Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Main Estimates and Budget (No. 2) Bill: DFP Briefing

29 May 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Ms Megan Fearon
Mr Paul Girvan
Mr John McCallister
Mr David McIlveen
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Michael Brennan	Department of Finance and Personnel
Mr Jeff McGuinness	Department of Finance and Personnel
Mr John McKibbin	Department of Finance and Personnel

The Chairperson: Michael, John and Jeff, you are very welcome. Would you like to make an opening statement before we move to questions?

Mr Michael Brennan (Department of Finance and Personnel): Thank you, Chairman. I will make a very brief opening statement. As members will know, Budget Bills and their accompanying Estimates form the basis for the legislative authority for Departments to spend money. The Assembly approved a Vote on Account back in February for this financial year, 2013-14, which basically gave Departments 45% of their annual budgetary need for the year. This Main Estimates process is just giving them the balance: the remaining 55% of the resources in cash that they need to get through to the conclusion of this financial year. Unfortunately, there is a very tight time constraint because the Departments will start to run out of cash resources during summer recess, so, effectively, the Budget (No. 2) Bill and the accompanying Estimates need to be moved through the House by accelerated passage before the summer recess. Other than saying that, Chair, I am happy to take questions.

The Chairperson: The details of the Budget realignment allocations for 2013-14 and 2014-15 were attached to the Minister's statement in November, and they included a £13 million resource allocation for the Department for the first of those years relating to the rates element of housing benefit. I wonder whether you can outline how that £13 million is reflected in the table in annex A to the briefing paper.

Mr Jeff McGuinness (Department of Finance and Personnel): At this stage, that £13 million is not actually within the Department of Finance and Personnel (DFP). It is sitting at the centre alongside the rates element.

The Chairperson: OK. Can you provide the Committee with details and an explanation of the changes for each Department, as shown at annex A?

Mr J McGuinness: Certainly. I will just run through some of the significant changes for each of the Departments, and if you need any other detail, you can ask.

There is a £1·5 million allocation to the Department of Agriculture and Rural Department (DARD). That is matched by a £1·5 million reduction in the Department, as shown in the third column, which relates to a realignment related to student fees. It got a £2·3 million capital allocation — £2 million for caravan park improvements, and £0·3 million for food innovation — under the economy and jobs initiative.

Moving to the reductions for DARD, there was a £1·5 million reduction because of student fees. That was transferred into the Department for Employment and Learning (DEL). It also had a £1 million reduction in resource and a £0·9 million reduction in capital, following the Executive's Budget realignment exercise, which looked at underspends and adjusted Department's budgets accordingly.

Moving to transfers in the third column, DARD got an additional £0·2 million from the Treasury as a result of the reclassification of one of its non-departmental public bodies (NDPBs). It had quite a high technical resource reduction, and that reflects a number of things. The first reduction is the transfer of £4·2 million to DFP for shared services. That is quite high when compared with other Departments, but that is because DARD did not agree its budget transfer before Budget 2011-15, whereas all the other Departments did. That is why you see quite a high transfer for DARD and not as much for all the other Departments. As well as that £4·2 million reduction, there is a £1·9 million transfer to the Department for Employment and Learning for the Queen's Institute of Agri-food and Land Use. The final reduction is a £0·7 million resource to capital transfer for the rural development programme. That was agreed by the Executive.

For the Department of Culture, Arts and Leisure (DCAL), the major transfer is the £6·1 million allocation for the City of Culture for 2013-14. The major capital allocation is a £3·9 million reprofile. When the A5 was reprofiled, we asked Departments to accelerate some capital programmes for 2014-15 and to provide them in 2013-14 to help us to balance the books, and that transfer is part of that. The majority of that is for the electronic libraries project. The £0·7 million reduction for DCAL relates to student fees. The £1·8 million is for a reclassification; again, Treasury provided additional funding for NDPBs. The £0·2 million is for a reclassification in relation to the W5 scheme and the Titanic Quarter.

Moving on to the Department of Education (DE), the Executive agreed to allocate £15 million to it. As well as that, it got £10 million for schools estate maintenance as part of allocations under the economy and jobs initiative. It has no reductions and no transfers. The majority of what is happening is on its technical side. There is a £1·7 million transfer to the Health Department related to early years provision, and a £1·7 million capital transfer for asset management unit receipts.

You may be aware that £100 million of asset management unit receipts was attributed in the Budget, but not to specific Departments. That money is now moving from the centre into the specific Departments. The Department for Employment and Learning allocation is split 50:50; £29 million is for student fees and £29·3 million is for training and employment initiatives under the economy and jobs initiative. The £10 million reduction is DEL's way of being transparent; it is its particular contribution to student fees. It wanted to show that coming out of its system and then being allocated back. The £26·9 million and the £3·1 million is for the reclassification of FE colleges. Again, that money was provided by the Treasury. Those are technical allocations, but the primary one is a £3 million reclassification from resource to capital for FE reclassification. When we received the money from Treasury, it was more on the resource side because we knew that if it needed to adjust that figure, we could move from resource to capital. That was agreed by the Executive.

