

**PUBLIC EXPENDITURE
PROVISIONAL OUTTURN 2008-09
&
JUNE MONITORING 2009-10**

**STATEMENT TO THE ASSEMBLY
BY
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Introduction

Mr Speaker, with permission, I would like to make a statement regarding the spending performance of Northern Ireland departments last year as well as the Executive's decisions on the management of the public expenditure position for the current financial year as part of the June Monitoring round.

Provisional Outturn 2008-09

During the course of 2008-09 concerns were expressed that the Executive faced a substantial funding gap with the result that there would be a shortfall in the level of public spending against the plans set out in the Budget document.

However, as I stand before the House today I am pleased to inform Members, that, on the basis of the Provisional Outturn position reported to my department, the Executive has delivered record levels of investment in our public services in 2008-09 of £8,600 million in terms of current expenditure and £1,500 million in relation to net capital investment. In terms of the latter this represents an increase of 32.0% on the equivalent figure for 2007-08, whilst overall spend by Northern Ireland departments has exceeded £10,000 million for the first time in our history in terms of Departmental Expenditure Limit (DEL) spending.

In addition, despite the shortfall in capital receipts Northern Ireland departments were still able to take forward £1,700 million in gross capital investment (i.e. net capital investment plus capital receipts) in 2008-09, equivalent to a 20.1% increase on the year before.

This strong performance is as a result of the pro-active decisions taken by the Department of Finance & Personnel during the course of 2008-09 as well as a significant reduction in the level of end-year underspend declared by departments.

In relation to current expenditure the overall level of underspend by Northern Ireland departments was £43.8 million in 2008-09. This equates to a rate of 0.5% compared to 2.1% in 2007-08 and the 1.5% target proposed by the Committee for Finance and Personnel for 2008-09. Further details are set out in Table A to this Statement.

The position on capital expenditure is somewhat distorted by the fact that the Department for Regional Development incurred a significant overspend in respect of additional costs from the reclassification of NI Water, while the Department of Agriculture and Rural Development had an overspend in relation to the Farm Nutrient Management Scheme. The Executive was aware of the potential for further costs to be incurred in both these areas, which was reflected in the headroom incorporated into the Spring Supplementary Estimates for these departments.

As a result Northern Ireland departments have declared a total overspend of £16.6 million in respect of capital investment. However, the flexibility for the Executive to switch budget cover from resource to capital means that the capital expenditure overspend is offset by the current expenditure underspend.

The overall outcome with a total underspend of only £27.2 million or 0.3% of planned spend is a vast improvement on the performance of local departments under Direct Rule when for example, almost £380 million or 4.4% of resources were left unspent at the end of 2005-06.

Mr Speaker, in terms of the current challenging economic situation, the best way in which the Executive can provide support to local families and businesses is to deliver against the plans set out in the Budget and the Programme for Government. Whilst, the level of public spending is only one piece of the jigsaw, the performance of departments last year on this measure provides clear evidence that the Executive is making a real difference to the lives of people in Northern Ireland.

Further confirmation comes from the Programme for Government Delivery Report for the period 1 April 2008 to 31 March 2009 which was the subject of a Written Statement by the First Minister and deputy First Minister last Tuesday, with details placed in the Assembly Library. This assessment illustrates that progress on the vast majority of targets was broadly on track or better - with a major risk to delivery identified in only 5 out of the 66 key goals and commitments and 27 out of 331 Public Service Agreements (PSA).

However, before I move onto the June Monitoring position, I would wish to highlight that, despite the strong overall spending performance, it has been disappointing that some departments have breached the public expenditure limits set by the Executive.

Whilst there will be mitigating circumstances in some cases it is nonetheless essential that Accounting Officers and Ministers recognise the importance of these controls and the requirement that they live within them.

My officials will work with departments over the coming months to gain a full understanding of the reasons for these breaches and the remedial actions which need to be put in place to avoid a recurrence.

Mr Speaker, the 2008-09 provisional outturn position also has implications for our future management of public expenditure as the improved levels of underspending in departments clearly indicate that we need to reduce our use of overcommitment as a tool for planning and managing public expenditure.

