



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

June Monitoring Round/Provisional Out-turn
2012-13 — Outcome: DFP Briefing

3 July 2013

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Members present for all or part of the proceedings:

Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Michael Brennan	Department of Finance and Personnel
Mr Peter Jakobsen	Department of Finance and Personnel
Ms Preeta Miller	Department of Finance and Personnel

The Deputy Chairperson: We have with us three witnesses from the Department of Finance and Personnel (DFP). We have Michael Brennan, head of the central expenditure division, Peter Jakobsen, who is also from the central expenditure division, and Preeta Miller from the finance branch. You are very welcome. If you are minded to do so, you are welcome to give an opening summary statement.

Mr Michael Brennan (Department of Finance and Personnel): Thank you, Deputy Chairman. I will briefly run through some of the key highlights of the June monitoring statement and the provisional out-turn result.

The Minister's statement highlighted three key issues, the first of which was the outcome of the UK spending round that was announced by the Chancellor last week. It showed that the resource departmental expenditure limit (DEL) allocations to Northern Ireland would grow by 0.6% and that the capital allocations for 2015-16 would increase by 3.3%. The downside, as the Minister highlighted, was that the Chief Secretary to the Treasury has formally recorded his concerns over the welfare reform agenda and the liabilities that may fall to the block, moving forward.

With regard to the provisional out-turn, no resources — resource or capital — were surrendered to Treasury under the Budget exchange scheme. Underspends of £27 million on the resource side and £25 million on the capital side were carried forward into the June monitoring position.

I have some key points from the June monitoring to highlight. There were bids of £179 million on the resource side and bids of £233 million on the capital side. In fact, there was an overcommitment on the resource side, after the centre adjustments, which left a pressure on the resource side of minus £7 million; and, on the capital side, a significant amount of resources — almost £194 million — was available for reallocation. The key driver there was, obviously, the A5 surrender from the Department

for Regional Development (DRD). In light of the amount of resources on the capital side and the pressure on the current side, the Executive took the decision to reverse a resource-to-capital switch that they had made as part of the initial 2011-15 Budget process. That moved £71 million from capital into resource, which meant that the Executive were able to meet £80 million of current bids and £115 million of capital bids. The Minister outlined that in his statement on Monday.

On exiting June monitoring, the Executive are overcommitted by £16 million on the current side and have a small overcommitment of £12 million on the capital side. That is a very brief run through the main numbers.

The Deputy Chairperson: That explains it all. Am I right in saying that, in the latest budgetary settlement, in general, there was an increase in capital DEL and a decrease in resource DEL?

Mr Brennan: Yes. In Whitehall, all Departments had their resource budget cut by 1% to fund additional capital spend. However, because of the mechanics of the Barnett formula, once the UK Government decided to protect health and schools funding in Whitehall, Northern Ireland got 100% comparability under the Barnett formula. That meant that the Executive's current budget was effectively ring-fenced to protect it, to a large degree, against the Whitehall cuts. Yes, the growth in the budgets is increasingly on the capital side.

The Deputy Chairperson: So much so that I believe that some of the work of the assets management unit has been curtailed because of the resources available through the benefits of the Barnett formula.

I want to ask you about the economic pact. In it, we are told that there is an £18 billion package of capital resource. That comes from a pledge that was originally made by Gordon Brown when he was Prime Minister, and it was vaunted as part of the peace dividend. The last time I checked with the Finance Minister, it had not arrived, but the press statement from the Secretary of State says:

"The pact also includes agreement on an investment plan that will mean the UK Government is on course to deliver £18 billion of capital funding ... by 2017."

Can you translate that for me? What does that mean?

Mr Brennan: You referred to the original Gordon Brown agreement, whereby there would be capital spend of £18 billion over a 10-year period. In 2010, when the UK Budget settlement was announced for Northern Ireland, there was considerable concern across all parties, the Executive and the Assembly that the capital budget had been hit. You may remember the headline figure of a 40% cut in capital budgets.

The Deputy Chairperson: Yes.

