DFP Response to CFP 2015-16 Draft Budget Report
Key Conclusions and Recommendations

1.	The Committee recognises that, despite the best endeavours of DFP to gain Executive agreement earlier on the Draft Budget 2015-16, circumstances have resulted in a truncated budgetary process with considerably less scope than normal for input by the Assembly and wider public. Due to the resultant time pressures and absence of detailed information on some key issues, the Committee has been unable to prepare the type of coordinated report made in respect of previous Executive draft budgets. Previous reports have contained detailed analysis, findings and recommendations based on comprehensive evidence on strategic, cross-cutting and departmental specific issues. Instead, this informal report on the Draft Budget 2015-16 outlines the issues raised by the Committee and related recommendations, based on the more limited evidence and information available within the time constraints, and appends the responses from other Assembly committees arising from their scrutiny at a departmental level (Appendix 1). **(Paragraph 7)**

DFP notes the conclusion.

2.	It is recognised that the lack of clarity at this stage around some aspects of the budget reductions and allocations may, in part, be a result of the truncated nature of the 2015-16 budget process, including the fact that Assembly committees were not afforded the opportunity to scrutinise the departmental bids and proposed allocations and any supporting evidence prior to the Executive agreeing the Draft Budget for public consultation. Nonetheless, the Committee believes that the explanation of the proposed changes to the non ring-fenced Resource budgets of departments could have been presented more clearly in the Draft Budget documentation, thereby facilitating Assembly scrutiny and enhancing the public consultation. Greater transparency around the basis for allocations would enable the Assembly to determine, for example, whether a consistent approach was taken across departments and whether the funding of particular 'central strategic pressures' warrant the resultant reduction in departmental resource budgets. The Committee believes that the final Budget document should therefore provide further information and clarity in this regard. **(Paragraph 14)**

DFP notes the recommendation. Decisions taken on the central pressures needing to be addressed, the overall level of departmental reductions and any subsequent allocations made in both the Draft and Final Budget were taken by the Executive and it is for the Executive to determine the level of detail that is subsequently provided relating to those decisions. The Draft Budget document and the Minister's statement to the Assembly on the Draft Budget provided details of the strategic issues and individual departmental allocations. A similar level of detail was provided for the Final Budget. For additional clarity, the Budget 2015-16 document provided a table of allocations made as part of both the Draft and Final Budgets.

3. Given the Executive's stated priority of 'rebalancing the economy' and the importance of the availability of third-level talent in attracting FDI, the Committee believes that, in terms of the 2014 Autumn Statement Barnett Consequentials or any other additional resources identified by DFP before Budget 2015-16 is finalised, the first call on these should be to address the risk of reductions in local University and FE education and training places, particularly in terms of the qualifications and skills which drive the knowledge economy. Moreover, the Committee would recommend that, in finalising the Budget document, DFP gives consideration to more clearly setting out the wider economic impact of the specific departmental reductions and related measures such as workforce restructuring. **(Paragraph 22)**

In the Final Budget additional allocations were provided to the Department of Employment and Learning to address the issues outlined by the Committee. The DFP Minister is on record saying that the Draft Budget outcome for DEL was one that he was least satisfied with. Whilst DFP can comment on the overall economic impact of a reduced public expenditure environment, it is not possible to comment on the potential impact of individual departmental reductions in the time frame between the agreement of the Final Budget and its subsequent publication. It is for each Minister to determine the priorities for their departments within the overall funding envelope agreed in the Budget. Obviously the wider economic impact will be dependent upon the outworking of these decisions. The same applied to related measures such as workforce restructuring, where plans for public sector restructuring and reform are still under development.

