Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

January Monitoring Round/Autumn Statement: DFP Briefing

23 January 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Ms Megan Fearon
Mr Paul Girvan
Mr John McCallister
Mr David McIlveen
Mr Mitchel McLaughlin
Mr Peter Weir

Witnesses:

Mr Peter Jakobsen	Department of Finance and Personnel
Mr Jeff McGuinness	Department of Finance and Personnel
Ms Preeta Miller	Department of Finance and Personnel

The Chairperson: I welcome Peter Jakobsen and Jeff McGuinness from the central expenditure division of the central finance group, and Preeta Miller from the finance division of the corporate services group. Please make an opening statement.

Mr Peter Jakobsen (Department of Finance and Personnel): Thank you, Chair. I will say a bit about January monitoring, and Jeff will talk about the autumn statement. As you know, January monitoring is the final round of the financial year, so it is very important for the Executive to position themselves with respect to the Budget exchange scheme. You are aware that we can carry forward something around £50 million in resource and £14 million in capital. The Executive wanted to position themselves to be able to, at least, not exceed those limits, because anything above that would be lost to Northern Ireland.

I will provide the specifics of the monitoring round. We carried forward £25 million from the October monitoring round as an overcommitment. The Departments handed back about £42 million, and there were some central adjustments, which amounted to about £16 million. In total, we had about £35 million available to hand out. Against that, there were about £125 million of bids from Departments. The Executive allocated about £43 million, which is a bit more than was available. About £18 million of that went to the Department for Regional Development, mainly for buses and roads; £10 million to the Department of Health, Social Services and Public Safety; and £10 million to the Department of Justice for the Prison Service exit scheme. That left an overcommitment of £8 million, going into the final few months of the year. That is manageable, given some likely levels of underspend that we will see. We are confident that we should stay within the limits of the Budget exchange scheme.

I want to highlight a Department of Enterprise, Trade and Investment (DETI) bid of £18 million, which you probably know about. The Executive are still considering that and have made no decision on it yet. If they agree, that will take the overcommitment to £26 million, which is still fine, because there have always been underspends in excess of that at the end of the year in all previous years, so we are confident that we will get that covered.

The final issue to mention is the £11·8 million to the Department for Social Development (DSD). That is ring-fenced funding that we have held, and which we got in previous UK budgets and autumn statements. That should take forward two specific housing schemes, which will help homebuyers and recycle some property that is vacant at the moment.

Mr Jeff McGuinness (Department of Finance and Personnel): As you know, the Chancellor announced his autumn statement on 5 December. One of the key elements of the statement was that he was reducing resource departmental expenditure limit (DEL) and providing additional capital DEL to Whitehall Departments. Northern Ireland was shielded from the severity of the resource DEL cuts, due to the Whitehall policy of protecting health and schools. The fallout in respect of resource DEL from that for Northern Ireland was a £2·4 million increase in 2013-14, with a reduction of £34·3 million in 2014-15. There was a £53·7 million increase in capital DEL for 2013-14, with a £76·9 million increase in 2014-15. Some £3·1 million of capital DEL for 2013-14 and £8·2 million for 2014-15 is ring-fenced for loan and equity investment. The Minister made a reference to that in the Chamber yesterday. An analysis of those consequentials was provided to the Committee via the briefing note.

With regard to other key elements that the Chancellor announced, we have secured a borrowing flexibility on the reinvestment and reform initiative for up to £50 million between this year and 2014-15 in relation to the A5 and the ongoing legal issue there. We have secured an exemption on the carbon price floor, subject to the Treasury agreeing that as satisfactory with the EU.

Key elements in wider issues include corporation tax being reduced to 21% by April 2014, which will obviously have implications for the outcomes of our discussions with the Treasury on the devolution of corporation tax. Under welfare reform, the uplift to work-related benefits was capped at 1%, which will have an impact on some in our community. There was also a fuel duty freeze and a 10-fold increase in the annual investment allowance to £250,000.

Looking forward, the Office for Budgetary Responsibility projects a real-term reduction in budgets, with the austerity period expected to be increased by at least two years until 2017-18.

