Northern Ireland
Assembly

COMMITTEE FOR
FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

June 2011 Monitoring Round:
Outcome

22 June 2011

NORTHERN IRELAND ASSEMBLY

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FINANCE AND PERSONNEL

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Members present for all or part of the proceedings:
Mr Conor Murphy (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr David Hilditch
Mr Ross Hussey
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Ms Caitríona Ruane

Witnesses:

Mr Michael Brennan	)	Department of Finance and Personnel
Mr Peter Jakobsen	)	

The Chairperson:
A statement on June monitoring was made in the House on Monday, and Members had the opportunity to ask some questions about it then. This part of the meeting will be recorded by Hansard, so the usual advice applies in relation to phones and electronic devices. The Minister's statement is included in the Committee folder. As I said, most Members had the opportunity to go through the statement on Monday, so this is just a follow-up session to get a quick briefing from officials and to ask any follow-up questions that Members did not get an opportunity to ask on Monday or to ask questions provoked by answers given on Monday. I will hand over to the

officials from the Department of Finance and Personnel (DFP).

Mr Michael Brennan (Department of Finance and Personnel): Thank you, Chairman. I will briefly advise the Committee on the construct of June monitoring and on where we are in relation to the overcommitment. The Executive entered June monitoring with an overcommitment of £30 million on both the current and the capital side. In the UK Budget in March, we received Barnett consequentials as a result of allocations to Whitehall Departments. We got £9 million on the current side and £11 million on the capital side.

One of the key issues that the Executive had to address in June monitoring was the fact that in January the Education Minister and the Finance Minister agreed that it was imperative that comfort be given to schools to enable them to access their end-year flexibility (EYF) stock. So, in June monitoring, the Executive agreed a mechanism to allow schools to draw down their reserves as needed. The Department of Education made a bid of £20·8 million for EYF in June monitoring, and that is what has been allocated to the Department of Education to give out to schools for drawdown this year.

Another headline issue to flag up is one of principle. The Executive have agreed that the Public Prosecution Service (PPS) will now be included within the mainstream monitoring system and will no longer have ring-fenced status. The main reason for that is that the PPS has identified a number of emerging pressures. It has assured us that it can cover those pressures internally in years 1 and 2 but has said that it would like the comfort of knowing that it could put in bids to the Executive during monitoring rounds in years 3 and 4.

There was a tranche of money earmarked to go the administrator of the Presbyterian Mutual Society. The first £50 million has been transferred to the Department of Enterprise, Trade and Investment to give to Arthur Boyd, the administrator.

There was not much in the way of reduced requirements from Departments, but that is what you would expect so early in the financial year. Only £6·6 million came in on the current side and £0·3 million on the capital side. However, there was an awful lot of bids. On the current side, there was £61 million of bids, and on the capital side, there was £75 million of bids. Given that there was a small amount of reduced requirements and a significant amount of bids, the Executive were able to dispense only a small amount of resources.

On the current side, three bids were met. A total of £3·7 million was given to the Department for Employment and Learning for its employment services, £3 million was given to the Department for Regional Development (DRD) to allow it to fulfil its statutory duty on public street lighting, and £2 million was given to the Department of the Environment to alleviate the pressure in the Planning Service.

On the capital side, only one bid was met. A total of £3·3 million was given to the Department for Social Development (DSD) to allow it and housing associations to replicate the first-buy initiative that was announced in the March UK Budget. DSD and the housing associations will take forward the scheme, which aims to make it easier for first-time buyers who are looking for an equity stake to get a mortgage.

That was just a quick run-through of the decisions that the Executive took in June monitoring. The Execuitve are now overcommitted by £43 million on the current side and £21 million on the capital side.

The Chairperson:
Thank you very much, Michael. The monitoring rounds will be greatly impacted by what comes out of the Budget exchange scheme. I know that the Finance Minister is going over next week to try to negotiate some flexibility in how we manage that with the Treasury. I have been assured that we will hear any outcome of that as soon as possible.

There is a limit on what Departments can move around themselves. Given the direction of the Treasury, flexibility will be key for Departments being able to manage their spend. There is a limit of £1 million on the amount that does not require DFP approval. Have you any discretion to extend that, to allow Departments to be a bit more flexible in managing their own budgets?

Mr Brennan:
In this monitoring round, the Executive agreed that Departments' de minimis threshold should double from £0·5 million to £1 million. That is a significant concession to Departments on how much money they can move around within their spending areas.

