



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Departmental Strategic Priorities and other
Budgetary Issues: Mr Simon Hamilton MLA
(Minister of Finance and Personnel) and DFP
Officials

17 September 2014

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)
Ms Michaela Boyle
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Hamilton	Minister of Finance and Personnel
Mr Mike Brennan	Department of Finance and Personnel
Mr David Sterling	Department of Finance and Personnel

The Chairperson: Good morning, Minister, you are very welcome. David and Mike, it is good to see you again. Simon, we will allow you to make an opening statement and then I will open up the meeting to members for questions.

Mr Hamilton (The Minister of Finance and Personnel): Thank you, Chair. It is good to be back before the Committee. I do not think that David has been before you in his new capacity as permanent secretary in the Department. Mike Brennan, the budget director, is an old friend of the Committee.

It is about a year since I was last before the Committee. Personally, it has been a fairly interesting and sometimes eventful year. Sometimes, as you deal with the daily grind of the job, you can forget the things that you have achieved and what has happened over the last year. We, as a Department, have achieved a considerable amount. I am sure that the Committee might want to question me about some of what we have done. I am happy to talk about that as well as looking to the year ahead.

When I step back and look at what we have achieved — we do not do that enough; we take things for granted — such as setting out strategic priorities and goals and ticking them off, I see many things and a few in particular that I am quite proud of in the last year. We established our first enterprise zone, achieved better bank lending data — the Committee had been pursuing that as well — and put in

place some elements of the reform agenda that I set out to the Committee this time last year. I might go into more detail on that.

It will come as no surprise that I think that the next number of months and probably the entire year will, in different ways, be dominated by budgetary issues. That is bread and butter for the Department of Finance and what you would expect us to do. The Committee understands that the Department is responsible for and involved in much more than just budgetary matters. However, given where we are, it will be the Budget that dominates the debate and discussion on finance issues quite intensely from now until Christmas and beyond.

The Committee is well aware of the June monitoring position and the 2.1% reductions levied on all Departments excluding the Health and Education Departments. Those were very serious reductions for the Departments. Sometimes, in the maelstrom that comes after such reductions, there is a lack of understanding of why that had to be the case and why the reductions were so high. There was a range of reasons. The Executive wanted to make in-year allocations to Departments: to DETI, for example, to secure job creation in Northern Ireland. Existing Executive commitments included the historical institutional abuse inquiry and local government reform. We had already committed to paying for those and so had to do so. The opening allocation to the Health Department was £20 million. The opening overcommitment position was about £15 million, which was not helped by the fact that we had already lost £13 million from our baseline through the first welfare reform penalty, which was actually for last year but came out of this year's Budget.

June was difficult, trying and challenging enough. In-year reductions to baselines of 2.1% are very difficult for the Departments affected, but, of course, we still have October monitoring to come. We indicated in the June monitoring round that there would be at least 2.3% reductions for those Departments, on the basis of the same rules that applied in June: exemptions for the Health and Education Departments. That 2.3% reflects the £87 million that we still have to take out to pay for this year's welfare reform penalties. I have to say to the Committee that I expect that figure to be higher than 2.3%. I say that because — the Committee will be well aware of this — of pressures, not necessarily in my Department but in other Departments. We are all fully aware of those pressures, which are in the news almost daily, whether they be on the Health Department, Justice Department or whatever. The decisions that the Executive will have to take on all of those matters will necessitate reductions of more than 2.3%, which will be extremely difficult for Departments.

My position on this is pretty clear: I want the Executive to take an early decision on the level of reductions to be made in-year. My first option would have been that, whatever we did, we did it back in June. That would have given Departments the optimum time to deal with the in-year cuts, rather than having this cut of 2.1% and another of at least 2.3% split over the year. Cuts are difficult to deal with.

I am sure that we will talk about the 2015-16 Budget. I certainly want to raise some issues about it. Departments already know that, going into 2015-16, they will face reductions to their budget. That is just the nature of how public spending will be. However, if there is agreement to a draft Budget fairly soon, they will at least know that they can plan for those reductions. Making reductions in-year is incredibly challenging for Departments. If the reduction were to be higher than 2.3%, the longer the whole situation drags on, the more difficult it will be for them to realise that reduction and protect the overall block grant position.

I mentioned the 2015-16 Budget, and the Department and the Committee will be heavily engaged in that over the next number of months. As far back as 10 December 2013, I submitted an Executive paper that set out the ideal process leading to a Budget for 2015-16. It set out how challenging the position was in the context of real-terms reductions plus all the pressures that we knew would develop. It also set out an ideal process including full public consultation. Unfortunately, the paper was never taken forward by the Executive. Various other issues, including the welfare position and the June monitoring situation, intervened and prevented us doing so. The current position is that an urgent decision is required on next year's Budget as well.

Sometimes, a view is taken — I have fallen into this trap myself — that the in-year position, because it is in-year, needs to be dealt with before starting to think about the draft Budget. In fact, the two have to be dealt with in parallel. As urgent as the in-year position on October monitoring is, getting a draft Budget agreed for next year is equally pressing so that Departments can plan.

My ideal position is that we agree a draft Budget by the end of this month, which would allow us to enter into a full 12-week public consultation on it. There is work for the Committee to do over that

period. That would allow us then to agree a final Budget around Christmas and give Departments a full three months to make what will, for many of them, be exceptionally difficult and challenging reductions and adjustments to their budget. I hope that that is what we will do and am happy to take any questions on it.

There is a risk and a danger, because of the gravity of the in-year position and 2015-16 Budget, that we, as a Department, become too fixated on those issues. Can you be too fixated on such a difficult Budget? Maybe not, but there are other things that the Department needs to do, some of which are complementary and helpful to a situation in which we have less money to spend and are trying to realise savings. They include the reform agenda, some elements of which I set out to the Committee when they were at a more conceptual stage last year. We are progressing with much of that and will continue to do so despite the budgetary challenges.

We have agreed to invite the Organisation for Economic Co-operation and Development (OECD) to carry out the review of our entire public sector that was agreed by the Executive back in June. I have established and chair a subcommittee of the Executive on improving public services, which is populated by the Ministers of Health, Justice, Education and the Environment. We had our first meeting last week. We will, I suppose, provide some high-level governance for the OECD review. I am quite excited about the review, as, I think, is the OECD, in that this will be its first sub-national public governance review, making Northern Ireland a trailblazer. The OECD will look at a lot of areas for which DFP has responsibility, such as corporate services and central areas such as procurement, HR, IT and digital delivery. However, it will also work with Departments — this was discussed at last week's meeting — whereby it will engage with them on what it refers to as case studies. Those are areas in which Departments are already engaged in reform, or want to do so, and in which we can benchmark against international best practice what Northern Ireland has done, is doing and wants to do. That work is ongoing and is quite interesting and exciting.

We have continued to establish what I have referred to as our architecture of reform, which is the toolkit of measures that will help to embed reform across the public sector. One such tool is the ministerial advisory council, which has international expertise and will assist and advise me and the Department in our work. It had its first meeting last week. We have also had our first innovation laboratory, which looked at regulatory impact assessments. We have a few other tools in the pipeline: on dementia, big data and innovation in the procurement process. That is about taking problems and bringing in relevant officials and outsiders, such as people from business and academia, to break down problems and come up with solutions. In a couple of weeks, Arlene and I will hear feedback on the first session, which was on regulatory impact assessments. It is quite an exciting concept.

We have launched our internal staff suggestion scheme, which is called our ideas engine and is being piloted in my Department. Our 27,000 civil servants, never mind the 200,000-odd public servants, are bound to see a wealth of problems and have ideas for how to solve them. However, there is no easy way to get the solutions that people want to offer to those who make the decisions to implement them. So we have an IT-based platform that has been established initially on a trial basis in DFP. We have already had over 100 ideas, and we are sifting through and judging them. That is also quite an exciting concept.

One element of reform that I am very keen on progressing over the next year is digital transformation. That is not just because it is a way to save money, which is incredibly important, but because we must always remember that reform has to be about enhancing citizens' experience of public services. Increasingly, citizens want services to be made accessible online. In a world in which we can book flights and so forth online, people are well ahead of government on this, so we are launching the 16x16 project, which is about trying to get 16 of our biggest transactional services online to increase transactions by a further 300,000. I think that about 800,000 transactions are already done online every year, and we want to take that over the million mark.

The final area that I want to focus on, although it is not the only issue to consider, is the improvement of our infrastructure delivery. Two things that I was very pleased to announce in the last year were the extension and dualling of the A26 and the building of a new regional children's hospital. We have made some incredible improvements to our infrastructure, in that we are spending record amounts on capital, even with the dip in our overall capital Budget in the last few years. However, I am sensitive to criticism that we are sometimes a little slow in getting infrastructure on the ground and that there is not a joined-up approach to procurement and the delivery of big capital projects. I was charged by the Budget review group to look at that. The procurement board, which I chair, examined it and has produced an action plan. I will give you a snapshot of that: it looks at DFP having a role as a centralised procurement and delivery service for most public sector infrastructure projects. That would

mean the prioritisation of big, strategically important capital projects, which would form a regional infrastructure plan. There would be a culture change in my Department, whereby we would become much more skilled commercially and better able to deliver big projects. Centralisation in one Department concerns some Ministers, but it is important to make the point that I am very clear that the responsibility for deciding what the priority is for schools, hospitals and health-care facilities, for example, will remain with the responsible Minister. It would be my responsibility or that of whoever is in my chair to deliver those projects on time and on budget. I hope to make progress on that with Executive colleagues over the next number of months.

We are grappling with huge budgetary challenges. Let us not underestimate the scale of the challenges that we face. We thought that 2011-15 was difficult, but this is on a different level altogether. Strategically, even though most of our focus and energy over the next number of weeks and months will be on dealing with the in-year position and a final Budget for 2015-16, the Department must also focus on reform, digital delivery and infrastructure.

The Chairperson: Thank you, Minister. There are a number of issues that we could cover here today, but the most pressing is the budgetary pressure to which you refer. Each of us probably has a different take on how you deal with these issues, but the pressures need to be a priority for the Assembly and Executive.

The Committee has correspondence from the Chair of the Health Committee that refers to a recent session that it had with the Minister and to your June statement on the monitoring round. The background to this is that the Department of Health has made some 41 bids over this budgetary period. It bid for some £395 million, and I think that about £140 million in resource has been allocated. Of course, that is against the backdrop of special flexibility arrangements being put in place for the Department of Health so that it would not make those bids to the centre. So, already, as we face these budgetary pressures, it is from a baseline that we should have that £140 million in place.

There will, of course, be pressures on health, and we will all be sympathetic to ensuring that the money goes to relieve those pressures and deal with front-line needs in the health service. It is to be welcomed that you have said that the extra £20 million for health will be subject to the Department demonstrating that it has taken the necessary actions to address the residual pressures that it faces this year to ensure that it remains within its budgetary control total. However, the Minister overspent in the previous financial year and has indicated that his priority is not the budgetary limit but the Department, which is absolutely understandable. If the Minister is continuing to override that and disregard your directions, is there any point in continuing to have these special flexibility arrangements in place?