The Chairperson: Thanks very much, Jeff. Peter, will the European funding that makes up the £18 million shortfall for DETI in the January monitoring round be spent?

Mr Jakobsen: Yes. We have until the end of 2015 to spend that £18 million. The EU division is very confident that it will be able to find other projects to spend that on.

The Chairperson: OK. In his statement last week, the Minister discussed how the Treasury is moving to a single-year spending review in 2015-16. In view of the various adjustments to the final two years of the Executive's Budget, would you consider that a move to an annual budget process would enable the Assembly to make more regular assessments of allocations across Departments?

Mr Jakobsen: As I understand it, the one-year Budget is a one-off. As normal, there will probably be a spending review to cover the three or four years after that. I think that it is useful to set a longer-term Budget and then adjust it through monitoring rounds. That is the mechanism we have at the moment for in-year adjustments. I think that it is helpful to have that longer-term Budget setting process.

The Chairperson: Even if the longer-term picture changes radically by the end of a particular period?

Mr Jakobsen: We carried out a realignment exercise in the current Budget period to adjust budgets. However, only marginal adjustments were made.

The Chairperson: The Department of Finance and Personnel (DFP) business plan classified the risk of not meeting the 1·5% underspend target as amber. Is that still the case? How serious is amber in your measurements?

Ms Preeta Miller (Department of Finance and Personnel): Given the level of year-end spend last year, we still consider the risk to be amber. It is very difficult to predict with any certainty that we will meet the underspend target. However, indications at the moment are that we are on target to meet our year-end underspend targets.

The Chairperson: Obviously, significant amounts of money were handed back from DSD — it was a third of the overall figure. How can you be so confident that Departments are not going to land another £30 million in your lap at the last minute? When did you begin to see that picture being painted for the January monitoring round?

Mr Jakobsen: You are quite right. One cannot be 100% sure, and we are guessing. In the past couple of years, the underspend has been in the region of £40 million or £50 million on the resource side, which is still within the Budget exchange scheme limit. We have set where we are on the overcommitment at the moment against that. Given the underspend in previous years, we are fairly confident, but, as you said, you do not — cannot — know what is going to pop up in the last few months of the year.

Mr J McGuinness: The January monitoring round is the last chance Departments have to surrender funds. That usually crystallises some things that they were perhaps uncertain about in October. If they have any uncertainty at all, they will probably surrender those funds to try to minimise them and tie into their own budgets and accounts.

The Chairperson: Jeff, you outlined that the overall rate of corporation tax will be reduced to 21% in 2014. Has the Department made any projections on how that will impact the local economy? What has it done in response to that announcement?

Mr J McGuinness: That is not our area; it would be for the strategic policy division to answer. We are not sure of the answer to that at this stage.

Mr Jakobsen: Obviously, it will have an impact, but it concerns the major rate for large companies. Between 98% and 99% of our companies are small companies, and that will not really impact on them. I am not sure that it is going to make a huge difference to the economy here. It will make a bit of a difference to large companies that operate here, but that is about it.

The Chairperson: Does the Minister have a particular view on that?

Mr Jakobsen: I am not aware of his particular view. Obviously, if corporation tax is devolved here, it will have an impact on the cost.

The Chairperson: The devolution of corporation tax has gone off the radar a bit in the past couple of months. Have there been any soundings from the Treasury about an announcement on that?

Mr Jakobsen: We have asked for another meeting with the Prime Minister to discuss that, but I am not aware of a meeting having been set up yet.

Mr J McGuinness: As of last week, no meeting had been arranged. The Prime Minister was to get back to the First Minister and deputy First Minister about that.

Mr D McIlveen: In relation to the £18 million difficulty in DETI that the European bureaucrats have brought about — *[Laughter.]*

Mr Weir: David, what way will you be voting in the Cameron referendum? *[Laughter.]*

Mr D McIlveen: Sorry, I just could not resist that. In all seriousness, I know that you have to very clearly demonstrate where European money goes. Obviously, the idea is, ultimately, to bring us back to a position of financial neutrality so that the £18 million is covered from that money. Peter, you mentioned that specific projects have been identified. Will you give us a little bit more information and detail on that?

