



Northern Ireland
Assembly

Committee for the Environment

OFFICIAL REPORT (Hansard)

January 2015 Monitoring Round:
Department of the Environment

11 December 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Ms Anna Lo (Chairperson)
Mrs Pam Cameron (Deputy Chairperson)
Mr Cathal Boylan
Mr Ian Milne
Lord Morrow
Mrs Sandra Overend
Mr Peter Weir

Witnesses:

Mr Anthony Carlton	Department of the Environment
Ms Siobhan Lynn	Department of the Environment
Mr Kieran McMahan	Department of the Environment

The Chairperson (Ms Lo): I welcome from the Department Anthony Carlton, director of the finance and business planning division, and Kieran McMahan and Siobhan Lynn, from the finance and business planning division. I remind everyone that the evidence session is being recorded by Hansard. Thank you very much for the paper. Will you please walk us through it? It is quite brief, but I am sure that there will be lots of questions for you.

Mr Anthony Carlton (Department of the Environment): Thank you very much, Chair and Committee. As you say, it is quite a brief paper, and that is because this is the January monitoring round, so it is the last one before the end of the financial year, as I am sure you are all aware. We propose to make a number of bids to DFP. I will talk about those very quickly. They are all essentially on the resource side.

The first bid that we are looking for is for the derating grant. Normally, at this time of year, councils and Land and Property Services (LPS) have worked out the cost of the derating subsidy against the funds that are set aside by the Department of the Environment at the start of the year. In previous times, that would be supplemented through the January monitoring bid process. Therefore, the estimation for the bid at the moment is £1.5 million.

We have a bid in for annual leave. All Committees will experience that. As a result of this year's pay settlement, there was a recalculation of the denominator used for the calculation of annual leave. It is now worked out over five days instead of over seven. Accounts close at the end of March. Our leave year ends at the end of January, so there is a calculation roughly of about 2.5 days a month for February and March. That then is accrued at the end of the year, unless everybody has taken his or her holidays in those two months, and not many people take annual leave during February and March.

However, the cost has gone up by 40% because of the way in which it is calculated. I will take questions about that later, if you wish.

We are bidding for local government emergency support. The bid is for some funding that the Department has paid out, and expects to pay out, as a result of flooding. That is not just over this past number of weeks but from April 2014. Another bid is for local government severance, as a result of its reorganisation. Some of the costs associated with the councillors' severance settlement have gone up, and by £128,000. There is a depreciation charge of £0.7 million, the bulk of which is associated with the planning portal. Some additional enhancements were made to that. Finally, as resource, the Department is bidding for £1.94 million for the restitution of the 4.4% cuts that were applied to derating and the rates support grant as a result of the measures undertaken this year.

There are no capital investment bids. We have some funding potentially available from money set aside as a result of local government reform. It is called "ICT system convergence money" and is money set aside from which councils could fund borrowing if they needed to improve their ICT systems as a result of local government reform. To date, not a lot of that has been used. We do not expect an awful lot of it to be used before the end of the year, so we are proposing to talk to DFP about some reallocations.

I know that that was a very brief canter through the paper, but it is quite a short one.

The Chairperson (Ms Lo): Yes. I will start from the end, and then other Committee members can come in. I want to ask about the money for the ICT systems. Why has it not been taken up?

Mr Carlton: The funding was specifically set aside to allow councils to borrow money to improve their IT systems if they needed to. The money would then fund the cost of doing that. We can only assume that, as the Planning Service, in particular, is to go from the Department, council systems were up to date and did not need any fundamental improvement. Kieran, can you contribute on that?

Mr Kieran McMahon (Department of the Environment): The money was to put in place a basic infrastructure to facilitate local government reform. However, as Anthony says, there have been no requests or drawdowns by individual councils at this stage.

The Chairperson (Ms Lo): They will definitely not use it within the next few months. They will not come and ask you for it.

Mr Carlton: Not in this particular category, we believe. We are informed by our colleagues on local government side that there are still no requests in and no business cases made. In a lot of cases, we have gone out and put in the infrastructure for the portal, and there has not been any need to improve ICT systems.

