



Northern Ireland  
Assembly

Committee for Finance and Personnel

# OFFICIAL REPORT (Hansard)

Draft Executive Budget 2016-17:  
DFP Officials

13 January 2016

# NORTHERN IRELAND ASSEMBLY

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Draft Executive Budget 2016-17: DFP Officials

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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  
Mr Gordon Lyons  
Mr John McCallister  
Mr Ian McCrea  
Mr Máirtín Ó Muilleoir

**Witnesses:**

Mr Mike Brennan	Department of Finance and Personnel
Ms Joanne McBurney	Department of Finance and Personnel
Mr Jeff McGuinness	Department of Finance and Personnel

**The Chairperson (Mr McKay):** Morning. Happy new year.

**Mr Mike Brennan (Department of Finance and Personnel):** And to you.

**The Chairperson (Mr McKay):** I hope you had a good break. Mike, do you want to make some opening comments before we go to questions?

**Mr Brennan:** Yes, Chair. The construct of this 2016-17 Budget was a unique exercise. Three main variables determined that. The first one, obviously, was the political agreement, the Fresh Start Agreement, on 17 November. The second factor at play was the Chancellor's spending review announcement on 25 November, which set out the financial envelope for Northern Ireland. The third was the fact that we had to construct a Budget for 2016-17 that factored in the move from 12 Departments to nine. Those three very significant factors had to be accommodated within a very tight timescale.

As you know, the Fresh Start Agreement asked the Executive and the Assembly to have a Budget concluded by the end of January. That was a significant challenge for Ministers and officials. As I say, it has been completed in that there is now a single-year 2016-17 Budget. As the Minister said in her statement, the significance of that is that it provides a stable platform for the new, incoming Executive to consider and construct a four-year Budget during the summer. The financial outworkings of the 2016-17 Budget are that, at a very high level, on the capital side, it is quite a benign settlement in real terms growth of about 3%; on the resource side, things are significantly tighter, with a real terms cut in 2016-17 of 0.8%. That is a very quick canter through the framework.

**The Chairperson (Mr McKay):** In your view, how challenging is the next financial year going to be?

**Mr Brennan:** To be honest, I do not think that there is a problem on the capital side. The Executive have been able to, for example, signal commitments to the flagship projects beyond 2016-17, which shows that there is a significant capital envelope for this Executive and the new, incoming Executive to play with. I do not really think that there is a problem on the capital side.

On the resource side, 2016-17 is a lot better — if you had asked me that question two months ago, I would have said that it is pretty grim. The 2016-17 Budget has been constructed. There is no overcommitment to be cleared in June monitoring. There are significant resources allocated to, for example, the voluntary exit scheme, which will generate significant savings for the new nine Departments. That should help to alleviate some of the pressures that the new nine Departments will face, but it is still a very tight settlement. The new Executive are going to have some very difficult and challenging decisions to take in June monitoring.

**The Chairperson (Mr McKay):** This is a process that we have not gone through before. As the Minister acknowledged, there have not been the normal consultation protocols. In light of that, what opportunity is there for this Committee or the other Committees to influence any changes in the draft Budget?

**Mr Brennan:** Yes, you are right. This is a complete deviation from best practice in consultation, but the external circumstances dictated what had to be done. As you know, in DFP, we normally have a series of extensive engagements with key external stakeholders. We had started that. Joanne and Jeff had some engagements with various organisations in December. However, that, by no means, replicated the process that we would normally follow. Now that the Departments have their budget envelopes set, the key issue is for the Departments to engage with their Committees and take their sense of priorities. In June monitoring, the incoming Ministers in the new nine Departments will have significant discretion in reallocating resources and capital. That provides a perfect opportunity for the new Ministers in the new Departments to take on board the representations that are made, for example, from the various Committees.

**The Chairperson (Mr McKay):** How and when will the migration from 12 to nine take effect in budgetary terms? How much transparency will there be in the movement of budgets vis-à-vis the functions?

**Mr Brennan:** It is quite a complex task in terms of both the numbers and the legislation.

**Ms Joanne McBurney (Department of Finance and Personnel):** The Budget 2016-17 was constructed on the basis of the new, nine-Department structure. In order to reach that position, we engaged with the finance teams in Departments. They split their 2015-16 opening positions across the various functions and identified those functions that were transferring. Those transferred to the new Departments, and that formed the starting point for the Budget 2016-17 position. That will set the position for the new Departments going forward. Of course, there is the period at the beginning of the financial year when the current 12 Departments are still in place. They will continue to operate until after the election when the nine new Departments, agreed under the Departments Bill and the transfer of functions order, come in.

