



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

Review of 2010-11 Spending Plans

21 April 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Mr Jonathan Craig
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

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

The Chairperson (Ms J McCann):

I welcome Michael Brennan, head of the central expenditure division, and Paul Montgomery from the central expenditure division. We have the papers, and the matter was debated in the Assembly yesterday. At this stage, I do not know whether members wish to ask the officials any questions. If not, the witnesses should open with a few brief remarks, particularly highlighting any changes since the publication of the original proposals in January.

Mr Michael Brennan (Department of Finance and Personnel):

Members will be aware that yesterday's ratification of the opening 2010-11 position followed the Executive's agreement to a draft proposal back in December. Papers were issued for consultation

on 12 January. Following consultation, papers were presented to the Executive on 25 March. Now that the opening position has been ratified by the Executive and the Assembly, Departments have certainty about their opening budget positions for the new financial year. However, as part of the normal June monitoring process, those positions will be subject to adjustment and amendment.

Most of the consultation took place through the Assembly, although members will be aware that some Assembly Committees did not have an opportunity to engage in consultation on the proposals. In addition, there were 18 responses from external bodies and organisations, most of them from the health and social care sector and those with an interest in children's groups.

The Chairperson asked us to highlight the changes and amendments that have taken place. There were two substantive issues. First, the £26 million in the invest to save budget has been allocated to 14 proposals across Departments. In total, Departments submitted 60 proposals, costing at some £90 million. Of those, 14 were successful, and the £26 million went to the relevant Departments.

The opening position for 2010-11 that was ratified yesterday will address some significant pressures. There are pressures on current expenditure of some £243 million, including the £26 million that was set aside for the invest to save budget. Pressures on the capital side amount to £150 million.

Other changes to flag up to members include the allocation from the centre of £101 million to the Department for Regional Development to meet pressures in respect of NI Water; technical changes in relation to international financial reporting standards and the Treasury's Clear Line of Sight project; and transfers from some Whitehall Departments. There was also a transfer of funding of some £14 million to the Department of Finance and Personnel (DFP) to cover shared service costs across Departments.

Members will be aware that, in setting the allocations to Departments, the Executive adopted a targeted rather than a pro rata approach. That was done to address concerns about protecting services in the health sector and those related to the economy. Therefore, for example, in order to address concerns over the economy, the savings allocated to the Department for Employment and Learning (DEL) and the Department of Enterprise, Trade and Investment were below average.

In December 2009, the Executive also asked DFP to look at the scope to make further savings in the public sector pay bill. The Department did that over the consultation period. It is fair to say that there is only limited scope to make savings from the pay bill. There are a number of reasons for that. The two main ones are that there are strong contractual entitlements to pay across the public sector that have to be met, and that a large number of pay awards and pay determinations in Northern Ireland are tied directly to GB pay settlements. In the health sector, for example, doctors, dentists, nurses and other allied professionals are directly tied into pay review bodies set in legislation at Whitehall.

In his Budget last month, the Chancellor allocated some additional money to Departments in Whitehall, and Northern Ireland received some additional money as a consequence of the Barnett formula. Some £6.4 million was allocated on the current expenditure side and some £5.7 million on the capital side. That £12 million is held centrally and will be allocated as part of the June monitoring process. Members will further be aware that in the days after the Chancellor's Budget last month, there was frequent media reference to an additional £33 million being made available to Northern Ireland. However, that was a reference to annually managed expenditure that does not come into the Northern Ireland departmental expenditure limit. It was to cover issues such as winter fuel payments, so it was not for allocation by the Executive at all. The media reports were rather misleading

That is a quick run through, in summary, of the main changes that were made to the opening 2010-11 position. I am happy to take questions.

Ms Purvis:

I want to ask about your assessment of the consultation. The main route for consultation was through the Assembly and its Committees, including this one. We highlighted all the issues from other Committees, such as the lack of information etc. There were also 18 responses from outside organisations. Given all of those factors, what is your assessment of the consultation? How effective was it? What can be done to improve it? Given the responses that the Department received from outside organisations, is there anything that you can point to where a submission was taken on board, acknowledged or used? Or was the consultation process just a paper exercise?

Mr Brennan:

It was not just a paper exercise. The time available was constrained, but there was a genuine desire to engage with the public. For example, adverts were placed in all three local newspapers inviting comment. As I said earlier, the main consultation was with Assembly Committees and, as expressed in the debate in the House yesterday, there was wide concern about the extent to which the relevant Committees were engaged and informed about the draft proposals.

