Northern Ireland Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

January Monitoring Round

18 January 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Conor Murphy (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Mr Paul Girvan
Mr David Hilditch
Mr William Humphrey
Mr Paul Maskey
Mr Mitchel McLaughlin
Mr Adrian McQuillan

Witnesses:

Mr Michael Brennan	)	
Mr Peter Jakobsen	)	Department of Finance and Personnel
Ms Brigitte Worth	)	

The Chairperson:

The witnesses for this evidence session are Michael Brennan, who is the head of the central expenditure division in the Department of Finance and Personnel (DFP), Peter Jakobsen — I will get your name right eventually — of the central expenditure division, and Brigitte Worth, who is head of the financial management branch in the finance division. You are very welcome. Yesterday we had the opportunity to hear the Minister's statement and to question him on it. This meeting gives members the opportunity to delve somewhat further into the statement. Do you want to make any opening remarks on yesterday's statement?

Mr Michael Brennan (Department of Finance and Personnel): OK, Chairman. I will briefly run through some of the headline aggregate numbers, and I will then take questions.

As the Minister said in his statement yesterday, the starting point for this monitoring round is the over-commitments that were carried over from the October monitoring. We left that monitoring round with an over-commitment of £11 million on the resource side and £23 million on the capital side. Given that the current monitoring round is the final one of the financial year, it is actually strategically important for the Executive, because it is the time when a decision has to be taken on the amount of resources that are carried over into the next financial year. It was, therefore, quite a daunting challenge to form a view on surrendering some carry-over.

As the Minister said yesterday, he was quite surprised at the level of reduced requirements that Departments surrendered. There was £33 million of resource departmental expenditure limit (DEL) and £24 million of capital DEL surrendered. In addition, there was also what we call "centre adjustments", which are financial transactions that normally take place between Treasury and the Northern Ireland Executive. They generated additional resource DEL of some £21 million. At the centre, there was a net pressure on the capital side of £-1·1 million, because, after the October monitoring, we had a pressure at the centre of £10 million of planned receipts from the asset management unit (AMU). So, the Executive thought it prudent to write off that pressure at the centre.

There were only £20 million of resource bids and £11·6 million of capital bids in the bids that Departments submitted. So, the Executive were able to meet all bids that Departments submitted. Even after meeting all those bids, the Executive were left with just over £11 million of unallocated resource DEL. It is now the intention that that will be set against the target of carrying £50 million of resource DEL forward into the financial year as part of the agreement with the Treasury on the Budget exchange scheme.

I want to flag up a couple of other points. The Minister told the Executive that he needs to revisit the planning assumptions that led to the original allocations to Departments in March 2011. As I said, we were quite surprised at the level of reduced requirements that came in from Departments. The Minister thought it prudent to carry out a re-evaluation of Departments' positions at forecast out-turn stage to see from where their easements are coming. He would then use that information to construct a paper, which he would take to the Executive, with possible revisions to the financial allocations for the 2013-14 and the 2014-15 financial years. As I said, that work will commence when we get the final forecast out-turn in early April for the financial year, which is coming to an end.

Another point to flag up is that, just over a week ago, the Minister of Finance, the Minister of Education, and the First Minister and deputy First Minister had a meeting at which they discussed the significant pressures on the education sector. Given where we are with resources this year, they thought it prudent to make an early contribution to the education pressures. That is why the Minister announced a £30 million allocation to the schools estate for the 2012-13 financial year. The Executive took a decision now to basically allow the Minister of Education greater discretion and to send early signals to individual schools as to what their allocations would be in the year ahead — it is better to do it now than to wait until June monitoring, when the financial year has already kicked off.

Chairman, that is a quick run-through of the key points.

The Chairperson:

OK. Thanks very much for that. Is there not a concern that, so early into the four-year Budget cycle, you are into an underspend that is so significant it has prompted, if not a review, at least a mini-review, whereby the planning assumptions that Departments have made 10 months into a four-year Budget process are questioned?

