



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

Strategic Financial Issues

17 February 2010

NORTHERN IRELAND ASSEMBLY

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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 Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Michael Daly) Department of Finance and Personnel
Mr Paul Montgomery)

The Chairperson (Ms J McCann):

I welcome Michael Daly, head of central expenditure in central finance group, and Paul Montgomery from the central expenditure division of central finance group. If you would like to make a few opening remarks, we will then go to questions.

Mr Michael Daly (Department of Finance and Personnel):

Thank you, Chairperson. We do not have a lot to say. We have provided the Committee with answers to the questions it posed. A lot of them were discussed during the oral evidence session, and, where appropriate, we have expanded on those answers. What we have to say may be a bit repetitive given the previous oral session. We are happy to take questions.

Mr McLaughlin:

You are very welcome. We are all looking forward to another long session after yesterday's late-night plenary sitting.

In its response to the question on the focus on targeted savings, the Department explained the methodology used for determining various percentage savings across Departments, which included bilateral engagement between individual Ministers and the Finance Minister followed by a collective discussion at Executive level. It also described how, in the take-note debate, the engagement took account of budgetary pressures and areas for potential savings in the Departments.

The outcome of that engagement was supplemented by information from DFPs ongoing contact with departmental finance officials. Given the methodology, as it has been explained, what information or evidence exists to justify the final percentage savings that were proposed among the Departments and upon which the Assembly and Committees can make their informed judgement? How do you arrive at those figures?

Mr Daly:

I will ask Paul to comment on that in a moment, but it is difficult for me to give you precise answers to questions about particular Departments because we have to take into account a wide range of factors, many of which are based on ongoing scrutiny of Departments by our colleagues in DFP Supply. There is no precise formula that we can input into the system, crank a handle and produce a figure of 2.1%. A lot of it is subjective, and is done on the basis of detailed discussions with the respective Departments. The Minister has pointed out to the Committee and in the Chamber that he has had discussions with other Ministers.

Mr Paul Montgomery (Department of Finance and Personnel):

We also had inputs from Departments as supplied by the director of public spending. He asked Departments how they would deliver savings of X% on current expenditure, and Y% on capital. That information also fed into the overall assessment made to the Finance Minister and recommendations to the Executive, which were followed up with discussions with the Executive.

Mr McLaughlin:

We have seen the situation. It seems to me that the process and methodology are inclusive and transparent; presumably, one can establish the various stages that culminated in an agreed proposition, or what, on the face of it, should have been an agreed proposition. However, we have had the spectacle of Ministers saying that they do not accept, or will not implement, the proposals, and that seems to fly in the face of the incremental and progressive nature of the engagement. The expectation is that what emerged from the process would have been a common position.

Mr Daly:

I cannot speak for individual Ministers who may not be prepared to engage in the process. However, by and large, most Ministers and the Finance Minister would have preferred not to have to make any reductions in expenditure. That amount of money had to be taken out of the system and reallocated to maximise the delivery of public services next year. I do not think that Ministers are happy about it, but they are prepared to get on with it, and are, for the most part, publishing how they will do so on their websites. That is the reality of the public expenditure context that we are working in.

Mr McLaughlin:

Therefore, there is not an objective. There are no Ministers in the room at the moment, but I can understand that a Minister would resist pressure on his or her spending programmes. I also accept your comments about the money being brought out of the system for reallocation because of the pressures that had emerged; one cannot stick one's head in the sand. Really, it is a process of engagement. I presume that there is a degree of objectivity in respect of the overall financial analysis that would be available. Is this just part of the price that has to be paid? Do we just have to put up with the more parochial responses when it comes to the domain of individual Ministers, even though there was a process involved?

Mr Daly:

Again, I cannot comment on individual Ministers' positions: that is for them to do. The nature of the process is to try and take as much as possible into account and introduce as much objectivity as possible. However, a lot will be subjective: there will be opinions; and Ministers will have formed conclusions from their bilateral discussions with the Finance Minister and through Executive meetings. As I said at the outset, this is not an exact science whereby we can simply

put in a lot of factors, turn a handle and watch the numbers come out.

