NIAO

Northern Ireland Audit Office

Northern Ireland Public Sector Voluntary Exit Schemes

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

11 October 2016

Northern Ireland Audit Office

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Published 11 October 2016

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K J Donnelly

Comptroller and Auditor General

Northern Ireland Audit Office

11 October 2016

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Abbreviations

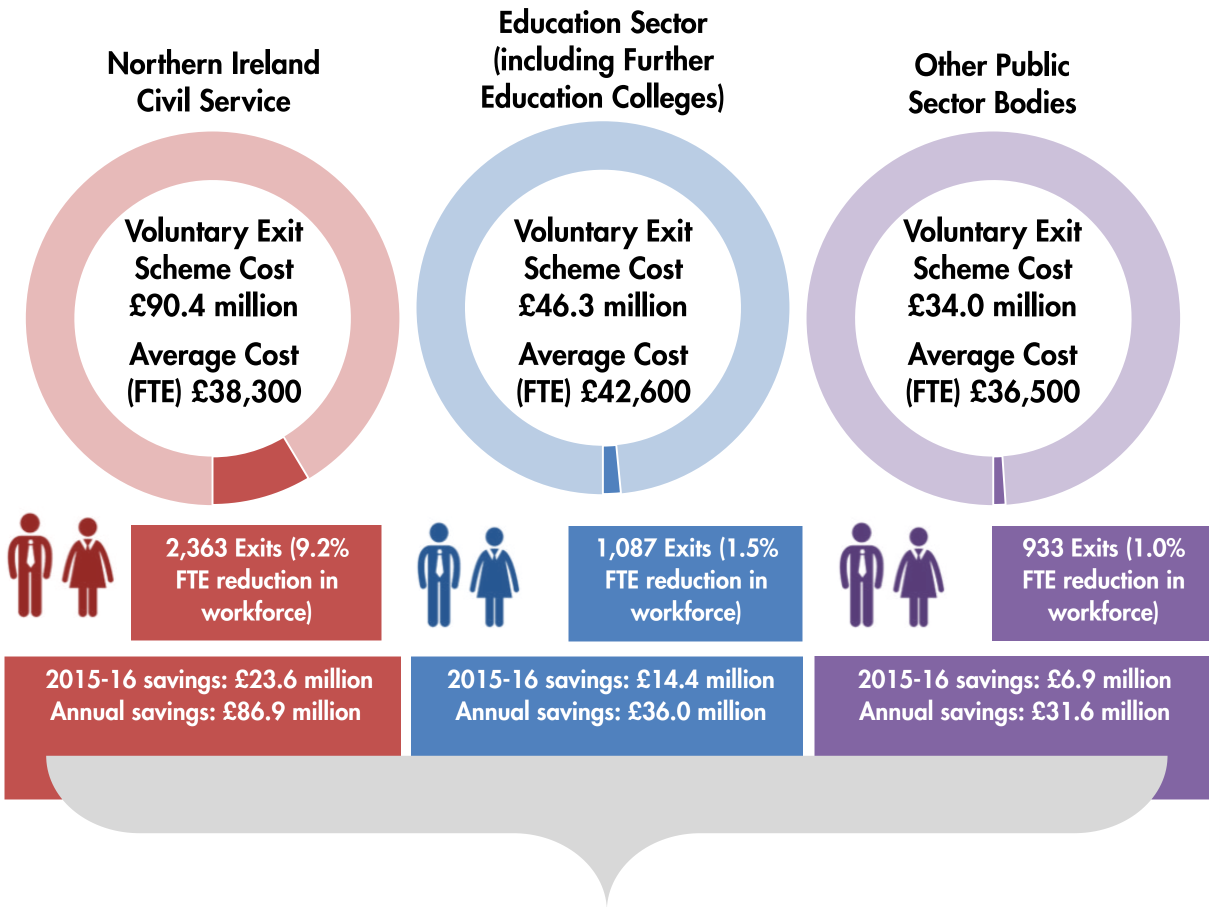
ABCR	Average Benefit Cost Ratio
AFBI	Agri-Food and Biosciences Institute
ALB	Arm's Length Body
BSO	Business Services Organisation
CHR	Corporate Human Resources
CSCS (NI)	Civil Service Compensation Scheme (Northern Ireland)
CSP	Civil Service Pensions
CR	Compulsory Redundancy
DARD	Department of Agriculture and Rural Development
DCAL	Department of Culture, Arts and Leisure
DE	Department of Education
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel (now the Department of Finance)
DHSSPS	Department of Health, Social Services and Public Safety (now the Department of Health)
DOE	Department of the Environment
DoF	Department of Finance (formerly DFP)
DoH	Department of Health (formerly DHSSPS)
DOJ	Department of Justice
DPER	Department of Public Expenditure and Reform (Republic of Ireland)
DRD	Department for Regional Development
DSD	Department for Social Development
DVA	Northern Ireland Driver and Vehicle Agency
FE	Further Education
FTE	Full Time Equivalent
HOCS	Head of the Civil Service
HSENI	Health and Safety Executive Northern Ireland

HSC	Health and Social Care
NAO	National Audit Office
NIAC	Northern Ireland Assembly Commission
NIAO	Northern Ireland Audit Office
NIAS	Northern Ireland Ambulance Service
NICCY	Northern Ireland Commissioner for Children and Young People
NICS	Northern Ireland Civil Service
NICS VES	Northern Ireland Civil Service Voluntary Exit Scheme
NILGOSC	Northern Ireland Local Government Officers' Superannuation Committee
NIMDTA	Northern Ireland Medical and Dental Training Agency
NIPEC	Northern Ireland Practice and Education Council for Nursing and Midwifery
NISRA	Northern Ireland Statistics and Research Agency
NMNI	National Museums Northern Ireland
OFMDFM	Office of the First Minister and Deputy First Minister
ONS	Office for National Statistics
PCSPS (NI)	Principal Civil Service Pension Scheme (Northern Ireland)
PPS	Public Prosecution Service
PSG	Permanent Secretaries' Group
PSNI	Police Service of Northern Ireland
PSTF	Public Sector Transformation Fund
R-DEL	Resource – Departmental Expenditure Limit
RQIA	Regulation and Quality Improvement Authority
RRI	Reinvestment and Reform Initiative
VE	Voluntary Exit
VFM	Value for Money
VR	Voluntary Redundancy
WAO	Wales Audit Office

Executive Summary

Executive Summary

Public Sector Voluntary Exits in 2015-16[1]



Total

Number of public sector exits (FTE)
4,383

Percentage of workforce (FTE)
2.3 per cent

Average Cost
£39,000

Initial Cost
£170.7 million

Additional interest
£24.1 million

2015-16 savings
£44.9 million

Annual savings
£154.5 million

1 March 2015 Executive funded public sector employment figures provided by NISRA. FE estimate for total employment (4,007) from NIAO survey added to NISRA figures for education sector. Total cost, number of exits, in year savings and annual savings from DoF July 2016. Average costs and percentage of workforce calculated by NIAO.

1. In March 2015, the total number of public sector jobs funded by the Northern Ireland Executive (the Executive) was estimated at just over 185,000[2]. Just over 68,000 (37 per cent) of these public sector jobs were within the Health and Social Care (HSC) sector, almost 46,000 (25 per cent) were in teaching. Around 27,000 (15 per cent) were in the Northern Ireland Civil Service (NICS).

2. Northern Ireland public sector employment per head of population is the highest of any region in the United Kingdom. In December 2015, just over one quarter of individuals in employment in Northern Ireland were employed in the public sector. This compares with around 21 per cent in Scotland and Wales and almost 15 per cent in London[3]. Reducing the proportion of public sector employment in Northern Ireland to the level in Scotland and Wales would require a reduction of approximately 35,000 staff.

3. The Stormont House Agreement (December 2014) committed the Executive to a comprehensive programme of reform and restructuring. This included measures to reduce pay bill costs and reduce the size of the NICS and the wider public sector.

4. The Stormont Agreement and Implementation Plan (Fresh Start) provided the flexibility to use £700 million of capital borrowing to fund voluntary exit (VE) schemes over the four year period to 2018-19. This funding was managed and allocated across public sector bodies in 2015-16 by the former Department of Finance and Personnel (DFP) (now the Department of Finance (DoF)) through the Public Sector Transformation Fund (PSTF).

5. In 2015-16, of the £200 million available, £183.5 million was allocated to departments and £170.7 million was spent on 23 public sector exit schemes. The interest rates on the associated borrowing for 2015-16 VE schemes ranged from 1.31 per cent to 1.89 per cent (based on the Public Work Loans Board interest rates on the days the loans were issued). DoF estimate that the 2015-16 borrowing for VE schemes will be repaid by 2031-32 at a total cost of £207.6 million (this includes interest payments of £24.1 million[4]).

6. While incurring upfront compensation costs, VE schemes generate annual pay bill savings by reducing the overall size of the workforce. VE schemes have been used successfully, alongside other pay bill cost-controlling measures, in other parts of the UK and in the Republic of Ireland. Reports from the National Audit Office (NAO) and other audit bodies highlight that an accurate assessment of business needs and the skills and capabilities of the workforce, alongside effective monitoring of costs, savings and impacts are key aspects of managing successful schemes.

7. Over half of the 2015-16 expenditure (£90.4 million, or 53 per cent) provided for the exit of 2,363 Full Time Equivalent (FTE) staff under the NICS Voluntary Exit

2 Based on headcount figures provided by NISRA.

3 Public Sector Employment UK, Office for National Statistics (ONS), December 2015.

4 DoF has agreed the interest rates and schedule for repayments with HM Treasury.

Executive Summary

Scheme (NICS VES). The remaining funding of £80.3 million provided for the exit of 2,020 FTE staff through 22 VE schemes across the wider public sector.

8. In overall terms, the 2015-16 PSTF supported the exit of 4,383 FTE staff from the public sector in Northern Ireland at a total cost of £170.7 million (49 of these staff are still to exit). VE schemes funded in 2015-16 are estimated to have generated in-year pay bill savings of £44.9 million in 2015-16, with annual savings in future years estimated at £154.5 million.[5]

Conclusions and Recommendations

9. Best practice indicates that early departure schemes should be driven by the long term needs of the organisation and their workforce plans, rather than purely by immediate budgetary considerations. This was not feasible within Northern Ireland since in 2015-16, blunt in-year adjustments in headcount and pay bill were essential to balance budgets.

Going forward, DoF should encourage a more strategic approach to exit schemes funded by the PSTF which makes the most of opportunities to de-layer and re-design public sector organisations, considers efficiencies available through greater use of digital services and takes account of the new departmental structures within the NICS.

Recommendation 1:

Future voluntary exit schemes in the public sector should be based on strategic workforce planning which:

- **links exits to target operating models;**
- **assesses the priority skills the organisation needs to retain;**
- **forms part of a wider set of workforce planning measures to control staff costs; and**
- **factors in the potential impact of natural wastage.**

10. DoF applied a methodology, based on value for money and affordability, to allocate funding to public sector organisations. In addition, it put in place a range of monitoring requirements on departments and arm's-length bodies to track expenditure, number of staff leaving and pay bill savings generated on a month-by-month basis. These arrangements ensured that funding could be reapportioned in-year from one scheme to another, based on changing business needs. Other than the NICS VES, however, scrutiny of individual schemes and business cases by DoF, before funding was allocated, was limited. In 2015-16, bids for funds initially exceeded supply and selection decisions were made on value for money grounds. However, later in the year, with re-profiling, the position changed and supply of funds then exceeded demand.

5 DoF July 2016.

Recommendation 2:

In future, where there may be a need to prioritise and choose between different schemes, we recommend that the Department of Finance (DoF) provides additional scrutiny of business cases to standardise approaches and ensure value for money is achieved.

11. DoF intends to produce an annual evaluation of the impact of VE schemes on paybill savings and report the results. Reporting savings generated against the repayments and interest incurred for Reinvestment and Reform Initiative (RRI) borrowing will provide a comprehensive assessment of the value for money of VE schemes and will allow DoF to determine whether the success of the 2015-16 VE schemes has been sustained in the medium to long term. Net pay bill savings reported by organisations could also be factored into the budget setting process for departments and organisations.

Recommendation 3:

We welcome DoF's assurances that, each year, it will monitor and report the level of net savings generated against overall pay bill expenditure, other staff and interest costs. We recommend that it continues with this annual monitoring and reporting over the life of the RRI borrowing so that it can assess the sustainability of savings in the medium to long term.

12. The implementation of VE schemes within the available timescales, and in particular the FTE reduction of 9.2 per cent within the civil service within a short period of time, is a significant achievement. While the results of our survey showed that a number of organisations had used VE schemes to generate efficiencies in their operating models, the potential impact of VE schemes on staff morale and skills across the Northern Ireland public sector needs to be monitored going forward.

Recommendation 4:

We recommend that departments and other public bodies monitor the impact of their VE schemes on staff skills and morale, and on service delivery.

Executive Summary

Overall conclusion on value for money

DoF managed the implementation of both the PSTF and the NICS VES in a way which is consistent with value for money, within restricted timescales and in an uncertain funding climate. Voluntary exit schemes funded in future years should be based on detailed workforce planning. The overall impact on staffing levels and pay bill costs should be monitored to ensure schemes deliver sustained savings over time that justify the initial expenditure on compensation costs and the interest charges incurred from borrowing. At the level of individual organisations, the impact of exit schemes on staff skills and morale, and on service delivery, should also be monitored.

Part One:
Background and Introduction

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Background and Introduction

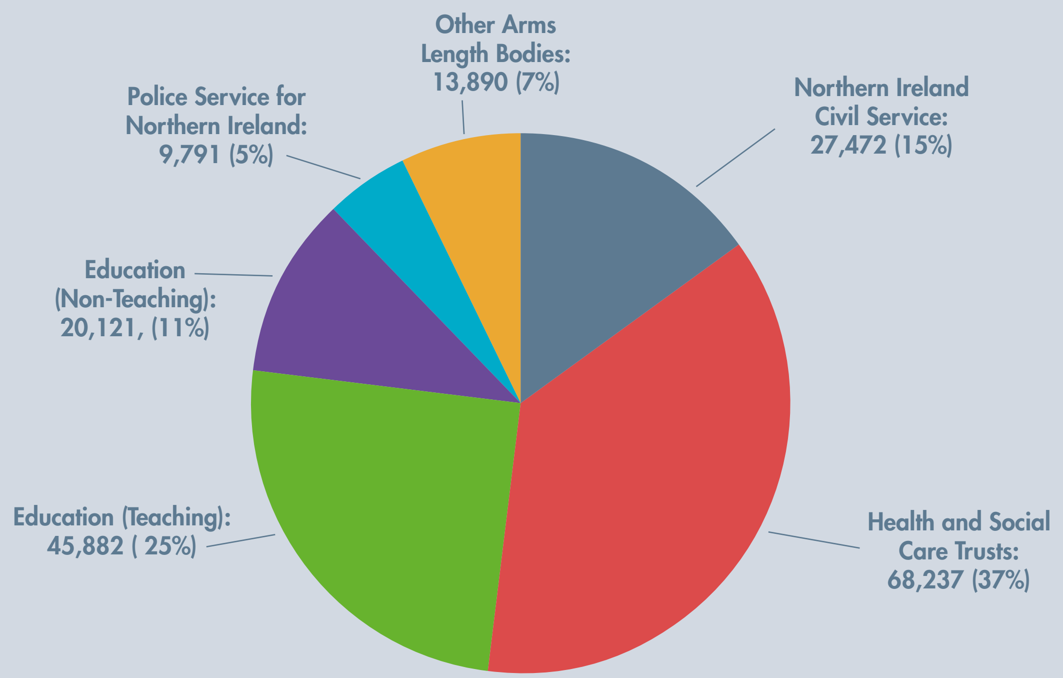
This section of the report sets out the context for the VE schemes implemented in 2015-16, compares public sector employment in Northern Ireland with other regions and outlines the financial pressures on the Northern Ireland Executive prior to establishment of the Public Sector Transformation Fund (PSTF).

