



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Provisional Out-turn for 2011-12 and Block
Position: DFP Briefing

30 May 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Conor Murphy (Chairperson)
Mr Roy Beggs
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	Department of Finance and Personnel
Mr Peter Jakobsen	Department of Finance and Personnel
Ms Brigitte Worth	Department of Finance and Personnel

The Chairperson: We have Michael Brennan, head of central expenditure division; Brigitte Worth, acting finance director; and Peter Jakobsen, central expenditure division in the central finance group (CFG). We had a ministerial statement yesterday, but I ask that you make some remarks about it. I will then open it up for questions and discussion with members.

Mr Michael Brennan (Department of Finance and Personnel): Thank you, Chairman. As you said, the Minister highlighted the key findings from the provisional out-turn session yesterday. Provisional out-turn is really important for two reasons: first, it highlights the financial performance of Departments during the 2011-12 financial year; and secondly, it determines the amount of money that the Executive will carry into the next financial year under the Budget exchange scheme.

In respect of the key statistics for members' attention, the resource departmental expenditure limit (DEL) underspend in total came to £68.5 million and the capital DEL underspend came to £30.1 million. However, that includes significant underspend on the current and capital sides by the Department of Justice — just over £20 million in resource and £20 million in capital. When you take out the Department of Justice, because it has specific, separate end-year flexibility (EYF) arrangements with Treasury as a result of the agreement on the devolution of policing and justice, that brings underspend for the remaining Northern Ireland Departments down quite considerably to roughly 0.5% on both the resource side and the capital side.

In relation to the carry-over into this financial year under the Budget exchange scheme, Treasury allows us to carry 0.6% of our resource DEL and 1.5% of our capital DEL into the 2012-13 financial year. That sets a cap of £49.5 million and £13.2 million for resource and capital respectively. As a

result of the figure work in terms of departmental performance, that means that the Executive will now be able to carry £46.3 million of non-ring-fenced resource DEL and £5.8 million of capital DEL into June monitoring. That will be allocated out as part of the June monitoring process. There is a little bit of a difference between those amounts and the cap. As I mentioned, the cap on the resource side is £49.5 million, but we are carrying only £46.3 million; that is basically where we are. We think that that is quite prudent, because it provides a little bit of a safety margin, should anything unexpected emerge as we get to the final out-turn stage in the autumn. The bottom line is that no resources are being surrendered to Treasury at all this year as a consequence of the departmental spending performance and the operation of the Budget exchange scheme.

That was a very quick canter through the main points.

The Chairperson: Thank you. For clarity and for our analysis of this, I am curious whether the final plan in your tables is the final plan post-reallocation of the significant underspend in January or whether it is the final plan as in what was originally predicted for Departments when the Budget was set? Obviously, for the purposes of analysis, there is a significant difference between what Departments were originally allocated and underspend in the final plan.

Mr Brennan: The final plan is the position post-January monitoring. There is a slight difference between the departmental out-turn and the block level adjustment. For example, the £46.3 million of resource DEL that the Executive are carrying forward into June monitoring is at a block level. The reason for that is that there is a series of centre adjustments. You may remember that we carried £13 million of resources that we were not able to allocate in January monitoring. That is carried forward at the centre. It is a centre adjustment. So, the final plan reflects the last monitoring position as set and presented to the Executive and Assembly. The provisional out-turn position is where we are at the end of May in respect of Departments signing off on actual spend.

The Chairperson: Do you accept that that is slightly misleading for us, given that we, as the Finance Committee, have a responsibility to scrutinise the allocation of budgets across all Departments? I am not saying that it is deliberately misleading, but I am saying that it is misleading in respect of our ability to analyse. You have the figures, and you can decide, over the course of a year, how a Department has spent or underspent. However, the figures we get relate to a readjusted position halfway through the year. It does not give the Committee any opportunity to analyse how Departments have spent or underspent across the year.

Mr Peter Jakobsen (Department of Finance and Personnel): All the information is out there. If you look at each monitoring round, you can see what reduced requirements Departments hand back. So, you are able to track the adjustments.

The Chairperson: We do, but we rely on you to give us those figures.

Mr Jakobsen: I suppose that we could produce that.

The Chairperson: We could ask our Committee staff to take your figures and produce a set of tables for us. However, if you produced a set of tables, I think that it would help us to measure the entire position.

Mr Jakobsen: Absolutely. We are happy to do that.

The Chairperson: There were no figures for ring-fenced underspend. How concerned are you about that, given that some of the ring-fenced underspend cannot be reallocated or carried over?

Mr Brennan: The total ring-fenced underspend was £14 million for all Departments. That covers accounting adjustments for depreciation and impairments. So, it is quite a specific and technical allocation of resources to Departments that we have no control over. For example, that £14 million of spend cannot be reallocated anywhere else. It basically goes back to Treasury, because it is controlled directly by it. The best way to regard it is as not real money or spending money as such; it is basically just accounting adjustments that Departments have to make to their departmental accounts to, for example, reflect the depreciation of land and property or assets that they hold or impairments on the deterioration of property.

