Northern Ireland Assembly

Committee for Agriculture and Rural Development

OFFICIAL REPORT (Hansard)

October Monitoring Round: DARD Briefing

30 September 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr William Irwin (Chairperson)
Mr Joe Byrne (Deputy Chairperson)
Mr Thomas Buchanan
Mr Tom Elliott
Mr Declan McAleer
Mr Kieran McCarthy
Mr Oliver McMullan
Mr Ian Milne

Witnesses:

Mr Roger Downey	Department of Agriculture and Rural Development
Mrs Lynda Lowe	Department of Agriculture and Rural Development
Mr Graeme Wilkinson	Department of Agriculture and Rural Development

The Chairperson: I welcome Graeme Wilkinson, grade 5 assistant secretary; Roger Downey, grade 7 accountant; and Lynda Lowe, deputy principal. Members have had the opportunity to read your paper. We ask that you take approximately 10 minutes to give us a briefing.

Mr Graeme Wilkinson (Department of Agriculture and Rural Development): Thank you, Chair and members, for the opportunity to brief the Committee on the Department's October monitoring round proposals. Hopefully, you have had an opportunity to review the paper that has been presented, and my colleagues and I will be more than happy to address any questions that members might have.

Before turning to the detail, it might be worth providing you with a very brief overview of the Department's budget to perhaps contextualise some of the figures that I will refer to in the presentation but also to bring members fully up to speed with the outcome of the June monitoring round. I suspect that for many of you it is a distant memory, and we have had holidays in the intervening period.

In the Department's current year budget, we started the year with a net resource allocation of £209 million. I will pick up on some of the key elements within that budget. We have £106 million for salaries and wages. The tuberculosis (TB) programme costs approximately £13 million and that includes the cost of testing animals. The rural development programme (RDP) is £27·5 million, and we also have £36·5 million to fund our non-departmental public bodies (NDPBs). If you add all of that up, it comes to around £195 million. There are, however, some other costs that we require to run the Department. The key point that I would like to draw to members' attention is that a high proportion of our running costs are fixed in nature and, therefore, very difficult to influence in the short-term.

As members will be aware, we presented two resource bids and one capital bid as part of the June monitoring round process. The resource bids were for £1·4 million for our Going for Growth programme and £2·8 million to fund our land parcel identification system (LPIS) project. The capital bid was for £3·1 million to fund College of Agriculture, Food and Rural Enterprise (CAFRE) building improvements. You may be aware that we did receive funding for the CAFRE building improvements but the two resource bids that we presented were not successful.

Members will also be aware that the Executive agreed to reduce most Departments' resource funding by 2·1%, with the exception of the Departments of Health and Education. For DARD, that equates to £4·1 million. In order to meet that reduction, we have focused specifically on increasing our revenue in the Department. In particular, the veterinary service has been successful in securing additional funding for the TB eradication programme. That equates to £3·4 million of the savings required. We have also generated additional receipts of £300,000 in CAFRE and have sought to reduce some of our back-office costs, equating to £400,000. So, that is by way of background for the Committee.

Turning to the October monitoring round, the exercise was commissioned by DFP on 18 August and returns are due back to DFP later this week on 2 October. The proposals as set out in your note have been reviewed by the senior management team in the Department and approved by the Minister. DFP will consider our return alongside those of other Departments, and the Finance Minister will then present his recommendations to the Executive. We expect that to be at the Executive meeting on 16 October, to be followed by a statement from the Finance Minister on 20 October.

As part of the October monitoring round exercise, DFP has requested details of bids, reduced requirements, technical issues, financial transactions capital proposals and the impacts of the June monitoring round reductions. You will see from the information that we propose to submit five resource bids and one capital bid totalling £19·2 million in this monitoring round.

I will briefly mention the bids that are presented in the paper. First, we propose to bid for £8 million for the TB compensation scheme. You will recall that we submitted a marker bid of £7·9 million as part of the June monitoring round. Since then, we have had an opportunity to review those costings and refine the actual amount required. As I said, that is £8 million. I certainly do not need to remind members of the importance of the TB compensation scheme, in terms of securing valuable export markets in livestock and livestock products and of the Department's statutory requirements to adhere to the Tuberculosis Control Order. The Committee will also be aware of a long-standing arrangement regarding the funding of animal disease compensation. We will again make the case to the Executive and expect that the funding required will be made available to the Department.

Our next proposed bid is for £3·6 million national match funding for the rural development programme. That bid is necessary as a result of the change in the co-financing rates under the new rural development programme.