You will see a £6·5 million capital allocation to the Department of Enterprise, Trade and Investment (DETI) for the economy and jobs initiative. Of that, £4 million is for something called studio capacity, which, I assume, is our film industry. There is £2·3 million for tourism, and the remainder is made up of improvements to Titanic Quarter. The £13·8 million reduction is made up of £1·4 million as its contribution to student fees, and the remainder is the Executive's reduction. As well as the £6·5 million capital is that Executive reduction when we looked at Departments and how they were performing in relation to their original budgets. Most of the £1·5 million technical for DETI is for statistics and functions by the Northern Ireland Statistics and Research Agency. That is a payment to DFP.

Moving on to DFP, the £8·9 million capital allocation is a result of re-profiling some capital from 2014-15 into 2013-14. That followed on from the A5 changes a couple of years ago. The £1·2 million reduction is DFP's contribution to student fees, and the £1·5 million reduction is the Executive's reduction when we looked at how we were performing against original budgets. The reclassification is a Treasury one, so additional funding was provided by it. Most of the technicals in DFP relate to £4·2 million from DARD coming in, as well as a £1 million contribution from the Department of Justice (DOJ) for the Stormont estate.

In Health, you will see a £37·3 million capital allocation, which is as a result of the A5 re-profile. Health was awarded an additional amount for the Ulster, Omagh and Altnagelvin hospitals. There is a small reclassification. Most of the resource technicals are for the DE early years scheme, and the capital technical is for additional capital receipts being attributed to it from the asset management unit.

From the Department of the Environment perspective, £1·1 million is for the economy and jobs initiative; I think that it is around the use of listed buildings. The £0·9 million reduction is the Department's contribution to student fees. The small technical is for a staff-related Department for Regional Development (DRD) transfer. As for DOJ, you will see a reduction of £1·5 million. That went to the Northern Ireland Office. Most of that technical is a transfer to DFP for the Stormont estate. You will see that DRD has a significant allocation and reduction. That reflects the changes to the A5 profile as well as an additional amount of capital re-profile move that was brought forward from 2014-15 to 2013-14. Of the £12·5 million resource reduction, £10 million relates to the Executive's look at their Budget and £2·5 million relates to student fees. The £1·6 million technical capital reduction is in relation to capital receipts being factored in from the asset management unit.

In the Department for Social Development (DSD), there is a £10 million capital allocation for co-ownership. There is an £8·8 million reduction in resource, £3·8 million of which is student fees and £5 million of which relates to non-cash. The £0·6 million capital reduction is in relation to the Executive's look at their budget. There is a significant transfer for DSD, which relates to the annually managed expenditure (AME) to departmental expenditure limit transfer of housing benefit and social fund. Those are not additional amounts as such; they are just transferred from the AME budget into the departmental expenditure limit budget. There is a technical reduction of £2·4 million, most of which is for removing Ilex from DSD and transferring it to the Office of the First Minister and deputy First Minister (OFMDFM). On the capital side, most of that is in relation to the asset management unit housing association receipts.

For OFMDFM, there is £2·1 million of capital allocation. That relates to the acceleration of some projects from 2014-15 into 2013-14. There is a reduction of £3·6 million, £500,000 of which is in relation to student fees contributions and £3·1 million is in relation to the Executive's look at their budget. In relation to the £2·1 million, most of their technical is the £1·6 million transfer from DSD in relation to Ilex. There is a £0·4 million transfer as well from DFP in relation to the Northern Ireland mapping agreement. If you want me to go through some of the minors, I am happy to do so, or are you content?

Mr Cree: Is it possible to have those explanations in writing?

Mr J McGuinness: Certainly.

Mr Cree: Can you include the smaller ones, but there are not very many?

Mr J McGuinness: There is a significant number of technicals that balance to zero, but I can give you the high-level ones if that would be useful.

Mr Girvan: There is a glaring figure, and I need to get a breakdown of it. In the figure allocated to DRD, there is a capital amount of £550 million, yet there is a capital allocation of £240 million and a capital reduction of £336 million, which is way in excess of the £550 million total. Can we have an explanation as to how that transpired?

Mr J McGuinness: In annex A, that £550 million figure was published in the 2011-15 Budget document. You will see that the revised figure comes down to £453 million as a result of that allocation and reduction. That is primarily the A5 re-profile agreed by the Executive.

Mr Brennan: The key issue is that the capital for the A5 was ring-fenced in the DRD budget and could only be used on that project, which is why it had to come back for reallocation. DRD was a major beneficiary in the reallocation of that money to Departments in that it got capital for other projects in the DRD departmental boundary.

