

PUBLIC EXPENDITURE 2008-09

**DECEMBER MONITORING ROUND AND
EXECUTIVE RESPONSE TO THE ECONOMIC
DOWNTURN**

STATEMENT TO THE ASSEMBLY

BY

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Introduction

Mr Speaker, with permission I would like to make a statement regarding the outcome of the December Monitoring Round, and the Executive's response to the downturn in economic conditions.

Earlier this morning the Executive agreed to my recommendations in respect of the response to the economic downturn and the more general pressures identified by departments in their December monitoring returns.

As a result of these decisions I am pleased to be able to announce to the Assembly almost £70 million in special funding allocations focused on providing support to the local economy at this time of difficulty for business and households.

Later today the First Minister and deputy First Minister will set out further details of the Executive's response in the Take Note debate.

Although there are a number of challenges currently facing the Executive, the main concern continues to be the impact of the downturn in the economy and in particular market conditions adversely affecting key sections of the construction sector.

In the early part of the decade, Northern Ireland, as with the rest of the UK, enjoyed an apparently benign set of economic conditions with strong employment growth and rising incomes. However, in more recent years house prices began rising at unsustainable rates creating pressures on first time buyers in particular. This was followed by energy prices rising to record levels with the associated impact on the overall cost of living.

We are now in a position where both bubbles appear to have burst. While we have yet to see the full benefits of the fall in oil prices, despite the very welcome announcement today regarding gas and electricity prices, as well as the cost of living more generally, the decline in house building in particular has had a major impact on the construction sector. This has been compounded by the crisis of confidence in the credit markets which has forced economies across the world into recession.

As the scale and nature of the problems facing people in Northern Ireland has changed, the Executive is responding through utilising, to the maximum effect, the limited amount of resources that are available to us.

However, Members will appreciate that as a small open regional economy, and despite our strong desire to do everything possible, in reality there are only a limited set of levers under our control. The UK Government has significantly

greater scope, through for example taxation and social security, to influence economic conditions in the short term than we as an Executive.

In this respect, the Chancellor of the Exchequer has taken significant steps over recent months to recapitalise the banking sector as well as the announcement in the Pre-Budget Report to temporarily reduce the level of VAT in order to provide a stimulus to the retail sector. In addition, bringing forward the increases in Child Benefit from April to January, worth an additional £22 on average to families, and the payment of £60 to all pensioners in the New Year, provide real support to hard pressed households. There is also support for business including the decision to defer the increase in the small company's rate of corporation tax, and through a new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their HMRC tax bills on a timetable they can afford. The Bank of England has also played a significant role by reducing interest rates to their lowest levels since 1951.

The Executive has a key responsibility in this respect to ensure that the people of Northern Ireland feel the full benefit of national measures and initiatives. We also need to urge local banks to ensure, in particular, that the lower cost of borrowing is passed on to households and firms as well as the recent announcement in the Queen's speech of additional protection to homeowners at risk of default. **In this regard, tomorrow I will be meeting the leaders of the four main local banks.**

Despite the fall in interest rates, many householders are still finding it difficult to pay bills. For that reason, I welcome the consultation on a protocol on mortgage repossession cases initiated by the Courts in Northern Ireland. I support the stance that repossession should be a last resort and that all other possibilities should be considered first, giving hard pressed families every chance to remain in their homes.

This move comes in parallel with an initiative by the Northern Ireland Court Service that will provide a free advice service for those who are involved in repossession proceedings and who do not have their own legal representation.

Turning now to the construction industry, the importance of the contribution of the sector to the NI economy cannot be understated. In 2007, the output of the industry was in excess of £3.3 billion. This was a record level of output and included unprecedented levels of investment in infrastructure.

It is therefore of particular concern that the downturn in the housing sector has had such an impact over recent months. While developers, contractors, suppliers, professional firms and many other individuals working in this sector have been directly affected, in a close knit community such as ours the wider impact of job losses and the credit crunch touches us all in some way.

I also share the concerns, raised by all industry stakeholders, many of whom I have met, regarding the need for the planned capital investment set out in the Investment Strategy to be delivered to the market place as quickly as possible.