June Monitoring 2009-10

This brings me to the Executive's decisions in respect of the June Monitoring round.

This is the first monitoring round of the 2009-10 financial year with the role and purpose of the in-year monitoring process to allow the Executive to make

optimal use of the resources at our disposal by reviewing departmental expenditure plans in light of the most recent information available.

The opening position for this year reflects the plans set out in Budget 2008-11, which were predicated on an overcommitment of £80 million in respect of current expenditure and zero for capital investment.

Since the Budget was agreed there have been a number of changes in the level of resources available to the Executive including:

- Barnett allocations from the 2008 UK Budget and Pre-Budget Reports;
- Shortfalls in central receipts as a result of the economic downturn in relation to the work of the Central Assets Realisation Team; and
- Reduced requirements declared as part of the Strategic Stocktake

In addition, as part of the first monitoring round of the year it was necessary to confirm the budget cover as regards previous spending commitments entered into by the Executive before the spending bids submitted by departments could be considered.

The most significant spending commitment for 2009-10 arises from the Executive's decision last November to defer the introduction of domestic water charges for a further year. The resulting loss of income has led to a pressure of some £170 million for the Department for Regional Development, however this will be offset by the fact that the planned reduction in the regional rates to mitigate the impact of water charging was no longer required.

There are also a number of other previous spending commitments, including:

- the reduction in regional rates income as a result of the decision to freeze non domestic rates in cash terms;
- the return of funding to departments in respect of the proactive slippage during the course of the 2008-09 December Monitoring round;
- the Executive agreement in Budget 2008-11 that the costs of funding the shared services for all departments would be made available as part of the in-year monitoring process;
- funding for Integrated Development Fund projects previously committed to in principle including Education Initiatives in West Belfast and the Greater Shankill area and the Centre of Excellence in Intelligent Systems Projects in the North West; and finally
- the funding requirement to meet the running costs of the Northern Ireland Assembly.

Overall, £123.7 million in current expenditure allocations and £91.5 million in respect of capital investment have been made to departments as part of the June Monitoring round as a consequence of decisions previously taken by the Executive.

Mr, Speaker, in addition to the additional resources I have already referred to, departments have declared reduced requirements of £18.7 million in terms of current expenditure and £20.2 million in respect of capital investment as part of the June Monitoring round; which are over and above those already declared in the Strategic Stocktake and are set out in Table B.

The Executive has also allowed departments to move resources across spending areas where the movement is reflective of a proactive management decision taken in order to enable the department to manage emerging pressures within their existing allocations.

The most significant of these relates to the significant transfer of funding which I have agreed with the Social Development Minister to allow her department to deliver this year against the PSA target for new social housing units.

In their June Monitoring returns departments have identified £187.5 million of current expenditure pressures. In respect of capital investment departments have submitted bids of £206.5 million, with the majority of the pressures arising in the Department for Regional Development and the Department for Social Development. Details of all the bids submitted by departments are set out in Table C.

Mr Speaker, these bids for additional resources need to be seen in the context of the improved spending performance by departments in 2008-09 which means that it is necessary to significantly reduce the level of overcommitment that we conclude each monitoring round with, compared to the approach adopted in previous years.

In light of the relatively small amounts declared by departments as reduced requirements in this monitoring round, the overall financial position meant that the Executive was unfortunately not in a position to make further allocations at this time over and above the £215 million made available for existing commitments.

The one exception was in relation to social housing where the Executive agreed a £20 million capital allocation. This will provide immediate further assistance in this area with the dual benefit of allowing necessary maintenance work to proceed, as well as providing important support to the construction sector in these difficult times.

On the basis of the decisions taken as part of the June Monitoring Round the Executive will conclude this round with an overcommitment of £43.2 million current expenditure and £70.4 million capital investment, which will need

managed downwards in future rounds. The level of reduced requirements surrendered by departments in previous years indicates that this is a sustainable position at this time.

It should also be noted, that while lower levels of underspending by departments may curtail our ability to make additional allocations it does mean that financial management is improving and that departments are delivering the programmes that are planned which is a positive achievement in these difficult times.

Mr Speaker, I therefore commend the June Monitoring position to the Assembly.