

**FROM: JOHN LEONARD**

**DATE: 29 JUNE 2010**

**TO: JOHN SIMMONS**

**Clerk to the Education Committee**

**Room 241**

**Parliament Buildings**

**Stormont**

**2010-11 EDUCATION BUDGET**

1. Your letters of 14 June and 24 June refer. Please find attached a paper on Budget 2010 for consideration by the Education Committee.
2. I trust the Committee will find this helpful.

**JOHN LEONARD**

## Budget 2010

### Introduction

1. Guidance on the Budget 2010 process, which is due to set expenditure plans for Departments over the 4 year period 2011-12 to 2014-15, was issued by DFP on 17 June.
2. Departments are being asked to provide: **by 30 July** details of spending proposals to address costs pressures and high priority policy initiatives, for current expenditure and capital investment; and **by 26 August**, to provide full details of the areas where they intend to deliver resource releasing savings. The timetable for the relevant stages of the Budget process is attached at Appendix A.
3. Details of: the overall Budget context; the key aspects of the Budget guidance; and the specific requirements for Departments, are set out below.

### Background

4. The overall context of the local Budget process here will be dependant on the outcome of the UK Spending Review 2010 (SR 2010) covering the four year period 2011-12 to 2014-15. The emergency UK Budget, which was announced by the Chancellor of the Exchequer on 22 June, set the overall context for SR 2010, however, the precise implications of this for the Block will only be confirmed at the conclusion of SR2010 in the autumn.
5. In this overall context the local Budget process here will, by necessity, be underpinned by a number of planning assumptions so that the process can begin to be taken forward. It is important to note, however, that these planning assumptions may be subject to change

by the Finance Minister and the Executive, as well as in response to changing circumstances.

### ***Current Expenditure***

6. In terms of current expenditure, the expectation is that it will remain constant in cash terms (i.e. a real terms reduction) but from a reduced baseline position reflecting the Executive's share (£127 million) of the reduction in UK public spending announced on 24 May 2010. Although there will be less funding available to address cost pressures, the freeze on public sector pay over the next two years (except for those earnings £21,000 or less) means that such inflationary pressures will be lower than expected.
7. The planning assumption is that there will **not be** significant additional amounts of resources available for allocation from internally generated sources of funding, which means that Departments will need to deliver additional savings in order to generate the resources required to address the cost pressures and policy initiatives which they are now being asked to submit.
8. The opening budget position for Departments in Budget 2010 will be the Revised 2010-11 Spending Plans agreed by the Executive in April 2010 adjusted for time limited allocations, the savings projected to be made from Invest to Save Projects over the period 2011-12 to 2014-15 as well as the additional savings required as part of Budget 2010.

### ***Capital Investment***

9. Indications are that at Block level a 9.1% per annum reduction in capital investment is expected with the potential for further reductions through baseline adjustments. In line with normal practice, at Departmental level there is no baseline position in respect of capital

investment, reflecting the discrete and finite nature of most capital projects.

10. The capital allocations to Departments for the years 2011-12 to 2014-15 will be set as part of the Budget 2010 process, informed by the work, led by the Strategic Investment Board (SIB), to develop the third iteration of the ISNI. DFP guidance indicates that Priority will be given to capital projects which are already substantially commenced as well as those where contractual commitments are in place for specific amounts of funding.

### ***Returns to DFP***

11. In the context of the above Departments are now being asked to submit spending proposals in respect of both current expenditure and capital investment **by 30 July**. In addition Departments are also being asked to identify by **26 August** areas in which they will make additional savings.

## **Detail**

### ***Current Expenditure Pressures***

12. In terms current expenditure, details of inescapable pressures which DE would face in the context of a flat cash baseline over a three year period were provided to DFP in April this year (relevant details are set out at Appendix B). This does not include resource pressures for 2014-15, nor does it take account of the impact of the £127 million cut to the Block as a result of the cuts UK public spending announced on 24 May 2010. (see paragraph 6 above). Also, this will need to be updated for any other inescapable pressures for DE which may have arisen since these details were submitted to DFP in April.

### ***Current Expenditure Cuts***

13. At this stage DFP has not provided any indication of the scale of savings required at Departmental level. The DFP guidance indicates that the level of cuts which Departments will face at Block level will be calculated as a % of the opening baseline for the Budget process. As indicated at paragraph 9 above the opening baseline for Departments will be the Revised 2010-11 Spending Plans agreed by the Executive adjusted for: time limited allocations; the savings projected to be made from Invest to Save Projects over the period 2011-12 to 2014-15; and additional savings required as part of Budget 2010.
14. DFP has indicated that Departments will shortly be issued with detailed baseline positions, including details of their share of the additional savings required in Budget 2010. Departments will be expected to have identified where they intend to make savings by 26 August 2010.

### **Current Position / Way Forward**

15. Work is currently being taken forward within DE to identify the extent of inescapable pressures facing the Department and it is intended that details will be provided to DFP by 30 July.
16. As regards current expenditure cuts it will take some time for proposals on areas for additional savings to be developed. This work will be taken forward within DE over the coming weeks. Clearly the extent and nature of the cuts will depend on the overall quantum of savings required from the DE baseline.

### **Engagement with Committee for Education**

17. The Minister is keen to secure input from the Education Committee to the budget process, however, as indicated above initial returns are

required to be with DFP by 30 July and 26 August i.e. during the summer recess. The Minister is keen to secure the Committee's views on how engagement could be facilitated during this period.

**Table 1: Timetable for Budget 2010 Process**

<b>Activity</b>	<b>Timing</b>
Departments to begin work on plans to deliver savings- following DFP Ministers note to Executive of 12 April	April
Guidance issued to departments in respect of Budget 2010	mid June
Guidance issued to departments in respect of Savings Delivery Plans	June
Pre-Consultation exercise with key stakeholders.	June- early August
Receipt of departmental returns – Departments proposed spending plans including linkages to PSAs.	30 July 2010
Ministerial bi-laterals	August – early Sept.
Departments to provide details on savings and Technical Exercise	26 August
Draft proposals to Executive for consideration <sup>1</sup>	September
2010 Spending Review outcome announced by HMT	October
Draft Budget published alongside draft PfG and ISNI	October
Public Consultation Process on the draft document	October to December
Revised proposals to Finance Minister for consideration	Early December
Revised proposals to the Executive for consideration	Mid December
Final Budget document published	Late December

<sup>1</sup> Based on the anticipated 2010 Spending Review outcome for the Executive.

## Flat Cash Baseline - Inescapable Pressures

£m

	2011-12	2012-13	2013-14	2014-15
<b>Scenario 1 – Flat cash</b>				
Pay pressure	56.7	114.3	173.9	
Non Pay pressure	4.8	12.9	22.1	
Aggregated Schools	7.0	18.0	29.0	
Budget	8.6	11.6	14.6	
PPP Payments	10.0	4.7	0	
Implementation of ESA	5.7	5.9	6.2	
Extension of Free School Meals Eligibility				
	<b>92.8</b>	<b>167.4</b>	<b>245.8</b>	
<b>Total</b>				