Mr Jakobsen: That £18 million EU money has to be spent before the end of 2015. That is the timescale. We have two years. I know that the EU division is working with Departments to try to identify projects. I have heard that there are some in the Department of Agriculture and Rural Development, but I am not aware of any others at the moment. Essentially, we have two years to find projects.

The scope of the programme is very wide. Nearly all infrastructure projects will qualify, and I have no doubt that they will be able to find something to set it against. The objectives of the programme are very wide.

Mr D McIlveen: OK. Thanks.

Mr Cree: I have a few points. It would have been an awful lot more helpful if we had had this meeting before yesterday, when we debated the matter in the House. However, we are where we are.

We have been assured that the £18 million will be recouped and used for existing projects. For that money to be returned to the centre and used for the initial project, in what I imagine to be a complete circular movement, it means that the £18 million that comes in late will have to be spent on projects that have already been identified. Is that true?

Mr Jakobsen: Yes. If it is going to free up departmental expenditure limit money for the Executive to use, it will have to be spent on projects that have already been included in departmental budgets. You are right. If it is additional —

Mr Cree: Yes. You cannot bring anything from outside and say —

Mr Jakobsen: That money could not be used for additional projects outside of what we have planned for. It will be spent in Northern Ireland and there will be additional projects. Maybe adjustments will be made that will free up money so that Departments can do something extra.

Mr Cree: So it cannot be used for new projects that might be dreamed up?

Mr Jakobsen: No.

Mr Cree: That clarification is welcome. We are looking at an overcommitment of £26 million. I said yesterday that I sympathise with the Minister. You are all really in a hopeless situation. You are trying to budget for an overspend for people who said that they were going to spend the money but now find that they are not. That is not an acceptable situation. At the end of the day, we must have money protected under the Budget exchange scheme. Is that the case?

Mr Jakobsen: Absolutely.

Mr Cree: Surely there has to be some penalty, some punitive action or some sitting on someone's shoulder to make sure that the projects that have only a couple of months to run incur the expenditure that is envisaged. Is there nothing else that the Department can do to follow that up continually, rather than waiting to see what happens at the end of the day?

Mr Jakobsen: Obviously, our supply teams talk to Departments all the time, and we require them to forecast their spend to year end every month. We will review that process and monitor what is going on.

Mr Cree: Good. Can you do that each month, for example?

Mr Jakobsen: Yes. Departments provide us with their forecasts of where they think they will be at year end each month. In the next couple of months, we will start to see whether large underspends are emerging in Departments.

Mr Cree: Yes, but I am a bit keener than that. The end of this month is next week. When will you be able to look at each Department's out-turns for January?

Mr Jakobsen: Those will not be submitted until perhaps 7 February. It is done at the end of the first week of February. It is seven or eight days after the end of the month.

Mr Cree: I wish you luck with that. Finally, I have not seen any reference to the sale of capital assets. Have we just dropped that idea?

Mr Jakobsen: Absolutely not. The assets management unit is still working away at identifying and realising asset sales. The target for this year is £22·5 million, and it is telling us that it is on target. It has already delivered around £20 million. There are three or four sales still pending that just need legal completion, and then it will meet the £22·5 million target.

Mr Mitchel McLaughlin: Thank you very much. Apart from the expectation of people falling short of their projections, which is almost the safety net at this time of the year, I think that this is on a par with previous end-year reports.

I accept the confidence that, by hook or by crook, we will find a way of spending the £18 million. However, I am not sure that it has been made clear what went wrong with the procurement process in the first place.

Mr Jakobsen: It is really for DETI to answer that, as it was in charge of the procurement process. I am not aware of the detail. I know that the Executive are looking at it and have got an awful lot of information from DETI on it. However, that is really a question for DETI.

Mr Mitchel McLaughlin: Does DFP not have an overall custodial function in respect of procurement?

Mr Jakobsen: Absolutely. The Central Procurement Directorate has that function. We are dealing with the finance part of it, and it is very clear that there is an £18 million pressure there. Regardless of what went wrong with procurement, that is what we are focusing on.