In the responses to the draft proposals, concerns were expressed by the health and social care sector about perceived cuts. However, there were no suggestions as to, for example, if we were to take resources and allocate them to area B, which other areas should have their budgets reduced to meet the pressure. That was not explored. The other issue was pro rata cuts across Departments, as opposed to the targeted approach which the Executive decided to pursue and implement. There was no great deal of analysis or response on that.

Ms Purvis:

One of the Executive's focuses was to ensure that there would be no cuts to front line services. Yet anecdotally, through other Committees and from the community and voluntary sector and the health sector, we hear all the time about services being cut. It does not match up. Services are being closed down. Funding has ended for, for example, family support services in a part of west Belfast. They did not get any funding and the centre will have to close. That does not match up with the targeted focus to ensure that there are no cuts to front line services. I am sure that many of the 18 responses that you received sought to ensure that there would be no cuts to front line services, yet we hear that there are such cuts. What level of scrutiny goes on in Departments to ensure that the spending plans are targeted and focused, to ensure that efficiencies that need to be found are found in other business areas, rather than in front line services?

Mr Brennan:

The process is designed to give Departments their opening budget positions for the 2010-11 year. The mechanics of allocating those resources within Departments are the sole responsibility of the Ministers who set the priorities in their Departments. I cannot comment on the degree to which front line services in Departments have been cut. It is up to how the relevant Minister takes the decision.

Mr Paul Montgomery (Department of Finance and Personnel):

That is why we put such great focus on Departments publishing their plans to tell people how they would deliver the additional savings, so that there could be public scrutiny during the consultation process before the revised plans were finalised. Unfortunately, a number of Departments did not take that opportunity. I know that our Minister is very keen that that be rectified. He has written to ministerial colleagues a number of times to tell them that we need to have greater engagement.

Ms Purvis:

What can be done? The Executive have a focus on protection of front line services. What can be done to ensure that that happens when individual Ministers get their allocation and do whatever they want with it?

Mr Montgomery:

There are two points here. While we try to protect front line services as much as possible, it has to be recognised that even front line services can become more efficient. As well as that, because of the scale of the issues that we face, it is inevitable that, although services may be beneficial, they may be of lower priority than others. Even in front line services, it must be recognised that there needs to be a scaling back. Obviously, in the first place, one looks at internal bureaucracy and administration. We seek to minimise the impact on front line services, but there is no guarantee that each and every front line service will be protected. All we can do is create greater transparency and engagement with public services and with the Assembly, in order that only the lowest priority services are scaled back, rather than services that deliver greater benefit to people.

Ms Purvis:

That is a more honest starting point than saying that our focus is on ensuring that there are no cuts to front line services. It is more honest to say that we will ensure minimal disruption.

Mr Montgomery:

Our Minister has not said at any point that there will be cuts whatsoever.

Ms Purvis:

You said that that was the Executive's focus.

Mr Montgomery:

The focus is to minimise the impact on front line services. We have tried to be careful with everything that we have said, because there can be no guarantees.

Mr Brennan:

That is why it is imperative that Departments are transparent about how they will deliver.

Ms Purvis:

That is frustrating members, other Committees and the groups that are affected.

Mr McLaughlin:

I am interested in and supportive of the invest to save approach, and I thank you for the update. There were more than 60 applications, totalling over £90 million. The concept is to provide support to enable Departments to identify and implement efficiencies. Therefore, in a sense, it is a self-financing project. In fact, it is more than that and is meant to release resources that can be applied to other spending areas. Did all of the 60-odd projects that were identified by the Departments meet that requirement? Was it an issue of matching the funding that had been identified, or was it a matter of setting out a priority list of the projects that represented the greatest possibility of delivery? Did they all meet the criteria? Would they all have released resources, and did we underestimate the amount of the money that we should have put into the pot in the first instance?

Mr Brennan:

The projects were scored against three criteria: the extent to which they would deliver value for money, the extent to which they were genuinely deliverable, and whether they were things that the Departments were going to be doing anyway. The 60 projects were benchmarked against those three criteria and ranked by their value for money. The bottom line is the return that the projects could obtain in later years. The key rationale is that the 14 successful projects will be taken forward on the basis of an upfront investment to generate greater returns at a later date.

Mr McLaughlin:

That is fair enough. You said that some projects fell out of the bottom because the Departments were going to do them anyway. How many would have been on the order? Were projects still on the list but did not qualify because they could not be matched and because the budget did not

stretch that far?

Mr Montgomery:

Given the amount of money that was available and the number of projects, our first cut was fairly ruthless. From memory, there were only 20 left after the first cut, and they were ranked by savings versus the upfront cost.

