



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

OFFICIAL REPORT
(Hansard)

**DFP September 2009 Monitoring Round
Position**

16 September 2009

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Peter Weir (Deputy Chairperson)
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Adrian Doherty) Department of Finance and Personnel
Ms Deborah McNeilly)

The Deputy Chairperson (Mr Weir):

I welcome Deborah McNeilly, head of finance branch at the Department of Finance and Personnel (DFP), and Adrian Doherty, from the finance branch of DFP. The session is being reported by Hansard, so the usual caveats apply about mobile phones being switched off.

The Committee received information from the Department on the September monitoring round last week. We did not have time to go into it then, but members have had the information during that time. Deborah, do you wish to add anything, or shall we go straight into questions?

Ms Deborah McNeilly (Department of Finance and Personnel):

The Committee will have noted from the submission that the financial position of the Department is an extremely difficult one. Officials at senior levels across the Department have been involved in ongoing and critical discussions on the finances of the Department, and have been taking a very rigorous approach.

The departmental board has been, and continues to, explore where reductions can be made to offset some of the significant pressures that the Department is facing. That is an ongoing debate. Some decisions have been made by the departmental board, but those will clearly require endorsement at higher level, including ministerial level. That is the continued focus of the Department in trying to address these problems.

We have submitted our September monitoring position to central finance group, as has every other Department, and we understand that those submissions are being considered, with a draft paper to go to the Executive on 24 September.

The Deputy Chairperson:

I will start with the Land and Property Services (LPS) bid. When there was discussion on the June monitoring round, the Committee agreed that the delivery of rate relief by LPS was of paramount importance. Those of us who have links with local government are aware of the significance of anything to do with rate relief.

At that stage, the Committee understood that the options were to redirect resources internally. We noted that the LPS bid for around £6.2 million in this monitoring round is double the amount that was bid for in June, which was £3 million. Will you outline the options that will enable LPS to deliver its programme of rate relief should the bid not be met?

Ms McNeilly:

The bid has increased from the £2 million that was put forward in the June monitoring round to the £5 million that is now before the Committee. The agency submitted a higher bid for the Department to consider at the June monitoring round, but we wanted to take some more time to consider and thoroughly challenge the financial position of the agency. We have liaised with them thoroughly, which is how we have reached the figure of £5 million.

We have given clear directions to LPS on how to address that pressure, and they have agreed to make savings of £1.2 million through a variety of means, including a reduction of general administrative expenditure (GAE); a reduction in overtime; and the dismissal of some 40 temporary staff. Some of the measures have already been taken, and the departmental board has asked that they are progressed.

As regards the rest of the Department, I have referred to the reductions that the departmental board had explored. Members will appreciate that those proposals have not gone to the Minister of Finance and Personnel yet. The departmental board has identified reductions of £2 million. That will be subject to the usual approvals, and it will have implications for some of our business areas. It has been spread across business areas, so it is not all in one place, but I cannot go into detail because it has not yet gone to our Minister. However, overall, it would give us some £2.3 million, which would leave a balance of £1.5 million worth of pressure in LPS. We are still pushing the agency on its expenditure plan.

During in-year monitoring last year, as a result of additional income and transfers that the Department was able to make by way of internal reallocation, the agency was able to secure some £5 million of additional funding. In the current year, our focus is on working to address a £5 million pressure.

The Deputy Chairperson:

On the same subject, your submission indicated that if the bid is not met there will be an impact on the ability of LPS to address the rates backlog, which would be to the cost of the Northern Ireland block. Can you assess how much that cost might be and its impact on Civil Service reform, some of which was to be funded by improved rates collection?

Ms McNeilly:

Civil Service reform funding for various projects, such as Account NI and HR Connect, was secured as a prior commitment in the June monitoring round. Therefore, there will be no impact on funding for those reform programmes.

With respect to the extent to which expenditure reductions will impact on the agency's rate-collection activity, the agency continues to reprioritise resources from other functions that it has taken on board, and it is redirecting those resources to operational services. The agency's clear

priority is to focus on rates collection and relief. Therefore, although the agency has indicated that there will be an impact, which it is seeking to manage and minimise, the extent of that impact has not been quantified.

Ms Purvis:

Your submission to the Committee refers to the reclassification of resources. Are you referring to money that is in the Department but, apparently, is not being used because it is in the wrong category? Are you, therefore, attempting to have it reclassified so that you can use it? For example, because LPS has put in a bid for £6.2 million, if that money were to be reclassified, could it be used for LPS?

