Northern Ireland Assembly

Committee for Regional Development

OFFICIAL REPORT (Hansard)

January 2015 Monitoring Round: Department for Regional Development

10 December 2014

NORTHERN IRELAND ASSEMBLY

Committee for Regional Development

January 2015 Monitoring Round: Department for Regional Development

10 December 2014

Members present for all or part of the proceedings:
Mr Seán Lynch (Deputy Chairperson)
Mr John Dallat
Mr Alex Easton
Mr Ross Hussey
Mr Declan McAleer
Mr David McNarry

Witnesses:

Mr Stewart Barnes	Department for Regional Development
Mr John Irvine	Department for Regional Development
Ms Deborah McNeilly	Department for Regional Development

The Deputy Chairperson (Mr Lynch): I welcome Ms Deborah McNeilly, who is no stranger to us. I hear that this is your last briefing. I also welcome Mr John Irvine and Mr Stewart Barnes. Please make your presentation, which will be followed by questions. The session is being covered by Hansard.

Ms Deborah McNeilly (Department for Regional Development): I will make a couple of opening remarks on the Department's January monitoring round position.

The position in the paper before you is reflective of the one that will go to the Department of Finance and Personnel (DFP) on 2 January 2015. Obviously, because of Christmas, there is a bit of a gap between today's figures and 2 January, so the Department will keep alert to anything that might change. If there are any significant changes to our position between now and 2 January, we will advise the Committee.

The Committee will be familiar with the issues in the paper. They are issues that come to you at most monitoring rounds. I will go through the four key areas. The reduced requirements total £4·6 million and are a result of the receipt of EU funding relating to the A8, the A2 and the Belfast transport hub. That means that, so far this year, the Department has returned to the Executive £12·6 million as a result of securing EU funding, which allows the Executive to reallocate that across the block as they see fit.

We have three other resource bids and one capital bid. The most significant bid is for £18 million in respect of the release of value from the Belfast Harbour Commissioners. Members will be familiar with the background to this: it relates to the expectation that £20 million in cash would come into the Department last year and this year from the Belfast Harbour Commissioners. Members will be familiar with the Budget review group work whereby, instead of getting the cash in, over £40 million worth of

release-of-value projects is being taken forward. However, it leaves the Department in a very difficult position because we cannot score that in our budget against an income line.

I will now turn to the Department's position at the moment. Last year, 2013-14, the Executive agreed that the £20 million should be funded at in-year monitoring. In September, the Budget review group recommended that it again be considered at October monitoring. This year, however, we are in unprecedented territory when it comes to the difficulties and pressures facing the Executive on the resource front. As things stand, that bid has not been met this year, so we have a £20 million gap in our budget.

We have identified £1·8 million of resource measures to try to mitigate that. Members will see that there is also a reference to, in extremis, taking £5 million from Translink as another means of bringing that £20 million pressure down. The Minister is very clear that he believes this to be an Executive commitment and pressure, and he raised the issue again at the Executive meeting last week. As a result, we are putting forward a bid for £18 million.

Our second resource bid is for roads, bridges, operations and maintenance. This would allow us to bring in some external contractor support. Members will be aware that we have had to pause external contractor work because of other pressures earlier this year and the budget reductions that applied. This would increase our capacity this year to undertake work on road and footway repairs.

Our third bid is for street lighting repairs. You will be aware of the issue. Indeed, there was an item on the news this morning about it. We are bidding for £2 million, which would allow us to bring in external contractors to address street lighting outages.

Our capital bid is another familiar area. We are bidding for £9 million for structural maintenance, which would allow us to address some of the road maintenance issues that we face. If we get that, it should take our funding this year to just under £100 million. That would compare with record expenditure last year of £130 million.

The small number of issues makes this a very short paper, although the release of value is our most significant issue at this point. It is the one on which the Minister has been engaging directly with the Finance Minister and the Executive.

The Deputy Chairperson (Mr Lynch): Thanks, Deborah. Road maintenance is a big issue in rural areas. How much did you say you were going to get? That would need to be spent between now and the end of the financial year.

Ms McNeilly: The road maintenance budget falls into two categories: resource and capital. Our bid to allow us to reinstate the external contractor work would be £3·2 million on the resource front and £9 million on the capital front. If you take the combined resource and capital funding into the structural maintenance budget, the total budget this year would, if those bids were successful, go up to about £100 million.

The Deputy Chairperson (Mr Lynch): OK, thank you.

Mr McNarry: Thank you, and merry Christmas to you.

Ms McNeilly: Thank you.