Mr McMahon: The nature of the expenditure is that it is for financing, so it is to subsidise quite substantial loans. Those decisions have not been taken by councils.

The Chairperson (Ms Lo): They do not want a loan. They have money to pay for it. OK.

What are you going to use the money for, then? It is quite a bit of money is £1.6 million. What are you going to use it for over the next few months? You will obviously have to use it by the end of March.

Mr Carlton: Having consulted the Committee, we will have to talk to DFP about the best possible way in which to use the funding in association with the bids. We have identified the pressures in the top table provided.

As I said, it is hard to see how DFP could fund all those pressures, given the current state of its finances. Hopefully, we can use the ICT system convergence money to ease the pressures that I listed.

The Chairperson (Ms Lo): That is not capital, though; it is expenditure.

Mr Carlton: Yes, it is resource.

Mr Weir: We are looking at a figure of £1.6 million. It is good news, in one sense, if the money is not being spent, because council ICT systems are essentially fit for purpose and do not need it. The worry would be that they have not realised that there is a gap. However, that is by the by. I suspect that DFP's attitude may well be that the £1.6 million should not be deferred within the Department but brought into DFP under the Executive's remit so that you can bid along with other bidders.

I want to ask you about three points very quickly. I presume that local government councillors' severance — I have raised this directly with the Minister — is largely a profiling issue. What I mean by that is that the overall amount has not gone beyond £3.5 million. When councillors wanted to take the severance, the profiling of it was such that it came a little bit later.

Mr Carlton: That is the case. There was not as big an uptake in the early years as there was in the later years.

Mr Weir: I think that, overall, the amount will end up being a bit less than £3.5 million. It was just a matter of timing.

Why is depreciation a resource expense? Normally, depreciation is carried on the capital side.

Mr Carlton: Depreciation is ring-fenced departmental expenditure limit (DEL) money. It cannot be used for what we would call "ordinary resource", but you can — some would say unfortunately — use normal resource money to fund depreciation. The asset is either built or enhanced, and, with that, there is an increased depreciation charge. That is what happened with the planning portal. There were a lot of enhancements needed to get it ready for the 11-council model.

Mr Weir: I will move on to your first point, which was on the derating grant. It seems that you need an extra £1.5 million to cover derating. I appreciate that, by its nature, derating is not an exact science. It strikes me, however, that having what is essentially an underestimate of about £1.5 million on derating leaves a gap. The figure has been out to a reasonable level. Do you want to comment on why the gap between the original estimate and the final amount is so large? I can see a couple of hundred thousand pounds perhaps being a reasonable figure, but £1.5 million seems to be quite large.

Mr Carlton: I will ask colleagues who have been around a bit longer about the detail. I know that it has been of that nature nearly every year.

Mr McMahon: That is set as part of the three-year budget programme. It is fixed at the level of the current year, and, in the last year, the budget was about £25.6 million. Last year, it approached £1 million. Over the past three years, the figure has gradually got larger, but that reflects a static budget that was set some three years ago.

Mr Weir: Is the argument that this was not got right three years ago?

Mr McMahon: Potentially. We are attempting to forecast in conjunction with councils as well.

The Chairperson (Ms Lo): Kieran, why did you leave it until now to ask for it?

Mr McMahon: It was so that we can finalise the calculations and get an accurate estimate. You may recall that, last year, we bid for that funding mid-year, and DFP did not support the bid for that reason. It preferred that the bid be submitted in the January monitoring round when the figures are more accurate and the overall financial position can be reassessed across all Departments.

The Chairperson (Ms Lo): You may not get it this time.

Mr McMahon: That is a risk, although it was more bleak at the time of October monitoring than it has the potential to be at January monitoring. Based on the history, we did not bring the bid through at that stage. We did flag it to DFP to remind it that we would be coming forward with this bid. Therefore, we had indicated at October monitoring that this was on the horizon so that DFP could forward-plan and assess it.

Mrs Cameron: Thank you for your presentation. Most of my questions have been asked. To go back to the IT system convergence, the money that is available is by way of a loan fund to the councils, and there has been no uptake of it. Is that right?

