10 April 2024 - Budget Pressures

The Committee would request an update on the specific costs and implications as well as the challenges that would be posed if NOVA and Integr8 be paused or stopped should no additional funding be provided and existing baseline funding released.

<u>Integr8 – Costs, and Implications and Challenges of Insufficient Funding</u>

1. At the point of OBC2 approval in March 2023, the Integr8 Programme had a multi-year funding requirement of £92.8 million. Based on OBC2 and recent procurement activity, this amount may reduce.

2. A budget of £15.526m is required for Programme delivery in FY24/25 to progress several key actions including:

   - Recruitment of key personnel with the right skills and experience for such a significant change programme;
   - Business case development and approval to award a contract to the Enterprise Resource Planning (ERP) technology provider;
   - Retaining the services of the Business Transformation Partner; and
   - Progressing the procurement of an Integr8 Delivery Partner to implement the new integrated Finance and HR system for the NICS.

3. The Programme has been asked to assume a baseline of £2.67m which, in the absence of additional funding, would mean a deficit of £12.86m (82.8%).

4. It will not be possible to deliver key Programme activities in FY24/25 with an 82.8% budget deficit, and without sufficient funding the Programme will need to be closed.

5. If the Programme is closed:

   - The integrated, modern and customer focused Target Operating Model for Finance and HR services in the NICS will not be delivered and the opportunity to transform the current operating model, which is no longer fit for purpose, will be lost;

- The potential to release recurrent savings of over £14 million per annum from 2029-30 will not be realised; and
- The costs incurred to date will have delivered very limited value for the public purse.

6. From a systems perspective, in the absence of the Integr8 Programme, the NICS will continue to rely on legacy HR (HR Connect) and Finance (Account NI) systems, which have been in operation for almost two decades. These business-critical systems are increasingly unsustainable with some components becoming out of support and are provided through contracts which have been through multiple extensions and would require their timelines to be extended further. Further extending these contracts may not represent value for money.

7. A sustainability programme has been underway to ensure the existing Finance solution is supported and secured until the Integr8 solution is operational. It is likely further sustainability investment of approximately £7-8m until 2028 will be required to replace obsolete infrastructure and ensure the continuity of services. This expenditure would be largely replacement technology with no enhanced functionality or transformation.

8. From an HR perspective, the HRConnect contract ties NICS into costly change proposal arrangements to implement system and process changes arising from sustainability requirements, inescapable legislative obligations, and policy or service delivery improvements. The costs associated with changes can be considerable, with approximately £2m spent between 2020 and 2022 on unavoidable sustainability upgrades. Similar to the finance solution, should the HRConnect be required to operate beyond the Integr8 timelines, further significant sustainability costs would be incurred.

NOVA – Costs, and Implications and Challenges of Insufficient Funding

1) The three main LPS ICT systems supporting operational business areas in LPS are ageing (between 18 and 20 years old) and were mainly designed to support paper-based processes which are labour intensive and have very limited business automation.

2) As technology has moved on, all three main systems have become increasingly outdated and fail to provide the functionality found in most modern ICT systems (e.g. limited online digital self-service, limited Management Information, inability to share data, inability to integrate with internal and external systems). These systems are due to be replaced over the next 3-5 years under the NOVA Programme.

3) The LPS NOVA Programme costs are outlined below:

Project	**Capital Milestones to 2027/28**	**Project Team Capitalisation to 2027/28**	**Resource Charges 2027/28+**
Revenues & Benefits Implementation Project	£5.8m	£3.7m	£1.8m pa
Land Registration Implementation Project	£32.7m	£3.3m	£2.8m pa
Valuation Implementation Project	£18.5m	£3.0m	£1.5m pa
Integration Implementation Project	£6.5m	N/A	£1.0m pa
TOTAL	**£63.5m**	**£10.0m**	**£7.1m pa**

4) Annual savings from April 2028 are estimated to be **£8.6m pa** increasing by around **£5m pa** until 2034/35 when it is anticipated overall benefits will have increased to **£42.6m pa** of which **£40m pa** will be from an increase in the annual net collectable rates (93.3% to 96%) cash revenue.

5) LPS could pause the Valuation Project (12 mths) and Integration Project (6 mths) resulting in around **£0.5m** capital and **£0.6m** resource savings during 2024/25. The

Land Registration Project, that is subject to legal proceedings, has effectively been paused and if the contract award was delayed to October this could result in a reduction of **£5m** capital milestones in 2024/25. The **£5m** capital milestones would still need be paid in a future financial year.

