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Resource DEL: administrative cost controls

1. Background

In the context of examining efficiency savings the Committee for Finance and Personnel (“the Committee”) recently called upon the Department of Finance and Personnel (DFP) “to provide a detailed analysis of administration spend by departments in 2008-09 and 2009-10.”¹ This call was made in connection with expert evidence about controls to limit administration expenditure being circumvented by the reclassification of administration spend, particularly in payments to consultants.

This Briefing Note sets out the rules for, and purpose of, administrative costs limits and programme control totals within Resource Departmental Expenditure Limits (DEL). The purpose of this explanation is to point at a possible route of inquiry that the Committee, and indeed other statutory committees of the Assembly, may wish to follow with their respective departments in relation to the Budget 2010 process.

¹ http://www.niassembly.gov.uk/finance/2007mandate/reports/Report_60_09_10R.html (see para 114)

2. What are administrative cost limits?

The Executive's budget sets each department's DEL. This is divided into Capital DEL (for investment purposes such as building new hospitals and schools or office accommodation) and Resource DEL (for everything else).

Within Resource DEL there is a further control total call the 'administrative cost limit' or 'administrative budget.'

The purpose of administrative cost controls

The UK Treasury imposes administrative budgets on most departments, but not on the devolved administrations' block grants. The Executive, through DFP, also imposes such cost limits. The following extract from the Treasury's guidance² explains the concept concisely:

Administration Budgets cover the costs of all central government administration other than the costs of direct frontline service provision or support activities that are directly associated with frontline service delivery. In practice Administration Budgets include activities such as provision of policy advice, business support services, back-office administration of benefits, advice on and administration of grant programmes, technical or scientific support, and the work of the Government's Regional Offices.³

In essence, the administrative cost limits are a mechanism for controlling the cost of the administration of government rather than the delivery of services:

Although devolved administrations are not set Administration Budgets in Spending Reviews, these bodies operate their own arrangements for constraining the costs of running central government.⁴

How do they operate?

The split between administrative and programme expenditure is supposed to happen above the level of the individual civil servant; the Treasury encourages departments to classify spend at the level of business areas.⁵

Certain categories of spending fall within the administrative subset of Resource DEL. The chief components are:

² DFP does not produce separate guidance: it applies the same control system at the local level as used by the Treasury at the national level.

³ Treasury (2010) 'Consolidated budgeting guidance from 2010-11' available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 55)

⁴ Treasury (2010) 'Consolidated budgeting guidance from 2010-11' available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 55)

⁵ Treasury (2010) 'Consolidated budgeting guidance from 2010-11' available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 56)

- Employee costs, including civil service pay, superannuation, training, travel and subsistence;
- Current expenditure on accommodation, including rent, rates and maintenance;
- Current expenditure on office services including stationery, postage, telecommunications and computer maintenance, etc.;
- Current expenditure on comparable contracted-out services (including some consultancy costs); and,
- Depreciation charges incurred carrying out activities falling within administration costs (and where fixed assets are used for both administration and programme work these costs should be apportioned)⁶

The penultimate bullet point is important in relation to DFP's administration cost limit. Under current Treasury guidance, administration costs include:

*Any costs associated with out-sourcing of support services. For example: payroll services, omnibus building service charges under PFI or other accommodation contracts, departmental switchboards, etc.*⁷

Some Northern Ireland Civil Service (NICS) shared services, such as HR Connect, for example, therefore fall within DFP's control total.

The purpose of this rule is to avoid just the sort of situation referred to in the expert evidence to the Committee as part of the initial Efficiencies Inquiry; it is intended to remove any

*...perverse incentive to contract out functions, or use consultants in place of civil servants, simply because the resulting work would then be charged under programme costs.*⁸

Application of the controls regime

The administration cost controls regime applies to all NICS departments. It does not apply to non-departmental public bodies (NDPBs) or public corporations.

It is the responsibility of Accounting Officers for ensuring that their outturn is within the control total. Breaches of administration budgets require an explanation at year end setting out:

- The size of the breach;
- Why it occurred; and
- The remedial action that the department is proposing, including:

⁶ Treasury (2010) 'Consolidated budgeting guidance from 2010-11' available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 57)

⁷ Treasury (2010) 'Consolidated budgeting guidance from 2010-11' available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 57)

⁸ Treasury (2010) 'Consolidated budgeting guidance from 2010-11' available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 57)

- Improvements in financial management to deal with the specific cause of the breach;
- Improvements in financial management to improve overall forecasting and control of the department's control totals; and,
- Information that will be provided to evidence these improvements.⁹

Changes to administration budgets

Departments may make a case to DFP if they feel that particular items of spend are being wrongly scored against administrative costs when they should be scored to programme and vice versa. An exercise to ensure that administration budgets correctly reflected departmental business was conducted prior to the preparation of the 2008-11 Budget.¹⁰

A recent example of a reclassification at the UK level was the movement of the Crown Prosecution Service's expenditure on the grounds that:

*Public prosecution (including lawyers working in courts and counsel) represents a front line service. Prosecutors also work directly with police and other services, which are mainly funded from outside administration costs.*¹¹

⁹ Treasury (2010) 'Consolidated budgeting guidance from 2010-11' available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 15)

¹⁰ Source: communication with DFP

¹¹ Treasury (2010) 'Consolidated budgeting guidance from 2010-11' available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 56)

3. Administrative cost limits for Northern Ireland Departments

In response to the Committee's request mentioned above DFP provided the following figures:¹²

Administration Costs Analysis for DFP Committee

2008-09

Department	Budget 2008-11 Administration Costs Limit	2008-09 Provisional Outturn
DARD	46.4	43.8
DCAL	6.6	6.2
DE	19.1	21.6
DEL	26.8	24.2
DETI	17.8	15.7
DFP	142.8	165.4
DHSSPS	42.3	40.3
DOE	61.4	56.6
DRD	98.6	88.9
DSD	27.4	26.6
OFMDFM	18.3	16.3
Total	507.5	506.7

2009-10

Department	Budget 2008-11 Administration Costs Limit	2009-10 Provisional Outturn
DARD	45.9	41.7
DCAL	6.5	6.5
DE	18.7	18.6
DEL	26.4	24.1
DETI	17.4	15.6
DFP	135.5	163.8
DHSSPS	41.3	32.8
DOE	59.5	56.4
DRD	96.3	87.6
DSD	26.7	26.1
OFMDFM	17.9	16.6
Total	492.1	489.7

The DFP tables show the limit on administration costs for each department within their resource DEL. It can be seen that – with the exception of DFP in both years and the Department of Education in 08/09 – all departments managed (in many cases comfortably) to keep within their limits.

¹² DFP (27 September 2010) 'Response to Report on the Preliminary Inquiry into Public Sector Efficiencies'

According to DFP, its own figures are skewed following the transfer of shared services (such as HR Connect, IT Assist and so on) to it from other departments – see section on consultancy costs.

4. What use could this information be to Assembly Committees?

Much of the rhetoric surrounding the UK Government's fiscal consolidation and the consequentially reduced Northern Ireland block grant and budgets generally has featured the aim of protecting 'front line services'.¹³ It is not always clear, however, what exactly is meant by 'front line services'.

A number of Assembly Committees and Members have raised this question in the past. For example, the Committee for Health, Social Services and Public Safety challenged departmental officials on the issue in October. In answer to the question, an official responded:

*The simple reality is that the vast majority of health and social care is front line. The provision of health and social care is one of the few services that any society depends on for the very basics of life, including life-saving interventions, treatments and therapies that create and sustain health and well-being. All of those are front line and were recognised as such in the spending review in which the Department of Health in England secured an inflation settlement, compared to very substantial cuts in other Departments.*¹⁴

Later in the session, the same official noted that:

*Some people say that medical secretaries, for example, are not front line. However, without the medical secretaries, how do we get appointment letters out? How do we make sure that case notes get to the right out-patient clinic, and so on? We have to keep all those issues in mind as we move forward with even greater efficiencies in particular services.*¹⁵

The ins-and-outs of this question are not for this paper to explore in depth. But purely in terms of public expenditure controls, the question should be relatively easy to answer: if individuals work in a business area whose expenditure is met from the administration budget, they are not front line.

To put this in reverse, all front line service expenditure is met from the programme element of Resource DEL. It follows that NICS departments *should* be able to provide

¹³ See, for example, 'Education Minister announces 2010-11 Budgets' <http://www.northernireland.gov.uk/index/media-centre/news-departments/news-de/news-de-april-2010/news-de-210410-education-minister-announces.htm> or 'Challenging year ahead for health and social care' <http://www.northernireland.gov.uk/index/media-centre/news-departments/news-dhssps/news-dhssps-may-2010/news-dhssps-25052010-challenging-year-ahead.htm>

¹⁴ http://www.niassembly.gov.uk/record/committees2010/HSSPS/101021_ExecutiveBudget.pdf (see pages 17-18)

¹⁵ http://www.niassembly.gov.uk/record/committees2010/HSSPS/101021_ExecutiveBudget.pdf (see pages 18)

Assembly Committees with information that shows which parts of their business are considered front line or back line.

A DFP official has confirmed that it would be possible for the Department to provide data that shows what percentage of the overall NICS payroll comes from the administration budget, and what comes from the programme budget, for example.¹⁶ The official also confirmed that – as the detail of which business areas fall within which budget at departmental level is not held centrally by DFP – it would be for individual Statutory Committees to ask their respective departments for this information.

A possible purpose for requesting such information would be to support scrutiny of proposed departmental budgets as part of the Budget 2010 process. It might make it easier for Committees to provide the ‘critical friend’ function of scrutiny: if Members can see clearly which items of departmental expenditure are genuinely front line, they will be more able to assess the likely impact of spending reductions on particular business areas. It might allow Committees to challenge Ministers’ claims that front line services are being protected.

¹⁶ Source: communication with DFP