The use of exit schemes in other jurisdictions is summarised, and the methodology for this study is set out.

Northern Ireland public sector employment per head of population is the highest of any region in the United Kingdom

1.1 In March 2015, the total number of public sector jobs funded by the Northern Ireland Executive (the Executive) was estimated at 185,393[6]. **Figure 1.1** breaks down this total by category and shows that just over 68,000 (37 per cent) of public sector jobs were within the Health and Social Care (HSC) sector, almost 46,000 (25 per cent) were in teaching, and around 27,000 (15 per cent) were in the Northern Ireland Civil Service (NICS) with the remaining 23 per cent made up of non-teaching roles in the education sector, the Police Service of Northern Ireland (PSNI) and other arm's length bodies (ALBs).

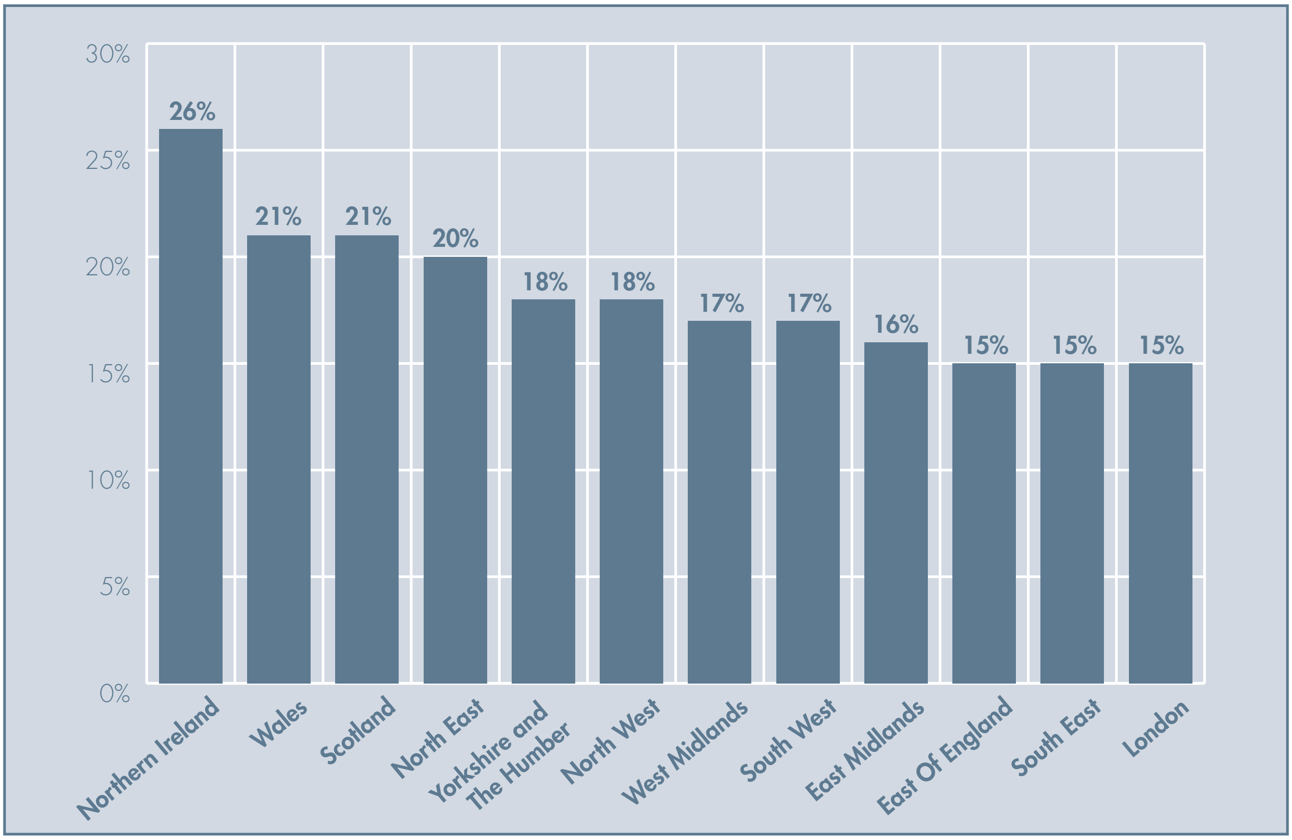
Figure 1.1: Employment in the NI Public Sector funded by the Northern Ireland Executive, March 2015 (Headcount Figures)



Source: NISRA

6 Based on headcount figures provided by NISRA.

Figure 1.2: Proportion of total employment in the public sector by region (December 2015)



Source: Quarterly Public Sector Employment Survey, ONS

1.2 Northern Ireland public sector employment per head of population is the highest of any region in the United Kingdom (**Figure 1.2**). In December 2015, almost 26 per cent of individuals in employment in Northern Ireland were employed in the public sector. This compares with just less than 21 per cent in Scotland and Wales and almost 15 per cent in London.[7]

Northern Ireland public sector bodies are under increasing pressure to manage costs as real-terms budgets are reduced

1.3 The 2015-16 Northern Ireland budget included a 1.4 per cent real terms reduction in the Executive's main R-DEL[8] budget allocation, the funding used to

7 Office for National Statistics (ONS), Public Sector Employment, UK, December 2015.

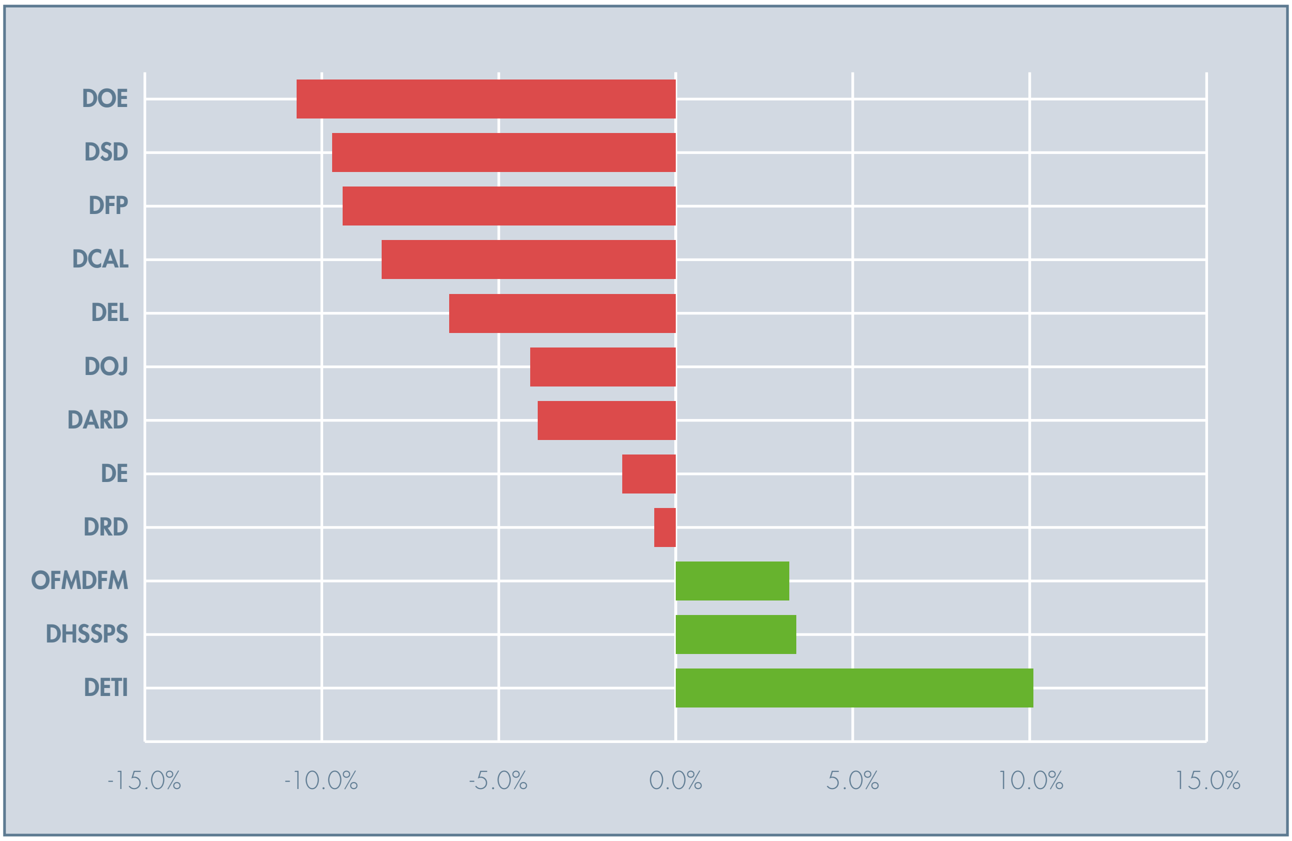
8 Non-Ring Fenced Resource - Departmental Expenditure Limit

Part One:
Background and Introduction

cover the ongoing costs of providing public services.[9] **Figure 1.3** shows that only three Northern Ireland Executive Departments saw an increase in their R-DEL allocation in 2015-16. The Department of Enterprise, Trade and Investment (DETI) received the largest budget increase of just over 10 per cent. By contrast, the Department of the Environment (DOE) suffered a budget reduction of 11 per cent. Reductions in the Department for Social Development (DSD), the Department of Finance (DoF), the Department of Culture, Arts and Leisure (DCAL) and the Department for Employment and Learning (DEL) were in excess of 5 per cent.

1.4 The 2016-17 budget detailed the outcome of the UK Spending Review on the Northern Ireland budget. While R-DEL funding levels will continue to see cash increases up to 2019-20, the funding in real terms available to Executive departments will continue to decline over the next Assembly term.

Figure 1.3: Percentage change in Final Departmental Budgets (Non-Ring Fenced Resource Departmental Expenditure Limits) from Baselines, 2015-16



Note: Figure 1.3 uses the departmental structure in place prior to May 2016.

Source: Budget 2015-16, Northern Ireland Executive

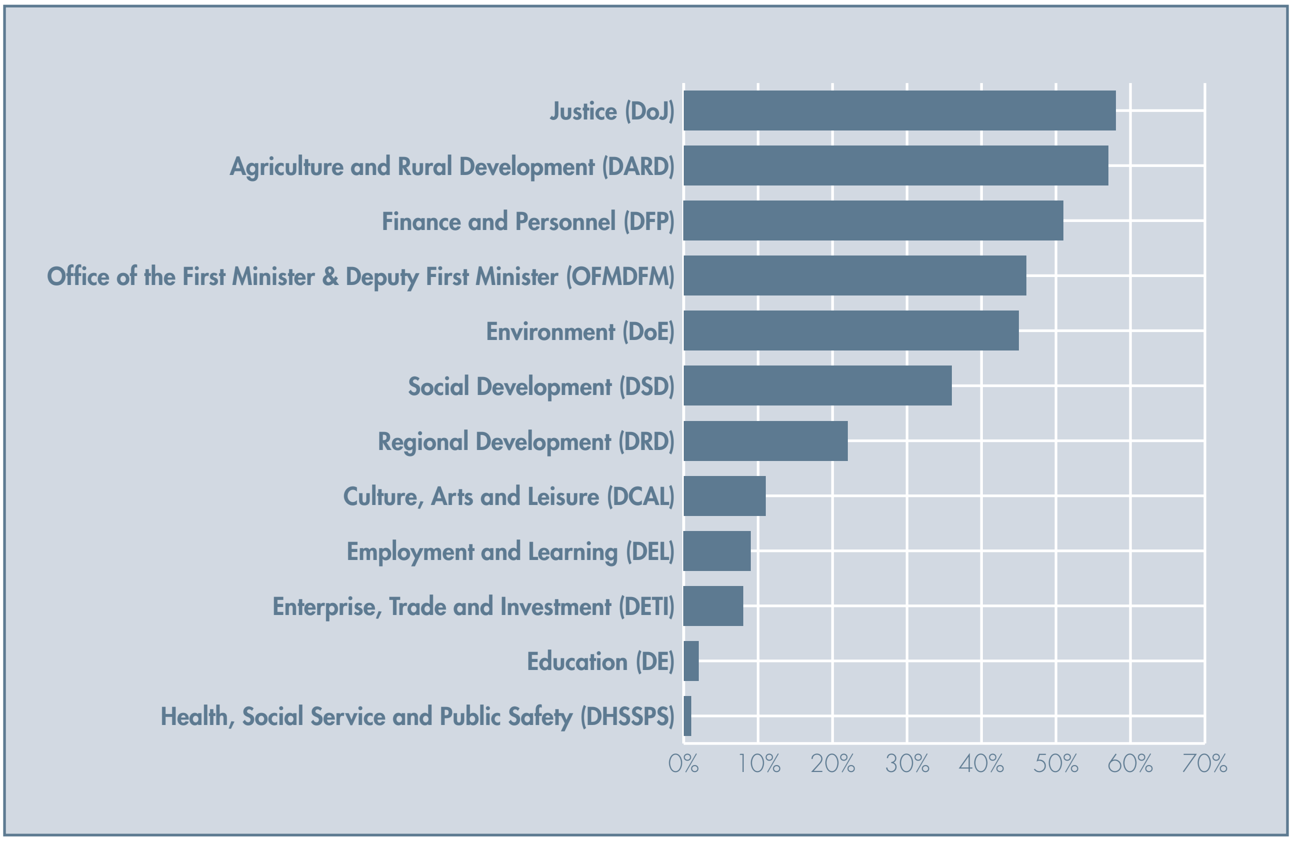
9 Northern Ireland Executive, Budget 2015-16.

Pay bill costs account for a significant proportion of Northern Ireland public sector expenditure each year

1.5 Each year a significant proportion of the annual public sector budget is spent on pay bill costs. We asked departments and those arm's length bodies (ALBs) which received funding for VE schemes in 2015-16 to provide information on their annual pay bill costs as a proportion of their overall resource budget

1.6 **Figure 1.4** shows that during 2014-15, pay bill costs accounted for over 30 per cent of total resource costs in six of the twelve Departments. **Figure 1.5** shows that, in over half of ALBs, pay bill costs for staff eligible for voluntary exit accounted for 50 per cent or more of resource expenditure. As the real-terms funding available to Departments reduces, pressures increase both on departmental staffing budgets and the funding available for ALBs.