Mr Girvan: Therefore, departmental spend for the total project was not just over one year. I appreciate that the A5 project would not be completed within one financial year.

Mr John McKibbin (Department of Finance and Personnel): It would be over three years.

The Chairperson: The Minister's statement on the 2011-12 provisional out-turn was on 29 May 2012. Why can the Department not make that information available now?

Mr Brennan: The provisional out-turn information for 2012-13 came in from Departments about a week ago. We can bring that information together, and it will be presented to the Executive as part of the June monitoring position. In June, the Minister will make a statement on June monitoring and the outcome of the provisional out-turn.

Mr J McGuinness: We are driven by Treasury timetables in some of these instances, and it depends on when Treasury demands the information. If Treasury demands it sooner, we will have it sooner, but we want to give Departments as much time as possible to get as accurate a figure as possible.

The Chairperson: I refer members to page 266 of their packs. The Committee requested that information. How can the Committee be assured now on the accuracy of the information included in the Main Estimates and Budget Bill, in the absence of that information?

Mr Brennan: The key issue here is that the Main Estimates allocate resource and cash for Departments for the remainder of this financial year. However, departmental allocations are completely changed three times in the in-year monitoring process, which is why we have to do the wrap-up at the spring Supplementary Estimates stage. The provisional out-turn is changed in the autumn when the final out-turn comes; it is part of a constantly changing scene. All that the provisional out-turn does is reflect what happened in the previous year; it does not have any material impact on the Estimates for this year. Provisional out-turn is the latest assessment of departmental spend for the 2012-13 year; it does not affect the Estimates for the 2013-14 year, other than indirectly through the Budget exchange scheme. That will not be confirmed until the final out-turn in the autumn.

Mr Cree: If it does not affect it, surely there must be a baseline at 31 March when you do the final close of accounts for the previous year.

Mr Brennan: These are not accounts.

Mr Cree: I know the argument; we have rehearsed it over the years. I like to treat them as an annual account. Nevertheless, how much was transferred to the Budget exchange scheme in that particular year period? We were budgeting in the last figure for an over-commitment. What happened to that?

Mr Brennan: The over-commitment is worked down in the dying weeks of a financial year. Assumptions are made on how much money is likely to be surrendered by Departments and on what the underspend in each Department is likely to be. Then that is offset against the remaining over-commitment that is there when you emerge from January monitoring. As you know, we can carry about £50 million of resource departmental expenditure limit and £12 million of capital departmental expenditure limit into the next financial year. The books do not close at the end of March.

Mr Cree: No, but the different year periods change. We are asking whether we can have it at the end of period 2 or, in other words, the second year.

Mr Brennan: When you get the provisional out-turn, you will have a pretty good insight into how Departments perform with regard to what their underspends were. Even then, when the provisional out-turn figures are made available and published in June, it is not the final position. The final position is in the autumn when Treasury requests us to produce the final out-turn, and there are slight revisions then as to what the underspend was in the previous year. Therefore, you cannot give a definitive position on year 2 until the autumn of the following year.

Mr Cree: It makes our position untenable, because we never know at any particular point what the situation is. It is moving about, going to the centre, disappearing. We have to repay the capital each year on the reform and reinvestment initiative (RRI), for instance. Is that right?

Mr Brennan: We have to pay back the interest and the capital, so at the minute —

Mr Cree: How much did we pay last year?

Mr Brennan: I think that it was about £65 million. That was the repayment and capital on a balance of about £1·8 billion, but that information is published in the Budget document. Is that right, Jeff?

Mr J McGuinness: Yes. The latest position for last year is that we had £45·6 million of interest on RRI; that is the last budget position. Once we finalise provisional out-turn, we can update that. That is a little bit lower than estimated, and that is simply because we did not borrow £200 million; we were allowed by the Treasury to offset up to £50 million in relation to the A5.

Mr Cree: We were given that figure in February.

Mr J McGuinness: Yes; that is the latest that we have.

Mr Cree: What I want to know is what happened at the end of March? Is it not right that we have to repay capital and interest at 31 March?

Mr J McGuinness: Not precisely at 31 March.

Mr Cree: It says that in the Budget Bill; it says that loans and interest are repaid at 31 March.

Mr J McGuinness: Yes, but it is for the accounting period to 31 March; we do not have to repay it on the dot at that point.

Mr Brennan: That is why Departments do not finalise their accounts until the autumn.

Mr Cree: It is nearly impossible to get a handle on this, is it not? It is all fluid.

Mr Brennan: The critical date for budget planning is the provisional out-turn information that comes out, hopefully, in the next few weeks. That is the one that gives you the greatest insight into how Departments performed in the previous year. It also gives the Executive confidence as to what they can plan to carry over, through the budget exchange scheme, to the following financial year.