In regard to our third resource bid, you will be aware of the importance of the LPIS programme, as previously presented to the Committee, and the vital work to avoid disallowance in the future. LPIS funding was previously provided by the Executive as part of the invest-to-save initiative back in Budget 2010. That funding was only available for two years up to 2012-13. However, the Executive met a £3 million bid in June monitoring last year. This is the final year of the project, and we require £2·8 million to finalise the various elements. The funding is mainly required to fund DFP's Land and Property Services staff.

I turn now to the Agri-Food and Biosciences Institute (AFBI) bid. Members will be aware, undoubtedly, of AFBI's importance in delivering diagnostic and research functions on behalf of DARD. There is also a range of statutory functions carried out by that organisation that allows the sector to trade. Continuation of those functions cannot be overstated, particularly given the Executive's priority to grow the economy and commitment to deliver on the Going for Growth strategy. In addition to supporting trade, continuation of the work is critical if the Department is to succeed in meeting its Programme for Government commitment to achieve official brucellosis-free status next year. We are progressing well, however any reduction in testing and surveillance could have a detrimental impact on the delivery of this target.

The bid is to meet the ongoing running costs of AFBI for the remainder of the year. AFBI is taking the necessary steps to deliver savings, however the organisation has experienced a range of unexpected costs that it cannot absorb through additional efficiencies. Work is also under way to identify options to realise savings to ensure that AFBI is sustainable in the future. However, this will take some time to develop and implement.

You will also see that we have a bid for £1·3 million for depreciation. Again, this relates mainly to AFBI estate and AFBI assets.

Turning to our single capital bid, we have identified a requirement for £2·2 million this year to fund the information and communications technology (ICT) requirements to implement common agricultural policy (CAP) reform in 2015. It includes integration and developments of the Northern Ireland Civil Service (NICS) ICT system for EU structural funds. If the bid is not met, we would have very limited, or no, ICT functionality to deliver CAP reform, which could result in more resource-intensive and inefficient processes.

As I mentioned earlier, in addition to bids, DFP has sought information on reduced requirements, technical issues and financial transactions proposals. I can confirm that we do not have any of these to submit to DFP in this monitoring round. DFP has also requested details of the public service impact of the June monitoring round reductions. As I mentioned previously, the majority of our reductions have been funded through an increase in income to the Department. Therefore, I am happy to confirm to the Committee that the impact of the reductions will be kept to a minimum.

In summing up, our opening resource budget is over £15 million less in 2014-15 than in last year's final out-turn. We have also had to fund a £4·1 million cut in the June monitoring. You will appreciate the difficulties we face, and I would therefore welcome the Committee's support for our October monitoring round bids. The Committee's view will be relayed to DFP as part of our submission.

The Chairperson: Thank you very much. We all know that money is quite tight at the moment and that not many Departments are receiving all that they ask for. I know that all the bids you are making are very important. What are the consequences if you do not get all the funding that is required?

Mr Wilkinson: I think that there will be consequences if we do not get the funding we have asked for. The most significant of our bids is for TB compensation: that is £8 million. In my comments, I did say that we have an arrangement in place with the Department of Finance and Personnel whereby we bid in year for any amount of money required for the compensation. That is money that we do not have available to us. Having to find that sort of money in year would be extremely challenging, and we would need to return to our financial plans if we were not successful in receiving that money.

The Committee will be aware that it is a legal requirement for us to pay that compensation. We have to do it. If we were not allocated the money as part of this funding round, we would certainly need to review our financial position very carefully.

The Chairperson: The capital bid is £2·2 million for the IT system for the new basic payment scheme. How important is that?

Mr Wilkinson: Chair, it is extremely important. You will know that, with what was the single farm payment, the new payment system that we are having to introduce to make sure that farmers get their payment on time, reduce bureaucracy and ensure that it is done seamlessly is incredibly important. We have to ensure, as part of our compliance with EU regulations, that it is done through the IT system. It is extremely important that we get that funding in this monitoring round. We are also conscious of the timeline. The new scheme will go live very soon, so we want to get on with developing our IT systems.

The Chairperson: What you are saying is that the current IT system needs to be upgraded to deal with this.

Mr Wilkinson: Yes, absolutely.

Mr Byrne: Graeme, thanks for the presentation. You talked about losing £4·1 million in the June monitoring round, and you are expecting an outcome of £15 million less at the end of the year. Is that right? There will be a shortfall of about £15 million relative to last year.

Mr Wilkinson: Yes.

