



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

OFFICIAL REPORT
(Hansard)

**Review of 2010-11 Spending Plans for NI
Departments**

11 February 2010

NORTHERN IRELAND ASSEMBLY

**COMMITTEE FOR
FINANCE AND PERSONNEL**

Review of 2010-2011 Spending Plans for NI Departments

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Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr David McNarry
Mr Adrian McQuillan
Mr Declan O'Loan

Witnesses:

Mr Sammy Wilson) The Minister of Finance and Personnel
Mr Michael Daly) Department of Finance and Personnel
Mr Richard Pengelly)

The Chairperson (Ms J McCann):

I welcome Minister Sammy Wilson, Richard Pengelly and Michael Daly.

Several pieces of correspondence are included in the Committee packs for members, including the Minister's statement to the Assembly on the review of the 2010-11 spending plans, the accompanying consultation paper and a copy of the response from the Confederation of British Industry (CBI) to the spending plans. Are members content to include that paper, which we did not receive in time for yesterday's meeting?

Members indicated assent.

The Chairperson:

Minister, perhaps you could make a few opening remarks, and I will then open up the meeting for questions.

The Minister of Finance and Personnel (Mr S Wilson):

My introductory remarks may be a bit repetitive, but they set the scene. We have gone through the spending plans a couple of times in the Assembly, and I know that the Committee has gone through them with officials, too.

On 12 January 2010, I set out the Executive's proposals for the review of the 2010-11 spending plans. Although in the previous two years the Executive have been able to address emerging pressures through the in-year monitoring process, last summer, I took the view that the amounts involved for 2011 were simply too large and that early intervention was needed. For that reason, I initiated the review of the 2010-11 spending plans.

The Executive face a large number of pressures and easements next year. The main issues are water charges, the level of overcommitment and the equal pay claim.

The original funding applications to the Northern Ireland Departments for 2011 were based on domestic water charges being in place next year. However, following an agreed deferral by the Executive in November 2008, charges will not be introduced in 2010-11. That will save the average household around £400 next year. However, the net cost to the Executive will be £119.7 million in current spending and £93.3 million in capital investment.

The planned level of overcommitment for 2010-11 was £60 million, down from £100 million in 2008-09. In light of the progress that has been made — I am glad to see Departments spending their full allocations — it was decided to reduce the level of overcommitment to zero. That is not a failure. It should be regarded as a success in so far as Departments can now look at the Programme for Government (PFG) and the commitments that they have made in it and, rather than underspend, spend in accordance with the programme. The result of that is, of course, that we cannot rely on an overcommitment at the end of the year. However, the good news is that, if we reduce the level of overcommitment, we will have greater scope to address emerging

pressures as part of the in-year monitoring process, because we will know that we do not have to look to end-year overcommitment.

The formal proposal on the equal pay claim was made to NIPSA in November 2009. It was overwhelmingly accepted, and my officials are consulting on the logistics. We hope that payments will be made as soon as possible. There is a gross cost to the Executive as a one-off payment, which is expected to be in excess of £160 million. We put down that it would be within the range of £155 million to £170 million, and I explained why there cannot be a definitive figure at present. That will be offset by the £100 million of support that was negotiated by Nigel Dodds in 2008.

Other minor figures are outlined in the review of spending plans booklet, but the total cost of all the pressures and easements facing the Executive will be £217.1 million in current spending, which is 2.4% of the 2010-11 Budget, and £149.9 million of capital investment, which represents 10.2%. That is lower than the level of funding left unspent by Departments at the end of 2005-06, when there was a £378.1 million underspend. Although a large amount of savings will be reallocated to other public services, there will be only marginal changes in the overall level of planned spending in Departments. The tables in the booklet provided to members show that the net impact on total capital spending is minimal.

Capital receipts was the one area on which the Executive agreed to defer formal consideration until the 2010-11 in-year monitoring process, and that was because of continuing volatility in the property market. Slippage is expected in the Royal Exchange project, which falls under the remit of the Department for Social Development (DSD), and in the waste management project, which falls under the remit of the Department of the Environment (DOE). That slippage is expected to provide enough scope to offset most, if not all, of the shortfall in receipts.

The other element in the Budget was the invest to save fund. Although there were immediate issues to address, I am also critically aware of the public expenditure constraints that the Executive will face in coming years as the Government seek to reduce borrowing to a more sustainable level. Although the position remains unclear, the most likely outcome for the Executive is flat cash, or, to use the Prime Minister's term, 0% growth — I am not too sure how you get 0% growth — in current spending and a reduction in capital spending.

In response to that, I established a £26 million invest to save fund to provide Departments with upfront investment, which is often needed to deliver savings. To date, about 60 proposals have been received from Departments. Those will be assessed on the amount of savings compared with upfront costs, and on quality and deliverability. We have to make a judgement on those, and I will announce the details of the allocations to Departments from the invest to save fund when finalising the revised plans for 2010-11.

The Executive examined a range of alternatives to achieve the savings required for 2010-11, but the only realistic option was to reduce existing budget allocations to Departments. In order to maintain the maximum delivery of front line public services, the Executive agreed to a targeted approach, with the Department of Health, Social Services and Public Safety (DHSSPS) having the lowest percentage savings target for current expenditure at 2.1%, and the Office of the First Minister and deputy First Minister and the Department of Culture, Arts and Leisure (DCAL) having the highest at 5%. I am sure that you will understand, Chairperson, that that will be dead popular with my party colleagues who are Ministers in those Departments, but the decision was based on sound judgement and on the information available.

In deciding upon the level of savings for each Department, consideration was given to the broad range of contextual factors, which included evidence of inefficiency and spending performance in recent years. The Departments were also asked to provide an indication of the actions that they would take to deliver an upper limit of savings. That formed the basis of the initial recommendations to the Executive, which were subject to significant discussion among Ministers and special advisers before we arrived at the proposals that were agreed on 17 December by the whole of the Executive.