Mr McLaughlin:

The public will not be able to follow the detail of this matter, but they will know that the quality of the service that they are receiving is different from what they were receiving previously, if efficiency savings turn into cuts. Is that the area of imprecision that exists? What are described by the Department, perhaps coyly, as savings can either be efficiencies, which means that we will have the same output for less input, or are, in the view of officials, unavoidable cuts, because there has to be a response to the reduced circumstances.

Mr Daly:

The overall levels of reductions required are unavoidable, because we are living within a fixed budget. However, it is for the individual Ministers to decide how to implement those reductions. The expectation is that they will attempt to do so through improved efficiency and reduced bureaucracy. However, at the end of day, it may well be that they will have to cut back on certain services. We have discussed the nature of efficiencies with the Committee before. Efficiencies can be technical, in that we reduce the costs of the inputs to get the same output. However, there comes a point when we move into the area of allocative efficiency, which, I think, we mentioned in our response. That means that we have to ask whether one service is providing a bigger contribution to the desired outcome than another and, therefore, that we could move to other areas. The final decision on how that is to be done is for the Ministers to decide.

Mr McLaughlin:

The Committee received expert evidence from Professor Arthur Midwinter, and I am sure that you are familiar with his comments. He suggested that the implications of the additional efficiencies would be a reduction in the rate of growth, as opposed to a reduction in the current baseline, and will not require savings from existing programmes. In other words, he suggested that the agreed baselines were unaffected by the additional efficiencies. If the impact of the £123 million is a reduction in the rate of growth in 2010-11, arising from reduced Barnett consequentials in that period, why is it being included in the £367 million savings on existing baselines? Is there some sleight of hand going on?

Mr Montgomery:

No. The 2010-11 plans were based on a certain level of the block grant, which was an increase

on the block grant for 2009-10. What the Barnett consequential from the efficiency savings from Whitehall Departments are doing is make the increase in the block grant less than it otherwise would have been. The difficulty was that we had already allocated the block grant to Northern Ireland Departments. Even though the block grant was increasing, we had to adjust our plans, because they were based on a previous level of block grant.

Mr McLaughlin:

Do you accept that the reduction was in the rate of growth, as opposed to the previously established baseline? It is an important distinction.

Mr Montgomery:

It is a reduction compared to the previous 2010-11 position. However, it represents an increase on the 2009-2010 block grant.

Mr Daly:

Yesterday in the Assembly, the Minister made the point that, moving from this year into next year, the Budget will still increase, although when referring to the Department of Education he accepted that the increase is not as high as might have been expected. Nevertheless, it does represent an increase. Perhaps that is the point that is being made here.

Mr McLaughlin:

The baseline is still unaffected by a reduction in the projected rate of growth. You might have expected and prepared for that. The growth rate has been reduced rather than the baselines. Is that not right?

Mr Montgomery:

No. The £122.8 million relates to the block grant, it does not relate directly to the spending plans of the Northern Ireland Departments. In the original Budget, we allocated money to Departments based on a certain level of block grant for 2010-11. As a result of decisions taken by the Treasury, the block grant is being reduced, and, because we allocated money based on the previous value of the block grant, we incurred a pressure of £122.8 million. Although the block grant is increasing, the increase is less than we planned for, which gives rise to the pressure that we must address.

Mr McLaughlin:

Professor Midwinter's position, which he stated very bluntly, is that this reduction in the rate of growth would not require any savings to be made from existing programmes that had previously been agreed and financed, because those baselines would be unaffected. It is future growth that will be substantially reduced.

Mr Montgomery:

The simple fact is that the money was allocated based on the previous level of block grant, so, although funding will increase, the increase will be less than we expected. Therefore, we will need to make an adjustment against plans.

Mr McLaughlin:

Did Professor Midwinter get it wrong?