4. Given its concerns around the £133 million provision in the Draft Budget for increased employer contribution costs for public sector pensions, particularly that the risk of this pressure materialising was not highlighted earlier, the Committee seeks further assurance from DFP both on the robustness of the estimated cost of the annual increase from 2015-16 and on how any risk of such a sudden and significant impact on departmental budgets recurring in future will be mitigated. **(Paragraph 29)**

£133.2m was set aside in the draft budget to cover the increases in the main unfunded public service pension schemes, namely, Police, Fire, Health, Teachers and the Civil Service. This figure has been revised to £122.5m in the final budget.

This figure is based on final scheme valuations and funding will be allocated to departments as part of the in-year monitoring process.

DFP can also assure the Committee that for the future, steps have been taken which will highlight emerging pressures sooner and manage them. The Public Service Pensions Act (Northern Ireland) 2014 which provided the framework for the reform of public service pensions includes: a framework for cost control to protect the public purse, enhanced governance arrangements, and a requirement for regular valuations.

5.	In view of the scale of budgetary pressures in 2015-16 and beyond and given that DFP's role has changed from *'one of challenge to one of pure co-ordination'*, the Committee sees an urgent need for the Executive to provide for an effective external advisory and challenge function in respect of budgetary savings and efficiencies. If it is not possible/appropriate to confer this function on an existing body, the Committee would propose that an external 'panel of experts' or commission is established, which has buy-in from all Ministers. The focus would be on assisting in ensuring that savings are maximised while priority frontline services are protected. Having the expertise and access to the necessary information and undertaking its work on an ex-ante basis, such a body should report directly to the Executive in offering an independent critique of planned savings and efficiencies and in terms of ongoing implementation, both at a departmental specific and cross-departmental level. This would provide added assurance and may also serve to boost public confidence in the Executive's budget plans for 2015-16 and beyond. **(Paragraph 46)**

DFP notes the recommendation. The decision on whether such a body should be established would ultimately rest with the Executive. However, it is important to note that DFP still exercises its challenge function where it is appropriate and relevant to do so. In the context of specific Executive programmes of work such as Efficiency Delivery Plans or Savings Delivery Plans, the onus was on Ministers to deliver on the outcomes and the Executive did not give DFP a specific challenge function. DFP has the capability to provide such challenge function and where the Executive agrees to a central challenge function, DFP are able to fulfil that role, negating the need for an independent body and its associated costs.

6.	Given that it is imperative to protect priority frontline services over the coming years, members are concerned that half of all departments are recording increases in administration expenditure and, while plausible explanations may have been offered in some instances, the Committee would call for this area of expenditure to be carefully monitored and regularly reported on by DFP at a cross-departmental level to enable rigorous challenge by the respective Assembly statutory committees. Furthermore, the Committee recommends that the final Budget document spells out how administration costs are going to be managed and reduced going forward. **(Paragraph 51)**

DFP notes the recommendation. In 2011 the Executive agreed to remove its Administration Costs limit, on the basis that Ministers would be focused on delivering front-line services and administration costs would be consequently reduced.

DFP continue to monitor the administration costs of each department and has produced a cross-departmental administration costs table at the conclusion of each monitoring round since 2011-12. This is provided to the Executive and subsequently published as part of the Minister's statement.

The following table shows the reductions that departments have made from their 2015-16 baseline position.

£million

Department	Baseline	Final Budget	%
Agriculture and Rural Development	41.4	39.8	-3.9%
Culture, Arts and Leisure	7.1	6.3	-11.2%
Education	18.4	17.4	-5.4%
Employment and Learning	27.0	26.1	-3.4%
Enterprise, Trade and Investment	15.0	12.7	-15.4%
Finance and Personnel	125.8	110.2	-12.4%
Health, Social Services and Public Safety	31.0	30.5	-1.6%
Environment	19.7	18.9	-4.1%
Justice	46.7	44.8	-4.2%
Regional Development	84.0	79.3	-5.7%
Social Development	31.8	35.7	12.4%
Office of the First Minister and Deputy First Minister	14.2	14.2	0.0%
Total	**462.0**	**435.7**	**-5.7%**

In addition, administration costs have been steadily reducing in overall terms since 2011, with costs down from the 2011-12 opening position of £532.0 million to £435.7 million in 2015-16, a reduction of 18%.

