

## **DEPARTMENT OF FINANCE AND PERSONNEL**

### **BUDGET 2010 – DEPARTMENTAL PRE- CONSULTATION PAPER**

**(Last updated on 2 July 2010)**

#### **1.0 Introduction**

1.1 The purpose of this paper is to provide details of the key areas which the department is reviewing in further developing its own departmental Budget 2010 current expenditure and capital investment proposals. The paper also sets out the approach being taken by the department to the identification of savings and highlights some of the issues faced.

#### **2.0 Background**

2.1 The Budget 2010 process was formally commissioned on 17 June 2010.

2.2 The Budget 2010 process is due to set the expenditure plans for NI Departments over the years 2011-12 to 2014-15.

2.3 Departments are now required to further develop both their current expenditure and capital investment expenditure proposals together with their options for the generation of savings to be delivered over the Budget 2010 period.

- 2.4 It is anticipated that departments will need to make additional savings even greater than the current 3%, possibly increasing to 5% or more.
- 2.5 The Budget 2010 timetable for departments' pre-consultation exercise is June to early August 2010.
- 2.6 Public consultation on the Draft Budget is scheduled for October to December 2010.

### **3.0 Current Expenditure Plans**

- 3.1 The opening current expenditure baseline for Budget 2010 is the department's revised Budget 2010-11 baseline of **£182.9m**, as agreed by the Executive in April 2010, adjusted to remove time limited allocations. The department is awaiting confirmation of its opening baseline.
- 3.2 The opening baseline of **£182.9m** is after reductions of **£18.9m** (9.4%) representing:
- i. **£4.1m** of savings as part of the Review of 2010-11 Spending Plans; and
  - ii. **£14.8m** of savings being rolled forward from the third year of the department's 2008-11 Efficiency Delivery Plan.

- 3.3 The opening baseline includes the additional **£6.5m** (3.6%) of current expenditure funding secured, as part of the Review of 2010-11 Spending Plans, to support the ongoing delivery of essential shared services to NICS departments, and **£4.8m** (2.6%) to support NI Direct.
- 3.4 No additional budgetary cover is provided in the opening baseline for the impact of increases in pay or prices over the last 6 years, 2005 to 2011, when inflation (based on the Retail Price Index) increased an average of 2.4% per annum, effectively representing a 14.4% real terms reduction in the department's baseline over this period.

#### **4.0 Key Current Expenditure Priorities**

4.1 A number of key pressures were noted as part of the Review of 2010-11 Spending Plans, and these were subsequently reflected in the department's 2010-11 June monitoring position which focused only on the very highest priority pressures:

- i. Census 2011
- ii. NICS Accommodation
- iii. Land and Property Services; and
- iv. The need for a Supply team for the new Department of Justice.

4.2 It is expected that the department's initial Budget 2010 current expenditure proposals will continue to focus on these

key areas, in addition to the funding necessary to support the next phase of NI Direct, in response to the Executive's commitment to improve quality and access for citizens to government services. Further detail on these key areas is set out below.

**4.3 Census 2011** – The next Census will take place on 27 March, 2011. Most of the funding required to deliver the Census was secured in Budget 2006 and Budget 2008-11. However, there is a shortfall in 2010-11, which was the subject of a bid for **£4m** in June monitoring, and in 2011-12 (year 1 of the Budget 2010 period) for which we will also need to bid. We are currently working with the Northern Ireland Statistics and Research Agency (NISRA) to determine the precise quantum of the bid in respect of 2011-12 before approaching the Minister with our proposals. The total estimated costs of the 2011 Census in the main years from 2008-09 to 2011-12 are in the region of **£20m**.

**4.4 NICS Accommodation** - The Review of 2010-11 Spending Plans noted cost pressures associated with the NICS office estate following the termination of the WP2010 procurement of up to **£5m** current expenditure to be resolved as part of the 2010-11 in-year monitoring process. Although, for administrative convenience, this cost currently resides with DFP, the underlying issue relates to accommodation for all departments and it is the individual departments, rather than DFP, who are the drivers of any additional costs or possible efficiencies in this area. In finalising June Monitoring funding

of **£3m** current expenditure was sought, reflecting a further robust review of absolute requirements.

