



Northern Ireland
Assembly

Committee for Education

OFFICIAL REPORT (Hansard)

June Monitoring Round: DE Briefing

30 May 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Mervyn Storey (Chairperson)
Mr Danny Kinahan (Deputy Chairperson)
Mrs Jo-Anne Dobson
Mr Trevor Lunn
Miss Michelle McIlveen
Mr Daithí McKay
Mr Sean Rogers

Witnesses:

Mr Trevor Connolly	Department of Education
Mrs Colleen Tonner	Department of Education

The Chairperson: Moving on to the monitoring round, we have Trevor Connolly and Colleen Tonner. You are very welcome. You have been let out without any other senior officials. I will ask you to speak to the paper. There is not a huge amount of information in it.

Mr Trevor Connolly (Department of Education): Thank you, Chair. As always, I am grateful for the opportunity to discuss the Department of Education's proposals in the June monitoring round with the Committee. If the Committee is content, I propose to give a broad outline of the overall financial context for this round and the proposals that have been put forward, and then take any specific questions.

June monitoring is the first monitoring round of the year. The Committee will be aware that in-year monitoring rounds provide an opportunity to review departmental spending plans and priorities in the light of more up-to-date information. In particular, the monitoring rounds allow the Executive to consider the scope for reallocation of resources to deal with pressures that have emerged through redeployment of reduced requirements.

The Department of Finance and Personnel (DFP) has advised that there is a starting overcommitment of £30 million on both resource and capital investment budgets, resulting in limited scope for bids to be met in the June monitoring round, and that bids for additional resources should be submitted only in respect of significant pressures that cannot be accommodated within existing allocations.

Details of our proposals to be submitted for consideration by the Executive have been provided to members. In summary, no reduced requirements are being declared. There is one resource bid for the school surplus of £5 million and one for school maintenance of £9.5 million. No capital bids are being submitted.

The Chairperson: Let us deal with the issue of capital first. The amount of money that we have for capital is always an issue. I suspect that probably the greater percentage of the capital that the Department has is already tied up in unit costs of PPP projects and the cost of servicing what we have already delivered.

Mr Connolly: PPP would be a resource cost, not a capital cost.

The Chairperson: Right.

Mr Connolly: It is like taking out a mortgage, but what you are paying back is taken as being resource. So, it does not impact upon the capital budget; it impacts upon the recurrent resource budget.

The Chairperson: So, how much of the capital that was allocated is real money that is not tied up in any other costs at this point? I forget the figure, but say it was £100 million: is 50% available or is 65% of it available?

Mr Connolly: I am sorry, Chair, I will have to go back to Dermot. I honestly do not know. I suspect that it is a reasonable amount because obviously, by the nature of your major capital works, they cross the boundary between one year and the next, and, as you said, that is a contractual commitment. I will need to come back to give you the precise figure of how much of the budget is contractually committed at the start of this year.

The Chairperson: I am leading up to ask a question. We cannot get a grasp or a grip on where we are at with capital, and it seems that this row has entered the Executive, between the Finance Minister and the Minister of Education, around reconstructing the Budget and how information about how money is spent is actually presented. We may come on to that in a minute. In the House yesterday, the Finance Minister yet again raised a concern about why the Department is reluctant to engage in the process. We cannot get our head around how much money there will be to spend on capital projects. It will not come anywhere near the investment delivery plan that identified, a number of years ago, 50 schools that needed to be built. It seems as though that paper has been torn up or has disappeared; it is now no longer the case. We keep changing the goalposts in relation to how you determine who is eligible for a capital project, yet, despite all that, there is no bid by the Department for any additional resource in relation to capital. Why is that? Why has it only put in a bid in relation to two projects? The issue of surpluses I can understand, because that is the agreement that was made between the previous Education Minister and the Finance Minister so that we do not lose end-year flexibility (EYF) in relation to surpluses.

I welcome the fact that this is going to be considered again in January, because a problem arose last year when it was left too late and there was a worry that money would be lost. However, only £9.5 million has been bid for in relation to school maintenance, and nothing for capital. The Minister comes to the House and tells us that he would build more schools if he had more money, yet he has an opportunity here to bid for money and he does not do it. Why is that the case?

Mr Connolly: I think there are a couple of things, Chair. The initial allocations for major and minor works were sent out to the boards in April from the investment and infrastructure division. The Budget is being re-examined to realign the major and minor projects in terms of timing of delivery to maximise the utilisation of the Budget.

