Committee for Finance and Personnel

Report on the Executive's Draft Budget 2015-16

Together with Responses from Assembly Committees, Submissions from Stakeholders and Correspondence from the Department of Finance and Personnel

Ordered by the Committee for Finance and Personnel to be published 17 December 2014

Mandate 2011/16 **Twelfth Report - NIA 219/11-16**

Committee Remit, Powers and Membership

Powers

The Committee for Finance and Personnel is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the Northern Ireland Act 1998 and under Assembly Standing Order 48. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and Personnel and has a role in the initiation of legislation.
The Committee has the power to;

- consider and advise on Departmental budgets and annual plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of primary legislation;
- call for persons and papers;
- initiate inquiries and make reports; and
- consider and advise on matters brought to the Committee by the Minister of Finance and Personnel.

Membership

The Committee has eleven members, including a Chairperson and Deputy Chairperson, with a quorum of five members. The membership of the Committee during the current mandate has been as follows:
Mr Daithí McKay (Chairperson)[1]
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree MBE
Ms Michaela Boyle[2]
Mr Paul Girvan
Mr John McCallister[3] [4]
Mr Ian McCrea[5] [6]
Mr Maírtín Ó Muilleoir[7] [8]
Mr Adrian McQuillan
Mr Peter Weir[9]

[1] Mr Daithí McKay replaced Mr Conor Murphy MP with effect from 2 July 2012
[2] Ms Michaela Boyle replaced Ms Megan Fearon with effect from 2 December 2013
[3] Mr Roy Beggs replaced Mr Ross Hussey with effect from 23 April 2012
[4] Mr John McCallister replaced Mr Roy Beggs with effect from 15 October 2012
[5] Mr Ian McCrea replaced Mr David McIlveen with effect from 16 September 2013
[6] Mr David McIlveen replaced Mr David Hilditch with effect from 1 October 2012
[7] Mr Raymond McCartney replaced Mr Mitchel McLaughlin with effect from 6 October 2014
[8] Mr Maírtín Ó Muilloeir replaced Mr Raymond McCartney with effect from 10 November 2014
[9] Mr Peter Weir replaced Mr William Humphrey with effect from 1 October 2012

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List of Abbreviations and Acronyms used in the Report

ALB	Arm's Length Body	NI	Northern Ireland
AME	Annually Managed Expenditure	GVA	Gross Value Added
APD	Air Passenger Duty	ICTU - NIC	Irish Congress of Trade Unions – Northern Ireland Committee
CBI	Confederation of British Industry Northern Ireland	NIAO	Northern Ireland Audit Office
CFP	Committee for Finance and Personnel	NIAUR	Northern Ireland Authority for Utility Regulation
CMS	Child Maintenance Service	NICEP	Northern Ireland Centre for Economic Policy (known now as Ulster University Economic Policy Centre)
CVS	Commission for Victims and Survivors	NICCY	Northern Ireland Commissioner for Children and Young People
CPA NI	Commissioner for Public Appointments in Northern Ireland	NICRC	Northern Ireland Community Relations Council
CTA	Community Transport Association	NICVA	Northern Ireland Council for Voluntary Action
DARD	Department of Agriculture and Rural Development	NIHE	Northern Ireland Housing Executive
DCAL	Department of Culture, Arts and Leisure	NIJAC	Northern Ireland Judicial Appointments Commission
DE	Department of Education	NITB	Northern Ireland Tourist Board
DEL	Departmental Expenditure Limits	NIW	Northern Ireland Water
DEL	Department for Employment and Learning	NMNI	National Museums Northern Ireland
DETI	Department of Enterprise, Trade and Investment	OBR	Office of Budget Responsibility
DFP	Department of Finance and Personnel	OECD	Organisation for Economic Cooperation and Development
DHSSPS	Department of Health, Social Services and Public Safety	OFMD FM	Office of the First Minister and deputy First Minister
DoE	Department of the Environment	PEDU	Performance and Efficiency Delivery Unit
DoJ	Department of Justice	RRI	Reinvestment and Reform Initiative
DRD	Department for Regional Development	SDP	Savings Delivery Programme
DSNI	Disability Sport Northern Ireland	SIB	Strategic Investment Board
DSD	Department for Social Development	SSA	Social Security Agency
DVA	Driver and Vehicle Agency	SNI	Sport Northern Ireland
EDP	Efficiency Delivery Programme	TIL	Tourism Ireland
EU	European Union	SBRR	Small Business Rate Relief scheme
FDI	Foreign Direct Investment	SDP	Savings Delivery Plan
FHS	Family Health Services	SEN	Special Educational Needs
FSB	Federation of Small Businesses	SHDP	Social Housing Development Programme
FTC	Financial Transactions Capital	SIB	Strategic Investment Board
GAD	Government Actuary's Department	SME	Small and Medium-sized Enterprises
HIU	Historical Investigations Unit	TYC	Transforming Your Care
ITI	InterTrade Ireland	UUEPC	Ulster University Economic Policy Centre (formerly Northern Ireland Centre for Economic Policy)
MOU	Memorandum of Understanding		

Key Conclusions and Recommendations

1. The Committee recognises that, despite the best endeavours of DFP to gain Executive agreement earlier on the Draft Budget 2015-16, circumstances have resulted in a truncated budgetary process with considerably less scope than normal for input by the Assembly and wider public. Due to the resultant time pressures and absence of detailed information on some key issues, the Committee has been unable to prepare the type of coordinated report made in respect of previous Executive draft budgets. Previous reports have contained detailed analysis, findings and recommendations based on comprehensive evidence on strategic, cross-cutting and departmental specific issues. Instead, this informal report on the Draft Budget 2015-16 outlines the issues raised by the Committee and related recommendations, based on the more limited evidence and information available within the time constraints, and appends the responses from other Assembly committees arising from their scrutiny at a departmental level (Appendix 1). **(Paragraph 7)**

2. It is recognised that the lack of clarity at this stage around some aspects of the budget reductions and allocations may, in part, be a result of the truncated nature of the 2015-16 budget process, including the fact that Assembly committees were not afforded the opportunity to scrutinise the departmental bids and proposed allocations and any supporting evidence prior to the Executive agreeing the Draft Budget for public consultation. Nonetheless, the Committee believes that the explanation of the proposed changes to the non ring-fenced Resource budgets of departments could have been presented more clearly in the Draft Budget documentation, thereby facilitating Assembly scrutiny and enhancing the public consultation. Greater transparency around the basis for allocations would enable the Assembly to determine, for example, whether a consistent approach was taken across departments and whether the funding of particular ‘central strategic pressures’ warrant the resultant reduction in departmental resource budgets. The Committee believes that the final Budget document should therefore provide further information and clarity in this regard. **(Paragraph 14)**

3. Given the Executive’s stated priority of ‘rebalancing the economy’ and the importance of the availability of third-level talent in attracting FDI, the Committee believes that, in terms of the 2014 Autumn Statement Barnett Consequentials or any other additional resources identified by DFP before Budget 2015-16 is finalised, the first call on these should be to address the risk of reductions in local University and FE education and training places, particularly in terms of the qualifications and skills which drive the knowledge economy. Moreover, the Committee would recommend that, in finalising the Budget document, DFP gives consideration to more clearly setting out the wider economic impact of the specific departmental reductions and related measures such as workforce restructuring. **(Paragraph 22)**

4. Given its concerns around the £133 million provision in the Draft Budget for increased employer contribution costs for public sector pensions, particularly that the risk of this pressure materialising was not highlighted earlier, the Committee seeks further assurance from DFP both on the robustness of the estimated cost of the annual increase

from 2015-16 and on how any risk of such a sudden and significant impact on departmental budgets recurring in future will be mitigated. **(Paragraph 29)**

5. In view of the scale of budgetary pressures in 2015-16 and beyond and given that DFP's role has changed from *'one of challenge to one of pure co-ordination'*, the Committee sees an urgent need for the Executive to provide for an effective external advisory and challenge function in respect of budgetary savings and efficiencies. If it is not possible/appropriate to confer this function on an existing body, the Committee would propose that an external 'panel of experts' or commission is established, which has buy-in from all Ministers. The focus would be on assisting in ensuring that savings are maximised while priority frontline services are protected. Having the expertise and access to the necessary information and undertaking its work on an ex-ante basis, such a body should report directly to the Executive in offering an independent critique of planned savings and efficiencies and in terms of ongoing implementation, both at a departmental specific and cross-departmental level. This would provide added assurance and may also serve to boost public confidence in the Executive's budget plans for 2015-16 and beyond. **(Paragraph 46)**

6. Given that it is imperative to protect priority frontline services over the coming years, members are concerned that half of all departments are recording increases in administration expenditure and, while plausible explanations may have been offered in some instances, the Committee would call for this area of expenditure to be carefully monitored and regularly reported on by DFP at a cross-departmental level to enable rigorous challenge by the respective Assembly statutory committees. Furthermore, the Committee recommends that the final Budget document spells out how administration costs are going to be managed and reduced going forward. **(Paragraph 51)**

7. The Committee would highlight previous difficulties in forecasting asset realisation and the need for the Executive to ensure that, in repaying the £100m to the UK Reserve from disposals, it will be important to also achieve best value for money in the sale of public assets. **(Paragraph 57)**

8. In terms of the potential to maximise asset realisation, the Committee would remind DFP of the findings from its *Inquiry into Flexible Working in the Public Sector in Northern Ireland* which highlighted case studies from both the public and private sectors demonstrating how, in addition to achieving cumulative savings in office accommodation costs per annum, a strategic approach to flexible location working would boost capital receipts from property sales. **(Paragraph 58)**

9. The Committee recognises that staff costs account for a large proportion of many departments' expenditure and accepts the point made in the Draft Budget document that *'the deteriorating Resource DEL position will necessitate proactive measures to reduce the size of the public sector pay bill'*. That said, in noting the alarming figures for potential redundancies being forecast by some departments and public bodies in recent weeks, the Committee would be concerned as to how redundancies on the scales being suggested, if they were to materialise, could be managed to avoid adverse impacts on priority public services. As such, the Committee believes that a credible restructuring

plan should be agreed corporately and published by the Executive as soon as possible, including details of how risks to service delivery are to be managed. This would also enable more informed scrutiny and oversight of departmental spending plans by the Assembly statutory committees. **(Paragraph 64)**

10. In expressing concern at the length of time it will take to conclude the OECD Review of Public Governance (i.e. November 2015), the Committee would encourage DFP and the Executive to begin applying lessons and addressing issues as they emerge during the progress of the Review. **(Paragraph 66)**

11. While the Committee has not, as yet, been provided with detail on the staff-generated ideas or on how the Department will determine which of the ideas are viable, members believe that this type of bottom-up approach is vitally important in identifying potential savings, reforms and service improvements in the public sector, which may otherwise be less apparent to officials at a senior level and who may be more detached from frontline service delivery. The Committee would therefore encourage DFP to promote the use of this approach across all departments. **(Paragraph 69)**

12. While welcoming the provision in the Draft Budget for a Change Fund, the Committee would encourage DFP to apply clear criteria for evaluation as well as a timetable for the assessment of projects receiving funding and for a report on the lessons to be applied in any potential expansion of the Fund beyond 2015-16. In terms of a wider preventative spending strategy, while it strongly encourages an increased focus in this direction, the Committee is mindful of the challenges which this presents. In that regard, the Committee would call on DFP to give greater priority to the scheduling of an Innovation Lab on Preventative Spend with a view to charting a way forward on this important issue (i.e. the Preventative Spend Lab is currently listed only as 'potential' in the Lab Portfolio). **(Paragraph 79)**

13. In recognising that the pressure on public finances will continue to increase over coming years, with the resultant risk to frontline services, the Committee calls on DFP and the wider Executive to prepare and publish a consultation paper on the options across all departments for raising additional revenue through charges and further devolved taxes and duties. This should set out all the applicable considerations on each option – such as the projected revenue/costs/benefits/risks/impacts (including in terms of the economy, consumers and the most vulnerable) – necessary to ensure a fully informed debate on how best to help meet the further budgetary challenges. **(Paragraph 89)**

14. Subject to receiving clarification on the queries it has raised, the Committee broadly welcomes the proposed Northern Ireland Investment Fund, especially given that this may offer an effective mechanism for addressing some of the barriers identified by the Committee in relation to maximising the potential for utilising EIB and FTC as sources of capital finance in Northern Ireland. In terms of FTC, the Committee recommends that the final Budget document includes an agreed approach to promoting awareness amongst departments and within the private sector in order to increase the uptake of opportunities for utilising this important source of capital finance. **(Paragraph 96)**

15. The Committee recognises that, arising from the legacy of the Troubles, the Executive has inherited burdens on public expenditure which are distinctive and additional to those faced by other regions. While the impact of decades of conflict and division on society and the economy of Northern Ireland has been immeasurable and not fully accounted for during the peace and political processes to date, it has left a range of deep-rooted problems, the resolution of which will be protracted and require, amongst other things, enhanced public spending on particular aspects of health, welfare, education, justice and economic regeneration. Given the scale of this challenge in a time of austerity, the Committee is fully supportive of the efforts of the local parties to secure external support, including from the UK and Irish governments, in the form of a 'Peace Investment Fund'. **(Paragraph 106)**

16. Given the need for greater oversight and closer scrutiny of public expenditure, coupled with the recurrence of difficulties experienced by Assembly committees in terms of insufficient time and information for meaningful scrutiny of the Draft Budget 2015-16, the Committee recommends that the proposed MoU on the Budget Process is agreed between the Assembly and the Executive as a matter of urgency. In so doing, the Committee concurs with the Finance Minister that the draft MoU needs to reflect the lessons learned from the 2015-16 process. **(Paragraph 114)**

17. The Committee believes that the limitations to the in-year monitoring process are all the more pertinent in the current public expenditure climate and considers that a formal budget review mechanism should operate on an annual basis, looking ahead at the subsequent financial year, as a complement to multi-year planning. In light of the unprecedented budgetary challenges facing the Executive over the coming years and while recognising the importance of continuing to plan strategically on a multi-year basis, the Committee would therefore reiterate the recommendation of its predecessor which called for *'the establishment of a regularised annual budgetary review mechanism, set to a pre-determined timetable, which it considers will aid transparency and better enable the Executive to adapt its plans to deal with changing circumstances and unforeseen pressures'*. **(Paragraph 116)**

18. In terms of the proposed budgetary allocations between departments, the Committee for Finance and Personnel recommends that, in finalising the draft Budget 2015-16, the Finance Minister and the wider Executive take on board the conclusions and recommendations contained in the separate submissions from each of the Assembly committees, which have been included in Appendix 1 to this Report. The Committee expects that the Finance Minister will take responsibility for ensuring that this Report is therefore brought to the Executive's attention before the draft Budget 2015-16 is finalised and brought forward for Assembly approval. Members would also expect that the Finance Minister will outline the Executive's response to the Report when presenting the revised draft Budget 2015-16 to the Assembly. **(Paragraph 118)**

Introduction

1. Following the launch of the eight-week public consultation on the Executive's Draft Budget 2015-16 on 3 November 2014, the Committee for Finance and Personnel (CFP) received an initial briefing from Department of Finance and Personnel (DFP) officials on 5 November, during which members discussed the proposed timeline for consultation and for input from Assembly committees. The Committee emphasised to officials the need to afford sufficient time for meaningful engagement between Assembly statutory committees and their respective departments on spending plans.

2. CFP decided to follow convention by preparing a co-ordinated report on the Draft Budget, which involved commissioning responses from the other applicable committees (the response deadline for which was Friday 5 December) and the scheduling of a 'take note' debate. In previous budget processes, the 'take note' debate has served the dual purpose of providing the wider Assembly with the opportunity to debate the Draft Budget before it is finalised by the Executive and of informing CFP's coordinated report.

3. In recognising the urgency of progressing the Draft Budget, CFP believes that it is equally important that there is appropriate consultation with the Assembly committees at this stage in the budget and financial process. The Committee Chairperson therefore wrote to the Finance Minister on 5 November 2014 to highlight this requirement and to point out that, given that several key pieces of information were not yet available (e.g. the workforce restructuring plan), there was a risk of a delay in departments publishing their detailed spending plans and being in a position to engage meaningfully with their committees. The Committee also noted that, in comparison with the 2011-15 process, the Executive was approximately six weeks ahead of schedule and, in having been issued with the Draft Budget, departments have now been provided with a useful basis upon which they can begin to plan for the next financial year.

4. The Committee Chairperson therefore requested an extension to the proposed deadline for receipt of the Committee's co-ordinated report, which would also have provided some flexibility for the other statutory committees in scrutinising departmental plans and thereby help to ensure that appropriate consultation has taken place (the timetable as it stood provided the other committees with only four weeks to take evidence and agree their responses to CFP).

5. In the meantime, CFP sought to have the 'take note' debate scheduled in the last week before Christmas recess on the basis both that committees would have reached an informed position following scrutiny of their respective departmental

draft budgets and that the Executive would not yet have finalised the Draft Budget. It did not prove possible to schedule the 'take note' debate before recess due to Ministerial availability and, following discussion with the Finance Minister on 26 November, CFP agreed to ask the Business Committee to reschedule the debate for 12 January 2015 and to consider extending the time allocation for the debate beyond the three hours indicated. This agreement was reached based on the Committee's understanding that the final budget allocations for 2015-16 will not have been agreed by the Executive by that date.

6. In his response to the Committee Chairperson on 1 December, the Finance Minister did not agree to an extension to the deadline for the Committee report, emphasising that the scale of the reductions means that it is imperative that budgets are finalised as soon as possible to allow departments to take key decisions on managing their budgets. The Minister also indicated his intention to bring the final Budget paper to the Executive on 8 January 2015 (which underscored the need for the input from Assembly committees to be provided to DFP before Christmas in order to inform/influence the Department's proposals paper).

7. **The Committee recognises that, despite the best endeavours of DFP to gain Executive agreement earlier on the Draft Budget 2015-16, circumstances have resulted in a truncated budgetary process with considerably less scope than normal for input by the Assembly and wider public. Due to the resultant time pressures and absence of detailed information on some key issues, the Committee has been unable to prepare the type of coordinated report made in respect of previous Executive draft budgets. Previous reports have contained detailed analysis, findings and recommendations based on comprehensive evidence on strategic, cross-cutting and departmental specific issues. Instead, this informal report on the Draft Budget 2015-16 outlines the issues raised by the Committee and related recommendations, based on the more limited evidence and information available within the time constraints, and appends the responses from other Assembly committees arising from their scrutiny at a departmental level (Appendix 1).**

8. Despite the constraints of the process, the Committee had sought to proactively gather evidence on relevant issues prior to the Draft Budget being published and, once the consultation document was launched, its scrutiny was prioritised in the Committee work programme, with briefings scheduled from the DFP Minister and officials and also written submissions sought from representative stakeholder groups, including the Confederation of British Industry (CBI), Federation of Small Businesses (FSB), Irish Congress of Trade Unions – Northern Ireland Committee (ICTU (NIC)), Northern Ireland Council for Voluntary Action (NICVA) in addition to a

submission from the Ulster University Economic Policy Centre (UUEPC)[10] – which are available in full at **Appendix 2**. In addition, the Committee has drawn upon various research papers from Assembly Research and Information Service, some of which were commissioned specifically by the Committee while others were prepared as a result of proactive work by the Service's Public Finance Scrutiny Unit.[11]

Strategic and Cross-cutting Issues

Resource Budget Changes

9. In seeking to establish a clear understanding of the background to and basis for the non ring-fenced Resource Departmental Expenditure Limit (DEL) budgets being proposed for departments, the Committee noted the following advice from DFP officials:

    'Departmental resource DEL budgets were developed using an incremental approach, so, basically, there was a roll forward of the 2014-15 opening position, which was then adjusted to remove timebound Executive allocations and EU funding that is yet to be allocated. The level of reductions was then agreed, and that will provide funding for central strategic pressures, along with an amount to be allocated in support of key public services. The reductions totalled £872 million, or 15·1%, of departmental baselines. Of that, £659 million was allocated back to Departments, and, of that, £534·5 million was allocated back for specific pressures… The remaining £124·5 million that was allocated back to Departments was allocated on a pro rata basis to the Departments that were facing reductions to help to alleviate some of the pressure.'[12]

10. In his statement of 3 November, the Minister provided an outline of the allocations, commenting that *'in making allocations, I believed that it was crucially important that the Executive give careful consideration to supporting its key prioritises, as well as ensuring that legal or contractual inescapable pressures in departments were met'*. The Committee also noted that, in terms of the application of the reductions, *'those elements of the Health budget relating to front line health and social care pressures have been protected'* and that the result of the various reductions and allocations was a net cut of £213.1 million in departmental Resource DEL expenditure, with all departments except DHSSPS and DETI in a minus position.[13]

[10] UUEPC was until recently titled 'Northern Ireland Centre for Economic Policy'
[11] Assembly Research and Information Service - Publications
[12] Official Report - 5 November 2014
[13] Ministerial Statement on the Draft Budget 2015/16 - 3 November 2014

11. While the outcome from this element of budgetary process was set out in the below **Table** from the Draft Budget document, a number of aspects remained unclear. Committee members have queried the basis for the £872 million pressure and why this was not identified earlier. The background to pre-commitments made by the Executive have also been queried by members during Committee briefings. From the submissions from the other Assembly committees (**Appendix 1**), it is evident that, even after scrutiny of plans at a departmental level, there is still a lack of clarity on proposed allocations, savings and priorities (e.g. Health, Justice and Culture, Arts & Leisure); with some committees also noting a disparity in the percentage reduction for the departmental Resource DEL allocation stated in the Budget document as compared to the figure being reported by their department (e.g. Regional Development, OFMDFM, Social Development and Employment & Learning).

12. Also at a departmental level, arising from the commissioned research and scrutiny, the Finance and Personnel Committee and the other Assembly statutory committees have raised a number of specific queries regarding the allocations and reductions, including to establish for example:
    - What proportion of the allocated budgets is already contractually committed?
    - What proportion of the allocated budgets is already legally committed for delivery of statutory functions?
    - What proportion of the allocated budgets remains unallocated for the exercise of ministerial discretion/prioritisation?
    - How will these remaining resources be prioritised and what criteria will the used?
    - What criteria will be used to determine which, if any, services or programmes have to be cut or scaled back?

13. On a more general but related point, it is unclear from the Draft Budget documentation as to the precise criteria upon which the allocations were made to departments prior to the Draft Budget being published, including in terms of consistency of approach. This lack of clarity around the basis for allocations repeats the experience of the draft Budget 2011-2015 document, with which the previous Committee expressed its dismay and called for greater transparency and assurance around both the methodology for prioritising bids, particularly the use of the 'inescapable' descriptor, and the rationale for proposed departmental allocations. [14]

14. **It is recognised that the lack of clarity at this stage around some aspects of the budget reductions and allocations may, in part, be a result of the truncated nature of the 2015-16 budget process, including the fact that Assembly committees were**

[14] Report on the Executive's Draft Budget 2011/15

not afforded the opportunity to scrutinise the departmental bids and proposed allocations and any supporting evidence prior to the Executive agreeing the Draft Budget for public consultation. Nonetheless, the Committee believes that the explanation of the proposed changes to the non ring-fenced Resource budgets of departments could have been presented more clearly in the Draft Budget documentation, thereby facilitating Assembly scrutiny and enhancing the public consultation. Greater transparency around the basis for allocations would enable the Assembly to determine, for example, whether a consistent approach was taken across departments and whether the funding of particular 'central strategic pressures' warrant the resultant reduction in departmental resource budgets. The Committee believes that the final Budget document should therefore provide further information and clarity in this regard.

Draft Budget 2015-16

TABLE 4.1: NON RING-FENCED RESOURCE DEL

£million

	2015-16 Baseline Position	2015-16 Draft Budget Position	% Change
Agriculture and Rural Development	197.6	187.3	-5.2%
Culture, Arts and Leisure	99.9	89.9	-10.0%
Education	1,943.7	1,849.3	-4.9%
Employment and Learning	756.2	674.4	-10.8%
Enterprise, Trade and Investment	184.2	194.0	5.3%
Finance and Personnel	155.9	139.0	-10.9%
Health, Social Services and Public Safety	4,542.7	4,693.1	3.3%
Environment	116.6	103.7	-11.1%
Justice	1,089.0	1,024.0	-6.0%
Regional Development	335.5	322.0	-4.0%
Social Development	653.9	589.1	-9.9%
Office of the First Minister and Deputy First Minister	65.8	65.4	-0.6%
Non Ministerial Departments			
Assembly Ombudsman / Commissioner for Complaints	1.8	1.8	0.0%
Food Standards Agency	8.5	7.4	-12.8%
NI Assembly	40.7	40.7	0.0%
NI Audit Office	7.9	7.9	0.0%
NI Authority for Utility Regulation	0.1	0.1	-14.3%
Public Prosecution Service	32.7	30.5	-6.7%
Total Planned Spend[1]	**10,232.6**	**10,019.5**	**-2.1%**

[1]Totals may not add due to rounding

[15]

[15] Draft Budget 2015/16 (Page 37)

Economic Impact

15. In his statement to the Assembly on the Draft Budget on 3 November 2014, the Finance Minister reiterated that the overall aim is to 'rebalance the economy', including allocating resources to priority areas such as investment in research and development, manufacturing and sales, the Agri-food sector, increased turnover in food and drink processing, tourism and jobs promotion. The Minister also pointed to evidence of positive signs of growth and recovery potential; for example, citing the Northern Ireland Composite Economic Index, published in October, which showed an annual rise in the local economy of 1.2% since Quarter 2 of 2013, and noting that *'it is our private sector that is driving growth rather than the public sector'*. [16] However, separately the Minister has also highlighted that, while the economic recovery is starting to happen in Northern Ireland, *'the last place where people are feeling confident of recovery is in their own household income'* [17]

16. Within the limited time available, the Committee surveyed the recent literature on economic indicators and sought written submissions from key stakeholders, including representative bodies, on the impact of the Draft Budget on the local economy. In terms of the evidence that the local economy is in recovery mode, the Draft Budget document referenced a range of indicators, including growth in output, increased employee jobs, reduced levels of unemployment and reducing inactivity rates.[18] Members also note, for example, that the most recent figures in relation to residential property prices show increases in property prices as well as properties sold. [19]

17. In its evidence, UUEPC also advised that the outlook is generally positive, estimating that the economy is growing slowly; though it acknowledged that the future will be challenging, with the private sector driving growth, which is forecast to slow from 2.2% in 2014 to 1.3% in 2018[20]. UUEPC also pointed out that, at a UK level, reductions in government expenditure are expected to have a negative influence on economic growth from 2015 – 2018 as austerity continues. It also took the view that, as Northern Ireland is no longer in recession, *'the economy will be more able to absorb a reduction in public expenditure than it would have been during the recession'*; though it also acknowledged the counterview that *'inflation and wage data suggests the economy is not growing quickly enough to accommodate the "brakes" being applied to public expenditure'*.[21] Members are also mindful that recent figures show that Northern Ireland's rate of growth, in terms of GVA per

[16] Ministerial Statement on the Draft Budget 2015/16 - 3 November 2014
[17] Ministerial Statement on the Draft Budget 2015/16 - 3 November 2014
[18] Ministerial Statement on the Draft Budget 2015/16 - 3 November 2014
[19] LPS/NISRA Press Release - 19 November 2014
[20] NICEP UUEPC Autumn outlook
[21] Appendix 2 – Submission from UUEPC

head, was the lowest in the UK[22] and, as ICTU (NIC) pointed out in its submission, *'despite improvements in the mid 2000's Northern Ireland still has an employment rate 4.5% below the UK average'*.[23]

18. The Committee noted that concerns have been voiced by a range of commentators as regards the potential economic impact of the planned reductions in public expenditure in 2015-16 and beyond, in terms of these increasingly acting as a drag on growth.[24] In addition to the private sector, concerns have also been raised for the third sector. For example, NICVA drew attention in its submission to the potential impact of the budget reductions on the Voluntary and Community Sector (VCS); resulting in job losses in an area *'which tends to work directly with more disadvantaged people and is often at the coal face of sever social and economic problems'.*[25]

19. In their written submissions, CBI and FSB both highlighted the potential anomaly between simultaneously investing in greater job creation and slashing the number of university places. [26] FSB also questioned the potential for Invest NI to provide support to new small businesses and highlighted the potential slowdown in job creation *'particularly given the absence of formal Programme for Government job targets into 2015/16'*.[27] Others shared the concerns over the impact of the 10.8% reduction in the Department for Employment and Learning (DEL) budget, in particular the cut in university places and the risk that this will force local talent to leave Northern Ireland at a time when there is a focus on attracting Foreign Direct Investment (FDI). [28] In this regard, members noted that, in his oral evidence to the Committee, the Minister stated:

    'I have to say that it is the settlement in the Budget that I am least satisfied with, for a range of reasons. There is a lot of work that universities can and should be doing themselves. They are not paupers by any means. We are trying to work actively with that sector….'[29]

20. As part of its research and scrutiny, the Committee raised a series of queries with DFP, including for example:

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[22] http://www.bbc.co.uk/news/uk-northern-ireland-30412170
[23] Appendix 2 – Submission from ICTU (NIC)
[24] BBC Press Article 'Northern Ireland economic recovery slowing, says Ulster Bank survey' - 10 November 2014
[25] Appendix 2 – Correspondence from NICVA
[26] Appendix 2 – Correspondence from CBI
[27] Appendix 2 – Submission from FSB
[28] BBC Press Article 'QUB and UU warn of plans to cut 1,100 student places' - 5 November 2014
[29] Official Report - 26 November 2014

- What economic analysis has been undertaken to assess the likely effect on consumer confidence and the economy in general after large scale public sector job losses, considering approximately 30% of all NI jobs are in the public sector?

- What consideration has been given to the negative multiplier effect on the economy of public sector pay restraint/workforce restructuring?

- What alternatives have been considered to workforce reductions, such as further pay restraint, which might have less negative effect on consumer confidence and aggregate demand?

- To what extent the Executive's stated top priority of the economy has been reflected by the proportion of Resource DEL allocated over recent years in comparative terms to Health for example?

- How effective Northern Ireland's use of Selective Financial Assistance in attracting FDI has been in comparison to other regions and how the new European rules in this regard will affect this situation in the future?

21. A written response from DFP to these and other queries was not received in time for consideration in this report. From the submissions received from the other Assembly committees (**Appendix 1**), it is evident that several of them have also raised specific queries and concerns at a departmental level as regards the economic impact of the Draft Budget (e.g. Enterprise, Trade & Investment and Employment & Learning).

22. **Given the Executive's stated priority of 'rebalancing the economy' and the importance of the availability of third-level talent in attracting FDI, the Committee believes that, in terms of the 2014 Autumn Statement Barnett Consequentials or any other additional resources identified by DFP before Budget 2015-16 is finalised, the first call on these should be to address the risk of reductions in local University and FE education and training places, particularly in terms of the qualifications and skills which drive the knowledge economy. Moreover, the Committee would recommend that, in finalising the Budget document, DFP gives consideration to more clearly setting out the wider economic impact of the specific departmental reductions and related measures such as workforce restructuring.**

Public Sector Pensions

23. Member have queried the provision in the Draft Budget to retain £133.2 million centrally to alleviate pressure on departments as a result of *'significant additional employer contribution costs'* from the ongoing revaluation of public sector pension

schemes, which impacts particularly on the health and education sectors. This has been a major factor in adding to the pressure for departments to make budgetary savings in 2015-16.

24. Despite being closely engaged with this policy area throughout 2013, in terms of its scrutiny of the Public Service Pensions Bill, the Committee was not forewarned by DFP of the possibility of such a significant and sudden increase in the cost to the public purse. As such, during evidence sessions on 5 and 19 November, members questioned departmental officials to establish when the risk of the significant cost increase was first identified, the extent to which it was unforeseen and whether this would be a recurrent cost.

25. In response to members' queries during an evidence session on 5 November, departmental officials confirmed that the cost of the additional contributions was recurrent and acknowledged that the increase was '*not entirely unexpected*'. Also, during subsequent evidence on 19 November, other departmental officials indicated that '*the risk began to emerge over the past few months*'; despite this, however, the Committee received no notification from the Department prior to the launch of the Draft Budget.[30]

26. During the evidence sessions, members were advised that DFP was consulting with Treasury and the Government Actuary's Department (GAD) to manage the cost down and, as a result of this work, the Department hoped to have a final figure in time for the final Budget. Officials also explained that, whilst pension funds are paid through annually managed expenditure (AME), a notional fund is set aside to cover the costs arising for current employees which is periodically revalued and, as result of a valuation, it has been identified that the notional fund has been understated over past years and requires remedial provision to ensure that future pension liabilities can be met.

27. Members also sought to establish how realistic the estimate of £133 million was, whether it would be sufficient to cover the cost of the revaluation given that the revaluation process has not concluded and the circumstances that have given rise to these recurring costs. In response, departmental officials advised that the cost figure has varied from an initial estimate of £223 million to the current £133 million[31] which, based on the latest information, the Department considers will be sufficient to cover the associated costs.

[30] Official Report - 5 November 2014 & Official Report - 19 November 2014
[31] Official Report - 5 November 2014

28. From the submissions received from the other Assembly committees (**Appendix 1**), it is evident that some of them have also raised specific queries and concerns at a departmental level as regards the lack of clarity at this stage around the impact of the increased employer contribution costs (e.g. Education).

29. **Given its concerns around the £133 million provision in the Draft Budget for increased employer contribution costs for public sector pensions, particularly that the risk of this pressure materialising was not highlighted earlier, the Committee seeks further assurance from DFP both on the robustness of the estimated cost of the annual increase from 2015-16 and on how any risk of such a sudden and significant impact on departmental budgets recurring in future will be mitigated.**

Welfare Reform

30. During discussions between members and the Minister as part of a wider briefing on strategic budget issues on 17 September 2014, the need was identified for an analysis to provide more precise information on the impact of the decisions around Welfare Reform. Discussion also took place on the other considerations for how the matter could be progressed, including in terms of the extent to which some of the negative impacts of Welfare Reform have been ameliorated as a result of flexibilities gained by the Executive to date and as regards the scope for the Executive to put in place specific measures to prevent people being driven into poverty as a result of implementation of the changes in Northern Ireland.

31. In terms of the latter point, the Committee noted from the Minister's statement on the Draft Budget that the Executive has agreed '*to set aside £70 million to fund a package of measures designed to mitigate the impact of Welfare Reform changes on the most vulnerable*'.[32] Arising from its commissioned research, the Committee has requested further detail on a range of issues in this regard, including for example:

    - What specifically does this mean in relation to Welfare Reform;
    - What has the Executive agreed in this regard to date?
    - When does it hope to reach agreement on this issue?
    - How will the 'most vulnerable' be defined?
    - What is the basis/rationale for the stated £70 million figure?

32. A written response from DFP to these and other queries was not received in time for consideration in this report.

[32] Ministerial Statement on the Draft Budget 2015/16

33. On the issue of the impact analysis, the Committee obtained from DFP a copy of the terms of reference for the 'Validation Study of Welfare Reform Costs', which the Department stated it had commissioned for the purpose of providing an independent assessment of the economic impact on Northern Ireland of not progressing the Welfare Reform agenda in line with Great Britain. Whilst the Committee noted that it had not been afforded the opportunity to input to the terms of reference prior to work on the Study commencing, some members queried how the Study would also assess the repercussions of implementing Welfare Reform in Northern Ireland, particularly for individuals. Though the Committee has requested a briefing on the outcome of the Study, this was not available prior to this report being agreed.

Savings and Efficiencies

34. In advance of the Draft Budget 2015-16 being published, the Committee had undertaken evidence gathering and scrutiny of various cross-cutting issues relevant to the wider savings and efficiencies agenda. The following section draws out some relevant findings from this work which may help inform the efforts of departments to identify measures to enable them to live within their budget allocations in 2015-16 and beyond. In terms of the latter, the Committee is mindful that, as pointed out by the Minister in his statement on 3 November, the Office of Budget Responsibility (OBR) is forecasting that, at a UK level, the Resource DEL will decrease by a further 13% in real terms by 2018-19. As DFP has emphasised, given that the Executive will continue to face downward pressures on the Resource DEL, *'it is important that the decisions that we make now will enable us to live within those constrained budgets going forward'*.[33]

35. As regards the approach to achieving savings, in its submission, UUEPC stated *'the challenge is to prune the budget appropriately rather than cut in order that the impact is minimised on society and also that new activity could be stimulated, helping to encourage economic growth'* and has also advised that *'improving the evidence base should allow areas of public expenditure to be identified that have limited impacts and these are the areas that should be considered for reduction or removal'.*[34] Also, in his statement on 3 November, the Minister stated that:

> *'If past performance is any indicator, it is likely that many Ministers will seek to make the savings required by their departments by way of an identical percentage cut across their services. This, in my view, is the wrong approach in these*

[33] Official Report - 5 November 2014
[34] Appendix 2 – Submission from UUEPC

circumstances. These are not 'pure' efficiencies the like of which we've become accustomed to in previous budgets, but rather savings and this process may involve the cessation of some lower priority services within departments.'[35]

36. The evidence from NICVA also cautioned that *'top slicing of budgets rewards inefficiency and punishes lean organisations focused on service delivery'* and provided examples of how *'cuts in the VCS will very easily lead to perverse outcomes, creating further pressures on the public finances'*.[36]

37. In recognising that the scale of the pressures facing the Executive means that budgetary savings, as distinct from 'pure' efficiencies, are also required, the Committee has pointed out that the efficiency drive should also continue and believes that lessons must be learned from the 2008-11 Efficiency Delivery programme and the 2011-15 Savings Delivery programme.

Efficiency Delivery Programme 2008-11: Lessons to apply

38. In following up on the Northern Ireland Audit Office (NIAO) Review of the Efficiency Delivery Programme, published in December 2012, [37] the Committee took evidence from the Department of Education (through its Committee), the Department for Employment and Learning, the Department of Health, Social Services and Public Safety and the Department for Regional Development, in addition to briefings from NIAO and DFP. [38] The focus was to ensure genuine efficiency savings rather than simply reduced spend in areas that could adversely impact on priority front-line services. The Committee identified room for improvement in terms of ensuring that efficiencies are properly measured and monitored.

39. The main issues identified in the evidence, included: the need to more clearly define what is meant by an 'efficiency saving'; the need for more robust guidance from DFP**;** inadequacies in the measurement of efficiencies and Efficiency Delivery Plans (EDPs); how/whether the role of DFP – including Supply Division and the Performance and Efficiency Delivery Unit (PEDU) – in challenging departmental EDPs might be strengthened or whether this role needed to be exercised by an independent body; and how successes of individual EDPs might be replicated on a cross-departmental basis.

40. In terms of moving forward, the Committee noted that a more robust and rigorous challenge function will be crucial in ensuring that departments continue to maximise

[35] Official Report - 5 November 2014
[36] Appendix 2 – Submission from NICVA
[37] Northern Ireland Audit Office - Review of the Efficiency Delivery Programme
[38] Official Report - 6 February 2012 & Official Report - 6 March 2013

efficiencies. Also, while acknowledging that the successor to EDPs, the 'Savings Delivery Plans' (SDPs), marked a shift in emphasis away from efficiencies and towards making savings by reallocating resources from low-priority areas to high-priority areas, the Committee identified that opportunities exist for achieving further efficiency savings in areas such asset management, collaborative procurement and in co-ordinated cross-departmental efficiency initiatives.

Savings Delivery Plans 2011-15: Lessons to apply

41. While the EDPs arising from Budget 2008-11 sought per annum cumulative efficiency savings of 3%, the SDPs which departments were required to prepare as part of Budget 2011-15 sought to achieve per annum cumulative savings of 4% approximately. Concerns were raised previously with the Committee that, as they were deducted from departmental baselines in advance at the start of the budget processes, the savings were being assumed and monies reallocated prior to the savings being delivered.[39] Moreover, given the sustained efficiency/savings drive within departments over the last two budget periods, concerns have also been expressed that the 'low hanging fruit' has been taken and that it will be increasingly difficult to achieve further savings without affecting service delivery.

42. The overriding principle to be applied in SDPs was that savings should be cash releasing and should not result in a diminution in the provision of priority frontline public services. Again, the primary responsibility for the identification and delivery of savings rested with individual departments and ministers; though DFP undertook a central monitoring role in terms of providing delivery reports bi-annually to the Executive and the Finance and Personnel Committee.

43. At the most recent briefing in this regard, on 8 October 2014, members noted that in 2013-14, just over 96% of planned savings were achieved across departments; four departments failed to deliver required savings; six departments had met their targets, while three had exceeded their targets. In terms of 2014-15, around 97% of savings are forecast to be achieved with the most significant shortfall expected by the Department of Justice, which does not anticipate full delivery of net savings in relation to the Prison Service Exit Scheme, and some departments had identified adverse impacts in relation to front line services. [40]

44. Arising from their scrutiny of SDP delivery, members questioned DFP officials on the extent to which the original targets were sufficiently challenging, given that most had been met, and also emphasised the need to reinforce the previous lessons in

[39] Report on the Preliminary Inquiry into Public Sector Efficiencies
[40] Official Report - 19 November 2014

terms of protecting priority frontline services. While recognising that, as part of its monitoring, DFP asks departments to identify the risks to frontline services so that these can be reported to the Executive and Assembly committees, it is evident that the need remains for a robust challenge function to be exercised within and across departments. This is all the more necessary given: the requirement for even greater savings by departments in 2015-16 and beyond; the need to focus on priorities and avoid the 'salami slicing' approach to budgetary savings; and the need to counteract the 'silo' mentality or any inclination for 'self-preservation' within departmental business areas, especially given the particular governmental structures in Northern Ireland.

45. It has been noted in previous DFP evidence to the Committee regarding efficiencies and savings by departments that, following the move from direct rule to devolution, *'DFP's role changed from one of challenge to one of pure co-ordination'*.[41] Similarly, it has been noted that DFP's PEDU has had limited access to other departments.[42] In terms of other scrutineers, NIAO would not be an appropriate body to oversee departments' savings proposals and implementation given the nature of its statutory role, which includes financial and value-for-money audits on an ex-post basis and which does not comment on the merits of policy or act as an adviser on the specific decisions the government takes. Also, while the Assembly statutory committees have an important role to play in scrutinising and monitoring budgetary savings (in addition to a wide range of other policy and legislative matters), their focus is at a departmental-specific level and they may not provide a suitable vehicle in terms of cross-departmental oversight and challenge. Moreover, as highlighted later in this report, the effectiveness of Assembly committees in undertaking budget scrutiny is dependent on the provision of timely and adequate information from departments.

46. **In view of the scale of budgetary pressures in 2015-16 and beyond and given that DFP's role has changed from *'one of challenge to one of pure co-ordination'*, the Committee sees an urgent need for the Executive to provide for an effective external advisory and challenge function in respect of budgetary savings and efficiencies. If it is not possible/appropriate to confer this function on an existing body, the Committee would propose that an external 'panel of experts' or commission is established, which has buy-in from all Ministers. The focus would be on assisting in ensuring that savings are maximised while priority frontline services are protected. Having the expertise and access to the necessary information and undertaking its work on an ex-ante basis, such a body should report directly to the**

[41] Official Report - 6 March 2013

[42] Official Report - 15 May 2013 & Official Report - 8 May 2013

Executive in offering an independent critique of planned savings and efficiencies and in terms of ongoing implementation, both at a departmental specific and cross-departmental level. This would provide added assurance and may also serve to boost public confidence in the Executive's budget plans for 2015-16 and beyond.

Administration Costs

47. Arising from its commissioned research, the Committee noted the following breakdown of administration costs across departments over the last few years, [43]which shows that six departments have actually experienced a percentage increase in this area of expenditure:

Table 1: Administration costs for all NI Departments

£million	2011-12				2012-13				2013-14				2014-15			difference	% change
	opening	june	oct	jan	opening	june	oct	jan	opening	june	oct	jan	opening	june	oct		
DARD	40.3	40.0	40.0	39.0	41.0	41.0	41.0	39.3	41.7	41.6	41.1	41.1	42.7	42.6	42.2	1.9	4.71
DCAL	6.7	6.7	6.7	6.4	6.8	7.1	7.1	6.9	6.8	6.8	6.9	6.8	7.1	7.0	7.3	0.6	8.96
DE	18.9	18.9	19.0	20.1	18.7	18.7	18.8	18.8	18.6	18.6	18.6	18.7	18.5	18.5	18.5	-0.4	-2.12
DEL	26.2	26.2	26.1	24.3	26.4	26.1	25.6	23.8	26.5	26.2	25.8	24.6	27.1	27.1	27.1	0.9	3.44
DETI	16.5	14.3	14.5	13.9	16.2	14.4	14.5	14.2	15.0	15.0	14.9	14.7	15.0	15.0	14.9	-1.6	-9.70
DFP	150.5	149.6	146.2	144.5	150.6	149.4	149.3	147.7	150.8	150.2	149.5	149.0	151.6	155.0	156.1	5.6	3.72
DHSSPS	39.2	30.2	30.5	30.7	39.2	31.1	31.1	30.6	32.2	32.1	30.2	30.1	31.0	30.6	30.6	-8.6	-21.94
DOE	51.4	52.5	52.8	53.4	50.4	58.7	59.5	29.1	39.2	43.4	45.0	45.8	19.8	19.6	18.9	-32.5	-63.23
DOJ	53.0	53.1	51.3	49.6	49.8	49.8	48.5	49.2	50.8	47.9	47.9	45.2	51.0	45.3	41.0	-12.0	-22.64
DRD	85.1	85.1	85.1	84.6	85.1	84.6	83.3	82.6	84.1	84.1	83.1	83.1	84.1	84.1	81.7	-3.4	-4.00
DSD	28.9	28.8	28.7	27.9	29.1	29.1	29.0	29.2	32.0	32.8	33.9	33.9	31.9	40.7	41.1	12.2	42.21
OFMDFM	12.7	15.4	15.4	15.0	12.7	15.3	14.8	14.8	14.2	15.0	15.0	15.0	14.2	14.5	14.6	1.9	14.96
TOTAL	**529.4**	**520.8**	**516.3**	**509.4**	**526.0**	**525.3**	**522.5**	**486.2**	**511.9**	**513.7**	**511.9**	**508.0**	**494.0**	**500.0**	**494.0**	**-35.4**	**-6.69**

48. In its report on the Executive's Draft Budget 2011-15, the previous Committee raised concern that *'the proposed abolition of the programme of administrative cost controls and the delegation of responsibility in this area from DFP centrally to individual departments would reduce the level of transparency and safeguards available for protecting expenditure on frontline services'*. [44]

[43] Northern Ireland Assembly Research (NIAR) 800-14, 'Draft Budget 2015-16: DFP', 19 November 2014 (unpublished)
[44] Report on the Executive's Draft Budget 2011-15

49. In terms of the increase experienced by DFP, when questioned by members during an evidence session in October 2014, departmental officials stated that the reason for this increase was twofold. Firstly, additional expenditure was incurred due to the establishment of a team in Central Procurement Directorate to take forward collaborative procurement and the resourcing of an asset management team to undertake surveys of properties and identify ways to take forward the asset management strategy. Secondly, there was an increase in administrative costs due to the transfer of the Department of Justice functions to the Shared Services platform, which the officials indicated should, in turn, lead to reductions in administration costs within these other departments[45]

50. From the submissions received from the other Assembly statutory committees (**Appendix 1**), it is evident that some of them have also raised concerns and sought explanations at a departmental level as regards the increases in Administration costs. In particular, the Department of Agriculture and Rural Development indicated that its administration costs has risen due to pay inflation and changes in pension arrangements and would need to reduce significantly in order to reduce costs; though this explanation was not accepted by the Committee which urged the Minister to ensure that such costs are reduced. In its submission, the Committee for Social Development also recommended that the Department for Social Development makes greater savings on administration costs to address the proposed budget cuts.[46]

51. **Given that it is imperative to protect priority frontline services over the coming years, members are concerned that half of all departments are recording increases in administration expenditure and, while plausible explanations may have been offered in some instances, the Committee would call for this area of expenditure to be carefully monitored and regularly reported on by DFP at a cross-departmental level to enable rigorous challenge by the respective Assembly statutory committees. Furthermore, the Committee recommends that the final Budget document spells out how administration costs are going to be managed and reduced going forward.**

Cost of Sickness Absence

52. The Committee has recently undertaken scrutiny of Sickness Absence in the Public Sector in Northern Ireland, in follow up to work by NIAO which estimated that the cost to the public purse is in the region of £150m per year and that, if average sickness absence rates could be brought into line with GB, there were potential

[45] Official Report - 1 October 2014
[46] Appendix 1 – Committee Responses

savings of £37m per year.[47] The Committee will shortly be reporting to the Assembly on its investigations and intends to set out a range of recommendations aimed at reducing this cost, including policy interventions to address long-term absence and preventative measures to improve staff health and wellbeing. In the meantime and as part of the 2015-16 budget plans, the Committee would encourage DFP and the wider Executive to underline the importance of performance against sickness absence targets by departments, including at the level of individual business areas and arms-length bodies, being scrutinised regularly by departmental boards.