Ms McNeilly:

The money and the transactions behind that reclassification request reflect instances when services have changed hands and Departments have transferred money to DFP. For example, it could be as a result of money being transferred for IT Assist or HR Connect. Departments have transferred money to us in one currency or, to put it another way, other resource, but we need reclassification because our expenditure comes out of admin. If money were to be taken out of business areas in which it is sitting in the wrong categories, an equivalent hole would be left in the budgets for services that other business areas are delivering. In effect, we are trying to align the currency that we have received from various Departments for services that have transferred to the category in which we wish to spend it.

Ms Purvis:

One of the reasons being given for meeting the bid from the Central Procurement Directorate (CPD) is that it would save future costs across the Civil Service.

Ms McNeilly:

Members will be aware of the legal action that has been upheld against the CPD, which has been receiving advice about an appeal from our departmental solicitors' office. If that appeal were to be successful, there would be implications for procurement and, potentially, it would stop further legal action from proceeding. Therefore, it may have a beneficial impact on procurement.

Ms Purvis:

Only if the CPD wins the appeal.

Ms McNeilly:

Absolutely.

Mr McNarry:

Returning to the reclassification of resources, there are some words in your submission that jump out at me. You were unsuccessful in June, yet the reclassifications are essential within the budgetary policy rules. Does that mean that you have to get that reclassification?

Ms McNeilly:

Effectively, yes; we have to get it. We are engaging because of the scale of the problem. Last year was the first occasion when Departments had problems in getting the reclassifications that they needed. It is not that we are actually spending more money on the service; it is just that we have it in one currency and need it in another to be able to spend it.

We are actively engaging with colleagues in the central finance group to see whether there is any way that we can mitigate the impact of not securing that reclassification. Can certain services now be treated as other resource, such as programme spend? We are trying to explore every avenue that is available to see whether there is a way through this. Effectively, however, if the Department is required under the budgeting rules to report certain expenditure as admin and we cannot get the money into that category, the Department faces a significant risk of exceeding its budgetary-control totals.

Mr McNarry:

What would you do in that case?

Ms McNeilly:

In that case, if we did not get it reclassified and continued to spend in line with the expenditure requirements of the various services, which we now deliver on behalf of Departments, we would exceed our admin-control total, or else we could stop spending.

Mr McNarry:

That is a bit worrying, but I am sure that everyone would put their hands in their pockets and come to the rescue.

Ms McNeilly:

It depends; the extent to which that can be made will depend on the scope at the admin level in the Department. My understanding is that the admin-control total is not one that has been set by HM Treasury as such; it is one that the Executive set. I cannot say whether that is something that can be re-examined.

Mr McNarry:

You began by telling us that things were tight, that you were facing pressures and that you were making reductions to offset against pressures. I love the use of that word “pressure”; it is tremendous. Are you fearful that there is a trend developing?

Ms McNeilly:

In relation to the outcome of the CSR 2007 and the Budget 2007, the Department always recognised that 2009-2010 and 2010-11 would be significantly more difficult for us. Anecdotal evidence suggests that Departments are generally finding a squeeze on their finances. In that respect, I do not imagine that the experience of DFP is much different from that of other Departments.

A significant issue for the Department has been LPS, which has undergone substantial change. The rating reforms have had an impact, as has the increased activity that was required to address arrears. If one compares the pre-2007 operating environment in LPS with its operating environment subsequent to that, a trend in the amount of activity required of LPS becomes apparent.

Mr McNarry:

Members of this Committee and other Committees have concerns about the management of money and how cautious Departments are with it. Last night, I had to write a cheque for £963.47 because I was mistakenly paid that sum in March. I was asked about it this month. I do not know how it happened and it obviously was not for me, but I did not know that it was not for me and all donations are gratefully received, as they say. It came in under the title “various” and it was for a sum greater than the amount that I had to write a cheque for.

That was almost £1,000 that had been out of circulation since March. My concern is whether

there are more such cheques for even greater sums? Is there any evidence of that? I appreciate that people can make mistakes. I cannot, however, appreciate that it took from March to September for that mistake to be rectified; that worries me. Sometimes I am dismissive of the things that people tell me, but this does worry me. What safeguards are in place for the management of our finances?