Inevitably, there will be calls for one Department or another to be asked to deliver a lower level of savings or, perhaps, none at all. However, that would require additional savings to be made in other Departments. The main call has come from DHSSPS, but, given that the other Departments account for only 50% of the Budget, it would not have been practical to impose all of the changes on that 50% of the Budget. That was simply not a workable solution.

As far as the consultation process is concerned, I hope that the Committee will appreciate the need for the final revised spending plans to be in place before the start of the new financial year. As I have already put on record, I would have much preferred the entire process to have been

completed before Christmas. Unfortunately, however, that means that there is only a limited time available for consultation with the Assembly, although a number of interesting points were made during the take note-debate on Tuesday.

To facilitate the process, I have published a consultation document that sets out the changes in the public expenditure context and the Executive's proposed response. I have also asked my Executive colleagues to publish further details on how they intend to deliver the additional savings that were proposed by the Executive for their respective Departments. During the take-note debate, I said that I was disappointed with the lack of progress in that respect. I have written recently to Ministers to remind them of the importance of transparency in the consultation process.

I am most grateful to the Committee for the role that it plays in putting forward its views on the Executive's spending proposals as well as in co-ordinating the responses from other Committees. I understand the difficulty that the Committee has in co-ordinating the responses if the other Committees have not yet received the necessary information from their Ministers. I also appreciate the logistical challenges that are involved. I would be most grateful for a response from the Committee by the end of February — I hope that you will keep members in to get that done, Chairperson — or as soon as possible afterwards in order to allow the Executive to consider fully the views of the Assembly.

Before I take questions from members, I must stress that the draft revised plans at Executive and departmental levels are only proposals at this stage. I do not believe that my ministerial colleagues and I are all-knowing in respect of every single aspect of the work of Departments and the impact on the people of Northern Ireland. Therefore, we are open to any suggestions as to how savings could be made in a different way to that which is being proposed by our individual Departments. I am most interested to know whether the Committee has any views about which Department, or Departments, should be asked to deliver more savings in order to reduce the amount that is required of another.

There is also the question of reducing the level of overcommitment to zero and the invest to save fund. Does the Committee think that the Executive should go further, given that that would require further savings to be made? Those are some of the issues on which I would certainly be pleased to hear the Committee's views. For the rest of this meeting, I am quite happy to take

questions. I hope that, if I do not have the answers, my officials will.

The Chairperson:

Thank you very much. The Committee has heard evidence that there should be a more strategic approach to efficiency savings. The people who are in the most need in our communities should not bear the brunt of those efficiency savings. Front line services should not be affected. The Committee has heard evidence from witnesses that, rather than top-slice budgets within individual Departments, a more strategic approach should be adopted. That is the view of the Committee, too.

The Minister of Finance and Personnel:

I am pleased that the Committee endorses the approach that we have taken. We do not want to top-slice because it is not strategic in any way. There is some difficulty. The only instruction that we can give to individual Ministers is that we have adopted a strategic approach at Executive level; it is up to Ministers to respect those judgements at Executive level by ensuring that savings are directed, as far as possible — it may not always be possible — to areas that do not affect front line services. They could consider more innovative ways for Departments to do that.

We can provide the top-level strategic guidance, but it comes down to Ministers. Committees can probe Ministers' plans to ensure that they do not simply go for the headline-grabbing cuts, as some of the more cynical ones might decide to, or for options that they know the Committee will refuse to accept, hence creating pressure that cuts should be made in other Departments. That is a departmental management problem, and it is the Committees' job to probe to ensure that Ministers do not behave in that way.

Mr McLaughlin:

You are very welcome. At the outset, I want to say that this is a very challenging exercise; the Minister has made a fair fist of it. There is no point in picking at it unless we have the feedback from the other Departments. There may be some issues.

The Minister made a valid point about getting advice and assistance from the Committees, and he mentioned innovative ideas. In an ideal world, that type of synergy might exist. We might be moving in that direction, but these plans were prepared during the maelstrom of negotiation and questions about whether we were facing an election. It would not be surprising if some people

were keeping their powder dry and if we have not seen the colour of their money. You, as Minister, had to take the lead and make decisions, and that is exactly what you have done. It is now up to Departments to respond. I hope that, when developing our composite response, we will have the benefit of detailed consideration from individual scrutiny Committees. It is a collaborative process, inherently at least, but it does not always work out that way.

I will talk about process for a moment. During the take-note debate on spending plans, I said that there needs to be more access to achieve that type of collaboration and ownership in the budgetary process. People do not have the information and are driven back into partisan perspectives. That does not make it easier to identify innovative responses to challenging economic circumstances or come up with mature and well-considered arguments because there may be a need to challenge ministerial proposals. That could be entirely valid but, more often than not, a partisan or party political perspective impinges on the process. The Minister should seriously consider how the Budget process can be opened up to the Assembly and when that can happen. In the timeline that has been outlined, we will struggle to provide an adequate consultation process. We will do our best, and the other Committees will respond to the deadline that we have had to impose. However, it is not the best approach.

The performance and efficiency delivery unit (PEDU) is a very good idea. I am concerned that we have not sold its benefits to individual Ministers. PEDU can bring expertise and assistance to those Ministers, within their own autonomy and departmental operational authority. Departments should be open their hearts as well as their books to PEDU; that message has not been delivered. That would help the Assembly to respond adequately and in the best way to the ongoing economic challenges in the period ahead.

The Minister of Finance and Personnel:

Thank you for your remarks about the process. As I said, I do not regard the proposals that I bring forward and the judgements that we make as all-knowing because, of course, I cannot be on top of the detail and issues of every Department. That is why the entire exercise — the Executive making a decision, it going out for consultation to the Committees and the Finance Committee collating the responses — is very important.