Potential savings in government office accommodation and business travel costs

53. Further to its recent report on the Inquiry into Flexible Working in the Public Sector in Northern Ireland[48], the Committee established that a more strategic application of flexible location working offers the potential for considerable savings, including in terms of a more rigorous approach both to the consolidation of government accommodation and to realising savings in business travel costs arising from widespread use of video/internet conferencing technology in the public sector. In terms of space efficiencies and associated property costs, the Committee compared progress in NICS against case studies of comparable bodies in other jurisdictions, including Whitehall departments and local authorities in England, and found that Northern Ireland is behind the curve in maximising savings from combining modern workplace design, including desk sharing, with the strategic use of flexible location working. Moreover, the Committee discovered that only 20% of existing NICS offices is making the best use of the space and that the traditional office is typically occupied only 45% of the time.

54. In continuing to pursue this issue with DFP, the Committee raised a range of specific queries, including for example:

- What estimate exists of the potential total savings in office accommodation, not only the Civil Service but also wider public sector, including how and when this will be achieved?
- What estimate exists of the overall potential savings in reduced business travel costs from a more determined and widespread use of remote conferencing technology by civil servants (e.g. thereby avoiding flights and subsistence costs associated with attending meetings outside Northern Ireland)?
- How the savings in these areas could be maximised as part of the budgetary plans by all departments for next year and beyond?

[47] Official Report - 19 February 2014
[48] Report on the Inquiry into Flexible Working in the Public Sector in Northern Ireland

55. A written response from DFP to these and other queries was not received in time for consideration in this report.

Asset Realisation

56. The Committee noted that the Draft Budget anticipates that the Asset Management Unit will deliver £50 million of capital receipts in 2015-16, which has been factored into the overall Capital DEL position. Members also noted that *'the draft Budget has set aside £100 million centrally in anticipation of approval from HM Treasury for this [the loan from the UK Reserve] to be repaid from our Capital Budget'.*[49] It has been pointed out that this description, arguably, does not make it entirely clear that the Executive's intention is for the £100 million to be repaid from the disposal of capital assets.[50]

57. **The Committee would highlight previous difficulties in forecasting asset realisation and the need for the Executive to ensure that, in repaying the £100m to the UK Reserve from disposals, it will be important to also achieve best value for money in the sale of public assets.** Related to this point, members noted that, in its submission, CBI stated that:

> *'A much more aggressive and ambitious approach to asset sales is required, particularly to ensure that the full value of the £100m Treasury loan is paid back from asset sales, rather than a reduction in capital expenditure in 2015/16 – we believe this is feasible with a recovering property market'.*[51]

58. **In terms of the potential to maximise asset realisation, the Committee would remind DFP of the findings from its *Inquiry into Flexible Working in the Public Sector in Northern Ireland* which highlighted case studies from both the public and private sectors demonstrating how, in addition to achieving cumulative savings in office accommodation costs per annum, a strategic approach to flexible location working would boost capital receipts from property sales.**[52]

59. Arising from its commissioned research[53] and follow up scrutiny, the Committee raised a series of queries with DFP, including for example:

[49] Ministerial Statement on the Draft Budget 2015/16; (Page 33)
[50] Assembly Research and Information Service - Draft Budget 2015-16 and key aspects of Treasury discretion
[51] Appendix 2 – Submission from Confederation of British Industry
[52] Report on the Inquiry into Flexible Working in the Public Sector in Northern Ireland
[53] Assembly Research and Information Service - Draft Budget 2015-16: Lines of Questioning

- How rigorous is the estimation of the amount of money that is to be raised via asset disposal?
- What alternative exists for repayment of the £100 million to the UK Reserve, if the Treasury does not permit the stated reclassification?
- How it can be considered prudent to reduce capital investment spending power in 2015-16, in order to compensate for the failure to control resource expenditure in 2014-15?
- What assurance can be provided that in-year expenditure pressures will be contained in 2015-16 in order to avoid the need to seek further emergency temporary access to the UK Reserve?

60. A written response from DFP to these and other queries was not received in time for consideration in this report.

Public Sector Workforce Restructuring

61. In his statement on the draft Budget on 3 November, the Minister stated that work had commenced on the development of a workforce restructuring plan which *'will embrace all possible personnel interventions including a recruitment freeze, supressing vacancies, use of temporary staff, pay restraint and a voluntary exit mechanism to reduce workforce numbers'.* It was also stated that elements of this restructuring, including the voluntary exit scheme, will require upfront funding and it was indicated that negotiations had begun with Treasury to *'approve the use of £100 million of RRI borrowing to capitalise the cost of this workforce restructuring'.*[54]

62. Whilst recognising that the workforce restructuring plan is in a developmental stage, arising from its research, the Committee in follow up correspondence to the Department has sought further information on the full range of options falling under *'all possible personnel interventions'*, including the alternatives to redundancies. The Committee has also queried what consideration will be given on the impact of any such proposals on consumer confidence and the wider economy, especially given the high levels of public sector workers in Northern Ireland.[55] A written response from DFP to these and other queries was not received in time for consideration in this report.

63. From the submissions received from the other Assembly committees (**Appendix 1**), it is evident that several of them have also raised specific queries and concerns at a

[54] Official Report - 5 November 2014
[55] Assembly Research and Information Service - Draft Budget 2015-16: Lines of Questioning & Assembly Research and Information Service - Financing the Draft Budget 2015-16

departmental level as regards the lack of detail on the shape, scale, timing or impact of the proposed workforce restructuring (e.g. Education, Justice, Agriculture & Rural Development, Environment, Social Development and Culture, Arts & Leisure)

64. **The Committee recognises that staff costs account for a large proportion of many departments' expenditure and accepts the point made in the Draft Budget document that *'the deteriorating Resource DEL position will necessitate proactive measures to reduce the size of the public sector pay bill'*. That said, in noting the alarming figures for potential redundancies being forecast by some departments and public bodies in recent weeks, the Committee would be concerned as to how redundancies on the scales being suggested, if they were to materialise, could be managed to avoid adverse impacts on priority public services. As such, the Committee believes that a credible restructuring plan should be agreed corporately and published by the Executive as soon as possible, including details of how risks to service delivery are to be managed. This would also enable more informed scrutiny and oversight of departmental spending plans by the Assembly statutory committees.**

Public Sector Reform

65. Over the past year, the Committee has noted with interest the current Finance Minister's ambitious programme of reform within the Public Sector and has received briefings relating to this issue. The most recent of these was took place on 3 December 2014 and covered the forthcoming 'Review of Public Governance' by the Organisation for Economic Cooperation and Development (OECD), which will examine current and potential areas for reform across three overarching themes: Improving Strategic Direction; Improving Operational Delivery; and Improving Engagement with People.[56] Members recognised the value of this exercise in terms of providing an independent benchmark of public service delivery in Northern Ireland against international best practice, including in terms of areas for improvement.

66. That said, **in expressing concern at the length of time it will take to conclude the OECD Review of Public Governance (i.e. November 2015), the Committee would encourage DFP and the Executive to begin applying lessons and addressing issues as they emerge during the progress of the Review**. Also, in noting that various of the Review themes and sub-themes relate directly to the Committee's recent report on the Inquiry into Flexible Working in the Public Sector in Northern Ireland, the departmental officials were asked to draw the OECD Review Team's attention to the

[56] Press Release - Organisation for Economic Cooperation and Development (OECD) Review of Public Governance

Committee's report, thereby ensuring there is no unnecessary duplication of work in that regard. Given the cross-cutting nature of the Review, the Committee also raised the need for consideration to be given to how the applicable Assembly committee's will be consulted during the review process. This will be important given the statutory functions of the committees and their potential role in monitoring the implementation of the outworkings from the OECD Review.

67. In their submissions,[57]the CBI, NICVA, and FSB welcomed the focus on public sector reform. The CBI welcomed budgetary measures in respect of the Change Fund and the Workforce Restructuring Plan as a means of promoting innovation, creating efficiencies and rebalancing the economy, whilst FSB noted the strong political commitment to strategic reformation of public services. NICVA underlined the importance of reform being about genuinely improving process and outcomes and was also positive about the Change Fund encouraging budget holders to work with Voluntary and Community organisations to prepare suitable bids. CBI also emphasised the need for the right leadership and talent to deliver the changes required, for decisive action to reduce bureaucracy, waste and duplication within departments, rather than simply passing on costs to the private and third sectors, and for a high-level commitment to re-engineering service delivery with the introduction of new service delivery models.[58]

68. In its submission, UUEPC pointed out that there are actions that can be taken to consider more innovative methods of delivery, to shift to a focus on outcomes, provide better access to data, learn lessons from the Republic of Ireland about how its austerity policies were implemented successfully and to reduce expenditure in areas where public impact is limited.[59]

69. On the issue of departments making savings internally, including in eliminating duplication and streamlining processes, the Committee noted with interest that within DFP many hundreds of staff-generated ideas have been submitted for consideration by senior management.[60] **While the Committee has not, as yet, been provided with detail on the staff-generated ideas or on how the Department will determine which of the ideas are viable, members believe that this type of bottom-up approach is vitally important in identifying potential savings, reforms and service improvements in the public sector, which may otherwise be less apparent to officials at a senior level and who may be more detached from frontline service delivery. The Committee would therefore encourage DFP to promote the use of this approach across all departments**.

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[57] Appendix 2 – Submissions from CBI, FBS and NICVA
[58] Appendix 2 -- CBI Correspondence, 28 November 2014
[59] Appendix 2 – Correspondence from UUEPC
[60] Official Report - 26 November 2014

70. Finally, in terms of public sector reform, at its meeting on 3 December, the Committee also received a briefing on the use of Innovation Labs as a method of solving complex problems. DFP explained that:

> *'It involves up-front research followed by a concentrated session over a number of consecutive days when carefully selected individuals focus their collective experience and energy on developing and working towards an agreed solution. This methodology has the potential to deliver higher quality solutions over a short period and at less cost than alternative methods.'*[61]

71. While broadly welcoming this initiative, members raise a number of queries including how topics/issues get selected and prioritised for consideration, what safeguards exist to ensure balance in the selection of (and influence exerted by) the 'subject experts', and in terms of how the work of the Innovation Labs could be expedited.

72. The Committee looks forward to follow up action by DFP on the various issues identified above.

Change Fund and Preventative Spending

73. The Committee noted with interest the £30 million allocation in the Draft Budget 2015-16 to a 'Change Fund' which *'will be available to finance upfront investment in cross-cutting reform initiatives and preventative measures that are expected to generate savings in the longer term'*.[62] In a follow up departmental briefing paper to the Committee it was noted that the *'Change Fund will provide a useful test bed for measuring the success of prevention projects'*[63]:

74. Members questioned departmental officials on the timeframe and scope for significant action in the budget window of 2015-16.[64] It has been acknowledged that there is a very short period for departments to come forward with bids for the Change Fund, particularly given the strict criteria under which applications can be made. The short timeframe also raises the question of the potential risk of underspend of the allocation and how this can be managed.

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[61] Appendix 3 – DFP Correspondence , 12 November 2014, Update paper on Public Sector Innovation Labs
[62] Draft Budget 2015/16
[63] Appendix 3 – DFP Correspondence, 24 November 2014, Draft Budget 2015-16
[64] Official Report - 19 November 2014

75. Arising from its commissioned research and follow up scrutiny, the Committee has also raised a number of specific queries with DFP, including for example:

- Why was a more ambitious approach not taken to the Change fund with a more substantial budget provision?
- How the Department intends to define the term 'prevention' for use with the Change Fund.
- What is the criteria and timetable for assessing the effectiveness of the Change fund?
- What (if any) evaluation has been undertaken of the predecessor 'Invest to Save' initiative, what was the outcome and how did this inform the design of the Change Fund?
- How will departments be incentivised to develop proposals which are genuinely collaborative and preventative?
- What lessons from the research on good practice elsewhere will be applied in this area?

76. A written response from DFP to these and other queries was not received in time for consideration in this report.

77. While raising these queries regarding the Change Fund, the Committee is nonetheless encouraged that this measure, however tentative, is being taken in the Draft Budget. As alluded to above, the Committee has noted that prevention is also being highlighted as a key part of the public sector reform agenda, to encourage innovation in the public services and achieving better outcomes for citizens.[65] In the words of NICVA:

> '*One of the ways of improving the sustainability of public services without compromising their quality is by investing in preventative programmes – those that stop social problems from occurring or worsening, lessening the need for later more expensive reactive measures'.*[66]

78. The Committee has been highlighting the importance of an increased focus on preventative spending since 2011[67] when it commissioned comparative research and this was followed by two further research papers, the findings of which have been shared with DFP.[68] In particular, the research highlighted some of the barriers to

[65] Appendix 3 – DFP Correspondence, 11 November 2014, Response to Preventative Expenditure research papers
[66] Appendix 2 – Submission from NICVA
[67] Assembly Research and Information Service - Preventative Spending
[68] Assembly Research and Information Service - Preventative Expenditure (July 2014) & Assembly Research and Information Service - Preventative Expenditure (May 2014)

successfully pursuing a preventative agenda and the pitfalls and lessons arising from flawed approaches taken elsewhere, including in terms of the difficulties stemming from: vague definitions; a lack of robust evidence; the potential need to reallocate funding from front-line services; short political timeframes; budgets which are not reflective of where the costs and benefits lie; and difficulties in isolating the root cause of some problems and in capturing evidence on outcomes.

79. **While welcoming the provision in the Draft Budget for a Change Fund, the Committee would encourage DFP to apply clear criteria for evaluation as well as a timetable for the assessment of projects receiving funding and for a report on the lessons to be applied in any potential expansion of the Fund beyond 2015-16. In terms of a wider preventative spending strategy, while it strongly encourages an increased focus in this direction, the Committee is mindful of the challenges which this presents. In that regard, the Committee would call on DFP to give greater priority to the scheduling of an Innovation Lab on Preventative Spend with a view to charting a way forward on this important issue** (i.e. the Preventative Spend Lab is currently listed only as 'potential' in the Lab Portfolio).[69]

Revenue Raising & Fiscal Powers

80. The Committee notes that the Draft Budget has been subject to criticism for not offsetting some of the expenditure reductions with more measures to increase revenue.[70] This sentiment was evident in the submission from CBI which argued that:

> '*to put the public finances on a sustainable platform, and to ensure sustainable growth in the economy, and the creation of more, higher value-added jobs, the Executive needs to secure additional revenues in order to ensure the necessary investment in people, but done in a matter which protects the most vulnerable'.*[71]

81. Specific suggestions from CBI include: an increase in student fees (to £6,000 - £6,500); a re-introduction of prescription charges (to raise approx. £30 million towards reducing waiting lists etc.); the establishment of an 'investment levy' in the regional domestic rates and possible removal of the domestic rates cap; an increase in social housing rents (arguing that a 10% increase would provide £30 million towards investment in housing stock for example); and potential changes to the scope and extent of the concessionary fares scheme.

[69] Appendix 3 – DFP Presentation to Committee on Public Sector Innovation Lab, 3 December 2014
[70] Official Report - 11 November 2014
[71] Appendix 2 – Correspondence from CBI, 28 November 2014

82. Arising from its commissioned research and follow up scrutiny, the Committee has raised various queries with DFP regarding revenue issues. For example, in terms of rating, the Department has been asked for information on the considerations in relation to any increase in the regional rate above the level of inflation and to raising revenue by increasing the cap on maximum domestic rate value limits. The Committee has also sought to establish the overall economic impact from the non-domestic revaluation, specifically in terms of business growth by sector and geographic areas.

83. In terms of rate reliefs (which impact on revenue), arising from the previous consideration of future rate rebate arrangements, the Committee is mindful that work remains to be completed by DFP on reviewing existing rate discounts and relief schemes. More recently, information has been sought on the rationale for making provision for £20 million to continue the Small Business Rate Relief Scheme (SBRR) in 2015-16 in advance of knowing the outcome from the UUEPC policy evaluation; though the Committee was content to support this provision in recognising that it will assist those small business which will experience an adverse impact from the non-domestic revaluation. Members have also questioned departmental officials to establish the adequacy of £30 million allocation (£15 million in 2015-16) to fund transitional arrangements to manage district rates convergence and the potential implications of any shortfall arising from the mid-term review of the arrangements.[72]

84. The Committee is conscious that there are very limited options currently available to the Executive to increase revenue, not least in terms of fiscal powers. Arising from its ongoing 'Review of the Operation of the Barnett Formula', the Committee is alert to the ongoing UK-wide debate on further devolution of fiscal powers and it has been recognised by DFP and other stakeholders that this opens up further possibilities for Northern Ireland.[73] Moreover, from the Chancellor's 2014 Autumn Statement, the Committee notes that the UK Government now recognises the *'strongly held arguments for'* and is *'well disposed'* toward devolving Corporation Tax rate-setting powers to Northern Ireland, which it believes could be implemented '*in practical terms'* but which will be '*subject to satisfactory progress'* being made on budgetary issues in the cross-party talks.[74]

85. During evidence from DFP officials on 10 December, however, members expressed concern that there has been no agreement yet from the UK Government on some important aspects of how the cost to the Executive of reducing the rate of Corporation Tax would be calculated, including: on whether the 'full fiscal

[72] Assembly Research and Information Service - Draft Budget 2015-16: Lines of Questioning & Assembly Research and Information Service - Financing the Draft Budget 2015-16
[73] Official Report - 10 December 2014 ; Appendix 2 – Submission from NICVA
[74] Chancellor of the Exchequer's Autumn Statement - 3 December 2014

consequences' will mean that the value of the benefits accruing to Treasury from increased economic activity (e.g. additional income tax and reduced welfare payments) will be offset against the costs to the Northern Ireland block grant; and on the detail of the arrangements for managing the volatility in Corporation Tax receipts (e.g. additional borrowing powers). On the separate issue of 'brass plating' and profit shifting, members were assured that the risk in this regard has been addressed in the scheme which DFP has been working on with Treasury to date. Also, from the FSB submission, the Committee noted the point that *'issues to be considered aside from the reduction to the block grant include the changing role of Invest NI and the suite of measures needed to augment a low Corporation Tax rate'*.[75]

86. The Committee has also sought to examine the work which DFP has been carrying out on the potential devolution of additional fiscal powers (i.e. aside from Corporation Tax) arising from the *Building a Prosperous and United Community* (Economic Pact) document. These include: Income Tax; VAT; National Insurance Contributions; Alcohol and Tobacco Duties; Fuel Duty; short haul Air Passenger Duty (APD); Aggregates Levy; Landfill Tax; and Stamp Duty Land Tax. In noting that advice with respect to the findings for each tax or duty has been provided to the Minister, members requested detail in this regard, which will facilitate the Committee in exercising its statutory advisory role in advance of recommendations being made to the Executive.

87. In terms of clarity around the costs to the Executive both of the existing devolution of long-haul APD and the potential devolution of short-haul APD, the Committee has asked DFP to consider the issues arising from the Autumn Statement announcement that APD on children will be abolished. More generally, as regards informing the debate on devolution of further fiscal powers, members noted that, in its evidence, UUEPC pointed to the need for improved access to public expenditure data for Northern Ireland, such as 'a set of national accounts' and a 'single compendium of statistics'.[76]

88. Regarding the broader debate around whether or when the Executive should introduce further revenue raising measures, the Committee noted that differing perspectives exist. For example, in its submission, UUEPC advised that this should only occur *'if the public services being delivered can be demonstrated to be offering world class value, in other words no measureable inefficiencies remain within the system.'*[77] The somewhat contrary view, as alluded to above, is that there needs to be realism around how much more inefficiencies departments can squeeze out of

[75] Appendix 2 – Submission from FSB
[76] Appendix 2 – Submission from UUEPC
[77] Appendix 2 – Submission from UUEPC

the system given that they have been achieving year-on-year efficiencies and savings over the last two Spending Review periods at least. Both positions align with the Committee's recommendation for the Executive to provide for an external advisory and challenge function which would offer independent assurance that all measurable inefficiencies are being driven out of the system (see paragraph 46). Also, neither perspective negates the need for a fully informed and mature public debate on the options and best way forward for the Executive to raise additional revenue in future years.

89. **In recognising that the pressure on public finances will continue to increase over coming years, with the resultant risk to frontline services, the Committee calls on DFP and the wider Executive to prepare and publish a consultation paper on the options across all departments for raising additional revenue through charges and further devolved taxes and duties. This should set out all the applicable considerations on each option – such as the projected revenue/costs/benefits/risks/impacts (including in terms of the economy, consumers and the most vulnerable) – necessary to ensure a fully informed debate on how best to help meet the further budgetary challenges.**

Capital Investment

90. The Committee noted with interest the proposal in the Draft Budget for the establishment of a 'Northern Ireland Investment Fund' to support investment in local infrastructure by the private sector in areas such as social housing, energy production, telecommunications and urban regeneration, which help to deliver on specific Executive objectives. The Draft Budget document states that *'The Fund may utilise some of the Financial Transactions Capital funding available to the Executive in 2015-16'* and *'would also potentially allow large international investors, including the European Investment Bank, to invest in local projects that would usually be too small in scale to access this type of finance.'*

91. Members also noted that a feasibility study has been commissioned, which will '*inform the scope, scale and design and investment strategy of a potential Fund'* and that the Fund would make '*a further £1bn available for investment'*.[78] Arising from its commissioned research and follow up scrutiny, the Committee has raised a range of queries, including for example:

- Who is undertaking the feasibility study and what is the terms of reference?

[78] Official Report - Ministerial Briefing - 26 November 2014

- How the £1 billion would be available in advance of the feasibility study's findings and conclusions?
- What will be the level of Financial Transactions Capital (FTC) due to be surrendered and how the initial balance can be earmarked in advance of the feasibility study?
- How the Fund might influence project types in terms of size?
- Whether there will be consultation on the new strategy?
- How this work relates to the role of the Strategic Investment Board and whether there is any duplication of roles/resources in this regard?

92. A written response from DFP to these and other queries was not received in time for consideration in this report.

93. In advance of the Draft Budget being agreed, the Committee has actively considered how opportunities for additional forms of capital finance could be maximised by more fully exploiting FTC and the European Investment Bank (EIB) as levers for investment. In this regard, the Committee commissioned Assembly research into both sources of finance and sought DFP responses to the issues arising from the research findings.[79] Follow up oral briefings were also held with departmental officials.[80]

94. In noting that there is an '*increasing level*' of FTC (£128 million for 2015-16) available to the Executive, and in light of the fact that these types of arrangements tend to take a long time to be agreed, the Committee has sought detail from DFP on the pipeline of current FTC projects, including what remains to be spent and by when. In addition, the Committee has highlighted to the other Assembly statutory committees the risk of underspend in FTC and the need for departments to be more proactive in identifying opportunities to utilise this scheme. Concerns on this point have been raised by other stakeholders, including FSB who stated that:

> *'Given that it is anticipated that FTC will form an increasing proportion of the Executive's capital budget going forward, it is vital that Departments come to terms with this source as a means of financing capital investment as opposed to conventional capital and embrace the benefits. It is unthinkable that FTC would be handed back to the Treasury under any circumstances'.*[81]

[79] Assembly Research and Information Service - European Investment Bank & Assembly Research and Information Service - Financial Transactions Capital
[80] Official Report - European Investment Bank
[81] Appendix 2 – Submission from FSB

95. From its initial consideration of EIB finance, the Committee noted that *'project size can act as a constraining factor for Northern Ireland'* as regards greater uptake of this source of finance. In terms of FTC, the Committee noted that the main issue giving rise to the risk of underspend appears to be a lack of understanding amongst departments and the local private sector of how the scheme operates. Related to this, members have also queried the absence of a process or a central body to take responsibility for promoting awareness amongst departments and the private sector in order to increase the uptake of opportunities for utilising FTC.[82]

96. **Subject to receiving clarification on the queries it has raised, the Committee broadly welcomes the proposed Northern Ireland Investment Fund, especially given that this may offer an effective mechanism for addressing some of the barriers identified by the Committee in relation to maximising the potential for utilising EIB and FTC as sources of capital finance in Northern Ireland. In terms of FTC, the Committee recommends that the final Budget document includes an agreed approach to promoting awareness amongst departments and within the private sector in order to increase the uptake of opportunities for utilising this important source of capital finance.**

97. As part of its proactive examination of strategic finance issues ahead of the Draft Budget being launched, the Committee has also commissioned research into Executive borrowing powers to support infrastructure investment, including the Reinvestment and Reform Initiative (RRI), which resulted in a range of scrutiny points being raised with DFP. [83] In terms of the Draft Budget, it has been noted that the Executive is '*in the process of considering mechanisms for capping RRI borrowing to ensure that the overall level of borrowing remains within manageable limits'.*[84] DFP has been asked to explain what these considerations entail and why there is a need for a mechanism to cap borrowing.

98. During oral evidence on 12 November, as part of its 'Review into the Operation of the Barnett Formula', the Committee noted the potential need for additional borrowing flexibility in order to taper the impact from a reduction to the block grant in the event of the Executive reducing the Corporation Tax rate as a result of newly devolved powers in this regard.[85] The Committee also intends to schedule a briefing from the Department on the Executive's borrowing strategy in order to further explore the various issues in this regard.

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[82] Official Report - 5 November 2014
[83] Assembly Research and Information Service - European Investment Bank & Official Report - 24 September 2014
[84] Draft Budget 2015/16 (Page 30)
[85] Official Report - 12 November 2014

European Funding

99. Members noted from the Ministerial Statement on the Draft Budget that '£10.7 million in Resource DEL and £8 million in Capital DEL for EU Match Funding which will be held at the Centre for allocation to departments as part of the Final Budget'.[86]

100. In follow up to this provision, as part of its research and scrutiny, the Committee raised various queries with DFP, including for example:

- What assessment has been undertaken to determine the level of DEL co-financing needed by individual departments for programmes already underway, as well as those that are to start, to ensure European monies are not lost to Northern Ireland?
- To what extent has the assessment included consideration of potential impacts that would arise from changes made by the Executive to co-financing levels for EU programmes?

101. A written response from DFP to these and other queries was not received in time for consideration in this report.

'Legacy' Costs

102. The Committee noted from the evidence that issues were raised in relation to a variety of added pressures on departmental budgets, the causes of which can be attributed to legacy costs of the Troubles in Northern Ireland. In its submission, for example, ICTU (NIC) identified six areas of public spending which are affected by the 'Troubles Premium' and which *'will cost more money than other parts of the UK, there is no alternative to state spending (i.e. there is not market solution) and they cannot be ignored'*.[87] These include:

- *'**Poverty** – persistent, intergenerational, linked to victims and perpetrators of violence'*;
- *'**Investment** – afflicted by "Troubles" narrative – a perception reinforced by reality'* in terms of the ongoing incidents of violence;
- '***Security***' – including *'more police, expensive prisons, peace walls …'*
- *'**Sectarianism**'* – including resultant *'duplication of services'*;
- *'**Education**'* – including 'segregation…"brain drain" of graduates & de-skilled older population …'; and

[86] http://aims.niassembly.gov.uk/officialreport/report.aspx?&eveDate=2014/11/03&docID=211611#565203
[87] Appendix 2 – Correspondence from ICTU

- *‘**Mental health** – 10% of the population, with enormous concentrations in areas close to “peace lines”.’*

The Committee recognises that, in addition to these six areas, there are other direct costs associated with the past including, for example, the Historical Investigations Unit (HIU) and as regards addressing victims issues.

103. In view of these additional public spending requirements, ICTU (NIC) concluded that:

> *‘This is a deeply unsettled society. The cuts planned for 2015-16 and the threatened regime of austerity for the rest of the decade will, if enforced, seriously undermine the remaining pillars which support that society’*.[88]

A similar sentiment was expressed by NICVA who, in its submission, pointed to evidence that *‘those with the lowest incomes, who are the most vulnerable during recessions, have also borne the brunt of the government’s deficit reduction plans’*.[89]

104. From the submissions received from the other Assembly committees (**Appendix 1**), it is evident that several of them have also raised specific concerns at a departmental level relating to legacy issues. For instance, the Justice Committee questioned the adequacy of the budget for the Police Ombudsman’s Office and raised concerns regarding how legacy cases would be funded both in-year and in future years. [90] On a separate issue, the Committee for the Office of the First Minister and deputy First Minister highlighted that funding for *Together: Building a United Community* will be predicated on in-year bids, and that given budget reductions there will be less money available within monitoring rounds to deal with pressures that arise; therefore increasing pressure to deliver on this important policy. [91]

105. Underinvestment in infrastructure has also been identified as creating particular challenges for the economy and wider society in Northern Ireland. While the Committee is aware of the progress which the Executive has made in this area, it has concerns that this could be impeded by the budgetary challenges generally and by any pressure to divert resources away from spending on Capital investment in particular. In its report on the Executive’s Draft Budget 2011-15, the previous Committee raised concern that *‘similar to its unilateral decision to end the EYF scheme, the Westminster Government could renege on the amount of over £4bn in capital funding which remains to be paid in the final two years of the Investment*

[88] ibid
[89] Appendix 2 – Submission from NICVA
[90] Appendix 1– Correspondence from the Committee for Justice
[91] Appendix 1 – Correspondence from the Committee for the Office of the First Minister and deputy First Minister

Strategy up to 2017, in line with previous government commitments'. [92] The Irish Government's rowing back, in 2011, on a previous commitment to provide £400 million towards the A5 road upgrade was also a major setback in terms of the economic regeneration of the border region.

106. **The Committee recognises that, arising from the legacy of the Troubles, the Executive has inherited burdens on public expenditure which are distinctive and additional to those faced by other regions. While the impact of decades of conflict and division on society and the economy of Northern Ireland has been immeasurable and not fully accounted for during the peace and political processes to date, it has left a range of deep-rooted problems, the resolution of which will be protracted and require, amongst other things, enhanced public spending on particular aspects of health, welfare, education, justice and economic regeneration. Given the scale of this challenge in a time of austerity, the Committee is fully supportive of the efforts of the local parties to secure external support, including from the UK and Irish governments, in the form of a 'Peace Investment Fund'.**

Budget Process

107. As alluded to above, the Committee notes that, despite DFP's best endeavours to gain early Executive agreement on the Draft Budget, a maximum period of only eight weeks has been provided for public consultation (i.e. 3 November to 29 December 2014). The Finance Minister's decision not to grant more time for this co-ordinated report has placed a further squeeze in the time available for the other Assembly committees to undertake scrutiny and report back to the Finance and Personnel Committee. Moreover, with responsibility for subsequent publication of the more detailed departmental spending plans being delegated to individual Ministers, Assembly committees and the wider public have had considerably less time, in practice, than eight weeks in which to make responses. While acknowledging the rather exceptional circumstances surrounding the Draft Budget 2015-16, nonetheless, it needs to be highlighted that the time afforded for consultation and scrutiny falls short of international good practice.[93]

108. In addition to the constraints on time for consultation, serious concerns have been raised regarding inadequate information provision on individual departmental spending plans. As highlighted in the Committee's response at Appendix 1, DFP has failed to lead by example in terms of both the level of information provided on its

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[92] Report on the Executive's Draft Budget 2011-15

[93] OFMDFM guidance advises that 8 weeks is the minimum period and 12 weeks is the standard period for formal consultations. Similarly, international good practice, including the IMF transparency code, suggests a period of at least 8 weeks for legislatures and the public to undertake scrutiny.

own spending plan and the timeliness (at the Committee meeting on 19 November 2014, members expressed displeasure at the last minute cancellation of the scheduled session on the Department's spending plan and this was exacerbated by the absence of detail in the briefing received eventually). It is evident from their submissions that the majority of Assembly statutory committees (**Appendix 1**) have also experienced difficulties in terms of a time constraints for scrutiny and/or the lack of information provided by their respective departments.[94]

109. The dissatisfaction of Assembly committees with the Executive's budget process is unfortunately nothing new and is an issue which this Committee has raised on numerous occasions, including as part of its three-stage *Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure*.[95] As part of that work the Committee has highlighted, for example, the Sedley/Gunning principles which set out requirements for fair consultation including, for instance, the requirement that, to be proper, consultation '*must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response'* and that *'adequate time must be given for this purpose'*.

110. In terms of the 2015-16 process, as part of its commissioned research and follow up scrutiny, the Committee has raised various queries with DFP, including for example:

- How departments can plan effectively and how Assembly statutory committees can comment effectively when several key pieces of information are missing from Draft Budget 2015-16 (e.g. the outcome of the feasibility study on the proposed Northern Ireland Investment Fund and the workforce restructuring plan)?
- How best practice consultation is being met given that the restricted consultation period concludes during the Christmas holidays, when the Assembly is in recess?
- Given the experience of the 2011-15 Budget, whereby departments were heavily criticised by statutory committees for failing to provide sufficiently detailed follow up information in a timely manner, why did the Draft Budget 2015-16 repeat use of this deficient approach of permitting the necessary information to be provided by departments individually and later in the consultation process?

111. A written response from DFP to these and other queries was not received in time for consideration in this report.

[94] Appendix 1 – Responses from the Committee for Social Development and Committee for Education
[95] Third Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure

112. Arising from recommendations in both the aforementioned Inquiry and the Executive's Review of the Financial Process in 2011 and from subsequent consultation with other Assembly committees, the Department and other stakeholders in 2012, the Committee confirmed the approach of a Memorandum of Understanding (MoU) between the Assembly and the Executive as the preferred way forward for resolving the difficulties in the budget process. The draft MoU, prepared jointly by Committee staff and DFP officials, was agreed by the Committee earlier this year and is still under consideration by the Finance Minister before being brought to the Executive for approval.

113. By establishing a framework for improved co-operation between the Executive and the Assembly in respect of budgetary matters, the MoU will facilitate Assembly Members and committees in fulfilling their scrutiny and advice functions which, in turn, will assist in overseeing the effective and efficient delivery of the Executive's strategic priorities. In addition, the MoU will support the Executive in its role in managing public expenditure and will help maintain good working relationships between departments and their committees, as well as departments and Members.

114. In an interim response to the Committee, while confirming his support for the principles within the draft MoU, the Finance Minister pointed out that, since the MoU was drafted, there has been significant delay in the 2015-16 Budget process due to uncertainty and lack of agreement over key issues, such as Welfare Reform. As such, the Minister considered that it would be *'appropriate to await the outcome of the 2015-16 Budget process to ensure that any lessons learned can also be reflected in the document.'*[96] **Given the need for greater oversight and closer scrutiny of public expenditure, coupled with the recurrence of difficulties experienced by Assembly committees in terms of insufficient time and information for meaningful scrutiny of the Draft Budget 2015-16, the Committee recommends that the proposed MoU on the Budget Process is agreed between the Assembly and the Executive as a matter of urgency. In so doing, the Committee concurs with the Finance Minister that the draft MoU needs to reflect the lessons learned from the 2015-16 process.**

115. Also on the subject of learning lessons, members are aware that the previous Committee highlighted '*the limitations to the in-year monitoring process*', including: that the diminishing level of reduced requirements being declared in-year, means that the monitoring round process is now a less effective mechanism for dealing with new or unforeseen pressures; and that the monitoring round system is, by definition, concerned with in-year allocations, lacks the capacity to plan for future

[96] Appendix 3 – Correspondence from the Minister of Finance and Personnel 31 August 2014; Memorandum of Understanding on the Budget Process

years and does not provide a transparent assessment of progress against strategic priorities. [97] More recently, members have raised concerns regarding: the apparent underfunding of some priorities in departmental baselines in the expectation of 'top up' resources being available through subsequent in-year monitoring rounds; the risk of departments having an overreliance on meeting emerging pressures though monitoring round allocations; and the potential risk to achieving value-for-money as a result of year-end surges in public spending.

116. **The Committee believes that the limitations to the in-year monitoring process are all the more pertinent in the current public expenditure climate and considers that a formal budget review mechanism should operate on an annual basis, looking ahead at the subsequent financial year, as a complement to multi-year planning. In light of the unprecedented budgetary challenges facing the Executive over the coming years and while recognising the importance of continuing to plan strategically on a multi-year basis, the Committee would therefore reiterate the recommendation of its predecessor which called for *'the establishment of a regularised annual budgetary review mechanism, set to a pre-determined timetable, which it considers will aid transparency and better enable the Executive to adapt its plans to deal with changing circumstances and unforeseen pressures'*.**

117. In terms of budget setting and reporting, the Committee noted that, while the Draft Budget 2015-16 took a zero-based approach to Capital, it continued to apply an incremental approach to Resource spend.[98] Also, in its submission, UUEPC recommended that the Executive should focus more on *'outcomes such as qualifications awarded, crimes solved or jobs created, rather than activity levels and budget allocations'*. In this regard, UUEPC also advised that departmental plans should be presented in such a way as to *'enable all lines of expenditure to be mapped across government and show the linkages between that expenditure, activities, outputs and outcomes.'*[99] Members are mindful that this aligns with the Committee's position as previously stated and which was based on comparative research demonstrating that it is possible to link departmental allocations more visibly to government priorities and outcomes; though this would require resolve on the part of DFP and the wider Executive to address the barriers to effecting such a change in approach to budget setting and reporting.[100]

[97] Report on the Executive's Draft Budget 2011-15
[98] Ministerial Statement on the Draft Budget 2015/16 - 3 November 2014
[99] Appendix 2 – Submission from UUEPC
[100] Report on the Response to the Executive's Review of the Financial Process in Northern Ireland & Assembly Research and Information Service - Linking budgets to outcomes: international experience

Departmental Positions

118. **In terms of the proposed budgetary allocations between departments, the Committee for Finance and Personnel recommends that, in finalising the draft Budget 2015-16, the Finance Minister and the wider Executive take on board the conclusions and recommendations contained in the separate submissions from each of the Assembly committees, which have been included in Appendix 1 to this Report. The Committee expects that the Finance Minister will take responsibility for ensuring that this Report is therefore brought to the Executive's attention before the draft Budget 2015-16 is finalised and brought forward for Assembly approval. Members would also expect that the Finance Minister will outline the Executive's response to the Report when presenting the revised draft Budget 2015-16 to the Assembly.**

Appendix 1

Assembly Committee responses on Departmental Positions

Northern Ireland Assembly

Committee for Agriculture and Rural Development

Room 244
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Tel: +44 (0) 28 905 21475

From: Stella McArdle,

To: Shane McAteer, Clerk Committee for Finance and Personnel

Date: 2nd December 2014

Subject: DARD Budget 2015/16 Proposals

Please find attached a response from the Committee for Agriculture and Rural Development regarding its consideration of the proposals received from the Department of Agriculture and Rural Development on Budget 2015/16.

COMMITTEE FOR AGRICULTURE AND RURAL DEVELOPMENT
RESPONSE TO
COMMITTEE FOR FINANCE AND PERSONNEL
ON
DARD BUDGET 2015/16

Background

1. The Committee received a copy of the DARD Consultation Document on the budget "*Draft Budget 2015-16: Spending and Saving Proposals within Department of Agriculture and Rural Development*" on Friday 21st November 2014. The Committee took evidence from DARD officials on the budget on Tuesday 25th December 2014. The Committee was pleased to note that DARD was one of the first Departments to produce its plan. In carrying out its scrutiny of the Budget, the Committee noted the following points:-

Front line services to farmers and wider rural communities

2. The Committee would emphasise the need to ensure that the impact of the cuts and savings in the 2015/16 budget on farmers is minimised. This is with particular, but not exclusive reference, to the new Basic Payment under CAP Reform. The Committee indicated that at least a continuation of the current level of service regarding payments to farmers was its first and main priority. The Committee were firmly of the opinion that the impact of these budget proposals should not under any circumstances affect the payment timetables or schedules of the Basic Payment Scheme. The Committee received assurances from DARD officials that the Basic Payment System is also the number one priority for the Minister and the Department. In exploring this further, the Committee questioned officials on the proposals for staff reductions and received assurances that the reduction in staff numbers would not affect the payment timetable.

Staff reduction

3. The Committee noted that the DARD proposal to reduce staff posts in the Core Department by 300 would provide a saving of £5.6m. In questioning officials on this issue the Committee agreed that this should be done on the basis of voluntary redundancies. The Committee noted that the DARD Core Department accounts has 2,650 staff and that this reduction would therefore represented just under 10% of all posts. Further inquiry on this aspect revealed that DARD has 720 staff over 55 years of age. DARD was unable to quantify

how many staff were over 60 years of age. The Committee has ask it to provide this information as soon as possible.

4. DARD officials further indicated to the Committee that the £100m for Workforce Reduction as outlined in the DFP Ministerial Statement on Budget was to cover the entire NICS and its arm length bodies. The full details of the scheme were unknown with details not likely to be available in the short term.

5. DARD officials also indicated that it expected additional staff post reductions to arise from AFBI and CAFRE, although it was unable to quantify what these reductions might be.

6. Further questioning from the Committee revealed that DARD planned to realise the 300 posts/ £5.6m savings in the 2015/6 year, and it was expected that all areas of the Department would lose posts. The Committee sought and gained clarity that the £5.6m figure was based on each department taking a 10% cut and on a model based on staff costs at the half year point. In giving evidence to the Committee DARD officials noted:-
"That is the existing staffing cost to us of 300 staff in DARD for six months."
And
"The £5·6 million that we have identified equates to a reduction of 300 staff halfway during the year."

7. DARD further recognised the challenge that would represent to ensuring that essential business continued as normal. Reference was made to an expected diminishing of staff required for Brucellosis testing regime – if all went according to plan here this could release up to 50 staff posts. Reference was also made to the putting more services and interactions on line could have the potential to release staff posts in the future. In evidence to the Committee DARD officials noted

"What we want to do is reduce our staffing level, reduce our administrations costs and bring on a target operating model that is more efficient and has more online, automated services. That will be cheaper for us but also cheaper and more effective for farmers and other users."

8. The Committee expressed concern on a number issues as outlined below:-
   - It reiterated its desire to see the reduction in staff posts done by voluntary redundancies;

- It expressed concern that there was sufficient funding in the £100m pot from DFP for workforce restructuring to cover all of the NICS and arm length bodies. This may lead to an oversubscription of the Workforce Restructure fund making it difficult for DARD and AFBI / CAFRE to realise its reductions without substantial additional costs to its own budget lines;
- It reiterated its desire to ensure that frontline services to farmers , particularly the basic payments, were not affected by the staff post reductions. This is of particular importance given that it is expected that older, more experienced staff with a wealth of knowledge and systems are likely to apply for the voluntary redundancies;
- While the Committee acknowledged that DARD recognised the risks associated with the staff reductions, it felt that DARD had not thought through clearly what it may have to do if the full scope of the workforce restructuring plan is not realised. While this is not an immediate requirement, the Committee would encourage DARD to create and put into the public domain what contingencies it would consider if the full £5.6m savings could not be realised in 2015/16.

NIFAIS

9. NIFAIS is the replacement IT system for APHIS. The Committee had a full and frank discussion on NIFAIS with officials and asked for further information on the £18m savings that NIFAIS is expected to generate. [1] The Committee discussed the total capital (£25.8m) and resource (£28.3m) costs of the NIFAIS programme and while recognising that this is spread over 10 – 15 years it did express serious concerns that this level of expenditure was considered necessary in the current climate. The Committee further noted that DARD should perhaps explore other more cost effective options to achieving the same aim, including considering if the procurement laws which are driving a replacement, could be challenged.

10. The Committee are not convinced that the NIFAIS programme in its current format represents value for money and would urge the Minister to revisit this programme to ensure that it is fit for purpose and has not got unnecessary elements built in. The Committee remains to be convinced that what is proposed by DARD is not a “Rolls Royce Model”.

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[1] These savings are not expected in 2015/16

DARD Relocations

11. The Committee noted that it is the intention of DARD to continue with the relocation programme of its HQ and other divisions. This is a PfG target and as such it remains a Ministerial priority.

Inspections

12. The Committee discussed the issue of inspections with DARD officials. The Committee noted that farmers are subject to a wide range of field inspections relating to a wide range of subject areas by both DARD and other government officials. The Committee is of the opinion that further work could be done to drive efficiencies in this area with the various DARD inspecting officials co-ordinating their efforts to create, where possible, a scenario whereby the farmer had one visit in which all his inspections were done.

13. The Committee also discussed with DARD officials whether other organisations and bodies, such as the NIEA, with an inspecting role could have their functions transferred to DARD to enable and facilitate a co-ordinating inspecting role.

14. The Committee did however note that such a process would need to be managed very careful to ensure that a farmer was not subject to unnecessary inspections as a result of such a process. The Committee also noted that the majority of SFP / BPS inspections are now done by remote sensing thus negating the need for a full field inspection.[2] The Committee also noted that DARD should explore whether inspections needed two inspectors in all cases or if one inspector would be sufficient. The Committee would strongly recommend that the Department engage with DoE on the issue of single inspection mechanism with NIEA

Administration costs

15. The Committee had noted a briefing note from the Northern Ireland Assembly Research and Information Services[3] on the administration costs within DARD. This indicated that administration costs had risen between 2011/12 to 2014/15 (see extract below)

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[2] The Committee acknowledged that in some cases rapid field visits would be required.
[3] Draft Budget 2105-16:DARD, published 18th November 2014.

2011-2012 £million				2012-13 £million				2013-14 £million				2014-15 £million			difference	%change
opening	June	October	Jan	opening	June	October	Jan	opening	June	october	Jan	opening	June	October		
40.3	40.0	40.0	39.0	41.0	41.0	41.0	39.3	41.7	41.6	41.1	41.1	42.7	42.6	42.2	1.9	4.71

16. The Committee questioned the increase in administration costs noting the response from DARD officials:-

"Over half of our resource costs are on staff. At present, staff costs are increasing because there is pay inflation and changes to pension arrangements at national level that impact on us as an employer. We see staff costs as increasing all the time."

AND

"Without conceding the overly bureaucratic point, we would suggest that there has been some increase in our staffing level when we are implementing, or even planning for, CAP reform and a new rural development programme."

17. The Committee agreed that it was not content with this situation nor with the explanation and would urge the Minister to ensure that, notwithstanding the reduction of 300 staff posts, that a very close watching brief is kept on administration costs to ensure that they are reduced immediately.

Raising Additional Revenue

18. The Committee noted that it is the intention of DARD to raise additional revenues through a combination of
    - Veterinary Service – generate a further £4m from EU Veterinary Fund Receipts; &
    - AFBI – generate £2m from external sources including Horizon 2020.

19. With regards to the potential to generate a further £4m from the EU Veterinary Fund, the Committee questioned why, if this was available, it had not already been applied for.

20. Regarding the potential for AFBI to raise an additional £2m, the Committee heard that as a result of a recent PAC investigation there may be an increase in the rates charged by AFBI. In evidence to the Committee DARD officials stated:-

"The PAC hearing on AFBI highlighted the area of fees and charges, and AFBI is examining this and seeking to benchmark its current rates applied to other organisations on these islands. It may be that the charges that are currently applied need to be uplifted to reflect the costs of delivering the service."

21. However, it is the understanding of the Committee that DARD is one of the biggest customers of such services and such increases may include therefore ultimately create an increased call on DARD revenue. The ultimate cost saving to overall departmental resources could in such an scenario be minimal.

Compensation for Bovine TB and Monitoring Rounds

22. The Committee considered and agreed with the DARD officials that it was no longer sustainable that such a large element of the compensation for Bovine TB was sought through the Monitoring Rounds process. Compensation for Bovine TB is a statutory requirement and as such it should be a departmental priority and reflected as such in its own budget lines.