At the Northern Ireland departmental expenditure limit level, the block level, the buffer that

DFP can exercise to manage public expenditure is the overcommitment. Effectively, that is a judgement call on the extent to which we expose the Northern Ireland Budget to risk. As you mentioned, that is now intrinsically linked to what the Treasury will impose on us in the Budget exchange system. The Finance Minister has said that he is pretty comfortable with the overcommitment of £43 million. Therefore, we are effectively spending £43 million more than the Treasury has given us. We use that as a dampener in respect of pressures in individual Departments. When we get to the October monitoring round, we will know where we are with the Treasury and the Budget exchange system. The Executive will have to make a decision on how much of that overcommitment to carry forward to the January monitoring round. In summary, there is more discretion available to Departments in respect of the de minimis thresholds, and DFP is taking a view on overcommitment, which is the dampener at block level.

The Chairperson:

Did the Executive have the call on how much further flexibility Departments should have?

Mr Brennan:

Yes. In his June monitoring paper, the Finance Minister asked the Executive to endorse that level.

The Chairperson:

Could the Executive adjust that level again if they so decided?

Mr Brennan:

Yes. As I mentioned, the previous Executive collectively decided to leave the last financial year and go into this financial year with an overcommitment of £30 million capital and £30 million current. The Executive take a view on the level of overcommitment that they are prepared to risk. The great uncertainty is that we do not know where we are with the Treasury on the Budget exchange system. The Finance Minister has proposed an alternative system to the Treasury's that would set caps of £50 million in current and £10 million in capital. If Danny Alexander accepted that, it would give great comfort to the Executive, because they would be able to get to October and plan an overcommitment going through to January.

Mr D Bradley:

Towards the end of your paper, you mention the change from the old end-year flexibility scheme to the new Budget exchange system and a three-phase monitoring process. You said earlier that the fact Departments will have to estimate underspends in October could, if this scheme is not amended, lead to quite a loss of public spending resource in the Budget here. Can you estimate what that loss might be?

Mr Brennan:

I cannot give you a specific number. What I can say is that, if the Treasury does not amend its proposal, the Executive will have to take a decision in October monitoring on how much they want to formally declare to the Treasury as EYF going into the next financial year. The downside to that is that it exposes the Executive to a considerable risk. For example, if we declared in October monitoring that we will carry £50 million of EYF into next year, £50 million is what the Treasury will allow us to carry into next year. However, if the figure is £90 million when we get to provisional out-turns at the next stage, we will lose £40 million.

The Executive will have to take a collective view on the degree of risk that they want to incorporate. I suspect that the Executive’s position will be to plan for a significant overcommitment in the October monitoring round. The risk is that the overcommitment might not be big enough, in which case either we surrender money to the Treasury or we blow the block control total.

If you are looking for a number, I suggest that you look at the provisional out-turn figures announced earlier this week. The exposure of the block to unplanned spend has dropped considerably. For example, on the current side, the provisional out-turn figures have us down at an underspend of 0·01%. That is still £1 million current expenditure and £5 million capital expenditure that the UK Government gave to the Executive that is now lost to the Treasury. I suspect that, if there is no change from the Treasury before October, the Executive will probably adopt quite a risky approach to overcommitment.

Mr D Bradley:

To go back to the EYF scheme for schools, you said that the Department will have two opportunities to make bids. When will the first be?

Mr Brennan:

The Department of Education has now formally bid. The total EYF stock for schools is in the order of £56 million. In effect, that is how much schools have banked as savings. The Department of Education looked at what schools have had, and it indicated that, in this financial year, schools need to have access to up to £20·8 million. That is the maximum that schools can draw down. The new scheme that the Executive have signed off on means that, come October monitoring, they will take feedback from school principals to see how much they actually need.

For example, if school principals come back in October and say that they only want to draw down £5 million, a £15 million reduced requirement will come back to the Executive for reallocation. If the schools draw down £20 million in October, everything will balance out, and no more money will be needed for schools for the rest of the year; they will have what they need. Basically, in June monitoring, they indicate how much they think they will spend. In October monitoring, they come back to us and say how much they are actually going to spend. The balance either moves to the Executive or resides with schools.

Mr D Bradley:

You said that, under the budget exchange scheme, the October predictions will produce difficulties for Departments. Are we not imposing a similar thing on schools?

Mr Brennan:

No. In effect, the Executive have decided to give schools everything they say they want. The Department of Education bid for £20·8 million, and the Executive gave it £20·8 million, so it will not be a question of the schools coming back and saying that they wanted more than that. That is what they bid for, and the bid was met in full, and that is why the Finance Minister is quite comfortable with the £43 million overcommitment, because he knows that schools cannot come back for any more. They got all that they asked for, so the risk is all on the downside. As I said, if they spend only £5 million, the £43 million overcommitment will come down by £15 million, because that amount would come back to the Executive for reallocation.