I understand your point that that takes time. One of the reasons why I first took the paper to the Executive in September was to try to allow for a longer process. The last thing that I wanted

was to make a statement in January and to have a report by the end of February. I take the point that the member has made. I am not going to blame anybody, but this paper did not get to the Executive for three months. For that reason, there was a delay in the whole process. Through the Agreement at Hillsborough Castle and the working group that has been set up, we are trying to find out how we can get papers through the Executive more quickly so that the kind of work that Committees need to do can be done and so that we do not end up with some Bills being given accelerated passage when they should not be — as has happened with some Bills in the past. In that way, we can avoid having a truncated process for this very important issue, which should be the subject of a lot more debate.

I hope that, in providing information, we have been as transparent as possible in outlining the pressures that we face and the easements that are available and that we have explained how we intend to deal with those issues. I hope that we have explained that if we are not dealing with some issues now, we will deal with them later. I hope that we have explained that we have delayed dealing with some issues, such as capital receipts, because of the volatility of the market, and so on, but that we are fairly certain that we can deal with them as part of the in-year monitoring process. I also hope that we have explained that we felt that we had to take the approach that we did because in-year monitoring would no longer be a suitable vehicle for dealing with the level of pressure that we were experiencing.

If there are requests for other information, I am more than happy to consider them so that the debate can be as full as possible and people can take ownership of the Budget. There is no point in people saying that they are not happy with the Budget because they did not feel that they had enough information on which to base decisions or enough time to judge it. In the document that we have produced and the figures that we have given previously, we have tried to paint as honest a picture as possible and to give the details behind it. If additional information is requested, we will respond where we can.

The member mentioned PEDU, and I am, in fact, sold on the idea of it. When I was Minister of the Environment, I was one of the first Ministers to use PEDU. At that stage, the Planning Service was taking a lot of stick for not delivering and for not meeting all the targets for either major, minor or intermediate projects. We were in the process of carrying out some planning reforms. Some measures were already in place, such as the streamlining of planning applications at local government level. I genuinely wanted to see how we could make the Department more

efficient. I viewed PEDU's involvement as being of benefit to me rather than a threat. To my mind, if I could deliver a more efficient planning service, it would mean kudos for me and the Department.

Sometimes having an independent pair of eyes to look at such matters can be valuable. In the case of the Planning Service, it proved valuable. When Nigel Dodds was Finance Minister, he did the same with the Land and Property Services. It, too, had been the focus of a lot of criticism, and, again, PEDU was brought in to carry out a review, and the service is now working through a programme of actions. I believe that a review of the actions taken is due at the end of the month.

So, I have seen the benefit of PEDU's work in two different Departments. When Ministers told me that they were finding it difficult to meet the efficiency savings being asked of them, I suggested that they bring in PEDU. I made that offer to the Health Minister in November or December last year, and he has not taken that offer up, although I do not know why.

One of the reasons why I resisted the motion that some of my colleagues tabled about imposing PEDU on Departments was that I wanted to sell the benefits of PEDU. I want Departments to welcome PEDU in, rather than have them feel that PEDU is being imposed on them because they have been bad or have failed to do the job that a Minister or a Department is meant to do. That will continue to be my approach. However, all I can do is make the offer to Ministers. I would like them to look at the impact that PEDU has made. It can be seen immediately with the Planning Service, which has now improved its delivery on major, minor and intermediate applications; it met its targets for the first time in the whole PFG period. That may be the way to sell PEDU. I would be more than happy if the Committee, or Committees, could encourage Ministers to use PEDU. Ministers should not see PEDU as a threat, which is why I have resisted imposing PEDU on Departments.

Mr Weir:

We can all speculate as to why some Departments seem reluctant to use PEDU. There may be some suspicion among Ministers who feel that it would challenge their carefully cultivated sense of victimhood or martyrdom. That may be speculation, but we should find better ways of doing things. We should all try to ensure that we get value for money and the best possible quality of service. Sometimes people look at PEDU as being useful only in an economic or money-driven situation. However, sometimes it is about the way in which things are being done and about

improving quality.

Minister, you indicated that you are seeking specific proposals from Departments as to how they will allocate their budgets. What is the timescale for that?

The Minister of Finance and Personnel:

We need a report from the Committee by the end of February. Therefore, this Committee probably needs to get reports from each Committee by the end of next week, as it will probably take the Committee a week to deal with them.

Mr Weir:

Some issues were mentioned consistently throughout the take-note debate on the spending plans — with a few honourable exceptions where some Departments were concerned. Although I appreciate that there was a delay in getting things to the Executive, every Department must have know the ballpark figures in September, because no one saw an alternative route. It is frustrating, both for the Committee and individual Assembly Members, that, in the case of a lot of Departments, we are looking at blank pages where their plans should be.

Individual Assembly Members see the rough cut of the Budget as being a fair attempt to spread the pain and the tough choices around. However, it is more difficult to assess what impact the Budget will have on individual Departments. During Question Time in the Assembly, some Ministers were asked about its impact on their Department's capital budget, and Members were told that they are still making up their minds. That makes it difficult to get a broader picture of the individual departmental budgets and to work out whether Ministers' assessments are right.

I welcome the invest to save fund. It appears to be a sensible initiative. How was the figure of £26 million arrived at and is it felt to be an adequate amount? Are there any incentives for Departments to put forward proposals? I appreciate that there have already been around 60 bids for that funding.

It is often said that Northern Ireland Departments are somewhat risk averse. At times, Departments in Northern Ireland can also be change averse, and, unless they are pushed into things, they tend to sit back and feel that the way that they work is largely all right. It must be ensured that Departments that seek to maximise the benefit to the public through measures such

as the invest to save fund are incentivised rather than penalised.

