

**REVIEW OF 2010-11 SPENDING PLANS**

**STATEMENT TO THE ASSEMBLY**

**BY**

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## **Introduction**

Mr Speaker, with permission, I would like to make a Statement regarding the Executive's proposals in respect of the Review of the 2010-11 Spending Plans for Northern Ireland departments which are being published today for consultation with the Assembly.

In light of the changes in the economic situation and the emerging position for 2010-11, I initiated this Review in the summer of 2009 with the aim of ensuring that public finances remained on a secure basis as we move into the next financial year.

Work on the Review has progressed over recent months to examine the best way forward with a series of discussions at the Executive. I have also held separate bilateral meetings with each of my Ministerial colleagues.

This has culminated in the proposals that I am setting out today which were agreed by the Executive when it last met on the 17<sup>th</sup> of December.

However, before I explain the Executive's proposals, I would first like to set out the public expenditure context.

## **Background**

In January 2008, the Executive and the Assembly approved the spending plans for Northern Ireland departments for the three years from 2008-09 through to 2010-11.

This included record levels of investment in our public services and, in particular, investment in capital projects such as roads, schools, hospitals and housing. In addition, following the significant increase under Direct Rule Ministers, the level of Domestic Regional Rates was frozen in cash terms over three years with Non- Domestic rates restricted to the projected level of inflation at that time.

This Budget outcome reflected the importance of developing our economy, as the top priority in the Executive's Programme for Government, in order to take full advantage of the boost to local business from the transition to a more peaceful society.

However, since the three-year spending plans were agreed there have been a number of changes in economic conditions with first the rise in energy costs and then the economic recession having a serious impact on the local economy, particularly in terms of unemployment. Although, there is increasing evidence of recovery, the legacy in terms of the damage to UK public finances will have implications for the Executive for many years to come.

In the short-term, there has already been an impact in respect of the shortfall in capital receipts that had formed a significant part of the available funding for the capital investment programme. At the same time, the Executive has taken a pro-active approach in responding to the economic downturn including the acceleration of capital investment and deferral domestic water charges.

In my own department, the decision to freeze Non-Domestic rates in cash rather than real terms for 2009-10 and the introduction of a Small Business Rate relief scheme will also provide significant support to local business.

### **Public Expenditure Position for 2010-11**

However, all of these measures have implications in terms of the funding available to the Executive. Although it has been possible to address many of these pressures as part of the In Year Monitoring process, I took the decision in the summer that the scale of the issues for 2010-11 were simply too large, and that pro-active action was required at an early stage.

Mr Speaker, there are a large number of issues involved which are set out in detail in the consultation document including the implications of decisions

taken at the national level and previous commitments made by the Executive. However, I would like to touch on the most significant of these in terms of the costs of the further deferral of water and sewerage charges for domestic customers, the need to reduce the level of overcommitment and the costs of the Civil Service Equal Pay claim.

Beginning with water charges, one of the first decisions by the Executive was to reverse the plans by Direct Rule Ministers to introduce domestic water charges in full from April 2007. In November 2008 this was extended to the current financial year following the agreement secured with Treasury that the significant amount of non-cash costs involved would not fall to the Executive for 2008-09 and 2009-10.

Following the previous deferrals, domestic charges will also not be introduced in 2010-11 which will provide an additional saving to the average household who use these public services of approximately £400 next year compared to the situation under Direct Rule. Whilst changes in budgeting treatment mean that the cost to the Executive of this measure is less than it could have been, there remains a significant pressure of some £120 million in terms of current expenditure and £93 million in terms of capital investment.

Although the Executive was able to cover the cost of deferring water charges in 2009-10 as part of the June Monitoring Round, the experience of 2008-09 and the year to date is that it is becoming increasingly difficult to source sufficient resources to address emerging pressures, whilst at the same time reducing the level of overcommitment to a prudent level.

As part of the original 2007 Budget process, the planned level of overcommitment had already been reduced to £60 million for 2010-11 compared to £100 million in 2008-09. However, the further decline in the level of reduced requirements declared by departments in the first half of 2009-10, as set out in my December Monitoring Statement yesterday, means that there is a need to go further.

In response, the Executive has proposed that the starting level of current expenditure overcommitment should be reduced to zero next year which will provide much greater scope to address emerging pressures.

In addition, although the main focus of this Review has been on the pressures faced in 2010-11 financial year, it was also important that we begin to prepare for the future when resources are expected to be even more constrained. It is for this reason that the Executive has proposed that £26 million is allocated to an Invest to Save Fund which will provide additional support to departments in respect of the upfront costs that are often required in order to make savings.

Proposals for Invest to Save projects have been commissioned from departments and I will bring further details back to the Assembly regarding specific allocations as part of the finalisation of these draft plans.

The easy option here would have been to do nothing on this issue which would have reduced the level of intervention required at this time. However, this short-sighted approach would have shifted the burden to the 2010-11 financial year when the Executive would then have struggled to address emerging pressures.

Mr Speaker, the third significant pressure facing the Executive next year is in respect of the one-off cost of the Civil Service Equal Claim. Although the overall cost of just over £160 million will be offset by the support secured by my predecessor from the Prime Minister in 2008, this will still involve ongoing costs in terms of additional RRI borrowing, which means that there remains an unfunded pressure of up to around £65 million for 2010-11, depending on the timing of payments.

In overall terms, my assessment is that the Executive faces spending pressures next year of £217.1 million in terms of current expenditure and £149.9 million in respect of capital investment. Including the £26 million set aside for the Invest to Save Fund this is equivalent to 2.6% of planned current expenditure for 2010-11 and 10.2% in respect of capital investment.