Mr Brennan:

As you know, when the Budget was constructed back in March 2011, every Minister and Department said that it was a very tight settlement and that it would be difficult to live with. The ex post evidence to date suggests that it may not be as hard for some Departments as it is for others. Some of the indicators suggest that that is the case. For example, when comparing where budgets are now with where they were when they were constructed in March 2011, you can draw positives from Departments' administration expenses. In October monitoring, we were surprised that the admin spend had fallen by 2% on the planned allocation. It is now down to 3·8%. When you consider that inflation is running at 4% in real terms, you realise that that is about a 7% or 8% cut in admin spend by Departments. That is quite positive and suggests that genuine efficiencies are being driven out.

The other reason why I think we need to look at the allocations for the later years is that some significant Barnett consequentials came through in November as a result of the autumn statement, particularly on the capital side, where another £130 million of capital DEL is coming through. As the Minister said yesterday, this is not a root-and-branch fundamental review of the Budget; it is basically looking at the margins of individual Departments to see where easements are coming from and where the pressures are. For example, he flagged up yesterday that demographic change and the need for strategic rationalisation, particularly in schools and in health services, will be key drivers over the next few years. That is why this sort of reassessment and comparing the position now to that of March 2011 is prudent.

The Chairperson:
However, you are questioning planning assumptions, which is a bit more than just investigating around the margins of Department spending.

Mr Brennan:
We will look at where the easements came from in individual Departments. So, for example, a lot of attention has been focused on the surrenders that have come this year from the Department of Enterprise, Trade and Investment (DETI) and Invest NI in particular. So, a key question to put to DETI is whether, if the economic environment stays the same and you do not envisage, for example, client uptake on loans and grants improving, it would be prudent to leave the Invest NI budget at the current level or strategically wise to move that money to other areas of the block at this time. Those are the sorts of questions that the Finance Minister wants to put to each of his Executive colleagues.

Mr D Bradley:
Before the Programme for Government was published, the Minister said that there was no need for it because it was already set out through the allocations in the Budget. Now he is saying that the Programme for Government will have to be set against the allocations to see whether they are accurate. So, there is a bit of change there. You mentioned an Executive review. What mechanism will be used to take that forward? Will the Budget review group (BRG) do that?

Mr Brennan:
A ministerial meeting of the Budget review group is scheduled for, I think, about two weeks'

time. It is the Finance Minister's intention to provide his ministerial colleagues on the BRG with an update on how he wants to progress the review over the coming months. The starting point for that will really be to look at, as I said, the forecast out-turn position for individual Departments. That information, which will become available to us in early April, will allow us to do the first part of the benchmarking exercise on departmental performance. As I say, as the review, progresses, it is our Minister's intention to work closely with his colleagues on the BRG.

Mr D Bradley:

What are the possible outcomes of that review? Will there be reductions in allocations or reallocations?

Mr Brennan:

One scenario is that there could be no changes. The initial Budget allocations could stay as they are. The Executive could take decisions, for example, to allocate what I call the super-resources, which are made available through things such as the Barnett consequentials and the autumn statements. However, I suspect that the more likely outcome will be that some Ministers will say that they do not anticipate spend in certain areas. Other Ministers will put forward a strong case by saying that they have pressures that were not envisaged last March. So, I suspect that there will be some degree of reallocation.

Mr D Bradley:

Would that not be achieved anyway through the monitoring rounds?

Mr Brennan:

Yes, but the monitoring rounds look only at the in-year position. So, for example, when moving into 2012-13, we are looking only at what happens in 2012-13. The Minister said that this review will look at 2013-14 and 2014-15. The difficulty is that we cannot include 2012-13, because we do not know the outcome of the review. Departments could not plan the 2012-13 allocations now, because we will not have the data until April and it would be too late to do the review then.

Mr D Bradley:

The asset management unit has delivered £1·3 million of additional asset sales to date. However, in December 2010, I think, the Minister said in his pre-Budget statement that there was a possibility for £1·5 billion in asset realisation. There is a quite a difference between £1·3 million and £1·5 billion.