6) The Revenues & Benefits Project could be stopped, as the recent commercial agreement allows LPS to “walk away” from the new contract by 31 December 2024. This would enable LPS to recover the previously paid **£1.21m** capital milestones and save around **£0.8m** in Project Team capitalisation costs in 2024/25. A new procurement competition for a replacement R&B solution would need to be commenced within 2 years to ensure continuity of the rating service and enable the collection of **£1.5bn** in rates.

7) The implications of delaying or stopping these Projects would also require LPS to secure extensions to some legacy contracts (e.g. BT PFI LandWeb) at unknown commercial rates, incur technological refresh costs and likely some additional change control costs. Based on current rates estimated at in excess of £1.5m.

10 April 2024 - Budget Pressures

The Committee would request information on new projects that could not be taken forward due to budgetary constraints.

The Department has included bids for the areas of work included in the table below. These areas are new and need to be progressed whether the funding bids are successful or not. Funding will need to be prioritised at the expense of other areas should these bids not be successful. Some further information on each area included in the bid is provided below.

Bids to progress key functions

Progresing key functions	**2,458**	Taxation Team & Budget Sustainability	1,000	Tax Devolution and Fiscal Framework including Budget Sustainability.
		Climate Change	435	NICS obligations under the Climate Change Act and for the Green Growth Strategy
		Covid Inquiry	264	This additional work was staffed by temporary cover which is now required to support he structures which support he return of the Executive.
		EU functions	159	This additional work was staffed by temporary cover which is now required to support the structures which support he return of the Executive.
		Census	600	NISRA are statutorily responsible for the delivery of the Census in Northern Ireland. Both ONS and CSO are conducting consultations on the future of their Census taking activities with a view to informing ministerial decisions about future Censuses. These examine the feasibility and public acceptability of making greater use of administrative data in place of a Census. ONS' consultation closed at the end of the Summer 2023 and CSO will launch an equivalent venture in February 2024.

Taxation & Budget Sustainability (£1,000k)

There are new and significant areas of work that the Department of Finance is required to take forward following the return of the Executive:

- The British Government has committed, through the financial package, to open discussions on a new **Fiscal Framework** here.

  While yet to be fully agreed, from the Executive’s perspective, this would include working to ensure funding for our level of need is appropriate and that a fiscal floor is implemented in a way that provides a sustainable basis for our public finances.

  Additionally, consideration will be given to the levers at our disposal to manage public finances, through for example, increased borrowing powers, and additional **tax devolution**.

- There is also a commitment to develop and publish a **Sustainability Plan**.

The scope of this Plan is to be agreed with the Treasury by May but is likely to include work around long-term budget planning, public sector productivity, additional funding (from revenue raising and other sources) and a longer-term capital plan.

These areas of work will require significant resources in DoF, working alongside other relevant Departments, and through extensive engagement and negotiation with the British Government by the Minister of Finance and officials. Given the cross-cutting nature, the Executive will also need to be engaged and agreement sought on all these areas.

Work is still at a very early stage and, as this is progressed, advice will be provided to the Finance Minister in the first instance, and the Executive in turn with updates provided as appropriate. There will also be opportunities to update and engage the Finance Committee at relevant points.

There is still some uncertainty on the specific nature of the resources required. For example, final resourcing will depend on agreement reached by the Executive on if / which taxes are to devolve.

It is however estimated that to take forward a new fiscal framework, including an initial team for tax devolution, and a sustainability plan, potential staffing costs per annum would be in the region of £1 million for DoF. This is based on experience in Scotland and Wales.

The outcome of this work will have significant implications on the level of funding and fiscal powers that the Executive will have at its disposal in the years ahead.

Climate Change and Green Growth (£435k)

- This bid is to support a multi-phase programme of uplifts to relevant aspects of the Building Regulations which represents a significant DoF input to the Energy Strategy and the Climate Action Plan.

- Achieving milestones is proving challenging and this programme will not be successfully delivered, with other related business maintained, without very significant additional resources. The current available staffing baseline is inadequate to take forward the additional work and this is further restrained by vacancies in key areas.

- If successful, the programme would deliver required legislative amendments and supporting Technical Booklet guidance to each relevant Part of the regulations for both domestic and non-domestic buildings.

- This work brings additional and wide-ranging correspondence, response to scrutiny including statutory committees, media and general queries. There is a very significant contribution and time commitment to reporting and cross-departmental engagement, including multiple sectoral and subject groups and meetings, as well as attending and responding to related developments in the other administrations.

- Delivery of the work requires detailed and specialist work on energy and emissions modelling scenarios, public consultation and engagement with the Department's statutory Building Regulations Advisory Committee (NIBRAC – which also faces additional workload) and other departments, particularly those with policy interests.
- The resource requirement is a reasonable 'central case', but comes with a strong proviso and some uncertainty. It would be a significant underestimation should a singular approach be required here to reflect constrained local conditions and market characteristics, or should unique local issues arise from any future divergence between the UK and EU.