Mr Hamilton: The flexibilities were put in place back in 2010 for the 2011-15 Budget period. That was done to reflect many things, but, principally, the importance that the Executive, at that time, placed on the delivery of health services in Northern Ireland. That position has not changed. From listening to political debate and public discourse over the last number of months, it is very clear that, whilst we deliver a range of services, all of which are incredibly important, they do not seem to grasp the public attention or our political attention in the way that health can. Those flexibilities were, rightly, put in place, although we knew that the settlement for health was good, given the context at the time. Of course, we could have given much more to the Department of Health in 2011 for the Budget period, but we did not have it to give because we were trying to balance things out and deliver other services as well. Health continues to consume by far the biggest chunk of our Budget compared with any other Department. I do not see that changing, irrespective of the pressures that we are facing. Despite the flexibilities, there were still pressures, which have intensified in recent times, although I pay tribute to the Minister and the work that he has done over the last number of years to remove various inefficiencies from the system.

In late 2010/early 2011, before the Budget was set, there was doom and gloom and a range of predictions of what would happen to the public sector in Northern Ireland, particularly health. I recall the then Minister saying that, if he did not get x amount of cash, we would be filing for Chapter 11 bankruptcy for the health service in April 2011. Quite why we would file in a US court for bankruptcy for the health service in Northern Ireland, I never quite got my head around.

Upon taking office, the new Minister, well aware of the challenges that he faced, got his head down and started to extract inefficiencies, which we were told by the previous Minister were not there to be extracted. I think that, by the end of this year, the Health Minister will have removed about £500 million of inefficiencies from the system.

The health system is a leviathan. Obviously, we are much more focused on Northern Ireland than anywhere else, but you have only to look at the press in the Irish Republic or on the mainland, in England or Scotland, to see that all health services on these islands are under the same pressure as ours.

For the Minister to have taken out inefficiencies to that extent and scale is admirable and commendable, and he should be praised for that. There was an issue in the last financial year of an overspend. It was a modest overspend in the context of his budget, but it was an overspend nonetheless, and I made it clear to the Health Minister, as I would make it clear to all Ministers, that he had to live within his control total.

We cannot have Ministers spending money that they do not have. We have to live within our means. I have made that clear to the Health Minister, as I have to the Executive, and he accepts that. Pressures remain, and I am committed, as I was in June and will be in October, to trying to find more money for him.

We have to recognise that, whatever flexibilities were put in place in the past, the Minister has done a lot of work to ensure that he could live within his means. He did not habitually adopt a begging-bowl approach and look for more and more. He tried to live within his means as best he could, but I think that the pressures are starting to catch up. We all have to recognise that and take appropriate action.

The Chairperson: Although it is still relatively early in this financial year, do you have any indications from the Department of Health on its spend? Do you envisage it remaining within its budgetary total for 2014-15? You referred to the Health Minister taking the necessary actions: what are they, and what was the response from the Department of Health to them?

Mr Hamilton: I always want to be careful, as I was when answering DETI questions yesterday, that I do not stray into answering on issues that are absolutely in the domain of the Minister of Health. I know that there are significant pressures, and the Minister and I have spoken about the pressures that remain. There is an indicative allocation of £20 million, subject to evaluation by my Department. Given the scale of the pressures that we are told are there, it is appropriate and right that my Department, on behalf of the Executive, Assembly and wider society, scrutinises the figures to ensure that what we are being told is robust and right. That work will continue in advance of the October monitoring round. I have had discussions with the Minister on the pressures that he faces. The Minister very publicly outlined that he had pressures of £160 million but that, if he got about £80 million, he would be able to live within his means and not overspend this year. So I have publicly committed to trying to seek that additional resource for him in the October monitoring round. That, of course, presents its own challenge in the context of the current in-year position.

The Chairperson: On a different subject, there is a referendum in Scotland tomorrow.

Mr Hamilton: I had not noticed.

The Chairperson: That is why the media are not here. There has been much debate, and it is predicted that the result will be yes or a very narrow no.

Mr Hamilton: You are like Mystic Meg: it will be yes or no. *[Laughter.]*

The Chairperson: The main parties in Westminster said that, after the referendum, they would look at further devolution changes to the Union in general. It was a very vague pledge, but a pledge nonetheless. Whatever happens in Scotland, where do we sit? If Scotland becomes independent and gets further fiscal powers, and there is a deal on the Barnett formula and its future, that will affect us and the fiscal responsibilities and powers that we have or do not have. Have you had many conversations with the Treasury and Government at Westminster about what they are offering or not offering to Scotland? Are you ensuring that we can get leverage out of that as well?

Mr Hamilton: I think that you are right to say that, irrespective of the result tomorrow, or in the early hours of Friday when we hear it, the scenario for us will change one way or the other. I have been observing what has been happening very closely, as we all have, particularly in the last fortnight as polls have tightened and various campaign promises and pledges have been made.

As for any detailed work or analysis, I think it best that we await the outcome and see what is offered. I am not inclined to tell officials to do a lot of work on the basis of a pledge that appeared on the front page of the 'Daily Record', not that I am suggesting in any way that a campaign pledge made by politicians would not be followed through after a result —

Mr Mitchel McLaughlin: Perish the thought.

Mr Hamilton: I get the sense that something will be offered fairly quickly after the result, and we will see how that affects Northern Ireland.

The point of most interest in yesterday's pledge by the three main party leaders was that they would retain the Barnett formula. We have shared a position on that with Scotland for some time. The formula has its flaws: it dates back to the late 1970s and was meant to be only a temporary measure. However, we have taken a view as a Department, and it is my view, too, that a better, fairer system could be constructed, and that would probably be better for Northern Ireland. However, I do not think that constructing a new system will be Treasury's intention in such a discussion. I have always cautioned that, when seeking to start a discussion in Northern Ireland about the Barnett formula, be careful what you ask for.

I very much welcome the continuation of the use of the Barnett formula, if the pledge is followed through on after a no vote. That would give Northern Ireland some certainty. It has been of assistance to us, particularly in the last number of years. When the Westminster Government decided to protect health and education, it insulated a huge element of our Budget against some of the worst problems that arose in GB. That is a good thing for Northern Ireland. I was worried that a no vote would open up a debate and the Barnett formula might go. I do not think that Treasury opens up such discussions with the intention of doing favours of any kind.

As you know, we are assessing a range of tax-varying powers that might be available to Northern Ireland and whether we want to utilise them, and we are completing that work. As I said yesterday during Enterprise, Trade and Investment Question Time, whilst I have always been open-minded about looking at further tax-varying powers for Northern Ireland, they must have a defined and clear social or economic benefit, and they must also be affordable. Of the range of powers that might be available, not many tick both those boxes, notwithstanding our continued pursuit of corporation tax. I do not know what will be done about corporation tax for Scotland in the case of a no vote, but I remain optimistic that we will be offered those powers.

A lot of work has been going on behind the scenes to make sure that we are ready for a positive decision that we could take through and have legislation passed by the end of this Parliament — March 2015. I absolutely accept that the position will change after the referendum, but, to answer your question, we have not been hugely engaged because, until the last 10 days or so, there has not been a lot of detail about what comes afterwards. There is regular weekly engagement between the Department and Treasury officials, and we have been monitoring and looking at the issue. However, up until now, we have not had any certainty about what is on offer to Scotland and the implications for Northern Ireland. I do not think that we will have that until some time after the referendum result.

The Chairperson: You referred to the October monitoring round and the £87 million arising from the welfare issue. I have asked this question before: has any analysis been done on the economic impact of the proposed welfare reform legislation here? There is a news story that Wales has done some research that shows that welfare reform could strip some £430 million a year out of the south Wales valleys and endanger 3,000 local jobs. That sort of analysis seems to be lacking here. Has the Department looked at that?

Mr Hamilton: Well before the summer, as this was starting to develop as an issue, an attempt was made for broader work to be done on behalf of the Executive because there is a lack of clarity about some aspects of the impact of welfare reform. There has been independent research and research on behalf of the Executive and the Assembly that state certain things, and that has become the accepted norm. Work is needed on a range of issues on the economic impact and whether it will be beneficial or negative. I recall various discussions at the Executive at which attempts were made to do that. In fact, the First Minister raised it on a couple of occasions. There was no specific bite on that, and nothing went forward. It is my intention to conduct work that looks at those issues, because there is a need for clarity, independent of the Assembly, the Executive or the Departments.

The NICVA report — sorry, I always say "NICVA report", but it is the report that was done by Sheffield Hallam University on behalf of NICVA — states that it would cost the economy £750 million a year. However, once you look at those figures, you see that they exclude the benefit that comes for some. DSD's figures suggest that about 102,000 families in Northern Ireland will be better off as a result of welfare reform. According to DSD's figures, more or less one third will be better off, one third will be the same and one third will be worse off. In fact, around 102,000 will be better off, and around 80,000 will be worse off, so that is better than one third in each of those categories. There are those figures, and there is the NICVA figure of £750 million, which does not take into account the people who will benefit from welfare reform. The report does not point out clearly that some of that lost revenue to Northern Ireland is the result of the Government not increasing benefits at the same rate as they were increased in the past. So, that is money that is gone on the basis of *[Inaudible.]* in benefits. A lot of figures are swirling around, and clarity is needed. If the Executive as a whole are not prepared to do that work, I am keen to do it in my Department.

Unfortunately, it is clear that the cost of not proceeding, which is already £13 million, will be a further £87 million — you mentioned that the Executive have agreed to take that out in October — and it will be £114 million next year. There are no figures beyond that. Those figures were outlined to me in a letter from Danny Alexander on 31 March. In that letter, he also pointed out that failure to proceed will have consequences for the IT systems and the need for Northern Ireland either to take on the old system or to develop its own system. If there is no decision to proceed with welfare reform, that will have to be factored into future Budgets on top of all the pressures we are facing next year. That is to a scale and quantum that becomes frightening and gets us to the position at which 2.1% reductions look like a pussycat in comparison with what we might face in the future.

The Chairperson: I have seen some of the analysis that was done here, which is why I want something from the Department as well. A number of places — Limavady, for example — are up near the top in terms of benefits, as is Belfast, Derry and even Moyle, which includes Ballycastle and Bushmills. There is a huge impact there, given that those who are on benefits tend to spend everything that they receive.

Minister, you referred to the IT system. The Treasury says that it will take £87 million off the Executive, but how is that figure being challenged? As we know, DWP and Iain Duncan Smith said that the system would have bedded down long ago in England and Wales. That is certainly not the case there at the minute, and the IT system is facing major difficulties. Is there not a risk that we buy into an IT system that does not work and is the subject of fierce contention in England at the moment about whether or not it will work in the longer term? The Labour Party is now changing its tune about referring the universal credit proposal to the Audit Office at Westminster. There is a lot of uncertainty in England over the same issue, and I wonder whether we are properly challenging the figures from the British Treasury on the IT system.

Mr Hamilton: That is primarily an issue for the Department for Social Development. My primary concern is based on the cost to Northern Ireland and our Budget, which is already under severe pressure, if we do not proceed with welfare reform, whatever the cost of developing our own IT system. I have said that almost dismissively, but we know from experience that developing IT systems, for whatever purpose, is a costly venture.

For Northern Ireland to go alone — either taking on the current IT system, which is over 20 years old and, to be kind to it, almost knackered or developing our own system — it will be a costly enterprise. You might think that the old system, although coming towards the end of its life, might have something left in it, but the running cost of repairs and maintenance — you will spend a lot more on a system that is over 20 years old than on one that is less than 10 years old — will be high. You do not have the benefit of spreading that cost across the whole of the United Kingdom. At the minute, we are paying only a small percentage, and everybody else is paying their bit. If you take on the entire cost, it will not be spread across the rest of the country. You also need personnel to administer the system. Even with an IT system, manual work is still required, and we do not have those people in place. We will have to hire those people at a time when budgets are under pressure.