Figure 1.4: Pay bill costs as a proportion of departmental resource budgets (2014-15)[10]



Note: Figure 1.4 uses the departmental structure in place prior to May 2016.

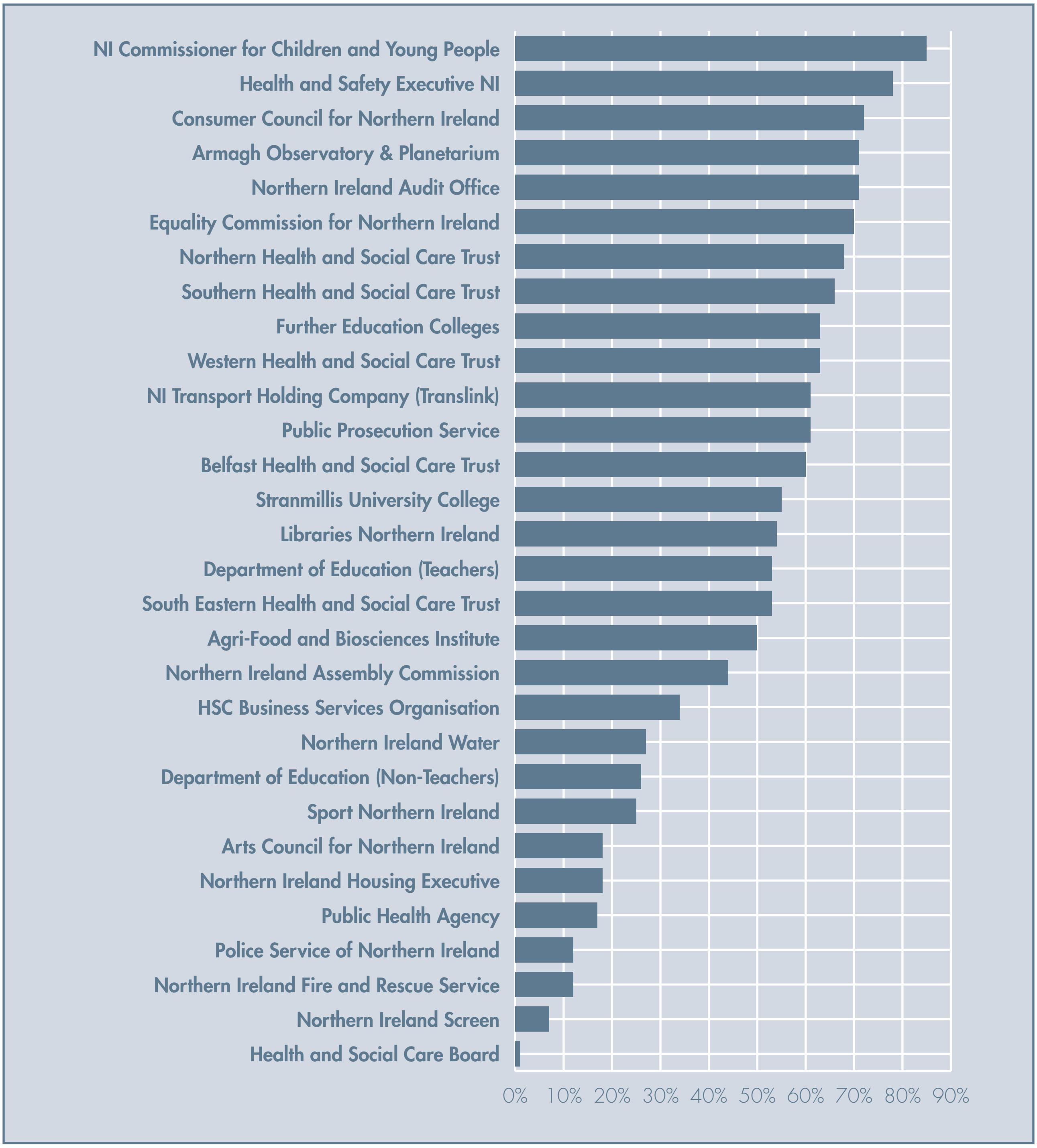
Source: NIAO Survey of Departments and ALBs[11]

10 The figures used to produce this graph were extracted from our survey of Departments and ALBs. The figures have not been agreed with, or validated by, DoF.

11 Department of Health, Social Services and Public Safety (DHSSPS) figure relates to the core department only. DSD figure includes DWP funded staff. DoF figure relates to permanent staff costs against gross current non-ring-fenced resource budget (excluding depreciation and impairments). Department for Agriculture and Rural Development (DARD) figure includes temporary and agency staff.

Part One:
Background and Introduction

Figure 1.5: Pay bill costs as a proportion of ALB resource budgets (2014-15)



Source: NIAO Survey of Departments and ALBs[12]

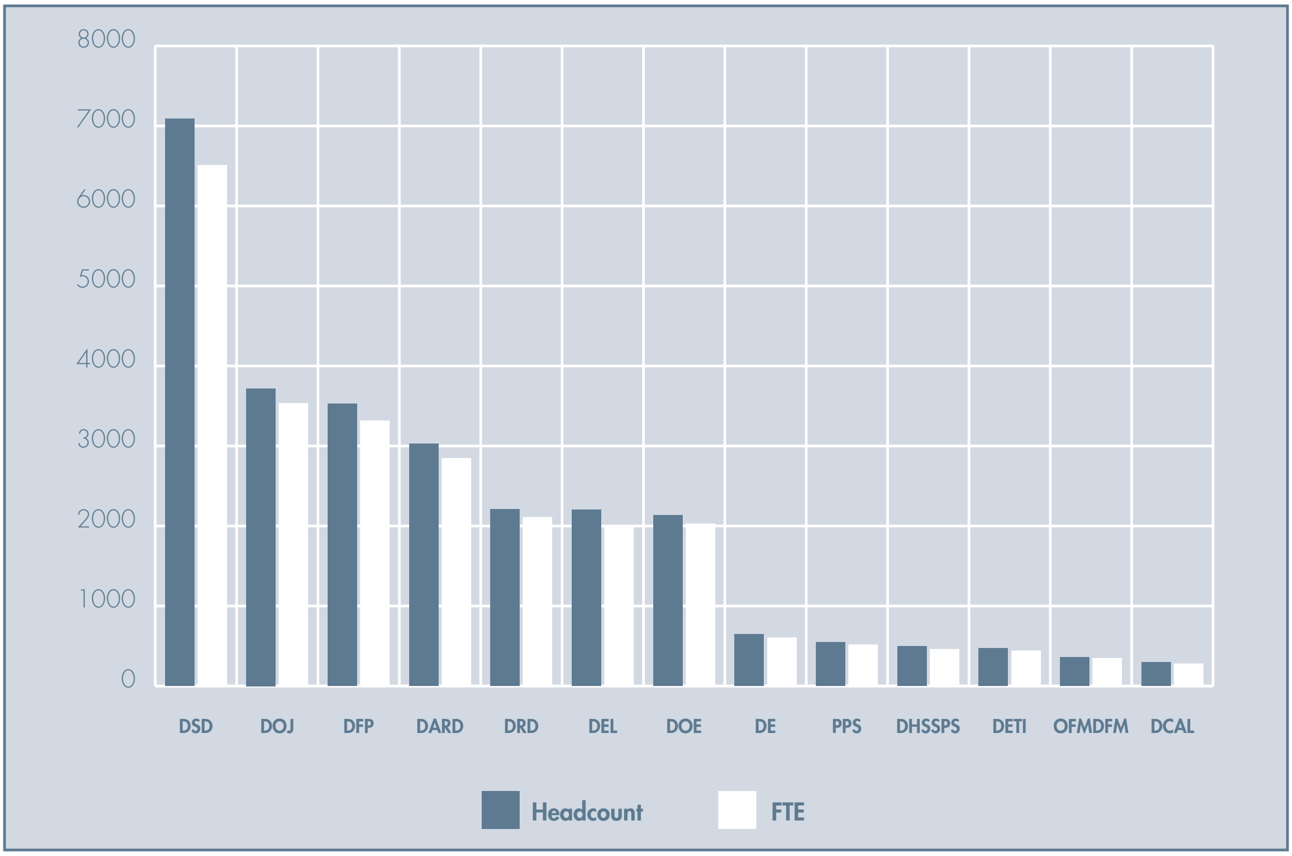
12 The NI Fire and Rescue Service figure covers support and Regional Control Centre staff only. Police Service of Northern Ireland (PSNI) figure excludes police officer pay costs and includes security funded staff posts. NI Housing Executive figure is based on an annual budget of £471 million. The Department for Education (DE) Teacher and non-Teacher estimates are based on the Final DEL Resource Budget of £1,958 million. We did not receive responses from 5 organisations (Tourism NI, NI Ambulance Service (NIAS) HSC Trust, Regulation and Quality Improvement Authority (RQIA), Northern Ireland Medical and Dental Training Agency (NIMDTA) and Northern Ireland Practice and Education Council for Nursing and Midwifery (NIPEC).

1.7 **Figure 1.4** shows that paybill accounts for a significant proportion of departmental R-DEL budgets and highlights the importance of workforce planning in ensuring that departments can live within budgets which are expected to reduce (in real terms) in future years. Continued protection of certain departmental budgets from reductions (for example, the Health budget) has a disproportionate effect on the resource expenditure of other departments. As a result, these departments can face considerable pressure attempting to live within their agreed budget allocations.

Government departments vary in terms of workforce size and grade profile

1.8 **Figure 1.6** shows the headcount and Full Time Equivalent (FTE) totals in April 2015 for each of the 12 Executive departments and the Public Prosecution Service (PPS), a non-Ministerial government department. DSD was the largest department in terms of both headcount and FTE staffing levels.

Figure 1.6: All Employees in the NICS, Headcount and Full-Time Equivalent (FTE), April 2015



Source: Employment in the NICS, NISRA, April 2015

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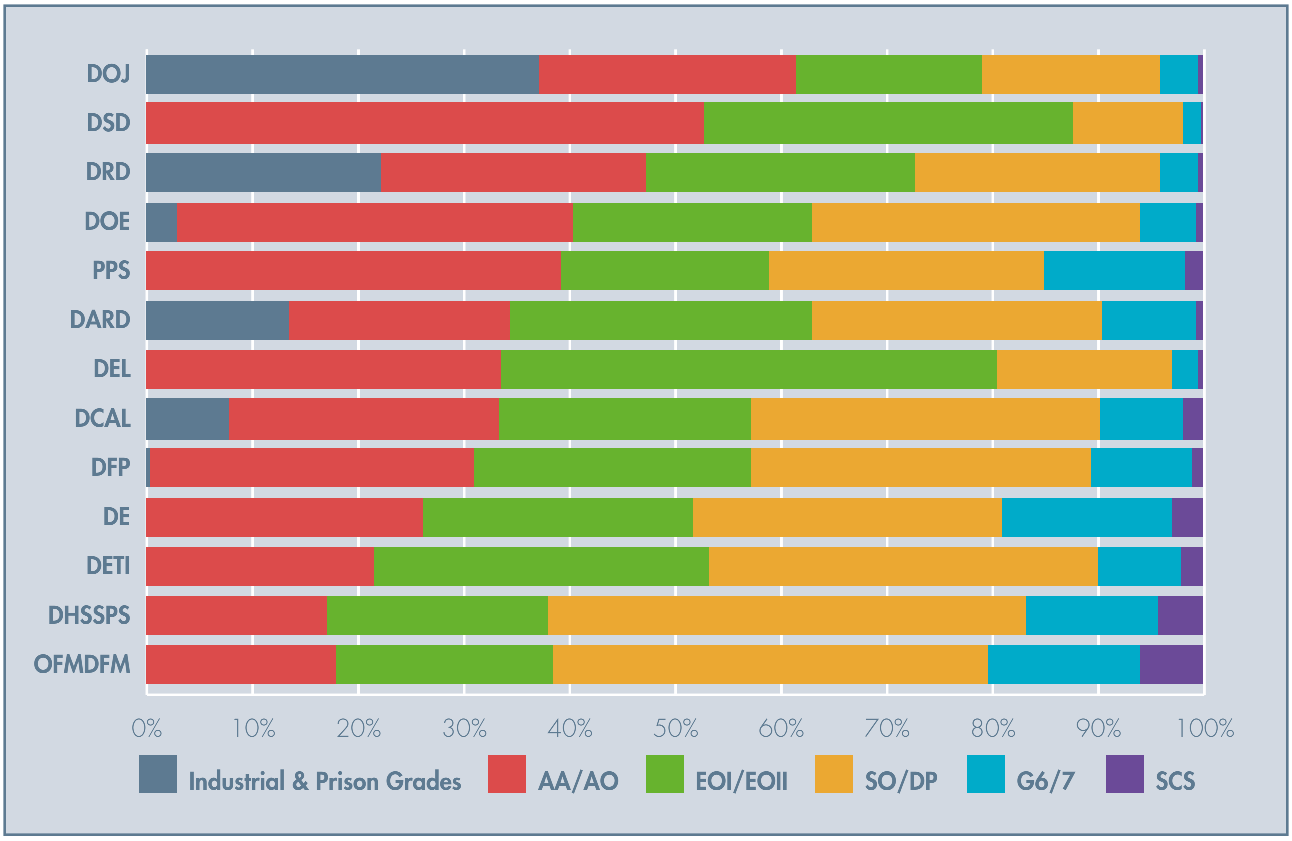
1.9 **Figure 1.7** charts the distribution of grades across each of these 13 departments. In April 2015, over 50 per cent of DSD staff were employed at administrative grades (Administrative Assistant and Administrative Officer), while the Department of Justice (DOJ) had over 35 per cent of staff in Industrial and Prison Grades. Other departments (e.g. DHSSPS, DE, OFMDFM and the PPS) had a higher proportion of staff at senior grades (Senior Civil Servants or Grade 6 and 7).

The Northern Ireland public sector has flexibility to use £700 million of capital borrowing to finance exit schemes

1.10 The Stormont House Agreement (December 2014) included a commitment for the Executive to adopt a comprehensive programme of public sector reform and restructuring, including measures to reduce pay bill costs and the size of the NICS and the wider

Figure 1.7: Permanent Employees – Percentage of headcount by grade, April 2015



Source: Employment in the NICS, NISRA, April 2015 public sector. HM Treasury provided the flexibility to use up to £700 million of capital borrowing to finance voluntary exit (VE) schemes over the four year period from 2015-16 to 2018-19. The borrowing will be accessed under the existing Reinvestment and Reform Initiative (RRI) with annual limits set at £200 million for the first three years and £100 million in the final year.