Covid Inquiry and Fiscal Council Bill (£264k)

The Covid Inquiry and Fiscal Council responsibilities currently sit within SPAR. The Department has a legal duty to respond to the Covid-19 Inquiry. To date there has been limited additional funding allocated to SPAR for the Covid-Inquiry response. The resourcing of this to date has been absorbed by existing SPAR resources, only possible through the use of staff who were previously progressing work in relation to the Fiscal Council Bill prior to the collapse of the Executive. Staffing is required to deal with the volume of work and mitigate risks in terms of business continuity and fulfilling legal obligations. The external legal (for example Senior Counsel) costs for this work will have to be paid and are an inescapable pressure.

New Decade New Approach (NDNA) included a commitment to establish an Independent Fiscal Council that would "assess and report on the sustainability of the Executive's finances and spending proposals". The establishment of the Fiscal Council in Northern Ireland was agreed by the Executive and initially set up in March 2021 as a non-statutory body, but with the commitment to formalise and legislate to put the Council on a statutory basis going forward so that its independence can be safeguarded. With the Executive returning, this work urgently needs to be progressed, and additional resources are needed to progress this, given that some of this capacity was reallocated to the Covid Inquiry during the period when there was no Executive – which also continues.

EU Functions (£159k)

PEACE PLUS (£108k)

The development and delivery of the flagship £1bn PEACE PLUS programme and sponsorship of the Special EU Programme Board is being led by Strategic Funding Division (SFD) within the Strategic Policy and Resources (SPAR) Directorate. SFD is also the Accountable Department for Theme 6 of this programme with a budget of £35m. This is a highly visible and political programme which requires an understanding of complex structures and a need to speak with authority on funding issues.

SFD capacity has been significantly reduced due to budgetary pressures and increased workloads with the launch of a new programme (which is valued at twice that of its predecessors), the returning Executive/NSMC, and the additional role as accountable department for Theme 6. This has made the delivery of PEACE Plus and the winding down of prior programmes extremely challenging without additional resource. Failure to deliver this programme will result in lost funding to the North and reputational damage to the Department and Minister.

EU Exit and Managing Divergence (£51k)

SFD co-ordinate the departmental response to Windsor Framework and other EU Exit issues. This bid will allow the recruitment of 1 x SO to aid the provision of rapid, intelligent assessment and triage of multiple regulatory divergence issues. This will also support DoF in furnishing the new Democratic Scrutiny Committee with any departmental responses required within extremely challenging timeframes.

Increasing capacity and capability on these very visible and political issues will allow the team to build a good understanding of a complex and controversial area of work and will allow for succession planning should existing staff move on as capability within this area of work is lacking across the departments. This bid will help the team in their provision of advice and guidance to Ministers and more senior staff across the department. It would also aid this team in its attempt to meet the statutory deadlines imposed by the DSC.

Census (£600k)

NISRA are statutorily responsible for the delivery of the Census in Northern Ireland. Both ONS and CSO are conducting consultations on the future of their Census taking activities with a view to informing ministerial decisions about future Censuses. These examine the feasibility and public acceptability of making greater use of administrative data in place of a Census. ONS' consultation closed at the end of the Summer 2023 and CSO will launch an equivalent venture in February 2024.

The Executive will need to take an informed view of the relative costs and benefits of undertaking a Census again in 2031, and resources are needed now to start to form an evidence base on which a consultation might be run, on which Ministers might base a decision, and on which the required legislation would be founded. Failing to undertake this work would undermine the planning and preparation which is required for a Census and increases risks around non-delivery of a core NISRA objective.

Stopping Projects

As previously outlined, should the bids not be successful there are areas of work that will need to stop or reduce. A summary of some potential areas is outlined in the able below.

Business Area	Stopping Projects - Further Detail	£k
DSO	Stop DSO Modernisation Project	448
LPS	Reducing work on Cyber Security/IT Health checks	50
	Suspension, reduction or scaling back - LPS	234
	Stopping work on Revaluation 2026	190
NISRA	Slow down and scale back resources devoted to the new Labour Market $	240
	Suspension, reduction or scaling back of core outputs from NISRA DOF.	160
SPAR	Cease Innovation Lab	222
	Stopping NICS wide Services	240
DSF	Closure of Digital Print Unit	218
	Reducing work on Cyber Security/IT Health checks	164
	Stopping further provision of IT equipment	1,644
	Stopping NICS wide IT Services	2,429
Grand Total		**6,239**