Mr Cree: On what date will I get that?

Mr Brennan: The Minister presents it to the Executive on 27 June, so he wants to make a statement as soon as possible thereafter.

Mr Cree: We will have had to put it to bed by that time.

Mr Girvan: As Leslie said, we will have to go through the debate without having the full picture. Departments are giving in information as we speak. Does it look as though we will have to relinquish resource to the Treasury? There should be some picture as to whether we will be able to do that or whether we will be able to re-profile it quickly enough through the process. I appreciate that there is a big problem with the money allocated to the A5, and how we have pulled that and moved it around.

(The Deputy Chairperson [Mr D Bradley] in the Chair)

Mr Brennan: Given the information that has been coming in from Departments over recent days on provisional out-turn, we can say with a very strong degree of confidence that absolutely no money will be surrendered to the Treasury, either on the resource or capital sides. Indeed, the Executive's plan to carry that over into June monitoring will happen; resources will be carried over from last year into June monitoring. There will be no surrender to the Treasury.

Mr Girvan: We do not mind that.

Mr Cree: I will just come back on that. I looked up the Budget Bill, and it is quite specific on that. Dealing with borrowing, it says:

> *"Any money so borrowed shall be repaid, with any interest due thereon, out of the Consolidated Fund not later than 31st March 2014."*

Mr J McGuinness: Can you refer me to the section? Is it clause 2(2), entitled "Power of the Department of Finance and Personnel to borrow"?

Mr Cree: It is the Budget (No 2) Bill.

Mr J McGuinness: That relates to the ability of the Department to run a cash management regime, as opposed to the resource implications of RRI borrowing.

Mr Girvan: Clear as mud.

Mr J McGuinness: Effectively, we run a Consolidated Fund and departmental accounts.

Mr Girvan: That is the slush fund.

Mr J McGuinness: By the end of 31 March, the accounts are closed and there is a cash amount that is sealed —

Mr Cree: It is only a part of the story, then?

Mr J McGuinness: Yes. This part of it is only in relation to the cash management regime.

Mr McCallister: Is it just like having a credit or debit note on it rather than actually paying it?

Mr J McGuinness: The RRI borrowing is budget-related, so we can finalise it later, as opposed to cash, which is the difference here. This relates to the Consolidated Fund and the ability of our Department to borrow, should it need to.

Mr Brennan: It goes to the heart of the problem that we have had for many years with regard to discussions with this Committee. We are trying to reconcile departmental deadlines and the preparation of accounts and what goes into them separately. Interest tends to focus on Departments' budgets, whereas there are significant differences between what the two reflect. For example, accounts tend to reflect only on departmental activity, whereas budgets reflect wider activity, including that of the public sector bodies, the arm's-length bodies or non-departmental public bodies that are attached to a Department.

Mr Cree: Whereas had the review of the financial process been implemented, hopefully it would be a bit better.

Mr Brennan: That was the aim: greater transparency.

The Deputy Chairperson: On what basis does DFP consider that there has been appropriate consultation with the Committee, as required under Standing Order 42(2).

Mr Brennan: Over recent months, we have been trying to present to the Committee all the monthly out-turn spend data by each Department so that the Committee can see exactly the spending performance of each Department. Moreover, it is entirely within the remit of each Department to present its own departmental estimates to its own Committee so that there is consultation with each respective statutory Committee. The Main Estimates should be regarded as the first stage of the financial allocation process for Departments in this year. As members said, monitoring will kick in in a few weeks, and that will automatically change the position. There will be two more monitoring rounds thereafter. That is just part of a moveable feast. This is the first part of it this year.

The key issue in the consultation is to ensure that the Committee gets not only that but full insight into the monitoring processes when critical changes are made to departmental budgets in-year, and the additional information that we have been given, not only on the monthly spending performance by Departments, but, for example, as members have been keen to get over the past year, disaggregation of the centre position. That shows what has been happening at the centre. That did not really happen up until last year. Therefore, we have been presenting all the information that we have to the Committee to try to give it as much confidence as we can.

Mr Girvan: I appreciate that we rely very much on information coming from Departments. Do any Departments delay or not come forward quickly enough with that information? I appreciate that we have difficulty with how we want to reform the process. Leslie referred to it earlier. There seemed to be one Department that was digging its heels in and creating a logjam in the process. It was happy enough to give an overall figure, but did not want to give us a breakdown of where all the money was going. We want the detail. Do any Departments drag their feet in bringing forward the information?

Mr Brennan: No. The process, by its nature, is very mechanistic. Deadlines are set. Everything comes into the centrally held DFP database. To be fair, all Departments have played by the rules.

The Deputy Chairperson: Thank you very much, gentlemen. If there are no further questions, I will ask the witnesses to put forward the information that has been requested.