Mr Brennan: Since then, the UK Government have completely reversed their focus on spending, and money has been moved out of current into capital. You will see that there has been a significant uplift in our capital spend over the past couple of years, and that rate of increase in capital spend is accelerating as we move forward. Back in 2010, the Executive registered a concern formally, under the Joint Ministerial Committee (JMC) dispute process, with the UK Government that that £18 billion commitment would not be delivered. However, in light of the change in emphasis in spending since then by the UK Government, from a DFP perspective, our numbers and our advice to our Minister is that that commitment will be honoured now.

The Deputy Chairperson: My understanding was that that was to be new money. So far, we have got reclassified money — money that was originally resource DEL and permission has been given to transfer that into capital. There has been a lot of sleight of hand, but we have not got any new money from it.

Mr Brennan: The commitment was to have £18 billion worth of capital spend, and I suppose that Treasury —

The Deputy Chairperson: It was not a commitment to new money.

Mr Brennan: No; it was a commitment to capital spend. The Treasury position would probably be that there were no Budget allocations after the 2014-15 financial year, so, effectively, the baseline was

zero. Treasury would probably argue that every single pound that went into capital was, therefore, genuine spend. Take, for example, the fact that we were allowed to use the reinvestment and reform initiative (RRI) borrowing facility: that is genuinely additional spend that the Executive have the discretion to pull down. Treasury would, therefore, argue that that is discretionary capital spend that the Executive are taking forward. Therefore, in that context, it would be new.

The Deputy Chairperson: How much of it have we got to date?

Mr Brennan: To the position now, in June 2013?

The Deputy Chairperson: Yes.

Mr Brennan: I do not have the figures to hand.

The Deputy Chairperson: Can we get those figures?

Mr Brennan: We can give you a breakdown on an annual basis of our estimate of capital spend from the Gordon Brown announcement to where we are now and project that forward. We have that.

Mr Girvan: A figure was mentioned in the House of —

Mr Peter Jakobsen (Department of Finance and Personnel): The latest projection is £17.68 billion. That is over the 12-year period of the agreement.

Mr Brennan: It is fair to point out that, if you adopt Treasury's methodology, the figure is £22.5 billion.

Mr Jakobsen: It is about £22 billion. There is a dispute over exactly what should be included in that commitment. It was not set out exactly at the time. Treasury is saying that we are on course to deliver something like £22 billion.

The Deputy Chairperson: In the Minister's statement, he was full of praise for the Departments and for how "remarkable" their spending performance was. He said:

"It is testament to the sound Budget management that is exercised by the Executive throughout the financial year."

To what extent was the success in minimising the underspend the result of good spending performance by Departments as compared to prudent action by the Executive at a strategic level, through pragmatic monitoring decisions and the use of overcommitment, considering the fact that we were almost frightened by the level of underspend that there was last year?

Mr Brennan: The first observation I would make is that the first measure of success on underspend and overspend is the fact that no money was surrendered to Treasury at all at the end of the year. That is the first measure of success. I think that there were two elements to the actual process for delivering that success. The first was the performance of Departments in-year in bringing their reduced requirements to the table as early as possible for reallocation, which worked very well. The quantum of resources available in the three monitoring rounds and circulating within the system over the 12-month period was quite substantial.

The second strategic process that, I think, was very successful in ensuring that no money was lost under the Budget exchange scheme was the decision by the Executive to do late reallocations in the financial year after the January monitoring round. A specific example is the allocation of, I believe, £10 million to the Department of Justice (DOJ) for the prison officers' severance scheme. A process was put in place to make sure that there was sufficient headroom built into the Estimate. So, almost on a real-time basis, the Executive were made aware of where we were on the balance of underspend or overspend.

As I said at the very start, the bottom line was to make sure that nothing was surrendered back to Treasury. So, an underspend of £27 million on the resource side is a significant success. As the Minister said — using the specific example of someone on an average weekly income coming in with an underspend of 92p at the end of the week — that was some going.

The Deputy Chairperson: How long can we expect that special end-year flexibility that is afforded to the Department of Justice to continue?

Mr Brennan: That will continue up to 2015. It runs for the current budgetary period.

The Deputy Chairperson: OK. Do you believe that there is a need for improved forecasting and monitoring by that Department to ensure that the Executive do not exceed the Budget exchange limits and surrender end-of-year money to Treasury once those arrangements have ended?