1.11 RRI borrowing has traditionally been used to support substantial infrastructure investment (i.e. capital expenditure) in Northern Ireland. The use of RRI borrowing to finance VE schemes is therefore novel because VE is resource, rather than capital, spend. In 2015-16, of the £200 million allocation, £183.5 million was allocated to departments and £170.7 million spent on 23 public sector exit schemes, including a number of combined schemes (such as the NICS, Health and Social Care ALBs and Further Education (FE) College schemes). The interest rates on the associated RRI borrowing for the 2015-16 VE schemes ranged from 1.31 per cent to 1.89 per cent (depending on the applicable Public Works Loans Board rate on the date the loan was drawn). DoF estimates that the 2015-16 borrowing for VE schemes will be repaid by 2031-32 at a total cost of £207.6 million (including interest payments of £24.1 million).

A total of 4,383 staff were released from the Northern Ireland public sector through 23 voluntary exit schemes in 2015-16, at an estimated total cost of £170.7 million

1.12 Over half of the 2015-16 expenditure (£90.4 million, or 53 per cent) provided for the exit of 2,363 full time equivalent (FTE) staff under the NICS Voluntary Exit Scheme (NICS VES). The remaining funding of £80.3 million provided for the exit of 2,020 FTE staff in 22 voluntary schemes across the wider public sector. In overall terms, the 2015-16 Public Sector Transformation Fund (PSTF) loan supported the exit of 4,383 FTE staff from the public sector in Northern Ireland at a total cost of £170.7 million. This represents a decrease of just over 2 per cent of jobs funded by the NI Executive. Within the NICS, the job reduction equated to just over 9 per cent of the total FTE staff in March 2015.

1.13 In total, VE schemes funded in 2015-16 are estimated to have generated in-year pay bill savings of almost £44.9 million in 2015-16. Annual savings for 2016-17, and future years, are estimated at just under £154.5 million.[13]

13 DoF July 2016.

Part One:
Background and Introduction

This report considers the administration of the PSTF by DoF and examines the impact of voluntary exit schemes funded in 2015-16, including the NICS VES

1.14 This report examines the mechanisms put in place by DoF to secure pay bill cost and headcount reductions across the public sector. Part 2 considers how DoF allocated funding and monitored public sector VE schemes, and how it managed the NICS VES as the largest single scheme implemented in 2015-16. Part 3 assesses the impact of VE schemes across the public sector to date.

1.15 We issued a survey (supported by additional guidance developed with DoF) to Human Resources contacts across all NICS departments and ALBs who operated a scheme in 2015-16. This survey sought to assess the impact of VE schemes on pay bill costs, workforce numbers and service delivery. A total of 43 responses (out of an expected 48) were received. A copy of the survey questionnaire is included at Appendix 1.

1.16 A combination of quantitative and qualitative methods were also used to compile this report, including:

- conducting interviews and one-to-one questionnaires with relevant staff in DoF, other NICS departments and arm's-length bodies;
- reviewing documentation on the administration of the PSTF and management of the NICS VES by DoF, the workforce planning by NICS departments and the business cases and supporting documentation for schemes operated by ALBs;
- reviewing the annual accounts of NICS departments and ALBs; and
- a desk review of other initiatives operating in Great Britain and the Republic of Ireland.

All costs and staff numbers quoted are, unless otherwise stated, the latest available at 31 July 2016

Voluntary exit schemes have the potential to deliver significant long term savings for the Northern Ireland public sector if pay bill savings can be sustained

1.17 While incurring upfront compensation costs, voluntary exit (VE) schemes can be used alongside other measures to generate in-year and annual pay bill savings by reducing the overall size of the workforce. If the annual savings to be generated from the 2015-16 VE schemes are sustained over a ten year period, the cumulative saving to the public sector would be in the region of £1.5 billion.

1.18 The VE schemes funded through the 2015-16 PSTF used RRI borrowing to provide a blunt readjustment to pay bill levels, enabling departments and ALBs to live within available budgets.

Distinct from voluntary redundancy (VR) or compulsory redundancy (CR), VE schemes enable staff numbers to be reduced on similar terms to voluntary redundancy without creating the conditions for compulsory redundancies to follow. Further detail on the differences between VE, VR and CR schemes under the Civil Service Compensation Scheme (Northern Ireland) (CSCS (NI)) is included in Appendix 2.

1.19 Many of the public sector bodies which ran VE schemes in 2015-16 had implemented various personnel interventions to address financial pressures on budgets. **Figure 1.8** illustrates some of the interventions used. Internal redeployment of staff and the use of recruitment restrictions/freezes were the most commonly used interventions, however compulsory redundancies were also used in the case of non-teaching school staff, and one ALB used changes to employee's terms and conditions to help control staff costs.

1.20 In the case of the NICS, DoF imposed a range of service-wide interventions from 2014 onwards to effect a headcount and pay bill reduction. These resulted in the suppression of an estimated 1,120 posts and generated estimated savings of £31 million per annum. These included:

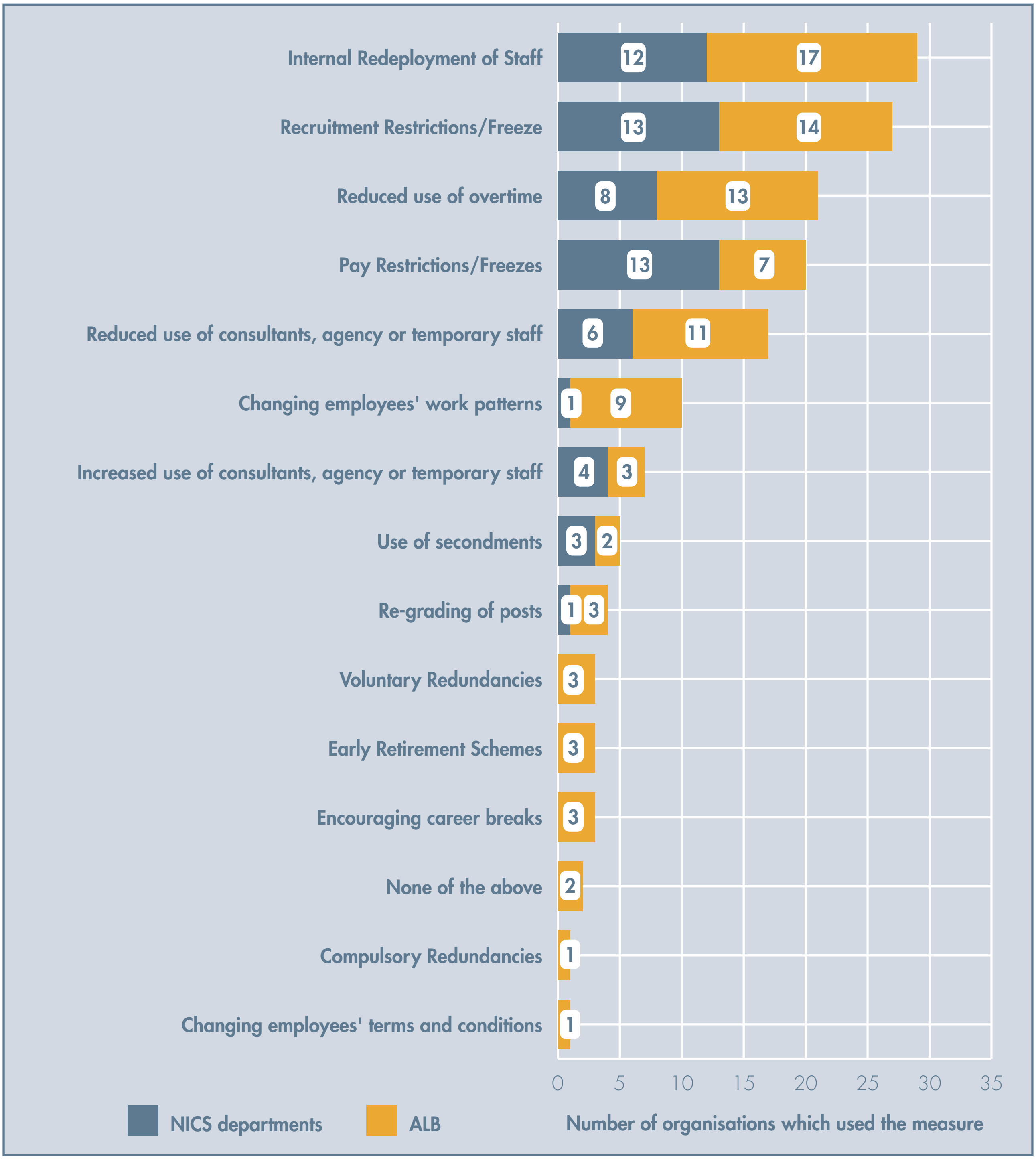
- an NICS-wide, indefinite embargo on recruitment and substantive promotion, introduced with effect from 26th November 2014 (the embargo was lifted in April 2016);
- suppression of vacant posts from 1,670 in April 2014 (6 per cent of the NICS) to 263 posts in October 2014 (just under 1 per cent);
- a review and reduction of overtime where appropriate, which in 2013-14 stood at more than £15 million; and
- consideration of the effects of natural wastage (2013 rate 4.1per cent, an increase on the 2012 rate of 3.8 per cent).

1.21 More widely, individual public sector organisations instituted measures specific to their needs, to generate savings. For example:

- the Public Prosecution Service (PPS) carried out a rationalisation of office accommodation and locations;
- Further Education (FE) colleges explored more opportunities for income generation and use of shared services;
- Translink reduced fuel spend and in-sourcing of expenditure on legal advice; and
- the Agri-Food and Biosciences Institute (AFBI) closed functions no longer required by its sponsor department.

Part One:
Background and Introduction

Figure 1.8: Additional measures introduced by public sector organisations in 2015-16



Source: NIAO Survey of departments and ALBs

Audit agencies in the UK and in the Republic of Ireland have reported that exit schemes can lead to pay bill reductions and generate savings

1.22 VE schemes have been used successfully alongside other pay bill cost-controlling measures in other parts of the UK and in the Republic of Ireland. In June 2015[14], the National Audit Office (NAO) estimated that in England, a reduction in staff numbers of 18 per cent over the period from March 2010 to December 2014 had resulted in a real terms net reduction in annualised salary costs of £2.29 billion. In this report (as in previous reports[15]), the NAO found key elements of best practice included: consistent central direction; effective monitoring of costs, savings and impacts; detailed workforce planning; protections for business continuity; and measures to preserve business-critical skills. The 2015 report criticized the Centre of Government (Cabinet Office and HM Treasury) for not taking forward previous recommendations[16] to lead on co-ordinating strategic workforce planning, and noted that individual departments lacked comprehensive and reliable data on the skills of their workforce to inform staff reductions and changes to operating models.

1.23 In other devolved regions, Audit Scotland reported that public sector staff costs were reduced by £1 billion (8 per cent) between 2009-10 and 2011-12 when 15,816 full time equivalent (FTE) staff were released under early departure schemes,[17] while in Wales the Wales Audit Office (WAO) estimated that 10,658 early departures had reduced staff salary costs by around £447 million in real terms between 2009-10 and 2013-14, at an average cost of £23,805. This included a 15 per cent reduction in central government, just under 5 per cent in local authorities and national park authorities, and just over 1 per cent in NHS bodies[18].

1.24 In the Republic of Ireland, other measures for controlling staff costs (including substantial redeployment exercises, a pay freeze, increases to working hours and a comprehensive pay cut for all public servants) reduced staffing levels in the public sector from 320,400 in 2008 to 288,300 in 2013, a reduction of 32,100 (or 10 per cent). Expenditure on public service pay and pensions has decreased accordingly, from €18.7 billion in 2008 to €16.6 billion in 2013. As such, while voluntary redundancy (VR) schemes were introduced from 2012, the Department of Public Expenditure and Reform (DPER) has found uptake to be lower than expected[19].

1.25 While the public sector in Northern Ireland has not experienced reductions in headcount or pay bill on the scale of other regions in the 2010-2015 period, a number of individual VE schemes have

14 Central Government Staff Costs, National Audit Office, June 2015

15 Managing Change in the Defence Workforce, National Audit Office, February 2012

16 Managing Early Departures in Central Government, National Audit Office, March 2012

17 Scotland's Public Sector Workforce, Audit Scotland, November 2013

18 Managing Early Departures across Welsh Public Bodies, Wales Audit Office, February 2015

19 NI Assembly Research and Information Service Research Paper: Early Departure Schemes, 2015

Part One:
Background and Introduction

been funded, including an estimated £57.5 million of Invest to Save funding. A recent NIAO report[20] found that those schemes funded through Invest to Save were among the initiatives that could demonstrate tangible savings over the long term. These included schemes in the HSC and Education sectors, Libraries NI and the Planning Service with total estimated savings of £20.4 million, and an additional estimated £47.4 million generated by a Teacher Redundancy scheme over the budget period 2011-2015.

20 NIAO, Invest to Save, 2015.

Part Two:
Management of the Public Sector Transformation Fund

Part Two:
Management of the Public Sector Transformation Fund

This section of the report examines how DoF:

- allocated funding from the PSTF to VE schemes;
- managed the NICS VES as the largest single scheme funded in 2015-16; and
- monitored the progress of schemes across the public sector.

DoF established the PSTF to manage allocations of RRI borrowing and finance Northern Ireland public sector exit schemes from 2015-16 to 2018-19

2.1 Following the publication of the Stormont House Agreement (December 2014), the PSTF was established in early 2015, with funding confirmed for schemes in September 2015 (further detail on timeline for allocations included at Appendix 3).

2.2 The PSTF managed allocations from the £700 million of funding available under the Fresh Start Agreement for the four year period from 2015-16 to 2018-19. **Figure 2.1** shows the total available drawdown each year. There is no flexibility in allocations across budget years.

Figure 2.1: Funding available under the Stormont House Agreement

Year	Amount
2015-16	£200 million
2016-17	£200 million
2017-18	£200 million
2018-19	£100 million

Source: DoF

2.3 The RRI, announced in 2002, included a new borrowing power to support an infrastructure investment programme in Northern Ireland. It provided access to £125 million in 2003-04, and from 2004-05, a longer term facility, initially capped at £200 million per annum. Annual limits on RRI borrowing are usually set as part of the national Spending Review process. RRI borrowing is treated as Annually Managed Expenditure and therefore increases the Executive's DEL spending power. Borrowing under the RRI is covered by the Northern Ireland (Loans Act) 1975 (as amended) which sets a limit on outstanding debt of £3 billion.[21] This limit also covers loans drawn by the Northern Ireland Consolidated Fund to cover onward lending to local councils. The term of RRI loans is linked to the life of the underpinning asset with the majority being repaid over a period of 25 years and interest applied on the principal sums at standard rates set by HM Treasury. The total level of NI Consolidated Fund outstanding debt at 31 March 2016 stood at £2.1 billion against an upper limit of £3 billion. Of this, £1.8 billion related to RRI loans. The Executive has set aside £59.6 million to cover the forecast annual interest repayment on RRI loans in 2016-17.