Are there practical constraints that explain why the level of expenditure on the invest to save fund should be capped? For example, if we had 100 good ideas that could save a large amount of money but would require a certain amount of investment, would those face practical limitations? Is there any sense that there would be flexibility that would allow people to come forward with properly worked-out suggestions that would lead to considerable savings in the long run? I would hate a rigid position to be taken and for suggestions not be looked at because they do not fall into the top categories. That might result in an opportunity being missed. Can you explain more about the invest to save fund?

The Minister of Finance and Personnel:

I shall go through the points that you made. You are correct to say that PEDU is not only about seeking out areas where money can be taken out of budgets; it is about performance and delivery. Sometimes, that means simply looking at the ways that things are done, and that does not necessarily have to involve costs, nor does it mean that money will be taken from budgets. The whole idea is that, if things are done better, more can be delivered for the money that has been allocated in the Budget.

Perhaps there is a misunderstanding that PEDU involves officials from DFP going to Departments to try to find ways of reducing spending in order to take money off them. In fact, PEDU is intended to help Departments to deliver even more with their budgets and to deliver more efficiently. As Mitchel said, that is one of the arguments that should be put forward in selling the merits of PEDU. It is not a matter of finding ways of cutting Departments' budgets but about helping them to produce more from their budgets.

I am a bit disappointed that Departments have not produced spending plans. Normally, those are included in the spending plans booklet, but, when we made the decision on 17 December 2009, Ministers were not able to produce those figures. Therefore, it was decided that the information would be provided by individual Ministers when they went to the relevant Committees.

The decisions that were made on 17 December did not come as a shock to Ministers. I cannot remember the exact dates, but, during and perhaps before November, my officials were talking to

Departments' finance officers. I then met each Minister and gave them a worst-case scenario. The scenarios that I presented to them involved figures that were well in excess of what was finally taken off them, except in the cases of the one or two Departments from which we took the maximum amount. I asked each Minister to outline how they would take x amount off their budget if they were required to do so. I asked which projects they would save money from.

Therefore, Ministers had an idea of the maximum figure that could be taken off their budgets, and they had also had long discussions with me about how they might deliver that. I had to respond to some of the suggestions that Ministers made by telling them that it had to be a serious exercise, not a cynical one. Nevertheless, Departments were aware of what might result from the review, and, therefore, there is no excuse for the information on spending plans not to have been provided to the Committees. To be frank, if the Assembly is to work properly, and if Committees are to scrutinise their Departments properly, that information must be available to them.

You asked where the figure of £26 million for the invest to save fund came from. Given the constraints that existed and the savings that had to be made, I had to judge what the maximum was that we could afford, and £26 million was the figure that I came up with. If members think that the invest to save fund is a brilliant idea and that it has much more scope, maybe one of the Committee's proposals will be to push Departments a little more to make savings so that there is a bigger fund to satisfy the number of applications that have been made.

I am not sure about the value of the 60 applications that have been made to date, but Departments that are looking ahead will see that the scheme is a valuable tool and resource for them. All Departments know that their budgets next year will not be more generous than they were this year; their budgets will be much more constrained, so now is the time to start looking for savings.

You made a point about incentivising Departments, and that is what the £26 million fund is for. Very often, Departments are change averse because it will cost them money to make changes. We are saying that we will remove part of that constraint by making money available for bids that Departments submit to effect change. Therefore, we are giving Departments an incentive and are trying to make them less change averse. All Departments have to face the fact that, regardless of whether they are change averse, change will be required because of what we

are told will be the budgetary position after the next election.

Mr Weir:

Could we give Obama a run for his money?

The Minister of Finance and Personnel:

Yes we can. *[Laughter.]*

That was the reason behind the £26 million fund. The fund is probably too modest. I had a very good discussion with the Agriculture Minister, who made some very positive suggestions on how she could save considerable sums in forthcoming years if some money was made available to her.

We will have to look at all the applications and, given the limited amount of money, assess their upfront costs, the speed at which they can be delivered and the amount of saving that they can make. Those judgements will have to be made, but it will not be easy to make some of them. Given the level of applications, some Ministers will be disappointed.

If the Committee thinks that invest to save is a worthwhile exercise, I would be interested to hear whether members feel that we should go back to Departments to suggest that they make greater savings to increase the size of the invest to save fund.

Mr McQuillan:

I also want to ask about the invest to save fund. Minister, I thank you for coming to the Committee and being so open and honest with us this morning.

What criteria will you use to decide which of the 60 projects to run with? You said that you had meetings with each Minister to let the Departments know what the cuts would be so that they could have their say. Some Ministers seem to have accepted that, but others have jumped up and down and made very public their feelings. What did those Ministers say to you in your private meetings with them? Did they say that they would accept the cuts, or did they say that they could not live with them under any circumstances?

The Minister of Finance and Personnel:

The exercise that I engaged in was to ask Ministers where they would make the savings if they

had to. No Minister, at that stage, said that he or she did not believe that savings could be made. Some Ministers came with a list, which we looked at, and it was quite clear that that list was political. I am not going to say which Ministers did that. However, the lists were designed to make me blanch, shake at the knees, and say that I could not possibly make cuts to those Ministers' Departments because the public consequences would be too high.

I emphasise that I am not the one who is doing this to any Department: it is an Executive decision. The Executive fully endorsed the paper that was put forward, and a collective decision was made. Almost all Ministers made suggestions. One or two who did not went away after our conversation to look at what their Departments could do. Ultimately, that is something on which Committees must hold Ministers to account. Ministers cannot be allowed to get away on that one. If the Budget is agreed, the Ministers and the Departments are obliged to fulfil the wishes of the Assembly and the Executive and to work within the budgets that they have. Therefore, sensible engagement is better than Ministers burying their heads in the sand.