Clearly, delivering against our plans in the rapidly deteriorating national and international economic climate is a challenge for both departments individually and for the Executive collectively. In particular, significant reductions in the level of forecast receipts, arising from prevailing market conditions, have had to be incorporated into our plans. This is a challenge faced by both businesses and governments of all political persuasions across the world at this difficult time. Rather than supporting the Executive in rising to this challenge, some in this Assembly have simply sought to portray the issue as some sort of “Black Hole” in the Budget. This shows not only a complete lack of understanding of the global economic conditions, but also a contempt for the very people of Northern Ireland we are working to serve. The fact that we have now put together a package to respond to the emerging issues, while continuing to deliver increased levels of investment across all areas of public service, underscores the fallacy of that particular argument.

We have also had to manage the implications of recent legal challenges brought to the Courts on certain procurements. These legal issues will take some time to resolve and Members will appreciate that I cannot comment further on the specific cases.

However, I am determined to ensure that the planned construction of schools and other public sector infrastructure continues and today I want to announce that construction projects that were to be delivered using the framework agreements affected will not be stopped.

Instead, my Department will be working with a wide range of Government construction clients, including the Department of Education, to move the procurement of projects forward as quickly as possible on a project-by-project basis.

As a result of this I can announce that contracts worth some £115 million, that were due to be delivered by the frameworks, will move ahead, avoiding unnecessary delay and allowing them to go to the market place this financial year.

Crucially, this action means that no construction project will be held up pending the outcome of legal proceedings. The projects include, amongst others, major projects relating to schools and colleges.

In addition I have, following the Pre Budget Report, the opportunity to accelerate capital investment from 2010-11 into the two preceding years with a maximum of £9.4 million that can be accelerated into the present year (2008-09). I am

pleased to announce that the Executive has agreed to my proposal that the full amount is accelerated for this year.

In placing a major emphasis on ensuring that public investment in infrastructure is delivered to plan, the latest forecasts from departments indicate that total capital investment this year will be around £1.5 billion.

This will be the largest ever level of investment in a single year in Northern Ireland's history, and is well over double the level that was delivered by the last devolved administration.

Our expenditure this year is also some 40% ahead of where we were this time last year.

This level of spend represents a real and meaningful achievement of this Executive in the most difficult of circumstances.

In addition Public Sector investment in infrastructure is set to continue to increase over the remaining years of the Investment Strategy. The level of planned expenditure for the first three years of the Strategy is in the order of £5 billion.

Major infrastructure projects with an estimated value of almost £1.3 billion, are already under construction. These projects include 7 major projects worth £265million in our health service, 3 major projects worth £420 million on roads, 10 waste water projects worth £89 million, the Belfast sewers project worth £127 million, 4 further education projects worth £83 million, 14 major schools projects worth approximately £233 million, 3 major projects run by DCAL worth £46 million, and 3 urban regeneration projects worth £26 million.

A further range of projects are scheduled to go to the market place before the end of this financial year at a total value in excess of £400 million. These include major projects in health, roads, water infrastructure as well as schools and colleges. Some examples are Beechall Health and Well Being Centre at £14.8 million; Shankill Health and Well Being Centre at £11.6 million; the A26 Ballee Road East at £7 million; water infrastructure projects at Dungannon and Moygashel worth £26 million, and a major PPP school project amounting to £50 million.

Looking ahead, gross capital investment planned for the next two years is planned to be well in excess of £3 billion.

Today I can also announce that we are also establishing a Construction Industry Forum - Procurement Task Group to focus on the key task of ensuring that projects continue to be delivered on the ground. This will provide an opportunity for a wide range of key industry stakeholders, drawn from the Construction

Industry Group, to examine the procurement procedures used by the public sector and increase industry understanding of public procurement.

Small businesses make an important contribution to the Northern Ireland economy and I would encourage them to form consortia to bid for contracts and to look for opportunities within the supply chains of successful tenderers.

However it is also important to maximise the opportunities for small contracting firms to bid for public contracts and my Department will work with the Industry and the Government Construction Clients to establish appropriate procurement procedures to achieve this.

Public procurement policy requires that we publicly advertise all procurement opportunities with a value in excess of £30 thousand. But to assist small businesses to respond to these opportunities, I can tell the Assembly that the Procurement Board, which I chair, has now agreed to implement a single e-sourcing system for all of its procurement activities. This system will increase the visibility of tender opportunities and improve standardisation of approach to the market place. This in turn will help small businesses and lead to a reduction in the time and cost of bidding.

It is important to ensure that we make every effort to address any impediments to the delivery of projects on the ground. It is often claimed that our planning system can be a major obstacle in the flow of new business for the construction sector. In response, the Minister for the Environment and I commissioned the Performance and Efficiency Delivery Unit to conduct a review of the processing of planning applications.