Mr Brennan:

You are comparing apples with oranges. The asset management unit is charged with the disposal of assets up to £100 million spread over the four years. The first tranche of that was £10 million in this financial year. That £100 million was asset receipts over and above the asset receipts that individual Departments envisaged. That means that the £10 million is not departmental-specific asset disposals; it is asset disposals that were charged centrally to the asset management unit in the Office of the First Minister and deputy First Minister (OFMDFM) to deliver. Its latest advice is that it is confident about getting the £1·3 million in this year. It is very hopeful of progressing at least another £4 million or £5 million of asset receipts before the end of this financial year. If those asset receipts materialise, that is a win-win for the Executive, because it can go towards the £13 million of capital that we can carry across into next year as part of the Budget exchange scheme. So, any additional receipts that come in over and above the £1·3 million from the AMU team are not lost but set against the Budget exchange scheme target that we will carry into next year.

Mr McLaughlin:

Again, Dominic has come on to an issue — asset management — that has intrigued me. Land and Property Services (LPS) has a role in that, and it determines the best value disposal. In determining that cost, does it take into consideration the possible benefits of developing assets that are surplus to departmental requirements? Those could be, for example, a piece of land that the Department does not need that is being sold and that releases development potential, jobs and rates income. Is all that part of the mix, or does LPS simply go for the greatest amount of money for disposal that it can get for the Department?

Mr Brennan:

No; it certainly is not what I would call a pure asset-stripping process. As you say, in the case of some of the assets that have been identified, it would be more prudent to hold for a while and get planning permission, because the value that accrues to that asset then increases considerably. LPS works very closely with the AMU team. For example, its earliest task was to identify assets. That was not an easy task, because the departmental assets registers did not correlate completely with the assets that were held in the LPS registry. LPS and AMU work closely together and form a collective view on the value of assets now, what can be brought to the market now and what it might be better to delay and get planning permission for. They also look at what you can negotiate as part of a wider package on asset disposal across Departments. So, it is not a quick rush to the market for asset stripping.

Mr McLaughlin:

It is definitely not a quick rush to the market. I am thinking about a piece of land that the Department has accepted is surplus to its requirements and has agreed can be sold. The proposition would involve a mixed development that would create hundreds of jobs and rates income in the order of £900,000 a year. The site has planning permission, and the council and the city centre development committee, which works with the council, as well as the local chamber of commerce have endorsed it. However, they cannot find agreement on the price, despite all those potential benefits, the depressed market and the perilous state of the local economy. No one disputes that those jobs will be created and that those rates incomes can be generated, but we cannot agree a price, because the developer's business cases states that the price is prohibitive. How do we resolve such a situation? The Department wants to get rid of the land.

Mr Brennan:

Are you saying that the Department's valuation of the site and view is different from that of the asset management unit?

Mr McLaughlin:

No, I have not been able to determine what role the AMU has. I have established who is managing the engagement on behalf of the LPS. I am not sure what the best way to proceed is. For obvious reasons, I do not want to get into specifics, but, for some considerable time, what could be a very significant investment decision has been held up because of the argument about realising the potential of the site, which would be very significantly enhanced. From the Assembly's point of view, I would have thought that the benefits would be something in the order of 900 jobs and £1 million of rates income for years to come. The site is little more than an embankment, but the Department has to take responsibility for it in some way, even if it is only to cut grass. The Department does not need it and never will, but we cannot crack it. From the outside looking in, it is a bit inexplicable. Does the asset management unit sort out those situations? Does it take a ministerial direction? Does LPS have any room to negotiate the figure down to an acceptable level between them, or does somebody arbitrate? How do you sort out something like that?

Mr Brennan:

It seems odd. I have not heard of anything like that. Where Departments have identified assets for disposal in their register, issues have emerged about what the Department wants to do and what the asset management unit wants to do. Effectively, they have engaged with DFP, and we give our view of what is the most appropriate course of action. In those cases, that is the way that it is rolling out, so there is collective agreement.

On the specifics of your case, it sounds as though it is a problem not between AMU and the Department but between LPS and the developer. If that is an issue, we can certainly have a word with the AMU guys when we have our stocktake with them to ask them whether they are aware of those sorts of issues and whether there is a problem. However, that is the first that I have heard of it.