Impact on AFBI, CAFRE and Loughs Agency Budgets

23. The Committee noted with disappointment that the DARD plan held very little information on how the budget cuts and savings would be implemented by its arm length bodies. The Committee questioned and received assurances that AFBI would be allowed to continue to bid for its own work.

Tackling Rural Poverty and Social Isolation

24. The Committee noted that the Minister has confirmed that this programme, as with the other PfG targets would remain a priority. The Committee considered the budget cut that the programme will be faced with in 2015/16 and noted that there was provision for £1.7m of capital fund. The Committee questioned the usefulness of capital funding in this programme – particularly given that need to

spend this £1.7m in one financial year. The Committee were not entirely convinced by the explanation given by officials.

"On TRPSI, we considered how best to deliver the programme, given the constraints on our resource funding. The Minister is therefore proposing a rebalance programme of £4·7 million, which is the same as the value of the current programme, but with £1·7 million moved from resource to capital. There will be options for that on how that programme is finalised. This will ensure that funding remains in place, with spending on a higher proportion of capital schemes."

25. Given the range of cuts expected across the wider public sector the Committee would encourage the Department to ensure other government departments remain committed to the actions in the Rural White paper, and that other government departments, in making their budget decisions take rural proofing into account.

Consultation

26. The Committee was pleased to note that while the formal public consultation closes on 29th December, DARD intended to continue to engage and consult with key stakeholders beyond that date. The Committee recognised that while this is a one year budget, the majority of the cuts and savings proposed will continue beyond 2015/16. With this in mind, the Committee would advise the Minister and her officials to go beyond the normal consultation process and undertake detailed engagement with stakeholders in the farming and rural communities. Collaboration and close working, allowing important input from DARD stakeholders would, in the opinion of the Committee, be crucial to a successful transition of service deliver in what is likely to be a sustained period of reduced resources. In evidence to the Committee DARD officials noted:-

"It is also important to note that the Budget reduction faced by the block grant is not a one-off reduction. There are challenging times ahead, and it is imperative that we plan and design our business to reflect that ever-reducing public-sector funding. Consider the projections by the Office for Budget Responsibility, which the Finance Minister referenced in his statement to the Assembly. He said that we are facing a real terms reduction of 13%, or £1·3 billion, over the three years to 2019. Given that context, we are mindful of the extreme challenges in delivering savings and ever-more efficient services with reducing resources."

27. The Committee noted that officials had stated that the budget reduction being faced by the Department were as a result of a reduction in the block grant from the UK.

"I start with the financial challenges for us going forward. You are aware that the block grant from Westminster was reduced by 1·6%, or £160 million, in the financial year. Alongside that, all Departments have had to absorb the impact of pay and price inflation over a number of Budget periods, and DARD has not been exempt from that. As a consequence, there are material pressures across all Departments, particularly given the high proportion of costs that relate to wages and salaries. Indeed, the Finance Minister highlighted in his draft Budget that the Budget has been constructed in the most challenging financial circumstances to face any Administration in the history of Northern Ireland. That gives some context to what we are discussing today."

Northern Ireland Assembly

AUDIT COMMITTEE

Room 254
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Tel: 028 9052 0333

Mr Daithí McKay MLA
Chairperson of the Committee for Finance & Personnel
Room 243
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2 December 2014

Dear Daithí,

The Audit Committee welcomes the opportunity to contribute to the Committee for Finance & Personnel's co-ordinated report on the draft budget 2015-16. The Committee wishes to comment on the provision within that draft budget in relation to the Northern Ireland Audit Office (NIAO).

The Committee has noted that in the Finance Minister's statement on the draft budget to the Assembly on 3 November 2014 he said:

"*In line with the independent role that they exercise, savings targets have not been imposed on the Assembly Commission, Audit Office and Assembly Ombudsman*".

The Committee welcomes this recognition of the NIAO's independence and the acknowledgement that it would therefore be inappropriate for the Executive to seek to impose savings targets upon it.

The Minister went on to say:

"*However, I have every expectation that these bodies will have due regard for the overall budget position in 2015-16 and that they would seek to manage their internal pressures from within their overall resource allocations and seek to* *achieve similar savings, returning any efficiencies to the Executive for re-distribution"*

The Committee agrees that the NIAO should continue to pursue efficiencies and cost reductions wherever possible and continue to build on the savings it has achieved over the past five years. However, it is important to acknowledge the extent of the savings that it achieved over that period. The NIAO's estimate provision for 2014-15 is 14.5 per cent in cash terms, and almost 25 per cent in real terms, lower than 2009-10.

The NIAO has informed the Committee that it has now reached the point where the potential for savings has significantly diminished and the scope of the audit services it can provide is likely to be constrained under existing funding provision, unless it restructures.

The Audit Committee is committed to ensuring that the NIAO has the resources necessary in order to continue to provide effective support to the Assembly in its task of holding departments, executive agencies and other public bodies to account for their use of public money. This role is even more important in the current financial climate. The Audit Committee would not therefore agree to a reduction in the funding for the NIAO which would prevent it from carrying out this crucial role.

The Committee has been advised that the Northern Ireland Civil Service intends to introduce a voluntary exit scheme and that the NIAO has indicated to DFP that it would want a comparable scheme. The NIAO would require additional resources in order to fund restructuring and the Committee would therefore encourage cooperation between it and DFP on this issue, as well as on the detail of any scheme itself.

Finally, I should point out that the 2015-16 forecast net resource requirement of £8,200,000 for the NIAO translates into an Executive budget provision of £8,391,000. However, the sum allocated to NIAO in the Executive's draft 2015-16 budget is £8,200,000. The latter figure is based on the Executive's opening 2014-15 monitoring position for NIAO and therefore does not reflect the technical adjustments made in the June and October 2014 monitoring rounds to align the budget to the 2014-15 main estimate. The Executive's final budget should be adjusted to reflect a provision of £8,391,000.

Yours sincerely,

[redacted]

Danny Kinahan MLA
Chairperson
Audit Committee

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From: **Peter Hall**
Clerk, Committee for Culture, Arts and Leisure

Date: **5th December 2014**

To: **Shane McAteer**
Clerk to the Finance and Personnel Committee

Subject: **CAL Committee response to the draft DCAL budget for 2015-16**

Dear Shane,

Please find attached the agreed response from the Committee for Culture, Arts and Leisure to the 2015-16 draft budget put out for consultation by the Department of Culture, Arts and Leisure. Please note the Committee has highlighted that there was insufficient detail provided in the consultation document for deeper scrutiny. The Committee hopes to see more detailed savings delivery plans from the Department and its Arm's Length Bodies in due course. The Committee is grateful for the opportunity to contribute to the Finance and Personnel Committee's co-ordinated response.

Yours sincerely,

[redacted]

Peter Hall
Clerk to the Committee for Culture, Arts and Leisure

Northern Ireland Assembly

Committee for Culture, Arts and Leisure

Mr Daithi McKay
Chairman
Committee for Finance and Personnel
Room 144
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Our Ref.: C346/14

5th December 2014

Dear Daithi,

Committee for Culture, Arts and Leisure to the proposed DCAL budget for 2015-16

The Committee for Culture, Arts and Leisure received a briefing from Departmental officials at an additional meeting on 25th November 2014. At that meeting the officials briefed the Committee on the content of the 2015-16 DCAL budget consultation paper (attached), which was published on the Department's website the previous week. Members discussed the budget at that meeting and again at the Committee's meeting on 27th November. The Committee had previously received briefings on the 2015-16 budget proposals from Libraries NI and the Arts Council Northern Ireland on 9th October and 20th November respectively. The Committee agreed that I should write to contribute to your Committee's co-ordinated response to the 2015-16 budget proposals.

The first issue that the Committee wishes to highlight is the lack of detail contained in the DCAL budget consultation paper. The paper has tables illustrating how budget reductions have been allocated within the core department and to the Arm's Length Bodies; however, the information provided is very high level and, as a consequence, is not open to detailed scrutiny.

The Department's baseline Current Expenditure sees a 10% cut overall, falling from £99.9m in 2014-15 to £89.9m in 2015-16. This is a very significant cut and its impact will be felt across all DCAL's divisions and ALBs. Over the past few years DCAL has carried a large capital budget as a result of the redevelopment of the stadia at Ravenhill, Windsor Park and Casement Park. Difficulties and delays encountered around this redevelopment, particularly with respect to Windsor Park and Casement Park, have meant that the Department has often found itself in the position of surrendering this budget as it is specifically allocated. For 2015-16 the Department has a ring-fenced capital budget of £54.1m, £46m of which is earmarked for the stadia redevelopment. However, the Department has highlighted that there is still likely to be a shortfall of around £12m required for the stadia programme and the Committee is concerned that, given the current financial backdrop, there may be issues around the full funding of this Executive commitment and the linked development sub-regional stadia programme that will follow.

The DCAL paper highlights the fact that payroll is the single largest cost in the Department, National Museums NI and Libraries NI. It also represents a considerable cost for the other ALBs. The Department admits that, as a result, vacancies will remain unfilled, recruitment and pay will more than likely be frozen, and DCAL will make use of a voluntary exit scheme administered and funded at the centre. The Department makes no suggestion regarding the number of staff it and its ALBs are likely to have to lose; however, DCAL acknowledges that there will inevitably be an impact on front line services as a result. The Department has indicated it will publish more detailed savings delivery plans at a later date and the Committee welcomes that commitment. Additionally, the Department has indicated that it will seek to realise savings through the reconfiguration of back room services and the Committee suggests that this is undertaken in full co-operation with its ALBs and other departments.

During the budget briefing, Members also suggested to officials that they should examine any possibilities around the Department's utilisation of the ***Change Fund*** that the Executive has established and also ***Financial Transactions Capital*** funding available in 2015-16. Officials undertook to examine these options.

As a result of in-year budget reductions, **Libraries NI** has already reduced numbers of temporary/agency staff and reduced opening times at some libraries. After a number of years of difficult but productive reform and change, the Committee was concerned that an application of a budget reduction of 10% to the Libraries NI budget would see libraries close, with particularly negative repercussions for rural communities and the mobile libraries service. The limiting of the reduction to Libraries NI's budget to 7.5% means that no libraries will close and the Committee welcomes this. The Committee has some concerns around the reduction in budgets for new stock and the impact this may have on the number of library visits. A level of protection for the Libraries NI budget means the budget reduction across the rest of the DCAL family rises to 11.2%.

The Committee has already welcomed the development by the Department and the **Arts Council NI** of an Arts and Culture Strategy in the months ahead. Such a Strategy is the best way forward to secure the long-term future of the arts and it provides an opportunity to take a clearer cross-departmental approach to the arts and culture, including funding. The sector has shown itself to be an important economic and social driver and the wider health and wellbeing benefits of participation in arts/culture activities is well documented. An indicative 11.2% reduction in the Arts Council's current budget of £12.3m to £10.93m will be painful. However, during its recent briefing to the Committee, the ACNI indicated that it would take a considered and qualitative approach to allocating reductions to its budgets, rather than "salami-slicing", which the Committee believes can be more destructive.

National Museums NI have indicated that an 11.2% reduction in their current budget of £12.76m to £11.33m in 2015-16 will mean periodic closures across the museums estate and a reduction in events and special exhibitions. The Department has highlighted in its paper that work will continue to develop NMNI's outreach work, particularly with respect to schools and those involved in lifelong learning. In the Committee's experience outreach tends to rely on an increase in resources and will be difficult to undertake in the face of budget reductions. Members would suggest that much of the outreach activity that has been highlighted has a cross-departmental emphasis and therefore should be co-funded with other departments and should be included in the development of the forthcoming Arts and Culture Strategy.

With respect to the 11.2% reduction in the current **Sport NI** budget of £9.27m to £8.23m in 2015-16, the Department's paper highlights that much of the savings will come from grant programmes. Outreach and development will continue to focus on areas of greatest social need; however, it is likely that some of SNI's excellent work in the development of sporting bodies' governance and accountability structures will be curtailed. The Committee has concerns around the impact on this, particularly in the context of ensuring that bodies in receipt of public funding have robust, auditable processes and procedures in place. Like the Arts Council, SNI has indicated that it will not simply "salami-slice" across its budgets. A qualitative analysis of priorities and needs will inform restructuring of its budget.

In any budget reduction process there is always a considerable danger that entire functions will be lost or undermined. The Committee is concerned that the reduction of core funding provided by SNI to Disability Sport NI to £146k in 2015-16 jeopardises the 'whole of Northern Ireland' aspect of DSNI's work. Members believe that the important work that the body has done in bringing disabled people into sport could be greatly compromised by the reduction. The Committee is calling for SNI to re-examine its budgeting for 2015-16 and restore DSNI's funding to its 2013-13 level of £170k. The Committee believes that the work that DSNI undertakes epitomises DCAL core objective of Promoting Equality and Tackling Poverty and Social Exclusion.

Regarding the **North/South Bodies** under the Department's remit, budgets for 2015-16 must be agreed by the North South Ministerial Council; therefore the Committee will wait to see firm savings delivery programmes. However, the Department's consultation paper highlights indicative reductions. The Committee has already expressed its concern to the Minister regarding pressures to the Waterways Ireland budget and Members have encouraged the Minister and the body to look after ways to generate income to offset the reductions and potential impacts that they may have on our inland waterways' infrastructure.

As indicated above, until detailed savings delivery plans are available for the Department and the DCAL family, it is very difficult for the Committee to make definitive comments. The Committee is on record as advocating that, in the face of budget reductions, all areas of government must look at maximising their drawdown of EU funding. Additionally, the Committee has highlighted possibilities around co-operation with the new 'super' councils which would allow economies of scale etc. to be utilised. Members have also called for all options around savings through intra and inter-departmental co-operation to be examined. This would include possibilities around co-location and co-funding.

The Committee believes that the work undertaken by the Department contributes significantly to the Northern Ireland economy and the health and wellbeing of our people. However, more than that, it forms a part of all of our daily lives and enriches each one of us in the process. As I indicated above, the Committee considers that the Arts and Culture Strategy can play an important role in this and that it needs to be funded and implemented across the Executive. In the same way, all Executive Departments must feed into and support the work that the Department undertakes in the arenas of sport, leisure and recreation.

The Committee strongly advocates that stakeholders fully engage with the consultation process.

Yours sincerely,

[redacted]

Mr Nelson McCausland MLA
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Northern Ireland Assembly

Miss Michelle McIlveen
Chairperson, Committee for Education

Mr Daithi McKay MLA
Chairperson
Committee for Finance and Personnel

5 December 2014

Our Ref: PMcC/KM/1825

Dear Mr McKay

DE 2015-16 Draft Budget

The Committee for Education agreed that I should write to you setting out the Committee's scrutiny and its views in respect of the DE 2015-16 Draft Budget.

At its meeting on 3 December 2014, Departmental officials' briefed the Committee on the Department of Education's 2015-16 Draft Budget.

Officials advised the Committee that the 2015-16 Department of Education Draft Budget represents a sea-change in education in Northern Ireland. Indeed, it appears that the Budget's impact on employment and the consequences for schools, curriculum delivery and the achievement of a range of policy objectives may prove to be of long-term significance. The Committee agreed that it is therefore regrettable that the time for scrutiny by the Committee has been constrained as has the opportunity for consultation with stakeholders. It is also regrettable that information provided by the

Department on the proposed changes has been limited and incomplete. In these circumstances, it has been difficult for the Committee to fulfil its obligations to scrutinise and indeed to support the budget development process.

Of particular concern to the Committee are the anticipated levels of employment reduction in respect of both teaching and non-teaching staff. The Committee felt that the timescales for redundancy for schools were unlikely to be achievable and given the previous recent experience of cost reduction redundancy may lead to a great deal of uncertainty and lowering of morale among teachers. The Committee strongly felt that clarity is required at the very earliest opportunity in respect of the costs; the benefits; and the next steps for school and other redundancies.

Members noted with concern the proposed reductions in support for a number of policies including: Sure Start; nutritional standards in school meals; Entitlement Framework; and SEN capacity development etc.. Members also noted limited detail in respect of proposed decreases in support for standalone initiatives; and 3rd party organisations etc.. The Committee recognised the importance of measuring the outputs and effectiveness of policies and understanding the sustainability of organisations and initiatives. Given the constraints on the budget and the importance of preserving support for key policy interventions, the Committee felt that the Department should in future focus more on obtaining value for money from initiatives and organisations etc. and should provide improved clarity on the achievement of policy objectives.

Members also noted the absence from the consultation document of references to PEDU recommendations relating to school catering and school

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transport; savings associated with the establishment of the Education Authority; and Welfare Reform penalties. The Committee felt that given the wide-ranging nature of the proposed budget changes, the Department should make extensive use of and reference to efficiency reports and set out clearly expected savings associated with re-organisations etc.. Some Members also sought clarity, at the appropriate juncture, in respect of the impact of Welfare Reform penalties, if any.

The Committee noted with interest the proposed changes to the capital budget. Members felt that, given the improving property market, there may be a higher level of asset disposal than that which has been predicted. The Committee therefore felt that in such an eventuality and given the backlog of important and "shovel ready" capital works, the Department should be permitted to retain the benefits of asset disposals during the budget period.

Members also felt that the final 2015-16 Budget should include proposals for the use of the Change Fund and for capital and other projects delivered as appropriate by Arms Length Bodies making use of support from the European Investment Bank.

The Committee also recently wrote to the Department seeking;

- information on how the school meals nutritional standards obligation is to be met and measured;
- clarification as to whether the Sure Start programme is to be rolled out, as planned, from the 20% most deprived wards to the 25% most deprived wards;
- clarification as to how proposed reductions to support for the Entitlement Framework will impact on associated transport costs for pupils;

- clarification in respect of the references in the budget consultation document to Area-based Planning and the sustainability of schools;
- detail in respect of the budget reductions for 3rd party organisations and Non-Departmental Public Bodies; and
- an updated budget distribution table for 2015/16.

The Committee has also recently given consideration to important changes to the Northern Ireland Teachers' Pension Scheme. Members recently met with representatives of most of the teaching unions and considered their concerns in respect of increasing employee contributions and changes to Normal Pension Age. It is understood that the revaluation of the Scheme may lead to substantially increased employers' contributions which are to be met from the central £133m fund. The Committee felt that further clarity in respect of this significant liability was required and should have formed an important part of the scrutiny of the 2015-16 Draft Budget. It is again regrettable that this information was not made available, as yet, during the consultation period.

Given the wide-ranging nature of the proposed changes, and the consequences for pupils, parents, governors, principals, teachers, schools Arms Length Bodies and officials, the Committee agreed to invite the Minister to provide an oral briefing on the anticipated impact of the 2015-16 Budget following agreement by the Executive.

If you require further information in respect of the Education Committee's consideration of the Draft Budget, please do not hesitate to contact the Clerk of the Education Committee.

Yours sincerely

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To: **Shane McAteer, Clerk to the Committee for Finance and Personnel**

From: **Cathie White, Clerk to the Committee for Employment and Learning**

Date: **28 November 2014**

Subject: **Response to Draft Budget 2015/16**

Shane,

At its meeting on 26 November 2014, the Committee for Employment and Learning received a briefing from the Minister for Employment and Learning on the Budget 2015/16. During the briefing the Minister outlined his Department's financial situation for the coming year. The Minister advised that although the proposed budget referred to a reduction to his department of 10.8%, the actual impact would be 16.7% as he was already implementing £35 million in cuts from the 2014/15 budget. The Minister however was unable to provide a detailed account of what the impact would be on staff and services.

In response to the Committee for Finance and Personnel's request for a submission to the consultation the Committee for Employment and Learning has noted the following:

- The time available to the Committee to scrutinize the budget was inadequate.

- The Minister was unable to provide any detailed impacts that the proposed budget reduction would have on his Department and agreed to return to the Committee in the New Year when he can provide more quantifiable impact after the Budget has been finalised. The Minister's reasoning for this was that 70% of his budget went directly to the Colleges and Universities who are independent and have responsibility for their allocated budgets. In addition there are areas of the Minister's budget where he is contractually and legally bound to provide funding.

- The Minister did not provide information on whether he was passing a 10.8% cut on to the Colleges and Universities.

- The Minister advised that within his own core department there could be staff reductions of 200 on top of another possible 200 already planned for as part of £35 million of programmes coming to an end such as the Youth Employment Scheme, and SIFT (400 in total).

- When asked about the impact of staff cuts the Minister advised that staff cuts would lead to some services being discontinued.

- The Minister advised the Committee of possible actions he was looking at introducing including:

  - Using European Social Fund (ESF) funding for mainstream departmental work and that this course of action would lead to less ESF money to Voluntary and Community Sector.
  - Possible reductions in Management and Leadership Training with the hope that employers will pick up the shortfall.
  - Investors in People costs will hopefully shift to UK Skills.
  - Capital projects already agreed such as the new Computer science building at Queen's University Belfast, a teaching block at Ulster University Magee Campus and development projects at the Southern Regional College, Northern Regional College and South West Regional College, will all go ahead although they may proceed slower than proposed. However new proposals for capital projects that are not already agreed are unlikely to happen.
  - A number of core functions would be stopped.

The Committee's main issues with the proposed cuts are the impact on the economy and programme for Government priorities of cuts in college and university places and reduced core Departmental operations.

The Committee also expressed its concern that the Department had not made any bids for additional funding in the last Monitoring Round.

Northern Ireland Assembly

Committee for Enterprise Trade and Investment
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To: **Shane McAteer**
Clerk to the Committee for Finance and Personnel

From: **Jim McManus**
Clerk to the Committee for Enterprise, Trade and Investment

Date: **2 December 2014**

Subject: **Budget 2015/2016**

At its meeting on 2 December 2014, the Committee for Enterprise, Trade and Investment received oral evidence from the Department in relation to its 2015/2016 budget. Members agreed at the meeting to write to the Committee for Finance and Personnel highlighting the inadequacies of the current budget process.

The Committee only received papers from the Department for tabling at this week's meeting. As a result, the Committee will not be in a position to consider and agree a report until the next Committee meeting on 9 December 2014.

Once members have had sufficient time to discuss the budget, the Committee's agreed response will be forwarded to the Committee for Finance and Personnel.

Jim McManus

Clerk

Committee for Enterprise, Trade and Investment

DRAFT BUDGET 2015-16

SPENDING AND SAVINGS PROPOSALS FOR THE DEPARTMENT OF ENTERPRISE, TRADE AND INVESTMENT

Introduction

1. The Executive's Programme for Government places the Economy as its top priority with the aim of achieving long term economic growth by improving competitiveness, and to build a larger and more export-driven private sector. The focus is on rebuilding the labour market in the wake of the economic downturn and rebalancing the economy to improve the wealth and living standards of everyone. The Executive's Economic Strategy details how sustainable economic growth and prosperity will be delivered across Government through rebalancing and rebuilding the economy.

2. The Department of Enterprise, Trade and Investment (DETI) has the lead role to play in delivering on the Economic Strategy. Significant progress has been made in recent years on the implementation of the Strategy and helping to support the economy recovery. In 2013-14 Invest NI had a record year with almost 11,000 new jobs promoted. Over the period of the Programme for Government to date over 34,400 new jobs have been promoted and £2.5 billion investment commitments secured.

3. Northern Ireland has also enjoyed an unprecedented period of tourism growth over the past few years, with targets for visitor numbers and revenue spend exceeded. In the first half of this year there was an increase of 5% in trips from all markets and an increase of 10% in what visitors are spending while they are here (compared with the first six months of 2013). Northern Ireland has also now a well-earned reputation for being able to host successfully major international events. DETI remains focused strongly on ensuring that creating jobs, increasing investment, attracting visitors, and supporting business continues to sustain the recovery in support of the Executive's top priority and the Executive's Economic Strategy.

4. Whilst the improvements in the local economy are welcome and contribute towards improving Northern Ireland's prosperity, the recovery is still fragile and much remains to be done to ensure it is sustained. The Minister's decisions on the allocation of the DETI Budget in 2015-16 will be based on a careful assessment of what will best support the promotion of economic growth in the short, medium and longer terms, whilst also recognising that given the tight constraints on that Budget there is a need to take very difficult decisions to realise significant savings next year.

Draft Budget

5. The NI Executive's *'Draft Budget 2015-16'* was announced by the Minister for Finance and Personnel on 3 November 2014. The Executive's Draft Budget provides proposed departmental Resource expenditure and Capital investment allocations for 2015-16. The announcement of the Draft Budget commenced the public consultation period, the closing date for which is **29 December 2014**. A copy of the Executive's *'Draft Budget 2015-16'* can be accessed on the Budget website: www.northernireland.gov.uk/budget.

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7. The Department is publishing this document on its website: www.detini.gov.uk and welcomes consideration and comment on any aspects of this document. Interested parties are encouraged to make responses by the consultation closing date of **29th December 2014.** The document is also being provided to the Assembly's Committee on Enterprise, Trade and Investment. You may make representations to the Department directly or to its arm's length bodies. In the case of the Department, submissions can be made by post or email to:

Trevor Cooper
Finance Director
Netherleigh
Massey Avenue
BELFAST
BT4 2JP

Email: DETI.BudgetConsultation@detini.gov.uk

Spending and Savings Proposals

Department	ENTERPRISE, TRADE AND INVESTMENT

2014-15 Resource Budget following in-year monitoring	£198.8m
2015-16 Resource Budget	£194.0m

High level assessment of the Draft Budget proposals

This paper provides a summary of the potential implications for Enterprise, Trade and Investment of the Draft Budget proposals that were presented to the Assembly on 3 November. The overall Resource position for DETI set out in the Draft Budget is as follows:

Table 1

2014-15 Resource Baseline after October Monitoring £m	2015-16 Starting Baseline £m	2015-16 Resource Draft Budget Outcome £m	Allocations to meet Pressures £m	Reductions at 15.1% of Baseline £m	Net Change on 2015-16 Starting Baseline £m	% Change on 2015-16 Starting baseline
198.8	184.2	194.0	+37.7	-27.9	+9.8	+5.3

The 2015-16 Starting Baseline Position is distributed across DETI and its six arm's length bodies as follows:-

Table 2

Body	**£m**	**% share**
DETI – Core Department	29.4	15.9
Invest NI	115.9	62.9
NI Tourist Board (NITB)	13.9	7.6
Consumer Council (DETI funding)	1.4	0.8
Health & Safety Executive NI	6.7	3.7
Tourism Ireland (TIL)	13.8	7.5
InterTradeIreland (ITI)	3.0	1.6
Total	**184.2**	**100**

Invest NI accounts for some 63% of the Department's Resource budget. Invest NI and Tourism-related activity (NITB and TIL) combined account for some 78% of the overall Resource Budget.

Resource Expenditure

(i) Allocations For Pressures (£37.7m)

DETI has been allocated an additional £37.7m to meet already known commitments. The main pressures arise in Invest NI and the NITB though there are also other pressures in DETI and the other bodies amounting to around £7m.

There is a substantial pressure on the Invest NI baseline for 2015-16 given the unprecedented successes in the last few years in promoting new jobs, driving investment in research and development and securing new inward investment. As a consequence, Invest NI faces pressures above the 2015-16 draft Budget starting baseline of some £35m from projects already in contract or expected to be in contract in the remainder of 2014-15. Over the last 18 months alone over £2bn total investment commitments have been made and more than 21,000 new jobs promoted.

This success comes with a cost, in terms of an additional £150m of legally binding commitments which are forecast to be paid over the next five years.

The Northern Ireland Tourist Board has inescapable commitments of some £6.9m for Resources following the successes of Northern Ireland in attracting prestigious international events, including The Open, The Irish Open, Giro Gran Fondo and Tall Ships 2015. These events will build on Northern Ireland's reputation as a world class venue for hosting events and, in doing so, will attract thousands of tourists to the country.

The Department has therefore been allocated £37.7m which is less than the already known pressures facing DETI and its ALBs next year. The Budget allocations are proposed to be used to help address the substantial pressures in Invest NI to continue to promote jobs and support business, and to address the NITB inescapable commitments.

(ii) Areas for Reductions

The scale of the reductions proposed for DETI is such that significant savings will also need to be made across the Department and all of its six arm's length bodies. The table illustrates the application of 15.1% across DETI and each of its arm's length bodies though final decisions on allocations to bodies may not necessarily reflect this pattern. However, given the relative shares of the budget across bodies and the levels of commitments for 2015-16 it is expected that there may be limited scope to vary significantly from this profile.

Table 3

Business Area	2015-16 Opening Resource Baseline £000s	15.12% Resource Reductions £000s	2015-16 Revised Resource Baseline £000s
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TOTAL	**184,165**	**-27,853**	**156,312**

The main potential implications from this distribution of the reductions are expected to be as outlined below.

DETI

Administration costs across DETI and its ALBs represent circa 38% (£70m) of the total DETI Resource budget. To significantly reduce administration costs next year would require staff exit arrangements in place for departments and ALBs with access to central funding being provided by the Executive for workforce restructuring. The Department is projecting that with access to central funding some savings would be realised during the year with the full-year effect occurring in 2016-17. DETI and its ALBs will be adopting measures including cutting back on planned recruitment, suppressing unfilled vacancies, and reducing overtime working.

To manage within a 15.1% Budget reduction DETI would be seeking to reduce the number of Civil Service posts by around 50 next year including the removal of unfilled vacancies. The changes would be distributed across the Department's functions.

Invest NI

Reductions for Invest NI present particular challenges coming at a time when there is a drive to grow the private sector, strong business interest in creating jobs and providing investment, in addition to a requirement to reduce the size of the public sector, create jobs and rebalance the economy.

Based on the current proposed allocations, Invest NI's resource budget is very largely committed at the start of 2015/16, resulting in only limited funding being available for all uncommitted expenditure and to support new projects and jobs.

Clearly at this level, it would be impossible for Invest NI to continue to provide the breadth and depth of support which it has done recently and some very hard decisions would have to be made.

The 15.1% reduction scenario would result in Invest NI:-

- having to narrow its focus to a small number of revised priorities, with a significant detrimental impact on all other areas of its activity.
- having a significantly reduced scope to support new business projects coming forward
- having to potentially withdraw its support for businesses outside of larger companies across a wide range of sectors; hitting smaller local companies across Northern Ireland which are benefitting greatly from Invest NI's assistance and guidance; and
- significantly scaling back or ceasing some programmes.

Other areas, such as Trade, International Business and Communications would be reduced substantially, with fewer trade missions and exhibitions – reducing export opportunities and negatively impacting the achievement of emerging market targets and exports targets – and reduced ability to continue to drive new inward investment opportunities.

Such measures would have an impact for a number of years, stifling the revival in local business confidence that is beginning to be seen and impacting on the recovery of our local economy.

Northern Ireland Tourist Board

The new European Regional Development Fund Programme for 2014-20 will not support tourism activity which had been a feature of the previous Programme. As a result, NITB will not have access to £2m annually for marketing activity.

The Events Fund amounts to £1m in the NITB baseline and is fully committed next year covering International events which have three year Letters of Offer issued in 2014/15. In previous years NITB have relied on in-year monitoring to fund its commitments on events. As this is no longer available open calls under the National Sponsorship Scheme and new International Events Fund will not be launched.

A 15.1% reduction would therefore mainly fall in the area of Destination Marketing and result in no advertising campaigns in either Republic of Ireland or Northern Ireland markets, reduced digital and social media and reduced business to business activity which facilitates local trade engagement with international tour operators.

The NITB would also make reductions in research and intelligence which is used to inform policy, monitor performance and communicate and engage with stakeholders and raise the importance of tourism to the economy.

Health and Safety Executive

In regard to the HSENI the effects would be mainly to reduce planned programme spend including Health and Safety campaigns and promotional activity spanning all of the HSENI activities. This would include:

- Suspending the carbon monoxide awareness campaign and
- suspending the farm safety campaign activity;
- reduction in investigation and legal expenditure associated with prosecutions;
- reduction in promotional activity aimed at child safety on farms;
- reduction in internal and external support activities (incl. HR/finance, corporate support, advice, publications);
- reduction in cost of 3rd party inspection activity;
- stop promotional activities aimed at both general and specific work sectors, including construction, manufacturing and agriculture; and
- stop programme support for small businesses and young and new workers.

To manage within the budget allocations HSENI would also plan to reduce the staff headcount by approximately 10% through suppressing vacancies and by accessing a central funding for an exit scheme. HSENI would also plan to reduce its other operating costs, including training and travel, by approximately 30%.

Consumer Council

CCNI would reduce its administration costs and scale back its Work Programme in the following areas:-

- Consumer representation and advocacy – reductions in consumer research and data collection to inform consumer policy advice to government, business and other stakeholders. In 2015-16, this would mean not proceeding with planned research into air passengers' travel patterns, research into the problems faced by consumers accessing affordable financial services, and reducing the frequency of petrol and diesel monitoring.
- Consumer skills – reducing the number of workshops, presentations and outreach events held directly with consumers to raise awareness of their rights, increase their ability to protect themselves when making purchases and to shop around for the best deal.
- Communications and stakeholder engagement – reducing capacity to monitor consumer issues in the media and representational work with key stakeholders to raise their awareness of consumer issues.
- Consumer Support – not progressing with planned work to further develop the complaint handling service by achieving the Customer Service Excellence Award.
- Ending the long-standing relationship with local universities to provide student placements each year.

Tourism Ireland and InterTradeIreland

The need to manage the significant reductions requires that 15.1% reductions would also apply to the two North/ South Bodies, Tourism Ireland Ltd and InterTradeIreland. The potential implications are being addressed with the relevant sponsor departments in the Irish Republic and with the bodies themselves in the context of seeking agreement on their 2015 Business Plans.

Capital Expenditure

The table below shows the DETI Capital and Financial Transactions Capital Budget 2015-16.

Table 4 **£million**

	CDEL	FTC	Total
DETI	24.2	52.8	**77.0**

Capital DEL

The proposed Capital DEL allocation is £24.2m against current projected pressures of £35.2 million identified in 2015-16, which comprise the following projected capital requirements:

- £25m Invest NI – to support a range of programmes
- £4.1m NITB – HMS Caroline, Outdoors Development Programme and Living Legends Development
- £2.2m Telecoms – Superfast Extension Programme
- £3.0m Gas to the West infrastructure
- £0.9m Science Park Extension of Innovation Centre

DETI is liaising with DFP on the overall capital pressures and how they should be managed.

Financial Transactions Capital (FTC)

Financial Transactions Capital is available with the key criterion that it must be used to provide a loan or equity investment to a private sector entity.
DETI has been allocated FTC of £52.8m against a projected £33.3m FTC pressures identified in 2015-16 comprising the following:

- £23.9m Invest NI – including Agri-food Loan Scheme, Access to Finance, Film Studios, and Sustainable Use of Poultry Litter
- £9.4m Science Park – Concourse III and Innovation Centre

DETI therefore could meet its FTC requirements for next year and has a projected surplus in the FTC allocation of some £19.5m which is not currently expected to be required next year. The potential reallocation of this surplus will be discussed with DFP.

Northern Ireland Assembly

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To: **Shane McAteer**
Clerk to the Committee for Finance and Personnel

From: **Jim McManus**
Clerk to the Committee for Enterprise, Trade and Investment

Date: **2 December 2014**

Subject: **Budget 2015/2016**

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Northern Ireland Assembly

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From: **Jim McManus**
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Date: **9 December 2014**

Subject: **Budget 2015/2016**

At its meeting on 2nd December, the Committee for Enterprise, Trade & Investment considered a briefing from the Department on it draft budget for 2015-2016. A copy of the Department's briefing paper is attached at Appendix 1. The Committee had a number of concerns regarding the Department's spending and savings proposals and agreed to bring these to the attention of the Committee for Finance & Personnel.

In its assessment of the draft budget proposals the Department has provided a starting baseline position where an overall 15.1% reduction is distributed pro rata across DETI and its six arm's length bodies. Other than highlighting a number of inescapable commitments the assessment does not provide a categorisation of priorities for expenditure. The Committee believes that further analysis is required to ensure that the impact of reductions is lessened on areas of strategic priority for the Executive.

During oral evidence, DETI officials informed the Committee that a significant proportion of Invest NI's baseline for next year is already committed. The Committee understands this proportion to be at around 93%. Officials stated that the current proposals would mean that Invest NI would be unable to support its current level of activity and that this would result in fewer jobs being promoted. The presumed impact of this would be fewer jobs actually created.

When asked what the impact would be on Programme for Government and Economic Strategy targets, officials stated that, as the level of targets should be set in line with the level of budgets, the current proposals may mean that Invest NI would have to scale back its targets. It is considered a key concern for both Invest NI and the Department.

The Committee had been provided with assurances that a commitment has been made to Invest NI that no worthwhile inward investment for job creation would be rejected due to budgetary constraints. Officials indicated that the assumption is that this remains the case. The Committee asked officials to provide conformation that this remains the case. The Department responded that:

> *"The Minister is firmly of the view that the Executive's commitment to the industrial development guarantee remains in place that no worthwhile proposal for eligible support to investment in industry or tradeable services will be lost, even if that means diverting resources from other programmes."*

Officials informed the Committee that, under the current proposals, the Health & Safety Executive for Northern Ireland (HSENI) has had to disproportionately target programme expenditure as only a small percentage of its budget is for administration. The Committee is very concerned that under the budget proposals, all farm safety campaign activity will be suspended. The Committee wrote to the Committee for Agriculture & Rural Development and to both the Ulster Farmers' Union (UFU) and the Northern Ireland Agricultural Producers' Association (NIAPA) to obtain views on the proposals. Responses are at Appendix 2. The Committee for Agriculture & Rural Development responded in support of the Committee's view that this programme should not be suspended. NIAPA highlighted its concern at the number of accidents occurring on farms and commented on the disproportionate number of deaths compared to other work environments. The UFU highlighted the investment already made in the farm safety campaign in relation to time, money and effort. The UFU also brought the Committee's attention to the fact that the farm safety campaign should be seen as a long-term investment to raise awareness and change mind-sets in the industry. The Committee fully supports the view that there should be no reduction in the current farm safety campaign.

The Committee is concerned that funding reductions may impact disproportionately on the two DETI-sponsored North-South Bodies, InterTradeIreland and Tourism Ireland. The Committee asked the Department to provide statistics for the percentage change to the budgets of these two organisations year on year since 2008 and a comparison with the year on year change to the Department's budget. The response from the Department is included at Appendix 3. The response shows that the Department's budget has reduced overall from 2007-2008 to 2014-2015 by 11.2%. In the same period, Tourism Ireland's budget has increased by 5.1% and InterTradeIreland's budget has reduced by 12.3%. However, this is based on an overall resource budget of £181.9m which was the starting position for 2014-2015. Following, in-year monitoring the DETI resource budget was £198.8m. This represents a reduction of only 4.8% in the Department's budget from the 2007-2008 allocation which is considerably less than the 12.3% reduction for InterTradeIreland. The Committee has requested figures for the percentage change to the actual outturn for the two organisations compared to DETI over the same period. However, this will not be available until after recess. In the absence of a clear picture on the relative reduction in the InterTradeIreland budget compared to DETI, the Committee remains concerned that there may be a disproportionate negative impact on the InterTradeIreland budget due to separate budget reduction measures north and south.

Officials highlighted that the Northern Ireland Tourist Board (NITB) has lost some funding through European funds and that its events baseline is fully committed. The events fund has both national and international elements. Letters of Offer have been issued for nine international events. National events are largely local events which have received sponsorship from NITB in the past. NITB did not have enough resource or confidence of getting resource to launch an events fund for next year. The application process for such a fund would have to be currently under way. In a briefing to the Committee (attached), the Cathedral Quarter Trust highlighted the contribution the Tourism Events National Sponsorship Scheme has made to events in 2014. The Trust has estimated that for every

£1 of investment in such events the return is upward of £12 to the local economy. The Trust also states that information is not yet available on future support through other key sources such as DSD's City Centre Events Fund. The Committee recommends that before any decision is taken to unilaterally remove funding from this sector. An assessment should be undertaken of the future funding mix for such events across Government and the estimated impact funding reductions will have on the tourism and leisure economy.

The economy and, not least, economic recovery have been highlighted as priority areas for the Executive. The Committee fully understands that budgetary constraints arise as a result of reductions to the Block Grant from Westminster. However, reductions to activities which support the development of the economy will result in lost opportunities for business and job creation with a consequential slow-down in economic recovery. The Committee believes that activities which support economic development and recovery should be afforded a much higher priority by the Executive and by the Department.

Jim McManus

Clerk

Committee for Enterprise, Trade and Investment

Enc

DRAFT BUDGET 2015-16

SPENDING AND SAVINGS PROPOSALS FOR THE DEPARTMENT OF ENTERPRISE, TRADE AND INVESTMENT

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- having to narrow its focus to a small number of revised priorities, with a significant detrimental impact on all other areas of its activity.
- having a significantly reduced scope to support new business projects coming forward
- having to potentially withdraw its support for businesses outside of larger companies across a wide range of sectors; hitting smaller local companies across Northern Ireland which are benefitting greatly from Invest NI's assistance and guidance; and
- significantly scaling back or ceasing some programmes.

Other areas, such as Trade, International Business and Communications would be reduced substantially, with fewer trade missions and exhibitions – reducing export opportunities and negatively impacting the achievement of emerging market targets and exports targets – and reduced ability to continue to drive new inward investment opportunities.

Such measures would have an impact for a number of years, stifling the revival in local business confidence that is beginning to be seen and impacting on the recovery of our local economy.

Northern Ireland Tourist Board

The new European Regional Development Fund Programme for 2014-20 will not support tourism activity which had been a feature of the previous Programme. As a result, NITB will not have access to £2m annually for marketing activity.

The Events Fund amounts to £1m in the NITB baseline and is fully committed next year covering International events which have three year Letters of Offer issued in 2014/15. In previous years NITB have relied on in-year monitoring to fund its commitments on events. As this is no longer available open calls under the National Sponsorship Scheme and new International Events Fund will not be launched.

A 15.1% reduction would therefore mainly fall in the area of Destination Marketing and result in no advertising campaigns in either Republic of Ireland or Northern Ireland markets, reduced digital and social media and reduced business to business activity which facilitates local trade engagement with international tour operators.

The NITB would also make reductions in research and intelligence which is used to inform policy, monitor performance and communicate and engage with stakeholders and raise the importance of tourism to the economy.

Health and Safety Executive

In regard to the HSENI the effects would be mainly to reduce planned programme spend including Health and Safety campaigns and promotional activity spanning all of the HSENI activities. This would include:

- Suspending the carbon monoxide awareness campaign and
- suspending the farm safety campaign activity;
- reduction in investigation and legal expenditure associated with prosecutions;
- reduction in promotional activity aimed at child safety on farms;
- reduction in internal and external support activities (incl. HR/finance, corporate support, advice, publications);
- reduction in cost of 3rd party inspection activity;
- stop promotional activities aimed at both general and specific work sectors, including construction, manufacturing and agriculture; and
- stop programme support for small businesses and young and new workers.

To manage within the budget allocations HSENI would also plan to reduce the staff headcount by approximately 10% through suppressing vacancies and by accessing a central funding for an exit scheme. HSENI would also plan to reduce its other operating costs, including training and travel, by approximately 30%.

Consumer Council

CCNI would reduce its administration costs and scale back its Work Programme in the following areas:-

- Consumer representation and advocacy – reductions in consumer research and data collection to inform consumer policy advice to government, business and other stakeholders. In 2015-16, this would mean not proceeding with planned research into air passengers' travel patterns, research into the problems faced by consumers accessing affordable financial services, and reducing the frequency of petrol and diesel monitoring.
- Consumer skills – reducing the number of workshops, presentations and outreach events held directly with consumers to raise awareness of their rights, increase their ability to protect themselves when making purchases and to shop around for the best deal.
- Communications and stakeholder engagement – reducing capacity to monitor consumer issues in the media and representational work with key stakeholders to raise their awareness of consumer issues.
- Consumer Support – not progressing with planned work to further develop the complaint handling service by achieving the Customer Service Excellence Award.
- Ending the long-standing relationship with local universities to provide student placements each year.

Tourism Ireland and InterTradeIreland

The need to manage the significant reductions requires that 15.1% reductions would also apply to the two North/ South Bodies, Tourism Ireland Ltd and InterTradeIreland. The potential implications are being addressed with the relevant sponsor departments in the Irish Republic and with the bodies themselves in the context of seeking agreement on their 2015 Business Plans.

<u>Capital Expenditure</u>

The table below shows the DETI Capital and Financial Transactions Capital Budget 2015-16.

Table 4 **£million**

	CDEL	FTC	Total
DETI	24.2	52.8	**77.0**

Capital DEL

The proposed Capital DEL allocation is £24.2m against current projected pressures of £35.2 million identified in 2015-16, which comprise the following projected capital requirements:

- £25m Invest NI – to support a range of programmes
- £4.1m NITB – HMS Caroline, Outdoors Development Programme and Living Legends Development
- £2.2m Telecoms – Superfast Extension Programme
- £3.0m Gas to the West infrastructure
- £0.9m Science Park Extension of Innovation Centre

DETI is liaising with DFP on the overall capital pressures and how they should be managed.

Financial Transactions Capital (FTC)

Financial Transactions Capital is available with the key criterion that it must be used to provide a loan or equity investment to a private sector entity.
DETI has been allocated FTC of £52.8m against a projected £33.3m FTC pressures identified in 2015-16 comprising the following:

- £23.9m Invest NI – including Agri-food Loan Scheme, Access to Finance, Film Studios, and Sustainable Use of Poultry Litter
- £9.4m Science Park – Concourse III and Innovation Centre

DETI therefore could meet its FTC requirements for next year and has a projected surplus in the FTC allocation of some £19.5m which is not currently expected to be required next year. The potential reallocation of this surplus will be discussed with DFP.

NIAPA
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5 December 2014

As a farmers representative organisation we are greatly concerned at the number of accidents occurring on farms resulting in both injury and fatality.

The fact that we have had two deaths in the past week, one working with livestock and the other as a result of a road traffic accident whilst carrying out farm work further increase the need for a farm safety campaign.

There is widespread agreement that the agricultural industry has a disproportionate number of deaths compared to other work sectors and the farm safety partnership has done sterling work to raise awareness and improve accident prevention and health and safety in the agricultural workplace.

There is also broad agreement that while improvements have been made there is still much work to be done.

A new action plan launched in 2014 has identified key areas to advance in relation to progressing further. We feel there should be no relaxation in the current farm safety campaign as it needs to be continuously to the forefront in the preservation of lives and reduction and prevention of accidents in the industry.

We feel it is extremely difficult to put a financial value on this but without this type of support the campaign will falter and it could result in more injury and loss of life.

Signed

Jim Carmichael
Development Officer

From: David McConaghy [mailto:DavidMcConaghy@ufuhq.com]
Sent: 08 December 2014 15:49
To: McParland, Angela
Subject: RE: Suspension of the Current Farm Safety Campaign Activity
Importance: High

Hi Angela,

"The reductions in the HSENI budget give us cause for some concern, particularly as they are coming mid-way through the programme set up by the Farm Safety Partnership. All of the partners, including HSENI, have invested a lot of time, money and effort into making the progress that we have and have seen the start of a change for the better in terms of farm safety in Northern Ireland. However, we recognise that there remain a lot more work to be done, we need to consolidate and build on the good work we have achieved so far and not allow the momentum to be lost. The farm safety campaign is one which requires sufficient resource input in order to be successful as a large part of the work consists of raising awareness and changing mindsets. For example, the next round of TV and radio advertisements on farm safety would be put in jeopardy by these cuts, and the reductions that would be required in human resources spend would mean that an effective inspection and advice regime would become impossible. These cuts are coming at a very unfortunate time for the work of the Farm Safety Partnership and we would encourage the powers that be to allow the partners to finish what we have started, something we would be unable to do without one of our key players."

Thanks,

David McConaghy

Ulster Farmers' Union
Policy Officer (Legislation, Rural Affairs, Food Chain)

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Supplementary information sought by the ETI Committee following Oral Briefing from DETI on Draft Budget 2015-2016 on 2 December

Agenda Item 6

1. The Committee asked for a comparison year on year from 2008 of percentage change in the InterTradeIreland and Tourism Ireland budgets and comparison percentage change of the DETI budget, also comparison in monetary value;

   The table below sets out the changes in DETI (excluding North/South Bodies), Tourism Ireland and InterTradeIreland's Resource budgets from 2008. In overall percentage terms DETI's Resource budget has decreased by 11.2%, InterTradeIreland has decreased by 12.3% and Tourism Ireland has increased by 5.1%.