Across the water, I have observed the IT system's problems. It is said that it is the biggest IT system being developed in the world. In our recollection, has there ever been a government IT system that has not had difficulties in its roll-out? It would be hard to find one, so I am not surprised that there has been some delay. In any engagement that I have had with Treasury Ministers, it was very clear to me that nobody should question the determination of the Government to proceed with all this. If there is a problem with the IT system, that is a bump in the road, and they will deal with it. However, they will still go ahead with the overall reforms. The reforms may be delayed — I think that they accept that

they will be delayed — but they are proceeding with the reforms. The idea that, because the IT system roll-out is a bit slow across the water, we should sit back and wait for it to collapse, and everything will be all right is, I think, foolhardy. We are on the verge of having to take a decision about whether we go ahead with the legislation — that is my preferred position; we have a good package of mitigating measures in place that will mean that those who would be worst affected will not be as badly affected here compared with their counterparts across the water — or spend hard-earned, hard-pressed money on an IT system, whether that means buying the old IT system or developing a new one. We cannot sit back and wait. That is not scaremongering; it will be the reality if they proceed, it all goes ahead, and they then start to move away from their old IT system. If we do not have an IT system of our own to pay benefits to people in Northern Ireland, in a couple of years' time, we will face the prospect of people not being able to get the benefits that they are entitled to or having to put in manual processes to get them. If we are not proceeding with welfare reform legislation, we have to take the decision very quickly, in the 2015-16 Budget, to start to spend money to develop our own IT system or purchase the existing one. We cannot push that down the line and not worry about it. We will have to face up to that reality very quickly.

Mr I McCrea: Without pre-empting next week's debate on the call for a new Budget and a revised Programme for Government, have you and your officials looked at whether it would make sense to bring forward a new Budget or a revised Programme for Government? Technically, the Programme for Government has been revised, given that the ESA Bill is no longer going ahead. Is that an option?

Mr Hamilton: I will not spoil the debate. I will try to keep my best insults for the debate.

Mr Weir: It is like the last video in the box.

Mr Hamilton: I do not want the best bits to be in the trailer.

I do not understand the motion — well, maybe I do. I have some sympathy for the point being made that we are facing a very challenging budgetary position. Things are far from ideal, and there are a range of factors as to why that is so. There is, I suppose, a temptation to rip it all up and start all over again. However, you have to do that in the context of practical reality and process. I do not really know whether what is being suggested is being done on a genuine basis that something needs to be done or whether it is just about grandstanding, because the whole thing is not working, and tapping into the fact that perhaps people outside this place do not understand the processes.

We are now nearly six months into the financial year, which is the last year of the 2011-15 Budget. How, practically, do you have an entirely new Budget process when there are only six months of the year left? There is no new revenue to distribute. In fact, it is quite the opposite: we are in a constrained position. It makes absolutely no sense whatsoever. As I said before, we are looking to make in-year adjustments, which is what the monitoring round process is all about. I understand some of the criticisms of the monitoring round process. It is maybe not ideal. However, we are able, and have been able over the last seven or eight years since restoration, to redistribute sizeable amounts of money during the year. I think that, in one year alone, about £1 billion was redistributed in both current and capital expenditure. That is a lot of money to move. That is almost a new Budget, albeit done through the monitoring round process. We are also, as I said, starting the process of next year's Budget. I would rather worry about next year's Budget than about redrafting this Budget for what would be, if we did it, probably about three to four weeks. It is silly.

As for a revised Programme for Government, given that the mandate has been extended for a year, the Executive have been looking to extend existing commitments in the Programme for Government and to insert new commitments. As a Department, we will do that. We want to put a few commitments into a revised Programme for Government for the remainder of the year.

Mr I McCrea: I look forward to the debate next week, then.

Officials were at the Committee last week to discuss the small business rate relief scheme. It was concerning that, in respect of the evaluation and consultation on the scheme's benefits, there were only 12 responses. Are you concerned about that? If only 12 people or businesses responded, is that enough to evaluate the benefits properly? Have you considered alternatives to look at that again? We all know from experience with businesses in our communities that the scheme has helped and been a great benefit. On the back of that, given that the large retail levy ends next year, have you considered an alternative way to fund it?

Mr Hamilton: The large retail levy funded one of the extensions in the scheme. I have committed to that not coming back, so we will not have the benefit of the revenue raised from it. That is the right thing to do in the circumstances.

As for the robustness of the consultation, as you know, you rarely get huge numbers of quality responses to consultations. I am reasonably relaxed about the volume, given that several are from representative organisations. We were not going to get a plethora of small businesses responding because they are running their small businesses. They would not be responding to consultations, and you would be worried if they were. There is a good view from the representative organisations in that sector. The Northern Ireland Centre for Economic Policy (NICEP), which we engaged to do the evaluation, has been proactive and has gone out and spoken to people, so more people have had an input than the 12 individuals or organisations who responded.

The policy has been hugely successful. We were right to introduce it and to extend it twice. Over half of the businesses and properties in Northern Ireland are now getting assistance with their rates. I speak to many businesses on my travels that are grateful for what we have done. It has been one of our flagship policies over the last number of years in response to very difficult economic times for businesses. Times change. The economy is getting better. It is right that we do an evaluation. My view is that, whilst things are better out there, we are not entirely out of the woods. There are still problems in the retail sector in particular, which dominates the small business rate relief scheme. That has not done just so well; it is still suffering. It probably needs further assistance, but it is about how that is done and the extent to which it is done in the context of the budgetary pressures that we face. If we want to forgo the revenue that we would have got from those rates, that necessitates tough decisions elsewhere.

Mr Cree: Morning, gentlemen. This will certainly be a very interesting year. Normally, the Civil Service is not very good, in my opinion, at phasing Budgets.

Mr Hamilton: "Not very good, in my opinion": I thought that there was a full stop coming.

Mr Cree: The result that you get — the figures are there to see — high peaks at the year end. It will not be able to do that this year.

The actual use of capital concerns me. Capital is usually well thought out to provide long-term gain; it does not simply plug holes where holes need to be plugged. The capital is interesting. I cannot get the figures to agree, but maybe that is to do with the rounding. The social investment fund has not had a good record up to this point in time. Since the introduction of T:BUC, virtually nothing has been spent. There is £12.9 million unallocated in this current year. What are your thoughts on how that might be profitably, effectively and efficiently used to get value for money by year end?

My other regular point, Minister, is that, depending on which figures you use, there is either £30.6 million or £30.2 million going begging in financial transactions capital (FTC). Again, there is not a lot of time in which to have that spent profitably. Is there a plan to have that money used in a profitable way, or will it be simply reallocated, which would seem to be a travesty to resource?

Mr Hamilton: I will take those points in order. You are right: I do not blame the civil servants for the lack of a strategic approach to in-year cuts; it is just how systems such as ours work. I agree, which is why I would have preferred that we decided in June that that is what it is and taken it all out on that basis, difficult as it would have been for Departments. Certainly, in discussions that I have had with Ministers subsequent to that, they have said that that would have been a preferable position. Departments are planning for the bigger chunk coming out anyway, so it was just a presentational issue in June monitoring rather than anything substantive.

As we look forward to 2015-16, we know that we will be in a position in which there is a real terms reduction going into the year. Various pressures will be building up, including welfare reform penalties, so we will start from a position in which a huge amount of money will not be spent on public expenditure in Northern Ireland when compared with the previous year. The best and most ideal way to deal with that is to take a much more strategic approach.

Unfortunately, in part because of the system that we have, which is far from perfect, everybody will take a similar cut rather than saying, "These are the two or three things allied to the Programme for Government that are most important to us, and these are the things that are not unimportant but are less important than the top ones". I will try to push towards that approach. I have begun to spell it out

to all Ministers just how dire things are and to explain that we have to ready ourselves for a very difficult year next year and beyond, because it is not getting better.

You have spoken extensively in the House about the capital budget, and I agree about the strategic use of capital. The importance of capital lies in the fact that it is the most clear expenditure that we have to help our economy. It does not just go to the men and women who help to build the things that we want to commission but to better roads, better telecommunications infrastructure and all the things that help to attract investment into the country. When you are fighting for investment with your near neighbours in the Irish Republic, Scotland, Wales and other places, the better your infrastructure, the easier it is to attract that sort of investment.

Do you want capital to be spent more strategically? Our capital budget is going up modestly. It is getting back to 2010 levels, and that was a record year for the Executive. Around that period, there were record years in capital expenditure. Arguably, it is the wrong sort of capital that is increasing it, because it is financial transactions capital.

You are right to identify that £30 million is unspent. That is a lot to be unallocated at this stage in the year, and that troubles me. It concerns me because, if we had £30 million of conventional capital, and it was getting close to the year end, we could just shovel it out the door and do lots of different things that may not be as beneficial, but at least the money would be spent and not lost. This is a bit more complicated because it has to be routed through the private sector, and that is a concern for Departments.

If I were to admonish officials and Ministers, I suppose that it would be for a lack of ambition and vision on the use of this sort of capital. There were a couple of good examples about this in a session last week. If you look at some departmental budgets and their capital side, you will see that there are big, important projects that would have a transformational economic effect for Northern Ireland but that would not jump above, say, a new road or a new hospital in that Department. They sit somewhere in the middle of the list and are eventually reached. However, if one of those projects has a commercial aspect, it can leapfrog everything else and be built more quickly. There is a blockage and perhaps a fear about engaging with the private sector. It is complicated. Our job is to try to help Departments to work with FTC. We have issued new guidance to Departments about what it can be used on and highlighted some of our ideas, but the take-up from Departments is slow.

The truth is that, in many cases, we go, as a Department, to other Departments and say, "There is something on your list that might be funded in this way rather than waiting for conventional capital to come forward". We are taking them to the water; we cannot make them drink, but we are trying to show them what can be done.

We are in the early stages of developing some things that may be able to absorb significant volumes of financial transactions capital. My concern is that, at year end, while we are allowed to roll forward 10% a year, we can have £6 million unspent at the end of this year and not lose it. The difficulty is that it goes on top of £130 million-odd for next year, so it makes the position for next year even worse if there are no projects.

It is challenging enough in a year when you have £60 million to spend, but when you have more than double that, it will be really tough to get it out the door next year. We need a lot more ambition, vision and flexibility from Departments to get this money spent, or we will lose it.

Mr Cree: That is exactly the point, Minister. I do not think that we have the tools to handle this. It is new, different and big money. It would be a crying shame if this were to go. That could be £20 million going back to the Treasury.

Mr Hamilton: I do not think that we will get to that stage because some of the things we are looking at, although they are in the early stages of development, have the potential to move quickly to somewhere where we could spend money. In the infrastructure reform — I take your point — I want to upskill people in the Civil Service so that they are much more —

Mr Cree: It is a different type of thinking.

Mr Hamilton: — commercial in their thinking. The Cabinet Office has almost turned around in this regard. It is now trading with the private sector on an even footing and bringing in people from the private sector to duke it out on negotiating contracts and the delivery and management of contracts.

That is where I want to go. It is probably the least controversial area of the infrastructure reforms that we want to put in place, but it is absolutely essential.

Mr McCallister: Minister, I apologise for missing the start of the meeting. The children were not particularly cooperative this morning.

Mr Weir: They think that you are on the Executive. *[Laughter.]*

Mr McCallister: They were not just as badly behaved as the Executive. *[Laughter.]* It was not that big a crisis.