It is important to note that there will be certain factors that necessitate an increase in the administration costs of individual deaprtments, such as taking on additional functions, reclassification of functions and the transfer of functions across departmental boundaries.

7. The Committee would highlight previous difficulties in forecasting asset realisation and the need for the Executive to ensure that, in repaying the £100m to the UK Reserve from disposals, it will be important to also achieve best value for money in the sale of public assets. **(Paragraph 57)**

DFP notes the conclusion. Asset disposal will form part of the repayment and, as for all asset disposal, departments will be required to seek best value for money.

8. In terms of the potential to maximise asset realisation, the Committee would remind DFP of the findings from its *Inquiry into Flexible Working in the Public Sector in Northern Ireland* which highlighted case studies from both the public and private sectors demonstrating how, in addition to achieving cumulative savings in office accommodation costs per annum, a strategic approach to flexible location working would boost capital receipts from property sales. **(Paragraph 58)**

DFP notes the conclusion. The NI Executive's Asset Management strategy, approved in June 2013, identified a range of opportunities available to Government through better management of its assets. One such area of opportunity relates to savings that can be achieved through consolidating and reforming the management of office accommodation. Better use of office accommodation has the potential to reduce our overall need for office space and consequently release assets that become surplus to requirements and reduce the amount of rent that we currently pay on leased accommodation.

To quantify and deliver on this opportunity DFP issued a Dear Accounting Officer letter that removed Departmental delegations to sign up to leases with the effect that business cases for leases are now scrutinised by the Asset Management Unit to ensure that a full range of alternative accommodation options are considered by a Department before taking or renewing a lease. As part of this DAO letter, Departments are encouraged to consider flexible working arrangements in their business cases where it is appropriate to do so. For example, business units where staff are often out of the office may be suitable for flexible working initiatives whereas business units such as administrative or processing centres may be less suitable for flexible working arrangements given the more fixed nature of staff and their working patterns.

9. The Committee recognises that staff costs account for a large proportion of many departments' expenditure and accepts the point made in the Draft Budget document that *'the deteriorating Resource DEL position will necessitate proactive measures to reduce the size of the public sector pay bill'*. That said, in noting the alarming figures for potential redundancies being forecast by some departments and public bodies in recent weeks, the Committee would be concerned as to how redundancies on the scales being suggested, if they were to materialise, could be managed to avoid adverse impacts on priority public services. As such, the Committee believes that a credible restructuring plan should be agreed corporately and published by the Executive as soon as possible, including details of how risks to service delivery are to be managed. This would also enable more informed scrutiny and oversight of departmental spending plans by the Assembly statutory committees. **(Paragraph 64)**

DFP notes the conclusion. As part of the Budget 2015-16 process and Stormont House Agreement, the Executive agreed to adopt a comprehensive programme of Public Sector Reform and Restructuring which will encompass a wide range of strategies including the introduction of a Voluntary Exit Scheme (VES) across the public sector. It should be noted that this is not a redundancy scheme but a voluntary exit scheme.

Processes associated with allocation of the funding to the Voluntary Exit Schemes across all sectors are currently being developed and are being overseen by a Public Sector Restructuring Steering Group, chaired by the Head of the Civil Service (HOCS) with membership comprising a representative from each Department /ALB.

It was agreed that responsibility for resource planning and risk management resulting from each VES would sit with the individual sectors who would be best placed to assess and manage the outcomes from the schemes. Each scheme will be subject to business case approval.

10.	In expressing concern at the length of time it will take to conclude the OECD Review of Public Governance (i.e. November 2015), the Committee would encourage DFP and the Executive to begin applying lessons and addressing issues as they emerge during the progress of the Review. **(Paragraph 66)**

DFP notes the conclusion. The planned timetable for the OECD Review is outlined in the table below.