Mr Byrne: You have made the bids for this October monitoring round. Will you be surrendering any moneys because of programmes not being up to speed in their spends?

Mr Wilkinson: Certainly not, Joe. Hopefully, from my opening remarks, you got a sense of the very difficult financial position that we are in. At the end of 2013-14, the last financial year, we had an out-turn of in excess of 99%. So, our budget is being managed extremely tightly, and we are seeking to spend out wherever possible. We are managing our finances very carefully, and, where there are easements, we will take corrective action, but we are not proposing any reduced requirements as part of this monitoring round.

Mr Byrne: Is it the case that, for quite a number of years, TB compensation has largely been funded out of monitoring rounds rather than out of the mainstream budget?

Mr Wilkinson: Absolutely correct. As I mentioned earlier, we have an arrangement with the Department of Finance and Personnel whereby we have a very small baseline for TB compensation. It is quite a volatile disease and so it is difficult to predict with any certainty what the costs of TB compensation might be. So, we monitor it in year and bid as part of the in-year process when we are able to refine more accurately what the actual cost of TB compensation will be. We have gone through that process. We are certain about what the costs will be this year, given that we are already halfway through. We are seeking to have that bid met as part of this monitoring round.

Mr Byrne: On the TB compensation so far this year, are we ahead of schedule or behind schedule relative to last year's spend?

Mr Wilkinson: It is very similar, Joe, to last year's expenditure. Last year, the cost of TB compensation was £12·5 million. This year, we are forecasting £13·2 million. So it is very similar to last year's experience.

Mr Byrne: Finally, given that there is a tightening of monitoring round moneys in general, does that mean that there will have to be a re-evaluation of the compensation-type schemes that are applied to TB going forward?

Mr Wilkinson: There is no intention to look at the TB compensation arrangements. I am aware that a new partnership has been formed, and it might want to look at that as part of that process.

Mr Elliott: Thanks for the presentation. Apologies for the first question; I am only back on the Committee. Explain to me the arrangement with DFP around the in-year compensation for TB.

Mr Wilkinson: We have around £5 million in our baseline for TB compensation. That was agreed as part of the Budget 2010 process. So, we need to look at the actual cost of the TB compensation as we go through the year. The view at that time was that it was not helpful to have a large amount of money tied up in TB compensation given its volatile nature. It can go up and down. So, rather than tying money up at the start of the financial year, we agreed to monitor it very closely and advise DFP, as part of the monitoring round processes, how much money we require.

Mr Elliott: So, there is no guarantee that you will get the money from DFP. That arrangement does not stretch to some sort of commitment from DFP that you will get the money, does it?

Mr Wilkinson: Our understanding of that arrangement is that there is a commitment that we will have that money topped up in year given that it is a legislative statutory requirement. Therefore, we need to have that funding made available.

Mr Elliott: Your and the Department's understanding is that there is a commitment from DFP that you will get that money as and when you require it.

Mr Wilkinson: That is my understanding.

Mr Elliott: Is that DFP's understanding?

Mr Wilkinson: That is my understanding, yes.

Mr Elliott: That will be interesting then.

Mr Wilkinson: It would be extremely challenging for the Department to try to find £8 million in year. Our total budget is just over £200 million. In excess of 50% of that is taken up by staff salaries. The point that I made at the start of my presentation was that there is very limited scope or flexibility for us to find that sort of funding.

Mr Elliott: I totally accept your point, but, if there is an understanding with DFP, why may there be an issue around it? If there is a commitment to pay it, it should not have to be a number one priority; it should be automatic. However, you are telling me that it is not; that it is a priority and that it may not be automatic.

Mr Wilkinson: There is still a process to go through; you still have to bid in year for it. It is our understanding that that bid will be met as part of the process.

Mr Elliott: If it is not, where will the money come from?

Mr Wilkinson: Again, that is going to be extremely challenging for us, given the very fixed nature of our expenditure —

Mr Elliott: I am sure that you have looked at options. Give us an example of some of the options that you might have to —

Mr Wilkinson: If that were to come to fruition, we would totally need to re-look at our financial plan for the remainder of this financial year. It is not a scenario that I have set out to try to find.

Mr Buchanan: You made four bids, as outlined. If you do not get the £19·2 million, which of them suffers, or do they all suffer?

Mr Wilkinson: Again, the big one is TB compensation. That is critical for us. As I just mentioned, we would have to completely review our financial plan once we have the outcome of October monitoring. You certainly get a flavour of the financial pressures that we are trying to deal with. They are very significant. If the bids were not met, we would have to review our financial plan between now and the end of the year to ensure that we are able to remain within budget. That is something that we are not contemplating at this stage, given our expectation that the TB compensation bid will be met.

