

Ministerial Statement

Provisional Outturn 2007-08

Mr Speaker, last June the Assembly voted to approve the spending plans for 2007-08, inherited from Direct Rule Ministers, which provided for current expenditure of £8,259 million and capital expenditure of £1,409 million in budgetary terms. Today, I will report on the extent to which departments have spent the money which they bid for, and were subsequently allocated.

In headline terms, the under-spend by departments was £177 million in respect of current expenditure, and in £76 million terms of capital investment.

Members will be well aware that the Assembly continues to spend a significant amount of time and effort debating the amount of funding that is allocated to departments, through the Budget, Estimates and In-Year Monitoring processes. This reflects the importance of prioritising the limited available funding to the Executive in order to deliver the best possible public services to the people of Northern Ireland.

However, there is often too great an emphasis by departments on the size of their budget rather than what it can achieve in terms of outcomes. Given this imbalance, and the relative lack of robust and timely information in terms of outcomes, there is a need to consider actual expenditure by departments against plans as a proxy for delivery.

Mr Speaker, there is little point in the best laid plans being put in place if departments do not subsequently deliver the planned services, primarily by spending the funds that have been made available to them. While it is critical that departments do not overspend, it is equally important to ensure that, to the greatest extent possible, and with due regard to value for money, the amounts provided are spent. Significant levels of under-spend imply that fewer services have been delivered than had been planned, and that

resources have been held onto when they should have been redeployed to improve services in other areas.

In this context I wish to provide members with detailed figures of the actual level of spending by Northern Ireland departments in 2007-08, with particular reference to performance against plans. Details of the provisional outturn for each department, in terms of both current expenditure and capital investment, are set out in Tables 1 and 2 attached to the printed copy of my statement that I have provided to Members.

As I highlighted to the Assembly in my statement of 25 June 2007, the Executive inherited a position where NI departments had underperformed in recent years in terms of maximising the spend from funds that had been allocated to them. This has also been recognised by the Finance and Personnel Committee who advocated moving to a 1% target in terms of the maximum rate of under-spend for current expenditure.

Current Expenditure

Dealing first with current expenditure, the provisional outturn returns for 2007-08 indicate that total current expenditure by departments amounted to some £8.2 billion last year, which represents real terms growth of 4.9% in 2007-08. However, departments spent £177 million or 2.1% less than had been planned. This headline rate is unchanged from the position in 2006-07, and thus represents a somewhat disappointing performance by departments, given the significant efforts to improve and raise the profile of financial management over the past year.

It will not surprise Members to see that the overall under-spend figure masks significant variations between departments, with DRD the best performer, at 0.9%, and DEL the worst, with an under-spend of 3.9%. My own department has the fourth highest percentage under-spend, at 3.1%, although this represents a significant improvement on the previous year when the department had an under-spend of 10.7%. While clearly the Department of

Finance and Personnel has some way to go to be the example to others that it should be, the improvement on past performance illustrates the extent of change possible with a sustained focus on this issue.

I should also recognise that other departments, such as DARD and DETI, have also managed to reduce their rate of under-spend compared to last year, and I would urge them to continue with the good work. However, it is disappointing that DHSSPS, DEL and DOE have all performed worse in 2007-08 than in the previous year. While all departments will be able to rehearse excuses or highlight supposedly extenuating circumstances, the simple fact is that either their planning or their delivery mechanisms were deficient.

Although I have recognised that some individual departments have made good progress, in general departments are still some way from the ultimate goal of reducing the rate of under-spend to the Finance Committee's ultimate target of 1% or less, with only one department, DRD, managing to achieve this benchmark for 2007-08. The clear challenge for other departments, including my own, is to match this level of performance.

One particular area of concern in recent years has been the spending performance of ring-fenced central funds which have often experienced substantial levels of under-spend. Although the rate of under-spend for the priority funding packages is less than in previous years, it is still considerably higher than the average for departments with respect to both current expenditure and capital investment. For example the, Environment and Renewable Energy Funding Package under-spent by 13.5% while the Children & Young People's Funding Package had an under-spend on current expenditure of 4.3%. I believe that this justifies the decision by the Executive, as part of the Budget, to mainstream these funds into departmental baselines to engender a greater sense of responsibility in departments with respect to the associated projects. That also required those departments to consider how much of their increased allocations should continue to be targeted on the areas previously funded out of central funds. It did not mean, as some departments appear to have suggested, that they could simply take the

additional funding, allocate it to something else, and then claim they had no money left to meet pressures in areas previously funded out of central funds.