Mr McLaughlin:

It has not gone public yet, which is a good thing, but it will certainly become public. It will reflect very negatively on all of us. If the issue is raised internally, there is some possibility. AMU has to be aware of that particular case. If you need a reference, I will give it to you privately. I have made representations to LPS to get its finger out and get it sorted.

Mr Brennan:

That would be a very useful way to take it forward. As I said, LPS, AMU and central expenditure division have stocktakes. It was not the case at the start, but we are now genuinely singing from the same hymn sheet, which is why problems that emerge are cleared up very quickly. I can certainly raise that matter with Scott and his team.

Mr Peter Jakobsen (Department of Finance and Personnel):

In fact, we are meeting AMU tomorrow.

Mr McLaughlin:

OK. I will talk to you after this meeting.

The Chairperson:

I allowed indulgence on that matter, because I know that it is not a constituency issue for you.

Mr McLaughlin:

It is not a constituency issue of mine, to be honest.

The Chairperson:

I know; that is why I allowed indulgence.

Mr Cree:

I have a couple of quick points to make. You mentioned the Department of Education and the £30 million, and there was reference to £120 million. Will you clarify where that comes from? You also referred to the Chancellor's autumn statement.

The Chairperson:

We will have a brief session on the Chancellor's autumn statement later.

Mr Cree:

OK.

Mr Brennan:

I mentioned that the Education Minister, the Finance Minister and the First Minister and deputy First Minister had a meeting just over a week or so ago at which the Education Minister set out in some detail the nature of the pressures that individual schools face. Key drivers in that are things such as demographics and enrolment numbers and things. At that meeting, the Ministers accepted that there was a fundamental problem that had to be addressed, and they agreed a way forward to look at it. The problem was that the savings profile that was imposed on the Department of Education envisaged cuts something in the order of 5%, 1% and 5% in the school budgets over the coming years. Ministers agreed a reprofiling of what that spend would look like. The first tranche of that, which bites in 2012-13, is £30 million. The Minister did not want to be more definitive, because the Executive are committed to the review of financial allocations. The remaining pressures on the schools estate that have to be covered, as envisaged at that ministerial meeting, will be addressed in the review of the Budget process. However, the Minister cannot pre-empt that now, because it is part of a wider process.

Mr Cree:

Was the £30 million part of that £120 million?

Mr Brennan:

It was.

The Chairperson:

The Department's position on the risk of not meeting the underspend target has moved to amber. Can you talk us through that?

Ms Brigitte Worth (Department of Finance and Personnel):

As I mentioned when we met previously to discuss the January monitoring position, a number of risks contribute to our raising to amber the risk of not meeting the 1·5% underspend. The first concerns the timing of the final monitoring round of the year. That length of time from the end of the year, a lot of our income is quite unpredictable, so there is a greater risk of our potentially generating additional income that we cannot use to cover expenditure.

Secondly, you are aware of a particular legal case — I know that you had a briefing on it this morning — and there is still a large amount of uncertainty about how much that will cost us. So, a risk of additional underspend would come from that, because we have obviously had to take a prudent position to avoid the possibility of an overspend. Those are the two main areas of risk that the departmental board felt deserved the risk's being escalated to amber.

The Chairperson:

You have the first risk at this time of the year every year, whatever about the court case.

Ms Worth:

We do, but in the past, we have had a February monitoring round rather than a January monitoring round —

The Chairperson:

I mean from now on, given the new circumstances on monitoring rounds. I wonder whether this will be an annual —

Ms Worth:

Yes. It will be an annual occurrence, and we will need to look at whether there are steps that we can take to improve our forecasting of income. However, a lot of inherent uncertainty will remain. In LPS, for example, we are dependent on land registry income, and it is very difficult to predict how the housing market will move from one month to the next. So, we will not be able to eliminate uncertainty completely.

The Chairperson:

OK. Thank you very much. If members are content, we will write to the Minister of Finance and Personnel to ask for an outline on the process and how he intends to engage with the Committee.