Mr McLaughlin:

You have to start somewhere. If we are already beginning to consider what to do next and what to do in years two, three and four, does that indicate that the scheme gives Departments the necessary focus? We have been looking for efficiencies and better returns. This is a way to incentivise that, and it might, perhaps, be sensible to consider the benefit of increasing the allocation that is to be applied to the initiative.

Mr Montgomery:

Indeed. However, it is also a matter for individual Departments. As an Executive initiative, the £26 million had to be taken from savings and was added to the amount of overall savings required of Departments. There is nothing to stop individual Departments setting aside parts of their own funding to take forward invest to save projects themselves.

Mr McLaughlin:

Amid a lot of angst, reaction, complaints and pressure about having to review the spending plans, there is a clear need to be agile and responsive to the changing circumstances. The Assembly agreed a three-year Budget plan, and we are now in the final year of it. One feature of yesterday's debate was the litany of reports from Committee Chairpersons about the lack of response and information from the Departments. Your report and your briefing paper acknowledge that there was a constraint on the consultation time. Given the need to respond, that was a reasonable point to make, and, to be fair, the Minister identified the fact that that significant pressure was emerging and had to be responded to. He first put down a marker six months ago.

The Committee is on record arguing for a more timely Budget process, and, looking forward to the next Budget period, I am frustrated and disappointed that the Department has still not told us how the process will be brought forward in a more timely fashion. All Ministers, Departments and Committees need to feel that they have ownership of the process. There are significant

pressures already, and we are told that with the change of Administration after the election there will be even more cuts in the public expenditure programme. Are we going to be bounced into another review of the spending plans, or will we take the process through collectively and in a manageable fashion? We should remind the Minister strongly that, for a couple of years, we have been in a similar position due to our outstanding expectations for the Budget process. The Department has had time to bring forward, discuss and agree how the Budget should be streamlined and modernised. Such proposals should have been brought before the Committee in a more timely fashion than has been the case up to now. It looks like crisis management, and, as far as I am concerned, it has gone on long enough.

Mr McNarry:

On the invest to save scheme, can you supply us with a list of the applications that were approved and what they were about? You may have done that, but I have not picked up on it.

Mr Montgomery:

They are listed in table 4.1 in the revised spending plans document.

Mr McNarry:

Is there a list of applications that were not approved?

Mr Montgomery:

Yes.

Mr McNarry:

Is there any indication of whether projects that were not approved will be carried through, or do people have to reapply when the opportunity arises?

Mr Montgomery:

We will want people to reapply. Obviously, they will have the same supporting information, but we want to make sure in case the situation has changed for each proposal. Furthermore, some Departments did not submit any bids, and they may wish to bid at the next stage of the process.

Mr McNarry:

I apologise for not reading the document — other things have been demanding my attention —

but there seems to have been quite a good take-up rate for the scheme, which should encourage others beyond those who applied. You have £20-odd million; is there any indication that more is needed? Were the applications that were turned down legitimate? If you had had more money, might you have responded more favourably to them?

Mr Brennan:

The Executive decided to set aside £26 million.

Mr McNarry:

I know that.

Mr Brennan:

The 14 projects that were approved are the ones that will deliver the greatest future savings. That is why they have met the mark. Going forward, there are two key issues. If Departments, even within existing resources, have suggestions or ideas about where to invest now to generate returns, they have the discretion to do so, and they can engage with DFP on that. If later tranches of the invest to save budget become available, I presume that those Departments, in parallel or separately, will put those proposals to us.

Mr McNarry:

Only 14 of the 60 proposals were successful. People thought that the other 46 were worthwhile, but those proposals did not make it. Were there any patterns or trends, and which proposals came fifteenth or sixteenth?

A decision was taken to allocate £26 million for invest to save projects. Is a case being built up? Is it too soon to say that we need to have more money if this is going to give the value we expect, and that the net should be widened? Are we happy that £26 million was given out and that 14 proposals got it? Is the job done now and we can tick that box? I am trying to understand what is beneath all of this. Of the 60 proposals that people thought were worthwhile, 46 did not make it. How good were the unsuccessful proposals?

Mr Montgomery:

They were of variable quality. One of the key issues was that many of the projects had returns in the first year in excess of their cost: if a project has a 100% return, our view is that the

Department should be doing it anyway. The issue will be returned to as part of the Budget process for 2011-12 and beyond.

Mr McNarry:

It is worth keeping an eye on, and I am certainly very interested in it.

Mitchel referred to pressures; can you provide the Committee with a breakdown of those?

Mr Montgomery:

For 2011-12 and beyond or 2010-11?