Capital Investment

Turning now to capital investment, Members will be aware that the percentage under-spend on capital projects has traditionally been higher than with respect to current expenditure, given the greater potential for capital projects to be delayed, as well as the greater propensity for capital projects to be one-off or innovative in nature.

The provisional outturn returns indicate that Northern Ireland departments have delivered £1.1 billion in 2007-08 in terms of net investment, the highest figure on record, representing real terms growth of 9.3% on the year before.

The consequence of this level of actual expenditure is that departments have spent £76 million or 6.3% less than had been planned for. Compared to the performance of departments under direct rule, with the rate of under-spend reaching 18.2% in 2005-06, this outcome represents significant progress on past performance.

However, while overall performance is reasonable, this is the consequence of very strong performances by two departments, DHSSPS and DRD - which I would commend in terms of their management of capital projects. However, below this high standard, there is a great variation in performance between departments – ranging from an 8.0% overspend, in the case of OFMDFM, to a 34.6% under spend in the case of DARD. In total, five departments had an under spend at or above 15%.

In terms of my own department, I would like to recognise that DFP has performed particularly well in terms of capital expenditure, with only DHSSPS and DRD having a lower level of percentage under-spend in 2007-08. This compares with the position in 2004-05 when DFP had an under-spend of 88.3% and hence only spent 12% of its allocated funding.

Although the headline performance is one of continued improvement, as with current expenditure the position needs to be seen in the context of the substantial amounts of reduced requirements and re-profiling requested by departments during the year. If departments are serious about delivering the infrastructure improvements set out in the Investment Strategy on time, this level of performance must not be repeated for the coming years.

Mr Speaker, although I have focused on the importance of avoiding excessive levels of under-spend, it is equally important to emphasise that departments should ensure that they do not overspend against their approved allocations. Unfortunately, two such cases have arisen this year – DSD and OFMDFM. While the Executive will of course want a full explanation for the reasons giving rise to this, and will wish to consider the appropriate response, it is also essential that we ensure that, as has been the case in the past, an unreasonable fear of overspend does not drive higher levels of under spend.

I have heard it said many times that “you get shot for overspend, but simply flogged for under spend”, but I firmly believe that we need to ensure that there is a proportionate view of these two wrongs. In this context I would ask what is really worse - a small overspend, or a failure to deliver hundreds of millions of pounds of public service improvements both promised to the public, and paid for by them, at least in part, through their regional rate payments?

The answer is, of course, that both are to be avoided, but we must recognise that, if we are to substantially reduce the level of under spend, the risk of overspend will increase. I recognise that this is a difficult issue, as the principle of avoiding overspend at any cost has rightly been at the heart of public expenditure control for many years. This is an issue that I will want to consider further with my Executive colleagues – but I am clear that, as in other areas, we need to be prepared to challenge accepted practice if we are to secure the sort of improvements that this Executive aspires to.

Equal Pay

Mr Speaker, although I have set out the 2007-08 provisional outturn position for individual departments, there is a key emerging issue facing the Executive as a whole in respect of equal pay for some grades in the Northern Ireland Civil Service.

Although more work is required to establish precisely the level of funding that will be needed to address this problem, it is clear that the costs will be material, and will have clear implications for public services here. One option that we are currently considering is whether some of the under-spend declared by departments for 2007-08 should be used to fund part of the equal pay claim. This will mean that this funding would then not be available for future years, and hence would have a clear cost in terms of the future delivery of public services.

Therefore the Executive will need to take great care in balancing the need to ensure fair and equitable treatment for staff with the absolute imperative of delivering the best possible services for all the people of Northern Ireland. Work on this issue is progressing, and an update will be provided to the Assembly as part of the June Monitoring statement later this month.