We will look at three things around the invest to save fund. First, we will look at how much a Department is asking for. Secondly, in relation to that amount, we will look at the savings that the Department projects will be made as a result of that and over what period of time. Thirdly, we will judge whether the Department's project is deliverable or whether it is fanciful. A Department cannot simply claim that if it gets a certain amount of money it can save another amount. Those are areas in which we will make a judgement. The quicker the payback period, the better; however, a Department may propose a longer payback period for a project that is much more deliverable, will have longer-lasting and more beneficial consequences, and will help that Department to meet a target as laid out by the Executive. If that is the case, that project may be given priority over another. To a certain extent, the exercise cannot be objective. There will be a degree of subjectivity.

Mr McQuillan:

Which Departments have put in bids, or is it too soon to say?

The Minister of Finance and Personnel:

There are 59 proposals from eight Departments. The Departments that have not put in any returns so far are the Department for Employment and Learning, the Department for Social Development, and the Office of the First Minister and deputy First Minister. All other

Departments have put in a number of bids. Some Departments have even put in bids for more than the total sum of the fund, and I will be having a chat with those Ministers to find out whether they would like more money to be taken out of the Budget this year and more savings imposed on Departments so that we can increase the invest to save proposals.

Mr O'Loan:

Thank you, Minister. I have a number of questions to ask, and perhaps you can deal with them en bloc. At the outset, I do not want to cause any offence.

The Minister of Finance and Personnel:

Of course you do. I would be disappointed if you did not. *[Laughter.]*

Mr O'Loan:

What difference does a Minister make in this situation? It seems that there has been a steady approach to making the £370 million cuts. With the exception of the invest to save idea, which I will come back to later and which I support, that seems to have been done very much on a technical basis. There has been a "Civil Service" approach to the business. I wonder whether you regret not having a more fundamental rethink of the budgetary position at an earlier stage when the economic downturn hit. Having political participation in that would have been very binding on the Assembly and the Executive. It would have helped to re-establish priorities, and may have prevented recent crises.

Looking beyond the next financial year, has the case for Northern Ireland's needs been presented to the Treasury? Furthermore, has the Minister any knowledge of the Treasury's thinking on the 2011-14 Budget, and have any plans been made? The planning for next year should have a strategic focus and a feel of how those plans will mesh with the plans for the following three years.

The Minister also said that two capital realisation projects have been dropped: the Royal Exchange project and the waste management project. Obviously those projects are important and will need to be carried out in the future. What is the Minister's thinking on those issues?

Peter Weir asked the question that I wanted to ask about the invest to save fund. Where did the figure of £26 million come from, because it seems to have been snatched from mid-air? I

support the concept of that fund, and I feel that more money should be put into it, even at the expense of other things. Does the figure of £26 million indicate that the Minister already has some projects that he believes will be winners?

The invest to save fund is problematic in that the payback period will sometimes be long, and political courage is required to put money into something that will not pay back for quite a long time. I was shocked to discover that the average expenditure on tobacco per household in Northern Ireland is 80% above the average. Therefore, although a great deal of work has been done, more needs to be done to reduce tobacco consumption here. The payback for health will be colossal, but it will not be realised for a considerable time. I am not sure whether the Department of Health, Social Services and Public Safety has highlighted that fact, but it indicates that payback can take a long time, particularly in the area of health.

Finally, the Minister has detailed a cut of £150 million in capital expenditure, which equates to 10% of that budget. That cut must mean that a large number of capital projects, which were anticipated to go ahead next year will now not go ahead, causing a great deal of grief, particularly in the construction sector.

The Minister of Finance and Personnel:

I will go through the questions that you have asked one by one.

You asked whether the Department simply adopted a technical approach to the process. I hope that the approach was not seen as technical, because that would have meant imposing a pro rata cut on each Department. We have not done that. My Department has sought to target the cuts. The Departments that have had the lowest reductions — with the exception of the Department of Health, Social Services and Public Safety, which, because of the issues around health, has received the lowest reduction — are those which have traditionally supplied the infrastructure for a sound economy and support for industry. However, everyone will make the case that individual Departments play some economic role. Indeed, Barry McElduff recently made the point that the Department of Culture, Arts and Leisure (DCAL) was hit fairly hard, yet there is a role for arts and leisure in the generation of economic growth.

I am aware that Mr O'Loan constantly raises the question of why there has been no fundamental review of the Budget, but we are where we are with that. Furthermore, as I said in

my introductory remarks, I took the view that the context had changed so much that we could not deal with the issue through normal in-year monitoring, hence the Department undertook the review.

We are still working to the Programme for Government that the Assembly laid down. Therefore, any review of the Budget had to be carried out in the context of the agreed programme. We are in its third year. Of course, there will be an opportunity to fundamentally review the Programme for Government and Budget for 2011-12 onwards. I reject the allegation that we simply took a technical approach.

As far as representations to the Treasury are concerned, we are in constant touch about the economic situation in Northern Ireland. Due to the possibility that some of those decisions will be political, I have also taken the opportunity to speak to Conservatives about the budgetary position in Northern Ireland and to make the case on the basis of need.

In trilateral and quadrilateral meetings, both the Welsh Minister and I have spoken to the first secretary of the Treasury about the way in which money is allocated. The House of Lords Committee indicated that the level of need is greater in Wales and Northern Ireland. Under the current Barnett formula, we have probably not been as well treated as Scotland and England. That conversation has also taken place.

I must say, however, that that is a double-edged sword. I am worried that, when the Barnett formula is opened, there is no guarantee that we will come out well. And the end of the day, it is a political decision. That is one reason why we have not only raised the issue of need, we have said that there should be some independent adjudication when there is a conflict between what the Treasury says regions such as Northern Ireland are entitled to and what we believe we are entitled to, so that it does not simply come down to a decision that is made by the Treasury. It is a bit unfair that the Treasury is the final decision-maker as well as the adjudicator.