What savings have you identified through public sector reform? Will it yield any dividends back to you? Will you comment on departmental engagement? Are you getting good cooperation from some Departments? I do not mind if you name and shame them.

Mr Hamilton: I am now less inclined, although it is so ingrained, to talk about it as reform because of the connotations of the word "reform". Internally, reform can seem, at its most benign, to be simply about restructuring. Restructuring can be useful and important, but it is not always a great deliverer of actual reform.

Reform can also be seen as being purely about making savings, and people then think of that in the context of the human cost. I like to think of it as transformation because, for me, transformation is about the primary objective of public sector reform: enhancing citizens' experience of public services. In the process, you could and you should save money, and that is a nice by-product of it all, but, primarily, it has to be about ensuring that what we do and what we spend the public's money on is achieving the outcomes that we want to achieve. I do not think that there is enough of that. A whole cultural area of change is required right across the public service where we focus less on the inputs and the number of outputs that we expect to get for those inputs and, actually, ask whether we are getting the outcomes that we want from it all. So, my primary focus is on enhancing citizen experience. If, in the process, we save money — ideally, we will — that is brilliant.

In terms of actual savings, reform and transformation did not start last year but has been ongoing. This is where the OECD work will focus on a lot of central, cross-cutting areas such as HR, procurement and asset management. On the issue of procurement, we have included in the review that a specific review of procurement in Northern Ireland will be done. That is in response to criticism of our procurement process in Northern Ireland, which I am keen to see addressed. We have been making considerable savings, and it might be worth sharing a little more detail on that. I am keen to regularly compile a list annually or biannually of the things that we as a Department, and perhaps further across the Executive, have done on the broad banner of reform or transformation.

DFP has done things on shared services, and cost reduction comes from things like IT Assist, HR Connect and other shared services. Asset management is an area where considerable savings have been made as well as an improvement in work experiences for colleagues. That is why I was keen to secure the bid in June monitoring, even though it maybe looked a bit counter-intuitive with the difficulties that we had. So, a capital bid and a current bid was met for investment in asset management. It is an agreed asset management strategy that is headed up by OFMDFM and delivered in partnership with us. We have a bit more money on the capital side, and, if we can invest that, with the savings that we have already made on asset management, we can realise current expenditure savings moving forward. I do not have the exact numbers in front of me, and it might be useful if we were to update the Committee at least with the DFP savings that we have made across shared services such as IT and asset management.

Departmental engagement has been quite positive. This time last year, I was a little worried that people would see it as DFP wanting to do things to other Departments. I am not sure that that concern has completely abated, but I suppose what has benefited the agenda is that other Departments want to talk to DFP because they know that they are facing public expenditure issues and that what they have been doing for years has not always worked and produced the outcomes. They are looking for new ways of delivering services. They are looking for our assistance, whether that is in HR, IT, procurement or public expenditure to help to make that happen. Even among the Ministers who I thought might have been most reticent about engaging, there has been positive engagement.

The OECD review, which, I suppose, is a strategic underpinning of all of this moving forward, was agreed unanimously by the Executive, and the subcommittee that will oversee it includes me, the Education Minister, the Health Minister, the Justice Minister and the Environment Minister. That is indicative of the fact that there has been good and positive engagement on this. I am sure that every Minister will have a different motivation for being involved, and I am not too fussy about that. At our meeting last week, the Health Minister in particular was heavily engaged in a lot of areas. In fact, he was quite involved in wanting to see the OECD work accelerated and results coming quicker than maybe the OECD was originally timetabled to do. There has been good and positive engagement, particularly amongst the Ministers who are spending the largest chunk of our Budget.

Mr McCallister: I know that the Minister has heard me speak about this before. When we get into different areas of procurement and other European programmes, we keep hearing how slow Northern Ireland is and that things start off in Brussels, get a bit of gold trim in London and then the final touches by the time they get to Belfast. We are spending or taking, I think, about 56 weeks compared with the European average of maybe 26 or 30 weeks. I know that there has been engagement between your Department and the Scottish Executive around how you improve that. Minister, are you determined to reduce that timescale?

Mr Hamilton: It sounds like you are conflating a couple of issues, and I just want to separate them out before I give you an answer. To me, the 56 weeks reference sounds like the criticism that there is not delivery of EU/SEUPB stuff. Is it that?

Mr McCallister: No, I am happy for you to separate them. As you indicated in your answer, Minister, there are huge criticisms out there of how difficult it is to access procurement and to get on the list to even make a bid, because the companies have to be a certain size and need to have experience. All those things make it very difficult for some of our smaller businesses to effectively bid for public contracts.

Mr Hamilton: I will take the EU funding and SEUPB stuff first. You are right: there is a criticism that, on average, it is taking over a year for projects to go through the full assessment. I think that that is too high and too long. It concerns me and, at Commission level, some concern has been expressed about it. Clearly, we want to see that reduced significantly, because it is better for everyone involved in the process.

There are, however, various processes in Northern Ireland that are not undergone in, say, the Irish Republic, which perhaps gives the impression that the process in Northern Ireland is extended. I have been under some pressure to remove those processes, but I have made it clear that I will not be removing them, because I think that it is important that Departments here have the degree of oversight that they provide.

If I started to remove processes, I am sure that I would be in front of the Committee being asked, "Why are you removing processes that are giving the Assembly, the Executive, Ministers and Departments the oversight that they require on public expenditure?" A lot of this is being met by match-funding from Departments, and Departments want to have a degree of confidence about all that. I have to say that Departments are not saying to my Department or to me that they want to see those processes removed. In fact, it is quite the opposite.

Where I think time can be shaved off is in all the other areas of the process. I think that, in every aspect, too much time is taken. We will do our bit by trying to take less time to do the sort of central processes that are particular to Northern Ireland, but, at every other stage, SEUPB and others have to do the work in less time as well. If we all took a week or so off the process with the work that we are all doing, all of sudden, you would be below a year and the position would be better.

Procurement is a tricky and difficult area to reform and change. I have never been that clear on what exactly we all want from procurement. Do we want, in a tight budgetary position, maximum value for money to be extracted from public procurement, which more or less means — this is not always exclusively the case — having bigger contracts, with perhaps the risk of not a lot of Northern Ireland firms getting that work, spending a little less from the public purse and getting the goods, services and capital projects that we need? On the other hand, do we want it to be more open to all the small companies in Northern Ireland to bid for contracts, which may make it not as good value for money?

If you want to see this happen in reality, have a debate in the Chamber about procurement, and you will get both positions put forward by Members. Sometimes Members of the same party put forward different views. So, I am not entirely clear on where we want to be on this sometimes.

In comparative terms, we do pretty well in terms of access to procurement for small- and medium-sized enterprises in Northern Ireland. All the figures that I see show that, in comparison with our counterparts in the South and across the water, we are in a better position. That is sometimes a function of geography as much as anything, but we do pretty well, particularly in construction: the percentage of construction contracts being let by us and going to small- and medium-sized Northern Ireland-based firms is in the high 90s. It is hard to improve on the high 90s; a marginal gain is quite difficult at that level.

We will always try to find and strike the balance to make the system as open as it possibly can be. We also encourage small firms to work together collaboratively so that, whilst they remain small, they operate on a much bigger scale and therefore can bid for more contracts. We need to have certainty that big contracts can be delivered by firms; we do not want to give a contract to a small firm and then find halfway through that it cannot complete the job.

Obviously, we try to show that the system is open through things like meet-the-buyer events — I am going to one in a number of weeks — where we get out right across the public sector and say, "We are purchasing this, this and this, and talking to people who might supply those needs for us." We are doing our best to try to make it as open as possible, but there is a fundamental point: what do we actually want from our procurement system?

The review that the OECD is going to do for us is going to look at some of the nuts, bolts and mechanics of it all. If we can smooth some of those problems out, we will be in a far better position. The stuff that I was talking to Leslie about in terms of infrastructure reform will also help to ensure that there is clarity in what we are doing, particularly on capital projects.

Mr McCallister: I take entirely, Minister, the point about getting the balance right. The frustration — I am sure that you get it at a constituency level — I get from businesses, large and small, is about the sheer bureaucracy sometimes of even getting into the tendering process. It is taking them more hours and work to do that.

The other point I want to touch on is around corporation tax. Is it feasible to be for corporation tax and against welfare reform? How do you balance those two things? If you are talking about cuts of over £300 million next year if we do not do welfare reform, how do you balance even having a debate about the other if you are not going to do welfare reform?

Mr Hamilton: Before I depart from procurement, I should have said earlier that, in terms of the point about bureaucracy, you will always get complaints about your procurement system because, lo and behold, some people do not win. If we have done something wrong, we will hold our hands up. Hopefully, that is not often the case. However, on the point about bureaucracy, we have been very closely working with the likes of CBI, for example, and asking what the problems and issues are. We have, where we can within the law, been trying to deal with those. We have a whole raft of measures coming in that are doing away with various things and streamlining processes. At the end of all that, no matter what you do, you will still have complaints about the procurement process because some people lose and they will want to blame the process rather than, say, the quality or price of their bid.

We have always had quite an open door in respect of procurement. If there are problems that people have identified and we can deal with them, we will deal with them. Hopefully, that will iron out some of the process problems.

On corporation tax versus welfare reform, hopefully, it is not a sort of either/or. It is not an unreasonable point to raise in the context that we find ourselves in. I have been a huge supporter of the devolution of corporation tax and the reduction of the corporation tax rate in Northern Ireland for as long as I have been involved in politics. The reason is the same reason that anybody else supports it: the positive transformational effect that that could have on our economy is going to be huge. Even at the low end of estimates of new jobs that that would create, you are still looking at tens of thousands of not just new jobs but high-quality, highly paid and highly skilled jobs coming to Northern Ireland over the next 10 to 20 years. That is quite exciting, and something that our economy and country badly need.

The positive side of corporation tax is easy to endorse. Everybody would put their hand up for that. However, there is a downside to it, I suppose, and one of my concerns is that there is always a need for a conversation to be had about how to pay for it. I remain committed to having a sensible and mature discussion around how to pay for it, because we would get benefit from it; the benefit of all those jobs, a transformation in the economy, and this place starting to feel and look entirely different in the way that we want it to. The consequences of your decision to devolve and reduce and have less revenue are that you have to reduce public expenditure. However, I think that in circumstances where you are getting something positive — and you are getting something positive — it is a price worth paying.

The difference with welfare reform, of course, is that by not proceeding with it there is a cost, but you are not getting any benefit for that cost. It is understandable that people would say, "I'm resisting it because the cuts are going to come to individuals." However, those cuts are coming anyway, because the Treasury or DWP are removing that from people's benefits already. I do not think that we are in a position to say that we are going to fill that in ourselves and pay the bill. That is not what we are talking about. So, resisting welfare reform brings with it a cost but does not bring with it any benefit.

You are right to identify the difficulty that the Executive now face, in a situation where we are increasingly optimistic that we are going to be offered the power to reduce corporation tax but where we have other public expenditure issues going on. I just hope that our debate about welfare reform, and the fact that we have not handled it well because of the intransigence of some parties in the Executive, does not mean that the Treasury, which has been supportive enough up until now on corporation tax, takes another view of the whole issue. I still think that getting corporation tax powers for Northern Ireland is tremendously important to transforming our economy and society.

Mr McCallister: Finally, Minister, you talked in your earlier reply about the citizen's experience of services, which I agree with. You gave the figure of £0.5 billion in efficiencies being taken out of the Department of Health. Do you think that the average citizen experiencing the health service now would think that those were efficiencies or cuts? Do you think that their experience of the health service is good at the minute?