Mr Montgomery:

He is right to say that the block grant to the Executive will increase, but the fact that it will increase by less than we previously planned for and settled with the Treasury —

Mr McLaughlin:

I do not think that that was what he said. He is saying that there is an agreed allocation, and that baselines have been established across all spending Departments. He indicates that the imposition by the Chancellor of further efficiencies affect only the projected growth rate, not the baseline. In other words, the Chancellor did not take money out of the original allocation. Professor Midwinter queried why existing and improved spending programmes should be affected. What is affected is the ability to spend at the predicted level going forward.

Mr Montgomery:

It depends on what he meant by the baseline: if he was talking about the baseline that was established in 2009-2010, then that will be unaffected; however, if he meant the 2010-11 baseline, then that will be affected. Our baseline block grant for 2010-11 will be reduced by £122.8 million, net, of course, of the additional Barnett consequentials that we were awarded. Nevertheless, as a result of the £5 billion of additional efficiencies that Whitehall Departments are expected to achieve, the 2010-11 block grant will be reduced by £122.8 million.

Mr McLaughlin:

I do not have the figure in my head, so remind me about the Barnett consequentials that will be set against the £122.8 million.

Mr Montgomery:

Those amount to £86.5 million on current expenditure and £9.1 million on capital expenditure.

Mr McLaughlin:

Leaving a deficit of —

Mr Montgomery:

£26 million.

Mr McLaughlin:

We are looking at a headline figure of £123 million, which people are saying is a challenging figure.

Mr Montgomery:

By itself, it is a £122.8 million reduction. However, other measures announced by the Treasury mean that the net impact on the overall block grant will be significantly reduced.

Mr McLaughlin:

Thank you. I am not sure I got the answer I was looking for.

Mr Weir:

This issue has been raised with the Minister. We have received feedback from the other Committees, and, to produce a report, we must collate those views. The Committees raised concerns about the slowness of their respective Departments in establishing an internal budget. I understand that Ministers guard their autonomy, but what can DFP do to expedite the receipt of departmental spending plans? The Finance Minister said that he would write to the other Ministers to try and force the pace, so that the spending plans arrive earlier. Given the problems, particularly those that have arisen this year with respect to a lack of response from other Ministers, is there an initiative that could be looked at for next year to try and ensure that, at least, draft spending plans of other Departments are received at a slightly earlier date?

Mr Daly:

You have almost started to answer the question yourself. The Minister said that it was his intention for us to have been at this point some time last year. All that he can do to speed up the process is to impress that need on his Executive colleagues. As he said, he has written to them. Rather than delaying the process, he published this document without their inputs in the hope that they would then take the opportunity to put it on their departmental websites. He does not have any authority over the other Ministers to demand this or to impose sanctions on them. We rely very much on him making representations to them and the Committees doing their best to get the information. In the future, it would help if we could start to make progress on the Budget process much earlier, but it is a difficulty.

Mr Weir:

I appreciate that this will not solve the problem, but is there not a statutory point by which Departments have to submit a budget plan? For example, if Department X has an agreed budget of £300 million, I presume that that Department cannot constantly go into the future with a blank page and keep the details to itself. Is there a point at which even the internal part of a budget has to be at least notified, even if it is not approved?

Mr Daly:

The Budget Bill that the Assembly debated yesterday provided the Vote on Account that goes into the first part of next year. Before that runs out, there will have to be a Main Estimate to deal with the issue, so it has to be sorted out by that time. However, it would be ideal to get that sorted out this March so that the Departments have that in place before we go into next year.

Mr F McCann:

With respect to localised efficiencies affecting the efficiency of the wider public sector, the Committee received expert evidence highlighting that risk. Will DFP assure the Committee that individual Departments do not claim efficiency savings that are not counter productive in relation to the wider system?

Mr Daly:

I do not have too much to add to the answer that was provided. Ultimately, it is the responsibility of Ministers to put their efficiency delivery plans in place. DFP's guidance, which has been

shared with the Committee, states that Departments should not shift costs to other Departments and should not put in place so-called efficiencies that cause a real detriment to public services.