Mr Buchanan: What was it in AFBI that caused the £1·3 million bid for resources to the end of the year?

Mr Wilkinson: A range of costs have increased for AFBI over the last number of years. We have been working very closely with it to try to manage that position very carefully. The range of costs that have increased are things like its estate. That is certainly something that the Public Accounts Committee (PAC) has picked up on. We are working with it to reconfigure its estate so that there are modern and more efficient buildings to try to reduce costs.

Pay inflation is a really significant cost for AFBI. It is a labour-intensive industry. A huge amount of its costs relate to staff, so you have the cumulative impact of pay progression year on year, which gives rise to pressures on its budget. It has also had rates revaluations quite recently, which has caused a spike in its costs. It is not one single item; a range of costs are impacting on its funding. That is not unique to AFBI; most public sector organisations are grappling with similar sorts of cost increases.

Mr Buchanan: We are in tight financial constraints at the minute. As the belt tightens and the squeeze continues, what strategy have you in place to make sure that you can take the Department forward?

Mr Wilkinson: We have started to look at a change programme in the Department. There are a number of different elements to that change programme, which will start to reduce the costs of running the Department. We have been very mindful of the very difficult public expenditure outlook. We are certainly looking at our target operating model. We hope to complete that work by the end of this calendar year. It is looking at the services that we deliver, how we deliver them and making sure that we are getting the best value for money for the taxpayer.

We have also recently completed our estate strategy, which looks at the costs of our estate because, behind the staff costs, our estate is the second-biggest cost that we incur. It is a very significant cost for the Department, so we will look to rationalise our estate to bear down on the cost of that.

The third element relates to our digital strategy. We are looking to deliver more of our services online, predominantly because our customer needs have changed. More and more farmers are needing and requesting services 24/7, not just the current nine-to-five offering. Our customers and their demands are changing, and we need to change our operating model to meet that demand. In so doing, we need to be mindful of trying to reduce our costs in the future.

Mr McMullan: Thank you for your presentation. You said earlier that AFBI had extra costs that it could not absorb. What are they?

Mr Wilkinson: As I have just mentioned, there is a range of costs. However, the biggest one is in and around staff costs. It is very difficult to influence staff costs in the short term, and AFBI has had to try to absorb the cumulative impact of pay progression over a number of years.

Mr McMullan: Are we looking at staff reductions anywhere down the line? We are talking about doing more and more business online to meet customer demand. Will that have an effect on staff numbers?

Mr Wilkinson: I think that it could well have an impact on staff numbers. If you look at the profile of our expenditure and cost base, you will see that it will impact on staff numbers in the Department. Our work on the target operating model will help to inform what our services and how we are going to deliver those will look like. We can then start to model the number of staff in the Department going forward.

Mr McMullan: You said that you have not looked at the whole financial plan but that you may have to. How long will that take?

Mr Wilkinson: I do not think that it would take a huge amount of time, simply because we do not have a huge amount of time. If we were not to get our TB compensation, we would have to take fairly drastic action to live within our budget. We would have to review all the lines in our budget to see how we could manage to come within our budget.

Mr McMullan: I see that the compensation has gone up by just over two-point-something million from last year. Is that correct?

Mr Wilkinson: It is broadly similar to last year. The out-turn figure is about £12·5 million.

Mr McMullan: And 15 something —

Mr Wilkinson: It is £15 million this year.

Mr McMullan: So it is going up.

Mr Roger Downey (Department of Agriculture and Rural Development): The forecast for this year is £13·2 million. It has gone up only by about £700,000.

Mr McMullan: Is it not time that we looked at that anyway? If the figures are going up, should that not be looked at, in line with what we are doing for TB eradication?

Mr Wilkinson: Again, as I mentioned earlier, that is something that I am sure the partnership group will want to consider. The costs are very significant, and we are paying 100% compensation currently. That is something that the strategic partnership will want to think about.

Mr McMullan: But have you looked at how much would be saved by bringing the payments in line with other payments, for example?

Mr Wilkinson: No, we have not looked at any modelling or scenarios around changing the compensation rates.

Mr Downey: The costs are actually down on 2012-13, when they were £16 million.

Mr McMullan: Compensation costs have gone down. That is something, anyway.

Mr Milne: Thanks for the presentation. I want to follow up on that point. You say that the figures have come down, but is that not because the number of cattle with TB in the North has gone down?