Mr Hamilton: You are tempting me into territory that is not mine to answer for. I remember being on this Committee in the past and having discussions about efficiencies and finding that, when you actually analyse a lot of what Departments do in terms of efficiencies, they are either outright cuts to services or increases in charges. They are not necessarily efficiencies, which most of us would define as doing things better, or at least to the same standard, but for less. In the Health Department, the Minister has done what he has been able to do over the last years, yet still faces all the pressures in terms of the NHS. It is like no other Department.

My Department faces pressures, but, on the money side of dealing with that, a few tens of millions of pounds would address those pressures and they would disappear. A few tens of millions of pounds, or even a few hundreds of millions of pounds, are not going to see all the pressures that affect the health service disappear. It is a Department like no other Department in how it consumes public resources. As the Minister himself would say, it would spend every pound that we have in the Budget. Clearly, that is an untenable position, and you have to draw a line somewhere. What he has sketched out in Transforming Your Care is absolutely right in trying to reform the whole system so that yes, it costs a bit less, but you get better outcomes and the care, help and assistance that people need, when they require it and where they want it. I think that we should all support these reforms.

There are some latter-day converts to Transforming Your Care who were previously very critical of it and who used it as a political weapon. There will always be a degree of pressure on Health like there will be on no other Department, as there will be people who are not always satisfied with the services that they get, just as they are not satisfied sometimes with the service that they get in Education or DSD or even DFP.

Ms Boyle: I, too, apologise for not being here at the beginning of your presentation, Minister. Unlike John, my children were very conforming this morning.

Mr Weir: You did not have to give them any Strabane Twitter language? *[Laughter.]*

Ms Boyle: No, none. My problem was with the getting value for money on these tablet devices this morning.

Minister, you alluded earlier to the NICVA report and the Chair mentioned that we would appreciate getting some clarity on figures from the Department. I have a view, rather than a question, about the historical figures in the NICVA report for my area of Strabane. The report highlights Derry, Belfast and Strabane and the loss of income of around £870 to each household each year because of the welfare reform cuts. Obviously, Minister, I do not need to educate you on the poverty levels that are spiralling out of control in our region.

You may have been aware of a much-highlighted issue in my constituency last year where a lady, who was a cancer patient, was continually being assessed for her entitlement to disability living allowance. During those assessments, the lady passed away due to her illness, which obviously had a big impact on her family and those working around her. There are 66,000 people who will be adversely affected by incapacity benefit reforms and we expect them to lose £3,500 a year if the welfare cuts are imposed.

Your report states that public services will be greatly impacted. People are living longer and we are acknowledging that fact, as well as the fact that there will be associated health costs to individuals as a result. There will be a greater degree of damage to public services if cuts are imposed. What is your view on that? The Tory-led British Government have already reduced the overall resource budget prior to these welfare cuts being debated.

Mr Hamilton: You mentioned the NICVA report: as a Department, we are going to try to do a piece of work that gathers together all of the pieces of evidence and facts and figures that are out there in order to try to get something more authoritative and coordinated in that respect. If I am sensing the mood of the Committee correctly, there seems to be a reasonable degree of support to do something like that. That is helpful to me in proceeding with that.

I do not, for a second, deny that there will be people who, as a result of proposed welfare reforms, will find themselves in difficult positions. The Department for Social Development has not hidden the fact that there will be a volume of people negatively impacted upon. They also highlight, as I mentioned, that tens of thousands will be better off as a result of welfare reform. We should never lose sight of that in this whole debate. We can debate and argue whether we pass legislation or not but I do not think we should deny that it is a good thing if welfare is reformed and work is shown to pay, does pay for people and the system is simplified for people. Those are principles we could all subscribe to.

I do not deny that the proposed welfare reforms will impact negatively on some people, just as previous welfare reforms passed through this House negatively impacted on people. We think this is the first piece of welfare reform legislation that has ever come to the Northern Ireland Assembly. There have been previous pieces of welfare reform legislation.

In fact, I was Chair of the Committee for Social Development when various pieces of primary and secondary legislation went through. How many of those have impacted negatively on your constituents and on mine? Taking away the ministerial role, the stuff that we are dealing with on a constituency basis just like every Member in this room are not the current set of welfare reforms and their negative impact but the stuff that we all passed through the House several years ago when I think Alex Attwood was Minister for Social Development. So we have had welfare reforms that impacted negatively on people.

I suppose that one of the benefits of the devolution of social security powers to Northern Ireland is that the Minister for Social Development has negotiated a package of measures on split payments, frequency of payments, direct payments to landlords, flexibilities on the bedroom tax so that it will not impact on people who are already in public housing in Northern Ireland who would otherwise be impacted on like their counterparts across the water. There is also the fund to deal with particular hardship cases.

That is an attractive package. Does it do everything? No, it does not. You are not going to get a package that ameliorates all the worst effects of reform. Even if you did, the cost would be prohibitive, but what has been achieved is commendable and should allow us to advance on the legislation. It is the envy, as I said before, of our counterparts in Scotland and Wales. I have been at meetings with those Ministers and the Chief Secretary to the Treasury, who is always resolute when this comes up that these reforms are happening. Those Ministers are envious of what we have achieved. As recently as just before the summer, the Welsh Minister who I met would do anything to get the flexibilities that we have got. All that they are looking for are the flexibilities that we have got.

In all these discussions, if you are proposing something for what you believe to be the right reasons, there is a point at which you have to accept that the consequences of your resistance is starting to do much more damage to the people who you purport to support and protect in the first instance. We are at and getting past that point.

We have heard the roads Minister, the Minister for Social Development, the Health Minister, various Ministers — you name it — the Justice Minister and the Minister for Employment and Learning talk about the consequences of a reduction of £87 million and £13 million in budgets. If you amplify that two, three or four times or more because of non-agreement, the consequences for the citizens we serve — the vulnerable people we are talking about — will be immeasurably worse than implementing welfare reform.

Ms Boyle: Thank you, Minister. I take what you are saying but, obviously, you would not agree with me that in Britain at this very point in time the cuts agenda is being increasingly challenged and cracks are opening between the Tories and Lib Dem coalition partners, who are now questioning the wisdom, workability and counterproductive nature of many of the cuts measures.

Mr Hamilton: Who can predict what the outcome of next year's general election will be in a UK-wide context and who will be in Downing Street? I could take Daithí's position when he was talking about the referendum: it will be either a yes or a no. It will be the Tories or Labour who will win it; I am happy enough to make that prediction. If it is a Tory-led Government —

Mr Mitchel McLaughlin: Are you ruling out DUP involvement? *[Laughter.]*

Mr Hamilton: Whatever way it comes out, we will not be in Downing Street. I will be in the Treasury just around the corner; that will be fine. *[Laughter.]*

Mr McCallister: You might be there for a garden party or something. *[Laughter.]*

Mr Hamilton: If it is a Tory Administration, either on their own or with the Liberals, I am sure that we will have discussions with them. There will still be a welfare reform agenda that they will progress on. I suppose that it would be up to the Liberals and whoever leads them at that time to negotiate whatever they want around this. It could be a Labour Administration, but we should not be hanging our hats on delaying things in the hope that Labour will come in and wash away all the reforms. It has been very clear in the discussions that I have had with Labour representatives that the one thing they would do away with is the bedroom tax. We have already got an exception for existing tenants. Labour has said that it would review universal credit, which the Chairperson mentioned earlier. It is significant that it is a review rather than an outright commitment to do away with universal credit. If I am reading it right, they like the idea of universal credit in the way that many of us like the idea, but their concerns are much more around the issues we were discussing earlier, including its implementation and the IT issues and so forth. I do not think that they are against it.

Universal credit is one of the elements that has a net gain for Northern Ireland, given the number of people who would benefit and would be lifted out of poverty as a result of the implementation of universal credit. British politics is very fluid at the moment for a range of reasons, but I do not think that after the general election, irrespective of the outcome, you are going to see the degree of change in the overall policy direction that some might hope for.

Mr D Bradley: Good morning, Minister. You said earlier that your Department was helping certain Departments in their work, managing their budgets and processes and so on. The Department of Justice's special end-year flexibility scheme ends at the end of this year. Has any preparatory work been done with the Department of Justice to help it cope next year?

Mr Hamilton: It is an interesting area of discussion. I do not deny that the Department of Justice has a degree of pressures, like all Departments. It sometimes does not get the same degree of attention as Health, for example, and we understand why. I would like to have a better understanding of the pressures that that Department is facing. As you mentioned, it has a special ring fence and flexibility, which is due to come to an end at the end of this financial year. My preferred position is that that ring fence ends and that the Department continues like any other Department would and is subject to reductions, increases and monitoring rounds like other Departments are.

One of the reasons why that is a good thing for the Department is that it allows better management of transparency of what is going on. If I have one criticism — this is something that the Justice Minister and I have discussed — it is that, particularly on the police budget, which is by far the biggest element of the Justice budget, there is not the degree of transparency that we would like to see. If we are going to help that Department to address its pressures, in the same way as we would for Health, as I mentioned earlier, we need to have a degree of certainty that the pressures are real and the figures are robust. Back in around February, we had a discussion in this Building with the Justice Minister and the then Chief Constable. The action point coming out of that meeting was that officials from my Department would engage with officials from DOJ and the police to try to allow us to get a better handle on things. There has been some high-level discussion, but it has not been at the level that I would have liked to see it at. When you do not get that degree of engagement, it is very hard for me to make an argument to Executive colleagues that the pressures that are in the public domain or which are talked about privately or whatever are as real and as robust as you would believe.

Mr D Bradley: Are we definite that the end-year flexibility arrangement will go at the end of the year, or is there a chance that that will be extended?

Mr Hamilton: Ultimately, that is a decision for the Executive and what they want to do. For the current Budget period, we put in special measures for Health above and beyond what other Departments have. If you wanted, you could continue with the existing arrangements for Justice. There will be a degree of protection and ring-fencing for national security elements of the expenditure. I suppose that what I am saying is that I do not see an obvious argument for why it should be kept within the special arrangements. Those were particular to the time. It seems like an age ago now, but, if you think back to the whole discussion around the devolution of policing and justice, you will recall that it was as much a political decision to do that to give a degree of comfort to all of us that there was not any interference in the budget and it was kept as it was. I think that the argument for that to continue on that basis is gone. Yes, the pressures are real, but the Department has had some assistance over the summer with having a quiet summer compared with last year. I think that they have been doing well as a Department. Crime over the last two years is at the lowest level in over a decade. So, there are good things happening in that Department.

I do not deny that there are pressures there, but, personally, I am not convinced that the ring fence and the special degree of protection that has been there, as much for political reasons as budgetary reasons, should remain in place. I do not think that it is good for the Department of Justice because it can bid, and it certainly bids. It has been a ring fence and a protection that has gone in one way. A lot of money has gone into the Justice budget over the last number of years. It is quite a lot. The Chair was mentioning what has gone into Health, and I think that what has gone into Justice has been forgotten about or missed. A huge amount has gone in, and nothing has really come out. There is not the degree of transparency around some of the pressures that I would like and I would need if I was going to make a case for any degree of help or support from the Department.

Mr D Bradley: You mentioned that the policing element of that budget is huge. I think that I can safely say that you were not totally content with the degree of transparency that there is around that spend. We have seen in the last while where some quite serious investigations have begun into historical procurement issues in the police. Can you be satisfied, as Minister of Finance, that you are in the position where you recognise that there is a lack of transparency and that there is nothing that you can do about it?