Ms Siobhan Lynn (Department of the Environment): No, my understanding of it is that it was to fund the interest that the council would pay on a loan that it would take out to fund ICT work.

The Chairperson (Ms Lo): That is quite a lot of money for interest.

Mr Carlton: I think, to be fair, when this was being set up, it was probably done so to try to provide cover in case all councils needed to refresh all their IT systems.

The Chairperson (Ms Lo): We had a lot of money then. Or more money then.

Mr Boylan: We were expecting the millennium bug again.

Mrs Cameron: There has been no money drawn down from that at all.

Mr Carlton: Not from that loan facility, no.

Mrs Cameron: On the face of it, it looks odd. You would think that, surely, with convergence and the use of different IT systems, you would have expected to see some kind of demand for the funding, but obviously not. Have councils confirmed that they do not wish to avail themselves of it, or is it simply the case that they have not approached the Department for it?

Mr Carlton: They certainly have not approached the Department for it. Some councils came to the Department asking whether it could be re-categorised and brought forward to next year. DFP said no to that. Therefore, the indication from those councils was that they will not use it for that purpose in this year.

Mrs Cameron: OK. There is some interest in it, but they are not ready for it at this stage. Is that what you are saying?

Mr Carlton: The interest is not for the purpose that is set out here.

Lord Morrow: What is happening to the existing ICT system that, for instance, Planning Service is using? I understand that, for Mid Ulster District Council, the planning system will be run from Magherafelt, after transferring from Omagh. What happens to the planning system that is already in place and that is providing the function now?

Mr Carlton: It is my understanding that the current system, which is run by the Department and which we call the "planning portal", has been developed and changed this year to allow it to run on an 11-council basis. Therefore, the 11 councils will use the planning portal, segmented for their own area. They will be carrying on with the enhancements to the current system.

Lord Morrow: Am I right when I say that that whole system is on a leasing agreement?

Mr Carlton: The system is due for renewal in 2019.

Lord Morrow: Why, for instance, would the new council just recently take a decision to spend £100,000 on its new system to facilitate the changeover when the Planning Service, for instance, will move into a room that is empty at the moment — it has no facilities whatsoever — and then set up a completely new system? That does not sound economical.

Mr Carlton: I do not know. I am not sure of the detail of what the councils are doing.

Lord Morrow: You will understand the council proposing that £100,000 be spent on a system. I am not saying that it is right or wrong for doing that but that it is apparently the decision that the council has taken to try to get a system in place. It makes you wonder what system was in place up until now.

It was operating to some degree of success, and perhaps very successfully, as far as I am concerned, yet you are saying that you need an additional £1.6 million.

Mr Carlton: No, we do not need that.

The Chairperson (Ms Lo): You are going to use it or reconfigure it.

Mr Carlton: Yes, we are looking to reclassify it as something else.

The Chairperson (Ms Lo): Is that OK, Lord Morrow? You can ask the departmental officials who are giving us a briefing after this about local councils.

Lord Morrow: Perhaps I can.

Is the £0.7 million for annual leave untaken leave?

Mr Carlton: It is. It is the accrual, which is the calculation for untaken leave. If you think about leave as being spread over the year, this is for February and March, and not that many people want to take the equivalent of two and half days in February and March.

Lord Morrow: The £0.7 million is to facilitate that.

Mr Carlton: No. It used to be calculated on the basis of a seven-day working week. As part of the pay negotiations and settlement this year, annual leave and various other elements of pay are now calculated on a five-day working week, which put the cost of that calculation up by 40%.

The Chairperson (Ms Lo): Are you saying that people are getting more leave?

Mr Carlton: No. It is an accounting issue to do with how we classify and account for unused annual leave. As I said, it used to be done over seven days, but it is now done over five.

Mrs Overend: What do you mean? Sorry for jumping in.

The Chairperson (Ms Lo): I do not understand either.

Mrs Overend: I thought that it was a change in the calculation.

Mr Carlton: Sorry. People used to say that, if you are ever leaving the Civil Service, you should leave on a Sunday, because you get paid for seven days. That was the way in which pay worked. Trade union side and central HR have decided that it will now be done over five working days. Sadly, it does not increase our pay; rather, it means that you can happily leave on a Friday and still get your full pay. Instead of the numbers being divided by seven, they are now being divided by five. That puts the calculation of the cost up. It affects every single Department.