Both the Welsh Minister and I are aware that opening that Pandora's box could actually be to our disadvantage; hence the need to look at how decisions are made when there is conflict or difference of opinion. That discussion has taken place and will be ongoing. I am not sure how often trilateral and quadrilateral meetings will be held. We have raised the matter and will continue to do so.

As regards capital projects that we will probably use in in-year monitoring — the Royal Exchange and the strategic waste-management programme — you are quite right: whether we use those projects to offset receipts that we do not get next year, they still have to go ahead. The Royal Exchange is an important regeneration project for central Belfast. We cannot escape the waste-management project because we have an obligation to meet recycling targets, etc. That is based on the fact that, although receipts will not be forthcoming this year, we know that they will eventually be found, because we will not be in the doldrums that we are in at present. Those capital receipts can be realised in the next year.

The waste-management project is spread over three years. Therefore, it is not as though all the money must be found next year if it is used to write off a receipt that we do not have: it can be spread over a three-year period.

My understanding is that a great deal of money for the Royal Exchange is for vesting property. When the project goes ahead, receipts will come in from it. Therefore, the cost of vesting will be recouped from private developers. That should not be an issue. That is why we are fairly comfortable about it. However, we will wait and see what happens in the property market; hence we are leaving it to monitoring rounds.

How will we deliver on important projects with a 10% cut in the capital budget? The member is quite right: this is not about just money; it is about schools, hospitals, roads, etc. Again, given the downturn in the construction industry, some low tenders are coming in, for example, on schools. Last August, I went to Whitehouse Primary School after it was burned down, and I spoke to officials there about the cost of rebuilding. They could not believe some of the tender prices, because, in a much more competitive market, we are getting 10% to 20% discounts on some capital projects. It is a keen market, so although less money is available, we hope that we can deliver the same number of projects as a result of that downturn.

Contract prices might have been much higher two or three years ago because there was plenty of work around. Now, public sector work, which accounts for 54% of total spending in the construction industry in Northern Ireland, can attract lower tender prices. As a result, we can deliver more projects. Many of the projects are now going out to tender, and the tender returns that have been received so far indicate that the market is keener. Therefore, I am not so sure that

the 10% cut in the capital budget will be as big an issue as the member suggested.

If I missed a question, I apologise.

Mr O'Loan:

I asked about the long payback period for the invest to save scheme. It is important that projects get support even if they have a long payback period.

The Minister of Finance and Personnel:

As I said earlier, a number of criteria will be used for invest to save proposals. To be frank, given the pressures that we will face with budgetary constraints over the next two or three years, there probably will be a bias towards projects that will have a quicker return, because the savings will have to be made quickly. However, as we are looking at a combination of upfront costs, the amount of return from the spend, and the way in which Departments show that they can deliver on proposals, we might conclude that we should consider some projects with a longer payback period. Sixty projects have been proposed so far, and they seek more than three times the amount of money available. Given that sort of choice, we will have a good range of projects to consider.

Mr Richard Pengelly (Department of Finance and Personnel):

Smoking prevention was the example that was used. That goes beyond normal financial invest to save measures. It highlights the importance of cross-departmental working. Health promotion budgets are sitting in the Health Department and at local authority level. In that example, better joined-up thinking between health, education and local authorities would allow better use to be made of the money that is available. Additional investment is not necessarily needed. That is a key example of the need for better and smarter ways of working, as distinct from pure additional investment.

The Chairperson:

You spoke about budgetary constraints and using money more wisely. The Committee recently completed a report on public procurement. The report is embargoed, so I do not want to go into the subject in detail. However, given that local and central government spend £3 billion each year on public procurement, is there scope for Executive discussions about using public procurement more strategically to help the economy and realise social outcomes?

Has much thought been given to that in respect of the Budget, for instance?

The Minister of Finance and Personnel:

Every six months, I chair the procurement board. Do not forget that it is not just the Department of Finance and Personnel that has procurement responsibilities.

The Chairperson:

I am talking about at an Executive level.

The Minister of Finance and Personnel:

There are centres of procurement expertise (COPEs) across all Departments, and they are qualified to carry out procurement within their respective Departments. The procurement board tries to take a strategic approach and bring all the Departments together to look at procurement issues. As far as I know, the procurement board has Executive endorsement. It is a more practical place to address some of the issues that you quite rightly identified in order to ensure that we get the most out of procurement and that we have the right rules for procurement — it is where they are already addressed. We want to look at how we ensure, within all the rules and regulations, that we do not disadvantage local firms in the procurement process and how we make that process as easy and as cost-effective as possible for them. Some firms have told me that they have spent a lot of time on, and made a big resource commitment to, a large project, and we have sought to find ways to avoid firms having to duplicate that work each time they make a tender. Again, that saves firms money and makes it more efficient for firms to do the job. It also saves us money in that we do not have to evaluate fully, from beginning to end, every tender application. Therefore, work is going on to try to address the kind of problems that you are talking about.

Dr Farry:

I apologise for arriving late to the meeting, but I was being interrogated by some of the Minister's colleagues about parades.

The Minister of Finance and Personnel:

I hope you are not going to have an illegal parade in Bangor.

Dr Farry:

Do not start me.

Mr McLaughlin:

Perhaps there will be yellow banners.

Dr Farry:

Moving swiftly on, I have two main questions. Continuing on my political kamikaze run, my first question is about water charges and the recent comments from the Economic Research Institute of Northern Ireland (ERINI) and the CBI, although the CBI's comments were perhaps less explicit. We heard from them that all the burden in trying to balance the books in the short run is being addressed through reductions in spending as opposed to any increases in revenue. Bearing in mind that things may get worse in the next comprehensive spending review (CSR) period, how sustainable is our current approach to addressing public expenditure in Northern Ireland?