Mr Hamilton: The Minister who requires and should have the greatest degree of comfort is the Minister of Justice himself, but you are right to say that I am performing a wider role on behalf of the whole Executive. Some of the issues that have come up that you are alluding to are historical issues that predate the devolution of policing and justice. One of the legacies and maybe an unseen legacy of the devolution of policing and justice, I think it is fair to say — this may be understating it — is that there had been looser oversight of the wider Justice budget pre-devolution than there has been post-devolution. To describe it as "struggles" is too strong, but there have been some difficulties in trying to change the culture that was there beforehand. That is as much at the heart of the problem as anything else. There is a better interaction between us and the Department of Justice. It is that further interaction with the police that needs to improve. At the risk of sounding like I have a particular problem, I do not think that it is just me who has an issue with this; there are others. It is something that colleagues on the Justice Committee or the Policing Board might have just as much of an insight into as I have.

Mr D Bradley: You said that there are further improvements that need to be made to ensure that there is the maximum possible transparency around these issues. Is there anything further that you can do to ensure that that happens?

Mr Hamilton: I do not want to dwell too much on Justice. It is the same with any other Department; you could talk about Education as well in this context. I will do what I can in the processes that we have to ensure that there is sufficient transparency so that, whenever I am presenting monitoring round papers or Budgets to the Executive, there is as much comfort as we can possibly get. I, and my officials, more to the point, can do that only to the degree that they get cooperation from the Departments that we are talking about. I am surprised that Leslie has not mentioned it. It is something that the review of the financial process would not solve completely but would certainly assist with. I would like to see that legislation before the House and passed as quickly as possible, although there are still issues around that.

The engagement with Justice is a good example of where Minister Ford and I wanted to have the discussion. It was not me banging the drum or bashing the table at him; we wanted to cooperate. I am keen to do that with any and every Minister. You cannot guarantee success at the end of all those discussions or that you will suddenly find a lot of money to help them out or anything like that, but it is a lesson for all Departments: the earlier they engage with my Department and officials in respect of these sorts of issues, the more help we can give them. That is not even just monetary help; that is also in terms of perhaps engagement with Treasury or whatever is involved in dealing with some of the problems that they have.

Mr D Bradley: Thanks very much. I will ask you about the non-ring-fenced overcommitment, which began at, I think, £25 million in January. It had increased to around £77 million in June. Can you give the reasons for that increase?

Mr Hamilton: The resource overcommitment is now actually at zero. One of the decisions in the June monitoring round was that we should exit it with zero overcommitment. There was good reason for doing that. In previous years, we have had a manageable overcommitment running throughout the year, and it increasingly went down as the financial year proceeded. The difference this year, and why we needed it at zero, was that, with the further reductions that come in October and other pressures materialising, to also have had an overcommitment of, say, £10 million or £20 million to deal with would have put extreme pressure on the overall budgetary position. That is why we thought strategically that it was best to exit June with a zero revenue overcommitment. I think that the capital overcommitment is about £30 million or £40 million —

Mr Mike Brennan (Department of Finance and Personnel): It is £38 million.

Mr Hamilton: There you go: £38 million. Not bad. That is perfectly manageable at this stage of the year. It is similar to previous years at this stage. Given the trajectory of the overall capital budget going up, it will probably be manageable enough in the remainder of the year. In fact, we have had similar positions in recent years with a much higher overcommitment than that on the capital side.

Mr D Bradley: Finally, the £30 million in Executive pre-commitments is being managed through the monitoring process. Why was that route chosen rather than the budgetary process?

Mr Hamilton: The monitoring round is part of the budgetary process. The overall budget position is agreed. Mike can correct me if I get the technicalities of all this wrong. This was not adjusted in the Budget, because the overall Budget was settled. The Executive agreed to those commitments, which were over and above what was in the Budget. My predecessor was very keen to stress that to the Executive as they started making those commitments. I am not casting any aspersions on any of the central Executive commitments and their merit or otherwise. They are all good projects and things that you want to spend money on. Making commitments is easy; paying for them is a little bit more difficult. Unfortunately, they materialised in this financial year, and the Budget for this financial year had been set back in late 2010. So, the only way to deal with that was through the monitoring round process. Unfortunately, that then put additional pressure on top of all the other pressures that we had and had to face in June.

Mr Brennan: Some of the Executive commitments were conditional ones. For example, of that £30 million, you had to think about the £8 million related to DETI. That was basically a restoration of the baseline position that was previously set for DETI, which was amended when the jobs and economy

initiative was agreed by the Executive. A condition was put in that DETI and Invest NI would get that money in year if they needed it.

Mr Hamilton: Which they did.

Mr D Bradley: When were the Assembly and the Committees informed of those?

Mr Hamilton: None of those was secret. On the DETI issue, something had been done in a budget realignment a couple of years ago, and it was reported in a monitoring round at that time that £7.7 million was taken out of its baseline, because it did not need it at that time. David will know better than us from his previous role that there was not the demand for that money, so rather than it sitting there and then giving it back in various monitoring rounds, it was better to take it into the centre and spend it.

Local government reform was given £12.5 million following an Executive decision roughly a year ago, which was publicly well known, trailed and all that. The historical institutional abuse inquiry — again, these are all big ticket items that we all knew and had forewarning about. The Committees would have been informed of them by the Departments. That was not my responsibility. It was my or my predecessor's responsibility to report them to the House at the time, and that was all done.

Mr D Bradley: OK. Thank you.

Mr Mitchel McLaughlin: You are all welcome. At the very start of the budgetary process for this mandate, the Committee itself was involved in a fairly extensive review of the proposals and outcomes of the CSR. Clearly, we were facing into a horrendous set of budgetary circumstances. If anything, that has deepened and worsened and may have been exacerbated by the pressures that that has applied across departmental budgets, which has meant that Ministers and parties have got involved in headbutting rather than a common purpose. That may be a natural outcome, but it is a regrettable one, in my view. So, I welcome the fact that we are getting organisations like the OECD in. I think that, across the board, that will give us information, and I think that information is the key.

Take the health budget. I happen to think that we have a good Health Minister. I genuinely do, and I have said that publicly. He has a horrendous task in trying to manage such a massive budget. He has quite clearly dealt with some of the issues around efficiencies and targets. I do not know whether they are low-hanging fruits or not. I do not have the precise detail; it is not in my brief. However, it appears to me that, in the bids that have emerged over the same period, he has been giving with one hand and taking with the other. That may not necessarily be sleight of hand. It might be him dealing with the pressures and, at the same time, responding where he can. If it were a self-financing and virtuous circle, I suppose that we could put up with that. The key thing with the health sector, which seems to be acknowledged by the medical insurance industry for instance, is that, if there is such a thing as galloping inflation, you have it in health and medical services. Current inflation is about 1.5%, but, in the health sector, it is probably up at around 9% or 10%.

Mr David Sterling (Department of Finance and Personnel): Six per cent.

Mr Hamilton: Six per cent is the figure that the Department talks about.

Mr Mitchel McLaughlin: Well, OK. I read a report this morning from the insurers sector, and they argue that it is higher; you might say, "Well, they would." Anyway, at the end of the day, the question is this: is it possible to balance that, or are we looking at a scenario where we will be asking when they are going to use all the budget that is available to the Executive? The point that I am coming to is that, although these may be factors that are outside the ability of the collective Executive never mind an individual Minister, I do not think that people have enough of an understanding of that, which is a failing of communication and may be a contributory factor to why people tend to headbutt rather than collaborate to address issues. Is there something that we can do about that?

Mr Hamilton: Those are very useful points that you make. I think that it was Richard Ramsey, who is now on the Ministerial Advisory Council, who talked in the past about a fiscal deficit in Northern Ireland but said that there is also an information or education deficit around that fiscal deficit, which does not help all of us in society to make informed decisions about what we want to do with our budgets. I, like any Finance Minister, can manage the budget in whatever way we all agree. It is just a process.

However, if you want to get the maximum out of that, you have to take strategic decisions. You are absolutely right that you have to do that on the basis of information.

Your point about health is a good one. David is right that the figure that Health talks about is 6%, which, I think, is made up of roughly 2% inflation anyway, 2% inflation in drug costs and technology, and 2% inflation in wages. If you have a 1.6% real terms reduction in your budget going into next year, increasing health spending by 6% just so that it stands still will mean everybody else taking a huge reduction. I am not saying what my view on all this is. I have started more detailed engagement with Executive colleagues about all these things, which will continue tomorrow, just to lay out the landscape and let them try to make a collective decision about exactly where we want to go. However, you are right that, if you continue to increase by 6% just to stand still and do what we are doing now — which is not going to satisfy everybody and will not do anything better or more, which was John's point — it will not be long before the 40-odd per cent of the budget that is being spent on health is above 50%, then 60% and so on and so forth.

You can take those sorts of decisions if that is what you want to do, but there are consequences for that type of approach. With an ageing population and other problems, it is not going to get any better. It is not fair to concentrate just on health in this context. It is perhaps the one that is most stark and most pressing, but there are other budgets as well. We, as an Executive, have to take strategic decisions, hopefully then backed by the Assembly, about where we spend our money. In my view, we have to say that certain things are priority and that other things, whilst important, are not important to the same degree as some other things. You take those collective strategic decisions about where money is being spent. You could take a decision to increase health spending by x%, spending on justice or the economy could be ring-fenced or whatever. Any of those decisions are possible, but a decision needs to be taken that is strategic and right for our region. Information, education and informed views are important.

It is only a small step, but I will give you an example of something that we did last week. We are sending rates bills to all our customers, all our ratepayers in Northern Ireland. You just get a bill and a little bit that tells you how you can get help if you need it, but there is very little information about —

Mr Mitchel McLaughlin: They are changing that now.

Mr Hamilton: Yes, we will have a one-sheet statement that tells people where the money from their bill is going. Now, that is not going to solve the problem that we are talking about.

Mr Mitchel McLaughlin: It is a big help for people's understanding of what they are dealing with.

Mr Hamilton: If you look at the worked-up example that we had last week, which was an overall rates bill of £1,000 — much more than the average in Northern Ireland — you see that really small amounts of that, in comparative terms, were going to things like economic development. *[Interruption.]* I could maybe ask Siri what its answer to the problem is.

Ms Boyle: My apologies.

Mr Hamilton: It is little things like that that will help, as well as better debate in this place.

One thing that I want to do as part of the reform agenda is to improve our public engagement. There is a risk in public engagement, if you go out and ask people what they want, what sort of society they want and what sort of public sector would be required to deliver that, that you get everything coming back at you. However, if you structure that type of engagement in the right way, you will get sensible engagement.

We sometimes forget that people understand through their own domestic lives and businesses, if they are involved in or running businesses, that times are tough and that, when times are tough, you have to take strategic decisions about what is important to you. We sometimes take the public for granted and do not think that they can understand those sorts of concepts, but I think that they can. We just have to provide them with better information and engage in a much better way, so that they can help us to make those strategic, collective decisions that are essential.

Mr Mitchel McLaughlin: That was the first point. I would not expect Edwin Poots, as an individual Minister, to be able to deal with the issue of inflation in the health sector. That is affecting every health service.

Mr Hamilton: It is.