Year	DETI Resource Budget excluding N/S bodies £000s	% change	Tourism Ireland Resource Budget £000s	% change	Inter Trade Ireland Resource Budget £000s	% change
2007-08	191,088		13,128		3,470	
2008-09	177,877	-6.9%	15,228	+16.0%	3,470	0.0%
2009-10	183,100	+2.9%	16,237	+6.6%	4,700	+35.4%
2010-11	175,732	-4.0%	15,797	-2.7%	3,483	-25.9%
2011-12	184,979	+5.3%	15,323	-3.0%	3,379	-3.0%
2012-13	189,360	+2.4%	14,849	-3.1%	3,274	-3.1%
2013-14	167,319	-11.6%	14,375	-3.2%	3,169	-3.2%
2014-15	169,678	+1.4%	13,800	-4.0%	3,042	-4.0%
Total % Change		-11.2%		+5.1%		-12.3%

2. The Committee asked what proportion of DETI's allocated budget is already contractually committed;

88% of the 2015-16 proposed Resource budget is contractually committed. Committed expenditure includes commitments under legally binding contracts with third parties, statutory commitments under legislation, and staff salary costs. North South/Bodies, which are subject to a different budgeting process, are excluded from this calculation of contractually committed.

3. The Committee asked for further information on the figures secured from Europe;

   Since 2007 (when the current EU programming period commenced), over £250m of European funding has been drawn down through the work of DETI. £167m of this has been from the ERDF Sustainable Competitiveness Programme, £40m from the Framework 7 programme, £44m from the

Interreg Iva Programme and £0.5m from the Competitiveness and Innovation Programme.

We have been and continue to be actively engaged with the Commission in an effort to secure even greater levels of funding going forward. We are on track to drawdown a further £33.3m ERDF from the current Competitiveness Programme and are in the final stages of negotiating a new package of ERDF under the Investment for Growth and Jobs Programme worth over £240m which will fund projects up to 2023.

Invest NI has also recently secured £165,000 per annum (until 2020) from the Competitiveness of SMEs Programme (COSME) to run the Enterprise Europe Network which provides invaluable advice and guidance to SMEs.

In addition, the Executive's Innovation Strategy sets a target to draw down €145m (£114m at current exchange rates) from Horizon 2020 and we have put in place a network of 12 research experts to help achieve this.

As we face increasing pressure on public expenditure it is critical that more of our companies and our academics succeed in securing R&D funding from outside Northern Ireland. Initial figures just received from the Commission, which are still being processed, show that Northern Ireland won €6.5m in the first six months of H2020 calls in 2014. Approximately 2/3rds of this has been awarded to the universities and 1/3rd to companies.

In respect of Tourism activity, we have secured and allocated £16m ERDF for tourism infrastructure projects in 2015. This funding will support the development of the Belfast Convention Centre and a number of smaller projects across Northern Ireland which aim to increase visitor numbers and corresponding visitor spend as well as enhancing the overall visitor experience.

Within the new round of funding up to 2023, £15m has been secured from Europe for Council-led projects which aim to create jobs and promote business growth, particularly in the micro and small business sector. These measures which will be administered by Invest NI, will be equally available to entrepreneurs and companies in the tourism sector.

We continue to explore other potential EU funding sources for enterprises and SMEs. In this context, we are investigating COSME, the European Commission's programme for the Competitiveness of Enterprises and SMEs. COSME is a very broad funding instrument, which in total will be providing €2.3 billion for a range of actions over the 2014 – 2020 period. Most of the funding in COSME is directed towards two financial instruments, aimed at improving access to finance for SMEs, but the programme has three other objectives and tourism is mentioned under the 'improving framework conditions' objective. This objective aims to create more favourable conditions for business creation and in the 2015 work programme, €9 million has been allocated to a number of tourism actions and initiatives. NITB and DETI are currently investigating whether and how Northern Ireland might apply for some of this funding.

CATHEDRAL QUARTER TRUST

Briefing from the Cathedral Quarter Trust to the Enterprise, Trade and Investment Committee December 2014

Introduction
The Cathedral Quarter plays an important role as a driver of economic, social and cultural change for Belfast and the region. The cultural and creative activities in the Quarter, from world-class venues, festivals and performances, to the creation of new artistic work, to the running of a successful creative business, are crucial to the knowledge economy of the region which will foster growth in the future. Tourism and evening economy activity is raising Cathedral Quarter's profile as a leading destination for local people and visitors, and the new Belfast Campus will further develop the area.

The purpose of this briefing is to highlight the impact on Cathedral Quarter of the loss of NITB support for festivals and events through the Tourism Events National Sponsorship Scheme.

Background
The Cathedral Quarter Trust (CQT) represents the arts, culture and heritage, hospitality, business, community and education within the Cathedral Quarter. First convened as a steering group in 2008 and incorporated in 2012, CQT supports the on-going regeneration of the area through implementation of the *Cathedral Quarter Five Year Strategic Vision and Development Plan 2012-2017*.

CQT seeks to maintain the momentum of cultural quarter development in the city centre in the post-Laganside period by actively encouraging synergies between cultural, social and economic interests in the area leading to balanced development under the following priorities:

- to support the Cathedral Quarter as a centre for the arts and creative industries
- to support the growth of the mixed-use economy in Cathedral Quarter
- to generate high levels of public participation
- to build and maintain a supportive infrastructure

One of the highlights of CQT's work has been the inauguration and phenomenal growth of Culture Night Belfast, a project initiated to showcase Belfast's talent and creativity and to demonstrate the benefits and impact of a mixed-use, shared cultural quarter in the city centre. From an event with 90 activities and an estimated audience of 12,000 in 2009, Culture Night Belfast has grown to include over 250 activities and an audience in 2014 of 50,000.

Economic Profile of Events in Cathedral Quarter
There are 7 major events based in Cathedral Quarter that receive support through the Tourism Events National Sponsorship Scheme. These are:

– Cathedral Quarter Arts Festival
– Out to Lunch Festival
– Young At Art/Belfast Children's Festival
– Festival of Fools
– Culture Night Belfast
– Belfast Film Festival
– Open House Festival

- The Tourism Events National Sponsorship Scheme contributed a total of £156,100 to these events in 2014. Full evaluation data is not available for 2014, but based on 2013 statw, we conservatively estimate that **for every £1 invested, these events return upward of £12 to the local economy**.

- Each event has a different profile. All have some activities which are offered without charge. Larger Festivals, such as Cathedral Quarter Arts Festival and Belfast Film Festival, earn significant revenue from ticket sales while the Festival of Fools and Culture Night Belfast are completely free to the public.

- In 2013/14, the cumulative cost of the 7 events was £1.2ml, which can be broken down as, on average: 56% from public funding; 20% from business sponsorship and in-kind contributions and 24% from earned income.

- NITB contribution ranges from 5% to 30% of individual budgets. It also serves as seed investment enabling organisers to attract further funding and business support.

- Expenditure includes marketing, production, staffing and overheads. Marketing and production costs consume 60% of the budgets, most of which reverts to local businesses that provide branding, print design, web design and services, printing, distribution, staging, sound, lighting, local venue hire, security, portable accommodation, ticketing, catering, etc. Staffing for the 7 events supports over 30 full and part-time jobs and several hundred contracts for artists. Overheads include rent to local landlords, insurance and operating costs.

- The Culture Night Belfast event receives significant backing from local business and brokers new partnerships between businesses and artists. The event also provides showcasing opportunities and production experience for start-ups.

Levels of Public Involvement

- The audience for these events is estimated to be over 400,000. Most people attend as audience members. However, many hundreds participate more actively as individuals or community groups through performances and workshops.

- Most of the evens have extensive outreach programmes to ensure the broadest possible inclusion. Surveys reveal that the audience comes from all Belfast postcodes including significant numbers from the most deprived areas. Many are attending city centre events for the first time.

- The Belfast Children's Festival provides curriculum support, workshops and teacher training to 24 schools and works with 24 youth and playgroups. In addition to the festival they hold 130 events for young audiences throughout the year. Culture Night participant survey reveals that 47% of those contributing activities on the night are involved with local communities as community groups, arts organisations or other charities.

- Volunteers contribute over 4,000 hours to help run the events. Recent NITB research has shown volunteering can lead to employment through motivation, confidence-building and skills development. 93% of event volunteers said they had acquired new or enhanced skills and 37% believed their experience increased their confidence and ability to apply for jobs.

Inspiring Civic Pride

- NITB research findings in 2012 and 2013 which indicate that over 90% of attendees felt that events made them proud of NI. Survey responses from the Culture Night Belfast event in September 2014 support these findings:

"A wonderful night for the city. So many tourists around who had just come over for the weekend. Makes me proud to be from Northern Ireland."

"Culture Night achieves more than just a good night out - it is open and inclusive to everyone, generates a feel good factor and a sense of pride in our city that transcends all the small minded party politics we have become so entrenched in. It is Belfast's cinderella night when she shines free and unfettered, vibrant and richly diverse."
- St Michael's Parents School Choir

"Fantastic night for my family. New experiences for us all from 7years to 61years. The only night that feels truly safe in the city centre. Felt like our city and the kids loved the freedom, the brilliant atmosphere, the ease of connecting with others and the huge array of activities. Honestly - it's the only night of the year when we feel truly proud to be part of Belfast."

"The atmosphere in town was fantastic; it felt inclusionary, with lots of families with young children mingling well with older people like us."

"Culture Night is something that makes me proud of Belfast and Northern Ireland. So much creativity, freely shared, designed for all ages and interests; so many great things happening all over."

Impact of Proposed Cuts

- Since Laganside supported the first Cathedral Quarter Arts Festival in May 2000, CQAF and others in Cathedral Quarter have steadily increased their capacity to deliver high quality, professional events and the public is responding in ever-higher numbers.

- Other key sources of support are also under threat. DSD's City Centre Events Fund, which contributes a similar amount to the Cathedral Quarter area at the discretion of the Minister, has not yet been announced for 2015. Arts Council and other public support will likely drop by 15 to 20%.

- Significant reduction or cancellation of funding will result in a loss of this hard-won capacity as talented people drift off to other jobs or other countries where their talents are better appreciated. The events will lose momentum, overall scale and professional capacity, or will be forced to shut down completely.

- Loss of funding will also have an increasingly negative impact on our international tourism offer and on local and national audiences and participation.

"The creativity within Cathedral Quarter with all of its arts organisations, festivals and events is what makes it special. Hotel guests regularly comment on how unique the area is and festivals and events are undoubtedly some of the reasons that visitors choose to come to Belfast. If some of this activity is lost there will be a detrimental knock on effect to visitor numbers, and once lost it will be difficult to persuade people to return."
Bill Wolsey, Managing Director of the Beannchor Group which owns The Merchant Hotel

Conclusion

The return from these events in economic, social and cultural terms is significant. While we understand the pressures on government budgets across all sectors at the moment, we urge the Enterprise, Trade & Investment Committee to find a way to reinstate these relatively small, but highly impactful, funds for the coming year and to firmly establish them within the NITB budget for the future.

Draft Budget 2015-2016

At its meeting on 27 November 2014 the Committee for the Environment was briefed by Departmental officials on their assessment of the 2015-2016 Draft Budget and how it may impact on the DOE budget for 2015-2016.

The Committee focussed on the following issues as being of particular concern:

Staffing

Officials indicated that at least 500 staff would need to be released in order to stabilise the Department's medium term financial position; since the anticipated baseline number at 1 April 2015 is 1560, this represents a loss of around one-third of the workforce. The aim is to cut expenditure on staff costs by £16m.

- ***Impact of a centralised voluntary exit scheme***

Officials explained that the DOE staff reduction would be part of an NICS-wide scheme to cut the public sector workforce. The scheme would give the Department very little overall control of where the vacancies would arise as the staff movement would be cross-departmental, and the Committee agreed that the effective management of staffing gaps in business areas could prove challenging.

The Committee noted that the scheme is still in the early stages; Departmental officials confirmed that these vacancies are unlikely to appear before October 2015, so the impact on the 2015-2016 budget will be limited.

- ***Loss of specialised posts***

The Committee raised concerns that the proposed exit scheme would not be targeted at specific grades or posts, as previous Departmental schemes had been, but would instead be driven by financial considerations. This would allow any staff who met the criteria to apply, but officials indicated that it would be most cost-effective for older or most recent employees.

Committee members were concerned that this may result in a disproportionate loss of more experienced staff, particularly as DOE has a large number of staff at professional and technical grades rather than general administration staff. Such a policy may prove more costly in the longer term if this expertise is lost to the Department and has to be subsequently bought-in.

It was suggested to officials that a strategic review should be undertaken first to identify essential areas of business and that staff employed in these should not be eligible for the exit scheme. The Department responded that this has been proposed for IT staff throughout the NICS but that it may cause *difficulties with individual employees who feel that they have been disadvantaged by being singled out in this way.*

- ***Impact on services***

The Committee was concerned that the eventual impact of staff cuts on services had not been quantified. Officials indicated that, as far as possible, the Department would prioritise the delivery of front-line services.

- ***Possibility of redundancies***

The Committee also queried the outcome if an insufficient number of staff applied for the voluntary scheme, and asked if compulsory redundancies were a possibility. Officials were unable to confirm this until they had a clearer picture of the level of applications, but did not discount the possibility.

- ***Wider implications of job losses***

The Committee also considered the wider implications for the economy of the loss of these public sector posts. Members acknowledged that, while some DOE staff may welcome the opportunity to take advantage of the voluntary exit scheme, these jobs would be lost at a time when there are not yet sufficient private sector posts available to compensate for the job losses. Some members suggested that there should be a more gradual reduction in staff numbers, rather than an immediate and widespread cut.

Local Government support

Officials outlined the possible impact on local government. The Department initially funds local councils through a De-Rating Grant which is set out in statute, and it is outside the control of DOE to make amendments to the formula which is used to calculate this. However, this funding is not ring-fenced and the application of the 15.1% reduction in the draft Budget proposals will result in a shortfall of £3.9m.

In addition, the Department provides a Rate Support grant to less well-off councils to supplement their rates income, so that they are adequately resourced to provide services to the same level as other councils. This also has been reduced by 15.1% in the draft Budget, resulting in a shortfall of £2.8m against the amount originally allocated by the Executive for this purpose.

Departmental officials confirmed that no discussions had yet taken place with local councils to determine how such cuts would impact on their service delivery, but councils were made aware on 31 October 2014 that this would be the likely outcome of the draft Budget.

Officials also clarified that funding was already in place for the transfer of functions under local government reform; and that £6.6m in respect of planning and environmental functions, together with estimated receipts of £12.6m from planning applications, would be available to councils to ensure the smooth transition of the new functions. A further amount of £2m made available by the Executive would be paid to councils in the form of grants to support a range of key local government functions, although this would be at a reduced level compared with previous years.

Nonetheless, Committee members expressed their concerns that the least well-off councils, particularly those in the North West, would be hit disproportionately by budget cuts and would be forced either to reduce their service delivery or to increase rates if the Department was unable to make funding available to them from the Rates Support Grant.

Programme for Government targets

The Committee was concerned how a reduced budget may impact on Programme for Government targets, but officials indicated that they were content that 2011-2015 targets had either already been met, or that they were well on track to be achieved by April 2015. There has been some slippage on waste management and carbon emission targets, but the Department is working with the relevant sectors and remains confident that the slippage will be addressed.

The Department has not yet drafted its Business Plan nor its Programme for Government targets for 2015-2016, as these may differ from what was originally anticipated.

Prioritisation of impact:

Departmental officials explained to the Committee that they had not yet determined priorities for the balance of the budget (£1.2m) still to be allocated. The following areas were all still under consideration:

- ***Road safety education***

Members were extremely concerned that road safety education should be adequately funded, particularly in view of the rising level of road fatalities and the imminent implementation of the Road Traffic Amendment Act.

- ***Environmental regulation and protection***

The Committee urged the Department to ensure that environmental regulation and enforcement were prioritised. Members referred to the essential nature of continuing assessment and remediation at the Mobuoy site, and also the requirement to implement EU Directives to avoid infraction fines.

- ***EU match funding***

Members were concerned to learn that no match-funding for future EU programmes has been provided in the draft Budget. This is an area where the Committee has been urging the Department to maximise its update of funding opportunities and match-funding is an essential element of effective use of such opportunities.

The lack of availability of match-funding may also impact on jobs in the higher education sector – for example, Committee members recently joined in a visit to waste research facilities in Europe organised by ReNEW which is jointly match-funded by DOE and QUB.

- ***Services provided by community-based/ voluntary organisations***

The Committee is very much aware of the Department's reliance on community and voluntary organisations – particularly in the implementation of environmental schemes – and how this partnership results in a more effective use of the available funding.

Departmental officials indicated that the withdrawal of this funding would inevitably result in the loss of jobs in the community sector.

- ***Disproportionate impact on rural areas***

Committee members were particularly concerned that rural areas may suffer a disproportionate impact from proposed budget cuts. There is currently no provision in the 2015-2016 budget for grant funding for rural organisations such as the Young Farmers' Clubs or the GAA; the Road Traffic (Amendment) Bill will have a greater impact on rural young people than those who can avail of public transport in urban areas; and the dangers of rural roads may increase through a reduction in road safety advertising.

Capital Budget

Departmental officials provided clarification on the amount (£50.5m) that has been allocated as Financial Transactions Capital. This is to be directed towards the arc21 development, but may also provide relatively cheap capital funding for other similar private projects which meet the criteria.

Committee members expressed some reservations regarding the proposed use of this capital, since the arc21 project has not as yet received planning permission. Officials were clear that this funding allocation would not influence the outcome of the planning application, but members believed that there was an element of presumption in such a specific allocation of funding by the Executive.

Department of the Environment

Assessment of 2015-16 Draft Budget

Contents

2015-16 Draft Budget

1. This paper provides an assessment of the implications of the draft Budget 2015-16 for the DOE, its clients, stakeholders and staff. This assessment is based upon the draft Budget proposals published by the Department of Finance and Personnel on 3 November 2014. It includes information on the steps the DOE would have to take to live within its proposed budget allocation for next year and highlights the significant implications these would have for its clients, stakeholders and staff.

2. The analysis in this paper excludes provision for the vehicle and driver testing service provided by the DVA. This service is funded by a statutory Trading Fund which consists of vehicle and driver testing fees paid by the public. These fee receipts can only be used for the delivery of vehicle and driver testing services and cannot be reallocated for other expenditure purposes by the department.

Summary

The financial allocations proposed for the DOE in the draft Budget would have significant adverse implications for the services provided by the department and for its clients, stakeholders and staff. If the current draft Budget proposals for the DOE were to be confirmed in the final Budget then there would be:

a) Immediate and substantial reductions in key statutory grant payments to all councils and particularly to those less well off councils dependent on additional rate support payments to guarantee basic levels of service provision at local levels.

b) Immediate action to secure a reduction of at least 500 posts across the department to be taken forward via a centrally managed voluntary exit scheme. This staffing reduction, would have an immediate negative impact on the range and quality of services provided by the department

c) A significant curtailment of road safety promotion and associated education activity in schools at a time of rising fatalities on our roads.

d) The termination of a wide range of grant and other support programmes that are aimed at supporting key environmental programmes. These cuts will have immediate and significant implications, including the loss of jobs, for a wide range of voluntary, educational and private sector bodies across the North. Other contracted services provided by a diverse range of educational, public sector, voluntary, community based and private sector organisations would also be ended.

e) There is also no provision in the department's baseline for next year for the Scheme of Emergency Financial Assistance to Councils and householders affected by flooding events.

The above implications illustrate that the present proposals do not provide a viable or realistic Budget scenario for the department.

There must be ring fenced protection for the key statutory grant programmes for local government.

Draft Budget Proposals (2015-16)

3. Under the draft Budget proposals for next year, the DOE's non ring-fenced Resource DEL budget (i.e. the amount of funding provided to us for spend on departmental activities) was reduced by 15.1% (£17.6 million). Allocations were also made to the department in the draft budget consisting of £2 million for local government and £2.7 million of other purposes. Therefore the net reduction to our opening budget of £116.6 million under these proposals would be £12.9 million (11.1%), bringing our draft net budget position to £103.7 million. These figures are outlined in Table 1 below.

Table 1: 2015-16 Non ring-fenced Resource DEL Budget Proposal

Non ring-fenced Resource DEL	%	£million
Opening Position		116.6
Reduction	**15.1%**	**(17.6)**
Allocations (inc. £2 million for local government)		4.7
Closing Position		103.7
Net reduction	**11.1%**	**(12.9)**

4. The draft 2015-16 Budget proposal also includes a separate ring fenced allocation of £3.5 million for depreciation charges. This separate funding cannot be used for other proposals.

5. In considering the implications of this proposed net DEL allocation of £103.7 million for its operations and services, the department must first deduct funding allocations that will transfer to local government. These are in respect of the transfer of planning and associated environmental responsibilities under the reform of local government.

Transfer of DEL funding to Councils

6. The department will transfer part of its DEL budget to the new councils at the start of the year. This reflects the transfer of functions and related staff in respect of planning and associated environmental responsibilities. The amounts concerned are set out in Table 2 below.

Table 2: 2015-16 Draft Resource DEL Budget (Net) – Transfers to Councils

2015-16 Draft Resource DEL Budget	£million
Non-ring fenced resource DEL funding	103.7
Proposed DEL funding transferring to Councils for Planning Functions (net of planning receipts)	(6.2)
Proposed DEL funding transferring to Councils for Environmental functions	(0.4)
Balance of RDEL budget available	**97.1**

7. In addition to the £6.6 million funding that the department will transfer to the councils, they will also receive an estimated £12.6 million of planning receipts from planning applications next year. These receipts are currently paid to the department. This means that councils should have access to funding of approximately £19.2 million next year to support their new planning and environmental responsibilities.

Local Government Grants

8. The DOE's baseline also includes substantial amounts of money transferred directly from the Executive to councils as grants to councils. Before the draft Budget proposals, the amounts allocated by the Executive for two of these key grants were £25.8 million for De-rating Grant and £18.3 million for Rates Support Grant (£44.1 million in total). These amounts were reduced by 15.1% (£6.7 million) in the draft Budget proposals, resulting in £37.4 million being available for these local government grants (£21.9 million for the De-rating Grant and £15.5 million for the Rates Support Grant).

9. The level of De- rating grant payable to councils falls outside the control of the DOE. Instead it is set by a statutory formula linked to the various derating schemes determined by the Department of Finance and Personnel. Thus the amounts of derating grant payable to councils can only be varied by changes to the statutory derating scheme or changes to specific rating reliefs granted by DFP. Therefore the proposed reductions in the amounts of money available for the Derating Grant in the draft Budget are premature in the absence of associated proposals from DFP to amend the relevant statutory derating schemes.

10. The separate reductions to the Rate Support Grant proposed in the draft Budget would impact directly on those less well off councils that have access to these grant payments to help make good the difference between their rates income and the money they need to maintain parity of service provision with more wealthy councils. This would be a particularly unfair and unwelcome outcome at a time when councils are seeking to make the major

organisational changes associated with local government reform and reorganisation.

11. Therefore the DOE believes the money provided by the Executive for these two key grants for local government should be ring fenced in the final Budget and protected from across the board cuts applied to other DOE spending programmes. Without this protection Table 3 below shows the effect on the department's Net Del position if the present cuts proposed in the draft Budget for local government grants were to be maintained in the final Budget.

Table 3: 2015-16 Draft Resource DEL Budget (Net) – Grants to Councils

	£million
Balance of RDEL funding available (Table 2)	97.1
Less Local Government Grants:	
De-Rating Grant	(21.9)
Rates Support Grant	(15.5)
Balance of RDEL funding available	**59.7**

<u>Income</u>

12. In addition to the balance of funding available for departmental services outlined at Table 3, the Department will also continue to collect income through fees and charges to support the costs of supporting specific services and activities. Our current forecast for income next year for the department is £20.8 million. Further detail is provided at <u>Annex A.</u> Therefore, after taking this income into account, the total balance available to fund all other departmental activities next year would be **£80.5 million** as set out in Table 4**.**

Table 4: 2015-16 Draft Resource DEL Budget (Gross)

2015-16 Draft RDEL Budget (Gross)	£million
Balance of DEL funding available **(Table 3)**	**59.7**
Forecast income from fees, charges & recharges (Annex A)	20.8
Balance of funding available for departmental activities.	**80.5**

Allocation of Balance of Funding Available for Departmental Activities

13. In order to identify the implications of this proposed residual funding balance available for departmental activities, the department has first identified those areas of expenditure which we believe are genuinely inescapable from the start of the year. In doing so, we have sought to ensure that the sums identified are realistic and are absolutely inescapable, as distinct from being 'highly desirable' or 'departmental priorities'.

Staff Salary Costs

14. A key item of residual expenditure in the department is its staff salary costs. During the present financial year the department has taken a number of steps to reduce its staffing expenditure by:

    - The permanent suppression of vacancies;
    - Filling posts by internal redeployment of existing staff from lower priority work;
    - Termination of casual/agency posts;
    - Controls over use of Temporary Promotion;
    - Reducing overtime costs;
    - Introducing a requirement that the import or recruitment of any staff to the department can only be on the basis of Deputy Secretary and Permanent Secretary approval on a case by case basis.

15. These steps have led to a reduction during the current year of 225 posts (including agency workers) in the department. We are also seeking to release up to a further 120 staff from the DVA by the end of the present financial year under the voluntary early exit scheme associated with the loss of car tax jobs earlier this year. Finally, we are also arranging for the transfer of some 400 planning and other related staff out of the department at the end of the year when functions transfer to the new councils. Once these various staff reductions have taken place, we estimate that we will start the next financial year with some 1,560 staff (excluding DVA Testing staff) working in the department at a projected annual cost of some £59.7 million.

16. We estimate that in order to stabilise the department's medium term financial position and to release funding for other programmes, we could need to release at least 500 staff. In these circumstances we would seek to take this forward via a centrally managed civil service voluntary exit schemes. We will keep this position under review, but until staff are released through the centrally managed voluntary exit scheme the department will have to continue to meet the full salary costs as illustrated in Table 5 below.

Other Costs

17. There are also a number of other inescapable items of expenditure to be addressed from our proposed budget allocation for next year. These total some £17.1 million and include other staff costs; accommodation costs;

contracted out services; office services; professional fees; operating costs; and other costs. Further detail on these costs is provided in Annex B. The budget allocation for this expenditure is based on the assumption that country parks, nature reserves and state care monuments will remain open but will only provide basic facilities for visitors.

Other Grants to Councils

18. In addition to the two main grant payments made to councils referred to in Table 3 above, the department also pays a range of other grants to councils to support a range of key local government activities and responsibilities. These include emergency planning grants, local air quality grants, construction products grants, grants to support waste recycling and community waste fund grants. The department will use the £2 million earmarked for local government in the draft Budget to seek to maintain support for these key areas of activity albeit at a reduced level of financial support compared to that provided in previous years.

Balance of Resource DEL budget remaining

19. Table 5 below shows that after providing for the above costs in next year's Spending Plan, there is a balance of just **£1.2 million** left for allocation on other areas of expenditure.

Table 5: Draft Budget Allocations – Draft DOE Spending Plan 2015-16

	£million
Gross Budget available (Table 4)	**80.5**
Draft Spending Plan:	
Salaries	(59.7)
Coastal Communities Fund	(0.5)
Other Costs (Annex B)	(17.1)
Other Grants to Councils	(2.0)
Total Spending plan	**(79.3)**
Balance of budget remaining (to be allocated)	**1.2**

Carrier Bag Levy Receipts

20. The department also expects to receive income from the carrier bag levy next year of some £4.75 million. However since this is extra money collected from carrier bag charges, it can only be used to supplement expenditure on specific environmental programmes and to cover the department's extra costs of administering the levy. This expenditure is shown in Table 6 below.

Table 6: Carrier Bag Levy Receipts and Spending Plan

	£million
Budgeted Carrier Bag Receipts	4.75
Draft Spending Plan:	
Carrier Bag funded environmental programmes	4.25
Administration Costs	0.50
Total Spending plan	**4.75**

Capital Budget

21. The Department has been allocated Capital Funding of £7.1 million in the draft Budget. This Capital Funding of £7.1 million would be used to finance the costs of a replacement IT system for Driver Licensing Waste Management Capital Grants, other Capital Grants and the other miscellaneous capital costs associated with the replacement of equipment.

22. The DOE has also been allocated a sum of £50.5 million of “Financial Transactions Capital” (FTC) in the draft Budget. This funding is linked to a proposed private sector development of an energy from waste plant that would be delivered on behalf of the councils comprising the arc21 Waste Management Group.

Implications of the 2015-16 Draft Executive Budget and the Draft DOE Spending Plan

23. The allocations proposed for the DOE in the draft Budget would have significant adverse implications for the services provided by the department and for its clients, stakeholders and staff. As noted at para 19 and Table 5 above after inescapable spending commitments have been met at the start of the year, there would be a wholly inadequate balance of just £1.2 million left to fund a wide range of other services and activities currently supported by the department. In practice our financial support for most of these services and activities would cease from April 2015 onwards. Key activities and services for which **no funding** has been allocated include:

    a. Road safety advertising (current year budget is £1.8 million)

    b. A wide range of current grant programmes providing funding to community groups, environmental and other organisations. These include:

        - JNCC Grants
        - Listed Building Grants
        - Litter grants
        - NILGA support grants
        - National Trust Grant

- Water Quality Improvement Grant Scheme
- UAHS Grant
- Townscape Heritage Initiative Grant
- Community Access Grant
- Community Places Grant
- PLACE Grant
- Community Transport Association (CTA) Grants
- Natural Heritage Fund
- Sustainability Innovation Fund
- Disability Action Grant

c. Other contracted services provided by a diverse range of educational, public sector, voluntary, community based and private sector organisations.

d. Other expenditures such as educational material supporting road safety education in schools and professional fees paid.

24. The critical financial position the department would be in is illustrated by the fact that our estimated margin of available spend (£1.2 million) alone is less than current level of road safety advertising spending.

25. If the current draft Budget proposals for the DOE were to be confirmed in the final Budget then there would be:

a) Immediate and substantial reductions in key statutory grant payments to all councils and particularly to those less well off councils dependent on additional rate support payments to guarantee basic levels of service provision at local levels.

b) Immediate action to secure a reduction of at least 500 posts across the department to be taken forward via a centrally managed voluntary exit scheme. This staffing reduction, would have an immediate negative impact on the range and quality of services provided by the department

c) A significant curtailment of road safety promotion and associated education activity in schools at a time of rising fatalities on our roads.

d) There is also no provision in the department's baseline for next year for the Scheme of Emergency Financial Assistance to Councils and householders affected by flooding events.

e) The termination of a wide range of grant and other support programmes that are aimed at supporting key environmental programmes. These cuts will have immediate and significant implications, including the loss of jobs, for a wide range of voluntary, educational and private sector bodies across the North. Other contracted services provided by a diverse range of educational, public sector, voluntary, community based and private sector organisations would also be ended.

26. The above implications illustrate that the present proposals do not provide a viable or realistic Budget scenario for the department. Cuts to our expenditure next year should be in line with and not exceed the cuts applied to other departments. There should also be ring fenced protection for key grant programmes for local government, including those where there is a statutory obligation to pay specific sums across to Councils.

Department of the Environment
November 2014

Analysis of Budgeted Income 2015-16 **Annex A**

Budgeted Income	£million
Driver, Taxi, Bus & Goods vehicle income	8.9
Regulatory & Commercial Income	8.4
Marine Licensing	0.1
Planning receipts	0.2
Dividend income from DVA Trading Fund	0.7
Support costs recovered from DVA Trading Fund	2.5
	20.8

Analysis of Other Costs

Expenditure	Narrative	£million
Travel & Subsistence		0.9
Staff Training		0.5
Other Staff Costs	Includes medical test costs, counselling, protective clothing etc.	0.3
Operating leases	For office equipment, buildings, car parks etc.	0.3
Accommodation	Includes electricity, maintenance, rates, waste disposal, water charges etc.	1.9
Communications	Includes telephone and mobile phones calls and rental etc.	0.5
Computer Charges	Includes software maintenance for Department's IT systems etc.	1.8
Other Office Services	Includes franking costs, mapping information charges, photocopying charges, postage, stationery etc.	1.4
Outsourced services	Includes contract cleaning, contract security, HR Connect Charge, charge from VOSA (GB) for processing freight licences, charge for Driver Licensing card production etc.	3.2
Managed Services	Includes costs for Superannuation team etc.	0.3
Professional Costs	Includes Driver Licensing applicant's medical costs and charge for team of statisticians etc.	1.9
Vehicle & Plant Costs	Includes fuel, insurance etc.	0.5
Other Operating Costs	Includes laboratory fees and analysis charges, monitoring charges, survey costs, vetting clearance, bank charges etc.	1.5
Materials	Includes landscaping materials, tools and small equipment etc.	0.1
Other Costs	Includes non-capital purchases, provisions and other items of expenditure etc.	2.0
		17.1

Committee for Finance and Personnel – Response to Draft Budget 2015-16

At its meeting on 26 November 2014, the Committee received an oral briefing from DFP officials on the Department's own budget plan for 2015-16. [1]This session had been postponed from the previous meeting, at short notice from the Department, due the accompanying briefing paper not being finalised. The Committee had been mindful of the commitment given in the Draft Budget document that departments would publish 'more detailed breakdowns of proposed expenditure' for consultation and that this 'should be accompanied by detailed information on the measures required to enable the department to live within their budget allocation' including 'details of any implications for frontline services'. [2] Members were therefore disappointed that the paper on DFP's own departmental position, which amounted to a 'holding response', failed to meet these requirements and the lack of detailed information hampered meaningful engagement and consultation with the Committee.

The Committee was informed that an Internal Project Team had been established to identify opportunities for savings and additional revenue, as well as examining ideas for savings identified by staff. While the departmental officials indicated some general themes of the staff generated ideas for savings, such as maximising revenue and removing duplication of processes, they were not in a position to provide detail on this or on the wider work being undertaken by the Internal Project Team.

In noting reference to a 'long list of savings' having been identified previously by the Departmental Board to deliver reductions of 4% as well as contingency plans being put in place for a reduction of 8%, members probed the departmental officials on the detail in this regard. In response, the officials indicated that the areas examined included: procurement type savings, including renegotiating contracts and collaborative procurement to drive price savings; staff reductions through natural wastage; opportunities to maximise revenue streams; and exploiting opportunities for additional organisations joining the Shared Services platform.[3] However, no further detail was provided on specific proposals.

In light of the Minister's prediction of huge job losses across the public sector,[4]in terms of voluntary redundancies, members sought to explore the extent of potential staff reductions in the Department itself. While the DFP officials were unable to give figures, they indicated that,

[1] Official Report - 26 November 2014
[2] Ministerial Statement on the Draft Budget 2015/16 - 3 November 2014 (Paragraph, Page 47)
[3] Official Report - 26 November 2014
[4] Official Report - 26 November 2014

given the significant proportion of the Department's budget being made up of staff costs, reductions were likely to be in the hundreds.

In noting that 22% of departmental expenditure is fixed in nature in the short term, including accommodation costs, members queried whether any consideration has been given to the potential for office accommodation savings by shifting to modern workplace design and greater flexible location working. In response, departmental officials stated that there was now potential to exit leases, purchase properties, and refurbish some DFP-owned properties to increase the floor density. However, from recent correspondence, the Committee noted that the Department does not have information on the percentage of its office accommodation which meets the NICS space utilization targets. This was a matter of concern to the Committee given that its recent Inquiry into Flexible Working in the Public Sector in Northern Ireland had identified scope for considerable savings in this area; in terms of the fact that, as alluded to earlier, only 20% of existing Civil Service offices is making the best use of the space and that the traditional office is typically occupied only 45% of the time.

Recognising the importance of bearing down on administration costs, members questioned departmental officials on the reasons for an increase in the Department's expenditure in this area in 2014-15. The Committee was advised that this was mainly due to other departments joining the Shared Services platform. In noting this point, members would expect to see any associated increase in administrative costs in DFP matched with a corresponding decrease in the administrative costs in the other departments as a result of savings from moving to the Shared Services platform.

A further area which the Committee queried was in relation to the Department's approach to assessing the equality implications of its budget plans. In its paper, DFP indicated that this was not being considered in full until the final list of savings has been identified and agreed, which officials stated was due to time constraints. Whilst acknowledging that there may be equality neutral implications for some of the Department's spending proposals, members took the view that equality implications should be considered by the Department in parallel with work on identifying savings and should inform decisions in that regard. It was also recognised that these considerations should be concluded before Executive agreement is reached on the Department's proposals.

In following up to the concerns raised around the slow uptake by departments of FTC finance, members queried what projects had been identified by the Department. In noting the departmental officials' assertion that it had been difficult to identify suitable projects within DFP, this reinforced the view of the Committee that a more concerted and centrally co-ordinated approach is required by departments to identify suitable FTC projects so that this important source of capital finance is exploited and that resources are not lost to Northern Ireland.

In conclusion, given the lack of detailed information made available on DFP's budget plan for 2015-16, the Committee was unable to undertake scrutiny of specific expenditure proposals, including in terms of priorities, planned savings and implications for frontline services. It is unclear why the Department could not provide the necessary detail when required by the Committee, especially in light of the fact that DFP and most other departments were previously planning for considerably higher budget reductions of 15%, as pointed out by the Minister in his Statement on the Draft Budget on 3 November.[5] In addition to hindering the Committee from exercising its statutory function of advising the Minister, the absence of detailed information and substantive proposals will undoubtedly also constrain the scope for meaningful consultation with the wider public on the Department's budget proposals for 2015-16.

In addition to the aforementioned issues (plus other questions regarding the make-up of the Department's budget, allocations and reductions), as part of its research and scrutiny, the Committee raised various additional queries with DFP, including for example:

What further detail is available on staff generated ideas and the process for assessing the validity of these ideas?

What further detail is available potential means of increasing income through delivery of services to new customers?

What assurance can be provided that the allocation to Land and Property Services will be sufficient to meet targets in respect of outstanding rating debt?

What is the risk of pressure on the depreciation element of the budget recurring and how this will be mitigated?

What is the risk of the DFP budget being impacted from EU infraction proceedings?

What assurance can be provided that sufficient European Match funding will be available to ensure that established projects new projects will be sufficiently supported?

What bids the Department intends to make to the Change Fund and how any such bids should be prioritised?

[5] Ministerial Statement on the Draft Budget 2015/16 - 3 November 2014

A written response from DFP to these and other queries was not received in time for consideration in this report.

In terms of looking ahead, the Committee has commenced a rolling programme of performance scrutiny of the individual business areas within DFP, with a view to closely monitoring performance against business plan and Programme for Government targets and drilling down to establish where/how further savings might be achieved and how budgetary pressures are being managed. To facilitate this scrutiny, the Committee has also sought detailed information on the previous financial performance of business areas, including in relation to in-year bids and surrenders at monitoring rounds. The Committee intends to continue this detailed scrutiny as a regular part of its work programme in the New Year.

Committee for Health, Social Services and Public Safety: Response to draft Budget 2015/2016

Contents

List of findings

1. The Committee welcomes the Minister's identification of the provision of high-quality front line care and the implementation of Transforming Your Care as his top two strategic priorities. However, the Committee is concerned that these priorities are not clearly reflected in the Department's approach to allocating its budget. The Department's emphasis appears to be more on using the budget to maintain existing services. While the Committee accepts that the Department is required to provide certain services to fulfil its statutory obligations, it believes that more consideration could be given to how these services are provided. This should not be limited to whether the service is being provided in a resource-effective manner. Rather, services which provide high-quality front line care and services which reflect the principles of Transforming Your Care, i.e. the Department's strategic priorities, should be funded ahead of those services which do not.

2. The Committee noted that the Department is reviewing existing services as part of the drive to find £160 million in efficiency savings, and that part of this exercise will involve consideration of stopping services that are not in line with the strategic priorities. To this end, the Department has asked the HSC Trusts to produce plans for efficiency savings and has asked the smaller arms-length bodies to produce plans based on 5%, 10% and 15% reductions. However, the Department is not yet in a position to brief the Committee on any services which will be reduced or stopped because they are deemed to be out of line with the strategic priorities. The Committee was disappointed that this work is not further advanced, as without knowing what these services are, the Committee is not in a position to judge whether the Department is indeed directing resources away from them towards the services which reflect the strategic priorities.

3. Given that the provision of high-quality front line care is the Minister's number one strategic priority, the Committee was surprised that the Department does not have a definition of "front line services". Without such a definition, the Committee is not clear how the Department will ensure that resources are directed to that end, or how it will ensure that the additional £200 million for 2015/2016 will be spent as intended by the Executive.

4. The Committee notes that the Minister has identified the implementation of TYC as his number two strategic priority, and that the Department intends to spend £15-17 million on implementation in 2015/2016. The Committee acknowledges that the pace of investment in TYC is constrained by the challenging budgetary climate that the Department is facing. However, the Committee believes there is a lack of clarity in terms of how TYC ranks in comparison to other areas of discretionary spend such as elective care and pharmacy. The Committee is concerned that this lack of clarity may result in TYC not being funded to the extent required to enable it to effect meaningful changes in how health and social care are delivered.

5. The Committee is disappointed that the Department is not in a position to advise of the projected shift in funding from hospital to community/primary services for 2015/2016. Without this figure, or any details of the programmes of care involved, the Committee is not in a position to come to a view on whether the shift is achievable and the impact it will have on services on the ground.

6. The Committee notes the Department's commitment to make a minimum of £160 million in efficiency savings. The Committee believes that the Department is ultimately accountable for how and where such savings are made. Therefore, the Department must provide the HSC Trusts and its other arms-length bodies with clear direction, so that the efficiency savings are in line with its strategic priorities, namely the provision of high- quality front line care and the implementation of Transforming Your Care.

7. Given that the Minister identified opportunities for income generation as his number three priority, the Committee is disappointed that more progress has not been made on producing options for consideration, given the financial challenges the Departments is facing in 2015/2016 and beyond.

8. The Committee acknowledges that the Executive has provided the Department with an additional £200 million in resource for 2015/2016. The Committee welcomes the fact that this will be on the basis that the £200 million will be focused on front line services and will be monitored by an oversight mechanism currently being developed by the Department of Finance and Personnel. The Committee believes that such a mechanism is important to ensure that the maximum benefit in terms of health outcomes is achieved from the additional resource.

9. The Committee welcomes the Department's commitment to plan its' spend so as to be able to live within its allocated budget for 2015/2016.

10. The Committee welcomes the Department's acknowledgement that significant monies are not likely to be available through in-year monitoring rounds, and that it is treating its allocation as a ceiling, rather than a starting point.

11. The draft Budget 2015/2016 was published on 3 November 2014. The Department's consultation document was published on 26 November 2014. The deadline for responses to the public consultations on both documents is 29 December 2014. The Committee is of the view this timetable places limits on its ability to take evidence from stakeholders on the potential impact of the draft Budget 2015/2016.

12. Furthermore, the Department will not be in a position to advise the Committee of the areas in which the HSC Trusts will be making savings, and

the levels of budget reductions which will be applied to the smaller arms-length bodies, until January 2015 at the earliest. Given that by this stage the public consultation will be closed, this will provide the Committee with an extremely limited opportunity to influence those decisions.

Background to Committee review of the Department's approach to Budget 2015/2016

In September 2014, the Committee identified a review into the Department's approach to Budget 2015/2016 as one of its key priorities. The terms of reference for the review were:

1. To assess the Department's approach to Budget 2015/2016 in terms of whether it is based on:
   - A clear understanding of what the Department's strategic priorities are in terms of spending decisions;
   - Ensuring that the Department's allocation will be spent on those strategic priorities, rather than on lower priority areas;
   - A clear understanding of how implementation of Transforming Your Care relates to spending decisions;
   - Ensuring that the commitments within Programme for Government are met; and
   - A range of reasonable scenarios in terms of possible available monies.

2. To assess the extent to which the Department's approach to Budget 2015/2016 has adequately considered areas for further savings, areas where spend could be constrained, and areas where income could be generated.

3. To review approaches to spend on health and social care in other countries/regions which have been applied to help manage demand on services during economically challenging times, with a view to whether such approaches could be useful applied by the DHSSPS in relation to the 2015/2016 Budget.

Committee approach to review of the Department's approach to Budget 2015/2016

The Committee began the review by considering a briefing paper from Assembly Research Services (NIAR 582-14) on 15 October. It then took evidence from the Minister and departmental officials on 22 October 2014 on the Department's work to date in terms of planning for Budget 2015/2016. A further evidence session was held with officials on 26 November 2014, on the proposals contained within the draft Budget 2015/2016, which had been published on 3 November 2014.

The Committee had planned to take evidence from a range of expert witnesses, who could advise it on approaches taken to managing health budgets in other countries and regions (TOR 3 - above). It had planned to incorporate information gained from these evidence sessions into its response on the draft Budget. However, this has not been possible due to the requirement set by the Executive for Assembly committees to respond to the draft Budget by 29 December 2014.

The Committee has however scheduled a briefing from one expert witness which will take place on 10 December. While any findings emerging from this evidence session will not form part of this report, Committee members may choose to reference any findings during the take-note debate expected to be tabled by the Committee for Finance and Personnel on Budget 2015/2016.

<u>Key findings of Committee review of the Department's approach to Budget 2015/2016</u>

The Committee has structured its response to the draft Budget 2015/2016 around the following key themes:

1. The relationship between strategic priorities and spending decisions
2. The relationship between Transforming Your Care and spending decisions
3. Efficiency savings and income generation
4. Total funding envelope for DHSSPS
5. Quality of information provided by DHSSPS and timetable for committee input to the consultation

1. **<u>Strategic priorities</u>**

<u>Background on issue</u>

The Committee began taking evidence on the Department's approach to Budget 2015/2016 in October 2014. At that time, the Department was facing significant difficulties in terms of managing its current expenditure budget for 2014/2015. In the June monitoring round 2014, the Department submitted bids totalling £160 million, and received a conditional allocation of £20 million. In the October monitoring round 2014, the Department submitted bids totalling £130 million, and received an allocation of £60 million.

On 3 September 2014, the then Minister briefed the Committee on the 2014/2015 financial position, and the reasons why he was seeking an additional £140 million from the Executive. The then Minister provided a substantial list which he described as "cuts" which would be made if the £140 million was not provided. He described this list as a *"factual analysis of those areas where expenditure has not yet been committed"*, and then said: *"I believe we could save £140 million if we were given time to do it in a reasonable way, but we cannot save it in the seven or eight months that remain in this financial year. . . If you were given appropriate time to look at and address this, these are not the areas in which you would make the cuts"*. The Deputy Secretary for Resources and Performance Management stated that the list "*has been made by looking right across the system at what the viable things are that could deliver funds in this year. It does not mean that they are the right things to do, that they are the strategic things to do or that they make any degree of sense".*

Similarly, at the evidence session on 1 October 2014 on the October monitoring round, the Deputy Secretary said: *"The bids are focused, as I said, on the uncommitted expenditure. That is the emphasis of the October monitoring bids. It is not about strategic prioritisation; it is literally about where money could be stopped . . . These are not the things that would come to the top of the list if you had free rein to say, "These are the things that I would like to stop".*

Both the then Minister's and the Deputy Secretary's remarks suggested that the Department had an understanding that there are areas of spend which could be curtailed in order to better underpin the strategic priorities of the Department. However, in relation to 2014/2015, their position was that there was not sufficient time left within the financial year to do this.

However, in the Committee's view, this should not be the case for the 2015/2016 Budget, given that the Department is already fully aware of the pressures it is facing, including a 6-7% increase in demand from the HSC Trusts. Therefore, the Committee believes that the Department should be in a position to approach Budget 2015/2016 in a planned and strategic manner, so that the allocation it receives is spent on strategic priorities, rather than on things that are simply committed to at an early stage of the financial year and therefore cannot be pulled back on.