21 Under the Northern Ireland (Miscellaneous Provisions) Act 2006

2.4 In January 2014, we reported on the impact of RRI[22] borrowing. Given the increase in borrowing, we recommended that DoF regularly provides the Executive, the Assembly, and its Statutory Committees with more transparent, robust and comprehensive analysis of current and future RRI borrowings and clearly sets out an analysis of the affordability of future borrowings and anticipated RRI commitments in future budgets. This recommendation was accepted and an overview of RRI and other borrowing commitments has been included in the 2015-16 and 2016-17 budget documents.

DoF used a methodology based on affordability and value for money to determine allocations to 23 VE schemes across the public sector in 2015-16

2.5 DoF invited all public sector bodies with an approved business case and scheme in place to submit bids for funding in March 2015 to support VE schemes. Resource allocation focused on the value for money and affordability of respective schemes. Individual bids estimated the annual savings to be generated and total compensation costs. Compensation costs were calculated on the basis of a median grade leaver entitled to maximum compensation plus other costs attributable to the fund.

2.6 Bids were weighted using an Average Benefit Cost Ratio (ABCR) which compared the upfront cost against one full year of estimated annualised savings. Funding available in 2015-16 (£200 million) was then allocated in proportion to the weighted need. For example, a business case with upfront compensation costs estimated at £10 million, and annual savings estimated at £15 million, would have an ABCR of 1.5 and a weighted need of £15 million. If the PSTF was oversubscribed by a ratio of 2:1, the scheme would receive an allocation of £7.5 million. Although the methodology was applied to the allocations in September 2015 and again in November 2015, by January 2016 (following several revisions and surrenders by individual schemes) the total funding requested by departments and other public sector bodies fell below the £200 million maximum. As a result, all bodies received the amount requested in their approved business case.

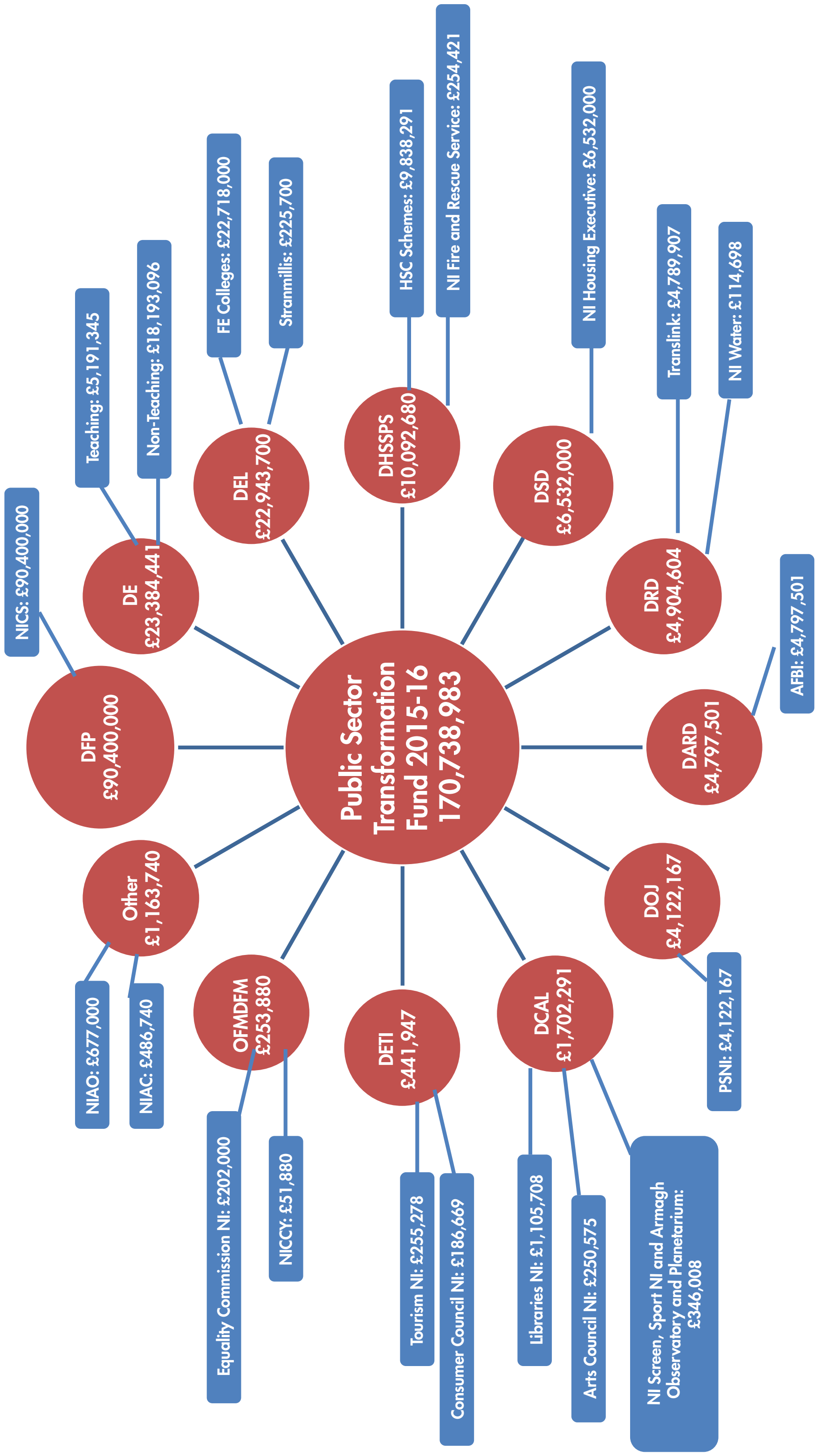
2.7 DoF anticipated (on the basis of information provided by departments) that demand by 2015-16 would total £338.5 million and would, therefore, exceed the available funding of £200 million. In fact the value of initial bids was much lower, at £254.6 million. As applicant interest in schemes became clearer, various organisations withdrew[23] or amended their applications and the actual level of funding required to meet the cost of 23 VE schemes amounted to significantly less, at £170.7 million.

22 The Future Impact of Borrowing and Private Finance Commitments, Northern Ireland Audit Office, January 2014

23 National Museums Northern Ireland (NMNI) and the Northern Ireland Policing Board

Part Two:
Management of the Public Sector Transformation Fund

Figure 2.2: 2015-16 Public Sector Transformation Fund Final Expenditure (June 2016)[24]



Source: DoF July 2016

24 Using the departmental structures in place prior to May 2016

2.8 **Figure 2.2** shows the final spend on the PSTF. Over half (£90.4 million) of the 2015-16 expenditure related to the NICS VES, which was managed centrally by DoF. The remaining £80.3 million supported 22 VE schemes in other Northern Ireland public bodies.

The NICS VES received the largest proportion of funding from the PSTF in 2015-16

2.9 DoF took the lead in implementing both the PSTF and the NICS VES, the largest scheme implemented in 2015-16. DoF developed the business case and scheme procedures for the NICS scheme, coordinated departmental HR engagement with the scheme, responded to queries from staff, sourced relevant legal advice and provided quotations and compensation awards to those staff who could avail of the terms of the Civil Service Compensation Scheme (NI) (both NICS employees and those of other participating public sector employers)[25].

2.10 The NICS VES business case proposed a permanent headcount reduction of approximately 3,060 (or 2,551 FTE staff) at an initial estimated cost of somewhere between £97 million and £135 million and predicted pay bill savings of £25.8 million in 2015-16 followed by annual savings of £94 million. The required reduction in the number of staff was calculated based on departments' estimates for the savings needed to live within available budgets.

2.11 The business case considered various options, including a 'do nothing' option (which relied on natural wastage to secure savings), a variety of voluntary exit schemes with varying discretionary elements, voluntary redundancy and compulsory redundancy. The 'do nothing' option was eliminated because natural wastage would not achieve the necessary reductions within the required timescales. The remaining business case options were then appraised, with anticipated costs and savings weighted against potential risks such as low take-up by employees and disruption to services.

2.12 The business case concluded that the preferred model was a NICS VES based on the terms offered in a relatively small scheme which had been run by DOE following the relocation of a number of staff from the Northern Ireland Driver and Vehicle Agency (DVA). This scheme had delivered the necessary headcount reductions without being hugely oversubscribed. As with the DVA scheme, the NICS VES offered the standard tariff of one month's pay per year of service, up to a 21 month maximum. In a bid to encourage employees to apply, and address trade union concerns, the proposed scheme waived the normal minimum service requirement of 2 years and applied a deemed minimum salary for lower grade staff (equal to the maximum of the EO2 pay scale £24,728) for compensation calculations.

25 This includes publicly funded bodies listed in Schedule 1 of the Superannuation (Northern Ireland) Order 1972, and those classified as employed in the NICS under their governing legislation (such as the NIAO - Schedule 1, paragraph 3(2) of the Audit (NI) Order 1987).

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Almost 7,300 employees applied for the NICS VES in 2015-16

2.13 The NICS VES was launched on 2 March 2015, with a deadline for applications of 27 March 2015. Permanent NICS employees were eligible for the scheme except in cases where:

- the employee's post was at Permanent Secretary level or above;
- the post held by the individual was specifically excluded from the scheme following agreement by the Permanent Secretaries Group (PSG); or
- the individual had already agreed an exit date before the launch of the scheme (either through resignation, retirement, ill-health or dismissal for disciplinary or inefficiency reasons).

2.14 The total number of reductions permissible in certain specialist grades was also limited, using quotas. Appendix 4 summarises all exclusions and quotas applied.

2.15 The scheme was administered using an online application portal (TIBUS) and a website which provided guidance on the scheme, an online compensation calculator and a comprehensive 'frequently asked questions' (FAQ) document.

2.16 At the closing date for applications, a total of 7,285 NICS staff applied to be considered for release through the scheme. Over one quarter of all scheme applicants were employed within DSD (1,983, or 27per cent). Overall, 35 per cent of applicants (2,563) were in the AO or AA grade. Analysis of the applicant profile by DoF demonstrated minimal differences (in terms of compensation and pay bill savings) between operating an NICS-wide selection and an individual departmental selection. The individual department selection model was chosen since it was likely to minimise redeployment and mitigate the potential disruption to services.

2.17 The process for determining which applicants were selected under the NICS VES is summarised in Appendix 5. In summary, a Value for Money (VFM) score was calculated for each applicant. Those who were entitled to the least upfront compensation and who would generate the most saving in a one year period attracted a higher VFM score. Selection was determined according to the highest VFM score within the Departmental selection profiles, with applicants tied on VFM score differentiated by an assigned random number.[26]

26 For the purposes of the VFM calculation, NISRA was advised by DoF to assume that partnership pension account holders and members of other pension schemes would incur the same employer contributions as under the PCSPS (NI). One exception to this approach was in the case of Prison Officers with reserved rights, who had their specific pension costs factored into their calculation. For non-scheme members, employer pension contributions were estimated at zero.

DoF demonstrated effective project management and clear communication in the management of the NICS VES

2.18 From development to implementation, DoF monitored progress and ensured that the scheme was delivered within the available timescales. Ongoing central management and coordination enabled one department (Department for Employment and Learning) to meet its selection profile despite having exhausted all applicants at a certain grade. This was facilitated by sourcing additions to other departments' profiles to make up the shortfall through additional exits and subsequent redeployment across departments.

2.19 DoF coordination with the Head of the Civil Service (HOCS) in communicating updates to staff (summarised in Appendix 6) was also effective in the context of the uncertainty regarding funding for the scheme. DoF has also been active in publishing statistics on the outcomes of individual tranches on the VES website. These include details of applicants, offers and acceptances by department, grade, age, gender and community background.

2.20 A post project evaluation is planned and later this year DoF will conduct two reviews: one looking at the community background profile of the NICS workforce and one looking at the gender profile. Both reviews will examine the position and will assess the impact of the VES on the profile of the NICS workforce. In addition, the NICS has agreed a format for reporting NICS pay-bill and workforce data on a quarterly basis to the NICS Board, the purpose being to ensure savings are operationally embedded and permanent. The first report is due for presentation in the autumn of 2016.

The majority of Northern Ireland Civil Service VES applicant quotes and awards were processed accurately, despite significant challenges

2.21 Civil Service Pensions (CSP) branch within DoF was responsible for providing VES quotes and awards to NICS applicants in each of the five VES tranches who were eligible to avail of the terms of the Civil Service Compensation Scheme (NI). CSP operated with a small team of 15 experienced staff. Agency and temporary staff were used to backfill and deliver more routine work.

2.22 The first tranche of the NICS scheme presented particular difficulties for CSP. Successful applicants had received conditional offers outlining that their exit date would be the end of September 2015. However, access to PSTF funding was only confirmed on 5 September 2015. Awards therefore had to be processed in less than 4 weeks. In addition, the NICS VES coincided with a period of transition to a new IT system which made the process of producing

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quotations, costings and awards more resource-intensive for CSP staff. Despite these challenges, only 21 of the 2,414 NICS VES Tranche 1 to 3 awards (less than 1 per cent) were not processed by the date staff exited the NICS. This compares well with similar exercises in England.[27]

2.23 As part of the control regime put in place, CSP defined substantial variances as those being in excess of a 10 per cent variance between quotes and final awards. Internal CSP controls and checks over the five tranches identified only 28 (1 per cent) of the 2,672 awards processed up to the end of January 2016 for NICS VES leavers and members from other public sector organisations leaving under the terms of the Civil Service Compensation Scheme (NI). Errors of between 2 per cent and 10 per cent were identified in a further 22 cases. In the case of substantial errors, the applicant was notified of the variance, offered the correct amount of compensation or given the option of withdrawing from the VES. Clerical error was attributed to 7 out of the 10 substantial errors identified in the first tranche. Errors in later tranches were more often as a result of incorrect applicant information.

2.24 The ability to process the VES awards within tight timescales and with a low level of substantial and other errors (1.8 per cent of all awards processed up to January 2016) is a positive outcome for CSP. To date only one appeal has been upheld based on incorrect data.

Scrutiny of the public bodies schemes and business cases, other than the NICS, fell to Departmental Accounting Officers

2.25 DoF advised departments and ALBs that all bids for PSTF funding must be supported by an approved business case[28] which outlined arrangements for business continuity (including subsequent training needs). The NICS VES business case, produced by DoF, was circulated across public sector bodies as an example. Departments were also advised that standard approval procedures applied as per DoF delegated limits[29].

2.26 The delegated limits for most departments specify that DoF approval, in writing, is required for capital expenditure, and in the case of DoH, for staff redundancy and exit schemes. Although money from the PSTF was ultimately funded by borrowing and, as such, incurs interest charges, expenditure on the schemes is resource and DoF deemed the VES schemes to have the characteristics of a standard resource project, exceptionally funded through the additional borrowing facility. As such, the additional scrutiny and approval process applied to traditional capital project business cases was not applied to the VES business cases.