For that period, the Departments will be working on the basis of the Vote on Account for 2016-17, which will go through the Assembly shortly. That will be on the basis of the current 12-Department structure and, in the same way as normal, will be based on a percentage of their 2015-16 spring Supplementary Estimates position. Departments will draw down cash on that basis and continue to spend money on the functions on the 12-Departments basis, but DFP will be monitoring that drawdown of cash and be comparing it with previous years and making sure that there are not excessive amounts drawn down and that everything appears to be in line. Once the new Departments come into place, the cash that is drawn by the current 12 Departments will be identified by function and will be transferred to the nine-Department structure so that we are ensuring that the Budget position is maintained.

**Mr Brennan:** The period from the beginning of April to 15 May is very much a transitional period as Departments migrate their budgets from the 12 to the nine.

**The Chairperson (Mr McKay):** As the Minister pointed out, the late date of the Chancellor's spending review obviously added further time pressure to the local Budget process. It is of concern to me that, when you are trying to reach agreement on a number of financial issues on a cross-party basis in a local context, all of a sudden another variable is thrown into the mix in the middle of the financial year. Has any feedback been provided to Treasury about how it can do things better without upsetting the apple cart for our local way of doing things?

**Mr Brennan:** Yes. Back at the beginning of the summer when we first realised the date of the spending review, all three devolved Finance Ministers registered their concerns with the Chancellor about the implications for the devolved Administrations in progressing their Budgets in, effectively, a window of about eight or nine weeks. That is very tight, and the concerns were made at ministerial level to the Treasury.

**The Chairperson (Mr McKay):** Was there any response?

**Mr Brennan:** The Treasury has its timetables, and the Chancellor was adamant that he wanted to do a spending review announcement before Christmas. It was dictated by the Chancellor and the UK Government's requirements.

**The Chairperson (Mr McKay):** The Minister pointed out as well that the draft Budget contains no level of overcommitment for the first time in many years. You said that. Given that overcommitment was a tool for avoiding underspend, what assurance is there that the overall year-end underspend will not exceed the Budget exchange scheme limits?

**Mr Brennan:** As you know, on the resource side, the Executive can carry somewhere in the order of £50 million into 2016-17 and roughly £12 million on the capital side. What is happening now, almost daily, is that DFP Supply teams are engaging with their Departments to monitor the allocations and spend in the remaining weeks of this financial year. If there is any possibility of us exceeding our Budget exchange scheme totals on either the resource or the capital side, we can reallocate money within the remaining weeks of this financial year to Departments that can spend it, for example through the urgent procedure route. At the minute, we do not have that concern about either resource or capital. The key issue is that when the Executive did leave the November monitoring round, they were overcommitted by, I think, £10 million on the resource side and £15 million on the capital side. That was built in as, basically, a buffer to make sure that there was not a pressure around exceeding our limits on the Budget exchange scheme.

**The Chairperson (Mr McKay):** The memorandum of understanding (MOU) that was in development between here and the Executive in trying to address some of the issues that this Committee has had in the past seems to have hit the rocks somewhat in recent times. Is that going to be a priority again for the Department?

**Mr Brennan:** It is, and officials will point out to the new Finance Minister that that is something that needs to be progressed. Obviously, as the previous Finance Minister did say, the big unknown that materialised in November was timetables. The MOU sets out an ideal for progressing a budgetary process. The experience in November and December was a significant deviation from that. The MOU would not have worked in those circumstances. However, this summer, when we get to the stable platform that the previous Finance Minister has referred to, that will be a window of opportunity to progress and sign off on that MOU.

**Mr Ó Muilleoir:** You mentioned the dates of 1 April to 15 May. Why is it 15 May? Is that the date that the new Assembly sits? I think that that is a Sunday. Is it 16 May?

**Mr Brennan:** It is whatever the date is in mid-May when the transition occurs.

**Mr Ó Muilleoir:** The election is on 5 May, I think, but the new Assembly will sit on that Monday. Is that the day that the new Departments will be triggered?