The Committee also noted comments made by the Finance Minister during an oral statement on 13 October 2014 on the October monitoring round resource allocations. He suggested that there needed to be more strategic thinking about what the priorities are in terms of how the health budget will be spent, and a working assumption of living within that budget for 2015/2016:

"If the 6% inflation figure is right and that is the sort of pressure that the Health Department will face next year and every year thereafter — we all know the reasons behind all that — we are facing into a very difficult scenario in health. That is why the reform plans initiated by my colleague Edwin Poots, when he was Minister, need to be implemented. We also need to have a strategic conversation as an Executive, an Assembly and a society in Northern Ireland about what our priorities in health are, what must be absolutely protected and what can be done, perhaps, in slightly different ways".

In the Committee's view, these comments underpin the importance of the Department's budget for 2015/2016 being directed towards its strategic priorities.

<u>Analysis of evidence received from DHSSPS</u>

On 22 October 2014 the Committee held an evidence session with the Minister and officials on the Department's approach to Budget 2015/2016.

The Minister was asked to list his top three strategic priorities. He provided this list at the start of the evidence session:

1. The provision of high-quality front line care;
2. Transforming Your Care; and
3. Opportunities for increased revenue generation within the Department.

However, as the session continued the Minister and officials seemed to suggest that they viewed strategic priorities relating more to decisions on new service developments, rather than as key drivers in terms of how money is allocated right across the health and social care system. The Deputy Secretary stated:

"As we look into 2015-16, the first place to start is with the sum that will be spent, or which it is proposed will be spent, around just effectively keeping existing services operating. So that is: pay, non-pay items of expenditure, inflation, demographic growth, family health services (FHS) growth — all those things and the pensions that the Minister has already talked about . . . The issue around looking at a scenario is that we are not even at a scenario where the basics can be funded at this point, never mind, therefore, identifying what is top priority out of those service developments".

Similarly, the Minister stated:

"At the moment, I do not know if we will have the luxury in the next 18 months to have much strategic thinking on this. Unless something changes radically, we are going to spend most of our time trying to balance the books".

The Minister was then asked what priority he was going to give to public health and preventative care. He replied:

"As you know, I place an awful lot of emphasis on the work that Eddie Rooney and his team in the PHA are doing. Most western societies would have a greater emphasis on that type of work . . . All of the evidence shows that when the state makes a commitment on public health and creates the right structures to encourage people to take lifestyle decisions, people do so".

However, a moment later he said:

"However, again, we are back to the funding issue; we do not have the resources to give it the full status it deserves".

The Committee was concerned that this appeared to suggest that the Minister was not recognising that he has the right prioritise one aspect of health and social care over another, by allocating more funding to it.

The Committee held a further evidence session with officials on 26 November 2014. It used this opportunity to raise its concerns in relation to how the Department appeared to be approaching the issue of strategic priorities. The Committee asked officials to explain the rationale of continuing to fund existing services, given that it could be the case that not all existing services are in line with the Minister's strategic priorities.

The Permanent Secretary responded by stating that the Department would be reviewing how existing services are delivered, as part of the drive to make £160 million in efficiency savings in 2015/2016. Part of that would involve stopping services that are not in line with the strategic priorities. He stated:

“We talked about the £160 million in savings opportunities, which are a combination of doing the right things more efficiently and stopping doing the wrong things, if we define those as things that do not play towards the strategic prioritisation. We will be looking at that work in some detail . . . We are starting by maintaining what we have, but part of that involves questioning what we have to make sure that it continues to be fit for purpose and of maximum efficiency”.

The Permanent Secretary also made the point that the Minister’s top priority - to provide high- quality front line care - informed how resources were deployed:

“The first priority — to provide high-quality health care — is at the heart of how the trusts will deploy their resources. The board, through its commissioning role, and the trusts, through their provider role, will do that. It is not so much that we allocate funding to the priority, because the priority provides the very important context and backdrop for the deployment of all resources. We do not say, "We'll put 95% of our budget towards providing high-quality services and 5% towards TYC". There is so much involved in providing high-quality services: it is the policy agenda and the delivery agenda, so you cannot carve it up on that basis”.

The Permanent Secretary then made reference to the difference between statutory spend and discretionary spend. He stated that the Department was obliged to provide services to fulfil its statutory obligations before it could consider where the remainder of its funding could be allocated:

“There is a risk of confusing prioritisation with discretion. The Minister is on record as saying that the public health agenda is a priority, but the reality is that that is discretionary spend. Within a finite budget, if the Minister has a statutory obligation to provide certain services that consume the vast majority of that budget, the amount left over is the amount that he can deploy to discretionary areas of spend, notwithstanding any prioritisation of it. So when a GP prescribes a drug, we have a statutory duty to pay the cost of dispensing that drug and the cost of the ingredient. We work to try to reduce those costs, but there is a whole host of areas in which we have statutory obligations to fulfil, and they have a bill. That money comes out of our budget”.

The Permanent Secretary then went on to state that the Department could make choices in terms of how it meets its statutory obligations. However, he framed that choice in terms of whether the provision of the service was being done in a resource-effective manner, rather than whether it was in line with the strategic priorities of the Department:

“Where the front-line work is a statutory obligation, we have no choice but to do it. We have discretion on how we fulfil that statutory obligation, and that is the key point about, on the one hand, fulfilling that obligation and, on the other, doing so in a resource-effective way. Where resources are released from that, they can be recycled with that strategic prioritisation”.

In considering the issues relating to Departmental strategic priorities, the Committee also noted comments made by the Finance Minister during his statement to the Assembly on the draft Budget on 3 November 2014. He stated:

"If past performance is any indicator, it is likely that many Ministers will seek to make the savings required by their Department by way of an identical percentage cut across their services. This is my view is the wrong approach in these circumstances . . . these savings and this process may involve the cessation of some lower priority services in Departments".

The Committee questioned officials on the Department's thinking in relation to reducing or stopping lower priority services at the evidence session on 26 November 2014. The Deputy Secretary informed the Committee that this was work in progress, and decisions had not yet been taken on any particular services. She stated:

" . . . we have been working with the smaller arm's-length bodies outwith the trusts. They have been asked to plan around a range of planning scenarios of budget reductions of 5%,10% and 15%, seeking to understand, if you like, what can be reduced and removed from those bodies and then reapplied across back into, as you say, priorities and front-line service care.. . . That will then be pulled back through into a corporate consideration across the whole health and social -care piece, because you may get to a better position by doing a slightly higher amount in one body and a slightly lower amount in another or by taking a different approach across several bodies. That is the second phase of looking at that material. It is all designed to ensure that, whatever the Minister's decision, it is about meeting his priorities and ensuring that we are moving resources into front-line care".

Given that the Minister had identified the provision of high- quality front line care as his top priority, the Committee wished to explore the Department's thinking in relation to the additional £200 million it has been allocated within the draft Budget 2015/2016. The draft Budget 2015/2016 document states:

"For Budget 2015-16 no department has been given a 'blanket' protection from the impact of tightening budgets and the need to pursue greater efficiencies in service delivery. There is recognition of the significant pressures facing the health service but it is important that the sector continues to pursue its efficiency agenda.
In that respect the Executive has agreed that the service protection provided to DHSSPS is focussed on direct frontline interventions".

In his statement to the Assembly on 3 November 2014 on the draft Budget 2015/2016, the Finance Minister elaborated on this point:

"The draft Budget is predicated on some work being done on the strategic long-term view at the Department of Health and to ensure that the £200 million allocated in the draft Budget goes to front line services. The head of the Civil Service has been charged with undertaking that work".

The Committee wrote to the Department of Finance and Personnel on 6 November, to seek clarification on the terms of reference and timescale for this piece of work. The subsequent response of 25 November stated that the mechanism “will be agreed by the Executive in due course prior to agreement of the final Budget”.

At the evidence session on 26 November, officials were asked for a definition of front-line services. The Permanent Secretary replied:

“I do not have a ready definition. A front-line service, inevitably, involves some patient or client contact. The term is shorthand to differentiate from administrative structures which support the provision of health and social care, as opposed to the absolute provision of health and social care. It becomes a bit grainy. Public health initiatives, such as the good promotional work on lifestyle choices and healthy eating are, arguably, front-line services because they are trying to get a message to patients and clients, although it is not sitting in the same room with a stethoscope round your neck, dealing with a client. There are a range of front-line services. It is about the differentiation between administrative support and back-office work”.

The officials were also asked whether the Department would ring-fence the additional £200 million, to keep it separate from the rest of its budget. The Department advised that it would <u>not</u> specifically ring-fence the £200 million, and that it had no further information from the Department of Finance and Personnel on the proposed oversight mechanism in relation to this money.

<u>Committee findings</u>

The terms of reference of the Committee’s review pose these questions:

- Is the Department’s approach to Budget 2015/2016 based on a clear understanding of what the Department’s strategic priorities are in terms of spending decisions?
- Is the Department’s approach to Budget 2015/2016 based on ensuring that the Department’s allocation will be spent on those strategic priorities, rather than on lower priority areas?

Based on the evidence provided by the Minister and officials, the Committee’s findings are:

a) **The Committee welcomes the Minister’s identification of the provision of high-quality front line care and the implementation of Transforming Your Care as his top two strategic priorities. However, the Committee is concerned that these priorities are not clearly reflected in the Department’s approach to allocating its budget. The Department’s emphasis appears to be more on using the budget to maintain existing services. While the Committee accepts that the Department is required to provide certain services to fulfil its statutory obligations, it believes that more**

consideration could be given to how these services are provided. This should not be limited to whether the service is being provided in a resource-effective manner. Rather, services which provide high-quality front line care and services which reflect the principles of Transforming Your Care, i.e. the Department's strategic priorities, should be funded ahead of those services which do not.

b) **The Committee noted that the Department is reviewing existing services as part of the drive to find £160 million in efficiency savings, and that part of this exercise will involve consideration of stopping services that are not in line with the strategic priorities. To this end, the Department has asked the HSC Trusts to produce plans for efficiency savings and has asked the smaller arms- length bodies to produce plans based on 5%, 10% and 15% reductions. However, the Department is not yet in a position to brief the Committee on any services which will be reduced or stopped because they are deemed to be out of line with the strategic priorities. The Committee was disappointed that this work is not further advanced, as without knowing what these services are, the Committee is not in a position to judge whether the Department is indeed directing resources away from them towards the services which reflect the strategic priorities.**

c) **Given that the provision of high-quality front line care is the Minister's number one strategic priority, the Committee was surprised that the Department does not have a definition of "front line services". Without such a definition, the Committee is not clear how the Department will ensure that resources are directed to that end, or how it will ensure that the additional £200 million for 2015/2016 will be spent as intended by the Executive.**

2. Transforming Your Care (TYC)

Background

When TYC was published in 2011/2012, the Department estimated that £70 million would be required for its implementation over a 3-5 year period. The Department estimates that by the end of 2014/2015 financial year, £38 million will have been spent to this end.

The Committee noted comments made by the Finance Minister during an oral statement to the Assembly on 13 October 2014 on the October monitoring round, when he stated:

"If the 6% inflation figure is right and that is the sort of pressure that the Health Department will face next year and every year thereafter — we all know the reasons behind all that — we are facing into a very difficult scenario in health. That is why the

reform plans initiated by my colleague Edwin Poots, when he was Minister, need to be implemented".

One of the objectives of TYC, as set out in the Programme for Government, is by 2014/2015 to have shifted £83 million from hospital based services to community/primary based services. In 2012/2013 the amount shifted was £11.4, and in 2013/2014 the figure was £13.6 million. In relation to 2014/2015, the Department has not yet advised of the projected figure to be shifted.

In terms of 2015/2016, the Department has advised in correspondence dated 27 October 2014 that it has asked OFMDFM to extend the delivery of the £83 million shift into 2015/2016.

<u>Analysis of evidence received from DHSSPS</u>

On 22 October 2014 the Committee held an evidence session with the Minister and officials on the approach to Budget 2015/2016.

The Minister advised that Transforming Your Care was his second highest strategic priority:

"Secondly, of course, there is Transforming Your Care, which has been an incredibly important aspect of the work of the Department. Most of us in the room discussed and pored over John Compton's proposals. His basic tenet was simply that we cannot continue to fund a health-care system in 2020 if we go on the way we are going. There had to be radical change, which was because far too many people in Northern Ireland were too high up the ladder of health-care provision commensurate with their needs. Therefore, that issue has to be sorted out".

The Department advised that it was planning to spend £15-17 million on TYC in 2015/2016. The Committee challenged whether this figure was consistent with it being the Minister's number two priority. The Minister stated:

"The basic working assumption is that we need £300 million to keep things ticking along. That builds in nothing for new services at all; it simply keeps things as they are, with no radical changes or development of a completely new level of services. The money will not be there".

Similarly, the Deputy Secretary stated:

"On the prioritisation, I am saying that we have a significant element of funding that needs to be addressed first, before we get to any additional funding for any service developments, no matter what priority, because that is about maintaining the services that we currently have".

It was not clear to the Committee why the Department was prioritising existing services above TYC, given that some of those existing services would presumably not be in line with the direction of TYC. The Committee returned to this issue at the evidence session on 26 November 2014.

Officials advised that funding for TYC had to come out of what is termed "discretionary spend". The Permanent Secretary stated:

"TYC is being funded; the issue is about the pace of funding. However, the simple reality is that, where we have statutory obligations, the pace of TYC is a discretionary choice. The Minister has no choice in legislation but to fulfil his statutory obligations first . . ."

In terms of discretionary spend, the Permanent Secretary explained that there are a number of different aspects of health and social care that are competing for that pot of money:

"For all discretionary spend, we are testing whether it adequately contributes to the provision of high-quality health and social care in the way that we want it to. The real choices are in that discretionary piece between TYC and other discretionary spends".

Officials were then asked whether the Minister intends to prioritise some existing services over the implementation of TYC. The Permanent Secretary replied:

"It is difficult to give a definitive answer. I have said about many services that the only valve available to us to create the capacity to deal with issues is the waiting time. For some areas, such as orthopaedics, arguably a longer waiting time is more palatable to the Minister and the public, but in areas like cancer we have set very short targets, and the Minister puts in place a requirement for 100% compliance with that target. In those cases, the Minister is putting existing services above TYC. I want to be careful about not speaking for the Minister, but my sense is that his view is that for areas like cancer treatment, it is arguably more important that anyone who goes to their GP and gets a red flag about potential cancer is dealt with, diagnosed and treated than taking forward the TYC programme. For other areas, the Minister would say, "Maybe we can afford a bit of a stretch in the waiting time to access that treatment because taking forward TYC is a greater strategic priority". So, it is all those sorts of judgements against a whole range of services that need to be made. It is not a simple yes or no in terms of the totality of it".

The Committee questioned officials about the proposed shift in funding from hospital based services to community/primary based services for 2015/2016. The Permanent Secretary stated:

"How much will be shifted in 2015-16 depends on the final outworking of the Budget, so we do not know how much will be shifted in that year as yet . . . The sum that will be shifted in 2015-16 depends on how much investment we make in TYC in that year. Those decisions have not been taken. This is the first stage in that process. We launched the public consultation today and we are asking trusts and all the

organisations to work through the detail. When we reach that final position, we will know how much shift left that planned investment will facilitate".

Officials advised that the projected shift for 2015/2016 would be known in springtime of 2015.

<u>Committee findings</u>

The terms of reference of the Committee's review pose this question:

- Is the Department's approach to Budget 2015/2016 based on a clear understanding of how implementation of Transforming Your Care relates to spending decisions?

Based on the evidence provided by the Minister and officials, the Committee's findings are:

a) **The Committee notes that the Minister has identified the implementation of TYC as his number two strategic priority, and that the Department intends to spend £15-17 million on implementation in 2015/2016. The Committee acknowledges that the pace of investment in TYC is constrained by the challenging budgetary climate that the Department is facing. However, the Committee believes there is a lack of clarity in terms of how TYC ranks in comparison to other areas of discretionary spend such as elective care and pharmacy. The Committee is concerned that this lack of clarity may result in TYC not being funded to the extent required to enable it to effect meaningful changes in how health and social care are delivered.**

b) **The Committee is disappointed that the Department is not in a position to advise of the projected shift in funding from hospital to community/primary services for 2015/2016. Without this figure, or any details of the programmes of care involved, the Committee is not in a position to come to a view on whether the shift is achievable and the impact it will have on services on the ground.**

3. Efficiency savings and income generation

Analysis of evidence received from DHSSPS

At the evidence session on 26 November 2014, officials advised that the Department was planning to make efficiency savings of at least £160 million in 2015/2016. The Permanent Secretary stated:

"I emphasise that £160 million is absolutely not a cap. That is the target that we will be aiming for. Every penny that we can push the efficiency challenge beyond that, we will endeavour to do so".

In relation to the HSC Trusts, the Department is looking for £113 million in savings. The Department advised that the areas where the savings are likely to come from are: acute reform, social care reform, staff productivity, and other areas such as pay restraint and procurement. The detailed savings plans have not yet been worked up by the HSC Trusts.

At the evidence session on 26 November, the Deputy Secretary stated in relation to the Trusts' proposals:

"We can give them advice about avoiding implications for front-line services, targeting administration and procurement, rationalisation of the estate and back-office functions. They are all expected to be maximised in the proposals that they will work up".

Similarly, the Permanent Secretary stated:

"We will want to ensure that dialogue happens with the board as commissioner and all trusts to ensure that, where we identify best practice and opportunities in one area, they are cascaded to all trusts. It effectively is the starter for 10 with the trusts. We feel that there is particular potential in those areas. However, we are absolutely not saying to trusts that, if they do what is on this list, they do not need to look any further. We will ensure that there is good, cohesive dialogue, that each individual trust looks at its own area and that every opportunity that it identifies is flagged to colleagues in other trusts so that we can maximise good practice".

On the issue of income generation, the Minister advised at the evidence session on 22 October 2014, that this was his number three strategic priority. In terms of proposals for generating income, he stated that one possibility was to make spare capacity in the catheterisation lab in Altnagelvin available to the Republic of Ireland on the basis of full-cost recovery. The Minister also referred to prescription charges, however his view on this was not clear and he referenced a difficulty in securing Executive agreement. The Minister said:

"There are proposals, and they are having difficulty with the Executive. I accept that it is a cross-cutting issue, and it is unlikely that we are going to get support for it, but we are going to have to start looking at every possible revenue".

When the Minister was asked whether he was considering bringing in charging for attending a GP or A&E he replied:

"The principle must still be that hospital health care provision is free at the point of demand. That is the UK-wide system that we have, and we will not be stepping out of that basic tenet. There are other ways of raising money that do not breach that principle".

However, he provided no detail on what those ways were, and simply said that when he had proposals he would bring them to the Committee.

However, later in the session, the Minister's comments did not suggest that he had that much confidence in being able to generate sufficient income, and his strategy would be to go back to the Executive to ask for more funding if required:

"In the difficult time we are in, we are going to have to look at revenue-raising. If that does not bridge the gap, we have to be honest with our Executive colleagues and say, "We are going to require a larger slice of the cake".

The Committee returned to the issue of income generation with officials on 26 November 2014. They confirmed that there were no concrete proposals for income generation at this stage.

<u>Committee findings</u>

The terms of reference of the Committee's review pose this question:

- To what extent does the Department's approach to Budget 2015/2016 adequately consider areas for further savings, areas where spend could be constrained, and areas where income could be generated?

Based on the evidence provided by the Minister and officials, the Committee's findings are:

a) **The Committee notes the Department's commitment to make a minimum of £160 million in efficiency savings. The Committee believes that the Department is ultimately accountable for how and where such savings are made. Therefore, the Department must provide the HSC Trusts and its other arms-length bodies with clear direction, so that the efficiency savings are in line with its strategic priorities, namely the provision of high- quality front line care and the implementation of Transforming Your Care.**

b) **Given that the Minister identified opportunities for income generation as his number three priority, the Committee is disappointed that more progress has not been made on producing options for consideration, given the financial challenges the Departments is facing in 2015/2016 and beyond.**

4. Total funding envelope for DHSSPS

Background on issue

The draft Budget was published on 3 November 2014. The DHSSPS has been allocated £4.693 billion in non ring-fenced resource DEL, an increase of £200 million compared to 2014/2015. This represents a 47% share of the entire non ring-fenced resource DEL allocated across all departments. It has also been allocated £117.5 million in ring-fenced resource DEL and £1.060.3 billion of Annually Managed Expenditure (AME) resource. In terms of capital, the Department has been allocated £213.4 million.

In 2014/2015, the Department faced considerable difficulties in terms of managing its resource budget. In order to attempt to manage these pressures, the Department submitted bids totalling £160 million in the June monitoring round, and bids totalling £130 million on the October monitoring round. It subsequently received an allocation totalling of £80 million.

However, given that the total amount bid for was not met, the Department then implemented a range of measures in autumn 2014, which have been described as short-term and temporary, in order to attempt to live within its budget for the remainder for 2014/2015. The Minister has stated that decisions on which measures to introduce have been made simply on the basis of where funds are not committed, and are not underpinned by the strategic priorities of the Department.

The Committee believes that it is important that a similar scenario does not emerge for 2015/2016, and that the Department makes every effort to plan to be able to live within its budget. The Committee is also of the view that the Department should not be budgeting for services based on an assumption that significant monies will be available through in-year monitoring.

Analysis of evidence received from DHSSPS

At the evidence session on 26 November 2014 with officials, the Permanent Secretary stated that the Department believed it could achieve financial balance within the envelope it has been allocated in the draft Budget. He stated:

"In our paper, the headlines are that our first analysis shows that we can achieve a balanced financial position for the start of the year, predicated on two core concepts. The first is that we deliver efficiency savings of some £160 million. The second is that we start the year with no plans for service development".

At the evidence session on 22 October 2014 with the Minister and officials, the Minister recognised that he could not rely on monitoring round monies for additional income:

"What I can tell you is that there is very little in the way of money coming through in the monitoring rounds for the rest of this year. It is a tiny amount".

Similarly, the Permanent Secretary stated:

"Our planning assumption is that we will try to deal with every issue that we foresee within the strategic prioritisation framework that the Minister sets and not hold out on anything on the assumption that we could access the monitoring rounds".

At the evidence session on 26 November 2014 with officials, the Permanent Secretary re-iterated this point:

"In the past, it has been a very reasonable approach, given the buoyancy of the in - year process, to start the year rolling out some service development and then using the opportunity of in-year monitoring to secure additional funds. In the current financial year, all the signals from colleagues in DFP are very clear that we cannot expect any in-year funding in the future. So we are starting the year on the basis that we will identify service developments that we can do as and when funding becomes available. That funding will either be in the unlikely event that there is some additional allocation to us or that we over deliver on the minimum £160 million efficiency position".

Committee findings

a) **The Committee acknowledges that the Executive has provided the Department with an additional £200 million in resource for 2015/2016. The Committee welcomes the fact that this will be on the basis that the £200 million will be focused on front line services and will be monitored by an oversight mechanism currently being developed by the Department of Finance and Personnel. The Committee believes that such a mechanism is important to ensure that the maximum benefit in terms of health outcomes is achieved from the additional resource.**

b) **The Committee welcomes the Department's commitment to plan its' spend so as to be able to live within its allocated budget for 2015/2016.**

c) **The Committee welcomes the Department's acknowledgement that significant monies are not likely to be available through in-year monitoring rounds, and that it is treating its allocation as a ceiling, rather than a starting point.**

5. Information available and timetable for committee input to consultation

Committee findings

a) **The draft Budget 2015/2016 was published on 3 November 2014. The Department's consultation document was published on 26 November 2014. The deadline for responses to the public consultations on both documents is 29 December 2014. The Committee is of the view this timetable places limits on its ability to take evidence from stakeholders on the potential impact of the draft Budget 2015/2016.**

b) **Furthermore, the Department will not be in a position to advise the Committee of the areas in which the HSC Trusts will be making savings, and the levels of budget reductions which will be applied to the smaller arms-length bodies, until January 2015 at the earliest. Given that by this stage the public consultation will be closed, this will provide the Committee with an extremely limited opportunity to influence those decisions.**

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From: Christine Darrah
Clerk to the Committee for Justice

Date: 5 December 2014

To: Shane McAteer
Clerk to the Committee for Finance and Personnel

COMMITTEE FOR JUSTICE RESPONSE ON THE DEPARTMENT OF JUSTICE 2015/16 DRAFT BUDGET

1. Department of Justice officials attended the meeting of the Committee for Justice on 26 November 2014 to provide an overview of the Department of Justice 2015-16 draft budget and key issues.

2. Having considered the information provided the Committee for Justice agreed the attached response on the Department of Justice 2015-16 draft budget for inclusion in the report being compiled by the Committee for Finance and Personnel.

Christine Darrah
Clerk to the Committee for Justice

Enc.

COMMITTEE FOR JUSTICE

RESPONSE TO

THE COMMITTEE FOR FINANCE AND PERSONNEL

ON

THE DEPARTMENT OF JUSTICE 2015/16 BUDGET

Background

1. The Minister for Finance and Personnel made an oral statement in the Assembly on 3 November 2014 on the Executive's Draft Budget for 2015/16.

2. In his statement the Minister outlined that an important consideration in determining the draft budget outcome was the treatment of the Department of Justice (DoJ) budget which had been ring-fenced following the devolution of policing and justice in 2010 to manage the specific funding package put in place by HM Government at that time. The Finance Minister stated that, with the exception of funding for national security measures which remain ring-fenced, that specific funding package had come to an end and it was therefore appropriate that the ring-fence on the DoJ budget does likewise. The DoJ budget would therefore now fully integrate into the local budget process and allow effective management of the aggregate financial position.

Department of Justice 2015/16 Budget

3. The Committee received written information from the DoJ which provided an overview of the 2015-16 draft budget in relation to both resource and capital funding, set out the Minister's high level priorities and provided an initial assessment of the likely implications of the budget reductions for the main spending areas.

4. Departmental officials also attended the meeting on Wednesday 26 November 2014 to outline the key issues relating to the DoJ budget and answer Members' questions.

5. The Committee noted the following in relation to the DoJ 2015/16 budget:

Non Ring-Fenced Resource DEL

- The DoJ has received £29.5 million of ring-fenced national security funding from HM Treasury
- The Executive has allocated an additional £45 million to the DoJ budget in recognition of the pressures facing the PSNI
- The DoJ has received an additional £25.2 million as its share of the £124.5 million funding provided on a pro rata basis to those departments facing reductions to help alleviate the worst impacts.

Opening Baseline Position - £1,089.0 million
2015/16 Draft Budget - £1,024.0 million
% change – 6%

Analysis of the main blocks of costs excluding the PSNI
Six categories account for over 90% of spend:

- Staffing costs
- Legal Aid payments
- Accommodation costs
- Contracted-out costs
- Compensation payments
- Prisoner-related costs

Capital DEL
Capital Baseline - £42.1 million
NI Community Safety College funding - £53.3 million
HM Treasury Security Funding - £1.5 million

Minister of Justice's High Level Funding Priorities

- Protecting frontline policing as far as possible
- Ensuring the PSNI has adequate additional security funding
- Protecting other frontline areas across the Department as far as possible with the aim of protecting outcomes for the public

6. The Committee notes that officials indicated during the oral evidence session that the Core Department is likely to be asked to make savings of 20% or more with other front line areas being required to make savings of 10% to 15% and the PSNI facing a reduction close to 8.7%. The Department has, however, not yet provided the necessary detailed information on the proposed allocations for each spending area to enable a proper assessment to be made of whether funding has been targeted at the priorities. While the Committee agrees that funding should be targeted and is broadly content with the priorities identified it will give further consideration to the actual allocations and the implications when the information is available. The Committee did seek and receive an assurance that the budget allocations would support the Programme for Government commitments that fall to the DoJ to deliver.

Delivery of Front Line Services

7. Whilst noting the Minister's stated high level funding priorities the Committee is very concerned that essential front-line services will not be protected when the budget allocations are finalised.

8. The Committee is well aware of the potential impact on the delivery of front line policing including community policing having discussed the implications with the Chief Constable of the PSNI when he attended a meeting on 8 October 2014 and on the NI Prison Service, the NI Courts and Tribunals Service and the Youth Justice Agency. However there are a range of frontline services delivered by other organisations that are funding by the core Directorates in the DoJ and these also need to be protected as far as possible.

9. A number of organisations providing front-line services such as drug-arrest referral and harm reduction services are funded by the Community Safety Unit and, as a result of 2014-15 in-year pressures, have already lost funding. One example known to the Committee is the Railway Street Drug, Arrest Referral and Harm Reduction Service in Ballymena which, following the withdrawal of £360k funding by the DoJ in November, is due to close. This service deals with

people referred from arrest who have serious addiction, self-harm, social and mental problems and aims to keep them out of prison. The Committee is of the view that the closure of such services will very likely result in increased costs for the PSNI, the Courts and ultimately the Prison Service and has requested further details from the DoJ regarding the 2014-15 funding position for all such services.

10. The Committee believes that an approach to cutting spending that does not include a cost-benefit analysis and an analysis of the likely impact on and cost to other areas of the criminal justice system is a false economy and a flawed basis on which to proceed. The Committee expects the Department to produce evidence of such an analysis and what account has been taken of the results when it provides the further detailed information on the proposed budget allocations and draft savings delivery plans.

11. The Committee is also extremely concerned about the likely implications of a reduction in the budget for the Probation Service and in particular the ability of that organisation to undertake the appropriate level of monitoring and management of sex offenders and violent offenders in the community if it has to reduce the number of Probation Officers further to remain within budget.

12. The Committee has consistently raised concerns regarding the adequacy of the Probation Board budget from as far back as 2011 -12. Prior to this year's budget pressures and the pressures that will be faced next year the Probation Board's Savings Delivery Plans has highlighted pressures affecting the delivery of frontline services including the monitoring of offenders. While having to make savings the Probation Board has also had to deal with a rising workload including a substantial increase in the number of offenders to be monitored in the community. Given the relatively small size of the Probation Board budget in comparison to that of the PSNI and the NI Prison Service this is a very difficult situation to manage.

13. The Committee, noting the assertion from officials that areas such as the Probation Board will have to face a significant degree of cuts, requests that the Minister revisits the Probation Board budget proposals and ensures that an

appropriate level of funding is provided to enable it to deliver the necessary services and carry out appropriate monitoring of offenders.

14. When the Minister of Justice attended on 1 October to discuss the In-Year Financial position Members also discussed the adequacy of the budget for the Police Ombudsman's Office and raised concerns regarding how legacy cases would be funded both In-Year and in future years.

NI Prison Service

15. The Committee noted the assurance provided by officials that the Prison Service budget would be protected as far as possible to mitigate against the potential detrimental impact of budget reductions on the operational prison regime including prisoners having to spend longer in their cells.

16. The Committee also noted the assurance provided to the Assembly during a recent debate by the Minister of Justice that the current prison officer vacancies would be filled and questioned how this commitment will be delivered given the cuts to the Prison Service budget that are being proposed.

17. This is an area that the Committee will wish to return to when the detailed budget allocations are available.

Legal Aid Budget

18. The Committee is very concerned about the cost of legal aid and the fact that the Department has already indicated that the legal aid budget available for next year will not be sufficient to meet demand. The cost of legal aid has consistently been much higher that the available budget and every year additional funding has had to be found from other areas of the DoJ to meet the shortfall. This is neither an acceptable or sustainable situation and particularly so in a climate of reducing budgets across the Department.

19. While the Committee is aware of the Legal Aid Reform Programme being undertaken by the Department, and has completed a range of work relating to

the Reforms including the Committee Stage of the Legal Aid and Coroners' Courts Bill and consideration of various pieces of subordinate legislation, there still appears to be areas such as the assignment of two counsel which may deliver additional savings and would benefit from further scrutiny. The Committee highlighted to officials that according to the Director of Public Prosecutions 22% of cases had dual representation for the defence but only 6% had dual representation for the prosecution and questioned whether further savings could be made in this area.

20. The Committee has emphasised on numerous occasions the need for the cost of legal aid to be addressed as a matter of urgency to ensure that in future years additional savings do not have to be made by other areas of the Department and it will continue to closely scrutinise this area of the budget.

Staff Reductions

21. The Committee has been advised that the levels of savings required to be made by the DoJ will mean fewer staff. When questioned on the likely level of the reduction in posts and whether the Department had identified how many people could potentially leave as part of the voluntary redundancy scheme officials indicated that it was too early to provide a specific figure and the detailed savings delivery plans currently being prepared would outline the position in relation to staffing impacts and would be shared with the Committee when available. Officials did highlight that the majority of the DoJ budget goes to Arm's Length Bodies and is staff-related and it would be assessing how the terms of the scheme applies to those bodies.

22. Officials also agreed that, as a result of reductions in posts, significant restructuring across the Department and related organisations is likely to be necessary.

23. The Committee will wish to consider the proposed staff reductions in detail when the further information is available and would urge the Department to clarify the position as soon as possible.

Desertcreat Community Safety Training College Capital Project

24. The Committee sought clarification regarding the capital funding allocated for the Desertcreat Community Safety Training College and whether this was ring-fenced for this particular project or could be used to fund the voluntary redundancy package or any other package.

25. Officials indicated that it was assumed that the £53.3 million allocated for 2015 - 16 will come from the end-year flexibility money that sits with Treasury. The overall cost of the project is much higher than that and the significant balance of the funding will fall into future years and thus a future budget period and will be assessed in terms of the Executive's overall capital priorities at that time.

26. The Committee noted that the £53.3 million allocation depends on agreeing the drawdown of unspent funds from HM Treasury in 2015-16 and it was the responsibility of officials in the Department of Finance and Personnel to engage with HM Treasury officials to secure that funding.

Change Fund

27. The Committee noted that the DoJ was in the process of seeking bids from the spending areas for the Change Fund.

28. Members were aware that other Departments had already submitted bids to the Fund and had received advice on improving them and expressed concern that, given the DoJ was only now requesting bids, it may be at a disadvantage as a result of the quality of the bids it submitted.

29. The Committee expects the Department to take full advantage of the opportunity to submit bids to the Change Fund and will scrutinise the Department's approach and the bids submitted when the information is available.

Consultation Process

30. The Committee welcomed the assurance from officials that the Department will consider responses received to the consultation exercise and in particular any impact on front line services to inform decisions on whether funding needs to be reallocated.

31. The Committee would urge the DoJ to publish the information on the proposed allocations to each of the spending areas and the savings delivery plans as soon as possible to provide for a meaningful consultation and enable informed comments to be submitted.

Conclusion

32. The Committee appreciates the difficult budgetary climate faced by the DoJ in 2015-16 and is broadly supportive of the key priorities which relate to the protection of front-line services. However, until the DoJ provides the detailed information on the proposed allocations for each spending area the Committee is unable to properly scrutinise the budget proposals or assess the implications and impacts. In particular the Committee will want to be assured that cuts in one area will not be a false economy and have a detrimental impact on and cost to other areas of the criminal justice system.

33. The Committee expects the DoJ and its Agencies and NDPBs to be innovative and collaborative in their approach to delivering the services for which they have responsibility and to explore all the funding opportunities for front-line services including European funding streams, assets recovery funding and the Change Fund set up by the Executive.

COMMITTEE FOR THE OFFICE OF THE FIRST MINISTER AND DEPUTY FIRST MINISTER
Room 285
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Email: committee.ofmdfm@niassembly.gov.uk

FROM: Kathy O'Hanlon – Clerk to the Committee for the Office of the First Minister and deputy First Minister

DATE: 5 December 2014

TO: Shane McAteer – Clerk to the Committee for Finance and Personnel

SUBJECT: Draft Budget 2015-16

1. At their meeting on 3 December, Members of the Committee for the Office of the First Minister and deputy First Minister requested more time to consider the draft response to the Draft Budget 2015-16. It was agreed that Members would forward any comments or issues to the Committee Office by Friday 5 December and, in the absence of any comment, the response would be forwarded to your Committee.
2. As no comments were received I have attached the response from the OFMDFM Committee for inclusion in your Committee's report.

Kathy O'Hanlon
☎20302

COMMITTEE FOR THE OFFICE OF THE FIRST MINISTER AND DEPUTY FIRST MINISTER RESPONSE TO THE COMMITTEE FOR FINANCE AND PERSONNEL ON THE DRAFT BUDGET 2015-16

1. Following the Finance Minister's statement to the Assembly on 3 November the Committee for the Office of the First Minister and deputy First Minister (COFMDFM) wrote to the Department to ask when the detailed breakdown of proposed expenditure would be available to the Committee and published on the website. In view of the short timescale available for consideration of the draft budget, the Committee also subsequently wrote to the Department's sponsored bodies for information on their priorities for 2015-16 and the level of engagement with OFMDFM on the budget. Copies of the responses from those bodies are attached at Appendix A.

2. Departmental officials offered to brief the Committee at its meeting on 26 November; however, a written briefing could not be provided in advance. Nonetheless, in view of the tight timescale for providing a response to the Committee for Finance and Personnel, Members agreed to proceed with the briefing on that date. The Committee would wish to thank the officials for the frank briefing provided and the useful and informative discussion that followed.

3. The Committee noted that the Department has achieved savings of £7.3m, £8.3m and £9.3m over the previous three years and is on track to achieve savings of £10.3m this year. In addition, continued reductions to the Department's baseline over the current CSR period are in the region of 9%. Given these factors, officials advised that the Department's ability to protect front line services and staff from any further cuts cannot now be guaranteed. The Committee heard that, in 2014-15, 34% of the non-ringfenced resource budget was allocated to staff/administration costs; 10% to programmes and the remainder to the Department's ALBs. Officials advised that significant challenges lie ahead for both the Department and its ALBs.

4. The Committee noted that the 0.6% reduction to OFMDFM's non-ringfenced resource DEL set out in the draft budget document is not reflective of the position for 2015-16. The £65.4m draft allocation includes £5m for the Historical Institutional Abuse (HIA) Inquiry which is ringfenced and £3m for victims and survivors, which were not included in the 2014-15 baseline and which are normally allocated in-year. In effect, therefore, there is a £8.4m or 12.8% reduction to the Department's non-ringfenced resource DEL. Officials advised that there are also recurrent pressures such as the China Office and the International Relations Team, and Together: Building a United Community (T:BUC) which is normally bid for in-year. Additional pressures of £1.7m for 2015-16 have been identified which mean that the Department is facing an overall estimated resource pressure of £10.1m.

5. The Committee was informed that, within the Department, discretionary spend such as research will be reduced. The Department will work to reduce its pay bill by 12.8% which equates to around 35 posts. Some of this work has already been done through the suppression of posts. Further posts may be suppressed and other options for reducing staffing numbers include redeployment and voluntary redundancy. In this regard the Executive is formulating a workforce restructuring plan for the wider civil service.

6. Funding for the HIA Inquiry had previously been provided via in-year monitoring allocations. While the Executive had committed to ensuring funding was provided in respect of the Inquiry, the Committee nevertheless welcomes the proposed £5m allocation which sets a baseline for the HIA Inquiry. Officials confirmed that they expect this allocation to be sufficient for 2015-16 although the Executive commitment to funding means that this is not regarded as either a pressure or an easement within the Department.

7. The Committee also welcomes the £3m allocated to victims in the budget, but notes that the Victims and Survivors Service (VSS) will still be required to deliver savings. Although the extent is not yet known, officials confirmed that the additional allocation means that the baseline for VSS will exceed the 2014-15 baseline. In their correspondence of 1 December, VSS advise that a 10% reduction plus the additional £3m will give a baseline of £12.306m for 2015-16, while a 15% reduction plus the additional £3m will give a baseline of £11.789m. However, VSS also point out that the baseline requirement for the Service remains £13.3m.

8. The Committee notes that the establishment of the China Office will be a key priority for the Department for 2015-16 and, together with the Northern Ireland Bureau in Washington and the Office of the Northern Ireland Executive in Brussels, will ensure that the Executive's profile is promoted abroad.

9. The Committee notes that programmes delivered by the Department relate to equality and good relations; therefore, any reduction to programme spend will be in these areas. In addition, funding for Together: Building a United (T:BUC) will continue to be predicated on in-year bids. Given the budget reductions across the majority of Executive departments it is likely that there will be less money available within monitoring rounds to deal with pressures that arise. As a consequence, there may be pressures across all departments, including OFMDFM, to deliver on T:BUC.

10. The Executive has allocated £14m resource and £15m capital for Delivering Social Change (DSC), which will enable the Department to continue to roll out its programmes in this regard. The Department has previously had to make bids in-year

for DSC on behalf of both OFMDFM and other departments and, as above, there may be less money available at monitoring rounds should pressures arise in 2015-16.

11. A number of the ALBs that responded to the Committee's request for information advised that they had been asked by OFMDFM to consider how they would manage a reduction to their budget of 10% and a reduction of 15%. During the briefing officials confirmed that it was expected that the reductions required would fall in between these figures and will vary across the bodies, and that proposals are currently being developed for consideration by the First Minister and deputy First Minister. It was noted that the 4.4% reductions made by ALBs this year will count towards the reductions required for 2015-16, although officials pointed out that the size of an ALB will affect its capacity to absorb further reductions. The Committee heard that the ALBs may require access to a voluntary exit scheme, although the scheme currently being considered for the NICS may not be relevant as staff within ALBs would generally not have been in post for a length of time that may make such a scheme attractive. This may add to the difficulties faced by ALBs when seeking to make reductions.

12. Members also heard that concerns about the ability to discharge all statutory functions were raised by a number of ALBs during their discussions with OFMDFM, and this point was also made in some of the responses received by the Committee. The Committee will monitor this issue moving forward.

13. In terms of capital funding, the baseline proposed in the draft budget remains the same as 2014-15 at £4.2m. Officials advised that this will enable OFMDFM to take forward further regeneration projects at Ebrington Barracks and Crumlin Road Gaol, and support the health & safety and maintenance costs for Maze/Long Kesh. The Committee also noted that consideration may be given to the disposal of the Shackleton Military site.

14. On 27 November the Department provided the Committee with a high-level consultation document which included information discussed during the briefing. The document was subsequently published on the Department's website for public consultation (available here) with responses to be received by 29 December.

Appendix A

1. Commission for Victims and Survivors
2. Commissioner for Public Appointments for NI
3. Equality Commission for Northern Ireland
4. Investment Strategy Northern Ireland
5. Mazel Long Kesh from peace to prosperity
6. Northern Ireland Commissioner for Children and Young People
7. Northern Ireland Community Relations Council
8. Northern Ireland Judicial Appointments Commission
9. Strategic Investment Board Ltd
10. Victims and Survivors Service

Commission for
Victims and Survivors

CVSNI Submission to OFMDFM on 2015-16 Draft budget

Please find outlined in this submission the Commission's priorities for the forthcoming 2015-16 year as well as highlighting the level of engagement we have had to date with our sponsoring body, OFMDFM.

(i) Priorities for 2015/16

In terms of the priorities of the Commission for the 2015-16 year the main objective is to fulfil our statutory obligations which are detailed below:

1) Promoting an awareness of matters relating to the interests of victims and survivors and of the need to safeguard those interests
2) Keeping under review the adequacy and effectiveness of law and practice affecting the interests of victims and survivors
3) Keeping under review the adequacy and effectiveness of services provided for the victims and survivors by bodies or persons
4) Advising the Secretary of State, the Executive Committee of the Assembly and anybody or person providing services for victims and survivors on matters concerning the interests of victims and survivors
5) Taking reasonable steps to ensure that the views of victims and survivors are sought
6) Making arrangements for a Forum for consultation and discussion with victims and survivors.

In fulfilling each of the Commission's statutory duties the organisation shall achieve its principal aim of promoting the interests of victims and survivors as well delivering its vision of improving the lives of all victims and survivors of the Conflict.

Further to fulfilling its statutory duties the Commission has outlined in its Corporate Plan, recently approved by Ministers, a number of key strategic priorities it expects to deliver. These are outlined below:

1) To ensure excellent service provision to all victims and survivors
2) To raise awareness of the impact of the past on all victims and survivors
3) To empower and support victims and survivors to make a contribution to a better and shared future;

4) To raise the profile of victims and survivors issues through engagement with the Forum, groups and individuals and dissemination into Government, the media and wider society.
5) To demonstrate a high level of administrative and financial support with an effective governance framework

The Commission is currently in the process of developing its corporate plan for 2015-18 on the basis of further budget reductions. Final approval of the priorities for 2015/16 is the responsibility of the Commissioner which we hope to have in post early in the new year.

(ii) Level of engagement with OFMDFM

In order to deliver the priorities of the Commission effectively and efficiently there has to be a stable engagement with the sponsoring body, OFMDFM. To date engagement in relation to the 2015-16 budget has been limited with the primary focus of agreeing final budget figures for this year.

The Commission was tasked by OFMDFM to prepare an impact assessment submission which was completed and delivered on the 14th November 2014. Within the submission the Commission was responsible for scenario planning in relation to the impact of a 10% budget reduction and a 15% budget reduction. Within the impact assessment submission the consequences of the proposed budget reductions, in relation to the Commission's statutory duties, were outlined.

Whilst a 10% reduction in the resource budget of the Commission for 2015/16 could be tolerated it will only be achieved through extensive efficiency savings and programme cost reductions totalling in excess of £100,000 across the organisation. The Commission ultimately would be able to fulfil its statutory duties through greater reliance on in- house research and engagement to deliver objectives highlighted within the annual business plan. It is however anticipated that this will result in a greater risk in relation to delivery of objectives and therefore will impact upon the Commission's Corporate Risk Register.

A 15% reduction in the resource budget of the Commission for 2015/16 ultimately would result in reductions totalling in excess of £150,000 and would require staff redundancies in the organisation, removing the entire Commission's programme budget, as well as being unable to complete a considerable amount of its programmes of work. In order to satisfy such a reduction the Commission would be unable to fulfil all its statutory obligations.

The 2015/16 budget scenarios were also discussed at a recent accountability meeting with OFMDFM Sponsor Branch and a meeting is scheduled on 24th November between OFMDFM Accounting Officer and all the ALB's Accounting Officers to discuss the draft 2015/16 budget.

<u>Please see below, response from CPA NI (Commissioner for Public Appointments for Northern Ireland)</u>

In response to the request from Kathy O'Hanlon on 14th November 2014, detailed below are CPA NI priorities for 2015-16, along with comment on the level on engagement with OFMDFM on the 2015-16 budget.

<u>CPA NI Priorities</u>

- Audit - To conduct six audits of relevant public appointments recruitment competitions to review the policies, practices and actions of Departments in making Public Appointments. Conduct six-month follow-up on implementation by Departments of recommendations made in audit programme.
- Advice and Guidance – To provide prompt and high quality responses to queries from Departments, public Bodies, independent Assessors and members of the public. CPA NI have an open-door policy for queries from all sources.
- Complaints – Investigate and report on complaints presented to CPA NI.
- Independent Assessors – Manage, train and allocate a team of Independent Assessors, for participation as panel members in public appointment competitions.
- Outreach / Diversity programme – To promote public appointments to those currently under-represented on the boards of public bodies, through an extensive outreach programme.
- Code of Practice – amend and update the Code of Practice, and produce guidance as necessary.
- To publish an Annual report.

<u>Engagement with OFMDFM</u>

CPA NI completed an exercise on 14th November detailing how a 10% and a 15% cut in the CPA NI budget in 2015/2016, would impact on the ability of CPA NI to deliver public services. This has been the sole engagement with OFMDFM on the 2015/16 budget to date.

Thank you

Paddy Longmore
028 905 24968

Equality Commission
FOR NORTHERN IRELAND

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24 November 2014

Ms Kathy O'Hanlon
Clerk to the Committee
OFMDFM
Room 285
Parliament Buildings
Stormont Estate
BELFAST
BT4 3XX

Dear Ms O'Hanlon

Re: Draft Budget 2015/2016

Thank you for your letter of 14 November 2014 seeking comment on the level of engagement with OFMDFM on the 2015/16 budget and details of our organisation's priorities for 2015-16.

In respect of the level of engagement with OFMDFM on the 2015/16 budget, we met with the Department's Accounting Officer to discuss, among other issues, on 24 October 2014. We also participated in a meeting with officials from OFMDFM and ALBs generally on 7 August and in a further meeting with ALBs and senior OFMDFM officials to discuss the 2015/16 budget on 24 November 2014.

The Commission was requested by memo of 27 October 2014 from the Accounting Officer to provide an assessment of the measures we would have to take to accommodate possible resource deductions of 10% and 15% next year and how this would impact on the Commission's ability to deliver public services. This was forwarded to the Department on 14 November.