Departmental colleagues, as part of their ongoing engagement with Departments during the development of their plans, will challenge them and encourage them to make improvements towards genuine efficiencies. However, there is a major role for Committees and external stakeholders, because it should not be forgotten that plans are published, to try and bring pressure to bear on the Departments. However, as I have said, it is ultimately the responsibility of Ministers; it is not DFP's responsibility to approve the plans.

Mr F McCann:

I know that you say that there is a responsibility on Committees, but they are scrutiny Committees, and, at the end of the day, Ministers do not have to listen to what they say. That has been fairly clear in some instances. If there is a clear sign that some of the efficiencies are having a detrimental effect on front line services, is there any mechanism in place that will allow the Executive to intervene?

Mr Daly:

I am not sure whether there is a particular mechanism that allows our Minister to make a proposal to the Executive. Perhaps, if a Department considers a measure to be novel or contentious, the relevant Minister could insist that such a change is brought to the Executive. That would be the only real mechanism.

Mr O'Loan:

I will ask a few questions about the invest to save scheme. Will you give us further detail on the assessment criteria and guidance being given to bidding Departments? Is the focus on short-term savings? Where do longer-term efficiencies fit into the plans? Can you tell us anything about the timeframe for bids and project delivery? What is the scope for cross-departmental initiatives?

Mr Montgomery:

The primary focus of the invest to save proposals is on helping Departments achieve savings in the short term, which is the 2010-11 financial year, essentially, and in the expected next Budget period, which runs until 2013-14. That is when savings will be made primarily. We want to ensure that Departments deliver the savings, so there are practical difficulties in going beyond

those time frames. Departments can say that they will deliver so many savings in the next decade or so, but it is difficult to ascertain whether they will actually do so. Given the expected medium-term public-spending problems, that will be the main focus of the assessment of Departments' delivery of savings.

Mr O'Loan:

Can you give us detail on the assessment criteria and the guidance being given to bidding Departments?

Mr Montgomery:

We have asked Departments to set out the cost of each proposal that they put forward and to outline the level of savings that they expect to make over the next four years. We have asked them to detail the actions they will take to deliver the savings. We have also asked them to detail the key risks of delivering those savings. Our main focus in assessing the proposals is to ensure that the projected savings can be delivered. There must be realism, because there is no point in us allocating money for invest to save proposals that will not deliver savings.

Mr O'Loan:

Are longer-term efficiencies being prejudiced against? I am not convinced that that is wise.

Mr Montgomery:

We are looking at where the pressure is at the moment and where it will be in the next three years.

Mr O'Loan:

We need long-term, strategic thinking too.

Mr Montgomery:

Due to the vagaries of the public-finance environment going forward, we have to address the pressures that we face in the medium term.

Mr O'Loan:

What is the timetable for bids and decisions on bids?

Mr Montgomery:

All of the bids have been received and are being assessed. Recommendations will be made to the Executive as part of the finalisation of the revised 2010-11 spending plans.

Mr O'Loan:

Did you receive any cross-departmental bids?

Mr Montgomery:

No.

Mr O'Loan:

That might have something to do with the fact that there was not enough time for such thinking, and it indicates a weakness in the process.

Mr Montgomery:

I must correct myself. A joint bid was made by the Department of Agriculture and Rural Development and our colleagues in Land and Property Services.

Mr Daly:

That was in relation to the CAP disallowance, which the Minister mentioned in the Chamber yesterday.

Mr Montgomery:

It concerns mapping. The issue is that we are facing disallowance adjustments to our EU funding because of perceived errors in measurement in the past. It is a matter of improving the measurement techniques to reduce the chance of the disallowance being applied in future years.

Mr O'Loan:

That probably pitches across departmental working at a fairly technical level, as far as the LPS involvement is concerned. It is not like addressing a common or shared problem in a way that involves real or joint activity, which might be a richer arena.

Mr Montgomery:

If there were cross-departmental working, it should be evident. It should not be affected by the

timetable for this process. It should be taking place on an ongoing basis. If the exercise is ongoing, it should not be a precursor to doing this.