Mr McNarry: If you get the bids, what effect will they have on the 4·4% budget reduction?

Ms McNeilly: About £7 million of the actions that we had to take because of the 4·4% budget reduction related to the areas in which external contractor work stopped: roads, bridges and street lighting. This is a bid for £5·2 million against a cut of £7 million.

Mr McNarry: What will be the percentage reduction if you get these bids?

Ms McNeilly: It would probably got down to about 3·5%. Obviously, I worked that out roughly.

Mr McNarry: I could not work that out at this time of the morning, but well done, Deborah. You say that to mitigate the pressure, the Minister agreed £1·8 million of resource measures. What do staffing savings entail? Is that job losses?

Ms McNeilly: As you know, as part of the earlier £15 million reductions that we had to make, all but essential posts had to be paused. There has been downward pressure across the Department. This would be a freeze on any recruitment and promotion in the Department. Also, any remaining temporary workers would reduce in number. There may be only one or two who are essential.

Mr McNarry: Is anybody losing their job between now and Christmas or shortly afterwards?

Ms McNeilly: There is a possibility that temporary worker contracts would end sooner than expected.

Mr McNarry: How many are we talking about?

Ms McNeilly: In the last update, which I received about a week and a half ago, there were maybe 13 temporary workers. If that is not right, I will get back to you.

Mr McNarry: You used a lovely expression when you said that "in extremis", it would be possible to make a further £5 million reduction in the money to Translink. Are you holding back on that just to save Translink?

Ms McNeilly: The Minister is aware that £5 million can be taken from Translink. However, given that Translink already forecasts a loss this year of at least £10 million —

Mr McNarry: Why would anyone be worried about that? Sure it is a private company.

Ms McNeilly: It is the fact that, next year, the losses are likely to increase again. The draft Budget, the information that we have and the analysis that we have done in liaison with the chief executive of Translink all indicate that its reserves will be all but exhausted by March 2016. Therefore, there is a concern and a risk associated with the going concern aspect of the company.

Mr McNarry: You say that the £5 million reduction would take projected losses this year to £15 million, which means that the losses are £10 million. Where does that sit with the fact that this company is not allowed to make a loss?

Ms McNeilly: The company is required to break even over a three-year period. At the end of last year, it was broadly at break-even. The year before that, it had a profit. Therefore, over a three-year period —

Mr McNarry: Where does the three-year period cycle kick in? Do the next three years start from last year or this year?

Ms McNeilly: It is a rolling three-year period.

Mr McNarry: When did it end?

Ms McNeilly: For this year, you look at this year and the previous two years. Translink was about £9 million in profit two years ago, then break-even and then loss. Its loss is about £4 million more than if you were to look at the three previous years. However, the company will have to get to a position of having a plan to break even. It cannot keep running at a loss. The Minister required it to run at an increased loss this year so that he could extract money and reduce the reserves, but it is a balancing act, in that you cannot keep doing this; there has to be a recovery plan for Translink —

Mr McNarry: That is very interesting. What is the recovery plan? Can we see it?

Ms McNeilly: You will be aware of the discussions that have taken place on the draft Budget for 2015-16. The proposal in the consultation paper is that Translink's funding be reduced next year by £15 million. The impact of that and the levers that it has in play to try to deal with the reduction in its funding —

Mr McNarry: Has an actual recovery plan been laid in front of the Minister?

Ms McNeilly: There is not a recovery plan at this point. We have the current year position and the proposals for next year.

Mr McNarry: What is the likelihood of a recovery plan being put in front of the Minister?

Ms McNeilly: We are in unchartered territory. This year, the budget started as one thing and is finishing as something completely different. You probably could not predict where we will be next year. I do not know what budgets will be available to the Executive or us the year after that. It is very difficult to predict and give assumptions on which Translink can plan over that period. Its current plan is to finish off this year, assess the impacts and look to next year to see how it can start to close the gap in order to get some measure of how it can move back to break-even. The levers available to Translink are the same as those available to most businesses trying to get to that position. Once next year is done, the year after that —

Mr McNarry: To be fair to other members, I do not want to spend an awful lot of time on Translink. However, is the recovery plan on which you are holding hands with Translink — as usual — likely to result in redundancies in Translink? Is that part of its recovery plan?

Ms McNeilly: In the plan for 2015-16, it has identified efficiency measures to take forward as part of the proposals. As I said, no decisions have yet been made or endorsed by the Minister. However, it has put forward proposals that include job reductions, mostly at middle management. That is what we have been advised so far.