The Chairperson (Ms Lo): All the Departments will be asking for that money.

Mr Carlton: Yes, every Department, particularly the ones with big staff numbers.

The Chairperson (Ms Lo): You do not have that big a staff compared with other Departments.

Mr Carlton: We would have the third biggest, after DSD and DRD. The Department of Education does not have that many civil servants, because it puts out a lot of money. The Department of Health is the same. It does not have that many civil servants, because it has a lot of people in the health service.

The Chairperson (Ms Lo): Is there no way in which you can encourage staff to take their leave in February and March?

Mr Carlton: We would have to get everybody to take leave for a week. *[Laughter.]* That is fundamentally the issue.

The Chairperson (Ms Lo): The snow may come, and they could all take a week's leave at home.

Mrs Overend: That is one of the questions that I wanted to ask. Is there a change to the number of holidays that they are getting?

Mr Carlton: No. There is no change to the number of holidays or the value of the holidays. There is no increase in the number of days of annual leave. It just means that, when it comes to a certain time, for the statutory accounts, we have to calculate the value of untaken annual leave. Where it used to be calculated on the basis of two sevenths, it is now two fifths.

Mrs Overend: Right. The value of the holiday is more than it was before, so the value of when they are there is more.

Mr Carlton: No, although I suppose that it depends on whether you are talking about value or your pay cheque. The pay cheque does not change at all.

Mrs Overend: But they are paid more per day.

Mr Carlton: I presume that that would be the case if the effect rippled through and was spread over the number of working days.

Mrs Overend: Will there be the knock-on effect of an increase in demand for people who were going to be made redundant?

Mr Carlton: Not that I understand. The criteria for the current exit scheme have a base calculation that is not tied to this. Where it would make a difference is, for example, where people leaving the organisation could not take annual leave, because management wanted them to stay, and were going to be paid compensation for untaken annual leave. Last year, they would have got x, but, this year, they will get x-plus.

Mr Weir: I must jump in there: would not that affect, say, a voluntary redundancy situation? If you have untaken leave, could that not be added to whatever your voluntary redundancy payment is?

Mr Carlton: It could be, if you have untaken leave at the time of leaving, but it is not part of the scheme. We would expect people to take their leave before they go.

The Chairperson (Ms Lo): Do you normally allow people to carry forward a few days into the following year?

Mr Carlton: The regulations allow for nine days to be carried forward.

The Chairperson (Ms Lo): So, this is all on paper, really.

Mr Carlton: Fundamentally, yes. It is on paper, but it is important to us in finance.

The Chairperson (Ms Lo): Are you still going to ask them for that money?

Mr Carlton: Oh, yes, the Department still has to cost.

Mr Weir: Are you going to give people a piece of paper saying that you are giving them this; that you are not giving them actual money, but that you are giving them this?

The Chairperson (Ms Lo): Yes, it is just on paper.

Mrs Overend: So, is this just going to be across this year? It will be built into the budget for subsequent years. Is it just that there is a change and that is why —

Mr Carlton: It is just a change this year, because next year's calculation will be the same as this year's. There will not be any movement.

Mrs Overend: Likewise, the depreciation figure of £0.7 million is really an accountancy procedure. Why was that not built in when we first knew about the planning portal?

Mr Carlton: There are two aspects: we have a budget for depreciation of £1.5 million. What happened over the year was that, as we were making enhancements to the planning portal, they added value to the portal and therefore increased the depreciation.

Mrs Overend: Were those improvements not in the plan? You knew that the costs for improving the planning portal were in the budget, so why was the depreciation not in the budget?

Mr McMahon: It was set as part of the three-year budget, and therefore it would have been set at the historic level. The additional improvements during last year and the current year would not have been incorporated in that budget. Members may recall that we had bid for additional capital to fund changes to the planning portal in the current year. This is part of the outworkings of that.