Profile of Spend

Mr Speaker, the challenge in terms of financial management manifests itself not only in terms of the level of spend against plans, but also the monthly profile of spend throughout the year. As shown in Charts 1 and 2, departments continue to demonstrate a clear profile of steady spend throughout the year, with a significant surge in expenditure towards the year end.

Although there may be legitimate reasons for this to happen, it raises concerns regarding whether this expenditure represents value for money or simply reflects “a use or lose it” mentality in departments. Despite the

concerns regarding under-spend and the timing of access to the Executive's EYF, stock I would prefer the adage that "no spend is better than bad spend".

It is important that departments recognise the point that, under the Treasury's existing EYF arrangements, whilst the amounts under-spent may not be automatically available in subsequent years, they will be available at some point and hence are not lost to the Executive.

The skewing of expenditure towards the end of the year also implies that spending has been delayed from earlier in the year. Although, this phenomenon is not recognised in the headline figures, months, weeks or even days of delay may be important in terms of public services, whether it be new textbooks for schools or the repair of potholes in our roads.

Although the startling figures on under-spend send a strong signal to departments that they need to substantially raise their game in terms of performance generally and financial management in particular, there is an equally compelling message to those Ministers who would seek press the case for additional funds. Over the past 12 months I have been subject to some subtle and some not so subtle approaches from Minister to increase the level of funding allocated to their departments.

With resources becoming tighter and tighter I, and I am sure my successor, will not countenance the allocation of funding that simply sits unused. It is not acceptable to me as I am sure it is not acceptable to Members and the general public who have waited long enough for the return of locally accountable government to deliver improved services.

Conclusion

In conclusion, Mr Speaker, although I commend the progress that has been made by some departments in terms of reducing under spend, I firmly believe that there is much more that can be achieved – both individually and collectively.

Although ultimate responsibility lies with accounting officers in departments there is also a role for DFP, Ministers and the Assembly. The steps we have taken forward so far to improve financial management skills and raise the priority given to financial issues may not yet have had sufficient time to bed in and hence will have an impact on the level of under-spend for 2008-09 and beyond.

However, this may not be enough on its own and there is a need to consider other options to provide a stronger incentive for improved performance. These include the setting of targets, and sanctions, at both organisational and individual levels, and taking greater account of a department's under-spend performance when prioritising funding or even revisiting the Budget allocations in this respect. Assembly Committees also have a role and I look forward to reports of the challenge from Committee's to their respective departments on their under-spend performance.

In closing, I would like to stress that the Executive has set out a challenging programme of work to begin to improve the lives of people in Northern Ireland over the next three years. We must not fall at the first hurdle through an inability by department to carry the fundamental action of spending the funds that have been allocated to them, and hence delivering the planned level of services. Our future spending plans will be informed by the capacity of departments to spend what they have been allocated or to make it available to others as early as possible in the process.

Table 1: Current Expenditure Provisional Outturn, 2007-08

Department	Expenditure £ million	Underspend	
		£ million	%
DARD	229.0	-8.2	-3.5%
DCAL	110.7	-2.7	-2.4%
DE	1,712.6	-50.0	-2.8%
DEL	683.9	-27.7	-3.9%
DETI	182.2	-4.3	-2.3%
DFP	188.7	-6.1	-3.1%
DHSSPS	3,827.0	-54.8	-1.4%
DOE	120.4	-4.1	-3.3%
DRD	521.6	-4.9	-0.9%
DSD	479.6	-8.6	-1.8%
OFMDFM	57.8	-1.6	-2.7%
AOCC	1.4	-0.1	-5.2%
FSA	9.2	-0.1	-1.0%
NIA	41.2	-3.4	-7.6%
NIAER	8.9	-0.2	-2.1%
NIAO	1.4	-0.1	-5.8%
Total Departments	8,175.6	-176.8	-2.1%

Due to rounding, totals less than £50k may be shown as zero.