4.5 The department remains committed to the objectives of providing modern, fit for purpose office accommodation for civil servants, and this will be addressed by:

- i. reducing the space requirements of departments by increasing workstation densities across the estate;
- ii. exiting the poorest accommodation; and
- iii. seeking to upgrade the poorest accommodation.

Progress during the period 2011-15 will be dependent on the level of available funding and this will be a key issue for the department in further developing its Budget 2010 proposals.

**4.6 Land and Property Services (LPS)** – The agency has undergone significant change during the Budget 2008-11 period, particularly in response to the extensive programme of rating reforms including the need to administer new rate reliefs. In addition, the economic downturn has put pressure on recovery action and LPS is now dealing with record levels of non payment which translates into increasing volumes of court cases and enforcement action. LPS also seeks to agree extended payment arrangements with those ratepayers who have difficulty paying. It is important that going forward the funding available to LPS reflects both its current operational requirements and expected operational requirements during the 2011-15 period. The establishment of a firm basis of funding for the agency remains a key

priority for the department, and one which the department will seek to address in developing its Budget 2010 proposals.

- 4.7 Department of Justice Supply Team** - The transfer of policing and justice powers on 12 April 2010 has resulted in an increase in the Executive's budget of some £1.3 billion per annum and DFP will have a key role in supporting the transition to the new arrangements, and an ongoing scrutiny role. The department has had to establish a new Supply team within Central Finance Group for which additional funding of **£0.6m** was identified at part of 2010-11 June monitoring, reflecting the anticipated need for a high level of engagement with the new organisations in the early years.
- 4.8 The new organisations will need to adapt to new requirements, for example, in-year monitoring, and delegated authority arrangements. It would not be possible to cover these requirements from within the existing Central Finance Group allocation as this would impact on the ability of the department to discharge its scrutiny role across all of the other departments. Maintenance of effective support to the Finance Minister in these areas will be particularly important given the increasingly difficult financial climate.
- 4.9 NI Direct** – The NI Direct programme is a direct response to the Executive's commitment to improve quality and access for citizens to government services. The department has made good progress in the last two years in developing a single telephone number (101), a Flooding Incident Line, and

a new NI Direct website through which citizens can access information about services. All the feedback to date suggests that the improvements made are being well received by the public.

4.10 An expansion of the '101' service and the NI Direct website is currently being developed and this is expected to be in place by the end of 2010. However, success is dependent on close collaboration between all departments and securing some budgetary cover through the Budget 2010 process.

## **5.0 Capital Investment Proposals**

5.1 Effectively a zero-based approach is being taken and it is expected that the level of resources available for capital investment will be lower than those set out in the second iteration of the Investment Strategy for Northern Ireland (ISNI) 2010-11 to 2014-15.

5.2 The department's indicative ISNI allocations over the four years are **£17.1m/£15.9m/£16.9m/£16.9m**.

5.3 The department's capital investment is generally targeted at four key areas:

- i. ICT necessary to support specific line of business systems in departmental business areas;

- ii. ICT necessary to support delivery of essential shared services to NICS departments and the general public;
- iii. NICS accommodation requirements; and
- iv. The Central Energy Efficiency Fund.

## **6.0 Key Capital Investment Priorities**

**6.1 LPS** – The agency has an ongoing need to maintain and develop its line of business ICT systems to support revenue and benefits, valuation and mapping, and registration services.

**6.2 NI Direct** – As indicated at paragraphs 4.9 and 4.10 above the NI Direct programme is a direct response to the Executive's commitment to improve quality and access for citizens to government services. The capital investment to maintain existing services and support the proposed expansion of the '101' service and the NI Direct website is currently being reviewed.

**6.3 Enterprise Shared Services (ESS)** – ESS has an ongoing need to maintain and develop the systems which support the essential accounting, human resource and IT Assist services provided to NICS departments and a number of other public bodies. Key capital investment commitments over the Budget 2010 period include the final milestone payment for the HR Connect project; the anticipated refresh of Records

NI, the contract for which was awarded in July 2006; as well as the continuing need to maintain the IT infrastructure necessary to support common desktop services to some 18,500 users across the NICS.