**Mr Brennan:** The date will be specified in the transfer of functions order.

**Ms McBurney:** Yes. I think that the date has to be determined, but it will probably be over the weekend that the legislation —

**Mr Ó Muilleoir:** So those who are interested in standing and are elected will come back to nine Departments and whatever Finance Committee there will be.

**Mr Brennan:** And nine Committees.

**Mr Ó Muilleoir:** Yes, but just one Finance Committee and one Finance Department.

**Mr Brennan:** Yes.

**Mr Cree:** Going back to the Vote on Account, will that be for 12 Departments and nine Departments?

**Ms McBurney:** No, just for the 12 Departments. When we were looking at this, we took advice from the Office of the Legislative Counsel. It recommended that the Vote on Account is for the 12 Departments.

**Mr Cree:** So that Vote on Account is time-bound.

**Ms McBurney:** No. That will be on the normal basis. When the Departments Bill and the transfer of functions order go through, cover will be transferred from the 12 Departments to the nine. That means that it covers the 12 Departments from 1 April until the Departments Bill and the transfer of functions order go through, and then it transfers to the new Departments. It will cover the new Departments until such times as the Main Estimates are progressed.

**Mr Cree:** So it is in two steps. It will be 12 Departments until whatever the date is in May, and then, from the middle of May — usually it covers up until June, does it not?

**Ms McBurney:** It is July by the time we get Royal Assent.

**Mr Cree:** So that period will be covered for the nine.

**Ms McBurney:** Yes.

**Mr Cree:** How will we be able to work that out when we get the book? Will it be set out? Will there be two sets of figures?

**Ms McBurney:** You will not have the level of detail on the Vote on Account; you will only have the two schedules for the cash and resources, and that will be on the 12-Department basis. As is normally the case, it will be on a percentage of the 12 Departments' 2015-16 position. When you get the Main Estimates, which has the level of detail, that will be on the nine-Department basis.

**Mr Cree:** OK. I think that I have got that. It will be interesting.

**The Chairperson (Mr McKay):** About half of the financial transactions capital (FTC) is allocated to the NI investment fund. Can you give us a sense of where that will go now, and an update, because it is not progressing as swiftly as we would have liked?

**Mr Brennan:** Certainly, Chair. I am conscious of the fact that you have officials coming in, next week, to give you a detailed briefing specifically on that. Work is progressing very well between DFP officials and officials from the European Investment Bank (EIB). Some delay was introduced while we needed clarification on the procurement of EIB to take forward the feasibility study. That has been clarified, and work is well advanced. The intention is that the fund will be created, looking at four specific sectors: urban regeneration; energy efficiency; telecoms; and social housing. The guys who come to you next week will walk you through the detail of each of those schemes and the types of projects that they envisage will be eligible for funding from the investment fund.

**The Chairperson (Mr McKay):** Which Department will have overall responsibility for the procurement process?

**Mr Brennan:** DFP will have overall responsibility, but, effectively, once the fund is up and running, it will be managed by the EIB as the fund manager. The European Investment Bank will take responsibility for the discharge of the funds within that.

**Mr Cree:** This fund and process have been set up for three years now, is it?

**Mr Brennan:** I think it was first considered about two or two and a half years ago.

**Mr Cree:** FTC money was voted to that through the years. Where is that money now?

**Mr Brennan:** It has been reallocated. It has gone to a range of sources.

**Mr Cree:** Has it been spent? That is the point.

**Mr Brennan:** Yes. It has all been spent. Not a penny of it has been surrendered.

**Mr Cree:** So all the money voted to it has been reallocated.

**Mr Brennan:** Yes. In recent weeks, it became clear that some FTC had become available that could be used, for example. You will see in the Budget document for 2016-17 how it has been recirculated. Late in the day, in 2015-16, some FTC became available. I think that it has gone to the social housing co-ownership scheme.

**Mr Jeff McGuinness (Department of Finance and Personnel):** Yes, to the co-ownership scheme.

**Mr Brennan:** So it has been recirculated. The minute that we, in DFP, know that FTC is available to be recirculated, we facilitate that.

**Mr Cree:** I remember being told on at least two occasions that, at the year end, x million pounds would go to the investment fund. Obviously, it did not do that.