## **Executive Response**

Mr Speaker, in response to the emerging financial position for 2010-11 the Executive has considered a range of alternatives. However, the only realistic option in terms of generating the level of funding required is to make adjustments to the existing spending plans of departments.

Although it was recognised that all departments could go further in terms of improving efficiency, the Executive agreed that some departments would be in a better position to release additional resources next year than others and therefore, a targeted approach should be adopted rather than a simple pro-rata cut.

In addition, the Executive was critically aware of the need to protect priority frontline services where possible, with for example, the lowest percentage level of savings proposed for the Department of Health, Social Services and Public Safety.

Unfortunately the overall level of savings required meant that it was simply not possible to exempt entire departments from the process, although I would expect that my Ministerial colleagues would seek to reduce the costs of bureaucracy in the first instance.

Mr Speaker, there will inevitably be calls for the amount of savings required of one department or another to be reduced because of the impact on public services. However, the reality is that reducing the amount required of one department, will increase the burden on others.

Therefore, whilst I and my Executive colleagues would welcome any proposals from fellow Members of this Assembly in response to the draft plans being published today, these must include details of both where additional savings could be made as well as where they should be lower. Addressing both sides of the equation is essential if alternative proposals are

to be considered credible. The Executive will also continue to examine areas where savings could be made on a cross-departmental basis to minimise the impact on public services.

There will also be more general concerns that the overall level of public spending is lower than originally set out in January 2008. However, it is important to note that most of the savings required will be recycled back into departments. In addition, although reducing the level of overcommitment requires £60 million in additional savings now, this in turn means that there will be much greater scope to address pressures as part of the 2010-11 In-Year Monitoring process so that the issue is one of timing.

Overall, the Consultation Document shows that the total level of spending by Northern Ireland departments would only change marginally under the Executive's proposals compared with the original plans, with a reduction of 0.1% in current expenditure spending to £9.0 billion, whilst the capital investment plans will decrease by 1.0% to £1.4 billion.

This is less than the rates of end-year underspend experienced in recent years and highlights that the objective of the Review was to reprioritise the funding available to the Executive in light of changing circumstances and local needs and priorities.

Mr Speaker, one area that was considered as part of the Review, but where the Executive has decided that action should be taken instead as part of the 2010-11 In Year Monitoring process, is in respect of the anticipated shortfall in departmental capital receipts. Although the economic recession has had a wide ranging impact on Northern Ireland, the main consequence in terms of public finances is that the planned level of departmental capital receipts have not been achieved in full.

In terms of 2010-11, the main shortfall will be in respect of the £200 million planned from the sale of the Crossnacreevy site, with further amounts in

terms of House and Land Sales as well as the planned disposals by other departments.

However, there is expected to be similar amount of funding available to the Executive from slippage in two major capital investment projects which will allow the Executive to provide support to the department affected, provided that all available actions are also taken by those departments to address the funding deficit internally.

In addition, although there are signs of recovery in the property market, the position remains volatile. In this context it would have been inappropriate to address these pressures at this time, when market conditions might be significantly different in six months time whilst departments should be provided with the opportunity to address the shortfalls internally in advance of calling on the Executive for assistance.

### **Next Steps**

Mr Speaker, it is essential that the proposals set out today are subject to robust scrutiny and challenge in the Assembly over the coming weeks.

The document that I have published today sets out details of the public context for 2010-11 and the Executive's proposed response. In addition, I have asked that my Executive Colleagues publish details of the implications for their individual departments on their respective departmental websites. This is to include details of how the additional savings are to be made as well as the improvements in public services that will still be delivered next year.

I would expect that all Committees will wish to review the position for their respective departments, particularly in respect of how savings are to be achieved.

The Committee for Finance and Personnel will have a key role in this respect in co-ordinating the views of Committees as well as considering the overall strategic approach to the exercise.

It is unfortunate that more time was not available to the Assembly as part of this consultation process. However, I would hope that Members would recognise that the complex and difficult issues involved required careful consideration by the Executive in developing the draft proposals, before the House today.

In addition, it is essential that the revised departmental budgets are confirmed before the start of the new financial year, recognising that it would have been even better for the Review to have already been completed, as I had originally planned.

Therefore, I have asked that the Committee for Finance and Personnel publishes its response to the Executive's draft proposals by the end of February in order to provide the Executive with sufficient time to consider the views of the Assembly in coming to an agreed final set of spending plans for 2010-11 by the middle of March.

### **Conclusion**

Mr Speaker, the downturn and instability in both the property and financial markets over the past two years has had a significant impact on the global economy. Although we would all wish for a swift recovery, the fact is that there will be repercussions for many years to come.

This is particularly the case in terms of public finances where an unprecedented real terms freeze in current spending and reduction in capital investment funding is the most optimistic scenario for the next Spending Review coupled with increases in taxation as the Government seeks to reduce the level of borrowing.

Therefore, the proposals that I have published today represent an early indication of the even more difficult decisions to be taken in the years ahead. In particular, this Review has highlighted the clear trade-off between continued deferral of water charges and the amount of funding available for public services.

However, in the circumstances I was faced with, I am confident that the proposals I am publishing today represent the best way forward in the next financial year.

Recognising the constraints on the Executive, they seek to restore public finances to a more sustainable position whilst at the same providing further assistance to households from the further deferral in the introduction of water charges.

I commend them to the House.