With regards to our organisation's priorities for next year, we are planning to continue to prioritise our work on addressing key inequalities; extending equality practices in workplaces and in the provision of goods and services; challenging discrimination; and delivering effective and efficient services. Business planning is currently underway; this includes consideration of the impact of potential further reductions in budget following reductions in budget over the last seven years. It is likely that

Chief Commissioner: Dr. Michael Wardlow **Chief Executive:** Evelyn Collins CBE

further reductions will have significant implications for the delivery of our services and the performance of our statutory duties across all areas of the Commission's remit.

I trust this is helpful.

Yours sincerely

[redacted]

Dr Evelyn Collins CBE
Chief Executive

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Ms Kathy O'Hanlon
OFMDFM Committee Clerk
Room 357A
Parliament Buildings
Ballymiscaw, Stormont
Belfast BT4 3XX

25 November 2014

Dear Ms O'Hanlon,

Draft Budget 2015/16

Thank you for your letter of 14th November in which you asked for details of the Strategic Investment Board's (SIB's) priorities for 2015-16 and the level of engagement with OFMDFM on the draft budget.

SIB's priorities are set by Ministers in the course of the annual business planning cycle. Ministers are expected to set out their expectations for 2015/16 later this year. However, on the assumption that these will be broadly similar to the priorities for the current year, SIB main concerns are likely to include:

(a) Providing support to departments in the achievement of their Programme for Government commitments and targets;
(b) Delivering the £50m capital realisations set out in the draft budget for 2015/16;
(c) Supporting departments implement the Executive's asset management strategy;
(d) Supporting the public sector in ensuring the best use of Financial Transactions Capital (FTC) and other potential sources of non-conventional capital;
(e) Preparing indicative investment scenarios that will inform Minister's decisions on the shape of the next Investment Strategy; and

(f) Promoting the use of Social Clauses and increasing their positive impact.

SIB has met officials in OFMDFM regularly to discuss the likely scale and impact of budget reductions in 2015/16. Last month the department asked to SIB to plan for two scenarios: a cut to its revenue budget of 10% and a cut of 15%. SIB learned yesterday that the likely outcome, subject to decisions still to be taken by the Ministers and the Executive, will be a reduction somewhere between these two figures and we will adapt our plans accordingly.

Yours sincerely,

[redacted]

Brett Hannam
Chief Executive Officer
Strategic Investment Board

Kathy

In response to the Committee's request of 14 November Maze Long Kesh Development Corporation's response is as follows:

There is no current agreement on Maze Long Kesh. Ministers continue to discuss a way forward. The outcome of these discussions will shape our priorities and budget for 2015/16. The Development Corporation Board remains committed to achieving its statutory objective 'to secure the regeneration of the Maze Long Kesh site.'

Best wishes

Kyle

Kyle M Alexander OBE
Chief Executive
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Maze Long Kesh
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Office Location Map – For help, when in the map application, click on the details tab at the top left

MazeLongKesh
from peace to prosperity

NICCY PROMOTING THE RIGHTS OF CHILDREN & YOUNG PEOPLE

Dr Mark Browne
Director of Resources, Regeneration, International
Relations and Institutional Review Directorate
OFMDFM
Room E5.27 Castle Buildings
Stormont
BELFAST
BT4 3SR

12 November 2014

Our ref: 14/PD/PLM/060

Dear Dr Mark Browne

Re: **PUBLIC EXPENDITURE POSITION** (as per letter dated 27 October 2014)

As requested please find enclosed tables setting out our assessment of the measures we would have to take to accommodate potential Resource DEL baseline Reductions of (a) 10% and (b) 15%, and how this would impact upon our ability to deliver public services; and Invest to Save Scheme figures in relation to potential costs and savings.

Following our recent meeting with you and OFMDFM Officials, and submission of a paper outlining the savings already made and measures taken to meet these, I would have to reiterate a number of issues facing NICCY during this period:

Budget & Staffing Levels
Budgets have already been reduced by approximately £500,000 over my period in Office. NICCY is a small organization with a current staff complement of 24.5. Staffing levels have gone down from 28 representing a 14% reduction.

While I appreciate the need for all public sector bodies including ALBs such as NICCY to bear a burden of these cuts, I would nonetheless request that the issue of proportionality be taken under consideration i.e. the number of staff required to deliver on my statutory duties* has to be at a level consistent with effective delivery, therefore a 'differential reduction' in % cuts would be necessary in our case. (See enclosed Tables regarding the impact and necessary measures).

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Patricia Lewsley-Mooney
Commissioner

Access to VE/VR* 'pot'
NICCY does not have/is not permitted to carry huge financial reserves therefore access to the 'public sector' VE/VR* 'pot' to cover costs of these is essential. We await details of the Voluntary Exit Scheme via OFMDFM.

*Voluntary Exit / Voluntary Redundancy
There is an issue of timescales in relation to this i.e. if staff are 'carried forward' into next business year, NICCY will continue to incur costs which would be an added financial pressure and one difficult to sustain for any significant length of time.

Impacts
There are ongoing issues of concern, as I am sure with other ALBs, of the impact on staff morale, delivering on statutory duties and meeting corporate and business plan objectives.

Business Planning 2015-16
Business planning for the next year is difficult in context of the current 'cuts environment' as we are planning without knowing the actual % cuts we have to implement and therefore the number of staff we will have in post to deliver on same. We are as directed working on potential reductions 'scenarios'.

Appointment of new Commissioner
As stated at our meeting, I complete my second term in office on 7 January 2015 and we have not as yet, been informed of new appointee. While we are prepared for contingencies on a practical level, I feel the new appointee may have wished to contribute to the 'necessary changes'.

Corporate Risk Register
It is pertinent to note that NICCY's CRR carries the above issues.

Finance Minister – Draft Budget Speech
I note that in Simon Hamilton - Finance Minister's recent draft budget speech and associated tables outlining Departmental reductions, OFMDFM have a 0.6% reduction in their non ring-fenced DEL. The Finance Minister had also stated while 'the result of these various allocations and reductions is an overall cut in Resource DEL expenditure by departments ... it is 'considerably lower than the 15% that all departments ... had been planning for'. I would hope therefore that this provides our sponsor department - and indeed others whose work impacts on Children and Young People - with room for greater flexibility in setting our budget.

Yours sincerely

[redacted]

Patricia Lewsley-Mooney
Commissioner

Copy **Denis McMahon**
Margaret Rose McNaughton
Stephen Boyd

IMPACT ASSESSMENT 2015-16 RESOURCE DEL

Please provide an assessment of the measures you would have to take to accommodate potential RDEL baseline reductions of (a) 10% and (b) 15% and how this would impact upon your ALB's ability to deliver public services.

NB: Please refer to enclosed Tables.

(a) **10% 2015-16 Baseline Resource DEL Reduction**

Reduction = £143,100

Fixed costs:

Premises = £112,000
Audit = £19,000
Telephone/Internet = £18,500
Subscriptions = £3,500
Support Contracts = £6,500

Programmes = £110,000*

Total Fixed costs: £159,500 excluding programme costs.
£269,500 including programme costs.

*NICCY had been advised previously not to reduce programme costs if possible.

(b) 15% 2015-16 Baseline Resource DEL Reduction

Reduction = £214,650

Fixed costs:
Premises = £112,000
Audit = £19,000
Telephone/Internet = £18,500
Subscriptions = £3,500
Support Contracts = £6,500

Programmes = £110,000*

Total Fixed costs: £159,500 excluding programme costs.
£269,500 including programme costs.

*NICCY had been advised previously not to reduce programme costs if possible.

Impact of Reductions*:

*NICCY is currently working to develop next year's Business Plan based on the current Corporate Plan 2014-'17 for submission by 31 January 2015. While NICCY had previously submitted some examples of impact in our previous meeting with you, it is difficult to predict the exact impact on delivery of public services by NICCY given 'unknowns such as:

- the uncertainties of budget cuts' figure;
- the numbers of cases which will be received;
- breaches of Children's and Young People's Rights which have to be investigated;
- failings in services delivered;
- the volume of policy/legislation/strategy development 'advices' requested and deemed necessary;
- requests for training and education from professionals working within the Children's and Young People's field;
- requests for legal expertise and advice from practitioners;
- emerging developments/issues necessitating action as a result of NICCY's 'monitoring of public authorities' role;

However, it is the case that these cuts will adversely impact on outputs and therefore outcomes for Children and Young People in Northern Ireland.

% cut Amount 'New' Budget Figure [NBF]	Potential Measures to meet cuts: Savings via e.g. VE/VR* [Voluntary Exit / Voluntary Redundancy]	Impact on Delivery
		*The Statutory Duties and Powers to fulfill those duties, of the NI Commissioner for Children and Young People is summarized in appendix below.
10% £143,100 NBF £1,287,900	• To make 10% cuts would necessitate VE/VR or compulsory redundancies amounting to £143,100; • It would be necessary to have access to 'central govt pot' to facilitate these; • Necessity to restructure the organisation following Voluntary Exits/Redundancies; • Need to refocus NICCY's priorities / core business / areas of work and outputs; • Staff roles, remits and responsibilities will have to be reviewed as / where necessary to meet 'business needs'. • Staff roles, remits and responsibilities will have to be reviewed as / where necessary to meet 'business needs'.	• Statutory Duties* may be compromised e.g. responding to breaches of children's and young people's rights in relation to government departments' delivery of services etc (see below); • Use of Commissioner's powers may be compromised; • Adverse impacts on carrying out the required functions of the Office; • Need to revise Corporate Plan 2014-17; • Need to revise Annual Business Plan; • Reduced outputs and ultimately outcomes for Children and Young People; • Potential reduction in joint / partnership working; • Potential reduction in contact with Stakeholders i.e. Children & Young People, Parents/Carers, Service Providers, Govt Depts, Decisions Makers, Politicians, NGOs, Media, Legal community, BINOCC, ENOC, UN cottee etc.

% cut **Amount** **'New' Budget Figure [NBF]**	**Potential Measures to meet cuts:** **Savings via e.g. VE/VR*** **[Voluntary Exit / Voluntary Redundancy]**	**Impact on Delivery**
15% £214,000 NBF £1,216,350	NB: we note the Finance Minister's stated in his recent Budget Speech to NI Assembly that 15% cuts are no longer being considered. • To make 15% cuts would necessitate VE/VR or compulsory redundancies amounting to £214,000; • It would be necessary to have access to 'central govt pot' to facilitate these; • Necessity to restructure the organisation following Voluntary Exits/Redundancies; • Need to refocus NICCY's priorities / core business / areas of work and outputs; • Staff roles, remits and responsibilities will have to be reviewed as / where necessary to meet 'business needs'.	• Statutory Duties* will be compromised e.g. responding to breaches of children's and young people's rights in relation to government departments' delivery of services etc (see below); • Use of Commissioner's powers will be compromised; • Adverse impacts on carrying out the required functions of the Office; • Need to revise/limit Corporate Plan 2014-17; • Need to revise/limit Annual Business Plan; • Reduced outputs and ultimately outcomes for Children and Young People; • Potential reduction in joint / partnership working; • Potential reduction in contact with Stakeholders i.e. Children & Young People, Parents/Carers, Service Providers, Govt Depts, Decisions Makers, Politicians, NGOs, Media, Legal community, BINOCC, ENOC, UN cottee etc.

Invest to Save Scheme:

NB: NICCY figures below are estimates only at this stage. If 10% cuts are required NICCY will have to restructure the Organisation internally to ensure it remains fit for purpose adhering to its legislative remit and functions and fulfills its statutory duties.

Costs **(estimates Nov' '14)** NB: These costs are based on applying VE/VR Scheme asap and do not include costs of 'carrying' Staff forward for a number of months into	**Savings per annum 2015-16 onwards** **(estimates Nov' '14)**
£95k + possible pension payments (1 or 2 applic') in region of £100k. £250,000 (approximate estimate)	£150k (approx')

APPENDIX 1

THE STATUTORY DUTIES AND POWERS OF THE COMMISSIONER

Article 6(1) of the 2003 Order established the Commissioner’s principal aim as follows:

“To Safeguard and Promote the Rights and Best Interests of Children and Young Persons”

The Commissioner’s paramount consideration shall be the rights of the child or young person.

The Commissioner shall have regard in particular, to the ascertainable wishes and feelings of the child or young person (considered in light of his/her age and understanding).

The Commissioner shall have regard to the importance of the role of parents in the upbringing and development of their children; and any relevant provisions of the United Nations Convention on the Rights of the Child.

STATUTORY DUTIES AND POWERS OF THE COMMISSIONER

Article 7 of the 2003 Order outlines the duties of the Commissioner which are:

- To promote an understanding of the rights of children and young persons;
- To promote an awareness of the importance of those rights and a respect among children and young persons for the rights of others;
- To promote an awareness of matters relating to the best interests of children and young persons;
- To keep under review the adequacy and effectiveness of law and practice relating to the rights and welfare of children and young persons.
- To keep under review the adequacy and effectiveness of services provided for children and young persons by relevant

authorities.

- To advise government and relevant authorities on matters concerning the rights or best interests of children and young persons.
- To take reasonable steps to ensure that children and young persons and their carers are made aware of the functions of the Commissioner, the location of her office and the ways in which they may communicate with the Commissioner;
- To take reasonable steps to ensure that children and young persons are encouraged to communicate with the Commissioner;
- To take reasonable steps to ensure that the content of any matter published by the Commissioner takes account, so far as practicable, of the age, understanding and usual language of any children or young person by whom it is intended that such matter will be read and of the effect of any disabilities they may have;
- To take reasonable steps to ensure that the views of children and young persons and their parents are sought concerning the exercise by the Commissioner of her functions;
- To take reasonable steps to ensure that the services of the Commissioner are, so far as practicable, made available to children and young persons in the locality in which they live.

Articles 8-15 outline the Commissioner's general powers which are to:

- Undertake, commission or provide financial or other assistance for, research or educational activities concerning the rights or best interests of children and young persons or the exercise of her functions;
- After consultation with such bodies as she thinks appropriate, issue guidance on best practice in relation to any matter concerning the rights or best interests of children or young persons;
- For the purpose of any of her functions, conduct such investigations as she considers necessary or expedient;
- Compile information, provide advice and publish any matter concerning the rights and best interests of children and young persons, including the outcome of any research or investigation and any advice provided by the Commissioner;
- Make representations or recommendations to anybody or person about any matter concerning the rights and best interests of children and young persons;

- Conduct general reviews of advocacy, complaint, inspection and whistle blowing arrangements of relevant authorities;
- Review advocacy, complaint, inspection and whistle blowing arrangements of relevant authorities in individual cases;
- Provide assistance with complaints to relevant authorities;
- Conduct investigations of complaints against relevant authorities; and
- Bring, intervene in or assist in legal proceedings.

NICCY PROMOTING THE RIGHTS OF CHILDREN & YOUNG PEOPLE

Committee for the Office of the First Minister and Deputy First Minister

email: committee.ofmdfm@niassembly.gov.uk

21 November 2014

Dear Committee

Draft Budget 2015/16

Thank you for your letter dated 14 November 2014 requesting comment of our organisational priorities for 2015-'16 and our engagement with OFMDFM on the 2015-16 budget. NICCY will of course be making a more in depth response to the draft budget which is currently out for consultation however, I wish to submit these initial comments to the Committee as well as enclosing for your information copies of the letter and tables sent to Dr Mark Browne Finance/OFMDFM and copying in relevant others.

NICCY is approaching quarter 4 of its Annual Business Plan based on our new Corporate Plan 2014-17. While we believe we will deliver on the targets therein, it is inevitable with pending budget cuts, that the targets/outputs for the 2015-16 year will be adversely impacted. NICCY is currently developing the Business Plan 2015-16 for submission as required by 31 January 2015. Budget cuts will require staff exit/redundancies as you can see from the enclosed letter/tables which will require access to a VE/VR 'pot'. There are ongoing issues of concern, as I am sure with other ALBs, of the impact on staff morale, delivering on statutory duties and meeting corporate and business plan objectives. Planning for 10% and 15% cuts is obviously difficult given the number of 'unknowns' facing NICCY however, I would wish to bring the following to the Committee's attention at this stage.

Budget & Staffing Levels:
Budgets have already been reduced by approximately £500,000 over my period in Office. NICCY is a small organization with a current staff complement of 24.5. Staffing levels have gone down from 28 representing a 14% reduction.

While I appreciate the need for all public sector bodies including ALBs such as NICCY to bear a burden of these cuts, I have nonetheless requested that the issue of proportionality be taken under consideration i.e. the number of staff required to deliver on my statutory duties has to be at a level consistent with effective delivery, therefore a 'differential reduction' in % cuts would be necessary in our case.

Access to VE/VR* 'pot'
NICCY does not have/is not permitted to carry huge financial reserves therefore access to the 'public sector VE/VR* 'pot' to cover costs of these is essential. We await details of the Voluntary Exit Scheme via OFMDFM.

*Voluntary Exit / Voluntary Redundancy
There is an issue of timescales in relation to this i.e. if staff are 'carried forward' into next business year, NICCY will continue to incur costs which would be an added financial pressure and one difficult to sustain for any significant length of time.

Business Planning 2015-16:
Business planning for the next year is difficult in context of the current 'cuts environment' as we are planning without knowing the actual % cuts we have to implement and therefore the number of staff we will have in post to deliver on same.

Finance Minister – Draft Budget Speech
I note that in Simon Hamilton - Finance Minister's recent draft budget speech and associated tables outlining Departmental reductions, OFMDFM have a 0.6% reduction in their non ring-fenced DEL. The Finance Minister had also stated while 'the result of these various allocations and reductions is an overall cut in Resource DEL expenditure by departments ... it is 'considerably lower than the 15% that all departments ... had been planning for'. I would hope therefore that this provides our sponsor department - and indeed others whose work impacts on Children and Young People - with room for greater flexibility in setting our budget.

Work of my Office on Public Spending on Children & Young People
Earlier this year, I published a report commissioned from CES, exploring the process of allocating government budgets and considering how the funding allocated results in the delivery of services for children and young people. It proved very difficult to track expenditure for children down to tangible services, or outcomes, but the report made a number of recommendations on how this could be taken forward, include the establishment of a children's budget working group, to include government officials,
NICCY, academics and voluntary sector organisations. The aims of this group would be to:

- Consider the benefits and challenges of tracking expenditure on children and young people;
- Examine different ways of overcoming the barriers in the current system (taking account of resource implications); and
- Co-develop strategies for how to take the work forward.

NICCY is in the process of establishing this working group.

NICCY has also commissioned a third piece of work, in partnership with Atlantic Philanthropies, and with the support of the Delivering Social Change Programme Board. The researchers, from Dartington Social Research Unit, have been working with officials from each government department to identify and quantify spending on programmes for children, and to ascertain which of these are considered preventative programmes. The research is currently in the writing up phase and will be published early in 2015.

Considerations on the draft budget and spending on children

I am very aware of the challenges on the Executive to deliver high quality public services in the face of both increasing demand, and real term cuts to the Resource DEL grant. We recognise that tough decisions will be required, and that the budget should embody 'our hopes for the future'.

In reality it is difficult to determine how the proposed changes will impact on children, as the spending on programmes for children is not, by and large, identified in the figures.

Child Rights Perspective on Budgets

My Office has a particular focus on public spending on children, as this is one of the key ways of determining a government's priorities. Article 4 of the UN Convention on the Rights of the Child states that:

> 'States Parties shall undertake all appropriate legislative, administrative, and other measures for the implementation of the rights recognized in the present Convention. With regard to economic, social and cultural rights, States Parties shall undertake such measures to the maximum extent of their available resources and, where needed, within the framework of international co-operation.'

A 2009 working group paper by the UN Committee on the Rights of the Child has raised concern with how some States are understanding the phrase 'to the maximum extent of their available resources'.

> 'Some States have unfortunately understood progressive realization to mean that their obligations to implement economic, social and cultural rights are of a less urgent nature and can be postponed until a more economically prosperous time.'

The Committee has made it clear that, even under periods of recession, governments have the responsibility to continue to progressively realise children's rights.

'States parties must consequently demonstrate that they have undertaken all possible efforts to ensure the widest possible enjoyment of the relevant rights, even under "prevailing circumstances", while paying particular attention to the most disadvantaged and marginalized members or groups of society.'

Article 3 outlines the 'best interests' principle which is to be applied to Children as a Constituency as well as to individuals.

These are my initial comments on the draft budget for your attention though I will be as stated earlier, be making a more in depth response to the draft budget in the near future and am happy to speak further with the Committee if desired.

Yours sincerely

[redacted]

Patricia Lewsley-Mooney [redacted]
Commissioner

Committee for the Office of the First Minister and deputy First Minister

18th November 2014

<u>NI Community Relations Council (NICRC) – Draft Budget 2015/16</u>

NICRC has no information in relation to the overall OFMdFM 0.6% Resource DEL reduction. However in relation to the NICRC's own budget for 2015/16: on 27th October 2014, the Accounting Officer of OFMdFM issued a letter to all ALB Accounting Officers requesting assessments of the measures needed to be taken to accommodate potential Resource DEL baseline reductions of 10% and 15%. NICRC submitted its proposals after consideration at a meeting of the Finance and General Purposes Committee.

NICRC's priorities for 2015/16 have been set out in the organisation's Business Plan for 2015/16 which is strategically linked to the aims of *Together: Building a United Community.* The Business Plan has been submitted to OFMdFM in draft, has been approved by NICRC's Finance and General Purposes Committee and will be presented to the next Council meeting on 26th November 2014.

<u>Key Priorities of Together: Building a United Community:</u>

1. **Our children and young people***: to continue to improve attitudes amongst our young people and to build a community where they can play a full and active role in building good relations.*

2. **Our shared community***: to create a community where division does not restrict the life opportunities of individuals and where all areas are open and accessible to everyone.*

3. **Our safe community***: to create a community where everyone feels safe in moving around and where life choices are not inhibited by fears around safety.*

4. **Our cultural expression***: to create a community, which promotes mutual respect and understanding, is strengthened by its diversity and where cultural expression is celebrated and embraced.*

Supporting the priorities of Together: Building a United Community, the CRC Business Plan for 2015-16 will also focus on

1. **Working with the newly established District Councils**
2. **Measuring delivery in terms of outcomes**
3. **Public Service ethos – transparency, accountability, equality, efficiency (including managing ongoing financial pressures in 2015-16)**

NIJAC

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24 November 2014

Commitee.ofmdfm@niassembly.gov.uk

Dear Ms O'Hanlon

Draft Budget 2015/16

Apologies for the late reply, we were waiting until after the OFMDFM Draft Budget meeting this morning.

We understand the net effect across the Department to be greater than 0.6%. Our priorities for 2015-16 is to ensure judicial appointments are delivered in a timely manner; to select the best applicant for the position while ensuring those appointments are reflective of the community in Northern Ireland.

We will continue to work closely with our sonsor team in OFMDFM to identify efficiencies while ensuring value for money.

Yours sincerely,

[redacted]

Mandy Kilpatrick

Chief Executive and Accounting Officer

Dear Ms O'Hanlon,

Thank you for your letter of 14th November in which you asked for the Strategic Investment Board's (SIB's) comments on the draft OFMDFM budget.

Unfortunately, SIB is still working with the Department to assess the impact of the budget and to determine its bearing on SIB's priorities for 2015/16.

There are meetings next week that I expect will help clarify the position, after which I look forward to being able to provide the committee with a substantive response.

Yours sincerely,

Brett Hannam

Brett Hannam
Chief Executive
Strategic Investment Board Limited

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VICTIMS &
SURVIVORS
SERVICE

Kathy O'Hanlon
Clerk to the Committee
Committee for the Office of the First Minister and deputy First Minister
Room 285, Parliament Buildings
Ballymiscaw, Stormont
Belfast, BT4 3XX

1 December 2014

Dear Kathy

I am writing with reference to your letter of 14 November, in which you specifically request details of the Victims and Survivors Service (VSS) priorities for 2015-16 and the level of engagement between our organisation and OFMDFM with regard to the 2015-16 budget.

The following context may be useful:

The VSS is currently in the midst of a change management process. The policy framework and service delivery model is likely to change over the coming 6-18 months and will be dependent upon:

- The outcome of the current Commission for Victims and Survivors (CVS) research project being carried out by RSM McClure Watters. We expect CVS to release this report in December 2014;
- The outcome of a co-design process to establish future policy and delivery models. The VSS are currently pro-actively engaged in a collaborative process with OFMDFM and the CVS.
- The outcome of the follow up review recently carried out by CIPFA and WKM solutions on behalf of the CVS in relation to the implementation of recommendations. We expect the CVS to release this report in December 2014;
- Consultation with the sector on the above.

I have outlined below the budget assumptions and priorities for 2015-16 in addition to the level of engagement we have been having with OFMDFM.

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Millennium House
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Company No: NI611922

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VICTIMS & SURVIVORS SERVICE

1. Budget Assumptions

At this stage, no budget has been finalised for 2015-16. The information below is based on scenario planning of indicative allocations.

The VSS baseline requirement of **£13.3m** previously reported has not changed.

VSS assumes that in 2015-16 we will receive an initial allocation of £10.340m, plus an additional £3m per ministerial commitments.

VSS recognises the financial pressures across the Department and understands that the baseline budget will be reduced by 10% or 15% as follows:

- £10.340 – 10% + £3m = **£12.306m**
- £10.340 – 15% + £3m = **£11.789m**

2. Priorities for 2015-16

The list below summarises the VSS priorities for 2015-16. Meeting these priorities will be dependent on the final budget allocated for 2015-16 and the level of efficiencies required.

- **Victims Support Funding**
  - maintain existing budget and support services as 14/15
- **Individual Needs Programme**
  - maintain budget per business case for funding 13-15
- **Individual Needs Programme**
  - provide additional funding to new victims coming forward
- **Victims Support Funding**
  - provide additional funding for gaps in support services or regional gaps identified in CVS research project
- **Psychological Needs**
  - VSP workforce development, up-skilling and increased capacity of funded groups
- **Pilot projects per CVS research recommendations**
  - case worker approach and personalised budgets for individuals
- **Monitoring and Evaluation**
  - tools and IT system to inform future policy development
- **VSS Current Staffing levels (26 FTE)**
  - VSS minimal staff currently in place to meet legal and statutory duties

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VICTIMS & SURVIVORS SERVICE

3. Level of Engagement

There has been proactive engagement between OFMDFM and the VSS which has included:

- Direct communication with Mark Browne, the OFMDFM Principle Accounting Officer in relation to the VSS indicative budget requirements for 2015-16 and I have provided his office with a paper that details the information summarised above, including the potential impact of any reductions.

- A meeting of all ALBs hosted by OFMDFM in November 2014 regarding the budget reductions and their impact, attended by the VSS Finance and Governance Manager.

- Staff within the VSS continue to work proactively on a weekly basis with officials in the Victims Unit of OFMDFM and a Business Case for the year 2015-16 is currently in progress.

The VSS pressures are understood by OFMDFM and support has been provided in terms of staffing resource from September to November 2014 by our sponsor branch. We will continue to work with OFMDFM to maximise any budget available to us in 2015-16.

I trust that this letter has provided a satisfactory response to your queries at this point in time. I will be happy to provide an update when required. In the meantime, if you require any further information, please do not hesitate to contact me.

Yours sincerely

[redacted]

Margaret Bateson
Acting Chief Executive

Victims & Survivors Service
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COMMITTEE FOR THE OFFICE OF THE FIRST MINISTER AND DEPUTY FIRST MINISTER
Room 285
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FROM: Kathy O'Hanlon - Clerk to the Committee for the Office of the First Minister and Deputy First Minister

DATE: 11 December 2014

TO: Shane McAteer – Clerk to the Committee for Finance and Personnel

SUBJECT: Draft Budget 2015-16

The OFMDFM Committee submitted a response to the Committee for Finance and Personnel regarding the draft Budget 2015-16 which included a number of responses from Arm's-length Bodies falling under the remit of OFMDFM.

At its meeting of 10 December 2014 the Committee noted a further response submitted by Ilex and the Committee agreed to forward it to you for your information.

Regards

Kathy O'Hanlon
Committee Clerk

Enc

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20th November 2014

The Committee for the Office of the First Minister and deputy First Minister

Draft Budget 2015/16

I welcome the opportunity to update the Committee for OFMDFM on Ilex's priorities for 2015/16 and to outline the level of engagement with OFMDFM on the 2015/16 budget.

Ilex the Urban Regeneration Company for Derry~Londonderry is an Arms Length Body of OFMDFM, our objectives being:

1. The physical, economic and social regeneration of the 26 acre Ebrington site; and
2. The coordination and facilitation of One Plan implementation.

As with all public organisations, we acknowledge that we have to play our part in delivering efficiencies in this period of unprecedented pressures on the NI Block. We recognise that efficiencies will impact on the public service and that the reprioritisation of funding is required to deliver against the NI Executive priorities of growing a sustainable economy. This priority is embedded in Ilex's objective to develop Ebrington and bring jobs to the North West. It is also aligned to the mission of One Plan to grow a stronger and more vibrant economy.

In line with the Ebrington Development Framework, Ilex's priorities are to:

- Provide the necessary enabling infrastructure, to de-risk investment and create new opportunities to promote job creation and provide employment and so make a significant contribution to the underlying high levels of unemployment, youth unemployment and economic inactivity;
- Provide employment for a range of skill levels and occupational levels, ensuring benefits accrue to all communities and all levels in the workforce;
- Enhance the city as a destination for culture and creative industries, tourism and learning, and therein for other commercial uses;
- Develop Ebrington as a 16-hour place, providing mixed use geared to the maximisation of net Gross Value Added (GVA – income and jobs) in the city and ensuring that development opportunities are targeted in line with the One Plan;

- Create a distinct and competitive destination attractive to potential inward investors, with three signature development opportunities (completed development platform site at King Street, the Clock Tower, and a centrepiece opportunity within the new public realm);
- Become an established location for high value and knowledge uses on site to help boost the city's productivity levels in the long term;
- Accommodate a new or existing education and/or skills institution on site to help tackle the skills deficit in partnership with employers. This will require commitment from the private sector;

From an Ilex perspective, we welcome the creation of a NI Investment Fund, particularly the commitment to urban regeneration. Furthermore, the increased funding to the Financial Transactions Capital (FTC) is an initiative that we will seek to exploit with the private sector to contribute to the development of Ebrington.

We will continue to support the implementation of One Plan by providing research and economic intelligence to underpin strategic direction; provide economic modelling and analysis; and facilitate a range of strategic interventions including developing and project initiation of the NW STEM action plan; securing with partners the implementation of Ulster University's Stratified Medicine project and undertaking and providing the research and evidence base for the new Derry City and Strabane District Council Community Plan. However, the potential reduction in the draft budget to DEL could negatively impact on higher education expansion, in particular the One Plan target for expanding the University of Ulster in Derry~Londonderry and, as such, significantly hamper the region's economic performance and potential for sustained economic growth in the future.

Engagement with OFMDFM

We have and continue to have proactive discussions with OFMDFM on the impact the proposed reductions will have on Ilex's business activities. In early August 2014, OFMDFM outlined the potential for resource efficiency requirements. This was followed up with a memo on 27th October 2014, in which I was asked for planning purposes to consider a reduction in Ilex's resource baseline of 10 per cent and 15 per cent, and how this would impact on our ability to deliver public services. Furthermore, at our regular monthly meetings with OFMDFM officials at officer and senior level, the requirement and scenarios for efficiencies have been discussed along with the impact on services.

On 17th November 2014 following consideration and agreement by the Ilex Board, I submitted the Ilex proposal for a 10 per cent and 15 per cent reduction in budgets. Ilex's draft proposals include: not filling a number of vacancies, re-classification of expenditure, collaborative procurement and reductions to programme activity. Ultimately, these proposals seek to direct funds towards the maintenance of front line programme activity that will continue to support One Plan implementation and seek to ensure that the momentum already achieved in the regeneration of Ebrington continues. Ilex is delivering the Ebrington Development Framework which has the potential to support an additional 1,800 jobs and an additional Gross Value Added of £42m.

However, investing capital and bringing buildings back into use will be increasingly difficult against a reducing resource budget, so in line with other regeneration models, Ilex will seek to generate and retain commercial income to cover these emerging resource pressures.

A further meeting has been scheduled with OFMDFM on 24th November 2014 to discuss the implications of the proposals outlined above. As indicated previously, we acknowledge the pressures on the NI Block and are aware that we are required to make our contribution. We will seek to achieve this while continuing to develop the Ebrington site to its maximum potential, ensuring no business opportunities are missed and continuing to support the City in the co-ordinated implementation of the One Plan.

The City's Strategy Board responsible for overseeing the One Plan is formulating a response to the budget consultation and I will ensure that they copy their response to the OFMDFM Committee for completeness.

I am happy to provide any further information or clarification required by the OFMDFM Committee and extend an invitation for the Committee to witness the transformational change at Ebrington.

[redacted]

Mel Higgins
Chief Executive Officer
Ilex URC Ltd

Committee for Regional Development

To:	**Mr Daithi McKay MLA** **Chair to the Committee for Finance and Personnel**
From:	**Mr Trevor Clarke MLA** **Chair to the Committee for Regional Development**
Date:	**4 December 2014**
Subject:	**Draft Budget 2016 - 2016**

1. I refer to the above.

2. The Department for Regional Development launched its consultation on the draft budget on the afternoon of Thursday, 27th November 2014. The Committee for Regional Development received a briefing from the Permanent Secretary and senior officials at their meeting of 3rd December 2014. This has allowed the Committee a full three working days to scrutinise the draft budget which is wholly unacceptable.

3. The Committee were critical of the fact that the Minister chose to announce his draconian budget through the local press as opposed to giving due respect and courtesy to the House and to the Members of the Committee. This deliberate and callous attempt to seek sensationalist headlines has only exacerbated the real concerns of isolation and risk to their individual well-being being felt by the most vulnerable in our society.

4. Research indicates that the Net Current Expenditure baseline of £322.1 million represents a 4% reduction from the 2014 – 15 baselines, amounting to a real-term reduction of £22.5 million. However, the Department has extrapolated this to a reduction of £65.5 million (19%) by adding allocations it believes it should receive as part of the in-year monitoring rounds. This includes £9.5 million in respect of

concessionary fares and £20 million in respect of release of value from the Belfast Harbour Commissioners. In addition, a figure of £7.6 million of finding provided by the Executive to support its decision to freeze car parking charges as part of the Economy and Jobs Initiative is removed from the baseline; this is despite the fact that the functions relating to off-street car parking, including the ability to set tariffs, will transfer to local government on 1 April 2015.

5. With regards to capital investment, the Minister indicates that that the proposed capital allocation of £325.8 million for 2015- 2016 is some £72 million (18%) less than projected expenditure in 2014 2015. However, this does not tally with the figures contained in Table 1 of their draft budget, which indicates a reduction of £65.6 million (17%).

6. The draft budget (paragraphs 27 to 28 inclusive) lists, though does not prioritise, some of the capital investment projects that it will continue to support. These include:

    - NI Water to invest in water and sewerage infrastructure. The Northern Ireland Authority for Utility Regulation (NIAUR) has recommended £115 million in the PC15 Draft Determination. ***However, the Department has asked NI Water to plan to manage within its existing baseline of £99.2 million***.
    - the completion, ahead of schedule, work on major roads schemes on the A8 (Ballyclare to Larne) and the A2 at Greenisland. ***The Department has not indicated the amount required to complete these works or the amount that might be saved should the works complete ahead of schedule***.
    - work on dualling of the A26 between Glarryford and the A44 Drones Road, and on the A31 Magherafelt Bypass. ***Again, the Department has not indicated the level required.***
    - continue to support cycling as a sustainable travel alternative to the private car, promoting specific projects including those facilitating journeys to school. ***The majority of this requirement is classified as resource with some (small) capital investment. To date this has been accessed through the monitoring rounds***.
    - progress of Belfast Rapid Transit, although it may be necessary to manage delivery over a longer timeframe. ***The Department has not indicated the level of support or the impact of progressing this over a longer***

timeframe on the draft budget for 2015 – 2016 and the overall project cost.

- the commencement, subject to business case approval, of Phase 2 of the Coleraine / Londonderry rail line further enhancing rail services. ***This project is currently estimated to require £40 million, £22 million of which was ring-fenced for expenditure in the current financial year. The Minister has stated that he remains supportive of the scheme but has not apprised the Committee as to whether he will be in a position to negotiate end-year flexibility with regard to 2014 – 2015 allocation or where he intends raising the additional cost to the project***.

7. A figure of £133 million is required each year to maintain the roads network, the majority of which, with the approval of the Minister, is accessed through the monitoring rounds. The Department has proven to be very successful in achieving this target over the past few years. However, the Minister is now proposing a baseline of £45 million for maintenance, indicating that he will *"…be reliant on the Executive's in year monitoring process to secure tens of millions of pounds of additional funding necessary for essential structural maintenance"*.

8. Whilst the Committee recognises that the roads maintenance budget will be significantly constrained and this in turn will add to the substantial maintenance backlog, the Committee does not believe that the Minister's proposed approach to funding is practical, given the financial pressures facing the entire Northern Ireland block vote. The Committee remain very concerned that no contingency proposals have been considered and that the only alternative being proposed by the Minister and his officials is to attack the budget lines that will negatively impact on the most isolated and vulnerable citizens in Northern Ireland.

9. With regards to the reduction in the Northern Ireland Water allocation, the Committee has expressed grave concerns that the Department has not indicated what measures it currently has in place to ensure that water quality is maintained at a safe level. The Committee would also question why the Minister and his officials again have not undertaken any contingency planning but rather appear to be content to accept the risk of infraction proceedings, reductions in essential services and closure of some services.

10. The Committee continues to be supportive of the Executive decision to fund the concessionary fares scheme. The Committee also welcomes the fact that the Minister has required Translink to self-fund from its reserves. Members have consistently criticised Translink for carrying such large reserves whilst still receiving very significant subsidies from the public purse.

11. The Committee has, however, stated their concern that the Department is supportive of Translink "fuel hedging" with public funds and have queried the extent, if any, of savings this practice has achieved. Committee has also questioned if Translink have benefited from fuel rebates as a result of this practice.

12. Members have further been advised that the scale of reduction to Translink in 2015 – 2016 is estimated to be £15 million. The Department has not indicated how they have arrived at this figure. The Department has stated that, whilst some further efficiency savings can be made, a reduction of this scale would *"…inevitably lead to a combination of increased fares and reductions in, and the cessation of, some bus services"*.

13. Members asked for, and have received, an indicative list of towns and cities across Northern Ireland that have been identified as routes for either cessation or reduction of services. Invariably, the list focuses on the least profitable routes which correlate almost entirely with rural towns and routes and has provided Translink with the opportunity to "cherry-pick" profitable routes whilst discarding unviable but vital routes. This is concerning for a number of reasons:

    - The rural focus is potentially not complicit with Programme for Government commitments targeting rural poverty and social inclusion;
    - The Department will have discarded its social obligations with regards to the provision of public transport; and
    - The cessation or reduction of economically unviable routes can only result in additional profits for Translink as these routes would have been subsidised out of any profits they made.

14. Members are opposed to the intimidating tone of the Department's conclusions on the impact on public transport provision for 2015 – 2016 and fully endorse the continuing funding of reductions in Translink through their own substantial reserves and other commercial activities and assets.

15. The Minister's conclusions for savings in respect of roads services are very perplexing and worrying (paragraphs 46 to 53 inclusive). Transport NI has been asked to plan for a budget of £160 million for 2015 – 2016 representing a reduction of 16% (£30 million) against the current financial year's baseline. Again, the Department has not substantiated either the new baseline or the level of reduction. The Department aids a further £12 million that they have successfully been allocated in previous monitoring rounds, increasing the reduction to £42 million. Whenever inescapable costs (£84 million), staff costs (£64 million) and other costs are applied, a balance of £14 million remains. The annual cost of street lighting energy, inspection and testing and safety works alone is approximately £13m.

16. Rather than identifying innovative means of reducing these costs, the Department concludes that:

- Street lights would have to be disconnected;
- Bizarrely, repair of rural roads <u>only</u> would have to be withdrawn;
- All winter services would have to be stopped;
- Core services which business and citizens take for granted (these are not defined) would be withdrawn;
- The fuel duty rebate would be ended for all service providers; and
- Grants for rural and community transport and for transport for the disabled would reduce.

17. The Department's overall conclusions are that the budget reductions necessary as a result of the Executive's Draft Budget, which the Minister did not vote against, will:

- have a devastating impact on water and waste water service provision to both domestic and non-domestic customers;
- result in increased risk of fines from Europe and legal actions for failure to meet water and waste water standards;
- reduce the availability of transport services, roads maintenance and street lighting services, particularly in rural areas;
- require the withdrawal of all winter service provision on the road network;
- significantly reduce emergency response services, including flooding response services;
- affect public safety;
- expose the public purse to the risk of greatly increased public liability claims;

- create pressures for other Departments – particularly Justice and Health; and
- inevitably constrain economic development in Northern Ireland

18. The Department has provided no justification for any of these areas to be targeted for reductions or to support the conclusions above. They have provided no contingency plans or other options that would allow for proper debate and consultation. The Committee is opposed to any such attack on the most vulnerable in our society. The Committee is also opposed to the Minister consulting in such a sensationalised manner through the local press.

19. The Committee looks forward to receiving the Committee for Finance and Personnel report into the Executive Draft Budget 2015 – 2016.

[redacted]

Trevor Clarke MLA
Chair to the Committee for Regional Development

COMMITTEE FOR SOCIAL DEVELOPMENT
Room 284, Parliament Buildings, Stormont, Belfast BT4 3XX
Tel: 028 9052 1864

To: **Shane McAteer, Clerk to the Committee for Finance and Personnel**

From: **Kevin Pelan, Clerk to the Committee for Social Development**

Date: **5 December 2014**

Subject: **Budget 2015-16 Submission**

At its meeting on the 4 December 2014, the Committee for Social Development received a briefing from Department on the 2015/16 Departmental Budget Settlement.

The Committee agreed to forward the attached submission to the Committee for Finance and Personnel.

Dr Kevin Pelan

Ext 21864

Enc.

EXECUTIVE SUMMARY

RESPONSE OF THE COMMITTEE FOR SOCIAL DEVELOPMENT ON THE DEPARTMENT'S SPENDING AND SAVINGS PROPOSALS

Time constraints

1. Given the potential impact of the proposed spending cuts the Committee is concerned at the limited time it has been afforded to discuss these with the Department and emphases that it is within this time constraint that it offers its views on the Department's spending and saving proposals.

In light of this the Committee would recommend that the Department for Finance and Personnel, in conjunction with Departments, agree a sufficient period for statutory committees to engage in a comprehensive scrutiny process on future budgetary matters.

Spending and Savings Proposals

2. The Committee agrees with the Minister's four priorities which have guided where the reductions should be made in order to protect services as far as possible. The Committee welcomes the Department's view that the Social Fund and Supporting People budgets should be protected.

3. The Committee agrees that the Department's settlement does not reflect the contribution that the Department makes to the Programme for Government across a wide range of issues to tackle disadvantage. It also notes that the additional allocation of 2.3% (£15.1m) was the lowest provided to any department. Taking into account this along with the ring-fenced monies and contractual obligations the Department will have to reduce expenditure by 16%.

The Committee therefore calls on the DFP Minister to review the level of allocation to the Department to ensure that the Department can effectively tackle disadvantage.

4. The Committee notes that the Department, within the constraints of the budget, aims to provide an 'acceptable' level of service in discharging its statutory responsibilities. However, the Committee notes that the spending and saving plan provided by the Department advises that some services in SSA will be affected.

The Committee believes that a comprehensive impact assessment should be carried out to ascertain the full impact on service delivery across all areas affected by the cuts once the final budgetary position is agreed.

5. The Committee notes that the Department provides funding to other Departments and that it has indicated that it may have to withhold this funding. The Committee believes that the Department *should* withhold this funding until it has completed its assessment of the impact of the proposed cuts on its service provision.

The Committee believes that any funding that originates from DSD should be retained within DSD unless there is a clear impact for other Departments in tackling disadvantage.

6. The Committee acknowledges that all spending areas, other than those that are ring-fenced, have been assessed for potential savings and proposals made accordingly. However, the Committee believes that the Neighbourhood Renewal Programme and Ilex are key to help address social and economic inequalities which characterise the most deprived areas.

The Committee believes that a combination of an increased level of allocation (as noted above) and greater savings on administration costs should be provided to address the proposed cuts in these areas.

7. The Committee notes the substantial job losses within the Department and associated agencies. The Committee notes that the final figure for loss of staff *in-post* will only be determined following a final agreement on the spending plans.

The Committee believes that all other options for budget reduction should be considered in order to minimise job losses.

8. The Department aims to withdraw the £14m funding it provides for NIHE landlord services. The Committee heard that the NIHE could address this cut through improved efficiencies, reduced services or higher rents for NIHE tenants. The Committee understand that options are currently being considered by the NIHE.

The Committee will engage with the NIHE on any proposed action but it encourages the NIHE to minimise the impact of this cut on its tenants.

9. The Committee notes that a further £11m is required from the regional housing authority part of the NIHE. Again there is no information on how this

is to be achieved but the indications are that this may result in a reduction of over 100 posts.

10. The Committee notes that the NIHE has requested a voluntary release scheme for up to 300 staff as part of its ‘Journey to Excellence’ programme which will save around £11m, but it also recognises that this will not be sufficient to deal with the 400+ job losses expected.

The Committee recommends that the DFP Minister approve this bid and urges the NIHE to bring forward proposals on how it intends to deal with the proposed reduction in its regional housing section.

11. A key priority for the Committee is to ensure that a maximum number of social homes are built. The Committee accepts that the allocated funds of £95m for social houses is comparable to 14/15 but it also notes that due to increased land prices etc. this will only provide 1500 homes rather than the current target of 2000. The Committee is concerned that while the Department indicates that it will bid for additional resources in order to deliver this target, the money required may not be available in future monitoring rounds given the financial problems faced by the Executive.

The Committee urges the Department to consider innovative ways of obtaining funds to ensure the target for social home new build is reached and would refer the Department to the recent announcement by the UK government regarding assistance it received from the European Investment Bank to build social homes in Bicester and Barnet.

12. The Committee is supportive of co-ownership and recognises that the £10m allocated to this programme will support the construction industry and produce 330 new homes for purchase.

The Committee also welcomes and encourages the Department’s intention to explore whether Financial Transactions Capital could be used to finance this programme.

13. The Committee is encouraged that funding for disabled grants and action to address fuel poverty is maintained at broadly comparable levels with 14/15.

14. The Committee notes the housing-led regeneration initiatives under Building Successful Communities pilots are at the master planning stage and £3m has been allocated for necessary capital investment.

The Committee will engage with the Department to ascertain the progress made to date, what the £3m will be allocated for and what value-for-money assessment is planned for these pilots.

15. The Committee is concerned that capital expenditure is dependent, at least in part, on capital receipts, estimated at £97.1m. It is noted that should these receipts not be generated in 2015/16 then expenditure would have to be curtailed.

16. The Committee believes that, particularly in an era of austerity, all avenues of potential funding should be explored by the Department.

The Committee believes that the Department must allocate resources to establish potential sources of funding applicable to programmes within its remit, including all relevant sources of EU funding and work with other departments and stakeholders to maximise the drawdown of this funding.

SUBMISSION BY COMMITTEE FOR SOCIAL DEVELOPMENT
TO
COMMITTEE FOR FINANCE AND PERSONNEL

REPORT ON THE DEPARTMENT FOR SOCIAL DEVELOPMENT SPENDING AND SAVINGS PROPOSALS
(DRAFT BUDGET 2015-16)

1. Introduction

The Committee for Social Development received a briefing on the Department for Social Development's 2015-16 Budget Proposals at its meeting of 4 December 2014. When ring-fenced areas are excluded the proposed budget cut to be accommodated by the Department is estimated at around 16%.

The Committee's main concerns are the potential impact of cuts on frontline service delivery and capital projects but it notes that all business areas in DSD will be affected to a greater or lesser degree.