Mr McNarry: Finally, there is the intriguing comment:

> *"work will be prioritised ... this however will leave some minor defects unfixed, this will ... have a knock on effect on public liability claims".*

What sort of money have you estimated needs to be set aside for compensation claims?

Ms McNeilly: This year, the money set aside in that area is £4·5 million.

Mr McNarry: That is £4·5 million for liability claims.

Ms McNeilly: Yes, that includes the legal costs, specialist witnesses and whatever else.

Mr McNarry: When you say, "this year", what do you mean?

Ms McNeilly: That is for 2014-15. It is the 2014-15 budget.

Mr McNarry: You expect, because of minor defects being unfixed, to spend £4·5 million on compensation.

Ms McNeilly: Yes, but these things take time to resolve, so the underlying event that led to the claim may have happened 12 or 18 months ago. There is always a lag.

Mr McNarry: What was the number of claims for 2013-14?

Ms McNeilly: I do not have the spend for 2013-14, but there were 915 claims as of the end of November.

Mr McNarry: How many?

Ms McNeilly: There were 915 claims being managed as of the end of November.

Mr McNarry: When I asked the Minister that question yesterday, he said that there were no liability claims. His answer will be in the Hansard report. I asked him how much money was involved. He did not answer directly about the £4·5 million, but he said that there are no liabilities.

Ms McNeilly: I will look at his answer. Public liability claims are an ongoing issue —

Mr McNarry: If he has made an error in his answer to me in the House, you might ask him to correct it.

Ms McNeilly: I will check for you.

The Deputy Chairperson (Mr Lynch): We will wait to see what the Hansard report says, David.

Mr Dallat: Deborah, like everyone else, I wish you well in your new job. We certainly will miss you and your patience in coming to explain to us the intricacies of the financial affairs of the Department that you run. Even though I have a background in accountancy, I find it difficult sometimes to understand what is going on. Be patient with me.

I note the £2 million for street lighting. When will the 300 street lights in Strabane that we heard about this morning go back on?

Ms McNeilly: I will pass that to John.

Mr Dallat: Will they be on over Christmas, or do we have wait until the January monitoring round?

Mr John Irvine (Department for Regional Development): Around 17,500 lights are out across Northern Ireland. In August, we suspended the use of external contractors to repair outages. About three quarters of the resource that we need came from external contractors, so we have a limited resource left within our operation and maintenance team. We are spreading that resource right across Northern Ireland, and it is much thinner. Therefore, we have to prioritise.

Where there were electrical safety issues, the contractor resource was not suspended. Anything that causes an electrical safety or structural hazard is fixed by contractors. With the resource that we have left in-house, we have to cut our cloth. We are dealing with group outages first. That is large groups, such as in town centres or residential areas. They are dealt with first, and then we deal with individual outages. It is not that we will not get to them; we will, but it will take a bit longer. That is not the service that we normally provide in a fully funded situation, but that is the reality of where we are. I am not sure about the 300 lights in Strabane. If the lights are in a group, they will be prioritised; if they are individual, they will be put in the pecking order and we will get to them, but I cannot give any guarantee that all 300 will be fixed before Christmas.

Mr Dallat: So, the lights may be on in Strabane or they may not.

Mr Irvine: Some may be fixed; others may not.

Mr Dallat: John, that is not a good way to run a Department, is it?

Mr Irvine: As I said, it is not the service that we normally provide. Our staff in street lighting are under a lot of pressure. They take all the calls from members of the public who are not very happy about the situation. The guys on the ground are doing their best with the resources that they have. We are fixing about 30% of defects, I think, so the gap between the number of lights going out and the number of lights being fixed is widening.That is the position that we are in. We will endeavour to do the best that we can with the resources we have.

Mr Dallat: Have you given up totally on extracting any money at all from the harbour commissioners? Has that gone?

Ms McNeilly: It is still an issue that is discussed at the Budget review group, from which we get the lead, but there is clear legal advice that we cannot extract cash from the harbour. Unless there is some change to that, we are stuck. The release of value means that the harbour is investing in foreign direct accommodation to attract inward investment. In the case of market failure, Invest NI

would have had to invest, but, at the minute, the legal advice is clear that we cannot extract cash from the harbour.

Mr Dallat: I see that the commissioners are creating 262,000 square feet of palatial office accommodation at a time when your Department cannot keep the street lights on in Strabane. I keep saying Strabane, but it is not even in my constituency. It is happening across the North. There is something badly wrong, is there not?

Ms McNeilly: The £20 million was always a difficult issue. It was put into our budget as an income stream by the previous Executive. The clear legal advice is that we cannot get the cash out.

