Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

October Monitoring – Resource Allocation: Department of Finance and Personnel Officials

15 October 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr Ian McCrea

Witnesses:

Mr Stephen Barrett	Department of Finance and Personnel
Ms Joanne McBurney	Department of Finance and Personnel

The Chairperson (Mr McKay): I welcome Joanne and Stephen to the Committee. If you would like to give a brief overview of where we are with October monitoring, we will then move to questions.

Ms Joanne McBurney (Department of Finance and Personnel): Thank you, Chair. The first thing to say is that the Minister's statement on Monday only covered the non-ring-fenced resource departmental expenditure limit (DEL) side of the October monitoring round. The remainder of the monitoring round — the proposed reductions, reallocations, technical adjustments and the capital budget — will be addressed in line with the normal monitoring timetable.

You probably recall that, in the June monitoring round, the Executive agreed to reductions to resource DEL of 2·1% or £77·9 million to fund a number of inescapable pressures across Departments. The Departments of Education and Health were protected in that. The June monitoring paper also advised that Departments should prepare for further reductions of 2·3% in October monitoring, equivalent to the £87 million cost of the non-implementation of welfare reform.

Since June, a number of inescapable departmental pressures have been identified, totalling some £125 million, so, combined with the £87 million welfare reform cost, that takes the total pressure to £212 million. Seeking to address this pressure through further in-year deductions this late in the year would have been virtually impossible to manage, and, in light of that, the Chancellor of the Exchequer granted us temporary access to the reserve of up to £100 million in 2014-15. This access came with conditions attached, including one that firm, revised departmental allocations for 2014-15 should be agreed. The level of the reserve access required will be deducted in 2015-16. Welfare reform costs of £87 million in 2014-15 and £114 million in 2015-16 will be deducted from the Executive's DEL, and a credible plan for a balanced 2015-16 Budget is to be agreed before the end of October this year.

At their meeting on 9 October, the Executive confirmed the proposed level of reductions that Departments were asked to plan for in June monitoring. They welcomed the Chancellor's letter and agreed to take up the £100 million access to the reserve and agreed to make the following allocations: £8 million to DARD for TB compensation; £13·8 million to DETI for Invest NI and sporting events; £60 million to Health for pressures in health sector; £29 million to DOJ for PSNI and legal aid; £4·5 million to DRD for concessionary fares; £1·3 million to OFMDFM for victims' services; £0·8 million to the Northern Ireland Assembly to reinstate the June monitoring reduction; and £7·6 million to Public Prosecutions Service (PPS) for equal pay and casework challenges. As a result of that, the Executive have exited the October monitoring round with a £25 million resource DEL overcommitment. Obviously, it is imperative that Departments live within those revised totals and make their best endeavours to identify any reduced requirements.

The Chairperson (Mr McKay): The Minister referred to our risking the wrath of the Treasury and incurring additional penalties if agreement was not reached for the £100 million loan. What, specifically, did Treasury indicate would be the penalties if there was a breach of the DEL?

Ms McBurney: The statement of funding policy says that that would be seen as a mismanagement of the Budget. What is laid out in the statement of funding policy is the ability for Treasury to deduct that from our next year's Budget allocation. That would happen almost automatically. Anything else would be within the scope of the Treasury. It has not indicated what actions it would take, but it could have stepped in to adjust cash amounts in-year, because the Secretary of State has that facility in legislation.

The Chairperson (Mr McKay): The £60 million for Health and £29 million for DOJ are significant allocations in comparison with other monitoring rounds. They all are defined as inescapable. How does each of the eight allocations fit that bill? The Committee has concerns that some bids that are labelled as inescapable perhaps are not inescapable, because Departments will do whatever they can to try to get money out of these monitoring rounds.

Ms McBurney: At the end of the day, it was for the Executive to decide which pressures they met. A lot of them are deemed to be either previous Executive commitments or inescapable contractual commitments. For example, DARD has a contractual commitment to pay TB compensation to the farmers. You will be aware that the health sector says that it faces £130 million of a pressure, so that is to help to address that. DOJ has a commitment to pay legal aid, and, in the case of PPS equal pay, there has been an industrial tribunal that has recommended that it makes those payments. There is the Assembly's reinstatement of its reduction because it had written to the Minister, and the Executive have accepted that we should not be reducing the Assembly's budget.

Mr Stephen Barrett (Department of Finance and Personnel): Concessionary fares are an Executive commitment, and DETI has contractual commitments made to firms investing in Northern Ireland.

Ms McBurney: In addition, two years ago, we reduced the DETI budget due to the downturn in the economy on the understanding that, should there be an upturn in the economy and it needed the funding, the Executive would provide that. It is an Executive commitment and a legal commitment to the companies.

The Chairperson (Mr McKay): How can we be assured that there will be no further inescapable bids coming in the rest of this financial year?