The key aspect here is capital profiling within the 12 months of this financial year, because there is a balance. The worst possible thing for us is to bid for additional funds and not be able to use and spend them within the year, but the other side, as you have already said, is that when we start the year, there is clearly an element of the capital budget is already contractually committed. Unfortunately I do not have those figures at hand, but we will get those for you. Once you have split that element between those existing major works that roll forward into this year to be finished and the minor works that you want to do within the year, Dermot says, we are then looking at reprofiling that to maximise the utilisation of the existing budget and to see what we can do.

The answer is that, at this stage of the year, we are not making a bid. However, that does not prevent us from making a bid in October. The key bit is that whatever bid we are making, we want to be assured that if we got that money, we would be able to spend it properly before the end of the year. At the moment, what they are doing is basically examining the existing profile of major and minor projects to make sure that we are on track to spend everything that we currently have, and to identify if there

are pressures there that we can meet and ensure we can spend the money within the current financial year; then we will bid for that at some point later in the year.

The Chairperson: Trevor, I would appreciate it if we could get a breakdown on the budget and what was committed. The difficulty in trying to get our heads around this is that we are looking at, in a sense, two different years. We have the out-turn for 2011-12, which the Finance Minister gave in the House this week. The amount was £114 million, and the out-turn was £113 million, which left £800,000. Where does that 0.7% go? Has it gone into the centre?

Mr Connolly: Yes.

The Chairperson: Has that become part of the money that will be part of this monitoring round?

Mr Connolly: When the Treasury withdrew the EYF scheme across all of the devolved Administrations and the UK Departments, the Finance Minister agreed with the Treasury a separate scheme, the budget exchange scheme. There is a limit of roughly £50 million on resource and around £13 million or £15 million on capital that we can carry forward between one year and the next. The £800,000 of capital that you referred to would form part of the block's underspend at the end of the year that, under that scheme, would be allowed to be carried forward. In June monitoring, the Finance Minister has a £30 million overcommitment on both resource and capital, but he will also have EYF to carry forward. When he is putting that paper together, part of that will be that he has money carried forward as well as overcommitment. There were also some Barnett consequential out of the autumn Budget. He will bring all of that together. The £800,000 is not lost. It will be carried forward, but at block level. We do not have it in the Department.

The Chairperson: Before we move on, I welcome the staff and pupils from Laghey Primary School, near Dungannon. I always get the pronunciation wrong, but I know where Dungannon is. You are very welcome. Thank you for taking the time to come to the Education Committee, and we hope that you enjoy your visit to the Northern Ireland Assembly and that it does not put you off politics completely.

Trevor, this almost goes back to the capital one. You have this process — and the monitoring rounds are a good, logical system that we can explain simply to the pupils whereby, four times a year, every government Department is asked whether it will be able to spend its money. The Department is asked to send back any money in its budget that it will not be able to spend in the current quarter of the year. In that process, what criteria does the Department use to put in a bid? How did the Department come to these two elements? Were these the two elements that were deemed to be inescapable?

Mr Connolly: Yes.

The Chairperson: These are the two top priorities at present in the Department?

Mr Connolly: Yes.

The Chairperson: That was simply how you came to that?

Mr Connolly: I will break them down. As you said, Chair, it is part of the process that was agreed at the Executive that, if we want to draw down money in 2012-13, we have to put in a bid in June monitoring. We are forecasting an amount, and that is part of the bid. We are bidding for £5 million. That is part of a separate process within the monitoring round. As you said, that was done as a separate agreement last year. That agreement says that the Department of Education must bid for the money and that the bid can be refined in January monitoring. Once that figure is agreed, that is your final figure and allocation for that year. That is why we are bidding in terms of the surplus. We are estimating how much money schools will draw down from now to March 2013.

The other issue is maintenance. As you are all aware, the Minister, in a statement on 15 May, highlighted the backlog that we have in maintenance. That is one of the key reasons why he earmarked the £27 million. It is a further continuation of that. If memory serves, we bid for £16.5 million last year and got £10 million in October. We are bidding for £9.5 million now, and one of the reasons for bidding now is the same reason that we earmarked the funding: it is to get an allocation as early as possible to the boards so that they can then use the summer break to do the bigger maintenance jobs. Clearly, they have a lot more freedom and ability to do maintenance work when

schools are empty rather than disrupt schools or work in other school holiday periods. Therefore, one of the reasons that we want to bid now is to maximise that timescale over the summer school holidays, when maintenance work can be done that would otherwise disrupt the school.

The Chairperson: The timescale will be tight. We are almost into June, and the decision on this monitoring round will probably not be made until the middle of June.