Mr Wilkinson: Yes. In 2012-13, the incidence of TB was over 7%. We are experiencing a fall in the level of TB. Currently, it is just over 6%. The reduction in the compensation payable is a result of the reduction in TB.

Mr Milne: I know that the test and vaccinate or remove (TVR) programme is probably ring-fenced in the Department, but I want to ask whether it is going to be affected in any way at this stage.

Mr Wilkinson: Not at this stage, no. Depending on the outcome of October monitoring, we may need to look at everything. As the Minister said previously, if we have a poor outcome, we will have to look at everything.

Mr Elliott: I just want clarification on something that was said at the start about the overall budget. You said that the overall baseline budget was £209 million, is that right? Will you run through the figures again? You said that £106 million was for salaries and wages and £27·5 million for rural development. What were the other figures?

Mr Wilkinson: Sorry, the £106 million is for salaries and wages and £11·6 million is for depreciation, which I inadvertently did not include. For the TB programme, there is £13 million. That is £6·7 million for the private veterinary practitioners (PVPs), which is testing, plus £5 million for the compensation. We have a very small baseline for the compensation and that needs to be increased. The RDP is £27·5 million, and there is £36·5 million to NDPBs.

Mr Elliott: Sorry, what was NDPBs? Was it £36·5 million?

Mr Wilkinson: It is £36·5 million. That is the grant-in-aid that we give to them. It is predominantly for AFBI.

Mr Elliott: If you add that £11·6 million, is that what brings it up to £209 million?

Mr Wilkinson: Sorry, that is £195 million. There are then other costs, such as running costs and estate costs, that bring it up to the total.

Mr Elliott: So, are running costs or estate costs £14 million?

Mr Wilkinson: They are not just estate costs; there is a whole range of things.

Mr Downey: Rivers Agency costs are —

Mr Elliott: Does Rivers Agency not come in under NDPBs?

Mr Downey: No. Forest Service is in there as well at £3 million.

Mr Wilkinson: I wanted to give a broad overview of the type of costs. The 2013-14 accounts have now been published, so, if it were helpful, we could share those with the Committee by way of background.

Mr Elliott: Yes, that might be helpful.

Mr Byrne: Given that we are having the external shock of a reduction in monitoring round reallocations, how does our Department compare with counterpart Departments in Scotland, Wales or England on efficiency costs?

Mr Wilkinson: It is not an analysis that I have done. I cannot answer that question.

Mr Byrne: Is there no comparative analysis that we can do to find out whether we are more efficient?

Mr Wilkinson: To be fair, Joe, it would be difficult to do that analysis because the other Departments are very different in their make-up. All sorts of other elements of Departments that are in the likes of DOE are included in the Department of Agriculture, Food and the Marine (DAFM). It is not easy to make a read-across between DARD and other Departments in other jurisdictions.

Mr Byrne: Has there been no fundamental review of the overall operation of the Department in recent times?

Mr Wilkinson: I just mentioned that we are doing that. We are looking at our target operating model, and we are having a fundamental review of the Department. That was intended to inform the 2016-2020 Budget exercise —

Mr Byrne: For the comprehensive spending review (CSR).

Mr Wilkinson: Yes. Those plans will take time to implement, and we are talking about reasonably fixed costs in the Department.

The Chairperson: In relation to the LPIS requirement of £2·8 million to meet the cost of DFP and LPIS staff, is that an extra cost?

Mr Wilkinson: Yes, that is not included in our baseline. That is why we are having to bid for that each year. They are DFP staff; it is a service that we purchase from the Department of Finance and Personnel.

The Chairperson: It is quite a bit extra.

Mr Wilkinson: It is. It is a significant amount of money, but I would not underestimate the amount of work that is involved in the mapping exercise. That partnership has worked very well to date. We are keen to ensure that the bid is met and we can continue with the relationship.

The Chairperson: Is the Committee content with the DARD proposals?

Mr McCarthy: Chair, I have one final question. Have you received the June monitoring round funding?

Mr Wilkinson: We have received the funding for the capital element —

Mr McCarthy: You have.

Mr Wilkinson: Yes.

Mr McCarthy: You did not get the resource.

Mr Wilkinson: No, we did not get the resource.

Mr McCarthy: But you have received the —

Mr Wilkinson: The capital.

Mr McCarthy: OK. That is fine.

The Chairperson: Is the Committee content with the proposals?

Members indicated assent.

The Chairperson: Thank you very much.