27 Investigation into members' experience of civil service pension administration, National Audit Office, February 2016

28 Business cases were required to comply with the 10 step approach set out in the Northern Ireland Guide to Expenditure and Evaluation

29 https://www.finance-ni.gov.uk/publications/departmental-delegations

2.27 Individual Departmental Accounting Officers were responsible for assessing whether the VE schemes for ALBs under their responsibility were novel or contentious enough to warrant DoF approval. No department sought DoF approval, as all of the schemes were considered to be in line with the existing NICS exit package, including those operating under different scheme rules with higher maximum compensation limits than the NICS VES. This included schemes operating under the NILGOSC pension rules, such as the non-teacher education scheme, which allowed for a maximum of 24 months compensation instead of the NICS VES limit of 21 months.

2.28 While most business cases demonstrated a VE scheme as the most effective option for achieving the required savings in the context of restricted timescales and reduced budgets, evidence of detailed strategic workforce planning was limited.

Ongoing monitoring by DoF effectively managed in-year re-allocations of the PSTF to respond to changing circumstances

2.29 Following confirmation of the availability of funding for the PSTF in September 2015, DoF put in place a range of monitoring requirements on departments and ALBs for schemes funded in 2015-16. DoF required monthly updates from participating departments and ALBs on the forecast drawdown of funds, number of staff leaving and pay bill savings (in year and annualised). Staff exits and savings have been updated with actual figures as schemes have rolled out across the public sector.

2.30 These monitoring arrangements ensured that the PSTF could be reapportioned from one scheme to another based on changing business needs. For example, in early June 2015, the Department of Education requested a 50 per cent reduction in its initial bid for the teacher exit scheme and a 60 per cent reduction to the bid for the non-teaching staff scheme to reflect its updated requirements. Using the agreed methodology, this funding was quickly reallocated across the remaining schemes.

DoF has arrangements in place to measure the net impact of PSTF on annual paybill costs over time

2.31 In our survey, we asked departments and ALBs to provide estimates of pay bill costs before and after the implementation of their VE scheme. Of those that responded, 30 demonstrated lower pay bill costs in 2016-17 than in 2015-16, however seven organisations reported higher pay bill costs despite the implementation of the scheme.[30] Staff costs can increase due to factors other than recruitment of new staff, for example due to increased employer

30 DoF, Sport NI, Belfast HSC Trust, Northern HSC Trust, South Eastern HSC Trust, Southern HSC Trust and NI Fire and Rescue Service.

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contributions to pensions or national insurance, and wage increases for existing staff, or where an organisation takes on additional functions. DoF intends to produce an annual evaluation of the impact of VE schemes on paybill savings and report the results. It is important that the monitoring arrangements DoF has in place capture robust baseline figures for pay bill and other forms of spend on staff costs (such as agency or consultancy spend) and measure the proportion of savings generated from VE schemes which will be reinvested into pay bill expenditure.

2.32 NAO's 2011 report on staff costs in central government[31] highlighted that permanent pay bill costs are only one element of resource expenditure on people working in the public sector, and that a comprehensive approach will take expenditure on non-payroll staff (e.g. staff employed by an agency) and professional services (e.g. consultants) into account. Monitoring and reporting PSTF savings by tracking pay bill savings against overall expenditure on staff costs in participating organisations, and reporting net savings against the additional borrowing costs of RRI funding will provide both a comprehensive assessment of the savings generated by VE schemes, and a valuable tool for monitoring staff costs across the Northern Ireland public sector.

Conclusions and Recommendations

2.33 Best practice indicates that early departure schemes should be driven by the long term needs of the organisation and their workforce plans, rather than purely by immediate budgetary considerations. This was not feasible within Northern Ireland since in 2015-16, blunt in-year adjustments in headcount and pay bill were essential to balance budgets. Going forward, DoF should encourage a more strategic approach to exit schemes funded by the PSTF which makes the most of opportunities to de-layer and re-design public sector organisations, considers efficiencies available through greater use of digital services and takes account of the new departmental structures within the NICS.

2.34 **We recommend that future voluntary exit schemes in the public sector are based on strategic workforce planning which:**

- **links exits to target operating models;**
- **assesses the priority skills the organisation needs to retain;**
- **forms part of a wider set of workforce planning measures to control staff costs; and**
- **factors in the potential impact of natural wastage.**

31 NAO, Managing Staff Costs in Central Government, 2011

2.35 DoF applied a methodology, based on value for money and affordability, to allocate funding to public sector organisations. It also put in place a range of monitoring requirements on departments and ALBs to track expenditure, number of staff leaving and pay bill savings generated on a month-by-month basis. These arrangements ensured that funding could be reapportioned in-year from one scheme to another, based on changing business needs. Other than the NICS VES, however, scrutiny of individual schemes and business cases by DoF, before schemes were allocated funding, was limited. In 2015-16, bids for funds initially exceeded supply and selection decisions were made on value for money grounds. However, later in the year, with re-profiling, the position changed and supply of funds then exceeded demand.

2.36 **In future, where there may be a need to prioritise and choose between different schemes, we recommend that the Department of Finance (DoF) provides additional scrutiny of business cases to standardise approaches and ensure value for money is achieved.**

2.37 DoF intends to produce an annual evaluation of the impact of VE schemes on paybill savings and report the results. Reporting savings generated against the repayments and interest incurred for RRI borrowing will provide a comprehensive assessment of the value for money of VE schemes and will allow DoF to determine whether the success of the 2015-16 VE schemes has been sustained in the medium to long term. Net pay bill savings reported by organisations could also be factored into the budget setting process for departments and organisations.

2.38 **We welcome DoF's assurances that, each year, it will monitor and report the level of net savings generated against overall pay bill expenditure, other staff and interest costs. We recommend that it continues with this annual monitoring and reporting over the life of the RRI borrowing so that it can assess the sustainability of savings in the medium to long term.**

Part Three:
Measuring the Impact of Voluntary Exit Schemes

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Measuring the Impact of Voluntary Exit Schemes

This section of the report assesses the impact of VE schemes funded in 2015-16 to date, outlining the headcount reductions and savings generated and comparing and contrasting average costs and timescales for recovery. The potential impact on staff and the delivery of public services is also analysed.

By 31 May 2016, 4,383 staff had accepted an offer to leave the public sector under VE schemes at a cost to the 2015-16 Public Sector Transformation Fund of £170.7 million

3.1 The 2015-16 PSTF supported the exit of 4,383 staff from the public sector in Northern Ireland at a total cost of £170.7 million (this includes 49 staff who will exit by February 2017). In total, VE schemes funded in 2015-16 are estimated to have generated in-year pay bill savings of £44.9 million in 2015-16, with annual savings for 2016-17 and future years estimated at £154.5 million per annum.[32]

3.2 The interest rates on the RRI borrowing associated with 2015-16 VE schemes ranged from 1.31 per cent to 1.89 per cent. Projections from the Department of Finance (DoF) estimate that the associated 2015-16 borrowing for VE schemes will be repaid by 2031-32 at a total cost of £207.6 million once additional interest payments of £24.1 million are factored in. The schedule for these repayments has been agreed with HM Treasury.

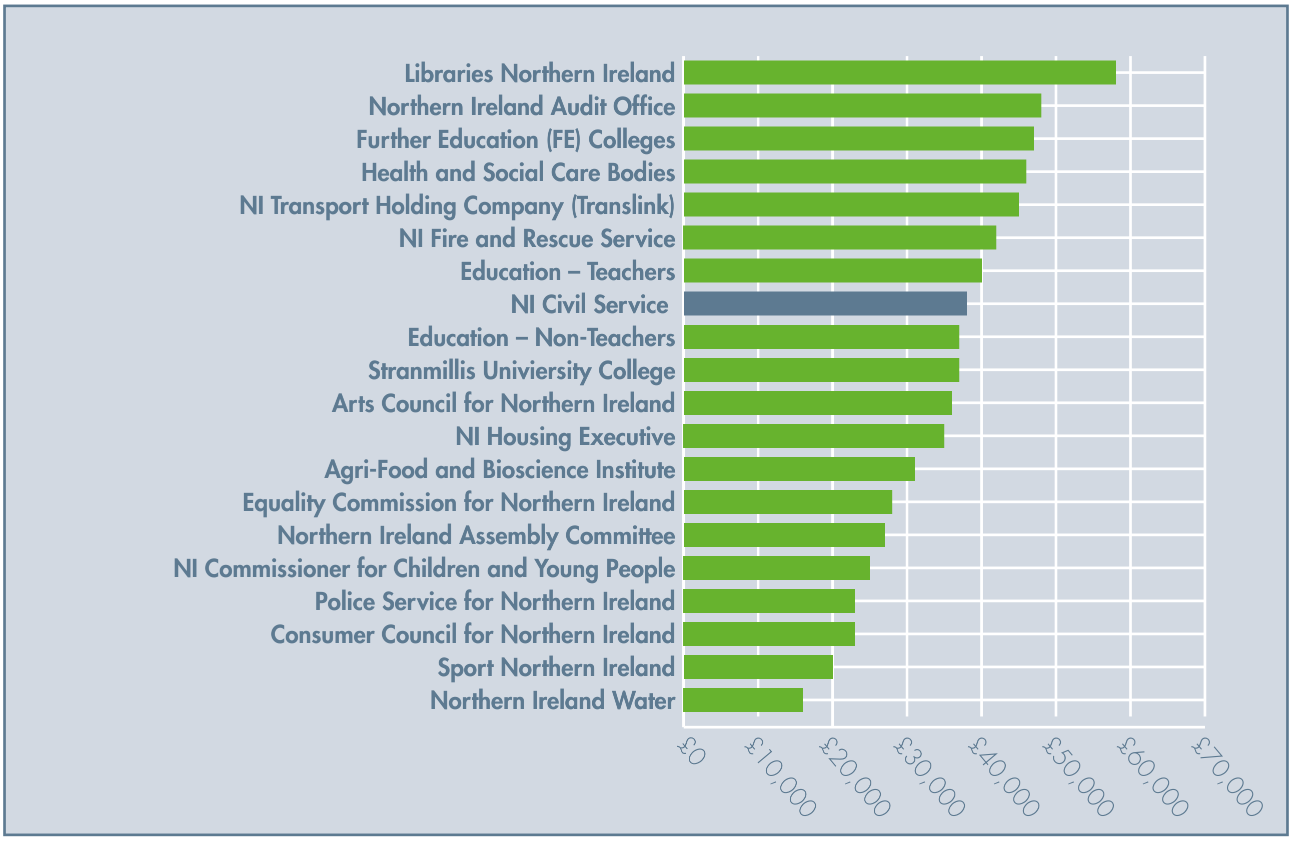
3.3 It will only be possible for DoF to demonstrate that VE schemes have achieved value for money when it can be demonstrated that net savings, over the lifetime of loans, outweigh costs. In order to calculate the actual level of net savings, DoF will need to collate comprehensive information on staff numbers and pay bill costs for participating organisations. This should include the additional costs of employing agency and/or consultancy staff.

3.4 The NICS VES achieved the highest number of exits of any single scheme (2,363), and the largest percentage reduction in the size of its workforce (9.2 per cent of the estimated FTE in the NICS in March 2015). Overall, the Northern Ireland public sector is estimated to have reduced its workforce by 2.3 per cent.

The average cost of VE schemes varies across the public sector as a result of variations in the terms and conditions of approved schemes

3.5 As detailed in Part 2, variation in the terms and conditions of exit schemes led to variation in the compensation available to applicants. **Figure 3.1** compares the average compensation costs estimated for the NICS VES with the average costs from other public sector organisations. The average cost of compensation ranged from £16,385 per person (NI Water) to £58,195 (Libraries NI).

Figure 3.1: Average Cost of Compensation by Organisation, 2015-16



Source: DoF Monitoring Data, July 2016[33]

There is significant variation in the time which will be taken to recover compensation costs

3.6 Monitoring data from DoF also demonstrated significant differences in the length of time which will be taken for pay bill savings to outweigh the initial cost of compensation (**Figure 3.2**). This ranges from 4.3 months (Northern Ireland Water) to 25.2 months (Libraries NI). The overall average of 13.3 months across all schemes is similar to the payback timescales identified by the NAO for central departments in Whitehall, which estimated payback timescales of 11-15 months for early departures (not including administration costs).[34]

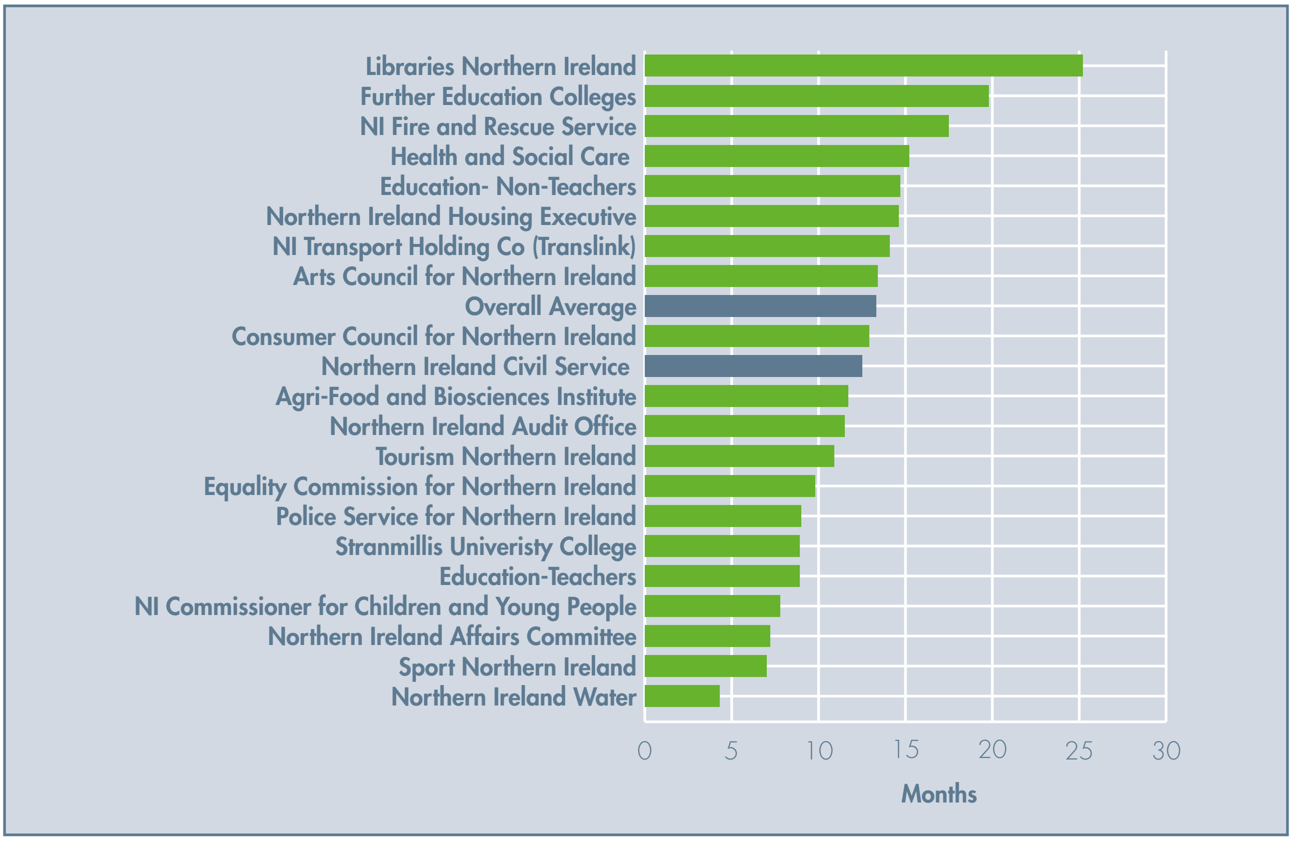
3.7 Differences between compensation costs and payback timescales exist because application profiles and compensation levels available through pension schemes vary across the public sector. In future years, particularly where demand for exit scheme funding exceeds supply, it may be necessary to prioritise and choose between different VE schemes. In these cases, DoF will be well placed

33 NICS VES average includes HSENI and PPS. Armagh Observatory and Planetarium and NI Screen average not included due to low number of exits.