Mr Connolly: I think that I am right to say that the boards have call-off contracts. They are already aware of the £27 million, and this is more on top of that. It is a slight chicken-and-egg situation: the sooner that we can get that, the sooner that schools will have the money in place and the sooner that they can maximise the time to spend it over the summer.

Mrs Dobson: I wish to go back to maintenance, Trevor. How much of the £9.5 million for maintenance backlog will go towards essential and response maintenance, as opposed to normal scheduled maintenance in schools?

Mr Connolly: Sorry, but I do not have that level of detail with me. I can certainly get that information from Diarmuid McLean's side and respond.

Mrs Dobson: Considering how many schools are in a state of disrepair, I think that it would be useful to have that information and to know how much will be spent on essential and response maintenance.

Mr Connolly: Anecdotally, because of the maintenance backlog of over £300 million, I know from speaking to the division responsible — the investment and infrastructure division (IID) — that, when it agrees the allocation with the boards, it targets health and safety and essential maintenance first. Obviously, health and safety considerations and essential maintenance come first and foremost. There is certainly a prioritisation process, but I do not have the breakdown of the £9.5 million here, but we can get that information for you.

Mrs Dobson: That would be useful. Can we also have the proportional breakdown of the £27 million that the Minister announced?

Mr Connolly: Certainly, if we can get that, yes.

Mr Lunn: On the back of that, do we know how much of the £300 million is essential and health and safety-related? Is there a figure for that?

Mr Connolly: Sorry, but I have expended my detailed knowledge of maintenance. I do not know, but if the Committee Clerk writes to us, we will certainly have Diarmuid answer those questions.

Mr Lunn: You would think that as the figure goes up every year — when I joined the Committee it was more like £200 million — more and more of it was becoming essential.

Mr Connolly: Yes, that would be logical. I do not know the breakdown between health and safety elements of that and those that are planned or recurrent. There is clearly a component that is structural and essential, and another that is maintaining a good-quality building in that condition. The simple answer is this: sorry, I do not know, but we can certainly get that breakdown.

Mrs Dobson: When can we get that information?

Mr Connolly: If the Committee Clerk writes to us, we will respond as quickly as we can.

Mrs Dobson: OK. Thank you.

The Chairperson: I go back to the review of financial process. I read a quotation, which Trevor Lunn called "gobbledygook", from a letter that we received from the Finance Committee and that we have today agreed to forward to your Department. The letter stated:

"the Committee for Finance and Personnel received an update on the Executive's Review of the Financial Process from Department of Finance and Personnel officials. During the session, members heard that there was a lack of agreement on the proposals arising from the review,

particularly with respect to the recommendation that 'Spending Areas in a Departmental Expenditure plan should be restructured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department.'"

There seems to be a debate or possibly an argument building between the Department of Finance and Personnel (DFP) and the Department of Education on that issue. It appears to emanate from the fact that, of the Minister's allocated budget of 100% — be that two-point-whatever billion pounds — 60% is allocated straight away to the boards, grant-maintained integrated (GMI) schools, and so on. That leaves 40%. It is almost as if that money is in a cloud: it sits up there somewhere, and the Department has it. That is a fairly considerable amount of money. Only a few weeks ago, many months after a budget had been approved, the Minister said that he has made a decision and has £72 million extra. People think that that is new money, but it is not. We have clarified that. Is that the best way in which to handle the finances of a crucial Department?

Does the Department have a contingency fund? In other words, is there money under a school desk somewhere? We all get very cynical about how we can end up pulling £1.4 million out for this and another £1.7 million for that. Is there a contingency fund? As a senior accountant in the Department, would you say that that is the best way in which to generate or use public funds?

Mr Connolly: I will start off with the 60% and 40% split. When we were giving seminars to governors at the start of the year, I produced a pie chart to show how the 2011-12 budget was split. Sixty per cent is for the aggregated schools budget (ASB), which, as you said, goes directly to schools. Effectively, the budget that goes to the boards is 30% of the total. Therefore, just over 90% goes directly to schools and the boards. Therefore, I would mentally split the whole budget into 60%, 32% and 8% — 32% of the budget actually goes to the boards.

The Chairperson: That was not the figure that the Minister gave in the House on the day on which he made the announcement about the reallocation, because he talked about a figure of 59%.