**6.4 NICS Accommodation** – The Review of 2010-11 Spending Plans also noted capital investment pressures of up to **£7m** associated with the NICS office estate, to be resolved as part of the 2010-11 in-year monitoring process. In finalising June Monitoring, funding of **£3.1m** capital was sought to begin to take forward work in respect of the Department of Education's accommodation at Rathgael House in Bangor and refurbishing a vacant building in Belfast in order to make savings on leases.

6.5 As indicated at paragraphs 4.4 and 4.5 above, whilst the department remains committed to the principles of modern, fit for purpose office accommodation, progress will be dependent on the level of available funding. Capital investment will bring significant benefits to departments by taking steps to reduce the amount of floor space and provide better working environments. The department is currently reviewing a range of accommodation capital investment proposals.

**6.6 Central Energy Efficiency Fund (CEEF)** – During 2010-11 the department is continuing its administration of the Central Energy Efficiency Fund, providing **£1m** to support a range of energy efficiency and renewable technology projects in

Northern Ireland public bodies. During the Budget 2010 period the department anticipates a continuing need for modest capital funding in this area.

## **7.0 Saving Delivery Plans**

- 7.1 Saving Delivery Plans will be a key component of departments' input to the Budget 2010 process.
- 7.2 In light of the increasing financial constraints the department has taken a number of steps to review key spending priorities and identify current expenditure saving options.
- 7.3 The DFP Departmental Board held a workshop on 15 June 2010 to focus on key priorities for the Budget 2010 period and examine statutory commitments, our remaining Programme for Government commitments and our contractual and service delivery commitments, including frontline service delivery requirements. The Northern Ireland Audit Office "*Improving Public Sector Efficiency: Good Practice Checklist for Public Bodies*" was issued to Departmental Board members in advance of the workshop providing a useful framework to evaluate what functions can be stopped, and how those services which are still required can be provided more efficiently and effectively.
- 7.4 Further work is required, and this will be informed by the central guidance on the development of Saving Delivery

Plans, but emerging themes include the need to minimise corporate overheads, minimise bureaucracy, cut discretionary activity, cut low priority functions, maximise income, and further reduce costs.

- 7.5 The department has already taken steps to significantly reduce external consultancy expenditure with a reduction of over 75% in 2009-10 when compared to the previous year. In 2009-10 savings have also been made in air fares, mileage, and hospitality and steps are being taken to further reduce expenditure in these areas in 2010-11, with a continued focus over the Budget 2010 period. We have reduced the number of Senior Civil Servants in the department by 10% over the last year and we continue to keep this under review.
- 7.6 Of the department's expected gross current expenditure opening baseline of **£239.6m**, in excess of some **£90m** (37.6%) is inescapable or contractually committed in the short to medium term, representing a significant constraint in seeking to identify further savings.
- 7.7 Depreciation costs are inescapable and in 2009-10 were **£34m**. It is unlikely that there will be significant cost reductions in this area over the Budget 2010 period, unless there is a further and substantial fall in the market value of land and buildings and ICT, or the office estate footprint can be reduced and results in a net decrease in the value of the estate.

7.8 In 2009-10 rent and rates for the NICS office estate were some **£32m**, and whilst steps are being taken to reduce the office estate footprint, the extent to which progress can be made in this area is closely linked to the available funding, as well as to the staffing levels and business needs of NICS departments.

7.9 Over the Budget 2008-11 period DFP has become responsible for the provision of an increased number of essential shared services to NICS departments and a number of smaller public bodies. This has resulted in an increase in the level of the department's contractual commitments, for example, Account NI, HR Connect, Records NI, Network NI, Data Accommodation and IT Assist contractual commitments. Current expenditure contractual commitments due in 2010-11, as reported in the department's 2009-10 Resource Accounts (the audit of which is nearing completion) are **£24.5m**, with contractual and lease commitments due in the period 2011-15 of **£122m**.

7.10 The delivery of further savings whilst seeking to contain inflation represents a significant challenge for the department. It is unlikely that the department will be able to deliver sufficient savings through efficiency measures alone, and consideration will have to be given to stopping low priority services.