Mr Dallat: This is my final question, and it is on other capital requirements. Am I to assume that, if we ever sort out the Belfast to Derry railway, we will not hear, at some future time, when you are gone, of course, that there is no money for it?

Ms McNeilly: The Minister is prioritising the funding for the phase-2 upgrade of the Coleraine to Derry line. In the draft Budget plans at the minute, the funding is included in 2015-16 plans for the Derry to Coleraine upgrade. I do not envisage somebody coming back and saying, "There's no funding". I do not anticipate that at all at this time.

Mr Dallat: It is very good to have that on record, and it is good that Hansard is here to record it. I want to make sure that, when that is eventually sorted out, the people in the north-west do not get another slap in the face. They have had enough. Thanks, and good luck to you.

Mr McAleer: I was planning to mention the harbour commissioners' release of value as well. Given that there is no mechanism to extract that cash, I question the wisdom of the Budget being set with that expectation in the first place. Is that £20 million included in the figure that we are told is being cut from the Department?

Ms McNeilly: You are absolutely right. When the Budget was set for 2011-15, it was with the expectation that £40 million — £20 million last year and £20 million this year — could be extracted from the harbour. The Executive set that Budget and agreed to it, but all the legal advice and all the work done in the three or four years since had not been done at that stage. I was not around at the time, so I do not know who put in the £20 million figure, but, with hindsight, if the legal advice had been in place, that would not have put that in our budget at the outset. The upshot of that is that we are where we are. It is in our budget as an income line. If we do not get a bid, we will overshoot and potentially breach our budget. That is why, as I said, the Minister has been routinely raising the issue — that gap — with the Executive at each monitoring round and in letters to the Finance Minister. He met the Finance Minister last week, and he also raised the matter at last week's Executive meeting. We have had ongoing discussions with officials in DFP as to how to address the issue. The Minister is recommending that the bid go forward as part of January monitoring for the Executive to consider.

Mr McAleer: Is the £20 million included in the headline figure that we are told has been cut from the Department?

Ms McNeilly: In the cut for 2014-15?

Mr McAleer: Yes.

Ms McNeilly: No. The £15 million cut for 2014-15 is unrelated to the £20 million gap. The Department is being put under pressure to try to absorb the extra £20 million of harbour money in order to avoid a breach of our control total, but we have already made savings this year of £19 million. We have identified another £1·8 million to mitigate the £20 million not coming from the harbour, so that is £20·8 million of savings that we have made.

Concerning the balance of £18 million, there is a possibility of taking £5 million off Translink, but, if we have to find any more, we are down to the last vestiges of expenditure. Those last vestiges of expenditure are for issues that would impact on public safety. Therefore, the things that are not contractually committed at this time of the year include grit and whatever supplies go to our operations and maintenance staff to enable them to do what work they are doing on the roads. There is the out-of-hours service and travel, but for us to stop spending in those areas would mean that there would be no service for the next four months. The Minister is clear that those are public safety issues, so he is

not minded at this stage for us to stop spending in those areas, because of the public safety impacts. That means that, unless we get the funding, there is a real risk, if it is not a reality, that we will breach our budget.

Mr McAleer: Finally, on road structural maintenance, you referred to the fact that, if the £9 million is not agreed by the end of January, the Department's capacity to spend additional capital structural maintenance funding will reduce by £1 million a week. Can you explain that?

Ms McNeilly: If, for some reason, there was a delay in getting the money, we are working on the basis that, if we were to find out that we have got the £9 million by the end of January, we would be able to spend it. If we find out two weeks later, we would be able to spend only £7 million. For every week's delay in letting us know that we have the money, our ability to spend it on the ground reduces.

Mr Hussey: I am going back to the question of the harbour again. Do the Executive accept that a mistake was made? You mentioned that the previous Executive got it wrong in believing that the money could be taken out. It is my understanding that there is legal evidence and UK law that will not allow money to be taken from the harbour. With the continual bouncing back and forward, there seems to be more of a blockage in DFP and in the Executive, and the issue will not go away. It is not something that you can rub out. It was a mistake at the start, because somebody somewhere said that it could be done. Where did that notion come from? Who put forward the idea that money could be taken out of the harbour?

Mr Stewart Barnes (Department for Regional Development): I do not know exactly who said it, but it was agreed between DFP and Executive Ministers at the time that it would be included as part of the ongoing Budget.