Table 2: Capital Investment Provisional Outturn, 2007-08

Department	Expenditure £ million	Underspend	
		£ million	%
DARD	44.3	-23.4	-34.6%
DCAL	28.2	-3.9	-12.2%
DE	157.7	-35.5	-18.4%
DEL	46.0	-8.1	-15.0%
DETI	15.1	-3.4	-18.3%
DFP	51.4	-2.5	-4.6%
DHSSPS	184.4	-2.8	-1.5%
DOE	9.4	-3.1	-24.7%
DRD	371.9	-3.7	-1.0%
DSD	213.0	10.9	5.4%
OFMDFM	2.7	0.2	8.0%
AOCC	0.0	-0.0	-36.8%
FSA	0.0	-0.0	-40.0%
NIA	1.8	-0.4	-18.2%
NIAER	0.3	-0.1	-15.8%
NIAO	0.1	-0.0	-38.8%
Total Departments	1,126.3	-75.9	-6.3%

Due to rounding, totals less than £50k may be shown as zero.

Chart 1: Monthly Profile of Spend by NI Departments-Current Expenditure

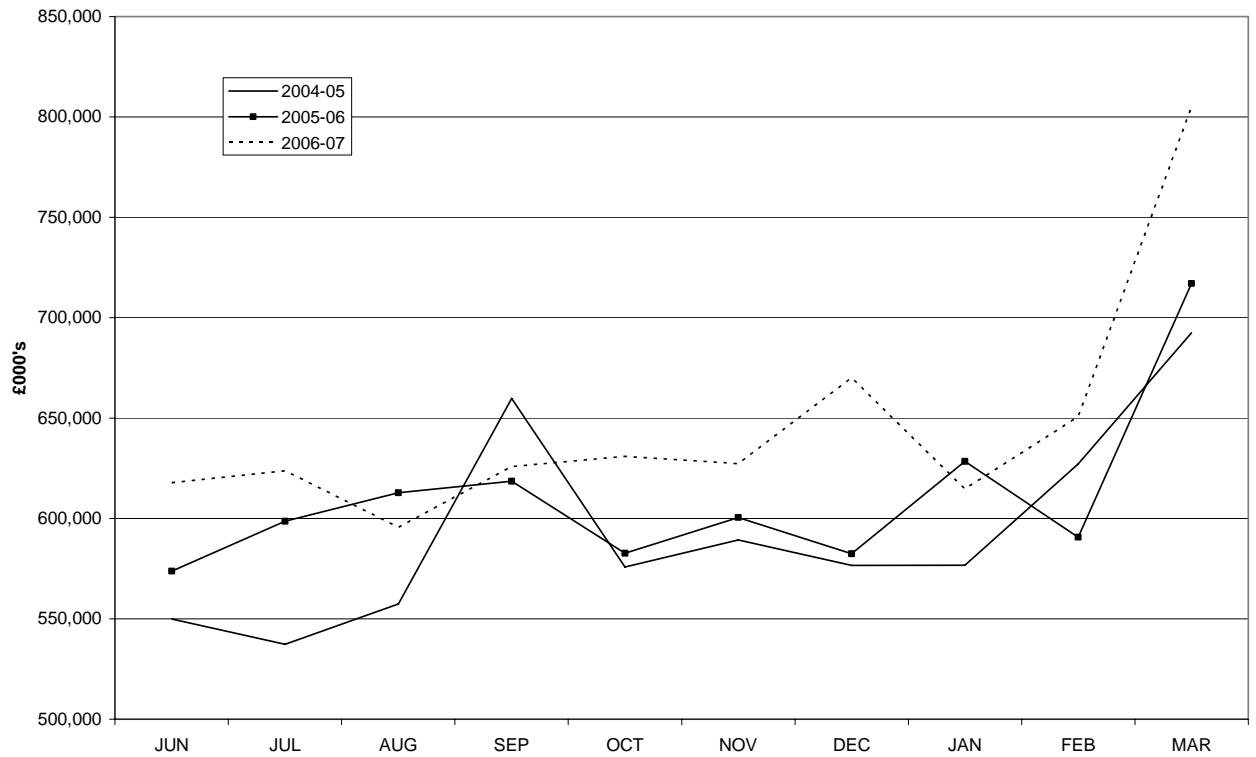


Chart 2: Monthly Profile of Spend by NI Departments- Capital Investment