Mr Cree: I asked the question yesterday about that ring-fenced underspend, because the figures did not balance out. I would welcome the detail of that. I know that the figure is for adjustments, but nevertheless it is part of the story. Part of our problem, and everybody's problem, is trying to understand exactly what is going on. There should be direct read-across to see what is happening, and we are determined to get that by hook or by crook.

Mr Brennan: We can certainly give you the table detailing the adjustments. As I said, it is quite a small amount; it is only £14 million in total at block level.

Mr Cree: I appreciate that.

The Minister said, and you have just reported, that nothing will be going back. We have a letter from Mr Irwin from the Department saying that there is a possibility that £26 million of the money ring-fenced for equal pay claims could go back. Can you add anything to that apparent conflict?

Mr Brennan: I am not aware of that letter. Is it ring-fenced expenditure?

The Chairperson: It is ring-fenced equal pay settlement money. Last week, the question of whether it would be retained if it was not used for equal pay was asked. We have since received information that it cannot be retained if it is not used for equal pay. Therefore, it is ring-fenced money, which would go back.

Mr Brennan: If it is ring-fenced by Treasury for specific purposes and we do not use it for those purposes, the money will go back. It is similar, for example, to virtually all the expenditure in the Department of Justice, which is deemed by Treasury to be ring-fenced, because it has separate EYF arrangements. If we do not use the money for the specified purposes, it goes back to Treasury.

Mr Cree: Then, the Minister's statement yesterday, when he said that nothing would go back, was wrong.

Mr Brennan: No, because the Budget exchange scheme does not reflect the Department of Justice money. Also, the caps set, for example in resource and capital, the £49.5 million and £13.2 million refer only to non-ring-fenced DEL.

Mr Cree: But, that £26 million is real money.

Mr Brennan: It is real money, but it is ring-fenced by Treasury, so it is not part of the terminology of "non-ring-fenced" and "ring-fenced" that we use in the public expenditure system in Northern Ireland. It is ring-fenced by Treasury for specific purposes.

Mr Cree: So, it does go back if this does not come off.

Mr Brennan: It is the same as depreciation or impairments; we cannot use it for anything else.

Mr Cree: Thanks; that is a significant point.

Mr Girvan: I understand where we are coming from in relation to that £26 million.

I appreciate that we have got good detail here and that there seems to be better budgetary control in Departments in the management of their budgets and the achieved underspends. How much confidence and faith can we put in the figures that are presented here? I appreciate that the Department has the figures presented to it and accepts them. However, is the input from each of the Departments, with the detail of where the spend has been, adequate for it to be accepted that the money has been spent under those budget headings?

I ask that because I wonder, and I raised this with the last set of witnesses, about the fact that, in making their spend, Departments are working with arm's-length bodies in relation to some of that spend. Some of them are dealing with very large sums of money, not just a million or a couple of million pounds; some of them are dealing with hundreds of millions. How are they made accountable in the whole process? They believe that they have total autonomy and can do what they want with public sector money. How much detail is there on that? We need to have a totally open and

transparent system, so that, regardless of the Department, we know that we can have some confidence in the figures under the headings that we are receiving.

Mr Brennan: You have touched on a number of important points. The figure work that we have provided you with on the provisional out-turn is based on the Budget position, so it embraces the totality of central government spends and includes non-departmental public bodies (NDPBs) and wider public sector bodies. For example, the totality of expenditure by trusts and education and library boards is reflected in this because it is all coded by Departments based on their units of business and spending areas. What you see here is the totality of everything.

As you know, there is a disjointedness between the public expenditure information that we provide as part of the Budget context and what you get from, for example, the Estimates that you are asked to approve. The Estimates reflect expenditure at departmental level and not the activities of the NDPBs. There is disjointedness there, and I can understand where you are coming from. In recent years, we have tried to provide a reconciliation so that you can see where the money goes when you move from the Budget definition of public expenditure allocations through to the Estimates. We provide a reconciliation so that you can see where the money moves. That is to give you some assurance that everything is coded by Departments and that you can see where it is.

As we discussed last week, the difficulty that you have goes to the level of transparency that there is in the Estimates across a number of Departments, because the Estimates are to provide information on what is known as spending areas or units of service. A lot of that is brigaded up at a very high level, so there is not much insight there compared with what you might see in, for example, the Budget document.

There is an issue, first, with providing you with a reconciliation as you move from Budget to Estimates, and we will provide that. Secondly, the issue about transparency in the Estimates goes back to the parallel work that we are trying to do with the Executive and the Committee on the review of the financial process. The Estimates document is the critical document for the Assembly for scrutiny and approval of where money goes in Departments, and my view is that that should be disaggregated as much as possible so that you can see exactly where every pound goes.