Working in conjunction with, and with the full and enthusiastic support of, the Planning Service, the Review Team concluded that there was significant scope to improve processing times by better managing the often repeated and lengthy interactions with Agents and Consultees. The team also proposed a number of actions in relation to better performance management, the re-activeness of the senior management structure, and the need for short term interventions in those Planning Divisions where performance was adrift of the level required.

Today I want to announce that both the Minister for the Environment and I have fully endorsed the detailed Action Plan prepared by the Planning Service to address these issues, and we expect to see a measurable improvement in performance in the short term. Once again this is another example of this administration delivering on our commitment to proactively challenge and improve public services and I believe that it will pay dividends.

Mr Speaker, another key issue for local firms at this time, particularly small businesses, is cash flow given the apparent hesitancy of banks to provide short term liquidity cover. As a major purchaser of goods and services Northern

Ireland, departments have a key responsibility to provide assistance in this respect. Central Government in Northern Ireland spends in excess of £2 billion each year on goods and services, and a significant proportion of this is with locally based businesses. Against an economic background of very tight credit terms between businesses, and between businesses and their banks, prompt payment by the public sector is essential.

In the current economic climate we must do all we can to support the local economy and one very direct way we can achieve this is by processing and paying our bills promptly. For this reason I have asked all public sector organisations to reduce their targets for paying approved invoices from 30 days to 10 days.

By reducing the amount of time that business may be “out-of-pocket” in respect of goods and services provided to the public sector we are seeking to help reduce the pressure that local businesses may be under: in terms of their cash-flows; their banking facilities; and their credit terms with their suppliers.

I have also had engagements with our leading banks. Indeed, and as I have mentioned, I am chairing a collective meeting of the 4 main banks tomorrow to discuss how they might best assist both consumers and local businesses through this difficult economic time. We need to ensure that all assistance schemes such as the Small Firm Loan Guarantee Scheme and European Investment Bank funding are fully utilised.

And the focus of my work has not just been restricted to those who need our help, but those who can help us. As a consequence of my sustained dialogue with both the Chief Secretary to the Treasury and the Prime Minister, we have secured a package of assistance worth up to £900 million over this year and next. This includes access to funding to assist with our response to the current economic position, and the removal of significant cost pressures we would otherwise have faced, which would have necessitated the diversion of funding away from front line public services here. I am grateful to the Prime Minister for the personal attention he has given this issue, and would record that we are continuing to engage on a range of other issues facing us going forward.

But it is not just the construction industry that is feeling the impact of the downturn in the economy. As the decline in activity persists local households and businesses generally are now faced with further pressures following on from those over the past year in relation to the increased cost of living.

In spite of the work that we have done and continue to do I believe there is a need to go further in terms of the Executive response to the economic downturn. For this reason the main focus of the December monitoring round was on the economy and not just the range of other pressures that would face departments at this time.

In preparation for this work departments were asked to identify costed measures in response to the economic downturn which could be delivered before the end of 2008-09. However, Members will be well aware that there is a lot that departments can do without the need for significant additional resources such as the work being taking forward by the Enterprise Minister in terms of debt advice and consumer protection. These proposals were discussed, in the context of the available resources, at the Executive meetings on the 27th November, 8th and 11th of December as well as the Executive sub-group meeting on the 4th December.

In terms of current expenditure the Executive concluded the September monitoring round with an over-commitment of £65 million. This has been offset by the £72.6 million of reduced requirements identified by departments, and a small amount from the Pre-Budget Report.

In terms of capital expenditure the Executive entered the December monitoring round with an over-commitment of £103.2 million following the suspension of the Workplace 2010 procurement process and the anticipated shortfall in capital receipts from the work of the Capital Assets Realisation Team.

This was offset by £11.1 million from the Pre-Budget Report and £31.8 million of reduced requirements.

However, the Executive was rightly concerned that the relatively low level of capital expenditure reduced requirements meant that the Executive would not be in a position to provide a sufficiently substantive response to the downturn in economic conditions.

Therefore, departments were asked to reconsider their capital expenditure requirements for the remainder of this financial year with the result that a further £36 million of easements were identified which were then available for allocation by the Executive.

Although the low level of capital reduced requirements meant that there was less for the Executive to reallocate, it also means, as I have indicated, that more capital projects are actually being taken forward and hence providing immediate support to the construction sector, rather than having to wait for funds to be reallocated as part of the monitoring process.