Mrs Overend: So, would that not be something that you might think of when you are putting in your bid for capital, then, that you incorporate the depreciation at the same time?

Mr McMahon: That could have been an option, although, normally, dealing with the cost of depreciation is ring-fenced; it is "special". It is normally better to leave that until towards the end of the financial year when there is a better assessment of availability across other Departments. That increases the scope.

Mrs Overend: That sounds a wee bit suspect. It is as if we are just going to try to get the money if there is some at the end, rather than allocate funds for depreciation because it is a notional amount, as such.

Mr Carlton: There are always two aspects to depreciation. One of them is that, yes, you can calculate it based on the estimated cost. The other aspect of depreciation is that, when capital is spent, there will be a tail of depreciation all the time. While it is important in the decision making, a lot of the time, people would say that if you are not making the capital investments simply because you cannot afford the depreciation, then that creates a difficulty in that decision-making. It is important.

Mrs Overend: Well, is it not accountancy theory to be prudent?

Mr Carlton: It is, and we always try our best to be very prudent.

The Chairperson (Ms Lo): He knew that your degree is in accountancy, is that right, Sandra?
[Laughter.]

Mrs Overend: OK, so you will include depreciation next year in the portal work. That will not need to come through in a monitoring round. Thank you.

Mr Boylan: Thank you very much for your presentation. To follow on about annual leave, when did this all come about, the reduction from seven days to five days, and when did DFP notify you?

Mr Carlton: This came about as a result of this year's pay settlement. We were notified between October and now.

Mr Boylan: Obviously, this will remain annual, because you will face this problem in the future. I understand that you could not have set it in your budget because it happened in-year, but how will you address it in the future?

Mr Carlton: Hopefully, I will do this right, but, really, because all we have to account for is the movement, if you say that it is 100 this year and 100 next year, there is no issue for our funding because there is no change. When Siobhan shakes her head, I will stop talking. This year, it was 100. It is now going to 150 or 170. Our problem is a one-off blip this year because there is a movement. The only problem we would have this year is if they dropped it down to three days or something, which *[Inaudible.]*

Mr Boylan: A five-day week is a good job if you can get it.

Mr Carlton: Well, the economy is not good.

Mr Boylan: Most of the questions have been asked. The severance package has exceeded the original agreement in the Executive. How has that run over? What are the problems? You are bidding for another £128,000. Is that correct?

The Chairperson (Ms Lo): You were originally given £3.5 million to do this, so is it now over that?

Mr McMahon: As the member noted earlier, it is due to the profiling. We handed that funding back last year because it was not required, but, in the current year, there is an extra £128,000 over and above the current year budget of £1.7 million.

Mr Carlton: It is not overrunning the totality of the budget; it is just —

Mr Boylan: That is 100%. I was just looking for clarity on that point.

The Chairperson (Ms Lo): So, has everyone entitled to the severance now taken it?

Mr McMahon: We believe so, because that element of the scheme has closed. It should not get any higher; that should be the final figure.

The Chairperson (Ms Lo): I will pick up on a couple of points. You mentioned the local government grants of £1.94 million. The paper refers to a derating grant and a resources grant, so you are already asking for money from derating. That was your first item. Are you asking for that twice?

Mr Carlton: No. We are not asking for the same amount twice. If you recall, Chair, the Department had its budget cut by 4.4% this year, but the Minister decided not to cut the derating grant and the rates support grant by 4.4%; he supported them from internal resources. The Minister wants that £1.94 million. He is asking DFP to restore that to, essentially, not cut those grants. The other one is the difference between what was expected to be the calculation for the full year for derating and what it has turned out to be.

The Chairperson (Ms Lo): So, you are just asking for that money back.

Mr Carlton: We usually ask for that on an annual basis.

The Chairperson (Ms Lo): That is fine. Good luck. Are you hopeful that you will get it? Generally, in January monitoring rounds, not many Departments ask for money, anyway. They cannot spend it within three months.

Lord Morrow: The Chair is assuring you that you will have no bother getting it. *[Laughter.]*

The Chairperson (Ms Lo): I wish that were true. I wish I had that power, Lord Morrow. I would give it all to you if I had that power. Thank you very much.