Ms McBurney: Departments have been advised that no further bids will be considered in the rest of this October monitoring round and that they will be expected to live within this control total. Obviously, at this point in time, we cannot prejudge what will happen in Departments, but the onus will be on Ministers to live within the total that they have now been given. Given that we are finishing the round with a £25 million overcommitment, there will be little, if any, scope to meet any future bids.

Mrs Cochrane: These have been referred to as inescapable situations that we are in. How much was asked of DRD around the concessionary fares, given that it appears that Translink has a £5 million surplus? Was there any questioning done through officials through to DRD around that?

Ms McBurney: I was not party to that, but our officials work quite closely with Departments, and they will have considered that. I am presuming that Translink's reserves are committed to things other than the concessionary fares, but I cannot say that definitively.

Mr I McCrea: At each monitoring round, some Departments have money that they have been unable to spend. Are any discussions going on with those Departments to ensure, at least at the earliest point, that they inform the centre that they have an underspend and to ensure that that money is allocated? I presume that the conversations happen all the time, but I take it that there is more of an urgency in those conversations.

Ms McBurney: Yes, there is, and Ministers have been advised that their Departments should be keeping in close contact with us, and colleagues in supply do liaise with Departments almost daily. All Departments and finance directors will have been told that they are to discuss with us at the earliest opportunity any potential underspends, certainly in advance of the January monitoring round to give a bit of pre-warning on that.

Mr I McCrea: The normal process is that, if there is any underspend in DRD, it can spend it on roads, but any of us who have been meeting contractors in different areas know that that is becoming more and more difficult. As they lay men off because of difficulties currently, they are unable to commit to ensuring that that is happening. Whilst I have my opinion about how that process should be rolled out, certainly in respect of DRD, and whilst I think that there may not be as much money in January monitoring as there maybe was in previous years, I think that how we do things needs to be changed quite drastically in that sense. It is not going to be as simple as firing all of the excess money to DRD, because it is not going to be able — well, I am sure it will, but it will not be as easy — to just get men to go out and fix the roads, as it were. It is something that I think should be happening, and it is encouraging to hear that there is more urgency in that respect.

Ms McBurney: There is, and DRD has made us aware of that in its engagement with our officials. Unfortunately, I do not think there will be many resources available in January, but it is certainly something that we are aware of.

Mr Barrett: On the capital side of things, there will be additional proposals brought to the Executive next week in terms of reduced requirements and allocations etc, so that will potentially impact DRD.

Mr Cree: I am almost amused by the inescapable myself. The £1·3 million for the victims' service was an inescapable pressure in October, but it was not an inescapable pressure in June, was it?

Ms McBurney: It was not met in June, so I presume that it was not deemed to be an Executive commitment at that time. I do not actually have the June paper with me to see how that was addressed, but I think there was an acceptance by the Executive that it was an important area to be funded. As well as things that are inescapable for contractual or legal reasons, we have also looked at Executive commitments and anywhere that the Executive have agreed that they would provide funding. I think it falls under that.

Mr Cree: But it had not even been put in the Budget. It was intended to be dealt with as a bid during June monitoring. Clearly it was inescapable, in the sense that people were there, a job was being done and people were employed, yet it was left out of the initial Budget, with a view to it being dealt with by a monitoring round.

Ms McBurney: That was obviously a decision that was taken back in the original Budget.

Mr Cree: Where is the logic in that?

Ms McBurney: Well, pressures emerge at all times.

Mr Cree: Sorry; that is a fixed part of the Budget.

Ms McBurney: Sorry; I am not completely over the OFMDFM detail, so I do not know at what point it was. The Budget was set four years ago, so I do not know whether that was identified as a pressure at that time or whether it has emerged since then. With a Budget that was set four years ago, there are obviously going to be things that come up during that time, which will be dealt with in the monitoring rounds. It was unfortunate that it was not able to be dealt with in the June round, but the importance of it has been recognised in the October round and the funding provided.

Mr Cree: But it was not in the Budget this year. It was not in the four-year Budget. It was left out.

Ms McBurney: Yes, but I cannot comment on whether that was raised as a pressure for OFMDFM at that time. When the Budget 2011-15 was being created, Ministers at that time would have had an ability to move money between their budgets to fund those pressures and, had they decided at that time that it was a pressure, presumably they would have done that. So, without knowing the absolute detail of it, all I can presume is that, at the time the Budget was set, four years ago, the pressure was not identified. The first opportunity then —

Mr Cree: Sorry; it is an ongoing Budget heading, and it was left out this year. The plan was to deal with it in June monitoring.

Ms McBurney: Yes, that was obviously the plan. What I am saying is that I cannot comment on what went on in Budget 2011-15, because I am not —

Mr Cree: I am not interested in that; I am interested in the current year. Suddenly something is not in the Budget. The plan was that we would deal with it in June monitoring. June monitoring came and went, and it was not dealt with, and then suddenly it is inescapable in October.