Mr McNarry:

The almost £400 million you referred to.

Mr Montgomery:

Those are the pressures for 2010-11, which we previously set out to the Committee.

Mr McNarry:

Is the Department able to identify approaching pressures?

Mr Montgomery:

The Department has engaged in a scenario planning exercise with the other Departments, asking them to identify inescapable or unavoidable pressures for the coming years.

Mr McNarry:

I am glad to hear that you are doing that. It may be crystal-ball gazing, but are those pressures irrespective of what might happen across the water after the general election, or will that be factored in to the scenarios?

Mr Montgomery:

Through that exercise, the Department is trying to examine the demand for public spending — the sort of things that Departments have to spend money on. The amount that we get from the Treasury through the block grant is the supply of money. The Department is trying to get as good an idea as possible of the balance between the two at this stage.

Mr McNarry:

Once the Department has been made aware of a serious development, how quickly can it respond to it via ministerial action, with perhaps a review of some kind, getting the message to the Executive and getting decisions back to the Committee and the Assembly?

Mr Brennan:

By serious developments, do you mean additional budgetary pressures or cuts?

Mr McNarry:

I do not want to put words in anyone's mouth, least of all yours, but the anticipation is that there will be a hit here. We are already identifying and living with pressures. What will the Department's reaction time be to new circumstances, and how will those be dealt with? There will undoubtedly be hardships, but how will we manage our affairs in light of the new hardships that the Department is trying to anticipate? Will new priorities be set?

Mr Brennan:

As Mr Montgomery said, the Department has already commissioned work with the other Departments to identify the pressures that lie ahead in their budgets on both the capital and current sides. That will give us a feel for the degree of flexibility that exists in departmental budgets to address unanticipated pressures. However, it all depends on the magnitude of any future pressures. There are also questions about the degree to which the Executive and the Assembly have to address issues such as domestic water charges and the regional rate. Those issues have a direct effect in addressing budgetary pressures at a block level.

Mr McNarry:

Indulge me for a second. Last night I listened to a senior member of the Scottish Nationalist Party who was quite keen on the fact that a new Government, of any party, are likely to ring-fence funding for health. He said that he was relieved, because if that money were to be ring-fenced at Westminster then the money that Scotland gets would be protected. Does the same scenario apply in Northern Ireland? We have a devolved situation, the same as Scotland. Therefore, would funding for health be ring-fenced here?

Mr Brennan:

I presume that you are referring to the fact that Scotland has 100% comparability under the mechanics of the Barnett formula. In other words, the allocation that it gets from the Barnett formula is 100% of the equivalent spend in England. We also have 100% comparability. However, the resources that come to Northern Ireland through the Barnett formula are unhypothecated. Therefore, it is for the Executive to determine where those resources go. Under the mechanics of the Barnett formula, funding for health would be ring-fenced and defended as a full read-across, but it would then be for the Executive and Assembly to determine where those resources go.

Mr McNarry:

So the obstacle or the assistance to ring-fencing — in other words, doing parity — being similar to that in Scotland, England and Wales is entirely up to the Executive, if funding for health is not ring-fenced? A case for that has already been made in other nations. However, you are saying that the Executive still have to make their case as to whether we ring-fence the Health Department here.

Mr Montgomery:

It also depends on what you mean by “protected”. The Department of Health in England carries out different functions than the Department of Health, Social Services and Public Safety in Northern Ireland —

Mr McNarry:

The Health Department in Scotland is reasonably similar, is it not?

Mr Montgomery:

We focus on the Department of Health in England —

Mr McNarry:

I am more interested in the situation in Scotland. Of all things for any nationalist to say, I heard a Scottish nationalist talking about how dependent they are on the Treasury and the existence of the Union. That aside, he is hoping that the money will be ring-fenced, and I am trying to get to the bottom of why it is not ring-fenced here. Here was a Scottish nationalist saying “whoopie!” If the money for health is ring-fenced at Westminster, Scotland will be able to do the same. Is there

a case for ring-fencing funding for health in Northern Ireland? I think that you have already helped me make the case. However, the final decision is how the Executive decide to prioritise the Departments.

Mr Montgomery:

The Executive's ability to protect a certain Department depends on the allocations that we get based on the allocations to the English Departments. If the Department of Health in England is protected and we get a read-across through the Barnett formula, that may not be financially sufficient to allow us to do the same for the Department of Health, Social Services and Public Safety in Northern Ireland.

Mr McNarry:

We will have to look at it carefully then. I long for 6 May to be over so that we can see what we are going to get.

The Chairperson:

No one has any more questions. Thank you very much for coming today.