Mr Hussey: It seems illogical that somebody would put forward the notion that we could take £20 million out of something when it was known that it was legally impossible to do so. That, in turn, caused the problems that we face today. I will leave that there, Deputy Chair, because I am not going to resolve the situation by waving a magic wand.

I go back to the public liability issues. You said that £4·5 million has been set aside. How much had been set aside in the previous three years? There have always been liability claims, particularly over roads, potholes and other issues involving DRD. It is one of those areas in which, compared with other Departments, there will be a lot of claims. What sorts of figures were set aside in other years?

Ms McNeilly: I do not have the exact figures with me, so I am working from memory, but it is approximately £4 million a year. If that is out by any significant amount, we can give you the figures.

Mr Hussey: You are setting aside £4 million a year. This year, you are setting aside £4·5 million. It is a standard figure, because you always expect a certain number of claims. Mr McNarry referred to previous claims. Do we know what we have paid out in the past three years? If we do not, can we have an indication of what has been paid out?

Ms McNeilly: We can get that for you.

The Deputy Chairperson (Mr Lynch): I have one final question about protecting Translink. We are told that there will be a loss reported in 2015-16, yet there is an increase in passenger numbers. How does that come about?

Ms McNeilly: The Minister froze fares for the current year because the numbers had gone up. There is evidence that the number of concessionary fares has increased as well as part of that increase in numbers. Overall costs are increasing in line with inflation and because, for example, we have expanded services on some rail networks in recent years. Therefore, with all those things going into the mix, Translink's budget shows a loss this year. Its income is not sufficient to cover costs, and we are not providing the same level of funding to it this year. The proposition is that the funding that we provide to Translink next year will be reduced by £15 million, although concessionary fares will be fully funded. It is looking at all the levers to try and get back on track to close the gap, while factoring in any fare increases that it may be able to apply. Translink is also factoring in any increase in passenger numbers and the impacts of that on its overall baseline, as well as cost increases. For example, next year, its rates will unavoidably increase, and by about £2 million, I believe. There are lots of levers in play when it comes to Translink's overall financial position. We are reducing its

funding by £15 million, and it has to claw that back somehow. There are other things, such as rates coming in at £2 million extra. Again, Translink is going to have to do more to cover that.

The Deputy Chairperson (Mr Lynch): Surely the reduction in fuel prices would offset the increase in rates.

Ms McNeilly: It will look at the overall position and try to come up with a balance. It has the proposals for next year, which we talked about earlier. The first level of proposals involves a reduction in staff numbers. Translink is liaising closely with the Minister about fares and what he might be prepared to approve. It is also looking at reorganising some of its engineering facilities, and then there are the areas into which the Minister does not want to go; namely, bus and service routes. Those are the ones that you will avoid if you can.

Mr McNarry: One day we will all find out how Translink does it. It is the biggest mystery that circulates around this Committee. If the concessionary fares were taken out of this year's mix, how would Translink perform?

Ms McNeilly: If we did not fund concessionary fares?

Mr McNarry: Yes.

Ms McNeilly: We are providing £40 million to Translink this year for concessionary fares. If it did not have any concessionary fare funding this year, and it was still obliged to carry cardholders —

Mr McNarry: No, if it did not —

Ms McNeilly: If Translink did not get that £40 million, its loss would go up to £50 million.

Mr McNarry: Why on earth are we supporting that company? In any other business, auditors and accountants would be within their rights to report it for not being able to perform as a limited company should. The £40 million is a gift.

Ms McNeilly: The £40 million is a subsidy to the traveller. It also applies to private operators. There are some concessionary fares paid to private operators.

Mr McNarry: I understand. Translink gets £40 million, and you have said that, if it did not get it, the company would be £50 million in the red. That just beggars belief.

Ms McNeilly: It also gets funding streams. Translink has the ordinary fare-paying customers and the concessionary fare customers, who are provided with that scheme by the Executive. More people are travelling, and there is an ageing population, which is why the use of concessionary fares is going up. However, it has funding streams from other services, including from providing school transport. If you take any of those funding streams away without doing anything to reduce costs, you are going to have a bigger loss.

Mr McNarry: When I retire, I will set up a transport company for buses, and I will knock on your door, although you may not be on the other side of it, to ask for all this money. You do not need to go to a bank — only to the Department of Finance to ask to be bailed out every year.

I see that you are smiling, Deborah, so, on that note, we will end.

The Deputy Chairperson (Mr Lynch): That is all the members. As it is your last presentation, I wish you well on behalf of the Committee in your new role, Deborah. Thank you for all your presentations over the past number of years.

Ms McNeilly: Thank you very much, Deputy Chair.