Ms McBurney: Yes. I understand that you are talking about the 2014-15 Budget. The opening Budget for 2014-15 was set back in 2010.

Mr Cree: I realise all of that. I am only concerned with the fourth year of the Budget.

Ms McBurney: Yes, which is the fourth year of the Budget, so it was set back in 2010. All I can presume is that, at that time, the Department had not identified the need for that funding to be in it, but I cannot comment definitively on that because I do not have the details of the Budget.

Mr Cree: Can I ask you to have a look at the detail?

Ms McBurney: I can certainly have a detailed look at it.

Mr Cree: Are there any similar examples where a main Budget heading has not been included in the Budget and was intended, loosely, to be dealt with in the monitoring round?

Ms McBurney: I cannot say definitively that there were or were not. I would imagine that Departments would endeavour to identify all future budget pressures when the Budget is being agreed.

Mr Cree: It did not happen here.

Ms McBurney: As I said, I cannot comment on the detail of that. I presume that it did not happen here, but the monitoring rounds exist to address those sorts of issues.

Mr Cree: I would be grateful if you would check that, because I think it is a fundamental change in the attitude to how budgets are set. Things are left out as main items and suddenly dealt with in the monitoring round. We now know that, in monitoring rounds, the money may not be there.

Mr Barrett: That is not always the intention. At times, new initiatives come along post the budget being set, and the only vehicle for addressing those pressures is through the monitoring round process.

Mr Cree: But there are people employed on an ongoing basis. It was clearly meant to be an ongoing situation.

Ms McBurney: Yes, but, presumably, as Stephen said, it has emerged since the Budget was set. It is a matter for the Department to identify those pressures and, when it is committing to it, to allocate funding to that.

Mr Cree: It has not been an emergence; it was there last year and the year before.

Ms McBurney: I need to check whether it was there in 2010 and what priority the Department put on that.

The Chairperson (Mr McKay): Ian referred to the DRD budgets, and it is an issue that needs to be dealt with, because DRD, whether it is for street lighting, potholes or whatever, has picked up a bad habit whereby the money should be in the baseline but, instead, it is used to pick up the slack at the end of the financial year.

Mr Girvan: The street lights only stopped working recently. They worked up until then. They have only had to be included in the monitoring rounds because they never broke down before. Potholes have only started to appear. *[Laughter.]*

Mr Cree: It is a new thing, is it?

The Chairperson (Mr McKay): The point that I am trying to make is that the companies that Ian referred to are in difficulty now because that has not been part of the baseline. They are almost the victim of this process now because health and other priorities are coming in. Is the Department taking a serious look at that and having serious talks with DRD about how those budgets are mainstreamed in future? I think that it has a greater impact on contractors involved in that kind of work because of how the monitoring rounds are currently operated.

Ms McBurney: A certain element of the budget is baselined into the budget settlements. Any monitoring round allocations are over and above that, but the construction firms will obviously say that not enough of that is baselined. We can look at that with DRD.

The Chairperson (Mr McKay): Are you looking at it with DRD?

Ms McBurney: Yes, our supply officers will have engagement with DRD and will pick up on that, but, ultimately, it is a matter for the Department to decide what level of funding it wants to allocate to that in its baseline.

The Chairperson (Mr McKay): Can you have talks with DRD about that and perhaps come back to the Committee by way of written correspondence to see how we can move that issue forward? It is an issue that needs to be addressed.

Ms McBurney: Yes, we can certainly raise that with DRD and come back to you.

Mr Barrett: In relation to road structural maintenance, DRD can be quite reactive when reduced requirements are declared on capital throughout the year. That is part of the explanation of why it seems to get capital allocations for road structural maintenance at short notice whereas other capital schemes have less capacity to spend through the in-year monitoring process.

The Chairperson (Mr McKay): The Department previously advised the Committee that it was submitting a bid of £2·3 million for depreciation costs since it was unable to contain those within existing baselines. What is the likelihood that those costs will become an emerging pressure for other Departments during the year?

Ms McBurney: This element of the monitoring round did not deal with the depreciation pressures; it only dealt with our non-ring-fenced resource DEL. It is quite possible that a number of Departments will have pressures because of depreciation, because that tends to come in year when they look at their asset base and calculate their depreciation. That will be picked up in the next element of the October monitoring round.

The Chairperson (Mr McKay): Do we have any indication of what kind of pressure that will be?

Ms McBurney: Unfortunately not at this stage.

The Chairperson (Mr McKay): There are no indications from the Department.

Ms McBurney: Not that I have with me at the moment. Departments will have submitted their bids in the normal October monitoring round, but I do not have that level of detail. It will be brought before the Executive.

Mr Barrett: We have received departmental bids around that etc. That will be brought to the Executive next week for consideration in relation to allocations.

The Chairperson (Mr McKay): Stephen and Joanne, thank you both very much.