2. Time constraint

Given the potential impact of the proposed spending cuts the Committee is concerned at the limited time it has been afforded to discuss these with the Department. While it acknowledges there are external pressures to agree a budget, this has resulted in the Committee being unable to substantively engage with the Department or stakeholders in order to assess the legitimacy and potential impact of the proposed priorities, the estimated savings or the estimated reduction in posts.

The Committee would therefore emphasise that it is within this time constraint that it offers its views on the Department's spending and savings proposals.

In light of this the Committee would recommend that the Department for Finance and Personnel, in conjunction with Departments, agree a sufficient period for statutory committees to engage in a comprehensive scrutiny process on future budgetary matters.

3. Overview of Spending and Savings Proposals

- Revenue

The original Executive paper envisaged a 9.9% reduction in the Department's opening allocation of £654m which would have equated to approximately £65m.

However, this did not take account of the funding streams that are ring-fenced and therefore not part of the cuts. For example, £125m for Housing Benefit Rates is ring-fenced and therefore reduces the amount available for savings consideration to £529m. On this basis the actual reduction is 12.3%. But in addition to this there are recurrent pressures that are unfunded amounting to £14m. These relate to pay and price, and housing reform. When this is factored in the savings proposals are in the region of £79m – around 16%.

- Capital

The capital budget allocation is some £17m lower than 2014/15, totalling £119m representing a 12.5% reduction. In addition to this the capital budget will be supplemented with £97m of anticipated capital receipts. However, should the capital receipts be less than this, spending will have to be amended accordingly.

As with the revenue stream there are a number of ring-fenced funding initiatives and contractual obligations amounting to some £47m. This, in effect, reduces the amount available to around £157m.

- Allocation

The additional allocation of £15.1m (2.3%) was the lowest provided to any of the departments.

- Guiding Priorities

The Committee acknowledges that given the depth of spending cuts it was imperative that the Department prioritise where the reductions should be made rather than apply a top-slice approach to all areas.

The Social Fund and the Supporting People Programme are essential to protecting the most vulnerable in society and while it acknowledges that the Minister intends to protect these ‘as far as possible’, the Committee believes these should be protected from cuts in full.

It is imperative that the impact of the cuts on service delivery is minimised and to that end there is a commitment to provide an acceptable level of service in the discharging of statutory duties. However, at this stage it is unclear what the Department and its agencies will consider an ‘acceptable level of service’ within the context of the cuts.

The protection of frontline services should be sustained as far as possible and inevitably this means reducing management and administrative overheads.

The Committee believes that there is an onus on the Department to source alternative means of funding for services.

4. Specific Initiatives – Resource

- Social Security Agency (SSA)

The SSA is facing a 15% reduction in its budget for 2015/16. It is important to make clear that the proposed cuts to the SSA will not impact on the level of benefits paid to claimants.

15% equates to a £28m reduction in the budget of the SSA. This will have two key impacts. Firstly, it will lead to the reduction of up to 650 posts; and secondly, service delivery will be impacted in respect of increased claims clearance times and a reduction in financial accuracy rates. The latter may lead to increased rates of fraud and error and debt.

It should be noted that 300 additional posts would be required to take forward Welfare Reform, if implemented, which would mean the net loss would be 350 posts.

- Northern Ireland Housing Executive (NIHE)

The NIHE is also facing a 15% reduction in its budget for 2015/16 amounting to £24m. This will apply to both its regional housing and landlord divisions. The £14m subsidy to the landlord functions will be removed and it has yet to be determined how this cut will be addressed by the NIHE.

The regional authority part of the NIHE will therefore sustain cuts of £11m. This represents funding for around 100 posts.

In addition, it should also be noted that the NIHE has already bid for funding (c£11m) for a voluntary exit scheme as part of its 'Journey to Excellence' programme. This sits outside the proposed spending and savings plan but it would provide the early release of funding for up to 300 posts.

As with the SSA it is expected that customer service levels will be impacted and potentially result in delays in processing housing benefit claims. This could adversely impact on payments to customers and ultimately landlords. Application processes for grants may also take longer with consequent impacts on individuals and organisations e.g. housing associations.

- Child Maintenance Service (CMS)

The aim is to protect the CMS budget but it should be noted that the ongoing CMS reform programme is expected to lead to 9% savings which will be retained and deployed to cover the cost of the new system.

- Urban Regeneration

The key issue here for the Committee is the proposed reduction of up to £3m in the Neighbourhood Renewal Programme, which the Committee believes will have a significant impact on initiatives to address social and economic inequalities that characterise the most deprived areas.

Given the level of efficiencies required this will mean a reduction in the budget transferable to councils in respect of urban regeneration and community development.

The Committee notes that efficiencies will also be sought from the support currently given to volunteering and community-based organisations and that priority will be given to support the sustainability of the sector through, for example, support for Social Enterprises.

It is expected that there will a reduction of 145 posts as preparation proceeds for the transfer of functions by April 2016.

- Core Department

The core departmental cost is set to reduce by 8%. It is anticipated that around 75 posts will be lost.

4(i). Specific Initiatives – Capital

- Ring-fenced

The capital budget is approximately £216m. However, some initiatives have been ring-fenced, i.e. certain contractual arrangements, crisis loans, TBUC and Jobs and Benefits Office accommodation – in total £47m. This leaves £157m for other priorities (assuming capital receipts of £97m).

- Social housing

While the bulk of the £157m is targeted for social housing new build and land purchase, it is clear that it will only provide 1500 new starts in 2015/16 rather than the current target of 2000. The Committee recognises that the Department intends to bid for additional resources to meet the current target but it has concerns that these resources simply will not be available given the current financial position of the Executive.

- Co-ownership

The Committee acknowledges the benefits of the co-ownership programme including the economic benefits and therefore recognises the provision of £10m which will fund the provision of 330 homes.

The Committee would strongly encourage the Department's proposal to investigate the possible use of Financial Transactions Capital to supplement the funding of this programme into the future.

- Fuel Poverty/Disabled Adaptations

The Committee welcomes the maintenance of the budget for Affordable Warmth (£16.5m) and grants for disabled adaptations (£6m).

- Renovation grants

The Committee recognises that establishing priorities within the constraints of the current spending and savings plans means that the budget for renovation grants for privately owned dwellings will be reduced from £13m to £10m in 2015/16.

- Building Successful Communities pilots

This housing-led regeneration project is at the master-planning state and £3m has been allocated for capital investment in 2015/16.

- Vesting and other programmes

£1.9m for 2015/16

- Public realm projects (urban capital)

It is proposed to reduce spending on public realm projects from £33m in 2014/15 to £25m in 2015/16 (£13.5m obtained via monitoring rounds in 14/15 expected to offset potential impact of reduction).

5. Conclusions and Recommendations

(i). The Committee agrees with the Minister's four priorities which have guided where the savings should be made in order to protect services as far as possible. In particular, the Committee believes that the Social Fund and the Supporting People programmes play a central role in supporting the most vulnerable in society. The Committee therefore supports the Department's view that the Social Fund and Supporting People budgets should be protected.

(ii). The Committee agrees that the Department's settlement does not reflect the contribution that the Department makes to the Programme for Government across a wide range of issues to tackle disadvantage. It also notes that the additional allocation of 2.3% (£15.1m) was the lowest provided to any department. This is compounded by the fact that when ring-fenced monies and contractual obligations are taken into account the Department will have to reduce expenditure by 16%. **The Committee therefore calls on the DFP Minister to review the level of allocation to the Department to ensure that the Department can effectively tackle disadvantage.**

(iii). The Committee notes that the Department, within the constraints of the budget, aims to provide an 'acceptable' level of service in discharging its statutory responsibilities. However, the Committee notes that the spending and saving plan provided by the Department advises that some services in SSA will be affected. **The Committee believes that a comprehensive impact assessment should be carried out to ascertain the full impact on service delivery across all areas affected by the cuts once the final budgetary position is agreed.**

(iv). The Committee notes that the Department provides funding to other Departments and that it has indicated that it may have to withhold this funding. The Committee believes that the Department *should* withhold this funding until it has completed its assessment of the impact of the proposed cuts on its service provision. **The Committee believes that any funding that originates from DSD should be retained within DSD unless there is a clear impact for other Departments in tackling disadvantage.**

(v). The Committee acknowledges that all spending areas, other than those that are ring-fenced, have been assessed for potential savings and proposals made accordingly. However, the Committee believes that the Neighbourhood Renewal Programme and Ilex are key to help address social and economic inequalities which characterise the most deprived areas. **The Committee believes that a combination of an increased level of allocation (as noted above) and greater savings on administration costs should be provided to address the proposed cuts in these areas**.

(vi). The Committee notes the substantial job losses within the Department and associated agencies. The Committee notes that the final figure for loss of staff *in-post* will only be determined following a final agreement on the spending plans. **The Committee believes that all other options for budget reduction should be considered in order to minimise job losses**.

(vii). The Department aims to withdraw the £14m funding it provides for NIHE landlord services. The Committee heard that the NIHE could address this cut through improved efficiencies, reduced services or higher rents for NIHE tenants. The Committee understand that options are currently being considered by the NIHE. **The Committee will engage with the NIHE on any proposed action but it encourages the NIHE to minimise the impact of this cut on its tenants.**

(viii). The Committee notes that a further £11m is required from the regional housing authority part of the NIHE. Again there is no information on how this is to be achieved but the indications are that this may result in a reduction of over 100 posts.

(ix). The Committee notes that the NIHE has requested a voluntary release scheme for up to 300 staff which will save around £11m. **The Committee recommends that the DFP Minister approve this bid**, but it also recognises that this will not be sufficient to deal with the 400+ job losses expected. **The Committee urges the NIHE to bring forward proposals on how it intends to deal with the proposed reduction in its regional housing section**.

(xi). A key priority for the Committee is to ensure that a maximum number of social homes are built. The Committee accepts that the allocated funds of £95m for social houses is comparable to 14/15 but it also notes that due to increased land prices etc. this will only provide 1500 homes rather than the current target of 2000. The Committee is concerned that while the Department indicates that it will bid for additional resources in order to deliver this target, the money required may not be available in future monitoring rounds given the financial problems faced by the Executive. **The Committee urges the Department to consider innovative ways of obtaining funds to ensure the target for social home new build is reached and would refer the Department to the recent announcement by the UK government regarding assistance it received from the European Investment Bank to build social homes in Bicester and Barnet.**

(xii). The Committee is supportive of co-ownership and recognises that the £10m allocated to this programme will support the construction industry and produce 330 new homes for purchase. **The Committee also welcomes and encourages the Department's intention to explore whether Financial Transactions Capital could be used to finance this programme.**

(xiii). The Committee is encouraged that funding for disabled adaptations and action to address fuel poverty is maintained at broadly comparable levels with 14/15.

(xiv). The Committee notes the housing-led regeneration initiatives under Building Successful Communities pilots are at the master planning stage and £3m has been allocated for necessary capital investment. **The Committee will engage with the Department to ascertain the progress made to date, what the £3m will be allocated for and what value-for-money assessment is planned for these pilots.**

(xv). The Committee is concerned that capital expenditure is dependent, at least in part, on capital receipts, estimated at £97.1m. It is noted that should these receipts not be generated in 2015/16 then expenditure would have to be curtailed.

(xvi). The Committee believes that, particularly in an era of austerity, all avenues of potential funding should be explored by the Department. **The Committee believes that the Department must allocate resources to establish potential sources of funding applicable to programmes within its remit, including all relevant sources of EU funding and work with other departments and stakeholders to maximise the drawdown of this funding.**

Appendix 2

Stakeholder Responses

CBI THE VOICE OF BUSINESS NORTHERN IRELAND

NI 09 14

CBI Northern Ireland response to the Finance and Personnel Committee's consideration of the draft Northern Ireland Executive Budget 2015-16

Introduction

The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

The CBI welcomes the opportunity to respond to the Finance and Personnel Committee's consideration of the draft Northern Ireland Executive Budget 2015-16.

Please note that these are preliminary views which are currently subject to extensive consultation with CBI membership – we will be pleased to forward final submission to the Committee as soon as it is complete (in mid-December).

Summary points

- The agreement on the draft Budget is welcome but, emerging from it are a need to revisit many of our age-old systemic problems
- The draft Budget, as currently constituted, details a number of key spending areas which, from the point of view of the economy, require urgent reassessment to both protect the economic achievements that have been made by the Executive to date and to future-proof our chances of making sure the economic recovery is embedded, sustainable and long-lasting – it is essential that the NI Executive develop a clearer vision and strategic focus on the medium/longer term to ensure that decisions in the coming months will support and help achieve the agreed goals
- With a fiscal deficit of £9.6bn, Northern Ireland's economic and tax base isn't strong enough to stand on its own. But the additional reality is that it is now time for the Executive to collaboratively address the need for long-term sustainable planning of our public finances post this Budget – with fiscal constraints expected to continue for the rest of the decade
- We do not believe the NI Executive's commitment to protecting 'super-parity issues' is sustainable as it is putting additional pressures on public finances and will lead to a deterioration in service provision – we do believe these issues need revisited, and in a manner which protects the most vulnerable
- It is vital that services/programmes that support productivity growth (largely investment, innovation and skills) and job creation are protected – it is only through productivity growth that high living standards can be achieved in the medium/longer term. We believe some modifications to the draft Budget are necessary to support the development of a high value economy (reflected in higher wages), particularly in the FE and HE sectors which have a critical impact on education and skills
- The consultation document recognises that constraints on public expenditure will continue for the rest of this decade. It is essential that the opportunity is taken now to strategically reform public services*, in a manner which best protects services and focuses on improving outcomes. This will require:
    - Strong political commitment to reforming public services

  - Ensuring the right leadership and talent is available to deliver the changes required (and open to bringing in external expertise/experience)
  - Immediate and visible action to reduce costs
  - High level commitment to re-engineering service delivery with the introduction of new service delivery models
  - Greater efficiencies across all public bodies
  - Cost savings focused at reducing bureaucracy, waste, duplication etc and not service provision – there is a real risk that Departments will not do enough to cut internally and that costs, in areas such as procurement, will be passed on to the private and third sectors (even though these providers are delivering services more cost effectively)
- With the health budget now absorbing almost 47% of the total Revenue Budget (and expected to increase) there must be even stronger political leadership and commitment (across all parties) to delivering radical change and re-engineering to achieve substantive productivity improvements
- To put the public finances on a sustainable platform, and to ensure sustainable growth in the economy, and the creation of more, higher value-added jobs, the Executive needs to secure additional revenues in order to ensure the necessary investment in people, but done in a matter which protects the most vulnerable. This includes:
  - **Increasing student fees** to at least £6000, and possibly £6500 – though there are arguments that the universities should be free to set their own cap
  - **Re-Introducing prescription charges** (to raise around £30m) – this still leaves over 90% of prescriptions free, including to all vulnerable people. This is a political choice - but £30m could be used to complete around 15,000 operations and make a significant reduction in waiting lists
  - **The introduction of an 'investment levy' in the regional domestic rates**. Low domestic rates and no separate domestic water charging are now creating excessive pressures. The cap on regional rates for the domestic sector needs to be reviewed, and an increase in the regional rate by way of an 'investment levy' is now warranted
  - **Social housing rents** will need to increase to more sustainable levels, particularly as around 80% of rents are paid through Housing Benefit (and hence come from HM Treasury) – a 10% increase would provide around £30m in additional revenues to help offset budgetary pressures and enable continued investment/maintenance of the housing stock
  - Reconsideration of the scope and extent of the **Concessionary Fares Scheme**, which is increasing annually
- A much more aggressive and ambitious approach to asset sales is required, particularly to ensure that the full value of the £100m Treasury loan is paid back from asset sales, rather than a reduction in capital expenditure in 2015/16 – we believe this is feasible with a recovering property market
- Invest NI are achieving and significantly exceeding the targets set for them. With the promotion of over 10,800 jobs in the six months of this financial year to date, they have already exceeded the record year of achievement for the agency in 2013/14 and this is down to the collective will and leadership that stems from the First and Deputy First Ministers, to the Enterprise Minister and to the leadership team at Invest itself. However, as a consequence of the draft Budget outcome, the sustainability of this growth is now under challenge (with a risk of cuts to various support programmes) while there must also be a wider recognition that the jobs pipeline is weaker going forward
- A major criticism we continue to have of the Executive and this draft Budget outcome is the lack of a cross-cutting approach when it comes to setting Departmental budgets. While a clear, long-term pipeline of high value jobs secured by agencies like Invest NI is hugely welcome, it is just as important that our local talent pool can meet the ambition of our local companies and foreign direct investors as they look to grow their businesses on these

shores. The draft allocations to our higher and further education sectors stand as a clear obstacle to seeing that happen

- As a key driver of our knowledge economy both now and well into the future it is unacceptable that our Higher Education institutions are facing cuts of around 11% that will mean there are 1,100 fewer undergraduate places available at the universities next year and beyond, as well the additional impact on the offerings of postgraduate study. This draft Budget outcome, when set in those stark terms, is, frankly, nonsensical
- The quality of our universities and the steady stream of high quality graduates they produce is one of the key enablers of our attractiveness to foreign direct investors as a place to do business and invest in. This draft budget will only further increase the number of young people leaving Northern Ireland to study elsewhere, primarily Great Britain, and, while no-one should stand in the way of a young person's desire to travel and explore new opportunities, there comes a major and proven risk that many, once graduated, will choose not to return – at least 60% based on current experience. Higher education, which has already delivered an 18% efficiency saving in the last four years, now needs investment. The climate of disinvestment that currently exists is unquestionably counterproductive
- The budget reductions proposed put many of the significant achievements of Further Education since the FE Means Business strategy was published in 2006 at risk – the restructuring of FE has been a major success story. With around 90-95% of its income coming from the public purse, and no realistic way to address reducing this level of direct funding, it is incumbent that the Executive considers the wider impact of the cuts on our six further education colleges
- The draft allocations to DETI/Invest NI, higher and further education must be reviewed and revised in the context of the need to sustain and embed sustainable economic growth and support the transition to a higher value-added, and higher skilled, economy. We accept that efficiencies can and must be made, but the scale and timeframe of the proposed cuts are potentially hugely damaging to our economic prospects
- Capital investment in our infrastructure must remain a priority, In the context of the construction multiplier effect and its direct economic benefits – for every £1 invested there is a direct economic return of £2.84 - we have long held the view that it is crucial that we seek to maximize, where feasible, investment in infrastructure spending
- Greater centralisation of the procurement and delivery of infrastructure projects must be: expedited given the challenges of allocating Financial Transactions Capital to date, and its projected rise and; the need to have central control and delegated authority over the proposed Investment Fund, its projects, timelines and financing.

CBI Northern Ireland
November 2014

*The potential for public services reform was set out in a major CBI Northern Ireland report '*Time for Action – delivering public services in a time of austerity'* published in autumn 2010 – this report was submitted to the Committee in September 2010.

Northern Ireland Policy Unit

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Mr Shane McAteer
Clerk of the Committee for Finance and Personnel
NI Assembly
Room 144
Stormont
Parliament Buildings
BT4 3XX

28 November 2014

Dear Mr McAteer,

Re: Draft Budget 2015-16

The Federation of Small Businesses is Northern Ireland's largest business organisation with around 7,000 members from across all sectors of industry, and over 200,000 members throughout the UK.

It exists to protect and promote the interests of the self-employed and all those who run their own business and we lobby decision-makers to create a better business environment for them.

We welcome the opportunity to outline our considerations on the draft Budget for 2015-16 and I trust you find our comments helpful.

Yours Sincerely,

[redacted]

Wilfred Mitchell OBE
Northern Ireland Policy Chairman

FSB response to the Finance and Personnel Committee on the draft Budget 2015-16

Introduction

The FSB welcomes the publication of the Draft Budget and we recognise the financial constraints under which the Executive are operating.

Despite this difficult financial environment, the voice of small business must be taken into account as decisions on the final year budget of this Assembly mandate are made over the coming weeks.

In short, the FSB wants to see a pro-enterprise budget, cognisant of the value of small business, which contributes to rebalancing the Northern Ireland economy through private sector growth.

A summary of our key considerations and recommendations are set out below[1].

Business Rates

The FSB strongly welcomes that the Draft Budget is predicated upon the continuation of a Small Business Rates Relief scheme offering £20m of support to small businesses.

Non Domestic Rates are one of the highest cost elements for FSB members and it is widely accepted that they impact disproportionately on small businesses. It is essential that a mechanism is in place to give relief to small businesses, who make up the vast majority of the Northern Ireland economy.

It is also pleasing for businesses that the Non Domestic Regional Rate will, once again, only increase in line with inflation. This recognises that the business community is still facing challenging economic times.

Manufacturing rates continuing to apply at a level of 30 per cent liability as well as £15m to mitigate the worst impacts of rates convergence due to local government reform are also positive policies.

It is absolutely critical that all of the above measures are included in the Final Budget and the FSB look forward to the planned review of Non Domestic Rates next year where we will be calling for fundamental reform in this area.

[1] The FSB also submitted priorities to the DFP Minister in advance of the Draft Budget; available on our website (www.fsb.org.uk/ni)

Skills

The 10.8% cut to the Department of Employment and Learning (DEL) budget proposed in the Draft Budget is a substantial reduction.

We note with concern the responses from the University of Ulster and Queens University that they will take in 1,100 less students next year as a direct result. The effect on the six further education colleges has also been outlined by Colleges NI including an inability to continue to teach 90,000 students each year as well as significant job losses. This is despite a £15m allocation to support the Further Education sector within the Draft Budget.

DEL also provides a number of key interventions such as the Assured Skills Programme and the Youth Employment Scheme which need to be maintained. Funding of the new Apprenticeships Strategy is also a central consideration including incentives for employers as is resourcing the Labour Relations Agency.

The FSB would express significant concern as to whether DEL can deliver on the above within its Draft Budget allocation and meet its Departmental responsibilities by investing sufficiently in skills to match the needs of the economy.

Job Creation

The Draft Budget provides the Department of Enterprise, Trade and Investment (DETI) with an additional £37.7m. However, this is mainly to cover commitments already made by Invest NI. Aside from that allocation, DETI is actually facing a cut to its baseline of 15.1%, equating to £27.9m.

Invest NI have outlined that the draft settlement at present gives them a budget of £96m next year. At this level, their budget will be 93% committed at the start of the year, meaning that they only have very small levels of funding available for new business in-year. This is likely to impact most prominently on the support which they provide to small businesses.

In light of the above, the FSB is concerned about the potential slow down in job creation; particularly given the absence of formal Programme for Government job targets into 2015/16. We would also state our strong opposition to any deterioration in support offered by Invest NI for local SMEs as a result of this draft Budget.

Capital Expenditure

Capital Expenditure on infrastructure projects is a key driver of the economy and small businesses benefit directly as a result and also as contractors and suppliers.

For those reasons, the FSB welcomes the major projects set out in the Ministerial Budget Statement as well as the announcement of a Northern Ireland Investment Fund (NIIF) with the intention of generating a further £1bn investment in local infrastructure.

The NIIF could utilise Financial Transactions Capital (FTC) funding as well as leverage finance from the European Investment Bank; both options which the FSB has called for the Executive to maximise for the benefit of the economy.

Given that it is anticipated that FTC will form an increasing proportion of the Executive's capital budget going forward, it is vital that Departments come to terms with this source as a means of financing capital investment as opposed to conventional capital and embrace the benefits. It is unthinkable that FTC would be handed back to the Treasury under any circumstances.

We look forward to the completion of the feasibility study into the NIIF which could prove to be an imaginative solution in this area.

Reforming Government

The Minister of Finance and Personnel has made public sector reform a central part of his agenda since taking office.

The FSB supports the continuation of this approach within the Draft Budget through the Change Fund and workforce restructuring plan as a means of promoting innovation, creating efficiencies and rebalancing the economy.

Further Devolution

The FSB remains convinced that the devolution of Corporation Tax and subsequent lowering of the rate has the potential to have a transformative effect on the local economy through increased Foreign Direct Investment and job creation.

This must be factored into all future budgets should a positive decision be made. Issues to be considered aside from the reduction to the block grant include the changing role of Invest NI and the suite of measures needed to augment a low Corporation Tax rate.

Work is also underway within the Northern Ireland Centre for Economy Policy (NICEP) to establish the case for devolution of short haul Air Passenger Duty and setting the rate to zero. The FSB is aware of the potential benefits, particularly for increasing inward investment, facilitating exports and boosting the tourism industry. The finalised research must be taken into account within further budgetary decision making.

Welfare Reform

The Finance Minister has set out previously that continued lack of agreement on implementation of outstanding aspects of welfare reform will result in penalties of £87 million this year and £114 million next year leading to further consequences for Government spending.

Whilst this is an issue presumably being dealt with in the context of the current inter-party talks, it is not fully addressed in the Draft Budget (aside from the £70m 'mitigation package'). This will undoubtedly result in substantial financial pressures within the 2015/16 budget if unresolved.

Items requiring clarification

The FSB notes that the Draft Budget allocates £133m to cover public sector pension scheme revaluations; however, this is an estimated level.

It is also assumed that the £100m loan will be repaid to the National Reserve from the sale of Capital assets to Resource and a further £100m will be provided through Reinvestment and Reform Initiative (RRI) borrowing for workforce restructuring. The technicalities of these allocations are both still subject to Treasury approval.

All of the above require clarification within the final budget.

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions
Northern Ireland Committee

28 November 2015

DFP Committee Briefing Note

Re: Budget 2015-16

The Northern Ireland Committee of the Irish Congress of Trade Unions is grateful to the Finance and Personnel Committee for the invitation to provide a briefing note on our considerations on the Draft Budget 2015-16.

Cut by cut across department by department: the reduction in public services is manifesting itself in a hundred different ways –all of which diminishes our society.

Relatively small amounts are being dis-invested – respite care for MS sufferers, orchestral music in schools, street lights and salted roads, supply teachers – each day brings another cut, another reduction from the menu of choices and another leg from the structures which support the needy.

We shrink as a society with each slicing; we matter less to each other. We become leaner and meaner. Austerity coarsens and worsens us.

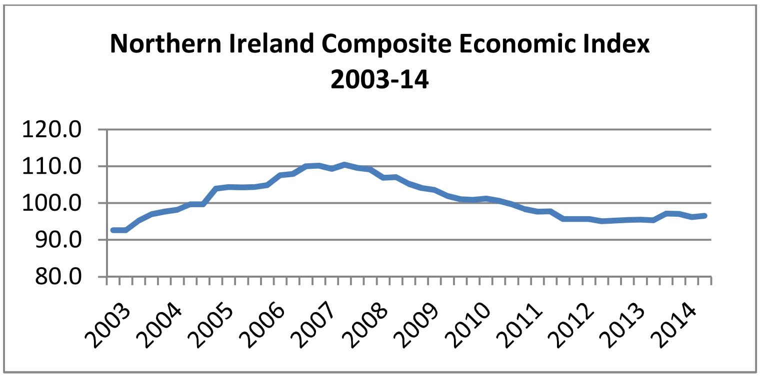
Society is different from community. It is not limited to a specific group of people. Society is bigger, stronger despite and because it is mutually dependent. Society consists of individuals and families interacting with each other in everything they do.

Society is the balance of rights and responsibilities, where the market and the state support each other and each is diminished when one is reduced.

Society is not a zero-sum game. However, these cuts and this ideology of austerity act as if it is.

Society in Northern Ireland is a fragile object, and we experiment at our peril.

The Northern Ireland economy experienced a sharp downturn in output during the recession and despite recent UK trends the Northern Ireland Composite Economic Index remains over 12% below its pre-crisis peak.



Northern Ireland has similar social problems and economic realities as other 'post-industrial' parts of the United Kingdom. It has the persistent poverty and deprivation statistics as south Wales, or the north-east of England, or even certain boroughs of London.

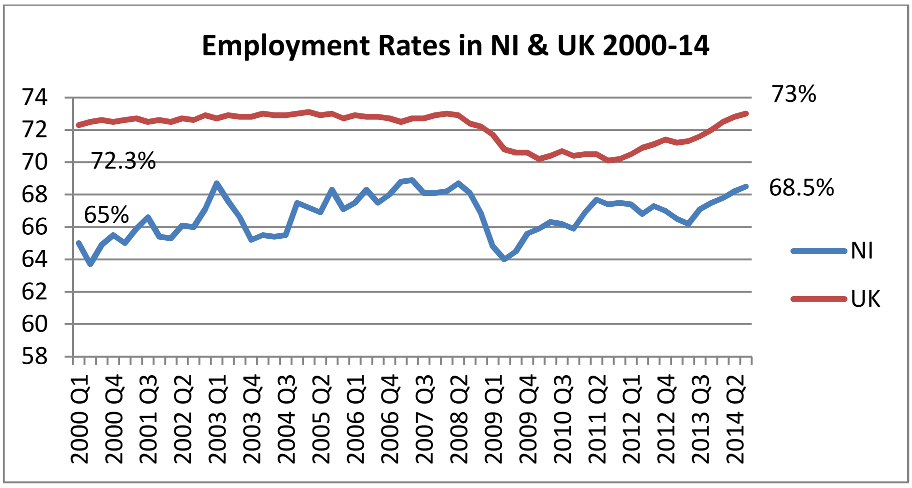
However, Northern Ireland has something else. We can be discreet about it and refer to it as 'the elephant in the room', or be more explicit and call it the 'cancer of sectarianism'. We can say that we are a 'post-conflict society', or that we are 'a society coming out of conflict' and have yet to reach that state of 'post'-ness.

Whatever you call it, it has a cost. Let's call it the 'Troubles Premium'. It means additional spending that is simply not avoidable. It is non-discretionary spending like depreciation of assets or interest on loans or payments to bondholders.

We have identified six areas of state spending which are affected by this Troubles Premium. They will cost more money than other parts of the UK, there is no alternative to state spending (i.e. there is no market solution) and they cannot be ignored, as the potential for any disruption is not predictable, as the flags protests have demonstrated.

The six areas affected by the Troubles Premium are:

Poverty – *persistent, intergenerational, linked to victims and perpetrators of violence.*



Despite improvements in the mid 2000's Northern Ireland still has an employment rate 4.5% below the UK average

Investment – *afflicted by 'Troubles' narrative – a perception reinforced by reality.* As the former US envoy Dr Haass made clear, "Northern Ireland is competing with every other square inch on the planet to attract investment". When four letter-bombs were intercepted in October 2013, he warned that "this is the sort of thing that honestly scares it [investment] off. It sends a bad message and hurts all the people in Northern Ireland. Nobody benefits."

Security – *more police, expensive prisons, peace walls, empowered 'defenders'.*

"HM Inspector of Constabulary recognised however that policing in Northern Ireland faces unique challenges – not least because over one-third (34 per cent) of the budget is given over to dealing with the security situation. If the analysis is based on officer time that proportion goes up: a Freedom of Information request revealed that 43 per cent of officer payroll expenditure was dedicated to security duties." (Nolan 2014, p44)

Sectarianism – *duplication of services, barriers to 'others', empowered 'enforcers'.* NI has developed, deserved or not, a reputation for racism that fits with the existing narrative of sectarianism. Any progress on establishing coherent strategies are slow and grudging.

Sectarianism impacts on the security situation, on investment, on tourism, on the education system and, one could argue, the emotional and mental well-being of the people. If we don't try to make things better they will become worse. Nothing in this budget process will improve matters.

Education – *segregation at age 4 by faith & by class at 1; 'brain drain' of graduates & de-skilled older population. Elite in denial over 'world-class' status. 80% of Protestant Boys on FSM are leaving without usable qualifications.*

Mental health – *10% of the population, with enormous concentrations in areas close to 'peace lines'.* Almost half of the working age population in receipt of incapacity benefit have been diagnosed with mental and behavioural disorders.

Connected with much of the above is Welfare Reform. Congress notes the concerns raised by Senator Gary Hart. We reiterate our opposition to the Welfare Reform Bill.

This is a deeply unsettled society. The cuts planned for 2015-16 and the threatened regime of austerity for the rest of the decade will, if enforced, seriously undermine the remaining pillars which support that society.

When asked its opinion on austerity by pollsters, society expresses its opposition. Can we expect the same from the elected representatives of that society?

Again, I repeat my gratitude to the Committee.

Sincerely

Peter Bunting

Assistant General Secretary ICTU

NICVA

Interim Response to 2015/16 Draft Budget

Finance and Personnel Committee.

1 Introduction

This paper provides the DFP Committee with NICVA's interim response to the Draft Budget 2015/16. A full response will be submitted following consultation with our members on 8 December. It is difficult to make specific comments as the document only outlines the broad allocations to Departments and it is not yet clear which public services will be affected. In lieu of the detail we set out some key issues and concerns.

It is NICVA's general view that a radical approach to the current public expenditure crisis is required if the Northern Ireland is to deliver the best public services for our people. Recurrent cutting across the board with produce despair and failing public services in health, education, the environment, social security and the economy and all other areas. It's time to look for change and meet the challenges with new innovative responses.

2 Context

In setting the context to the reduction in Northern Ireland's block grant, the Budget document cites the poor state of the public finances in the aftermath of the global economic crisis, and the UK government's plan to reduce the deficit. It is important to add that those with the lowest incomes, who are most vulnerable during recessions, have also borne the brunt of the government's deficit reduction plans.[1] From NICVA's perspective, the Northern Ireland Executive's 2015-16 Budget should ensure that the most disadvantaged do not experience further hardship.

3 Savings Delivery Plans

We understand that Departments will set out the detail of their budget reductions in Savings Delivery Plans. These Plans should be clear and transparent about what services will be cut, what impacts that will have, and the rationale for those decisions. In our view, cuts should be made on the basis of the value and impact of spending. We therefore oppose the 'top slicing' of budgets, as it takes no account of the value of different spending programmes. Top slicing of budgets rewards inefficiently and punishes lean organisations focused on service delivery. We know from our State of the Sector research that voluntary and community organisations spend 87.3% of their income on their charitable activities. This means cuts have a very real impact on services and jobs.

4 The Voluntary and Community Sector

Many VCS organisations deliver public services and as such may be directly affected by budget cuts. As set out above, the important thing from NICVA's perspective is that the rationale and evidence base for making reductions are reasonable and transparent. The VCS should not be offered unconditional protection but neither should it be targeted arbitrarily. We are concerned that the VCS will be regarded as the 'easy option' and will be first in line for cuts. Notably, recent reductions to DCAL's budget were passed on to the arts sector, cuts to the Justice department's budget were

[1] P.De Agostini, J Hills and H Sutherland (2014) Were we really all in it together? The Distributional Effects of the UK Coalition government's tax-benefit policy changes.

passed on in-year to voluntary and community organisations. And at a recent Employment and Learning Committee meeting DEL officials confirmed that the department planned to use the European Social Fund to mitigate against budget cuts and cover some work currently under taken by the block grant and this “would remove money that would otherwise go out to the community and voluntary sector.” ESF money is used for training and support to people furthest from the labour market e.g. loan parents, people with disabilities or learning difficulties and people with literacy and numeracy problems. The fund is designed to improve their prospects, move to mainstream training and education and live independent lives in work. Voluntary and community organisations are leaders in this field and have built up considerable expertise in working with these client groups. The programmes tend to be highly personalised to services user’s needs, extremely flexible to cope with complex lives of services users and with a high level of user input.

In this context it is important that the role and value of the VCS is understood. Though often seen as providing optional or ‘add on’ services the VCS tends to work directly with more disadvantaged people and is often at the coal face of severe social and economic problems. An important point in terms of the public finances is that cuts in to the VCS will very easily lead to perverse outcomes, creating further pressure on the public finances. For example reducing funding for a VCS organisation which works on mental health and drug addiction will simply lead to more people with complex needs relying on more expensive public health services such as A&E; or cutting an employability programme operated by a VCS group may mean those people transferring to a government-run employability programme.

Another example is Belfast Central Mission’s *Housing Support for Older People* service enables vulnerable older people to continue to live independently in their own homes by providing a range of support services in areas such as: benefits, budgeting and banking; home security cleaning; personal appearance/hygiene and shopping, food preparation and healthy eating. BCM provides a handyperson service which can help with the upkeep of older people’s properties. The service costs approximately £40 per service user per week compared to £476 for residential care and £656 for nursing care.[2] Postponing entry into residential care by just one year through adapting people’s homes saves £24,752 per person. Housing adaptations reduce the need for daily visits and reduce or remove costs of homecare savings range from £1,200 to £29,000 per year. Top slicing or stopping funding for programmes like these would be counter-productive as it leads to a relentless march on scarce public resources. Quite simply “doing less with less” and increasing public service failure.

It is also worth noting that the added value of the VCS is its closeness to and affinity with those communities. This often makes it more effective in dealing quickly with social and economic problems locally as they emerge in crisis. The relationship between the VCS and the communities it works with has been built up over many years. Cuts to VCS groups could lead to a loss of experience, expertise and skills which cannot be easily replaced by the public sector.

For example the 20% of participants on the government training scheme *Skills for Life* progressed to the next stage of Training for Success, into colleges or into immediate or sustained employment. 27% were left with no qualifications whatsoever. In comparison the Start360 GRIT Rey programme which is specially tailored to meet the needs of young people and is delivered by experts in personal

[2] Source: Laing & Buisson Care of Older People, UK Market Report 2013/14.

and educational development has a re-engagement and client progression rate of 100% and the GRIT Plus programme has a progression rate of 90.5%. Start360's *Switch Onto Employment* programme has 93% National Qualification Attainment rate and 57% of its participants gain an essential skills qualification.

5 Public Sector Reform and Change Fund.

While there is always a need to review and reform public services, it is important that reform is genuinely about improving processes and outcomes, rather than managing with fewer resources. NICVA is concerned for example that public procurement exercises are increasingly emphasising cost rather than quality.

One of the ways of improving the sustainability of public services without compromise their quality is by investing in preventative programmes - those that stop social problems from occurring or worsening, lessening the need for later more expensive reactive measures.

NICVA joined with PwC and others in our critique of the 2011-15 Draft Budget by commenting that any mention of preventative spending was absent from that document, choosing instead to focus on short-term savings that ignore persistent and recurring problems requiring a large amount of financial resources to solve. An approach that they determined necessary was one that made use of cross-departmental working and used pre-emptive spending to address major social issues.

Therefore it is welcome that the Draft Budget 2015/16 allocates £30m for such projects in the form of the Change Fund. Setting aside money for this purpose can be useful, as the fact that the benefits are gained over the longer-term (and often by multiple government agencies) means that there is a tendency for preventative measures to be underfunded, particularly with a one-year budget. We would encourage budget holders to work with VCS organisations to prepare bids for the Change Fund.

6 Devolution

Although the Northern Ireland Executive is setting out a one year budget there is a need for a longer-term approach to its finances. With both the Conservative and Labour parties likely to reduce public spending, in real terms, in the next Parliament, the Northern Ireland Executive is likely to continue to find itself in a difficult financial position. In this context a strategic review of its fiscal arrangements is advisable. There has been a sense that Northern Ireland has done well from the financial relationship with the Treasury and that it would be inadvisable to 'rock the boat' by seeking to alter the devolution settlement. However developments in Scotland mean that the financial arrangements of the devolved regions is likely to undergo change regardless – the question is whether Northern Ireland engages in and influences this process. NICVA therefore awaits with interest the outcome of the Northern Ireland Executive's review of its fiscal powers.

Briefing to Finance and Personnel Committee on the draft budget 2015-16

2 December 2014

The Ulster University Economic Policy Centre (UUEPC) welcomes the publication of the Northern Ireland Executive's draft budget for 2014-15 and the invitation from the Committee for Finance and Personnel to comment on the document.

It is encouraging that the Executive has reached agreement on the draft budget as the allocation of financial resources is, obviously, critical to the delivery of public services and government of NI.

Context

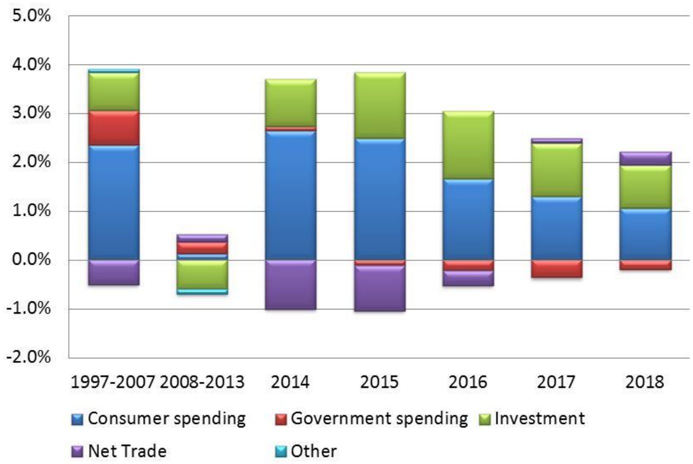
Public finances are complex. Planning, prioritising, agreeing and implementing budgets is a challenging process and will, quite correctly, be the subject of significant scrutiny and debate particularly at times when budgets are constrained or demands on those budgets are growing.

It should be noted that, at this point in time, UUEPC is not funded to carry out public finance research, although it is hoped that resources will become available to allow this research to be carried out in the future. To comment on specific elements of the budget without studying the evidence in detail would be misleading. Therefore, this short response will provide a macroeconomic commentary on the draft budget, high level observations and defer to others who are more familiar with the specific detail at Departmental or programme level to make comment on the impacts at that level. In particular, the note draws attention to the additional information necessary to make a meaningful contribution to the budgets and spending prioritisation debate.

Economic overview

At a simple level, growth in the economy can be driven by consumers, businesses or government as they increase consumption, government spending, investment or the level of net trade. The reverse is also true. In the context of current austerity policies, slowing the growth of government expenditure or reducing the level of government expenditure will act as a brake on economic growth. This creates the rationale for boosting government spending during a recession and reigning back during times of growth.

Figure 1: UK contributions to economic growth



Source: Cambridge University & UUEPC

As can be seen from figure 1, consumption expenditure and business investment are driving the UK recovery in 2014 and are expected to continue to drive economic growth over the next four years, although as levels of consumer debt increase it is expected that the influence of the consumer on growth will begin to diminish. Reductions in UK government expenditure are expected to have a negative influence on UK economic growth from 2015 – 2018 as austerity plans continue to be implemented.

The same model can be applied to the Northern Ireland economy and it is encouraging to note that the Composite Economic Index has increased by 1.2% over the year to Q2 2014[1] and employment has increased by 1.7% over the past year to 821,000[2]. As NI is no longer in recession, the economy will be more able to absorb a reduction in public expenditure than it would have been during the recession. This is not to say it will be easy (indeed it could be argued that inflation and wage data suggests the economy is not growing quickly enough to accommodate the 'brakes' being applied to public expenditure) but rather to highlight that the challenge comes against a more favourable backdrop than was the case in, for example, the Republic of Ireland.

The commentary on the Composite Index notes that ***"The increase of the Composite Index over the year was driven by increases in Services (1.1 percentage points) and Production (1.0 percentage points) sectors. These were offset by decreases in the Public Sector (-0.4 percentage points) and the Construction Sector (-0.3 percentage points)."***

The evidence demonstrates that reductions in real public expenditure levels are acting as a drag on the NI economy, with the private sector driving growth. NI economic growth is forecast to slow from 2.2% in 2014 to 1.3% in 2018. Key economic forecasts are detailed in table 1.

Table 1: Forecasts for key economic indicators, NI

	2014	2015	2016	2017	2018
GVA	2.2%	1.9%	1.3%	1.3%	1.3%
Employment growth rate	1.4%	1.3%	0.5%	0.4%	0.2%
Claimant unemployment rate	5.3%	5.1%	5.2%	5.3%	5.5%
House price growth	6.9%	6.1%	6.0%	5.9%	4.7%

Source: UUEPC

Assessing the challenge

In order to assess the scale of the challenge that is being faced in terms of NI's public finances, the profile of public expenditure must be considered.

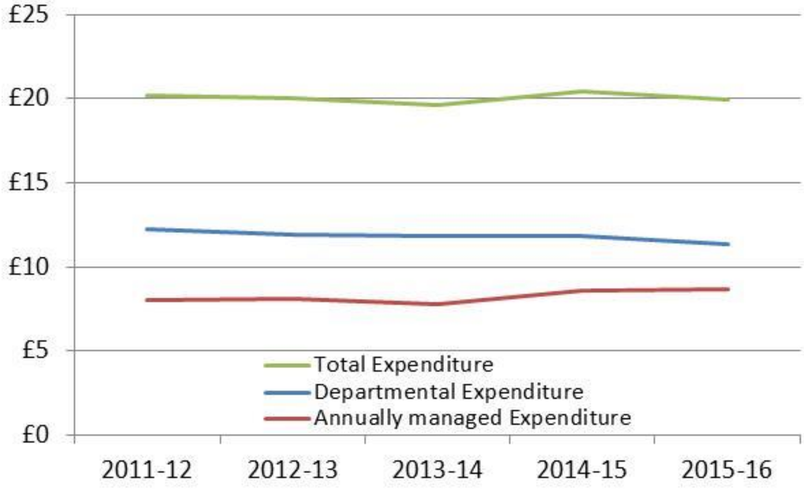
In nominal terms, there will be a slight fall in total expenditure in 2015-16 (-0.9% over the year) which is driven by a fall in Departmental Expenditure Limits(DEL) spend of -3.1% and offset to some extent by a forecast increase in annually managed expenditure (AME) of 2.1%.

The distinction between DEL and AME is important, as DEL includes administration and all programme expenditure and is the element over which the NI Executive has control. AME is demand driven and includes social security benefits, tax credits and pensions (amongst other things) and is beyond the control of the NI Executive.

[1] NI Statistics and Research Agency, Composite Economic Index, 15 October 2014.
[2] NI Statistics and Research Agency, Labour Force Survey, 12 November 2014.

Adjusting the figures to allow for the impact of inflation to real terms shows that DEL will fall by 4.7% over the year to 2015-16 and AME is forecast to increase by only 0.5%, resulting in a real terms reduction in expenditure of 2.5% over the year.

Figure 2: Real expenditure, NI (£Bn)



Sources: Department of Finance and Personnel, HM Treasury & UUEPC

Whilst this is a significant reduction in the level of expenditure in NI, it is not catastrophic for NI and the UK government policy has been signalling a move towards this direction for a number of years. The challenge is significant, but not insurmountable.

Recognising the challenge, what action should be taken?

Everything on the table

It will be essential that the public policy debate is focussed on in order to deliver the best outcome for the public in NI. Everything must be "on the table" for these conversations and debates. These are all difficult choices. For example;

- The issue of delivery structures that are in place to provide public services, whether those are in the public, private or social economy sectors should be secondary to the quality of service provided. It should be about how well a service is delivered - not who delivers it;
- More autonomy could be given to service provision elements of the public sector to allow them to charge (or charge more) for these services. For example, Higher Education institutions could charge more in general, or less for courses which are in significant demand in the local labour market in order to provide an incentive for teenagers to study in areas where there are skills shortages;
- Pay makes up a significant proportion of government costs and as a result might be one of the areas considered whether through workforce reduction, pay restraint and / or reconsideration of the automatic increment system. Indeed, the government could influence the level of internal cost pressures quite significantly though public sector pay; and
- Revenue raising measures could also be considered but only if the public services being delivered can be demonstrated to be offering world class value, in other words no measureable inefficiencies remain within the system.

Focus on outcomes – the real reform debate

The NI Executive may wish to focus more heavily on the outcomes such as qualifications awarded, crimes solved or jobs created, rather than activity levels and budget allocations. Spending more money does not necessarily result in better outcomes. Focussing on outcomes will help to ensure that the correct incentives are put in place to drive activities that will deliver the desired result. Allowing carry-over of expenditure for specific projects from one year to the next within Departments or NPDB's could help in terms of flexibility and whilst this may not align well with current rules, it could help to manage the incentives that are associated with having to spend budgets within the year of allocation.

Rather than protecting budgets, the Executive should focus on outcomes which should lead to more flexibility and responsibility in terms of how budgets are expended. No inputs (i.e. budgets) should be protected as a matter of course. Whilst education and health outcomes may be 'protected' this should not equate to protecting budgets.

Accessing data

In order to provide a detailed and well informed commentary on the key issues the development of a range of additional indicators and easy access to data would be required. For example, a set of national accounts would be of significant benefit in this context and also for the discussion on the potential devolution of other powers to the NI Executive. Public expenditure data for NI is available in a range of documents and could be improved by the publication of a single compendium of statistics. Both of these steps would provide a better information base for discussion on the draft budget and other policy issues.