Date	**Milestones**
November 2014	Launch of Review
January 2015	OECD Governance Questionnaire issued in December to NICS departments, with returns received by PSRD in January 2015
December 2014/January 2015	Baseline study to inform detailed Mission stage
February 2015	Mission – main review activity to include meetings with stakeholders is scheduled for w/b 23rd Feb 2015
March 2015	Case study launch
June 2015	Case study activity ends
July 2015	Initial review findings
September 2015	Final report drafted/Quality assure the draft report
October 2015	Final draft report
November 2015	Final report approved by OECD/Launch of final report and recommendations

The Executive Sub-Committee for Improving Public Services has been established by the Executive to oversee the review. Officials from Public Sector Reform Division (PSRD) are responsible for co-ordinating and monitoring the progress of the Review. At each stage outputs and recommendations will be considered and reported to the committee. Lessons learned and agreed actions to address issues raised will be proactively managed in an ongoing manner through this forum.

In addition to the OECD Review, DFP is engaged in a programme of enabling reform through a number of channels such as innovation laboratories and internal consultancy support.

11.	While the Committee has not, as yet, been provided with detail on the staff-generated ideas or on how the Department will determine which of the ideas are viable, members believe that this type of bottom-up approach is vitally important in identifying potential savings, reforms and service improvements in the public sector, which may otherwise be less apparent to officials at a senior level and who may be more detached from frontline service delivery. The Committee would therefore encourage DFP to promote the use of this approach across all departments. **(Paragraph 69)**

DFP notes the conclusion. Actions from the Executive agreed Public Sector Restructuring and Reform paper includes a proposal to review opportunities for cross-cutting reforms that can help individual Departments meet the requirements for significant paybill reduction across the public sector.

Public Sector Reform Division, within DFP, is leading on this work to support Departments in conducting a Review of Cross-Cutting Reform that identifies a long list of cross-cutting opportunities for consideration application across the NICS and, potentially at a later stage to the wider public sector. An approach similar to that used in an earlier DFP budgetary review exercise will be used where staff across Departments will be engaged through a series of workshops to identify a range of opportunities for assessment.

The Review will be overseen by a Working Group comprising senior representatives from each Department and a draft report of recommendations will be presented to the DFP Minister to present to the Executive Sub Committee for Improving Public Services by 31st March 2015 (for subsequent presentation to the Executive).

12.	While welcoming the provision in the Draft Budget for a Change Fund, the Committee would encourage DFP to apply clear criteria for evaluation as well as a timetable for the assessment of projects receiving funding and for a report on the lessons to be applied in any potential expansion of the Fund beyond 2015-16. In terms of a wider preventative spending strategy, while it strongly encourages an increased focus in this direction, the Committee is mindful of the challenges which this presents. In that regard, the Committee would call on DFP to give greater priority to the scheduling of an Innovation Lab on Preventative Spend with a view to charting a way forward on this important issue (i.e. the Preventative Spend Lab is currently listed only as 'potential' in the Lab Portfolio). **(Paragraph 79)**

DFP notes the conclusion. The allocation of funding from the Change Fund has now been agreed by the Executive with proposals being assessed against the pre-set criteria. Business Cases for all projects receiving funding from the Change Fund are being prepared in each sponsor area to demonstrate Value for Money and projected outcomes. All projects will be subject to the normal evaluation procedures in line with NIGEAE guidance. Oversight of outcomes for all projects will be managed by PSRD.

The success of the Innovation Lab approach has generated a growing interest and increased demand from across the public sector, both by way of commissioning further Labs and interest in participating in them. To meet demand and assist development of this innovative methodology, a successful bid was made to the Change Fund, which will enable PSRD to run up to 20 Labs in 2015. The proposed lab on Preventative Spend is expected to take place during this period.