Ms McNeilly:

The focus on financial management across the Department has increased significantly. I am content to say that, because the focus is at the departmental board level and is on engagement with our business areas. Before, the Department was looking at where it had spent £10,000; now, it is looking at where it has spent £1,000. Although that is only anecdotal, that gives a sense of the shift in focus and of where it now lies.

A lot of new systems have gone in. I am speaking in general terms because I am not sure which system was involved in your case. There will be cases when processes and procedures around the Department have to be worked through, but that means that those systems will be improved.

At one end of the spectrum, I am confident that, given the tight financial position, there is an increased focus on maximising income and on making sure that everyone gets paid the money owed to them. At the other end of that spectrum, we are trying to increase the timeliness of payments to suppliers. Therefore, there is an increased focus at both ends of that spectrum. I am happy to look at specific examples if that is not found to be the case.

Mr McNarry:

I do not want to dwell on my experience; it was a personal instance that made me wonder what was going on, particular because of the time that had passed before the mistake was discovered. Your report states that allocations were placed “in the wrong category”. Anybody can make a mistake; that is dead easy. Just assure me that there is not a culture of people making mistakes and that it does not take that length of time to rectify them.

Ms McNeilly:

The allocations referred to in our report were not errors; rather, they were timing issues with the process, because changes are only allowed to be made at certain stages of the budget. The

Departments gave us money in the wrong category because they can afford to give it to us out of other resource. They want to keep their admin budgets for their own use. Departments tell us that they will give us money under the category of other resource and that if we do not want it, they will give it away. Therefore, we inevitably end up saying that we will take it; because at least we will have something.

Mr McNarry:

I am always enchanted by your openness. I asked a simple, wee question, and out of that I got clued-in to what on earth may be, or is, going on. That tells me a lot. Thank you very much.

The Deputy Chairperson:

Mitchel is next to ask a question; we will see whether he is similarly enchanted.

Mr McLaughlin:

If David is enchanted I do not see how I could be unaffected.

Will you explain why there is a significant difference between the bid that properties division made in June and the one that it made in September?

Ms McNeilly:

The bid that was made in June was for maintenance of the office estate. Properties division is facing a £4 million non-cash pressure in its overall budget. In the absence of additional funding being available to it for non-cash, properties division has planned — as it had done at the time of the June monitoring round — to offset that non-cash pressure by reducing its maintenance budget, because that is the only budget in which it can make reductions.

At that time, the properties division was hopeful that it would get some money for maintenance, to allow it to keep up a certain level of maintenance across the estate. As that bid was not met in the June monitoring round, the properties division redefined its plans and has further reduced its planned maintenance spend for the office estate.

The bid that is now on the table is a new bid that properties division has submitted; it is for rent, as a result of rent reviews. The rent reviews and the rental issue relates to a number of buildings that were taken on following the Victoria Square development; for example, Churchill

House had to be vacated as it was being knocked down. A significant number of buildings were taken on at the same time, all of which have come up for rent review.

The proposed increase in rent is based on current marketing conditions. When the original agreements for Victoria Square were entered into six years ago, landlords were often offering very competitive deals to get the client in. That is where the rental increase has come from, and that is what the bid is for.

Mr McLaughlin:

So there is a double-bind. When exactly did the rent review occur?

Ms McNeilly:

Properties division has been liaising with valuers in LPS over the last month or so. To be fair to properties division, it had anticipated that, because of economic circumstances, the rent review would not have a significant impact. At the other end of the spectrum, with the professional advice that has been received from the valuers, negotiations about rentals relate to market conditions. The jump is because there were very preferential rates six years ago; that is why properties division is asking for more than it had anticipated.

Mr McLaughlin:

Is this the first time that those rents have been reviewed?

Ms McNeilly:

Yes.

Mr McLaughlin:

What do you mean by a substantial hike?

Ms McNeilly:

The bid is for £1.2 million.

Mr McLaughlin:

No, I mean compared with the original rental costs —

Ms McNeilly:

I do not have the costs per square metre that properties division would have for each individual building. There may have been additions or preferential rents; for example, free car parking on-site or in the basement of the building, and those are now coming up for review.

Mr McLaughlin:

You have a costed bid to take account of that. I will move on to the issue of maintenance, but I want to get this aspect clear first. You were in a position to inform that bid, because you have some details about the rent increases. The rent has gone up from whatever baseline figure was established six years ago to a new baseline this year. We are talking about a specific set of accommodation, not the entire Civil Service accommodation.