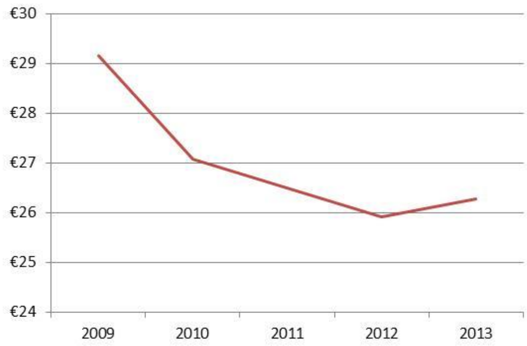
In terms of departmental plans, they generally provide a breakdown of areas of expenditure and note where savings will be made. These plans could be improved if they were to link what expenditure will be made and when, the activities that can be expected, what output targets are in place and the outcomes that will be delivered for NI. The policy conversation would be significantly enhanced if such information were available as it will enable all lines of expenditure to be mapped across government and show the linkages between that expenditure, activities, outputs and outcomes.

Learning from others

The Republic of Ireland has worked its way through a severe austerity programme. Figure 3 demonstrates that whilst expenditure did increase during 2013, it was still 9.9% lower in real terms than in 2009.

Whilst the process has been painful for the Republic of Ireland, many valuable lessons will have been learned in terms of what works when implementing a range of austerity measures. NI should be able to learn from this experience in order to minimise the negative impacts of expenditure reductions and consider the opportunities that may be presented by change.

Figure 3: Irish Government expenditure, real terms (€Bn)



Source: Central Statistics Office

Pruning

The challenge is to prune the budget appropriately rather than cut in order that the impact is minimised on society and also that new activity could be stimulated, helping to encourage economic growth.

Improving the evidence base should allow areas of public expenditure to be identified that have limited impacts and these are the areas that should be considered for reduction or removal. Testing the real need for expenditure should be the acid test to ensure that wastage is minimised, as without doubt, in a system that plans to spend almost £21bn during 2015-16 will include some level of unnecessary expenditure. If, as the data indicates, NI is spending more per head on key services, then it is a reasonable to expect higher standards and better outcomes than other parts of the UK. If this is not the case then questions are raised in terms of the effectiveness and efficiency of the systems that are currently in place.

As discussed earlier in this paper, the private sector will drive growth going forward which will be helpful in terms of rebalancing the NI Economy. The public sector should support the growth of the private sector by facilitating growth and developing a conducive environment whenever possible.

Summary

The publication of the draft budget is welcomed by UUEPC. The NI economy is now recovering from the recession with recent gains being driven by the private sector.

Public expenditure will be constrained during 2015-16 and for a number of years thereafter, if the next Parliament continues to implement current austerity plans as planned by both the Conservatives and Labour Party. The impact of UK expenditure decisions will feed through to NI via the Barnett Formula and as a result, there are significant public expenditure challenges for NI as real terms reductions in expenditure are implemented.

The reduction in expenditure is without doubt, a challenge. But it is not unexpected, nor need it be catastrophic for NI. Indeed, as the private sector grows it will help to rebalance the NI economy to become more private sector oriented and the tighter funding environment could led to the consideration of more innovate methods of delivery and shake out inefficient or ineffective expenditure. The challenge is significant, but not insurmountable.

Actions that should be taken now include;

- Open conversations, where everything – all expenditure - is on the table for discussion;

- Shift the focus to outcomes, rather than budgets in order to change the incentive framework towards the desired results, rather than remaining on expenditure or activities. This is what real reform will look like;
- Provide better access to data and map all lines of Government expenditure, activity, outputs and outcomes;
- Work with and learn lessons from the Republic of Ireland in terms of how and where their austerity policies were implemented successfully; and
- Prune areas of public expenditure where impacts are lowest and use the opportunity provided by change to help prepare for growth in the private sector.

Now more than ever, the key question that must be asked at the approval stage for policies, projects and programmes is "are we getting the most for each and every pound we spend?"

UUEPC would like to thank the Finance and Personnel Committee for the invitation to comment on the draft budget for 2015/16. We hope that this short paper is helpful.

Richard Johnston
Ulster University Economic Policy Centre

Appendix 3

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BT4 3XX

31 August 2014

Dear Daithi

Thank you for your letter of 26 June requesting an update on the Memorandum of Understanding (MOU) on the Budget Process.

A MOU on the Budget Process would help aid both the work of Assembly Committees and more general transparency surrounding the Budget process. As you will be aware, I am keen to promote and improve both these aspects of our financial process. That is why it is so important to get it right. The MOU will need to be agreed by the Executive and must therefore not only set out the role of the Assembly but also be acceptable to Ministers as they seek to carry out the important task of setting the Northern Ireland Budget.

The work to date has been very helpful in developing a draft MOU and I am appreciative of the efforts of the Committee on this. However, as you will be aware since the draft MOU was developed there has been significant delay to the 2015-16 Budget process, caused by both uncertainty and lack of agreement over key issues such as Welfare Reform.

I am therefore concerned that the draft MOU might not be flexible enough to be applicable in these circumstances. Whilst I note, and appreciate, the degree of flexibility that is already built into the draft MOU, I feel that it would be appropriate to await the outcome of the 2015-16 Budget process to ensure that any lessons learned can also be reflected in the document. I believe this would be a prudent way of ensuring that the draft MOU can cope with the reality of this specific budget process.

I can assure you that I remain fully supportive of the principles within the MOU and I trust that this clarifies my position on the matter.

Yours sincerely

[redacted]

SIMON HAMILTON MLA

COMMITTEE FOR FINANCE AND PERSONNEL

Simon Hamilton MLA
Minister of Finance and Personnel
DFP Assembly Section
Clare House
303 Airport Road West
Belfast
BT3 9ED

26 June 2014

Dear Simon

Draft Memorandum of Understanding on the Budget Process

You may recall that the proposal for an agreement or 'Memorandum of Understanding' (MoU) between the Assembly and the Executive on the Budget Process arises from the previous Finance & Personnel Committee's three-stage inquiry into the scrutiny and advisory role of the Assembly in relation to the Executive's budget and expenditure, which concluded in March 2011. The proposal was also a key recommendation from the Executive's Review of the Financial Process which concluded in October 2011. Following consultation with Assembly committees, the Department and other stakeholders in May 2012, the current Finance & Personnel Committee confirmed the approach of a MoU as the preferred way forward for resolving difficulties in the budget process.

The draft MoU, which has been prepared jointly by Committee staff and DFP officials, aims to establish a framework for improved co-operation between the Executive and the Assembly in respect of budgetary matters. It will facilitate Assembly Members and committees in fulfilling their scrutiny and advice functions which, in turn, will assist in overseeing the effective and efficient delivery of the Executive's strategic priorities. In addition, the MoU will support the Executive in its role in managing public expenditure and will help maintain good working relationships between departments and their committees, as well as departments and Members.

The Committee gave initial consideration to the draft MoU at its meeting on 15 January 2014 and understood that you would also be giving it your consideration.

Room 419, Parliament Buildings, Ballymiscaw, Stormont, BELFAST, BT4 3XX
Tel No: 028 90521843 Fax No: 028 90520360
E-mail : committee.finance&personnel@niassembly.gov.uk

Given the general desire to see progress on this matter, at their meeting on 18 June 2014, the Committee members agreed to seek an update from you in this regard.

As the normal response deadline will fall after the Committee's last meeting before the summer recess, I would appreciate your response by the extended deadline of Tuesday, 12 August 2014.

Yours sincerely,

[redacted]

Daithí McKay [redacted]
Chairperson

Assembly Section

Clare House
303 Airport Road West
BT3 9ED
Tel No: 02890 816715
email: Gearoid.cassidy@dfpni.gov.uk

Department of
Finance and
Personnel
www.dfpni.gov.uk

Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

Our Ref: CFP/365/11-15

11 November 2014

Dear Shane,

The Committee recently considered a further Assembly Research Paper on preventative spending and comments were requested.

This response makes comment on the specific areas noted in this paper. However, the Committee has requested a session with officials (on 19 November) and officials will be happy to answer any further questions at that meeting.

There are a number of preventative and early intervention initiatives underway across the public sector, as highlighted in the research paper. The Minister, as part of his reform agenda, has consistently stated that prevention and early intervention are key elements of reform if we are to provide improved services for citizens. The research report makes comment on the difficulty which departments face in moving expenditure away from acute pressures to a focus on long term outcomes. It also suggests that our structures make it more difficult to address cross-cutting issues.

For that reason, the Minister has set aside £30m for a Change Fund for 2015-16. The overarching objectives will be that projects which are successful in receiving money from this fund will be innovative; cross-cutting or preventative in nature. The fund will provide a useful test bed for measuring the success of prevention projects. This is particularly important in light of the prevailing budgetary climate and the need to create a more sustainable public service provision.

Public Sector Reform Division (PSRD) within DFP is assisting departments with the development and implementation of a programme of reform across the public sector. Some of the tools at our disposal include an innovation lab and assistance with the piloting of alternative funding models. The innovation lab in particular can be used to test solutions to problems which will be sustainable in the longer term.

I note that the Assembly's Research and Information Service (RaISe) requested background information in relation to the Invest to Save Initiative. This request is under consideration and a response should issue when this has concluded.

The Research Paper makes reference to a framework for assessing, monitoring and evaluating all projects. The existing Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE) provides the standard procedures by which NICS departments assess public expenditure proposals for value for money and affordability. These procedures also apply to preventative and early intervention initiatives.

I trust this response is helpful in the Committee's consideration of the issue.

Yours sincerely,

[redacted]

GEAROID CASSIDY
Departmental Assembly Liaison Officer

Northern Ireland Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

Gearóid Cassidy
DFP Assembly Section
Clare House
Airport Road West
Belfast
BT3 9ED

02 October 2014

Dear Gearóid

Preventative Expenditure.

At its meeting on 01 October 2014, the Committee for Finance and Personnel received a briefing from Assembly Research on Preventative Spending.

The Committee agreed to forward the research paper (attached) to the Department for a response to the issues raised in the papers.

I would be grateful for a response by Thursday 16 October 2014.

Yours sincerely

Shane McAteer

Shane McAteer
Committee Clerk

Enc

Room 144, Parliament Buildings, Ballymiscaw, Stormont, BELFAST, BT4 3XX
Tel No: 028 90521843 Fax No: 028 90520360

E-mail : committee.finance&personnel@niassembly.gov.uk

UPDATE ON THE PUBLIC SECTOR INNOVATION LAB

Background

1. Innovation Labs are now a feature of many public sector landscapes - some examine social issues of strategic and national importance, while others concentrate on tactical solutions to more localised challenges. Some are subject specific, while others are broadly based. Taking account of this evolving scene, the Northern Ireland Public Sector Innovation Lab was established by Minister Hamilton to look at the usefulness of the approach in addressing complex issues.

2. The Innovation Lab differs from traditional ways of problem solving (such as working groups). It involves up-front research followed by a concentrated session over a number of consecutive days when carefully selected individuals focus their collective experience and energy on developing and working towards an agreed solution. This methodology has the potential to deliver higher quality solutions over a short period and at less cost than alternative methods.

3. Departmental officials will use the enclosed presentation to provide Committee members with a more detailed explanation of the methodology, an overview of the first full Lab event, and information on the current portfolio of work.

Northern Ireland Public Sector Innovation Lab

Presentation to : Committee for Finance and Personnel

By: Dr Colin Sullivan and Malcolm Beattie
Public Sector Reform Division
Date : 26 November 2014

What we aim to do:

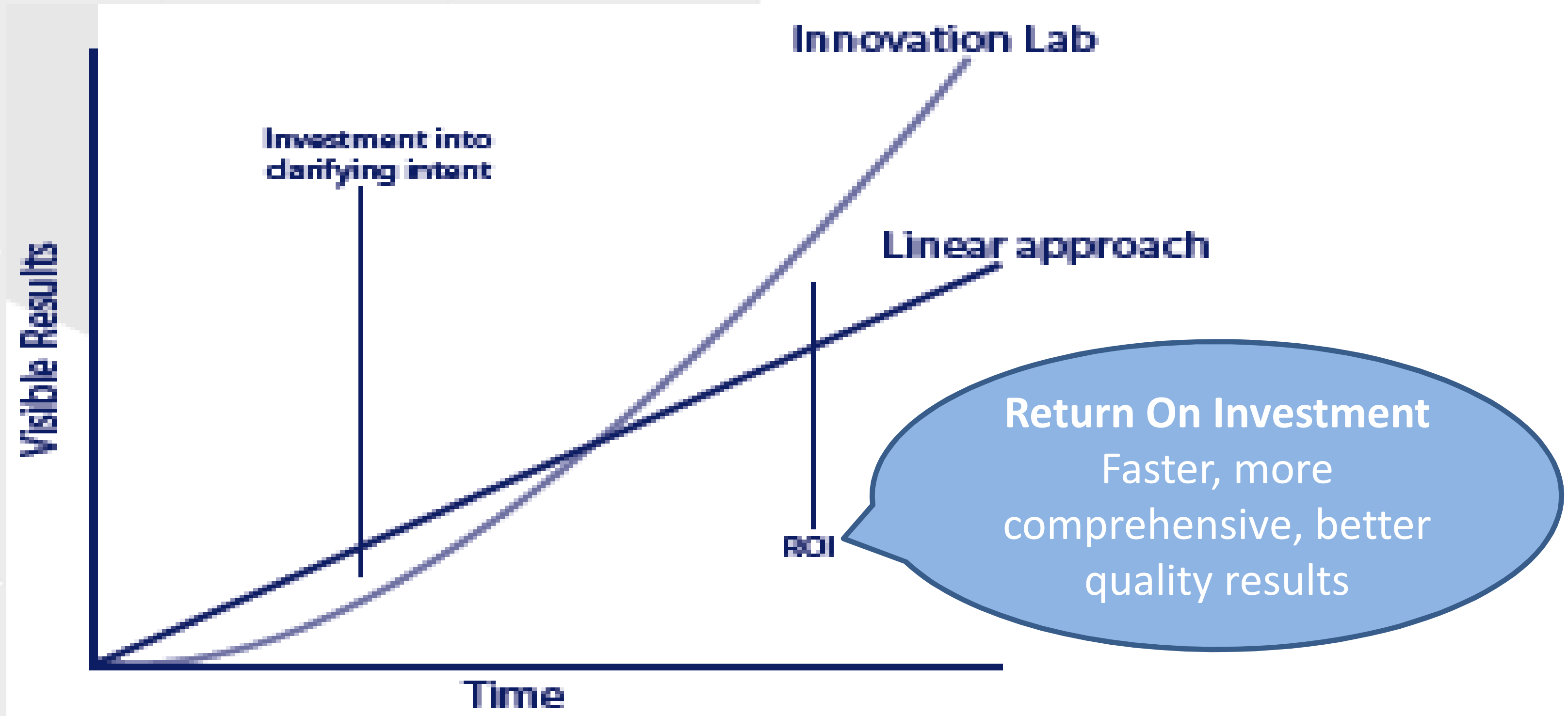
- Deliver changes to public services which improve the lives of people in Northern Ireland or the environment in which businesses operate

- The Northern Ireland Public Service Innovation Lab offers a fresh approach to developing both strategic and tactical solutions to complex policy, operational and social problems

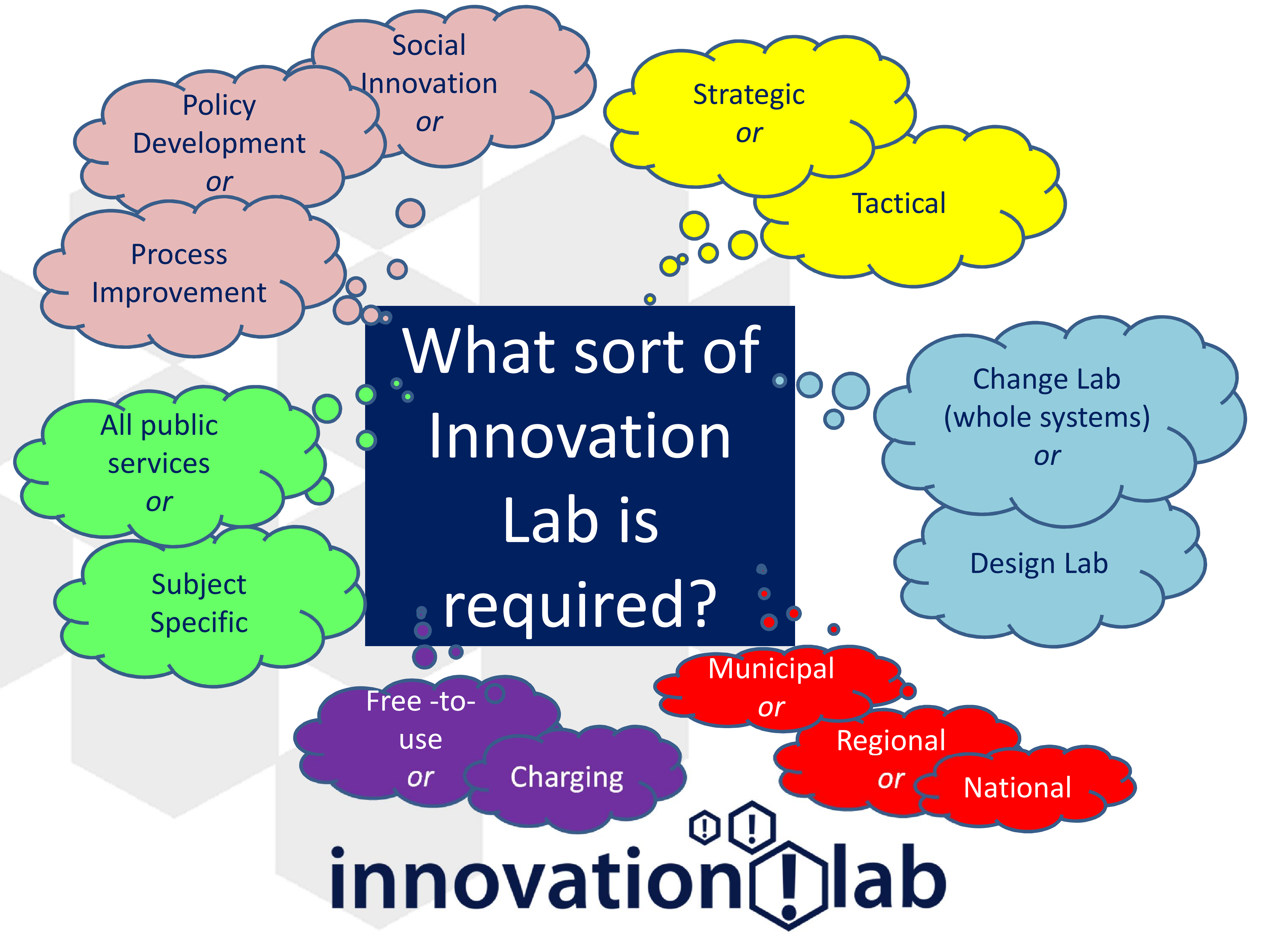
- This is especially important at a time of constrained resources and rising demand.

innovation lab

Benefits of a Lab?



innovation lab


What sort of Innovation Lab is required?
Social Innovation or
Policy Development or
Process Improvement
Strategic or
Tactical
Change Lab (whole systems) or
Design Lab
All public services or
Subject Specific
Free -to-use or
Charging
Municipal or
Regional or
National
innovation lab

The Lab will -

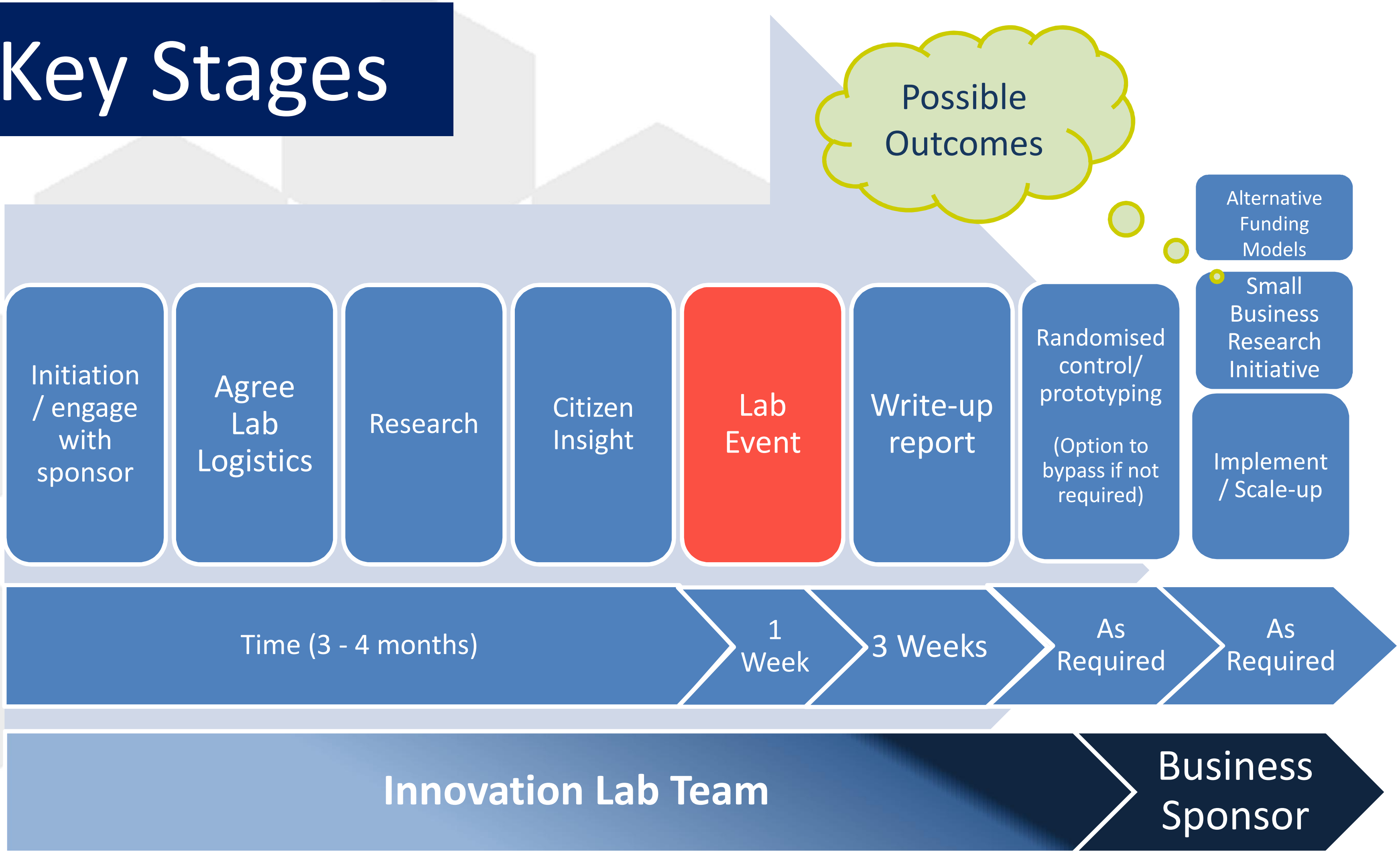
- Make a positive contribution
- Surface deliverable outcomes
- Have collaborative working as a core value
- Facilitate expert engagement
- Fast track implementable solutions

The Lab will not

- Work/apply in all situations
- Have the answer to all problems
- Start with a predetermined outcomes
- Impose solutions
- **Guarantee success** – some will fail to deliver

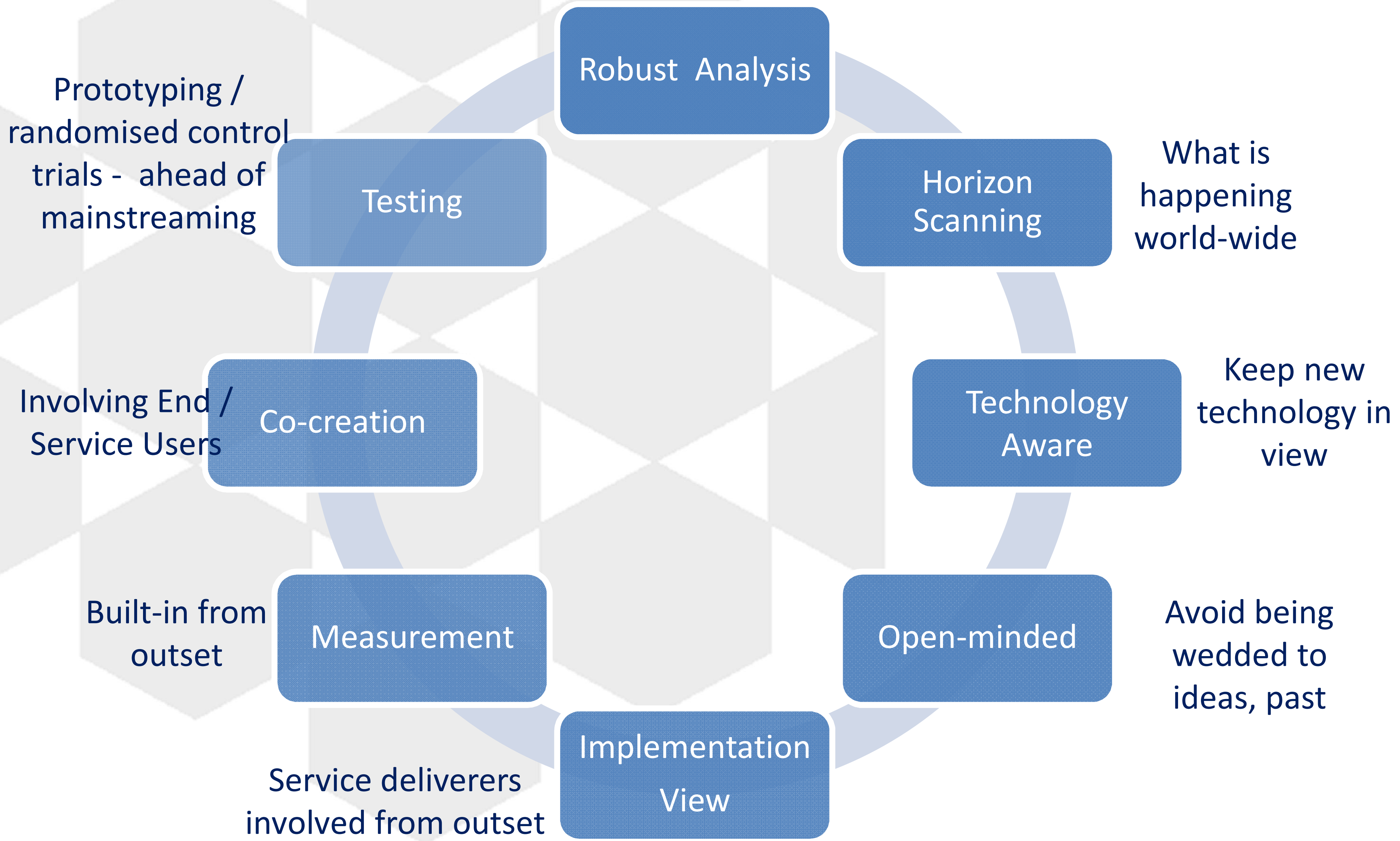
innovation lab

Key Stages



innovation lab

How we work


Robust Analysis
Horizon Scanning
What is happening world-wide
Technology Aware
Keep new technology in view
Open-minded
Avoid being wedded to ideas, past
Implementation View
Service deliverers involved from outset
Measurement
Built-in from outset
Co-creation
Involving End / Service Users
Testing
Prototyping / randomised control trials - ahead of mainstreaming

Lab Team

Small core team with specific expertise acquired on a temporary basis

innovation lab

Developing our competencies and capabilities

Behavioural Insights

Co-Design

End User Needs

A Creative Space for free thinking, experimentation, to develop fresh and innovative approaches

"We make a difference by creating a safe space for key players to formulate and test ideas, make mistakes and learn from them, to develop refined, added-value solutions to complex challenges"

innovation lab

Lab Portfolio

Completed

- Innovation Scheme
- Regulatory Impact Assessments

Imminent

- Innovative Procurement
- Big Data
- Reward and Recognition

Planning

- Dementia
- Vision for future citizen services
- Innovation in Public Sector

Potential

- Unscheduled HealthCare
- Developing an innovative culture in police service
- Export Action Plan
- Preventative Spend

Innovation Lab

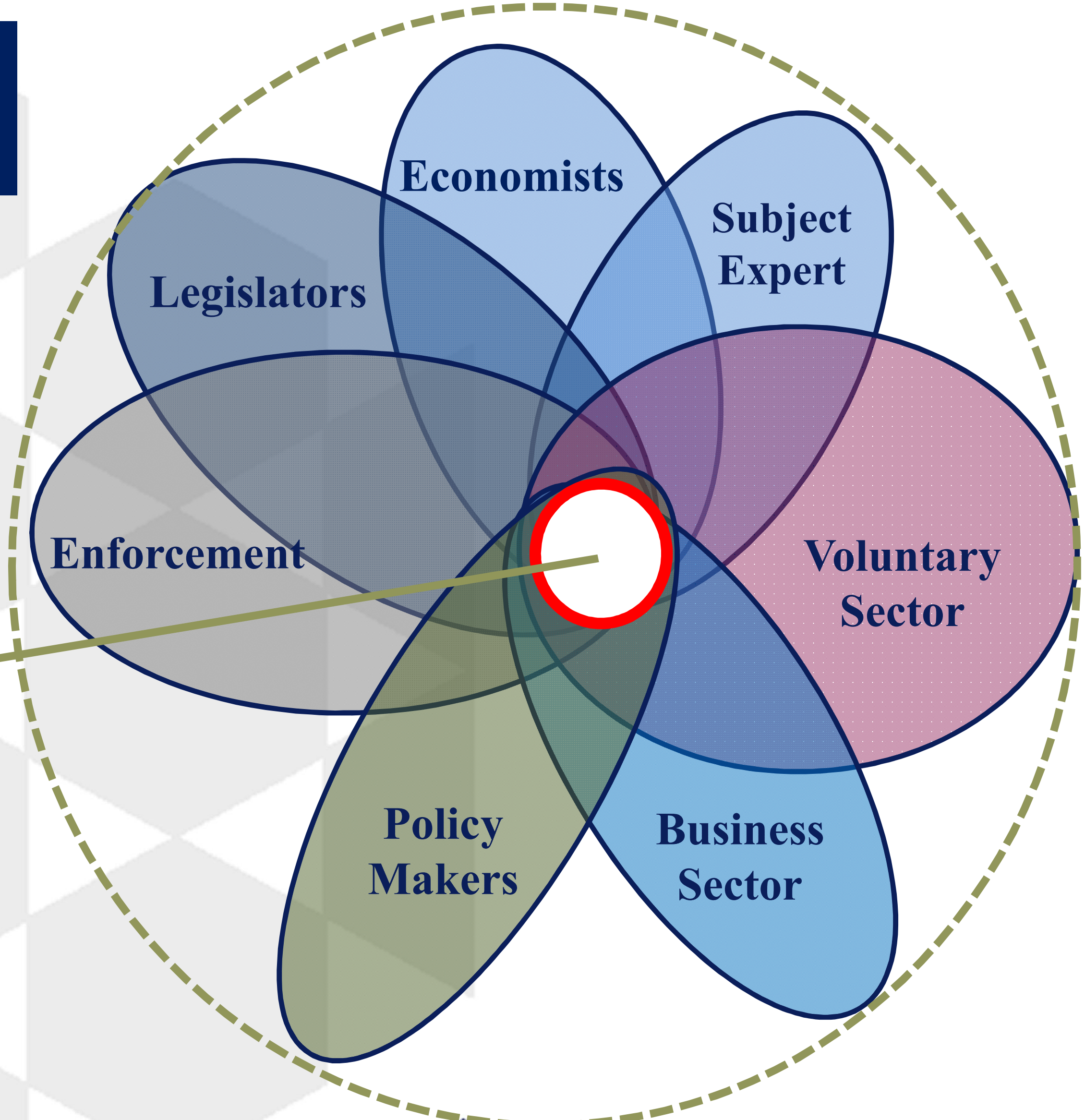
REGULATORY IMPACT ASSESSMENTS

23 – 26 June 2014

Ecosystem

Type of solution can be found by establishing all areas of the ecosystem and defining their spheres of influence and responsibility

SOLUTION



innovation!lab

Regulatory Impact Assessment Lab –

14 recommendations including -

1. Establish an Independent Scrutiny Unit for Regulatory Impact Assessments
2. Establish a monitoring unit within DETI to evaluate the entire RIA process
3. Introduce a regulatory budget for Northern Ireland Executive Departments

- ✓ Exercise was completed in 4 consecutive days
- ✓ Recommendations well received by sponsoring Department
- ✓ Recommendations have fed into wider DETI Red Tape Review
- ✓ Methodology was successfully deployed
- ✓ Lessons learned are feeding into planning for future Labs

innovation lab


Questions

Department of
Finance and
Personnel
www.dfpni.gov.uk

From the Office of the
Minister of Finance & Personnel

DFP Private Office
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Clare House
303 Airport Road West
Belfast BT3 9ED

Telephone: 028 90816711

Email: private.office@dfpni.gov.uk

Your reference:
Our reference: COR/586/2014

Daithi McKay
Chairperson Finance & Personnel Committee
Room 419
Parliament Buildings
Stormont
Belfast
BT4 3XX

/ December 2014

Dear Daithí

Thank you for your letter of 5 November requesting an extension to the consultation deadline for the draft Budget. Whilst I appreciate that the timetable is not ideal, the Executive has agreed to an eight week consultation period and I intend to bring a final Budget paper to the Executive on 8 January 2015.

As you will be aware, the Resource DEL implications for departments will be significant so it is imperative to get settled budgets to departments as soon as possible to allow them to plan appropriately for 2015-16.

I appreciate that the consultation period of the 2011-15 Budget ran until February of 2011, however that meant that an agreed Budget was not in place until early March of 2011, a few weeks before the commencement of the 2011-12 financial year.

In this process we are dealing with very different financial environment. In 2011 the key challenge for the first year of the Budget (2011-12) was the decreasing Capital budget. As you know, Capital is easier to manage.

On the Resource side, in 2011, the first year of the Budget saw departmental Resource DEL increase overall by 0.1 per cent. The worst affected department in 2011 was DSD who faced a 3.0 per cent decrease in their Resource DEL in the first year of the Budget. That kind of reduction was much easier to plan for and therefore a Budget could be set that much later.

Now we are in a financial environment where all the immediate and transparent budget efficiencies have been largely implemented over the last four years and therefore dealing with reducing budgets is much more challenging. That, coupled with the fact that some departments are facing not 3 per cent (as in 2011-12) but 11 per cent reductions means that it is imperative that budgets are finalised as soon as possible to allow key decisions to be taken on managing those budgets.

I trust that departmental Committees have already been engaging with departments on the issues they face in 2015-16 and I am therefore confident that Committees will be able to provide reports within the consultation timeframe.

I look forward to the Committee's report and considering it as part of the Budget process.

Yours sincerely

SIMON HAMILTON MLA

Department of
Finance and Personnel
www.dfpni.gov.uk

From the Office of the
Minister of Finance & Personnel

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Telephone: 028 90816711

Email: private.office@dfpni.gov.uk

Your reference:
Our reference: COR/655/2013

Daithí McKay MLA
Chairperson
Committee for Finance and Personnel
Room 419
Parliament Buildings
Belfast, BT4 3XX

9 December 2013

Dear Daithí

Thank you for your letter of 2 December on the issue of departmental briefings to the Committee.

The department's late notification in terms of postponing the planned 27 November Budget 2015-16 briefing session was regrettable.

I fully accept the need for timely notification of changes to planned briefing sessions. However, in this instance I was of the view that the Chancellor's Autumn Statement, scheduled for the 5 December, would materially impact on the Committee briefing material. I therefore took the view that this postponement would ultimately be helpful to the Committee since it would allow any significant changes to be reflected in the briefing session.

I understand that an alternative date of 11 December has now been agreed and I hope that the Committee will find the forthcoming briefing session informative.

Yours sincerely

[redacted]

SIMON HAMILTON MLA

BUDGET 2015-16 PRE-CONSULTATION

COMMITTEE FOR FINANCE AND PERSONNEL

BRIEFING SESSION: 11 DECEMBER 2013

FROM: **GEAROID CASSIDY (DFP DALO)**

DATE: **9 DECEMBER 2013**

Summary

Business Area: **CENTRAL EXPENDITURE DIVISION, PSD.**

Issue: **BUDGET 2015-16 PRE-CONSULTATION.**

Action Required: **TO NOTE PRIOR TO BRIEFING SESSION – 11th DECEMBER 2013.**

Introduction

1. The purpose of this paper is to set the context for the 2015-16 Budget and the associated pre-consultation briefing scheduled for 11 December 2013.

2. The paper outlines the background to Budget 2015-16 and separately provides a copy of the PowerPoint presentation that officials will use at the briefing session.

Background

3. In 2012 the UK Coalition Government made the decision to produce a one year Budget for 2015-16 rather than progress a multi-year Spending Review. The Chancellor subsequently announced the outcome on 26 June 2013. The allocation to Northern Ireland, through the Barnett Formula, provided an overall Resource envelope of £10,166.5 million and Capital envelope of £1,060.0 million for the 2015-16 financial year.

4. The Chancellor's Autumn Statement provided an additional £51.9 million Resource and £28.5 million Capital for 2015-16. The outcome for both 2014-15 and 2015-16 is provided at Table One.

Table One **£million**

NI DEL	Resource	Capital
2014-15 DEL	10,149.9	1,036.1
2015-16 DEL	10,218.4	1,088.5
Difference	*68.5*	*52.4*

5. However, the 2015-16 Resource DEL position includes a £71 million increase from 2014-15 in ring-fenced funding (i.e. depreciation and impairments) which mean that non ring-fenced Resource will be in effect <u>reduced</u> by £2.5 million (Table Two).

6. The 2015-16 Capital DEL position includes some £64.0 million additional ring-fenced Financial Transactions Capital meaning that conventional Capital DEL will decrease by £11.7 million (Table Three). In addition, of the 2015-16 funding, £29.5 million Resource and £1.5 million Capital is ring-fenced for PSNI national security costs.

Table Two **£million**

NI Resource DEL	Non Ring-fenced Resource	Ring Fenced Resource	Total Resource DEL
2014-15	9,676.0	473.9	10,149.9
2015-16	9,673.5	544.9	10,218.4
Difference	*-2.5*	*71.0*	*68.5*

Note: Totals may not add due to roundings

Table Three **£million**

NI Capital DEL	Conventional Capital	Financial Transactions Capital	Total Capital DEL
2014-15	973.5	62.6	1,036.1
2015-16	961.8	126.7	1,088.5
Difference	*-11.7*	*64.0*	*52.4*

Note: Totals may not add due to roundings

LOCAL BUDGET PROCESS

7. As part of the local Budget process the Finance Minister has agreed that his officials initiate a series of pre-consultation events. The

purpose of this pre-consultation is to inform key stakeholders of the Budget process and highlight some key issues.

8. DFP officials are scheduled to make a presentation to the Finance & Personnel Committee on 11 December 2013. This session will afford officials an opportunity to update the Committee on the impact of the 2013 Autumn Statement and the key issues involved in the 2015-16 budget process. A copy of the pre-consultation presentation is appended separately for information.

Budget 2015-16

Update

Michael Brennan

Presentation Outline

Department of Finance and Personnel
www.dfpni.gov.uk

1. Budget 2015-16 Context
   - Spending Round
   - Autumn Statement
2. Implications for Budget 2015-16
3. ‘Next Steps’

Budget 2015-16 Context

Department of Finance and Personnel
www.dfpni.gov.uk

UK SR 2015-16 Outcome

- The UK Government has continued to ‘protect’ the delivery of education and health services in England.
- The 2015-16 Resource DEL for NI was **£10,166.5 million**. This was 0.6% higher than the 2014-15 position but a real terms reduction of 1.2%.
- The 2015-16 Capital DEL for Northern Ireland was **£1,060.0 million**. This was a real terms increase of 1.5% from the 2014-15 position at that time.

The Capital DEL included £104.3m of Financial Transactions capital which can only be used to offer loans or equity investment to the Private Sector.

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www.dfpni.gov.uk

2013 Autumn Statement

- The Autumn Statement had significant implications for Northern Ireland, not least in terms of an additional £136 million of Barnett Consequentials:

£ Millions	**2014-15**	**2015-16**
Resource DEL	45.0	51.9
Capital DEL	7.1	6.1
Financial Transactions	3.3	22.3

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Finance and
Personnel
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2013 Autumn Statement

Key Policy Announcements:

- Abolition of Employers National Insurance contributions for those under 21.
- Tax relief for film industry.
- Married Couple Tax allowance.
- Freeze Fuel Duty.
- Increase to state pension by £2.95 per week.
- Cap on Welfare Spending.

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UK Public Expenditure Projections

- The latest Office for Budget Responsibility projections indicate tightening resource budgets but capital increasing from previous projections:

£bn

	2014-15	2015-16	2016-17	2017-18
UK Public Sector Current Expenditure in Resource DEL	316.6	312.6	305.7	294.1
% Reduction (Cash Terms)		-1.3%	-2.2%	-3.8%
% Reduction (Real Terms)		-3.0%	-3.8%	-5.4%

£bn

	2014-15	2015-16	2016-17	2017-18
UK Public Sector Gross Investment in Capital DEL	37.1	36.6	38.0	37.3
% Change (Cash Terms)		-1.3%	3.8%	-1.8%
% Reduction (Real Terms)		-3.1%	2.1%	-3.5%

Source: Economic and Fiscal Outlook December 2013

Budget 2015-16 Context

Department of
Finance and
Personnel
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Wider Economy

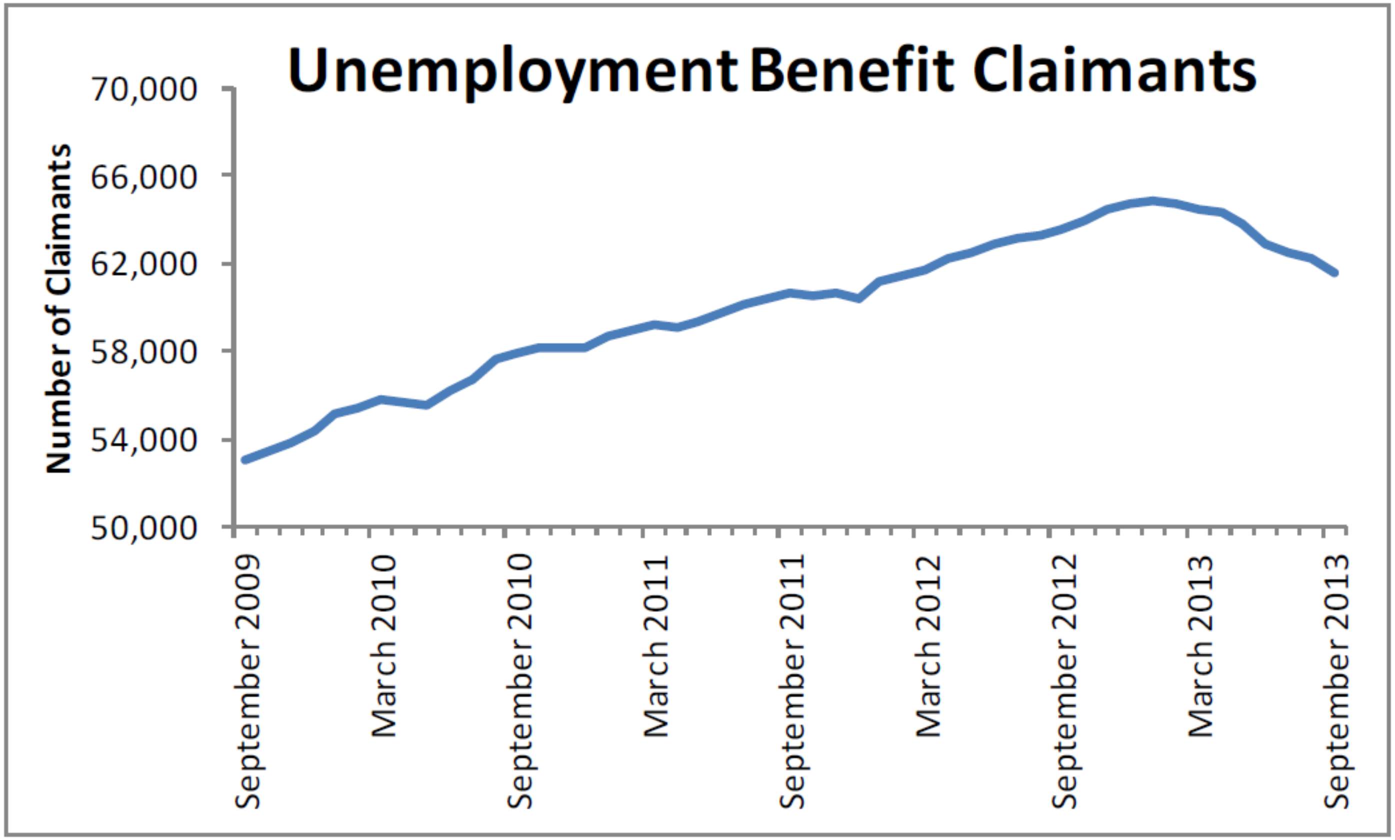
- Both the UK and NI economies are now showing signs of recovery, with UK growth forecasts revised up recently.

- NI private sector activity – latest Ulster Bank PMI figures show four months of successive growth across all sectors, with construction and services leading the way.

- NI unemployment rate now 7.3% - below UK rate (7.6%), ROI (13.5%) and Eurozone (12.1%).

- Housing market also recovering – prices and activity up.

Budget 2015-16 Context



Source: DETI Monthly Economic Briefing – October 2013

Budget 2015-16 Context

Improving NI Labour Market - but structural weaknesses remain:

LABOUR MARKET OVERVIEW		*(July– September 2013)*
Measure	**Value**	**Comment**
Employment	808,000	Up 11,000 over the quarter
Employment Rate	67.2%	Up over quarter but down over year
Employee Jobs*	698,390	Up over both quarter & year
Claimant Count**	61,000	Down 3,900 since start of 2013
Unemployment Rate	7.3%	Sixth lowest rate among UK regions
Economically Inactive	558,000	Up 10,000 over the year
Inactivity Rate	27.4%	Highest of 12 UK regions
Redundancies***	2,883	10% higher than previous year

*June 2013 **Oct 2013 *** Annual total up to end of October 2013

Source: DETI Monthly Economic Briefing – November 2013

Implications for Budget 2015-16

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www.dfpni.gov.uk

- The local economy is improving but structural weaknesses remain.

- The outcome of the UK Spending Review means that departments will have to deliver resource savings in 2015-16. This is likely to continue until at least 2017-18.

- Increasing emphasis on Financial Transactions Capital require innovative approaches and greater cooperation with the private sector.

Budget 2015-16

Department of Finance and Personnel
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‘Latest Position and Next Steps’

Budget 2015-16 – Latest Position

Department of Finance and Personnel
www.dfpni.gov.uk

- Minister has commenced engagement with Executive colleagues on 2015-16 Budget now that figurework is confirmed.

- In parallel engagement has commenced with key stakeholders on a range of issues.

Stakeholder feedback suggests:

Department of
Finance and Personnel
www.dfpni.gov.uk

Programme for Government

- Consensus appears to be roll forward the existing PfG Priorities for 2015-16.

Budget Approach

Majority agreement on ‘mixed’ approach:

- Construct the one year Resource DEL Budget using an incremental approach.

- Adopt a ‘zero-based’ approach to setting the Capital DEL Budget (except for commitments already entered into).

Stakeholder Feedback suggests:

Department of Finance and Personnel
www.dfpni.gov.uk

Savings

- It will be important for the Executive to pursue a genuine ‘reform’ agenda across the public sector (inc. Local Government).

- Departments need to consult widely on the prioritisation of services / departmental savings agendas.

Protection of Key Services

- No overall consensus with some agreeing that services such as Health and Education are protected, whilst others wish to see savings delivered from all areas.