Mr Mitchel McLaughlin: At the start of these proceedings, you made particular reference to the fact that they are all under pressure. Clearly, there is an issue there that is international — global, maybe — in its implications that requires a response as well, otherwise, we are in a totally unsustainable grip of *[Inaudible.]* There are tensions and pressures. Understanding it is one thing; doing what should be done is another. I do not recall any particular feedback from intergovernmental discussions north, south, east or west that have focused on that to see what we are going to do about it, because, surely, we are all being driven to the point of bankruptcy? That is my second point.

I want to move on to the welfare reform issue. Again, I start from the position that welfare reform is a good thing but driving people into poverty is not. Therein is the conflict, because some people feel that they can support the present proposals, but the implications have not been spelled out. There are other people, including my party, who, when looking at those figures, see that they will take £500 million a year out of that particular fund, but other agencies estimate that it is nearly half as much again. There has been a significant impact, even from the start of this CSR period, which has just been getting worse because there has been a reduction in resource spend as well as the decapitation of the capital fund. All of that makes it virtually impossible to do the sums and to deliver all that we commit ourselves to.

There is a debate between the parties on what the impact would be, even with the flexibilities that you have talked about, which I would like to see costed and spelled out because I have not yet seen that. I do not know whether that is because people are playing their cards close to their chest or whether they have not thought about it. However, it would help people to decide that, maybe, Nelson McCausland did a great job. I do not think that he did, but maybe I could be convinced if I saw the figures. *[Laughter.]*

Mr Hamilton: The Hansard report will be clipped at that. *[Laughter.]*

Mr Mitchel McLaughlin: I come at it on the basis that he could have done a good job and I would be prepared to give him the benefit of the doubt if I saw the evidence. I am only putting my finger in the wound, so to speak.

My sense is that the parties are probably in dispute over figures that are unquantified. You talked about the people who may gain. As part of the reform and with better targeted delivery of support, that should definitely be an outcome, but is that delivered on the basis that other people will be less well off? If they were getting too much out of the system, that would not be a bad thing. If, in fact, they are getting pushed below the poverty line, there is an economic consequence to that as well, which I think all the parties would have common ground on. That kind of dispute about the impacts of what the Tories originally intended, what was ameliorated as a result of engagement and flexibilities gained, and what would be the Executive's ability within their very finite resources to, say, deliver anti-poverty measures to prevent people being driven into poverty gives you the basis for getting a way forward in all this. That should be explored.

Something occurred to me as well when I was talking about that and looking at what is happening in Scotland. Let us assume there is a no vote; they are going to come out of it with more powers and flexibilities, so maybe the parties could agree on a border poll here. You never know, we might be able to take that to Westminster as well.

Mr Hamilton: Join the Scots.

Mr Mitchel McLaughlin: The point at the end of the day is that we sometimes maybe end up squabbling and fighting with each other over issues that are consequential to decisions perhaps made elsewhere but that we would have an ability to approach on the basis of shared information and perhaps reduce the problems to manageable proportions. You are in a lead position in being able to facilitate that discussion.

Mr Hamilton: Sometimes, particularly over the last couple of months, all the evidence has been to the contrary but it is forgotten that all the parties in the Assembly come from a similar position in their views on welfare reform, this type of welfare reform or welfare reform in general.

I think there is broad support for the concept of welfare reform, taking people out of poverty and simplifying the system. There are elements and aspects of this package of welfare reform that we

have all resisted. I have been characterised as a Tory cheerleader and other such terrible insults. Party colleagues went to Westminster and voted against most if not all of it. There were one or two bits they supported.

We had similar starting positions in many respects on welfare reform. It is now an issue of the two things passing. As I said to Michaela earlier, you can resist something that you think is bad — I will come back in a moment to whether you think it is bad or whether it is bad or not — and you can resist and resist and resist that, but at some point the line is crossing when the impact and consequences of resisting is having a more harmful effect on citizens than the thing that you are resisting. That is the point that we are now at. I am not saying that it has crossed, but we are crossing into that position.

Whenever the quantum of penalties goes up, never mind the other attendant costs with IT, building your own system and so forth, you then have the fear that many of us have that the very vulnerable people, who we are wishing to protect through resisting welfare reform, take a hit in other ways; not in money coming out of their pocket but through the denial of service to them from whatever it might be, whether health or education.

Vulnerable people on welfare are the ones who will be presenting themselves to health services, social services and education services etc more regularly. If there is less money to do those things as well or to help health or education out, they are going to suffer. Other people who are not on welfare are also going to suffer. They will also have services denied to them because of overall cuts.

I welcome the fact that you and other colleagues have said that we should get some report or analysis on the precise figures. It is hard to get precise figures. We should issue a health warning, not least because figures change all the time. As the economy has improved and more people have gone into work, people who were on welfare are naturally not on welfare any more; those figures change all the time.

What I will take from the meeting today is that there is support for the idea of going away and getting that piece of work done. I will get that done fairly urgently. I will present it in the spirit of a genuine attempt to hollow out those issues, and I hope it is received on those terms.

There is no point in me doing it, getting officials to engage their time and spending money that is scarce if, as soon as it is presented, it is knocked down because it says certain things that some people do not like. It will be a genuine attempt to try to hollow out all the issues around how many people will be better off, how many people will be worse off, to what extent they will be worse off, what we can do about them being worse off, what the costs of IT will be and what the costs will be of taking on the current system and developing a new system. Those are all the sorts of things that we have been contemplating over the last while, and I will take what has been said at the Committee as an endorsement of that general approach. We will do that.

On the Scottish issue and flexibilities, again, we will have to wait to see what they are actually offered. What they appear to have been offered was little better than what we have already. They do not have legislative devolution on social security. It looks as if they are being offered that and the ability to do whatever they want as long as they pay for it. It is pretty much what we have already. The question is about whether you can afford to do those things. If you want to change various benefits and do things then, like everything, it is a balance.

I do not know whether the figures for the package of measures that we have in place are public, so I am not going to put them in the public domain. That may be something that comes out in the report or analysis anyway. However, not a lot of money is being expended by the Executive to put in place all the flexibilities that Nelson has negotiated. The actual cost is on a sliding scale downwards. I cannot remember whether they are in the public domain, so I do not want to put them out there. However, suffice to say that it is not a quantum of money that would frighten me.

Mr Mitchel McLaughlin: I fully understand that you would not have the precise detail, even if you wanted to explore that further.

Mr Hamilton: I have the rough figures, but I am not sure whether I feel at liberty to —

Mr Mitchel McLaughlin: I would not expect you to at this stage.

Mr Hamilton: It is tens rather than hundreds —

Mr Mitchel McLaughlin: It is a matter for the Executive primarily to close the gap, but I would argue that a focus on anti-poverty interventions on top of the best outcome that we can get in welfare reform is what will move us forward. I do not want to get involved in that, and I do not think that it is a matter for Committees at this point in time. We will all get the chance to examine it in due course, but we can continue to stumble on. We will know in 24 hours what Scotland is going to do with flexibilities and whether they will not need them at all. Are they going to proceed on the basis of their flexibilities, with or without an IT system that is paid for in —

Mr Hamilton: The interesting thing about the Scottish question is that they may be offered a degree of flexibility, but whether they take them or not is a different matter.

Mr McQuillan: Thanks, Minister. You have been going for about two hours now, and I think that you have done powerful well, so I will keep my comments fairly concise.

The Chairperson: He only comes here once a year, you know. *[Laughter.]*

Mr McQuillan: You mentioned at the start the dualling of the A26. I would be keen to see an extension of that and maybe a second phase to take it into Coleraine.

Mr Hamilton: It is never enough. *[Laughter.]*

Mr McQuillan: You could look at that if there is some spare money about. I know that there is not much about at the minute.

I wanted to ask about the equal pay issue for the PSNI and NIO staff. Are we any closer to having some of that money paid out? I heard during the year that we are close to getting agreement on that, but where are we with it at the moment?

Mr Hamilton: I would like to dual the rest of the A26 as well. It is obviously a matter for the Regional Development Minister to prioritise —

Mr McQuillan: Can I stop you there? In my constituency, when there was a bulb in a street light in Limavady required, he could not put a bulb in, so there is not much chance of him dualling the rest of the A26. *[Laughter.]*

Mr Hamilton: Whenever the Minister made his comments about light bulbs and stuff like that, I had at least two calls to the office from people saying that the street lights on their street never went out and that they were on in the middle of the day.

I think that the equal pay issue came up when I was before the Committee last year. It is a source of deep regret that it is still a live issue. I presented to the Executive something that I think is capable of resolving the position, perhaps not to the complete satisfaction of everybody affected, but it would be a resolution nonetheless, bearing in mind that the starting position on this is that there is no legal liability to do anything. I think that the easier path of least resistance for me to have pursued would have been to do nothing. I did look at it again, and I devised a solution for staff who would have been affected. That is with the Executive, and it has been since June. There has been no progress on that paper, and there have been some difficulties around how we take it forward. I will seek to advance it as I can in the context of the broader difficulties that we find ourselves in at the minute. It has not disappeared. I know that there is a lot of angst, concern and worry. You can assure constituents that attempts are being made to find a solution that would satisfy most if not all of them.

Mr McQuillan: Is the fund to pay for this coming from the Executive or is it coming from the Justice budget? Should it come from the Justice budget?

Mr Hamilton: We have not had that discussion yet, and I suppose that that is a complicating factor in the resolution of it. The Justice Minister is telling me that he has a range of other pressures that do not include that coming out of the Justice budget. I have had the view for a while that this requires an Executive decision to deal with it. It is not for me to deal with alone, and it is not for the Justice Minister to deal with alone or for the two to deal with just in partnership. This is something that the Executive need to sign off on, for a range of reasons.

Mr Weir: When the Lord Grey said that the lights were going out all over Europe, I do not think that he was thinking specifically of Coleraine.

Mr McQuillan: It was Limavady.

Mr Weir: Limavady, yes. All politics is local.

Mr Girvan: Strabane is going to get one.

Ms Boyle: They are already out. I am carrying one in my bag.

Mr Weir: Yes, given the duration of the session, breaking news on the Scottish independence referendum has now taken place since the start of today.

Minister, we have had quite a constructive session. Obviously, the big issue that is looming is that of the wider budgetary issues, particularly for the remainder of this year and beyond as we move into next year and, as has been indicated, the matter of the financial implications if we do not get a resolution to particular welfare issues. I want to touch on two of those. Earlier, Leslie mentioned the capital issue, and a lot of the focus has been on the welfare reforms and even on the issue around the cost of running things and of escalating costs. However, there has not really been much focus on the capital implications. If, for example, we have to go down the route of buying our own IT systems, what is the implication for the capital side of things? Obviously, the danger with that is that any implication there is unlike diverting capital between one set of roads or a hospital building. On those matters, as well as the fact that there is a direct benefit to the community, you are helping with employment in the local construction sector. Presumably, if capital money is diverted as a result of a failure to tackle the welfare issue, that will simply be money that is sucked out of the system from a capital point of view, and it will come out of other capital programmes. That is the first issue that I want you to touch on.

Mr Hamilton: You are right. These are, I suppose, related and, almost, side issues connected to the whole issue of welfare reform, and they sometimes get missed in the general debate, which is distilled down to you being in favour and somebody else being against or something like that. It is much, much broader than that, and that is one of the things that I hope that we can leave with the Committee today. This is now getting to the stage where it is not simply about penalties any longer. For the last year, I have been talking about the fact that penalties are coming, the penalties have hit, the penalties are hitting and they are going to get worse. That is actually only a fraction of the problem. You are right to identify the capital implications of developing, say, our own IT system. If you were to take on the existing one, obviously, there would be no significant capital outlay, because you would just be taking on a system that has been purchased. However, there would be well above-the-odds revenue consequences for that in, as I said before, hiring personnel to administer all that and keeping a sticking plaster on to make this 20-odd-year-old system keep working.