Mr Mitchel McLaughlin: We should seek that explanation. Our attention and public attention has been diverted to the reassurance that the money will not be lost to the economy, and that is important. However, it is more important that we find out what went wrong with the procurement process in the first place. I do not think that it was the European bureaucrats who created the problem.

There is another issue that I would like some information on. The Chancellor has gone silent on corporation tax. An issue that has perplexed me for some time concerns companies that trade in our region, and are part of multiple organisations, that pay their corporation tax directly to the Treasury through a headquarters located somewhere in Britain. Each time the proposition for the devolution of corporation tax varying powers is mentioned, we are told that there will be a cost to the block grant. A number of calculations have been made, and I know that the Minister has been working at this. However, I do not see any clarity emerging regarding those companies that are operating in our region and generating revenues and profits but whose contribution to the corporation tax pie seems to be outside our knowledge. Therefore, it affects the calculation of what we must deduct from a block grant and the negative impact. If it is profit that is generated here, it should be taken into account in the corporation tax transfers.

Mr Jakobsen: That is probably for Bill Pauley's side. However, I used to work in that area, so I know a bit about the corporation tax side. My understanding is that it is taking into account —

Mr Mitchel McLaughlin: Sorry, the question that I asked is this: while we are waiting for the estimations of the Chancellor, what are we doing to progress that issue and remove that anomaly? We cannot simply sit twiddling our thumbs, waiting for the Chancellor.

Mr Jakobsen: I am not aware of what is happening; I have to be honest. I think that Bill Pauley will have to answer that one. He is much closer to the corporation tax side.

Mr Mitchel McLaughlin: OK. Those are two issues that I would like answers on.

The Chairperson: Are members agreed that we should seek those answers?

Members indicated assent.

Mr D Bradley: Good morning. I am going to ask you about the £18 million as well. My understanding is that that was applied for for the Titanic project. That project cost was £92 million, and that £18 million was to be a contribution to it. However, the EU lawyers ruled that the Titanic project was not eligible for that funding. Therefore, we never got the money.

Mr Jakobsen: That is correct.

Mr D Bradley: If we do not have that money from Europe, how will we be able to distribute it to other projects?

Mr Jakobsen: Sorry; it is money that is sitting in an EU programme that was allocated to Northern Ireland.

Mr D Bradley: It is within the programme.

Mr Jakobsen: It is sitting in the programme for Northern Ireland. DETI allocated it to the Titanic project, and we hoped to draw it down against that. However, that project was deemed ineligible, so that cannot be done. If the EU Commission makes the decision that it is ineligible, which it will apparently do next month, the money is lost. The EU will take that money away from the programme. If DETI withdraws the application itself, we keep the £18 million and can redistribute it to other projects.

Mr D Bradley: Could it be used for existing projects?

Mr Jakobsen: Yes. That could be done to free up the departmental expenditure limit. Alternatively, it could fund new projects, but that will not free up the departmental expenditure limit in future years.

Mr D Bradley: So it can be redistributed to existing projects without reference to Europe?

Mr Jakobsen: Yes, but those projects still have to be in line with the objectives of the EU programme.

Mr D Bradley: So it will still cost us £18 million.

Mr Jakobsen: No, it will not cost us £18 million. It is costing us £18 million in this financial year to write off the EU amount. However, that will free up £18 million of EU money to spend on different projects over the next two years. If it is put towards projects that we already have in our budgets, that will free up the departmental expenditure limit in the next couple of years. That money goes back to the centre and is then redistributed for other projects in Northern Ireland. It is a zero-sum game, if you like. It frees up the EU money.

Mr D Bradley: Like Mitchel, I would be interested to know how we got into this position in the first place.

Mr Jakobsen: It is probably up to DETI to answer that question.

Mr McCallister: Is there a two-year time limit within which to use that £18 million?

Mr Jakobsen: Yes; it runs until 2015.

Mr McCallister: Is that the end of March 2015?

Mr Jakobsen: My recollection is that it is 1 January 2015, so it is slightly less than two years.

Mr McCallister: Is there any confidence among your colleagues that that can be achieved?

Mr Jakobsen: Yes. The EU division is very confident that it will identify projects on which to spend that £18 million.

The Chairperson: OK. Thank you very much.