Mr O’Loan:

Can I ask about PEDU? Your reply states:

“it is difficult to point to any hard evidence of the effectiveness of PEDU, other than the views of departments”.

That is part of your response, and I know that the quotation is taken slightly out of context, but it presents your position fairly. What performance targets exist in respect of PEDU? To what extent are those being met?

Mr Daly:

As the Minister said, both to this Committee and in the Chamber, PEDU does not have a major programme of work that its performance can be measured against. One of the problems that the Minister faces is that there is a lack of willingness by other Ministers to invite in PEDU.

As to PEDU’s performance, this is the best response we can offer. Rather than set out the number of savings that PEDU delivered, the emphasis has been very much on Departments claiming the success. PEDU is a resource to be brought into Departments to assist them. PEDU was set up on the basis that it would assist Departments to deliver their own improvements.

Mr O’Loan:

As you say, we discussed this usefully in the Budget debate yesterday. What are seen as the options for developing the role of PEDU and achieving an increased take-up of its services by Departments?

Mr Daly:

We have no particular options at present. There seems to be unwillingness among Ministers to invite in PEDU. The Minister has offered its services on a number of occasions. He highlighted a particular offer in the Chamber yesterday in relation to the Department of Health, Social Services and Public Safety. Departments are reluctant to invite in PEDU, and I do not know why that is.

Mr O’Loan:

If we are to take the concept of public sector reform seriously, this needs serious thought. PEDU started as a very good idea, but it has not really lifted off. The problem that it was trying to address — serious strategic and structural change in how we perform public service — still remains to be tackled. It may involve moving PEDU outside DFP so that this sort of issue does not arise. There needs to be serious thinking about this; I suspect it is perceived as a threat.

Mr Daly:

I agree.

Mr O’Loan:

That has to be addressed.

Mr Daly:

No doubt the Minister will give some thought to the future of PEDU.

Mr Hamilton:

I want to ask about asset management and capital realisation. At the start of this Assembly term it was decided that finance could be had by realising the income that could be derived from unused or underutilised assets. We, obviously, understand why that that has not achieved everything that people had hoped it would: it was not simply about selling land and investing the money received, it was about better management of our assets. DFP and OFMDFM seem to have a role to play in this matter. Will you point out where the split is? Where does responsibility lie?

In addition, why is there the apparent delay in the establishment of a central asset register across the public sector? That is as important an issue in many respects, because it allows one to better manage and better realise assets.

Mr Daly

The short answer to why there is a delay in the establishment of the assets register is that it is the responsibility of OFMDFM. Our Department’s responsibility, working together with OFMDFM, is in the public expenditure management side of the business. The detail of asset management is the responsibility of OFMDFM, working with the Strategic Investment Board (SIB). There are two distinct responsibilities, but obviously it is very important that they work together.

Mr Hamilton:

Why is that responsibility with OFMDFM? Has that always been the case, or was a decision taken to give that responsibility to OFMDFM rather than DFP because of that linkage with SIB?

Mr Daly:

Historically, the responsibility has been with OFMDFM because of SIB. There have been suggestions that DFP should take on that responsibility, but at the moment DFP is responsible purely for making sure that the public expenditure side of the business is properly managed and controlled. The professional expertise in relation to asset management is in OFMDFM working with SIB.

Mr Hamilton:

Finally, the Department's response refers to the ePIMS (electronic Property Information Mapping Service) database. To what extent will that cover the wider public sector, including arm's-length bodies, rather than just Departments?

Mr Daly:

Again, that is the responsibility of OFMDFM. I am not sure to what extent that will operate beyond the Departments, but we can check that up and get back to you.

Ms Purvis:

I want to ask about the Department's answer in relation to equal pay. You have shown how the £100 million is made up, but the cost of the claim is estimated at £155 million to £170 million. Is it the case that, ultimately, the Executive will be responsible for funding the full cost of the claim, given that it is made up from RRI borrowing, reallocation of capital expenditure and baseline savings? Is it right to describe it as additional current expenditure?