34 Managing early departures in central government, National Audit Office, March 2012

Part Three:
Measuring the Impact of Voluntary Exit Schemes

Figure 3.2: Time to Recover Compensation Costs by Scheme, 2015-16[35]



Source: DoF monitoring data, July 2016

to apply its Average Benefit Cost Ratio methodology to ensure standardisation of approaches and ensure that value for money is achieved (see paragraph 2.35 and 2.36).

There have been some increases in expenditure on agency staff and consultancy following the implementation of VE schemes

3.8 In our survey, we asked respondents to identify their annual agency and consultancy spend both before and after their VE schemes. While, in the majority of cases, organisations recorded lower, or in some cases no expenditure on either agency or consultancy costs following the implementation of their VE scheme, four organisations[36] reported higher spend on agency or temporary staff, and two organisations[37] reported higher spending on consultants. While these increases related more to changing business requirements rather than a direct impact of the VE scheme, ongoing monitoring by DoF of staff costs across the public sector could help ensure that VE scheme reductions in

35 Armagh Observatory and Planetarium and NI Screen details not included due to the low number of exits.

36 AFBI, Arts Council NI, Consumer Council NI, and Translink.

37 OFMDFM and the NI Housing Executive.

expenditure on pay bill is not displaced into agency or consultancy expenditure.

Some organisations reported that individuals had been re-employed following their release under a VE scheme

3.9 As part of our survey of departments and ALBs that took part in a VE scheme in 2015-16, we asked for details of any cases where an individual released under a VE scheme had been re-employed on a permanent, temporary, agency or consultancy basis. While most organisations confirmed that no individuals had been re-employed following the implementation of their VE scheme, five organisations[38] provided details of a total of 10 individuals who were re-employed, either for specific skills or on an agency basis to manage business requirements.

3.10 Public sector compensation schemes contain various restrictions on staff who leave through VE schemes. For the NICS and public bodies operating under the Northern Ireland Civil Service Compensation Scheme (CSCS (NI)), the current rules stipulate that a proportion of compensation payments should be repaid where the individual rejoins any employer covered by the scheme. The amount to be repaid is based on the number of months' compensation received and the period of time between leaving and being re-employed. Those re-employed within 28 days of leaving under a VES have their compensation cancelled and have to repay the full amount.

3.11 In some cases, public sector employers set further restrictions. For example, NI Water stipulated that employees leaving under its VES cannot be directly employed by the organisation for a period of 12 months. In the case of HSC Trusts, their recruitment systems are designed to identify cases where an individual who left under the VE scheme reapplies for a vacancy within their organisation. The Department of Health (DoH) has asked the HSC Business Services Organisation (BSO) to implement a HSC-wide alert system.

3.12 The NI Assembly previously supported a legislative consent motion under the Small Business, Enterprise and Employment Act 2015 to extend to Northern Ireland proposed HM Treasury regulations for the recovery of public sector exit payments when a recipient is re-employed in the public sector. A recent revision by HM Treasury strengthened the proposals by reducing the earnings threshold from £100,000 per annum to £80,000 per annum and widened the scope to include a return to any part of the public sector. If these measures are put in place they would not be applied retrospectively.

3.13 Even with additional rules in place governing the application of compensation payments, employment via an agency or on a consultancy basis would not trigger the repayment

38 DOE, DRD, AFBI, Libraries NI, and the Western HSC Trust

Part Three:
Measuring the Impact of Voluntary Exit Schemes

of VES compensation. Additional monitoring by DoF on the net pay bill savings generated by schemes supported by the PSTF in 2015-16 would give reassurance that reductions in pay bill costs are sustained over the medium to long term.

Organisations reported that while VE schemes had led to efficiencies in their operating models they had also led to deterioration in staff morale and a loss of key skills

3.14 **Figure 3.3** outlines the positive and negative impacts reported by departments and organisations which participated in a VE scheme in 2015-16. While many organisations reported that it was too early to assess the impact of their VE scheme, 23 organisations reported efficiencies in their operating model as a result of their scheme. In terms of negative impacts, 13 organisations reported a deterioration in staff morale, while 9 reported a loss of key skills.

3.15 A number of organisations have taken steps to manage the impact of their VE scheme on business continuity. In the case of AFBI, business continuity was managed through the use of a pro forma to engage heads of branches and identify ways in which the impact of the VES could be mitigated. This process helped to inform wider restructuring and cost-saving initiatives.

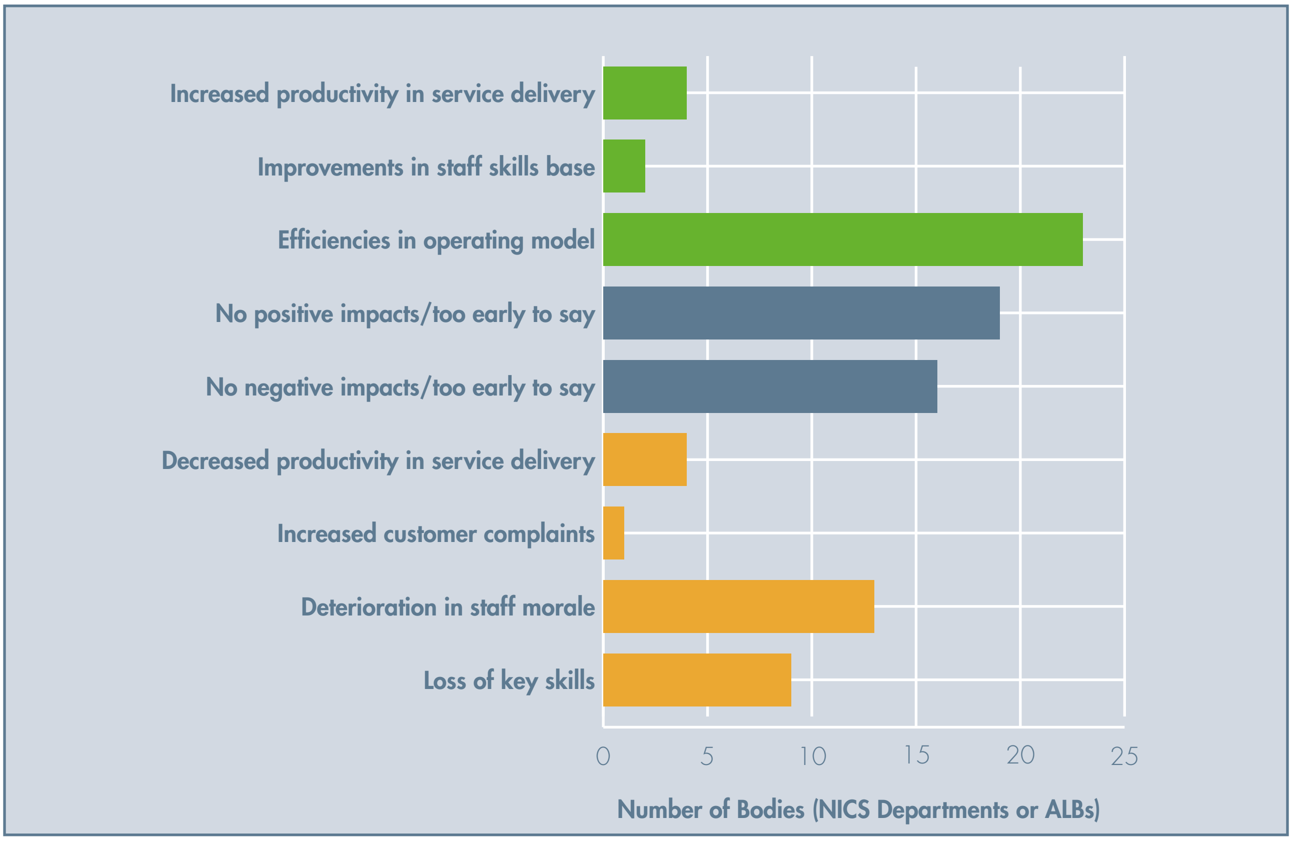
3.16 Going forward, many organisations, including Corporate HR (CHR) in DoF, plan to evaluate the impact of their VE schemes on their business and staff. An evaluation is also planned for the NICS VES to capture lessons learned and assess the equality impact of the scheme. These evaluations should seek to monitor the impact of VE schemes on staff morale and service delivery and identify any steps needed to mitigate any negative impacts. (See also 2.20)

Conclusion and Recommendation

3.17 The implementation of VE schemes within the available timescales, and in particular the reduction of over 9 per cent of the civil service headcount within a short period of time, is a significant achievement. While the results of our survey showed that a number of organisations had used VE schemes to generate efficiencies in their operating models, the potential impact of VE schemes on staff morale and skills across the Northern Ireland public sector needs to be monitored going forward.

3.18 **We recommend that departments and other public bodies monitor the impact of their VE schemes on staff skills and morale, and on service delivery.**

Figure 3.3: Positive and negative impacts of VE schemes



Source: NIAO survey of Departments and ALBs

Appendices

Appendix 1: Methodology Statement (paragraph 1.15)

We issued a survey to Human Resources contacts across all NICS departments and arm's-length bodies who operated a scheme in 2015-16, supported by additional guidance developed with DoF. This survey sought to assess the impact of VE schemes on pay bill costs, workforce numbers and service delivery.

A combination of quantitative and qualitative methods was also used to compile this report, including:

- conducting interviews and one-to-one questionnaires with relevant staff in DoF, other NICS departments and arm's-length bodies;
- reviewing documentation on the administration of the PSTF and management of the NICS VES by DoF, the workforce planning by NICS departments and the business cases and supporting documentation for schemes operated by arm's-length bodies; and
- a desk review of other initiatives operating in Great Britain and the Republic of Ireland.

The survey questionnaire is detailed overleaf.

Introduction

The Northern Ireland Audit Office (NIAO) is conducting a Value for Money (VfM) study on voluntary exit schemes (VES) implemented for the NICS and other public sector organisations in 2015-16.

As part of the study, lead contacts in NICS departments and other public bodies that operated voluntary exit schemes in 2015-16 are asked to complete the following survey questionnaire. The information requested and gathered from responses will inform the study's findings and the selection of case studies for the final report.

For NICS departments, please complete one return on behalf of your department regarding your engagement in the NICS VES.

For HSC Trusts, please complete one return on behalf of your organisation regarding your engagement with the HSC VES.

For other public bodies, please complete one return for each exit scheme implemented in 2015-16.

Please record all information relevant to exit schemes funded in 2015-16. This includes information on staff funded to exit through a 2015-16 scheme who have still to exit your organisation.

Appendix 1: Methodology Statement (paragraph 1.15)

Section 1: Details about your organisation

Q1: Please detail your contact information and the organisation you represent below.

Name:

Organisation/Department:

Contact email:

Contact telephone:

Q2: What type of public sector body is your organisation?

- NICS Department
- Arm's-length body linked to NICS Department
- Public body not linked to NICS Department

Section 2: Details about your organisation's workforce and pay bill before the implementation of the voluntary exit scheme

Q3: What was the total size of your workforce (headcount) in 2015-16, before the implementation of the voluntary exit scheme?

Q4: For your total workforce (headcount) in 2015-16 before the implementation of the voluntary exit scheme, please estimate how many were earning a gross annual salary of:

- Up to £15,000
- £15,001 - £30,000
- £30,001 - £45,000
- £45,001 - £60,000
- £60,001 - £75,000
- Over £75,000

Q5: For your total workforce (headcount) in 2015-16 before the implementation of the voluntary exit scheme, please estimate how many were aged:

- 29 and below;
- 30-39;
- 40-49;
- 50-57;
- 58-59; and
- 60 and over

Q6: What was your total annual pay bill before the implementation of the voluntary exit scheme?

Appendix 1: Methodology Statement (paragraph 1.15)

Q7: What proportion (per cent) of your overall annual budget was your pay bill before the implementation of the voluntary exit scheme?

Q8: What was the natural wastage rate for staff leaving your organisation before the implementation of the voluntary exit scheme?

Q9: What was your organisation's estimated total annual expenditure on temporary and/or agency staff before the implementation of the voluntary exit scheme?

Q10: What was your organisation's estimated total annual expenditure on consultants before the implementation of the voluntary exit scheme?

Q11: Please use the space below to record any relevant comments regarding your organisation's workforce and pay bill before the implementation of the voluntary exit scheme.

Section 3: Details about your voluntary exit scheme

Q12: How many staff (headcount) were funded to leave your organisation through voluntary exit schemes in 2015-16?

Q13: For those funded to leave your organisation through voluntary exit schemes in 2015-16, please estimate how many staff (headcount) were earning a gross annual salary of:

- Up to £15,000
- £15,001 - £30,000
- £30,001 - £45,000
- £45,001 - £60,000
- £60,001 - £75,000
- Over £75,000

Q14: What is the estimated total cost of compensation for voluntary exits in your organisation in 2015-16?

Q15: What is the estimated average cost of compensation for voluntary exits in your organisation in 2015-16?

Appendix 1: Methodology Statement (paragraph 1.15)

Q16: For your organisation, how many voluntary exits received compensation payments of:

- Up to £25,000
- £25,001 - £50,000
- £50,001 - £75,000
- £75,001 - £100,000
- Over £100,000

Q17: What are the estimated in-year pay bill savings from voluntary exits in 2015-16?

Q18: What are the estimated annual pay bill savings from voluntary exits in 2015-16 for 2016-17 and future years?

Q19a: Did your organisation put in place restrictions (e.g. exclusions/quotas) to control the numbers of staff leaving through voluntary exit?

Q19b: If yes, what restrictions did your organisation put in place?

Q19c: How many staff did these restrictions impact?

Q19d: What was the rationale for these restrictions?

Q20: Please use the space below to record any relevant comments regarding your organisation's voluntary exit scheme.

Appendix 1: Methodology Statement

(paragraph 1.15)

Section 4: Details about your organisation's workforce and pay bill following the implementation of the voluntary exit scheme

Q21: How many staff (headcount) left your organisation due to factors other than the voluntary exit scheme in 2015-16?

Q22: What are the estimated in-year pay bill savings from exits due to other factors in 2015-16?