Mr D Bradley:

So the scheme is totally guaranteed.

Mr Brennan:

The £20·8 million is completely guaranteed. They got all that they bid for.

Mr D Bradley:

On this occasion.

Mr Brennan:

The Executive did not just agree to a specific bid. There was also a paper that went to the Executive setting out the mechanics of the new EYF scheme agreed by the previous Education Minister and the previous Finance Minister. The principles and mechanics in that paper were agreed by the Executive, not just for this year but going forward.

Mr Peter Jakobsen (Department of Finance and Personnel):

To add to what Mike said, the stock is adjusted in October. If the Department of Education draws down £20 million, it is a net aggregate figure, so some schools will save and some will spend. Say the net figure is £20 million, the stock will then be reduced by that amount, so the maximum pressure next year would be £36 million. We expect that to come down over time. Therefore, in two or three year’s time, the stock could be zero, so there would be no pressure left. The figure will be adjusted year on year.

Mr Brennan:

It is not a case of school principals having uncertainty next year; the principles of the scheme have been agreed by the Executive going forward.

Ms Ruane:

I was in discussions about the EYF in a previous life. The key thing is to remove uncertainty, which you have done by giving the full bid. If there is uncertainty, there would be a run and schools would spend in ways that are not useful. It will be important to monitor that.

In the last four-year round, at times I felt that slightly more risk could have been taken with capital, particularly at an early stage and with certain types of capital programme. It is funny to see what comes in under capital and what does not. Maintenance does not, but minor works do. I presume that it is the same for roads and different things. Summer is the time when schools have a chance to get work done, but they might not have the money to do it. I see that the bids from the Department of Education were not met. That is unfortunate, because it would kick-start work and spread it out among a greater number of contracts across the North. I look at minor works in further education, and it is the same there. Since Departments are spending their money better and less money is being handed back at the last minute, DRD and roads did not get money that they would have got in the past. That is another place where a lot of contractors get work.

I am not saying that we should take risks, but I think that we need to look at patterns and trends and get some money out there to kick-start the construction industry. Otherwise, we are only storing up problems. In the education sector, we are storing up problems for the future, because the schools are going to get into a worse and worse condition. I am sure that it is the same for roads and other areas. I would welcome your thinking on that.

Mr Brennan:

The difficulty with allocating capital in-year is that Departments need to be able to give an assurance that they can spend the money in-year. Major capital works have all of the tendering procedures and procurement procedures. It is very difficult to give out money for major capital works in-year, say in the June monitoring round or autumn monitoring round, and have an assurance that all that money will be spent before you get to the end of that financial year. That is why in previous years it has always been the likes of DRD's roads structural maintenance or the Department of Education's minor works that tended to get money in the December or February monitoring rounds. That money could go on capital, and the Executive had an assurance that it would be spent before 31 March of that year.

I think that things will be different this year. As we mentioned earlier, the Executive are already overcommitted by over £20 million in capital. However, because of where the Executive are with the Treasury and the Budget exchange system, I suspect that, come the October monitoring round, the Executive will decide to carry out significant capital work. They will throw capital at such areas as DRD's structural maintenance and the Department of Education's minor school works, because, first, there will be six months instead of three in which to spend it, and, secondly, there is the need to accept the fact that the Executive are going to have to be riskier in making an overcommitment in capital carried beyond October. Therefore, I think that the October monitoring round this year will be significantly different from previous years in how capital is dispensed to Departments.

Ms Ruane:

I will finish on this point, Chair. Equally, I do not think that we should presume that you cannot spend money on capital works in June, or that June is too late. Last year, 15 projects went ahead in the Department of Education, because we were pushing officials to make sure that it happened. The same happened in some other Departments. We need to readjust our thinking a little bit. We need to get out there, get the money spent and get the projects built.

Mr Brennan:

As a DFP official who used to approve capital projects, I agree entirely. If Departments can give assurances to their DFP supply officers that they can deliver those capital projects in-year, that will automatically increase the prioritisation of the bid.

Mr Cree:

Can you clarify the rules on moving capital to revenue and revenue to capital?

Mr Brennan:

Treasury imposes no restrictions on reclassifying current expenditure into capital. Treasury's logic is that investment in capital is a good thing, because it generates economic returns over many years, whereas current spend is lost after you get to the end of the financial year. However, Treasury will not allow you to move from capital into current.

Mr Cree:

Is that definite?

Mr Brennan:

Yes.

The Chairperson:

Thank you for attending this morning's meeting.