Mr Daly:

Yes. There are two aspects to the equal pay issue, as the Committee will know; dealing with the arrears of pay and the one-off settlement costs, and the issue of pay going forward. The latter will be a matter for individual Departments. We can say that the arrears of pay represent additional current expenditure because, although all of the payments are actually capital spend, the flexibility agreed with the chief secretary allows the Finance Minister to draw down unused

borrowing and provide additional borrowing powers, and re-profile capital expenditure, so that it will be converted to current expenditure on an exceptional basis in order to make the payments. It is additional current expenditure.

Ms Purvis:

So the Treasury's accounting rules have been bent to allow you to do that?

Mr Daly:

The Treasury has allowed that flexibility in relation to this issue on an exceptional basis.

Ms Purvis:

As regards the implications of the financial package for policing and justice; obviously, you could not provide a definitive answer because of the ongoing discussions between the NIO and the Treasury. What is the outcome of those discussions?

Mr Daly:

They are still ongoing; I have no other information on that.

Ms Purvis:

Have you any idea when this Committee will be consulted on the public expenditure plans for devolution of policing and justice?

Mr Daly:

I would certainly not expect that to happen before a decision is taken to devolve policing and justice powers to the Executive. At the moment there are ongoing consultations, as you know. At the moment it is not a devolved matter.

Ms Purvis:

Do you expect it to happen post-devolution?

Mr Daly:

I do not have a precise date, but I would not expect it to be in advance of a decision being taken to devolve powers. That decision has not yet been taken.

Ms Purvis:

It would be best if we were consulted on the expenditure plans in advance of devolution of those powers.

Mr Daly:

As I said, I anticipate that there will be no consultation in advance of a decision to devolve powers. However, the date that we have been given for devolution on the current plans is 12 April, but a decision will be taken before that.

Ms Purvis:

Speaking hypothetically, providing that everything goes ahead for 12 April, will the Committee be consulted before that?

Mr Daly:

That will be necessary. If devolution were to take place on 12 April, a Budget Bill would have to be passed, followed by a process of engaging with the Committee and the Minister taking Supply resolutions and Estimates and a Bill to the Assembly. That would have to happen before the date for devolution. I am not sure at what point we could engage with the Committee on the detail of that, given that no decision has been taken.

Ms Purvis:

It will be sometime between 9 March and 12 April.

The Chairperson:

I want to go back over some of the issues in the future Budget process. We have been pressing for the establishment of a formal process of agreeing future Executive Budgets, and that has also been discussed in some of the Assembly debates. Can I have an update on the progress on that? Will you also give the Committee an idea of the completion date of the review of the 2008-2011 process and an indicative date for bringing forward proposals for the way ahead?

Mr Daly:

Is that for the review of the Budget process?

The Chairperson:

Yes.

Mr Daly:

As the Minister confirmed yesterday in a response to you, Chairperson, our primary focus is to get the arrangements for 2010-11 out of the way. However, in parallel with that, we are trying to bring that to a conclusion so that we can get it to the Committee as soon as possible. I cannot give you a definitive date, but it will be no longer than is absolutely necessary. Paul and I are working on that to try to get it expedited as quickly as possible.

The Chairperson:

With regard to the Civil Service staff numbers and accommodation efficiencies, the 'Fit for Purpose' document published in 2004 set a target to reduce staff in the Civil Service by 2,303 by 31 March 2008. The Committee was advised that that target had been achieved. However, a press notice last October from the Statistics and Research Agency stated that the full-time equivalent of Civil Service staff numbers increased by 2.9% between 1 April 2008 and 1 April 2009, which is 660 staff. Will you explain that increase in relation to the efficiency drive? To what extent has the overall Civil Service staffing structure been critically reviewed? Has that review taken place and if so, how did it happen? Does that increase in staff numbers make it more difficult to achieve the accommodation efficiencies that were set out in the 'Fit for Purpose' document?

Mr Daly:

I am afraid that I do not have any of those details with me today. I will have to take that question back to the Department and refer it to my colleagues in central HR. I was not aware that that issue would come up.

The Chairperson:

Will you come back to us on that?