Ms McNeilly:

I can get the price per square metre before and after, if that would be helpful to the Committee.

Mr McNarry:

I take it that you were talking about rent-free periods when you spoke about arrangements that were put in place six years ago. Is that still the case now? Has that been the case for the past two or three years, and can you take advantage of that?

Ms McNeilly:

That would be the case if one were to negotiate for a new building now. However, the leases that were signed were generally for 12 to 15 years.

Mr McNarry:

Would those leases have had provision for rent reviews every six years?

Ms McNeilly:

Yes, they would. You are quite right; if we were taking on a new building now, landlords would presumably try to offer preferential deals from the outset.

Mr McNarry:

I take it that we have skilled negotiators working on the rent reviews?

Ms McNeilly:

Yes.

Mr McNarry:

I hope that no one will report back that the Civil Service has paid a five star sum for a building when someone in similar circumstances in the commercial world has got a good deal.

Ms McNeilly:

Properties division has been working with valuation services, and professional valuers have been advising it on the rent that should be payable for each of the buildings in line with current market circumstances. That is the normal process for any Department taking on a rent review or property deal.

Mr McLaughlin:

The maintenance budget has been significantly affected by the review. I understand the pressures that the Department is trying to cope with. What is the consolidated figure that has been set aside that had previously been allocated to maintenance of Civil Service accommodation?

Ms McNeilly:

The non-cash pressure, which properties division has had to fund because it is inescapable, amounts to £4 million. The primary source of the redirected funding was the maintenance budget.

Mr McLaughlin:

When we consider all of the arguments that were used to support Workplace 2010, including the condition of the accommodation, the implications of that are really concerning. I understand that you have to try to balance the books, but clearly that raises more questions than it answers.

Dawn mentioned the CPD. I wonder whether the bid represents an attempt to stonewall on the issue and whether there is a contradiction in the Executive's efforts to stimulate the local economy by taking a more flexible approach to procurement. Is the CPD holding up projects by prolonging the legal process? Your submission refers to the European Court of Justice. The clear implication of Assembly discussions and statements from various Ministers has been that there should be an attempt to accelerate the capital projects and at the same time provide as much as

opportunity as legal constraints permit. I believe that there has been a successful challenge to the framework approach. That does not necessarily mean that there cannot be a framework approach, but I wonder whether the CPD is in tune with what Ministers and the Assembly are quite clearly saying.

Ms McNeilly:

The CPD is focused on what it can do to accelerate the procurement process. I am confident that that is the case. Clearly, an appeal would not be undertaken lightly, and I would not see it as an attempt to stonewall procurement. It is a way of taking it forward by making things happen more quickly. Quite a lot of legal action is ongoing; an appeal may clear a path by addressing at least some of the concerns that exist and may, perhaps, streamline the process. I know that in the past we have had closed sessions with the Committee or have provided separate information on the legal challenges faced by the CPD; we can provide an update on that matter, if the Committee wishes. The CPD is focused on streamlining its processes to ensure that where contracts are there, they can be put out to the marketplace, in line with pressures from Departments and the views of the Executive.

Mr McLaughlin:

That is where I was leading. I think that we should take up your offer of a confidential briefing, if that is possible. It is possible to get legal advice on almost anything if you are prepared to pay for it, and I am quite certain that the CPD could get legal advice on whether to take an appeal. Is there any political dimension to the issue? Is the Minister personally involved in giving any direction on it? If that cannot be answered now, I am quite content for it to be dealt with in the other manner that you have suggested.

My concern is that there is an apparent contradiction between making the bid and the intention to make a legal appeal. I would like to know whether the Executive's approach is disjointed in any way, particularly in relation to the broader efforts to sustain the economy and provide assistance to indigenous enterprise.

Ms McNeilly:

Are you content for that to be dealt with in closed session?

Mr McLaughlin:

Yes; I can understand why it might be necessary to do so.

Mr O'Loan:

No one asked about NISRA's bid for £500,000 for the 2011 census. I am surprised that that was not anticipated.

Ms McNeilly:

The Department did bid for funding for the census as part of the CSR process. We received funding, but not for the full amount. We have been trying to secure the full amount at the available opportunities at monitoring rounds.

The Deputy Chairperson:

Thank you. I again apologise for the fact that we kept you waiting for a week, having brought you here last week.