Mr Brennan: When the devolution of policing and justice took place, officials in that Department were automatically on a very steep learning curve because they were not used to the rigours of the monitoring system that DFP imposed on other Departments. They are learning at a considerable pace how to work in monitoring round systems. They just were not used to having to work within those rigours. In the provisional out-turn figure, the material difference on the capital side between the gross and net with the Department of Justice is the capital underspend for the Department. Obviously, an element of that is that it still has flexibility to carry across, but it will be quite difficult for it to be completely within the surrenders range flexibilities that the other Departments currently work under.

Mr Jakobsen: On the capital side for DOJ, nearly all the underspend was in relation to Desertcreat. That was a planned underspend; it can carry it forward and draw it down in following years. It is not doing too badly in that respect. If it has reduced requirements, the key point for us is that it surrenders them early. That is the point that we will be making to it.

The Deputy Chairperson: One of the points that Assistant Chief Constable Gillespie made is that the Desertcreat costs seem to continually be rising. Is that a concern?

Mr Brennan: No. There was an issue about a cost over-run at one stage, but I understand that DOJ and the PSNI have that in order. A revision exercise has brought costs down. That issue will be addressed through the business case approval process. A key element of the business case is obviously to make sure that it is not only value for money but affordable.

The Deputy Chairperson: Finally, I want to ask you about the redistribution of the A5 resource. Obviously, some of that is going into other capital projects. Do you have any concerns that there may be a difficulty in completing those capital projects within the budgetary period?

Mr Brennan: No. In June monitoring, there was a surrender of £108 million specifically in relation to the A5. That has gone out to other Departments, but it goes to those Departments only on the basis that they can spend that money within this financial year. For example, it is very easy to buy new buses; there is no issue in that regard about time over-runs, time escalations or contracts. It only goes to Departments on the basis that they can spend it within this year.

The Deputy Chairperson: What about the other roads projects?

Mr Brennan: The bulk of the money that went out was for structural maintenance. DRD has a rolling list of what structural maintenance issues need to be addressed. That can be done almost instantaneously.

The Deputy Chairperson: What about the Magherafelt bypass?

Mr Brennan: That is a £40 million project for next year. All that has happened in relation to the Magherafelt bypass is that the Executive have effectively given the green light to the Minister for Regional Development. The horrible expression is moving from procurement-ready to shovel-ready. The Executive are trying to get the Magherafelt bypass spend in 2014-15 to happen in 2014-15. It is about starting the process as quickly as possible.

Mr Girvan: I come back to the point about reallocating the money that was ring-fenced for the A5. Certain angles are being taken to try to make sure that that happens eventually. Mention was made of a £50 million borrowing for capital. Are we allowed to do that because we have already allocated and spent the money that was supposedly ring-fenced, or what is the reason behind that?

Mr Brennan: There are two issues, both of which revolve around the figure of £50 million. First, because the A5 is delayed, there will be a further reduced requirement from DRD next year of £50 million specifically related to the A5 project. Even with the best endeavours and a fair wind behind it, DRD will still bring £50 million back to the Executive in 2014-15 for reallocation.

Secondly, once it became obvious that there was going to be a change in the spend profile of the A5, the Finance Minister asked the Chief Secretary to the Treasury to alter the borrowing profile under RRI so that it would better reflect the spend profile of the A5. So, the Chief Secretary has agreed that the RRI borrowing profile could be increased by another £45 million in 2014-15 to accommodate the lumpiness of the A5 project.

Mr Girvan: So, that is to smooth it through.

Mr Brennan: Yes.

Mr Girvan: OK; I understand that.

I am just wondering about a business case being made. We are all aware — I think that there was cross-party support for a motion in the name of Ian McCrea and other Members — of the issue of the equal pay settlement and DOJ. We had money set aside for that previously. I was not sure whether that money had to be spent within a certain time frame. Is that money still being held to deal with the equal pay issue?

Mr Brennan: There was a sum of £26 million held, but it was not held by the Executive. That £26 million was part of the UK national reserve. If the court case had gone against the Executive, the Finance Minister would have had to call on the Chancellor to transfer that £26 million across from the national reserve into the Executive's Budget. However, now that that issue has been resolved, there is no call on the national reserve. The £26 million never existed in Northern Ireland's DEL.