Mr Daly:

Yes.

Mr McLaughlin:

I have a supplementary question. I am trying to get my head round the reason why you are looking for efficiencies or reductions in the baseline. The three-year Budget was based on the CSR that was carried out in 2007. Are you saying that you had calculated and anticipated the Barnett consequential for that period and that that was built into the baselines, and that is why the baselines have to be revisited?

Mr Daly:

No. The original Budget allocations set out in the Budget document 2008-2011 are based on the settlement at that time. However, as one moves through the process there will be adjustments as a result of Barnett —

Mr McLaughlin:

And new pressures?

Mr Daly:

Yes. In 2008, when the Budget was established, Departments had built in plans. We are getting back to the earlier point about whether it is a reduction in growth or a cut. They would have built in plans that are increasing each year. However, when the £120 million reduction comes in, that has to come off those plans, which is why you arrive at a situation where, as Paul said earlier, the Budget for this year is set at a certain level, and next year it will be higher. Nevertheless, because of the reductions, it will not be as high as it might have been. However, there is no way to anticipate Barnett consequential in advance of Chancellors making announcements. I do not know if that explains it.

Mr McLaughlin:

Thank you for your patience, but I have not got my head round that. Perhaps we can follow this up. I need to think it through. It seems to me that we had a settled baseline position. The Chancellor introduced new efficiencies on top of those that were identified at the beginning of the process and which had to be built in at that point. Therefore, we have a new pressure to which the Minister must respond: fair enough. The question is that if it was a reduction in growth, how did that impact on the baseline? I have asked you the question, and you answered it. I will study the answer, because I do not understand your explanation.

Mr Montgomery:

The baseline — the block grant for 2010-11 — has been reduced because of the £122.8 million. Therefore, we have a pressure, and that is the reason.

Mr McLaughlin:

The Chancellor introduced a new efficiency tariff, which was, effectively, a reduction in the anticipated rate of growth. He did not say: “I gave you money in 2007 and I am taking it back in 2010”, because that, in simple economics, would explain why the baseline was affected. He did not do that: it was the rate of growth that he impacted on. Therefore, I do not understand why we are making savings, or are reverting to the baselines, to take account of what is, in fact, a future impact.

Mr Montgomery:

In the CSR, the Chancellor gave us, for example, £600 million — I do not know the precise figure. We took that money and gave it to Departments. He is now saying that instead of £600 million, I will give you another £500 million. However, because we have given out the money to Departments, we are getting only £500 million when we were expecting £600 million, which gives rise to a spending pressure for us.

Mr Daly:

It is a spending pressure on what Departments planned to do.

Mr Montgomery:

Even though we are getting more money — it is an increase in funding compared with our baseline in 2007-08 — it is less of an increase in funding, and, therefore, less than what we had planned for. In the settlement, we were told that we were getting, for example, £600 million, but because that is not what the Chancellor will now give us because of the efficiency savings, we have a spending pressure and need to adjust the spending plans.

Mr McLaughlin:

You have been very patient, and so has the Chairperson, so I will leave it at that. I asked you about the Barnett consequential, which, although they did not mitigate against the new efficiency savings that are being imposed by the Chancellor, had an ameliorating effect. We are talking about a global sum of £123 million that had to be adjusted.

Mr Montgomery:

The net impact is that the block grant, because of the changes in the pre-Budget and Budget reports, is £27 million lower than we had expected when we got the CSR settlement in October 2007.

Mr Daly:

That is as a result of Barnett consequentials and additional efficiencies.

Mr McLaughlin:

OK — actually, it is not OK, but I am punch drunk at the moment.

Mr Montgomery:

We would love to be able to show you how the block grant has changed over time. However, the difficulty is that the block grant does not change just because of the Budget; it changes as a result of technical issues, and they tend to swamp additional Barnett allocations. However, those technical changes do not have any impact on spending power. We could try to give you a table showing how the block grant has changed.

Mr McLaughlin:

I thank you for your help.

The Chairperson:

Thank you very much, Paul and Michael.