That will only work for a while. Ultimately, you will have to purchase your own system because the one you have will collapse. You are right: that is when you get into capital implications, and you are having to purchase, over a period of years, hundreds of millions of pounds worth of IT kit to have your own system. Rough estimates have been done by DSD working with DWP. In fact, we have had correspondence from the Deputy Prime Minister, who indicated a cost of roughly £1 billion a year for doing this sort of thing. That will not hit in one year, thank goodness, but it will not hit over 10 or 20 years either; it is over a short period of time to build your own on the capital side of the cost, never mind the revenue side. That will have to come at the expense of other capital projects. The question — this is the informed choice type stuff — is this: do you want to spend what is an increasing capital budget, which has the potential to be invested in the A26 or the Ballynahinch bypass, for example, or do you want it spent on IT equipment to run our own benefits system when we do not need to do that? Given the size and scale of the sort of work that you are talking about, you are unlikely to get the kind of economic benefit for Northern Ireland that may come from building a road and the contract going to probably a local firm to do that. These are big IT systems that are probably going to have to be let to, at best, a GB-based firm, but probably an international firm. What value there is in doing it — I question whether there is any value in doing it — is extracted out of the Northern Ireland economy and goes to Japan, America or wherever it might be.

Mr Weir: The second issue I want to touch on is that of unforeseen consequence. At the start of today's session, you outlined that one of the things you have been doing — this is very welcome — in terms of the delivery of public services and looking at the ways that government delivers, was looking at trying to be innovative. One of the dangers and problems that is quite often identified by different

Departments and Ministers at times is that there is always a bit of a tendency to say, "Here's the budget. Well, here's, say, 97% of it, which is [*Inaudible.*] baseline of what we spent last year. We will not pay 2% of our attention to that; we'll simply tick that box again for further spend, and we're looking at either the bits that we can trim off or the few bits where changes can be made". Therefore, there is quite often a certain level of disincentive towards innovation. The concern is that, given the sort of natural environment that is there at times, if you reach a situation in which there are tight financial pressures, a number of Ministers may have the tendency to say, "Well, actually, I'll not particularly think about cutting x, y and z because that would be fairly difficult. That's something that has been in the baseline for 20, 30 or 40 years. We've done it pretty much exactly that way. For the new programmes, it's easier that we don't go down an innovative route". Sometimes, innovation will be very beneficial in the long run, but, quite often, it comes with upfront costs. If there are much greater levels of financial pressures on Departments, various Ministers might have the tendency to circle the wagons and essentially say, "Well, actually, we'll not stick our neck out for anything that's going to be innovative because there will be that degree of cost. We simply can't afford to do anything particularly different; let's simply just try to protect what we've got." To what extent will a broader reform agenda be impinged on by a much more difficult constrained financial situation, in which money will, to a certain extent, be flowing out of the economy?

Mr Hamilton: Part of the problem in trying to advance any innovative scheme in our public sector, or any public sector, is the cultural problem that there is. Leslie alluded to some of that earlier in more uncharitable and unkind language, but his point was valid enough. Trying to look at things in an entirely new innovative and creative way, or even being an early adopter of reforms that have taken place elsewhere, is not something that we are instinctively good at. Part of the job is to try to get our Departments to think about how you better design services from the start.

We have lots of examples of projects being started and having to be changed or amended half way through because they were not designed properly from the beginning. It is about looking at the problem or possible project differently from the start so it is not necessarily costing more money to do it. It is in taking something that you are already doing and then wanting to do it slightly differently that there is that cultural problem, barrier and, you are right, an upfront cost.

One thing I am keen to see in the 2015-16 Budget is a small amount of money being set aside to enable some change in reform and transformation, particularly on a collaborative basis between Departments. If you were to fill a page with the problems that are biggest in any Government, including ours, they tend to have parts of health, justice and education — two, three or four Departments involved — but none of those Departments is going to fund it itself if it is going to have to pay for all the reforms and not necessarily see all the benefits.

There is a job for us in looking strategically looking at the Budget to allow that to happen. That may be seen as a bit of an indulgence in the Budget when you have the problems that you have, but it is absolutely essential to put in a small amount to see whether it works. It is important to see whether it works and, if it does, we can increase that because you will get better outcomes and savings as a result of it all. You are right: the biggest problem we are going to have is cultural as it is about getting people to get their head around the need to do things differently.

Another revolutionary thing for Departments to consider is the need to perhaps stop some of the things that they are doing. I do not think that there is enough oversight by Departments or, indeed, by Committees or this institution, of projects and programmes that were started years ago and consume large chunks of budgets but maybe have not achieved anything like what they were meant to. But because they have been started, and there are people working away at it and some people are benefiting, they just sit there as a protected species. We should be a bit more critical and say, "Yes, it has helped some people but we could help more people by deploying the same or a little bit less money in some other way".

It is not always about just doing some things differently. Sometimes, it is just about stopping stuff that has not worked.

Mr Girvan: Thank you very much, Minister. I will be brief. Thank you for coming along. I just want to say you are doing a good job and keep it up. [*Laughter.*] The bit of work that you are intending to do about welfare reform would be very helpful. It would be informative to everybody and might make them sit back and look at things from a different perspective if we knew the full cost.

Another area that was mentioned was potential job losses because of the non-implementation of welfare reform and the relocation of some of those jobs to the mainland as a result of not delivering the service and doing something differently. That is just one area that I ask is looked at.

The revenue costs associated with that aspect are there, but I have one other area of concern. I attended an all-party group meeting on construction yesterday. I was frustrated to hear some of experiences of the construction industry, not necessarily directly from Departments but through the COPEs and everything else. They are going through a process of tender, which requires a lot of time, effort and sometimes extensive costs. It is not just a few thousand pounds but tens and hundreds of thousands of pounds for technical advice and expertise to work those tenders up, only to find, at the eleventh hour, that the projects are being pulled. They then have no means to recoup any of the money they spent even though they have won the tender. There was concern about how some of the COPEs were putting forward those details to them, ensuring that they only want them to come when they know that the money is ring-fenced to actually deliver the project, not speculatively saying, "This is what it's going out to do. We're not just going out to test the market to see how much the costs are." A number of them were frustrated about that; they felt that it was not that helpful. That is something that we should be looking at overall.

I mentioned job relocation. On support measures, I think that there has been a little bit of movement here this morning. I think that there are areas where we can maybe look at moving forward. I think that the Committee can probably work better than some areas in trying to resolve issues in relation to some of the comments that were made by Mitchel. Capital would have to be spent to purchase an IT system, either to use the existing one or to develop a new one. Do we have an opportunity to use the National Loans Fund for capital to develop our infrastructure and attract industry, as opposed to supporting a system that is probably defunct? We should be looking at putting something in place. Have we used the National Loans Fund to the best advantage of Northern Ireland? Is there an opportunity for us to use it for further infrastructural improvements? One of the areas I am thinking of is in relation to telecommunications and hyper-speed broadband being available. Can we use that fund for that type of capital project?

Mr Hamilton: On the job losses issue, there are, as the Committee knows, currently about 1,400 people employed in sites here in Belfast and Londonderry doing work to administer benefits not to people in Northern Ireland but to parts of the south-east of England. They got those contracts and have held them, in spite of many difficulties, because they provide good value for money. The danger and the risk to those jobs comes from the fact that we will have an increasingly divergent system. The benefit at the minute is that they are operating the same system. I do not see any circumstances in which DWP would invest so that those men and women are operating their system here while we are not operating that system. The risk is that those jobs will go back. It does not matter what political hue you are in Westminster: if there is an opportunity to take those 1,400 jobs and bring them back to somewhere on the mainland, I dare say that you will seize that opportunity.

In one scenario, jobs are not actually lost: if we have to develop our own benefits system, it will require people to do the work, so they will be retained. The problem is that we would then have to pay for them. At the minute, they are being paid on the basis of a contract that we have with the Department for Work and Pensions. And it would not be 1,400 people you would need; you would need multiples of that to administer our own welfare system here in Northern Ireland. It all comes at a huge cost. I am sure that we can look at more support measures, but, as with everything, bear in mind the cost involved in all of that. We can do anything within the Budget that we have, but there is a huge cost, and there are consequences for that cost. The debate about welfare reform is very much about consequences.

In respect of construction and tenders, I am happy to take a look specifically at that and maybe get some feedback from the all-party group. I do not know why, but I imagine that there are occasions on which, for myriad reasons, Departments step back from projects. That may be in the context of having less money and in-year cuts where Departments have been proceeding with capital projects. We think sometimes that capital projects consume just capital; they also consume current expenditure, particularly in the development stage. They just have to say, "Right, look, we're not proceeding with that because that's somewhere where we can make a very quick reduction to live within our means this year". So, unfortunately, as bad as it is, you may see that sort of scenario increase over the next while.

In respect of infrastructure and using loans to invest in that, I am a supporter of using different ways of funding infrastructure investment in Northern Ireland rather than using our loan facility. I do not want to borrow anything to pay for a new IT welfare system in Northern Ireland.

Mr Girvan: No, that is not what I was talking about.

Mr Hamilton: We have our RRI borrowing capacity. We are allowed to borrow over £200 million a year under the Building a Prosperous and United Community facility to raise money for some T:BUC projects and stuff. We are having discussions within the Executive about that, because we are allowed to borrow up to a maximum of £2 billion and we are very close to that. We are at £1.7 billion or £1.8 billion at the minute. You can go a bit higher, but at £200 million a year, it does not take too long before you get to that maximum. Again, there is a cost to that borrowing. There is interest to be paid, and that is where it hits us. That is costing us £55 million a year.

Mr Girvan: Interest rates are probably at the lowest that they have been.

Mr Hamilton: We are getting it at good rates. It is not a commercial rate and it is not out on the market or affected by it, but it is still £55 million to £60 million, when our resource budget is under pressure. I have suggested to Executive colleagues that we start to draw a line with our overall borrowing and how much we are spending to service that. Again, in the circumstances, it is not the ideal thing but it is the prudent thing to do.

Mr Girvan: The point I was making was that, if you invest in the likes of broadband, there will be an infrastructural cost, but conversely, there is an economic benefit from employment that might be created.

Mr Hamilton: Absolutely, although most telecoms and energy investment tends to be taken forward by the private sector, and where they get the money from is a matter for them. We are always keen to support it, and we are looking to support the extension of the natural gas network. Telecoms has given us a huge competitive economic advantage and is something that we have to keep investing in and giving support to. I am keen to see infrastructure invested in well above and beyond the £1.6 billion or £1.7 billion that we are spending. There are opportunities with local government and even at central government level that we are exploring that would potentially unlock quite substantial sums of investment in infrastructure of a broad range of types and varieties in Northern Ireland. Work is ongoing, and hopefully it is something that we will be able to outline better in the draft Budget.

Mr Sterling: It is worth noting that DETI has been able to access national funding made available by the Department for Culture, Media and Sport for broadband enhancement and to improve the mobile network. Those projects are ongoing.

Mr Girvan: Thank you. Keep up the good work.

The Chairperson: Minister, after two and a half hours, I am well aware that we have gone over your time, so thank you. Paul, thanks for your short contribution.

Mr Hamilton: I get the sense that that is not typical. *[Laughter.]*