Mr Girvan: So, if we wish to step outside what has been agreed, we would have to fund that ourselves; is that what you are saying?

Mr Brennan: Yes.

Mr McQuillan: I think that the provisional out-turn is a real good-news story. I think that the Minister is right to congratulate the Departments on the way they spent the money and the fact that nothing was handed back. Some other parties, particularly the Chairman's party, begrudgingly think that there is something hidden there —

The Deputy Chairperson: The Chairman is not here at the moment.

Mr McQuillan: The Deputy Chairman, then. The Chairman at the minute. It is a multi-party Executive, and I think that we should all be slapping ourselves on the back for a job well done.

In the June monitoring round, some money was handed over to the Department of Enterprise, Trade and Investment (DETI) for the agrifood loan scheme. I know that it is a DETI issue, but do you know how that will be rolled out?

Mr Brennan: Yes. This is an initiative that DETI and the Department of Agriculture and Rural Development (DARD) are progressing together. As you know, the Executive have been allocated a form of capital that has to be used for various specific purposes; it is known as financial transactions capital. That can only go to private sector bodies as either a loan or an equity investment in some sort of private sector company. The ETI Minister is quite keen to use that money to exploit commercial opportunities in the agrifood industry in Northern Ireland. As I understand it, a number of major retailers have indicated that they are quite keen to source additional output from companies located in Northern Ireland. So, basically, this is about trying to find a way of utilising the ring-fenced capital, which has very restrictive terms imposed on it by Treasury, by giving it to the private sector here to grow their businesses. As I understand it, the Finance Minister, working with the Enterprise Minister, has had negotiations with the commercial banks to underwrite that proposal, and it is quite well advanced now.

Mr McQuillan: I asked the Minister about it, and he said that 40% was coming from this and 60% from the banks to fund that.

Mr Brennan: Basically, the financial transactions capital that I mentioned would be the subordinated debt; that will be 40% of the loans, and the 60% will be provided by commercial banks.

Mr McQuillan: Do you know when this will be ready to roll out?

Mr Brennan: My understanding is that it is very well advanced, which is why the Executive took the decision to earmark the money to DETI and DARD to take it forward.

The Deputy Chairperson: I am not too sure what your ramblings were before you asked the question, Adrian.

Mr McQuillan: I will explain —

The Deputy Chairperson: There is no need to explain it. Can I just point out that I was not attacking anyone, so there was no need for you to —

Mr McQuillan: It just sounded a bit begrudging. That is all I was thinking.

The Deputy Chairperson: There was no need for you to jump to the defence of the Minister.

Mr Cree: To get back to this: it certainly would have been helpful to have this last week, would it not? But that is never the case.

Mr Brennan: Do you mean in terms of briefing the Committee?

Mr Cree: Before the actual Budget statement, yes.

It was good that we managed to hold on to all the money — I must say that I had my doubts — but it really was a roller-coaster ride to get to there. At the January monitoring round, we were talking about an overcommitment of over £60 million. If we were budgeting for an overcommitment, do we borrow money in lieu of that?

Mr Brennan: No, we do not.

Mr Cree: We do not?

Mr Brennan: No. It is important to differentiate between the cash flow and the cash management of Departments and the actual budgetary allocations that Departments make.

Mr Cree: OK. So, the RRI borrowing, for example — the £100 million that you referred to earlier — will not necessarily take place unless it has to.

Mr Brennan: No.

Mr Cree: At the year end, was any money left in the centre?

Mr Brennan: No. The centre effectively balances out. We have an overcommitment, which I mentioned. Centre items left the Executive overcommitted on the resource side by £7 million after the various adjustments had been made. So, it is not that there is a pot of money sitting in a cupboard somewhere in DFP.

Mr Cree: No, it is cash in transit, is it not?

Mr Brennan: Effectively, it is.

Mr Cree: Sometimes, it is sitting there in no-man's land in that cupboard.

Mr Brennan: It is in transit, basically. It is either allocated to or promised from someone, so it is a budget allocation process. That is all. There is not a physical amount of money sitting anywhere.

Mr Cree: I understand, but I am sceptical. Lastly, Paul mentioned equal pay. There is £2 million in the DFP account for that in table E. Can you explain that?