13.	In recognising that the pressure on public finances will continue to increase over coming years, with the resultant risk to frontline services, the Committee calls on DFP and the wider Executive to prepare and publish a consultation paper on the options across all departments for raising additional revenue through charges and further devolved taxes and duties. This should set out all the applicable considerations on each option – such as the projected revenue/costs/benefits/risks/impacts (including in terms of the economy, consumers and the most vulnerable) – necessary to ensure a fully informed debate on how best to help meet the further budgetary challenges. **(Paragraph 89)**

DFP notes the conclusion. Northern Ireland departments are allowed to retain receipts in cases where charges relate to the cost of providing a service. In other cases HM Treasury must provide a dispensation before additional income from charges can be utilised here. The Executive's Budget Review Group considered revenue raising proposals as part of its work on Budget 2011-15. It will be for the Executive to decide if it wishes to initiate further work on this area. In relation to the devolution of taxes, In relation to the devolution of taxes, the Executive remains focused on securing the transfer of Corporation Tax rate-setting powers in line with its Programme for Government commitment. The potential benefits and associated costs of a reduced Corporation Tax will depend on the rate that is struck and the timing of when that lower rate might be applied, which needs to be decided by the NI Executive.

In relation to other fiscal powers, the Department is currently undertaking assessments of a range of taxes to consider whether devolution could result in any clear economic or social benefit for Northern Ireland. These assessments will reflect recent developments such as the findings from the Smith Commission and the changes to taxation announced by the Chancellor in his Autumn Statement. It will then be for the Finance Minister to decide how these assessments will be taken forward.

14.	Subject to receiving clarification on the queries it has raised, the Committee broadly welcomes the proposed Northern Ireland Investment Fund, especially given that this may offer an effective mechanism for addressing some of the barriers identified by the Committee in relation to maximising the potential for utilising EIB and FTC as sources of capital finance in Northern Ireland. In terms of FTC, the Committee recommends that the final Budget document includes an agreed approach to promoting awareness amongst departments and within the private sector in order to increase the uptake of opportunities for utilising this important source of capital finance. **(Paragraph 96)**

DFP notes the recommendation. The Minister made it clear to Executive Colleagues that the allocation of Financial Transactions Capital to the Northern Ireland Investment Fund did not preclude departments from submitting bids to the Executive for relevant projects. In addition DFP officials have been working with the Strategic Investment Board to raise awareness and examine potential projects that may be suitable for Financial Transactions Capital.

The Minister in the Take Note debate iterated the difficulty in spending Financial Transactions Capital and highlighted the establishment of the Investment Fund for Northern Ireland, which could take on FTC and allow it to lever in finance from other sources to invest in a range of different capital projects.

15.	The Committee recognises that, arising from the legacy of the Troubles, the Executive has inherited burdens on public expenditure which are distinctive and additional to those faced by other regions. While the impact of decades of conflict and division on society and the economy of Northern Ireland has been immeasurable and not fully accounted for during the peace and political processes to date, it has left a range of deep-rooted problems, the resolution of which will be protracted and require, amongst other things, enhanced public spending on particular aspects of health, welfare, education, justice and economic regeneration. Given the scale of this challenge in a time of austerity, the Committee is fully supportive of the efforts of the local parties to secure external support, including from the UK and Irish governments, in the form of a 'Peace Investment Fund'. **(Paragraph 106)**

DFP notes the conclusion. The Stormont House Agreement was agreed on 23 December 2014 and was supported by a financial package, the 2015-16 elements of which are now incorporated into the Final Budget.

