

**Deborah Brown**  
Financial Management Director

Lighthouse Building  
4<sup>th</sup> Floor  
1 Cromac Place  
Gasworks Business Park  
Ormeau Road  
Belfast BT7 2JB  
Tel: 02890 829016  
Fax: 02890 829516  
E-mail: [Deborah.brown@dsdni.gov.uk](mailto:Deborah.brown@dsdni.gov.uk)

## **CLERK TO COMMITTEE FOR SOCIAL DEVELOPMENT**

Dr Kevin Pelan  
Room 430  
Parliament Buildings  
BELFAST  
BT4 3XX

3 December 2015

Dear *Kevin*

### **2016-17 Budget Setting**

1. This letter sets out the current position in relation to arrangements for setting 2016-17 departmental budgets. As you know, oral briefing on same has been scheduled for 10 December.

### **Background**

2. On 21 July the UK Chancellor George Osborne announced that the outcome of the UK Spending Review process would be presented to Parliament on 25 November. This process will determine the overall Budget envelope for

the Executive's Budget for the period 2016-17 to 2020-21. On 18 November the Finance Minister subsequently set out the key decisions urgently required to initiate a local Budget process that adheres to the budget timetable commitments as set out in the Stormont House Agreement.

3. The recent political agreement with the UK Government committed the Executive to producing a budget for 2016-17 that would be ratified by the Assembly by January at the latest. DFP officials have been tasked to engage with departments and other relevant stakeholders to prepare an Executive 2016-17 Budget paper for consideration before Christmas recess.

### **Summary**

4. In proposing arrangements for the 2016-17 budget setting process, the Finance Minister recommended that the Executive:
  - a) Agree the 2016-17 Unit of Service Structures for the new departments
  - b) Agree that the Budget will cover only the 2016-17 year;
  - c) Agree not to have a formal public consultation process for the Budget;
  - d) Agree to a single Budget that will be produced following the UK Spending Review outcome;
  - e) Agree the general process for assessing and agreeing Capital and Resource requirements;
  - f) Agree to Capital allocations post 2016-17 to expedite delivery of 'flagship' projects; and
  - g) Note that further detailed guidance on taking forward the 2016-17 Budget will issue to departments.

## **Executive Paper – The Key Points**

5. The Finance Minister has drawn attention to the fact that the budget for 2016-17 will be the first one based on the new nine department structure and the logistical difficulties that this creates. However work has been ongoing on developing the structures in all Departments, as this will require agreement at Executive level. An Annex to the Minister's paper set out the relevant structure for the new Department for Communities as follows:.

### **New Department Spending Area Structure**

<b>Department</b>	<b>Objective<sup>1</sup></b>	<b>Spending Area</b>
Department for Communities	Objective A	Employment and Social Security
		Child Maintenance Service
		Housing
		Culture, Arts and Leisure
		Community Cohesion and Regeneration
		North South Language Bodies

<sup>1</sup> Objective equates to the Request for Resources (RfR) voted as part of the Estimates process

6. In order for the Executive to manage the Budget process and agree a final Budget in time for departments to plan appropriately for 2016-17, it is proposed that the Executive agree to a single stage Budget with no formal public consultation. This approach may draw criticism but given the unique circumstances and the timeframe involved, Minister Foster believes it is the only way to expedite a Budget in time to plan appropriately for 2016-17.
7. Minister Foster has outlined the position in relation to consideration of both capital and resource budgets. In particular, current Departments will be asked to identify existing capital projects that will run into 2016-17 and beyond, as well as priorities for new "flagship" capital projects.

8. For resource budgets, the likely scenario is that there will be significant pressure at NI Block level, necessitating budget reductions in most of the nine new departments. It is envisaged that the process will involve a pro-rata reduction based on the new departments' baselines. The default position would be that budget reductions would apply pro-rata to each Unit of Service in the new structures, where there is dispute. Similarly for pressures, we understand Ministers will be asked to put forward a narrative outlining inescapable pressures within their existing portfolio and these will be reflected as bids in the functions of the new structures for 2016-17.
9. With changes to departmental structures and new Ministers to be in post from May 2016, the risk is acknowledged that the departmental budgets for 2016-17 will not initially be aligned to Ministerial priorities within the new departments. In that regard the Budget process will also need to provide an early opportunity for new Ministers to re-align their 2016-17 Budget allocations in the 2016-17 June monitoring exercise. New Unit of Service tables would then be published at that stage to allow reporting for the remainder of the 2016-17 year.
10. The Department is concerned that the proposed Unit of Service structure will not provide sufficient flexibility in the new DfC due to the £1m de-minimis rule. The transferring functions performed by DCAL, OFMDFM, DOE and Urban Regeneration all complement each other and help to deliver outcomes to tackle poverty and social exclusion. As the budget structure was agreed in advance of the operational design, it has now resulted in commands crossing Units of Service which are function based. In effect, this means that managers would have to approach DFP and the Executive for approval to move funds above de-minimis levels across their commands. Our Minister has written to Minister Foster, asking for this to change.
11. In addition, the significant extra work placed on finance staff to find effective reporting solutions will hinder their ability to meet internal deadlines, as well as the tight deadlines so frequently imposed by Treasury and DFP to provide financial information. The complexities of agreeing a budget in such a short

timeframe, coupled with the practicalities of setting up the new Department for Communities cannot be over-emphasised.

### **Current Position in the Department**

12. DFP issued the draft guidance mentioned at paragraph 4(g) on 27 November, although, until official Executive approval to the process is given, at this stage there is no deadline for returns from Departments. The following table sets out the DSD position at a high level. This is based on the assumption that resource savings of at least 5% and possibly as high as 10% will be requested. The table uses the equivalent opening 2015-16 budget figures (with EU match funding and change fund allocations removed) as a starting point, illustrating the potential scale of reductions in both scenarios.

***Table: Potential 2016-17 budget, 5% & 10% savings (All figures £m)***

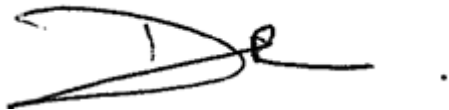
<b>Business Area</b>	<b>Opening 2015-16 allocation</b>	<b>5% saving</b>	<b>10% saving</b>	<b>2016-17 budget (5% saving)</b>	<b>2016-17 budget (10% saving)</b>
<b>Core</b>	157.5	7.88	15.75	149.62	141.75
<b>Housing</b>	144.6	7.23	14.46	137.37	130.14
<b>Urban</b>	50.5	2.53	5.06	47.97	45.44
<b>CMS</b>	17.2	0.86	1.72	16.34	15.48
<b>SSA</b>	219.7	11.00	22.00	208.7	197.7
<b>Totals</b>	<b>589.5</b>	<b>29.5</b>	<b>58.99</b>	<b>560.0</b>	<b>530.51</b>

13. At this point, pending the official DFP commissioning note for 2016-17 returns, finance teams have been canvassing budget managers in the business areas in the department for proposals to meet further annual savings of 5%. DFP

previously indicated that in protecting health and education and managing some other pressures, a cut of 5% would be required in 2016-17. This work is only starting, so it is not yet possible to provide further detail.

### **Summary**

14. I hope the Committee find the above information helpful. I should confirm that myself and Ian Snowden will provide further commentary on the emerging position at the oral briefing next week.

A handwritten signature in black ink, appearing to be 'Deborah Brown', with a stylized 'D' and 'B' and a trailing line.

**DEBORAH BROWN**

**cc.** Andrew Hamilton  
Ian Snowden  
Tommy O'Reilly  
Tracy Meharg