Secondly, at what stage do we bite the bullet and accept that we will have to look to increasing revenue and shifting the debate from whether or not we increase revenue to how we do it and how fairly the system to manage it can be put in place? People have pointed out that there are opportunity costs arising from lost opportunities. The deferral of water charges and the freeze on the regional rate tend to benefit those who are better off in society, although I accept that there are issues in the margins. Those approaches are regressive, whereas there is a less obvious dependency on public services that may not be there if cuts are made.

The Minister of Finance and Personnel:

You mentioned a political kamikaze run, but I think there is a more realistic debate around the development of revenue raising. You are probably right that the Assembly and Executive are a bit behind public opinion on the matter, but it would be unfair to say that we do not try to raise revenue. I had my fingers burned when, as Minister of the Environment, I increased planning charges by an average of 20%, and, even though they had not gone up for four years, I found that the Committee simply refused to accept them. In the end, reductions were made. Now, of course, complaints are made about the deficit in the Planning Service.

You are quite right: perhaps there has not been the maturity around some of those issues that

the public expects from us. I want to ensure that we make the most effective use of the money that we raise at present. There is a judgement to be made about whether there is still waste in the system that we need to address. We want to avoid giving Ministers a safety valve so that they feel that they do not have to make any hard decisions in their Department because they can simply load the burden onto the public. Until we convince the public, and until I am convinced, about that situation, there will always be a reticence about introducing charges.

Having said that, there will be pressures because we are coming to a time when we will find that the amount of money coming from Westminster is to be reduced. We know that that will happen; it simply a matter of quantifying the amount, but we cannot do that at the minute because nobody will tell us. Neither the Conservative Party nor the Labour Party will tell us anything until after the election. However, they are giving all the right hints about the direction in which they are going. That will put pressure on us, and it is inevitable that we will have to look at that issue.

The cost of water and sewerage is increasing because of EU requirements. It is not a case of asking, as I would love to on many occasions, what role the EU has in dictating to us what to do. Because the Government at Westminster signed up to many of those directives, penalties and fines will be imposed if the requirements are not met. Westminster has made it clear that the fines will be paid by the people who have broken the terms of the directive and caused the fine to be levied. A massive investment programme is needed to deal with some of the pollution issues, especially around sewage disposal.

So far, the Treasury has allowed us technical changes to the way that the accounts are treated. People have asked about that in the past. It remains to be seen whether, if we continue to resist imposing water charges, all of those technical changes will stick or whether the Treasury will start charging us VAT or whatever, which will increase quite significantly the cost of water. All of those matters need to be considered in the future.

It will not be a case of there not being water charges this year and then there being water charges next year: they will be phased in. That will create a financial burden on the Executive anyway, depending on how long we decide to take to phase them in. Initially, however, the Minister for Regional Development has to deal with water charges; they are his responsibility. He has to bring a proposal to the Executive, the Executive will make a decision and that decision

will then have to be endorsed by the Assembly. That is when the Assembly will have to show the kind of political maturity that was talked about.

The issue will be dealt with in that context. It would be much easier to sell it to the public if they felt that we are not squandering the money that we already raise from them.

Dr Farry:

That is certainly a fair point. You have rightly accepted that it is far too simplistic to talk about cuts in administration being a bottomless pit versus actual cuts in services. Instead, you stressed the importance of re-examining priorities in Departments; keeping what is important and perhaps letting go of what is less important.

To take that to a new level, I have recently been looking at public expenditure statistical analyses (PESA), which are published by the UK Treasury. They compare the level of spending in each of the UK regions across the different sectors. In some areas, the variances in Northern Ireland from the norm are quite significant. There are some very large differences in overspend, and there are other areas in which we underspend. I accept that, since devolution, we in Northern Ireland set our own priorities, but there is a case for examining those figures and asking whether those distortions are justified in the particular circumstances of Northern Ireland or whether they are inefficiencies that have built up in the system over time.

Departments here could benchmark how they spend money compared with Departments in other UK regions; for example, they could compare the spend on health. My impression is that, compared with the UK average, we underinvest in mental health services but our health budget has an overprovision in capital at the expense of direct service provision. Perhaps that benchmarking could better guide us as to where we could reprioritise.

The Minister of Finance and Personnel:

The Nuffield Trust's recent report on healthcare systems deals with some of the issues you raise. As regards bureaucracy in the healthcare system, other areas across the UK have reduced levels of administration, whereas our rate has increased from 70% to 170%, which is higher than the rates in other parts. I would expect Committees to ask Ministers to justify why there is such a difference in spending per capita here compared with other parts of the United Kingdom.

When we looked at how Departments might be targeted, we took into consideration a range of issues, such as the amount of money that was available in the past, the implications for the Executive's top priority, evidence of inefficiencies and contractual obligations. We used figures such as those for the levels of underspend in specific areas in previous years and the amount of resources that had been made available to Departments, because there may have been a lot of growth in previous years and opportunities to take money back. A host of issues was involved, and we looked for potential inefficiencies. Those kinds of figures give some guidance on that.

Mr F McCann:

I will be brief. I thank the Minister for coming this morning. I apologise for being late, but I was at another meeting.

Minister, you may have touched on some of these points, but, at the start of the process, I was under the impression that efficiencies or savings were not meant to impact directly on front line services. I sit on the Committee for Social Development, and it has received only the broad headings and no detail on the impact that cuts will have on the Department's ability to function. The Committee has announced almost £14 million of cuts. From what I gather, that will affect regeneration in communities, housing and, perhaps, maintenance. It will also hit the Social Security Agency and may impact on its ability to run itself effectively, especially its front line services. When Ministers put those issues to you, do you raise concerns about how they may impact directly on front line services?