**Mr Brennan:** There was an intention. I think that, initially, about £40 million was supposed to go in 2015-16, Jeff.

**Mr J McGuinness:** There was a small amount in 2015-16. I think that it was about £11 million.

**Mr Cree:** So the 2016-17 year will be the first year that there is actually FTC money.

**Mr J McGuinness:** We originally envisaged that there would be £40.9 million in 2015-16. That was reduced down to £11 million during the year. It has been reduced again to zero because we —

**Mr Cree:** So what we have in the Budget this year is the only money, at this point in time, that will be in the investment fund.

**Mr J McGuinness:** Yes.

**Mr Cree:** That is disappointing.

**Mr Brennan:** Hopefully, in 2016-17, we will start to see the actual outworkings of FTC in terms of the investment fund.

**The Chairperson (Mr McKay):** There are a number of allocations for the Executive's Fresh Start Agreement, such as £10 million to tackle paramilitary activity, £12 million for a shared future and £30 million for dealing with the past. Is there any agreement on where those issues will lie and in which respective Departments? What kind of budgetary impact will that have on next year and indeed the full Assembly term?

**Mr Brennan:** The funding for those schemes is retained at the centre until issues are resolved. For example, when a paramilitary strategy is agreed, funding will be reallocated from the centre out to DOJ. Similarly, the £12 million for a shared future is held at the centre. When there is agreement on

where that is going, it will probably end up going to the Executive Office. So, it will not result in a budgetary cut for other Departments because the money is held at the centre, but when it moves from the centre to the relevant Department — for example, when the £10 million for a paramilitary strategy moves from the centre to DOJ — it will go into the Department's baseline. That Department will see an increase.

**The Chairperson (Mr McKay):** So there is no time frame; it is subject to political agreement.

**Mr Brennan:** Yes.

**The Chairperson (Mr McKay):** How will flagship projects, including the A6, which seems to be the one that has made the headlines most recently, impact on budgets? Obviously, they will be part of the Budget within 2016-17 and so on. How will that affect those Departments' respective abilities to prioritise their capital budgets?

**Mr Brennan:** The capital funding for those six specific projects has been built into the relevant Departments' baselines. The key issue and the reason why they were designated as capital projects was really to signal the Executive's intention to fast-track the delivery of those projects, so that the relevant Departments could start to plan, procure and deliver them now, rather than waiting for the incoming Executive and new mandate to determine a four-year Budget after 2016-17. As you know, for example, developing the A6 or A5 is not a single-year hit on the capital budget: it is across many years. It is basically about giving the green light to those projects now for beyond the 2016-17 Budget that the Executive were agreeing.

**The Chairperson (Mr McKay):** Additional revenue raising is an issue that we have raised for quite some time. It has been discussed at Executive level, but there are no new proposals coming forward that I can see.

**Mr Brennan:** The only significant revenue-raising issue in the 2016-17 Budget was the rates increase. A number of issues were considered by Ministers, but I suppose that the key issue was that they were conscious of the fact that they were constructing a Budget for a new, incoming Executive and Assembly, which is why it just really creates a platform for one year. Revenue-raising issues are undoubtedly something that the new Executive and Assembly will have to tackle.

**The Chairperson (Mr McKay):** Is there no sense at this stage that there are two or three ideas that may be adopted by the incoming Executive?

**Mr Brennan:** No. As you know, a range of issues are floating around that are being given different priority by different political parties. That will be for the new Executive to ponder.

**Mr Cree:** Can I just come in on that because it is one of the questions that I meant to ask? At present, some Departments are making commitments as far as 2020.

**Mr Brennan:** On the capital side, yes.

**Mr Cree:** Will those automatically be approved? Is that really binding a future Executive?

**Mr Brennan:** The way in which I presume that they will be presented in the new Executive's Budget considerations is that they are pre-commitments on the capital side, so they will be built in as inescapable pressures to the capital side for those six flagship projects. We do that anyway as the norm in constructing budgets. We take tails from capital projects from previous decisions and, because they are contractual commitments, build them into the capital position that you start to establish for each of the Departments going forward.

**Mr Cree:** I am afraid that "inescapable" has now been tarnished by some Ministers and their pet projects. "Inescapable" does not necessarily mean "inescapable" any more.

**Mr Brennan:** As I say, in DFP, we are clear what our definition of "inescapable" is in constructing a capital position.

**Mr Cree:** I see that. Thanks.

**The Chairperson (Mr McKay):** Are you all happy, members? All right, folks. Thank you very much.