Q23: What are the estimated annual pay bill savings from other forms of exit in 2015-16 for 2016-17 and future years?

Q24: What is/will be the estimated total size of your workforce (headcount) after the implementation of the voluntary exit scheme?

Q25: For your estimated total workforce (headcount) after the implementation of the voluntary exit scheme, please estimate how many are earning a gross annual salary of:

- Up to £15,000
- £15,001 - £30,000
- £30,001 - £45,000
- £45,001 - £60,000
- £60,001 - £75,000
- Over £75,000

Q26: For your estimated total workforce (headcount) after the implementation of the voluntary exit scheme, please estimate how many are aged:

- 29 and below;
- 30-39;
- 40-49;
- 50-57;
- 58-59; and
- 60 and over

Q27: What is your estimated total annual pay bill after the implementation of the voluntary exit scheme?

Q28: What proportion (per cent) of your overall annual budget is your pay bill after the implementation of the voluntary exit scheme?

Q29: What is the natural wastage rate for staff leaving your organisation after the implementation of the voluntary exit scheme (not including those staff who left via the scheme)?

Q30: What was your organisation's estimated total annual expenditure on temporary and/or agency staff after the implementation of the voluntary exit scheme?

Q31: What was your organisation's estimated total annual expenditure on consultants after the implementation of the voluntary exit scheme?

Appendix 1: Methodology Statement (paragraph 1.15)

Q32: Has your organisation re-employed any individuals who left via the voluntary exit scheme on a permanent, temporary, agency or consultancy basis following their exit? If yes, please provide details.

Q33: Please use the space below to record any relevant comments regarding your organisation's workforce and pay bill following the implementation of the voluntary exit scheme.

Section 5: Details about the impact of the voluntary exit scheme on service delivery

Q34: Which of the following did your organisation take account of in designing and implementing your voluntary exit scheme?

- Planned changes to organisational operating model;
- Immediate business priorities;
- Grade profile of staff;
- Age profile of staff;
- Skills profile of staff;
- Need to preserve specialist skills;
- None of the above;
- Other (please specify)

Q35: Has your organisation experienced any of the following positive impacts as a result of the implementation of the voluntary exit scheme in 2015-16?

- Increased productivity in service delivery;
- Decreased customer complaints;
- Improvements in staff morale;
- Improvements in staff skills base;
- Efficiencies in organisational operating model;
- None of the above;
- Other (please specify)

Appendix 1: Methodology Statement (paragraph 1.15)

Q36: Has your organisation experienced any of the following negative impacts as a result of the implementation of the voluntary exit scheme in 2015-16?

- Decreased productivity in service delivery;
- Increased customer complaints;
- Decreased staff morale;
- Loss of key staff skills;
- None of the above;
- Other (please specify)

Q37: Please use the space below to record any relevant comments regarding the impact of the voluntary exit scheme on service delivery.

Section 6: Details about your organisation's wider workforce planning

Q38: In addition to the voluntary exit scheme, did your organisation use any of the following methods of controlling workforce numbers and costs in 2015-16?

- Compulsory redundancies
- Voluntary redundancies
- Early retirement schemes
- Pay restrictions/freezes
- Recruitment restrictions/freezes
- Vacancy management
- Redeployment of staff to a new area of work
- Reduced use of overtime
- Reduced use of consultants/agency/temporary staff
- Increased use of consultants/agency/temporary staff
- Changing employees' work patterns
- Changing employees' terms and conditions
- Re-grading of posts
- Encouraging career breaks
- Use of secondments
- None of the above
- Other (please specify)

Appendix 1: Methodology Statement

(paragraph 1.15)

Q39: Which of the following methods of controlling workforce numbers and costs does your organisation have plans to use in 2016-17?

- Voluntary exit schemes
- Compulsory redundancies
- Voluntary redundancies
- Early retirement schemes
- Pay restrictions/freezes
- Recruitment restrictions/freezes
- Vacancy management
- Redeployment of staff to a new area of work
- Reduced use of overtime
- Reduced use of consultants/agency/temporary staff
- Increased use of consultants/agency/temporary staff
- Changing employees' work patterns
- Changing employees' terms and conditions
- Re-grading of posts
- Encouraging career breaks
- Use of secondments
- None of the above
- Other (please specify)

Q40: Please use the space below to record any relevant comments regarding your organisation's wider workforce planning.

Appendix 2: (paragraph 1.18)

Terms and conditions for exit under the Civil Service Compensation Scheme (Northern Ireland) (CSCS (NI))

The main differences between the terms and conditions for VE, VR and CR schemes available under the Civil Service Compensation Scheme in Northern Ireland (CSCS (NI)) are summarised below. These conditions applied both to NICS employees and Schedule 1 (see footnote 25) bodies and so applied to the majority of schemes funded in 2015-16. Employers cannot proceed directly to compulsory redundancy under the CSCS (NI). All staff who may face compulsory redundancy must first have had the opportunity to leave under voluntary redundancy terms.

Element of compensation	Voluntary Exit	Voluntary Redundancy	Compulsory Redundancy
Tariff	1 month's pay per year of service		
Cap for those below pension age	21 months' pay		12 months' pay
Cap for those above pension age	6 months' pay		
Lower paid protection[39]	Does not have to be applied	Must be applied	
Higher paid cap[40]	Must be applied		
Early access to pension benefits	Must be applied		
Use of compensation payment to buy out reduction for taking pension early	Must be applied		
Employer top up payment to buy out remaining pension reduction	Does not have to be applied	Must be permitted	Not permitted
Notice period	3 months		6 months

39 A deemed minimum salary of £24,728, the maximum of the EO2 grade pay scale, is applied for all those earning less than the deemed minimum.

40 A deemed maximum salary of £100,091, the maximum of the G3 pay scale, is applied for Senior Civil Servants.

Appendix 3: (paragraph 2.1)

Key Milestones and Timeline for 2015-16 Public Sector Transformation Fund (PSTF) allocations

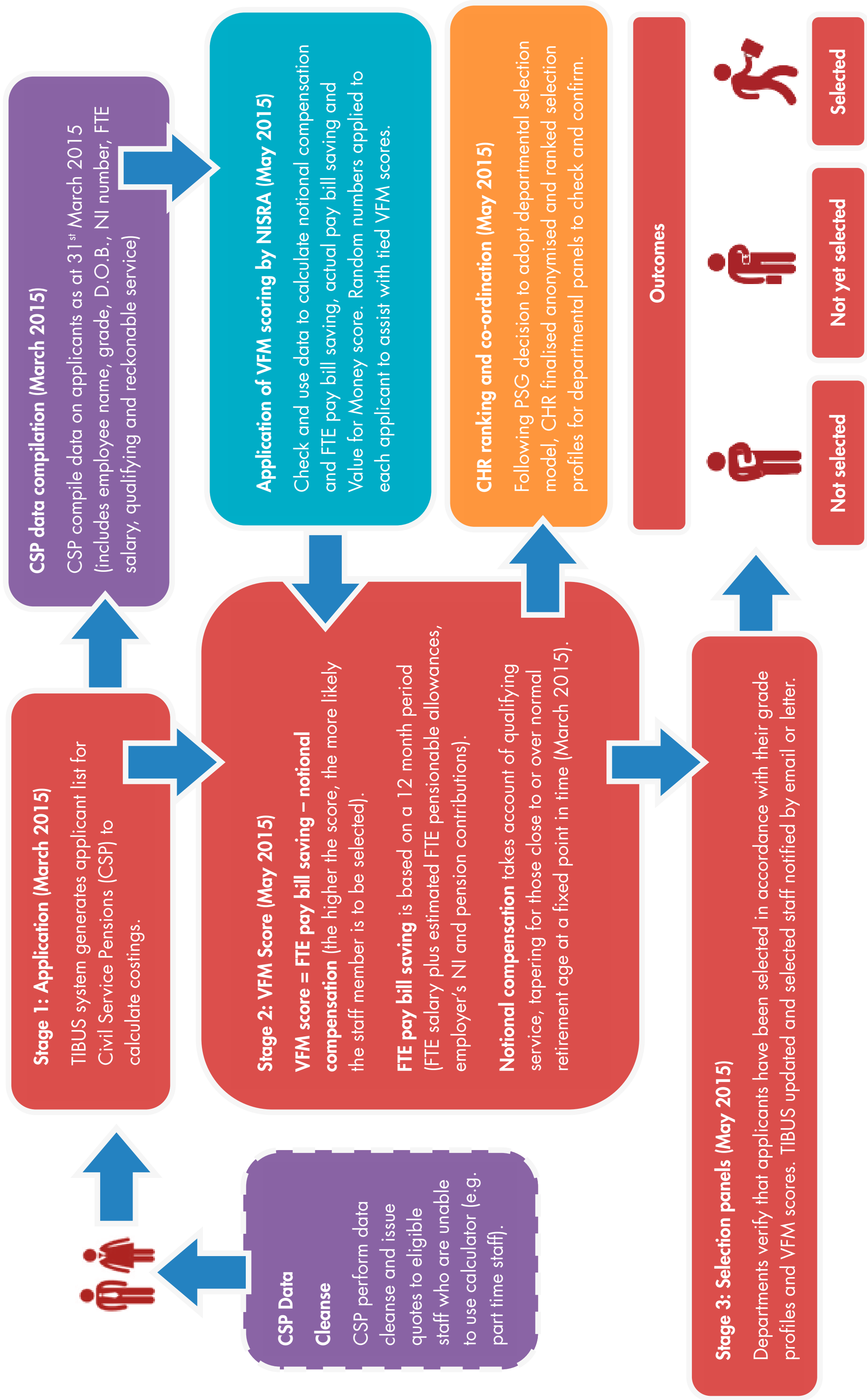
- **23 December 2014:** Stormont House Agreement published.
- **25 February 2015:** The Public Sector Restructuring Steering Group agreed methodology for allocating the PSTF.
- **18 March 2015:** DoF invites bids for funding for Tranche 1 from the PSTF.
- **31 March 2015:** Deadline for Tranche 1 bids closes.
- **1 May 2015:** DoF invites bids for funding for Tranche 2 from the PSTF.
- **29 May 2015:** Deadline for Tranche 2 bids closes.
- **5 September 2015:** Availability of PSTF is confirmed.
- **7 September 2015:** DoF authorises allocations from PSTF to individual schemes.
- **30 October 2015:** Departments are asked to surrender any surplus funds, or submit requests for additional funding.
- **6 November 2015:** Details of reallocations are submitted to DoF.
- **18 November 2015:** November monitoring round is agreed.
- **23 December 2015:** Details of reallocations are submitted to DoF.
- **19 January 2016:** January technical exercise is agreed.

Appendix 4: (paragraph 2.14)
Exclusions and Quotas in the NICS VES

Department	Exclusion/ Quota	Staff Affected	Rationale
All departments	Exclusion	Staff at Permanent Secretary Grade	These posts could not be suppressed and therefore no savings would be generated.
DoF	Exclusion	NISRA Chief Executive and Registrar General	These posts could not be suppressed and therefore no savings would be generated.
OFMDFM	Exclusion	Staff in the Office for Legislative Counsel	Specialist skills are required to support the Northern Ireland Executive in the drafting of Bills for introduction to the Northern Ireland Assembly. These posts could not be suppressed and therefore no savings would be generated.
DOE	Exclusion	A range of professional and technical grades and staff in local planning division	Professional and technical grades would require specialist recruitment to replace, generating no pay bill savings. Staff in local planning division were excluded since they were notified in February 2015 of their transfer to new local councils from 1st April 2015.
DHSSPS	Exclusion	A range of professional and technical grades	Specialist roles (e.g. Chief Pharmaceutical Officer) could not be replaced by redeployment of existing internal resources.
DOJ	Exclusion	Legal Services Agency	These staff were not employed by the NICS at the date of the scheme launch (became DOJ agency on 1st April 2015).
DE	Exclusion	Chief Inspector of Schools	These posts could not be suppressed and therefore no savings would be generated.
	Quota	Professional Inspectors	The minimum number of professional inspectors required to discharge duties is set out in legislation and therefore the number of staff permitted to leave was limited.
DRD	Quota	Staff in the Street lighting, Fleet Management and Strangford Ferry business areas	The quota was designed to mitigate the potential disruption which may have been caused by creating vacancies in specialist posts which could not easily be filled by transfer or from a recruitment pool.
DEL	Quota	Careers Officers	Careers officers require a formal guidance qualification therefore posts cannot be backfilled by general service staff.
DARD	Quota	Meat Inspection Grades	Staff perform mandatory, regulatory duties under European Food Hygiene Legislation. It was considered unlikely that suitably skilled or qualified replacement staff could be identified across general service staff.

Appendix 5: (paragraph 2.17)

Summary of selection process in the NICS VES



Appendix 6: (paragraph 2.19)
Head of Civil Service (HOCS) communications to staff

Date	Issue
10th October 2014	Pressures in 2015-16 budgets highlighted to staff in the context of ongoing Stormont House negotiations, signalling the potential need for large reductions in public sector jobs similar to those in England, Scotland and Wales.
31st October 2014	Draft budget agreed by the Executive, with preparatory work beginning on a voluntary exit scheme.
7th November 2014	Speculation in the media about the VES addressed, broad timescales indicated for the launch of the scheme in March and first tranche of exits in September.
19th January 2015	Following the publication of the Stormont House Agreement, a single, service-wide scheme for the NICS is to be launched. Commitment to reduce departments from 12 to 9 in May 2016 also highlighted.
9th February 2015	Executive approval of the NICS VES confirmed.
21st May 2015	Addressing speculation in the media about current political situation and status of the voluntary exit scheme. Uncertainty for staff acknowledged.
29th May 2015	Staff notified of departmental selection and use of conditional offers for staff leaving in Tranche 1.
29th July 2015	Funding position for Tranche 1 to be confirmed by the end of August.
17th August 2015	Decision to be taken at Executive meeting on 10th September.
7th September 2015	Confirmation of funding for NICS VES.
6th January 2016	Notification of Tranche 5 for six departments.
1 June 2016	HOCS issued a letter of thanks which referred to the VES.

NIAO Reports 2015 and 2016

Title	Date Published
2015	
Continuous improvement arrangements in policing	17 February 2015
Cross-border broadband initiative: the Bytel Project	03 March 2015
Protecting Strangford Lough	31 March 2015
DRD: the effectiveness of public transport in Northern Ireland	21 April 2015
General Report on the Health and Social Care Sector 2012-13 and 2013-14	26 May 2015
Local Government Auditor's Report – 2015	23 June 2015
Department of Education: Sustainability of Schools	30 June 2015
The Northern Ireland Events Company	29 September 2015
Financial Auditing and Reporting: General Report by the Comptroller and Auditor General for Northern Ireland - 2015	24 November 2015
Invest to Save	15 December 2015
2016	
Governance of Land and Property in the NI Housing Executive	07 January 2016
Continuous Improvement Arrangements in Policing	08 March 2016
Local Government Code of Audit Practice	31 March 2016
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The National Fraud Initiative: Northern Ireland	07 July 2016
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