Mr McQuillan: In yesterday's statement, the Minister said that the provisional out-turn for administration was reduced by 5.3%. How confident are you that that was from administration and not from front line services?

Mr Brennan: When Departments are allocated their budgets, there is a separation in resource DEL between administration and other resource. There is a series of disaggregations, and one of those is administration expenses. Only certain types of spend can be included in that. It is the pay and rations of Departments, and they have to be quite specific about what goes in there. It is not as if they can move it out of there and put it into another area. When we are able to report that admin spend has fallen by 5.3%, that is only spend in the category that is, essentially, back office functions of the main Departments. It is not from other front line services. When you talk about other front line services, you are talking about, for example, the expenditure on the health trusts or the education boards, which scores differently. There is quite a well-defined disaggregation in terms of classification.

Mr McQuillan: So, you can follow it.

Mr Brennan: You can follow it very well. In every monitoring round, we know exactly what is going on. We also get it when we are doing the monthly forecast information.

Mr Beggs: You mentioned the issue of depreciation, and you talked about being aware of what is happening in the non-departmental public bodies. In the previous financial year, Northern Ireland Water was formally reclassified as a non-departmental public body. Do the end-year out-turns include depreciation repayments to Treasury for the significant assets of Northern Ireland Water because it is now a NDPB? Secondly, are there any hidden VAT issues that mean that liabilities are still floating around?

Mr Brennan: No. Members will recollect that, during the year, significant reduced requirements were declared by Northern Ireland Water. A large element of that was non-cash costs for depreciation and impairments. For example, when I mentioned that the ring-fenced position was £14 million, that reflects the importance of the reduced requirements that came from Northern Ireland Water for depreciation and impairments. It is built in there and not hidden somewhere else.

Mr Beggs: I am just trying to understand this, because it is quite an important issue. I understand that, with publicly owned assets, a depreciation cost has to go back to Treasury.

Mr Brennan: Yes.

Mr Beggs: If it is a NDPB, does that not increase the depreciation costs that have to be returned to Treasury?

Mr Brennan: No; that would be the case if there was a revaluation of the asset, but the valuation of the asset has stayed the same.

Mr Beggs: Maybe you need to continue that dialogue in a different format. Thank you.

The Chairperson: Your Department's resource underspend is more than twice the departmental average. How does that impact on your ability to crack the whip with the other Departments regarding their underspend?

Ms Brigitte Worth (Department of Finance and Personnel): I think Mike would have to answer about the ability to crack the whip. We set ourselves a target of less than 1.5% underspend, and we met that target, so in demonstrating what we intend to do, we have the advantage of having met our target.

The Chairperson: Would that have to be re-evaluated, given that other Departments are outstripping you by more than 2:1, by the look of it?

Ms Worth: My main concern over the past year has been the level of reduced requirements that we have had since June monitoring. I see that as the key area that the Department needs to focus on this year, more so maybe than the year-end performance. I would not like to see our year-end performance slip any, but focusing on the level of resources that we have surrendered during the year is more of an issue for us because I think that figure was more out of kilter with the performance of other Departments.

Mr Brennan: In relation to the issue of cracking the whip across all Departments, I think individual Ministers have taken great responsibility in driving down costs; for example, on the administration of expenditure controls. The Executive agreed at the start of this Budget period that individual Ministers would have complete autonomy in controlling the administration expenditure, yet it has fallen by 5.3% in real terms this year alone. Individual Ministers are driving down costs; it does not need the collective enforcement of the Executive to do that.

The Chairperson: There is no downfall in your individual Minister in that regard, then? OK, go ahead. I will not go into that. *[Laughter.]*

Mr Brennan: Going forward, I think this year's performance is incredibly impressive when you look at the trends over the past seven or eight years, for example. On the capital side, the average annual underspend was around 7%, and we are now down to 0.5%. On the resource side, the annual average over the past seven years was 1.5% and we are now down to 0.5%. So, there was a startling improvement in financial management by individual Ministers this year. I think that is a recognition of the importance of bearing down on costs. Our Minister was particularly pleased on the admin spend side, because as I said earlier, that is the back room pay and rations for Departments, not the front line services.

The Chairperson: I think that most people who spoke to us recognised that it was a very much improved performance.

I have one last question. The Minister paid particular attention in his statement to the 7.7% underspend in the Audit Office. Was that figure agreed with the Audit Office?

Mr Brennan: No; well, the Audit Office would have presented its provisional out-turn data for incorporation in these papers.

The Chairperson: So, the figure he quoted of 7.7% was the figure given to you by the Audit Office?

Mr Brennan: Yes.

The Chairperson: OK; that is fair enough.