16.	Given the need for greater oversight and closer scrutiny of public expenditure, coupled with the recurrence of difficulties experienced by Assembly committees in terms of insufficient time and information for meaningful scrutiny of the Draft Budget 2015-16, the Committee recommends that the proposed MoU on the Budget Process is agreed between the Assembly and the Executive as a matter of urgency. In so doing, the Committee concurs with the Finance Minister that the draft MoU needs to reflect the lessons learned from the 2015-16 process. **(Paragraph 114)**

DFP notes the recommendation. Given the circumstances of the formation of 2015-16 Budget, it is clear that the draft MOU would not have adequately covered the setting of the 2015-16 Budget. In that regard more work is needed to formulate a Memorandum of Understanding that is capable of being sufficiently flexible to deal with the reality of budget setting processes whilst still retaining the key principles required. Further analysis is therefore required to examine ways in which the model can be suitably adapted.

17.	The Committee believes that the limitations to the in-year monitoring process are all the more pertinent in the current public expenditure climate and considers that a formal budget review mechanism should operate on an annual basis, looking ahead at the subsequent financial year, as a complement to multi-year planning. In light of the unprecedented budgetary challenges facing the Executive over the coming years and while recognising the importance of continuing to plan strategically on a multi-year basis, the Committee would therefore reiterate the recommendation of its predecessor which called for *'the establishment of a regularised annual budgetary review mechanism, set to a pre-determined timetable, which it considers will aid transparency and better enable the Executive to adapt its plans to deal with changing circumstances and unforeseen pressures'*. **(Paragraph 116)**

DFP does not accept this recommendation.

The Committee will be aware that although there is an overall reduction in levels of reduced requirements being declared in-year there remains a tendency for significant levels of reduced requirements to be surrendered in the later monitoring rounds of the year.

Without the in-year monitoring process there would be no mechanism for the surrender and reallocation of reduced requirements during the financial year. This would in turn lead to increasing the risk of departmental underspend, spend on lower priorities or end-year surge spend.

Also, given departments reluctance to surrender reduced requirements at an early stage in financial year it is unlikely they will surrender any significant amounts in a budget review exercise. Therefore, it is likely that an annual budget process would simply lead to additional nugatory work as without the surrender of significant levels of reduced requirements only marginal changes are likely to be made unless there is a pressure of sufficient significant to warrant departmental reductions. In the case of the latter, it is also possible that such reductions could be reduced, or avoided altogether, if decisions were taken at a later stage.

In addition, if departments come to expect significant change to their budgets as part of an annual budget review process, it will negate the advantage of the certainty provided by agreeing a multi-year budget and impinge upon departments' ability to plan effectively.

Also, without an in-year process there would be no pre-determined opportunity for the Executive to address pressures which emerge during the course of the financial year. It also limits the opportunity for Ministers to bring financial pressures that emerge during the course of the year to the attention of the Executive.

Of course, the Executive may initiate a financial exercise at any time if it considers there is a need to do so. This applies equally to the current process of multi-year budgets combined with in-year monitoring – as evidenced by the additional 2013-14 & 2014-15 Budget realignment and Technical exercises commissioned in 2012-13.

Therefore the DFP view is that alongside a multi-year budget process, the In-Year Monitoring process remains the most effective means of addressing pressures and redistributing funding to the Executive's priorities.

18. In terms of the proposed budgetary allocations between departments, the Committee for Finance and Personnel recommends that, in finalising the draft Budget 2015-16, the Finance Minister and the wider Executive take on board the conclusions and recommendations contained in the separate submissions from each of the Assembly committees, which have been included in Appendix 1 to this Report. The Committee expects that the Finance Minister will take responsibility for ensuring that this Report is therefore brought to the Executive's attention before the draft Budget 2015-16 is finalised and brought forward for Assembly approval. Members would also expect that the Finance Minister will outline the Executive's response to the Report when presenting the revised draft Budget 2015-16 to the Assembly. **(Paragraph 118)**

DFP notes the conclusion. The Finance Minister made reference to the work of the Committee in the Assembly as part of the Final Budget debate. As part of the Executive's deliberations on the Budget, Ministers would have been expected to take into account the issues raised by their respective Committees. Issues raised by Committees regarding the internal prioritisation of funding within a department are a matter for the respective Minister.