Over the entirety of 2008-09 this implies an additional £270 million in net capital expenditure. This highlights the fact that the most significant action that the Executive can take to provide support to the local construction industry is to deliver on the ambitious plans set in place in the Budget process last year.

The key decision for the Executive was decide how much should be allocated towards the proposed measures in response to the economic downturn against the departmental pressures identified in December monitoring returns. Based on careful consideration of the proposals, the Executive has agreed the following package of measures in terms of the response to the economic downturn with a focus on the construction sector and measures which will have the most immediate impact.

- **£20.0 million to the Farm Nutrient Management Scheme which** has acted as a buffer to the construction sector from the downturn in the property market. These funding will allow for the completion of the schemes in which 40% of the funding comes from individual farmers thus leveraging in further support for construction firms. This means that this additional allocation will provide over £33 million of additional work for construction firms, while the entire scheme is worth over £200 million to the sector.
- **£4.0 additional funding for Schools Maintenance, £2.5 million for Roads Structural Maintenance and £1.8 million for Public Transport Capital Works** - which will not only provide additional work to the construction sector at very short notice but will also lead to an improvement in our public infrastructure;

Fuel poverty has been at the heart of the Executive's discussions, and I welcome the announcements today that:

- NIE Energy electricity tariffs will be decreased by 10.8% from 1 January 2009;
- Phoenix Supply Ltd plan to reduce their prices by 22.1% from 8 January 2009; and
- *firmus energy* is to further extend their price cap until February 2009, to help customers to budget their energy needs into January in what is normally one of the coldest months of the year.

I commend all those involved for working to ensure the tariff review process was completed speedily so as to enable these welcome reductions to be announced before Christmas.

But the Executive believes that it can and must do more at this stage to help offset the impact of increased costs that households have already had to endure. As part of December monitoring the Social Development Minister proposed that 65,000 households should receive support with their fuel bills

this year. However, I believe there is a need to go further. For this reason, I am announcing today:

- **£15 million for Fuel Poverty** which will provide for a £150 payment to 100,000 households in receipt of Income Support or Pension Credit. The Office of the First Minister and deputy First Minister will make an announcement in relation to how this will be facilitated later today. This will provide additional help for some 65,000 households on Income Support and a further 36,000 households on Pension Credit. This will be on top of the Winter Fuel Allowance of up to £250 for those aged 60-79 and £400 for those aged 80 and over.

In addition, the Executive also agreed to the following allocations:

- **£0.5 million for Flooding Hardship for Agriculture** as the downturn in the economy is expected to place significant downward pressure on the price of agricultural produce. This funding is to provide to those farmers who were already suffering due to the severe flooding in the summer so that they are in a more stable position as they move into more difficult trading conditions.
- **£0.7 million for the Fishing Industry** - in respect of Harbour and Light dues to provide some respite in the face of rising input costs and falling quotas.

I am also announcing today a further £20 million of current expenditure to address a range of other pressures identified by departments.

- **£1.6 million** to DHSSPS for **Children Funds** following agreement from the relevant Ministers as to the highest priority projects;
- **£5.0 million** to DHSSPS for **Budget Flexibility** representing the third tranche of the available funding to be allocated to that Department during the year;
- **£4.0 million** as a further contribution to the increased cost of the **Special Purchase of Evacuated Dwelling** scheme, although the Department for Social Development will need to take steps to meet the remainder of the additional costs.
- **£3.0 million** to address pressures across a range of business areas in the Department for Regional Development;
- **£2.6 million** to the Department of Education to fund the back pay and increased pay costs for part-time Youth workers following agreement on a revised pay structure;

- **£2.0 million** to the **Department of the Environment** in respect of lost income for the Planning Services from the lower than expected development activity; **and**
- A further **£1.5 million** to the Department of Agriculture to address pressures in respect of **Animal Health** as the rising market price of animals has implications in terms of the level of compensation payments.

Mr Speaker, most of the available capital expenditure was required in order to fund the specific package of measures in response to the economic downturn. However, it was also judged that there was scope to make a further allocation of **£5 million** to the Department of Social Development in respect of the housing programme.

The consequence of these current and capital expenditure allocations is that the Executive leaves the December monitoring round with a planned over-commitment of **£75 million** with respect to **current expenditure** and **£10 million** in terms of **capital investment**.

The fact that the Executive has been able to respond today to these important issues serves to illustrate what can be done by the devolved administration. However, as I have indicated today, much of the normal business that we engage in as an Executive will have a direct benefit to the economy of Northern Ireland in terms of capital investment and other public spending.

