We have had a great deal of financial uncertainty. With the £40 million, the £120 million, and so on, there is a lot going on. Do you envisage a point in the foreseeable future at which you will be able to offer some sort of financial stability to schools? I believe that teachers are looking for financial and curricular stability. In other words, they are asking, "Please, can we just get on and teach?"

**Mr McGrath:** Stability created with certitude was the intention in November when we had determined the numbers for the remainder of the Budget period. Our endeavour was to provide as clear and comprehensive information as possible for the rest of the Budget period, rather than on a year-by-year basis. That was and remains our intention. However, as a result of certain issues, to which Jo-Anne referred, additional money was put in, which moved the goalposts. I suspect that no one around this table would say that that was a pity because it created new uncertainty. We hope that people now understand that the numbers are the numbers. We have made it clear that no one should expect the cavalry to come to the rescue again. However, my Minister, like any Minister, will argue for further assistance to be given in the remaining period of the Budget. There needs to be a balance. We want people to accept that the figures are what they are and plan on that basis until they change. It is stability, but it is an unfortunate stability.

**Mr Connolly:** The Minister is very committed to giving out the information as quickly as possible. That is why, when the £120 million was announced on 12 January, we wrote a letter on 16 January to explain its impact and break it down into AWPU. In that way, schools that had been looking at AWPU reductions of -5%, -1% and -5% could understand the positive impact of the additional money.

**The Chairperson:** Where we are with the review of the common funding formula?

**Mr McGrath:** The Minister is on the point of signing off the terms of reference. We are looking at the modality of how it will be done and who will be employed in that.

**The Chairperson:** So it is only at the stage of the terms of reference being signed off.

**Mr McGrath:** Yes. We have a lot of things on at the minute, particularly reviews, viability audits and area-based planning. However, the Minister is keen to get on with the review and wants it to report back speedily, so you will see something on that before too long.

**The Chairperson:** Has the next stage of the viability audit been completed? Schools were asked to amend their responses, and the Minister expressed concerns —

**Mr McGrath:** Their responses came in on the due date.

**The Chairperson:** OK, but the other element is that they were then given the area-based planning element, which involves proposals for schools x, y and z. Is that due by the end of March?

**Mr McGrath:** Are you referring to Paul Sweeney's letter?

**The Chairperson:** Yes.

**Mr McGrath:** When the Minister went back to the boards, he said that he wanted the audits to be completed properly within seven working days. In addition, he wanted the boards to indicate what actions they would take in relation to those schools suffering the greatest financial stress. The audits were completed and came in on the due date. The further information that the Minister requested has been sent in, and we are analysing it. There are planning processes going on, and the deadline for the completion of the piece of work on special schools is the end of February.

**The Chairperson:** Yes. Paul stated in his letter that, within the additional seven days:  
*"You are also required to submit an associated report dealing with what proposals the board has in place, or intends to put in place, to address the position of those schools whose financial deficit is, or will be greater than, LMS limits."*  
Have those reports been sent back to the Department?

**Mr McGrath:** Yes, and we are working our way through them. However, the information is not, perhaps, as concrete as one would have wanted.

**The Chairperson:** OK. John, Trevor and La'Verne, thanks again for all your help.