Mr Connolly: It is 59-point-something per cent. The aggregated schools budget figure is 60% of the total essentially. The other 40% is split between the boards, which effectively gets three quarters of the 40%, and smaller organisations, such as the Northern Ireland Council for Integrated Education (NICIE), the Council for Catholic Maintained Schools (CCMS), the Council for the Curriculum, Examinations and Assessment (CCEA), and our departmental staffing. That is where the other 8% goes. That addresses your question about the split. The 60% and 40% split is 100% correct: all that I am identifying is that, in the 40%, there are two big players: the boards, which get three quarters of the 40%, and the other small organisations and our own departmental admin, which make up the rest.

On the question of the best way in which to handle the finances, the £72 million is spread over three years, which is £24 million a year. If you take that in the context of our overall budget, it is just over 1%. Therefore, when you look at it that way, relatively speaking it is quite a small amount, because, as you said, 60% of any annual budget in any year goes immediately out to the schools. A big chunk is allocated immediately.

You asked whether that is the best way to handle the finances. The simple answer is yes. The Minister asked us to carry out an internal review of the 40% to ensure that we are getting best value for money and that the money is going to the Minister's priorities. From my perspective, the Minister has taken proactive management decisions to stop spending in certain areas and move spending to better areas. If you are asking me, as finance director, whether that is good, prudent financial management, I say "absolutely". We all do it day and daily, and that is exactly what the Minister has done. He has prioritised spend to where he wants it and made proactive decisions to cut spending here and reallocate it.

Your third point related to the contingency fund. I know that that is mentioned in a letter that the Committee Clerk has written to us. It has been in the budget distribution table, and we looked at it when I was last before the Committee with John McGrath. The simple answer is yes, we have a contingency fund. It was created back when the original budget was prepared in 2011, and the Minister has retained that contingency fund, simply because, once again, it is good, prudent financial management. I do not have the exact details of the original amount with me, but out of that fund came the £10 million, £15 million and £15 million — the £40 million that the Minister allocated last November. You will remember that that was the first allocation that went into the ASB. Following discussions between the First Minister, the deputy First Minister and the Finance Minister came the further £120 million. Of the £160 million from the original budget figures that went into the ASB, £40

million, over the three years, came out of the contingency fund, which is roughly about half of the fund. The balance that is left has been part of the review.

There is a principle to having a contingency fund for our size of budget. When it was set up, we first had the savings delivery plan, which had to find £306 million of savings by 2014-15. We were not clear what the cost of that was going to be. Secondly, the fund might be needed for top-slicing. We have to have something to address the likes of the flu epidemic that we had a year ago, for instance. Thirdly, there will be in-year pressures that come about unexpectedly. As I said at the start, we recognise that the Executive are sitting with a £30 million overcommitment on resource and capital, which is effectively an overdraft. If you have between £10 million and £15 million a year as a contingency fund on a £2 billion budget, it is probably running at about 0.5%. In that context, I think that it is, once again, good, prudent financial management to have that in place. However, I know that we will be giving a detailed response to the Committee on the Committee Clerk's letter.

The Chairperson: Hopefully this will be in the reply, but does the contingency fund come out of the 8% that there is in the Department?

Mr Connolly: Yes. The 8% is not the Department solely but includes all the other smaller boards and departmental admin.

The Chairperson: When the Minister made his announcement on the reallocation a few weeks ago, he said that he would forward to the Committee the breakdown. Are we close to getting that paper? Will it come along with the other information?

Mr Connolly: Yes. Hopefully that will be with you very shortly.

Mr Lunn: The contingency fund is like having an investment portfolio and a wee bit held in cash. Does it show anywhere? We seem to get detailed figures.

Mr Connolly: It is in the budget distribution table that you have received when I have been here. I think that I have been here three or four times.

The Chairperson: What is it called?

Mr Connolly: It is called the contingency fund. It has been highlighted from the first budget. It is stated clearly in the budget distribution table that the Committee has had from the first time. It was agreed as part of Budget 2011. I was not here, but it was available at the first post-Budget discussion, which was approximately last March or April. I know for a fact that the budget distribution table, which the Committee has received, has always had the contingency fund highlighted in it. There is absolutely no lack of transparency over the amount. When the £10 million, £15 million and £15 million was announced, if memory serves me, we highlighted the fact that it had come out of the contingency fund and gave you a revised budget distribution table. I certainly remember being at the Committee with John at that stage.

The Chairperson: There are no more questions. Colleen, you got it easy today.

Mrs Colleen Tonner (Department of Education): I did indeed. You are all on your best behaviour.

The Chairperson: Thank you for attending the Committee meeting. No doubt, we will come back to you when we get the information that you will send to us, Trevor.