The Minister of Finance and Personnel:

As I explained earlier, in the run-up to the review of spending plans, officials spoke to finance officers in each of the Departments to suss out information. Obviously, we already had some information on Departments. I then met Ministers, and, in preparation for those meetings, I presented Ministers with maximum cuts for their Departments and asked them how they would facilitate them. They told me that money would have to be taken from one thing or another. That led to a discussion about why one measure was chosen over another and whether another measure could be chosen to avoid any impact that was likely to result from the first choice. Those were the kind of discussions that we had.

Ministers from the member's party are anxious about the matter as well. I cannot go in and paddle through Departments' budgets. Ministers will jealously guard their independence in

making their decisions. However, I can give them some pointers about what they can do, based on my Department's assessment of their budget. Some of them looked for areas where they could make reductions without cutting front line services, but, as I said earlier, others treated it as a fairly cynical exercise and brought me a list of horror stories. The implication was that I could not cut their budget, because it would result in bad news stories appearing on the front page of the 'Belfast Telegraph'. That was a cynical move, and it was disappointing that there were such responses.

DSD took part in that exercise. We were aware of the sensitivities of some of the projects in which DSD was involved. DSD had a reduction in its budget of less than the average. Had we imposed the average cut on DSD, the reduction would have been almost £2 million more than it was. After our discussion, we were cognisant of the kind of pressures that existed, and we took the appropriate action.

I cannot direct Ministers to put the cuts or the reductions to certain budget heads; that is the responsibility of the relevant Minister. However, I hope that Committees question Ministers closely about the alternatives that they looked at before they reached their conclusions about what they would do with the various reductions.

Mr F McCann:

That is the difficulty. Sometimes we are at a disadvantage, because we might be close to the debate, but we still do not know where cuts are to be made. We could guess, based on the information that we have been given. However, on the basis of what we have guessed and the scant information that we have been given, it seems that the Budget will have a dramatic impact on some aspects of delivery in DSD.

The Minister of Finance and Personnel:

The recent Savills report on the Housing Executive reported that some of the Housing Executive's housing stock is over-maintained. I do not want to get into the nitty-gritty of that, because it is not my responsibility to say that Ministers should do this or that, but even a report that was commissioned by the Department indicated that there is scope for directing savings in a different way to how the Department is currently directing them. There would be a fair amount of resistance if I were to start dabbling in each Minister's budget. In any event, Ministers should know their Departments better than I do.

Mr Hamilton:

I apologise for being late to the meeting. My question relates to what Fra said, and it might elicit a similar answer. I sit on the Committee for Social Development with Fra, and I see things that I am sure are replicated elsewhere. Following discussions with Departments and agreement on the level of reductions that they are to receive, the Departments take that reduction and pass it on fairly crudely. For instance, if a Department's reduction, or adjustment, is 2.5%, the Department passes that on crudely at 2.5% to every agency or budget line that they have.

Recently, we took evidence on efficiencies. Experts from academia and elsewhere pointed out that that is a crude device that does not tackle real efficiencies that could be made at a central level. In fact, it probably insulates the bureaucracy and administration that exists in many Departments and allows the responsibility for making efficiencies to be passed on. If you pass on that responsibility from the central bureaucracy in Departments, you are passing it on to areas in the front line that are going to feel the hit a bit more, although that is not to say that they should be exempted. What is your view on that passing on — passing the buck almost — of the responsibility for making efficiencies from the centre of Departments to elsewhere?

The Minister of Finance and Personnel:

At a strategic level, we decided not to opt for pro rata cuts. I hope that that thinking filters down through Departments and that Ministers respond in the same way when considering parts of their Departments. Stephen Farry raised the matter earlier, and it is a very low priority in my programme for the Department and even in the targets in the Programme for Government. Should reductions not be made in a certain area rather than simply be made right across the board? Ministers should be involved in that exercise, and Committees should hold Ministers to account for it.

As I said earlier, my one regret in the whole exercise is that, although the Executive received the paper in September, a final decision was not reached until just before Christmas. An earlier decision may have given Committees a bit more time to probe the issues that have been mentioned. Nevertheless, since January, there have been opportunities for Committees to do that, and I hope that they will use the time to do so as best they can. Given that the process involves re-examining the Budget, I wanted to ensure that there was time to do that. Unfortunately, that has not happened.

The Chairperson:

I do not want to keep you any longer because we have overrun, and I am concerned that we will lose our quorum shortly. Thank you all for coming along.

Just to give an indication of the timetable, at the moment, seven Committees have indicated that they are unhappy with the feedback from their Departments on the spending review. We will try our best to work through the responses that we have already received. DFP will have sight of those submissions before the report is produced. We are working under that constraint at the moment, but I hope that we will be able to conclude the report within the timescale. The Committee will discuss those submissions next week. That is the timetable.

With the Committee's agreement, we can consider other ways to examine the situation. For instance, revenue-raising powers may be already there. As I have said previously in the Assembly and in the Committee, greater fiscal powers in the North might help us to secure more investment in the longer term. To see how useful such powers might be, we need only look at how the Treasury rules have delayed measures such as credit union legislation, which would be very beneficial to the whole economy, particularly in providing investment in areas of disadvantage and need. We have also looked at windfall taxes and the increase in fuel prices. As a Committee, we will consider revenue-raising options that are within the power of the Executive and the Assembly. However, I also hope that the Executive are having conversations at the moment about following the Scottish example to bring fiscal-raising powers to the Assembly and the Executive.

Thank you very much for coming along; we will work to the timetable as much as possible, using the information that we have.

The Minister of Finance and Personnel:

I appreciate that. I would like to have the Committee's report by the end of February so that it can inform the paper that will go to the Executive in early March. This is not just a paper exercise; we seek the views of the Assembly, and the Committee is the channel for those views. I would appreciate it if the report could be done on time.