Ms Preeta Miller (Department of Finance and Personnel): I will explain that. Recently, Mark Bailey provided a briefing to say that the situation has not changed. Basically, the Department is still in negotiations on the settlement for those claims that are on the table. I understand that there are about 450 to 500 claims currently. We had to make an allocation for a provision to enable us to make payments when agreement is reached, and that is why the £2 million was taken in budget cover. It is the best estimate of what our liability could be at the moment.

Mr Cree: So, it is actually in DFP coffers.

Ms Miller: It is in our budget. We have taken cover for it.

The Deputy Chairperson: How will the situation that arose in DETI with regard to £18 million European funding be addressed in accountancy terms? Will there be an Excess Vote, or will it be part of headroom?

Mr Brennan: I will deal with the strategic issue, and Peter will go into the detail. On the strategic importance of the £18 million, as you know, the Executive took a decision to reallocate that elsewhere to draw down additional funds. So, for example, in June monitoring, there is an allocation to DRD of £6 million for buses. That draws down exact match funding from the European Union. That £6 million is netted off the £18 million, so, as the Minister said on Monday, that £18 million is not an issue now and has already been covered by reallocation commitments. Peter will talk about DETI's overspend.

Mr Jakobsen: There is no Estimate issue, because it has not breached its Estimate cover. It did not spend the money, so I do not think that there is an issue with accountability. It breached its budget, but there is a good reason for that. No action will be taken.

Mr Brennan: If you thought that there may be an Excess Vote issue on Assembly accountability, there will not be because it did not spend the money and so did not exceed its control totals. It did exceed its budget totals, as Peter says, but that is an issue for the Executive, and DETI fully informed the Executive about what was going on.

The Deputy Chairperson: In the letter from the Department of 2 July, reference was made to the requirement for a local Budget process arising from the Whitehall 2015-16 spending round. Can you give us any indication of what exactly that might entail and when it might take place?

Mr Brennan: The Finance Minister is minded to try to get an initial scoping paper to Executive colleagues as quickly as possible. We are nearly there and hope to get that to the Minister in the next few weeks. All that that paper will do is set out the funding envelope that is available to the Executive in 2015-16 and then it would pose a series of questions or issues that Ministers should turn their mind to at this very early stage. For example, what assumptions should the Executive make on an efficiency agenda for 2014-15? Or, given that it is an allocation for only one financial year, do they want to do what is called an incremental Budget? That involves making changes around the allocations for 2014-15. Or, do they want to do a thorough, zero-based Budget process? That is where, basically, you delete all the Budget allocations to Departments back to zero and where all Ministers have to bid for all allocations. There is a range of such issues and questions that the Minister wants to get out to his Executive colleagues over the next month or so and set out an indicative Budget timetable. As I said, these are very early stages.

The Deputy Chairperson: So, we will hear more about that in the autumn?

Mr Brennan: You will, yes.

Mr Cree: May I just ask Michael a question about the centre again? If, for example, a sum of £5 million is to be transferred from A to B, at the particular time when we present the figures, does it have to be shown as minus in one and plus in the other, or is it not shown at all?

Mr Girvan: It disappears.

Mr Cree: That is what I am worried about.

Mr Brennan: If it is an allocation between Department A and Department B, it appears in the tables, and you will see that as a technical transfer between Departments. That is in the tables that you get.

Mr Cree: So all moneys in the transfers that are held in the centre appear in somebody's particular budget column?

Mr Brennan: The centre is basically regarded as a temporary transit area. If we cannot do a technical transfer immediately between Department A and Department B, it comes into the centre or goes out of the centre in anticipation of a receipt or a pressure coming to us —

Mr Cree: It is always shown somewhere.

Mr Jakobsen: For example, if you had £100 million to hand out in June monitoring and you hand out £110 million to Departments — you overcommit by £10 million — you would have the £110 million going out to the Departments as pluses and minus £10 million to the centre to balance the position.

Mr Cree: It is always recorded somewhere; that is the issue. It is not moving three egg cups around the place.

Mr Brennan: At the start of the next monitoring round, the first line you will see will be that minus 10.

Mr Jakobsen: You can minus it or increase it, whatever the Executive choose to do.

The Deputy Chairperson: OK. Michael, Preeta and Peter, thanks very much. No doubt, we will meet again after the recess.