We must not forget that, while single high profile initiatives are of course valuable, it is often the routine, and sometimes unglamorous, business of day to day government that can make the biggest difference - simply by reducing departments' underspends and focussing on delivering on our well crafted and ambitious plans will in itself provide much of the support that is needed.

Mr Speaker, the Northern Ireland Executive has limited tax raising powers at its disposal but today I would like to make some further announcements in areas where we do have responsibility.

The Executive already has taken measures to freeze domestic Regional Rates, defer water charges, and introduce a Concessionary Fares Scheme as well as the plans to abolish prescription charges.

In addition, I have examined how reform of the rating system can provide further assistance. Within the rating system, as Members will know, my Department has put in place a number of measures which are already helping both households and businesses and which will continue to provide real support during these difficult economic times. On the domestic side, the regional rate has been frozen at 2007-08 levels for this financial year and for the next two years. Coupled with the deferment of water charges, this is leading to real savings for many families.

As a result of decisions already taken in relation to the Regional Rate and Water Charging the average householder will be over £1000 better off during this Assembly term than would have been the case under Direct Rule.

The Lone Pensioner Allowance was introduced in April this year. This provides pensioners over the age of 70 living on their own with a 20% reduction in their rate bill. Already, more than 20,000 pensioners are benefiting from this.

Changes to the rules around savings within the Rate Relief Scheme are also making it easier for pensioners to claim relief through that scheme.

I have also recently set out my plans to introduce a rates deferment scheme to allow pensioners, if they so choose, to defer payment of their rates bills.

Work is also being taken forward, alongside the Department for Social Development, to improve the take up of rate relief and ensure that those who are entitled to relief get it. I think this is vitally important at this time.

But considering the current situation and the best way forward for households and businesses I intend to go further.

Shortly I will bring forward details of the scheme I announced a few months back which, from 2010 onwards, will provide a rate rebate to those that carry out energy efficiency improvements by bringing their homes up to modern standards of insulation - providing an added incentive to householders to invest sensibly and effectively - and in taking this simple step, help cut NI's energy bill and put a little more money into peoples pocket.

A further measure I will be taking forward relates to my earlier proposal to provide a 5 year rates holiday to zero carbon homes. I was persuaded, following the public consultation earlier this year, to go further and to extend the scheme to also include a 2 year rates holiday for new low carbon homes. This will be of some further help to housebuilders by encouraging demand for energy efficient housing, and thus provides a double benefit.

On the business front, industrial rates have been frozen at 30%, which I am sure is already providing a welcome boost to many in the manufacturing sector. In addition, Rate relief is also already being provided to those in the freight and transport sector, which is benefiting many of our important docks and transport companies.

However, I intend to provide further support to local business through further changes to the rating system.

Today, I can announce that I intend to bring forward a proposal for new legislation to allow a targeted small business rate relief scheme to be introduced.

Importantly, this would be funded centrally and not by charging other ratepayers more.

The process of bringing final proposals to the Executive and taking enabling legislation through the Assembly means that, if passed, it will be come into force in 2010.

But I believe it is necessary to give further help which will take effect as soon as possible. Members will be aware that, at the time of the last Budget, it was announced that the non domestic regional rate, which applies to all businesses, would only increase in line with forecast inflation at that time over the life of the CSR period, so as to provide much needed certainty for businesses moving forward. However, to ensure we provide that much needed support quickly and effectively, as an interim measure I propose that non-domestic rates should be frozen in cash terms for 2009-10, further enhancing the competitiveness of local firms, protecting jobs and incomes and representing a real saving for all hard pressed businesses operating in NI during these difficult times. This measure will be worth almost £8 million to Northern Ireland businesses in 2009-10.

In conclusion Mr Speaker, the Executive entered this Monitoring Round at a time when economic conditions across the world are in decline with little indication that the end is in sight, despite the unprecedented measures by a number of national Governments. The changing economic conditions are impacting on all of us, whether it is in terms of household bills or the prospects of local business. Although the public sector has been quoted as a cushion for Northern Ireland in terms of the economy, it also needs to be recognised that the downturn has also impacted on the level of resources available to the Executive.

From today's announcements I believe that it is clear that we are taking action with a series of measures which will provide maximum benefit to those areas most in need, while also recognising the financial constraints facing us.

I believe that, within the powers open to the Northern Ireland Executive, this package is good for business, good for the construction industry and good for families and I commend the December Monitoring position to the Assembly.