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Jack Layberry
Department of Finance and Personnel
Rathgael House
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4 October 2011

Dear Jack,

2011-2012 Public Expenditure – October 2011 Monitoring

The purpose of this letter is to formally set out the Department's agreed position in relation to the October monitoring round. The subsequent paragraphs detail the various bids and reduced cash and non-cash requirements across all Departmental business areas – see the table at Section 5 for a summary of the composite figurework.

1. Background

- 1.1 Our return sets out two housing-related capital bids for £14m; an Urban Group bid for £1m (capital); reduced cash requirements of £5.39m; and two resource non-cash reduced requirements totalling £1.80m. Both the Housing & Urban bids relate to existing schemes where additional funding is required to meet demands which cannot be found within existing resources. The reduced cash requirements relate primarily to; slippage in DWP-led projects in the Social Security Agency; reduced staff costs in the Child Maintenance & Enforcement Division; as well as project slippage and reduced legal cost liabilities in the Urban Regeneration Group. As in June, the reduced non-cash requirements reflect International Financial Reporting Standard-related accounting treatments in the Social Security Agency; and reduced depreciation / impairment charges in the Child Maintenance & Enforcement Division.

2. Bids

Housing

- 2.1 2 bids have been tabled for additional resources as indicated below.

NI Co-ownership Housing Association (NICHA) – £10m capital bid

- 2.2 The Co-Ownership Scheme remains the Department's main measure for supporting potential first time buyers experiencing affordability problems who wish to purchase their own home but cannot afford to do so outright. Increased demand for Co-Ownership Housing in recent years resulted in a quota system being introduced by Co-Ownership in May 2009 to ensure that applications for assistance can be processed throughout the year. NICHA currently processes 2.4 applications for 1 successful completion. For the 2010/11 year NICHA received in excess of 1200 applications and delivered 492 completions. For 2011/12 the Department will provide NICHA with funding of £15m per year and, with private finance, they will provide 425 affordable homes.
- 2.3 To date NICHA has received 839 applications and are on course to meet the 425 homes target. Additional funding of £10m would fund approx another 170 properties which would help bolster effective demand by assisting deposit-constrained prospective buyers who are struggling to purchase a home and, at the same time, help the wider economy. This scheme normally attracts private sector investment but, because it would cause NICHA to exceed its debt borrowing limit during the period of its new business plan, this would not be the case for this additional investment.

Thermal improvements to NIHE stock - £4m capital bid

- 2.4 The Housing Executive is currently pursuing a capital improvement programme aimed at upgrading thermal efficiency in its stock. In the event of a severe cold weather period similar to that which occurred at Christmas 2010, a number of the Executive's priority dwellings could suffer structural repair damage and incur unnecessary fuels costs through heating inefficient homes. The programme is focussed on the delivery of double-glazing windows to those dwellings on a priority

basis. The original 2011-12 agreed programme included an allocation of £6.8m, which was to upgrade glazing in over 2,500 homes. An additional allocation of £4m would permit the upgrading of a further 900 homes, mainly in multi-storey blocks. The unit cost of upgrading glazing in multi-storey premises is higher than those for single dwellings, due the additional operational safeguards necessary in high-rise accommodation.

Urban Regeneration - £1m bid

- 2.5 The reduction in funding following Budget 2010 has resulted in the Urban Regeneration Group having a shortfall in budget for its capital works programme. A series of key neighbourhood renewal projects have been prioritised and need to proceed, subject to the necessary funding becoming available. These involve projects across Northern Ireland, including, for example: Omagh (Strathroy Bridges); Newry (St Joseph's High School pitch refurbishment); Lurgan (road and footways improvements, as well as Multi Use Games Areas); and Dungannon (Gardner Hall refurbishment). A further number of Environmental Improvement and refurbishment projects also need to be taken forward.

3. Reduced requirements - £5.39m (cash)

- 3.1 Reduced requirements totalling £5.39m (resource) have been identified across the main Business areas as follows:

Social Security Agency

£2.58m – this easement primarily stems from changes in the funding requirements for 2 main DWP-driven projects, namely the Universal Credit and Automated Service Delivery projects. Reduced costs for these 2 projects alone account for the bulk of the easement, with the balance coming from other cost reductions across the Business Area.

Child Maintenance & Enforcement

£1.00m – the easement primarily stems from reduced staff costs, arising from the embargo on recruitment and promotions, as well as the restrictions on temporary promotions.

Urban Regeneration & Community Development

£1.81m resource – stemming from project slippage in some areas as well as an accrued legal cost liability for the City Hotel (Derry) that has not materialised.

Reduced Requirements – Non-cash

Social Security Agency

- 3.2 Accounting issues over the application of International Financial Reporting Standards (IFRS) requirements, have been ironed out with the NI Audit Office and the Agency has identified reduced non-cash requirements of £1.75m due to the associated changes. This further IFRS easement is on top of the £5m identified in the June monitoring round.

Child Maintenance & Enforcement Division

- 3.3 The Child Maintenance & Enforcement Division has also identified reduced non-cash requirements of £50k, stemming from reduced depreciation and impairment costs.

4. The O'Brien Case

- 4.1 Finally, there is a potential pressure to this Department arising from a recent EU case involving a judicial tribunal panel member claiming pension contribution rights. The Appeals Service currently pays approximately £2.4m per annum to such members. If the panel member's case is successful (a judgement is due over the next 3 – 6 months), a potential liability of anything up to £4m may arise. We are seeking clarification from the Department of Justice and yourselves as to what, if any, provision should be made for the potential liability this year. The outcome, when known, will need to be factored into considerations for the remaining monitoring round in January 2012.

5. Summary

- 5.1 For ease of reference, the following table summarises the various bids and both cash / non-cash reductions as depicted in the preceding paragraphs.

Table: Summary of October Monitoring Round proposals

<u>Housing bids</u>	<u>Amount (£m)</u>
NI Co-ownership Housing Association	10.00 (capital)
General improvement programme	4.00 (capital)
<u>Urban Regeneration Group bid</u>	
Neighbourhood Renewal / Urban Development Grant	1.00 (capital)
<u>Reduced requirements (Cash)</u>	
Social Security Agency	2.58 (resource)
Child Maintenance & Enforcement Division	1.00 (resource)
Urban Regeneration/ Community Development	1.81 (resource)
<u>Reduced requirements (Non-cash)</u>	
Social Security Agency	1.75
Child Maintenance & Enforcement	0.05

5.2 The net position for our October monitoring return is therefore as follows:

- £15.00m in capital Housing-related & Urban Group bids;
- £ 5.39m in reduced cash resource requirements; and
- £1.80m in reduced resource non-cash requirements.

5.3 The relevant bid & other proformas have been completed and I am happy to discuss any of the detail if necessary as usual.

Stephen McMurray

STEPHEN McMURRAY

Director of Financial Management

cc. Board members
 Stephen Brimstone (SpAD)
 John McKenna (OFMDFM)
 Joanne McBurney & Berni Mooney (DFP)