Northern Ireland Assembly

COMMITTEE FOR AGRICULTURE AND RURAL DEVELOPMENT

OFFICIAL REPORT
(Hansard)

Department Budget Settlement, Including Savings Plans

31 May 2011

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR AGRICULTURE AND RURAL DEVELOPMENT

Department Budget Settlement, Including Savings Plans

31 May 2011

Members present for all or part of the proceedings:
Mr Paul Frew (Chairperson)
Mrs Dolores Kelly (Deputy Chairperson)
Mr Thomas Buchanan
Mr Willie Clarke
Mrs Jo-Anne Dobson
Mr William Irwin
Mr Kieran McCarthy
Mr Oliver McMullan
Mr Robin Swann

Witness:
Mr John Smith) Department of Agriculture and Rural Development

The Chairperson:

I draw members' attention to the Department of Agriculture and Rural Development's (DARD) briefing paper on the budget overview and process. There is also a summary of consultation responses to DARD's 2011-15 budget. I welcome John Smith and invite him to speak to his paper. Thank you very much for attending, Mr Smith. Please summarise the paper, after which members will ask questions.

Mr John Smith (Department of Agriculture and Rural Development): Good afternoon, everyone. I am the finance director for DARD. My first presentation is an overview of the DARD budget for 2011-15.

Members will recall that in the autumn of 2010 the coalition Government announced the outcome of the UK spending review that made tackling the fiscal deficit the primary objective. The ensuing spending review sets out plans at UK level for the four years 2011 to 2015. That announcement meant that the Executive knew the level of Budget that was available for the next four years, and there were some firm numbers about the balance of current and capital expenditure.

In the local economic context, until the economic downturn in 2008, the Northern Ireland economy had been doing well compared with the UK as a whole, but the downturn hit all sections hard and, in particular, services, manufacturing and construction. As we look ahead and the impact of the spending review begins to bite, we may be hit harder than some areas because, relatively speaking, our economy is more dependent on public sector spending. For example, public sector capital expenditure accounted for about half of the total construction sector output in 2009-2010.

The Executive have decided that one of their key challenges is to rebuild the economy and rebalance it towards the private sector in the context of a constrained public expenditure position. What does that mean for departmental spending here? The main source of funding continues to be the block grant from the Treasury, which accounts for about 92% of the revenue that comes into the Northern Ireland block. That is added to by the regional rates and other smaller elements of income. The Executive's Budget allocations are based on those numbers plus other factors, including the approach to funding, water and sewerage services, the scope to generate funds by the sale of assets, work on public sector pay and the scope to raise other sources of revenue.

Clearly, the Budget takes place in a difficult financial environment. The block grant that is available from the Treasury to the Executive is being reduced in real terms over the life of the Budget. In real terms, there will be a reduction of 8% by year 4 on current expenditure and about 40% on capital expenditure on the money that comes from the Treasury. Therefore, Departments obviously need to make savings and look at additional ways to generate revenue to fund services.

DARD is taking a number of actions to balance its books, including a plan to save a cumulative £40 million over the four years on current expenditure. However, even after making those savings, we will still make a significant investment in the rural economy and in the agrifood sector. Overall, our budget plans will allow DARD to spend more than £240 million net a year in capital and current expenditure, as well as dispersing more than £250 million a year to farmers and rural dwellers in single farm payments.

With regard to Budget 2010 and as we look forward, the trend over the past number of years continues, with Departments identifying savings to create the space to fund emerging pressures. In the 2007 budget, DARD had to save around £37 million over three years, including some reductions in administration. Members may also recall that in the Executive's review of the 2010 financial year, the Department agreed to find a further £6·3 million savings. Therefore, the financial challenges facing us in Budget 2010 are not new.

In the current expenditure, the Executive's allocations are £220 million in this financial year, £230 million in year 2, £220 million in year 3 and just short of £219 million in year 4. Therefore, in net terms, we have around £889 million of current expenditure over the four years. We have some strategic additional spending proposals that can be afforded out of the savings proposals to live within the overall Executive's baselines, and I will take you through some of the more prominent ones. For the land parcel identification system project, there are allocations of £9·5 million in year 1 and £9 million in year 2. That project is our central component to help to mitigate the threat of disallowance from Europe about how land-based support schemes are administered.

For animal health and welfare, there is an additional £2·5 million in year 1, which is around £11 million over the entire budget period, for a range of animal health and welfare initiatives. We need to replace the Animal and Public Health Information System (APHIS), which is the Department's animal traceability IT system, for we have set aside £2 million in year 1 out of an allocation of just over £9 million over four years. The current APHIS is on the verge of technical obsolescence, and that is driving us to replace it over the next couple of years. We are working with the European Commission on the rural development programme and taking the opportunity to revalue the programme to a more realistic exchange rate. That will also enable us to use some of the strength of the euro to keep the overall programme roughly the same size and shape.

I will now turn to capital expenditure. We need to continue to invest in our drainage infrastructure and to help the Rivers Agency to manage flood risks. We need to continue the investment in rural development via the Northern Ireland rural development programme. We also need to invest in our accommodation and our IT infrastructure. Various parts of the Department require ongoing capital baselines to replace plant, vehicles and machinery as they become obsolete.

The Executive's net baselines total £93 million over the four years: £21 million this year; £19 million next year; £23 million in year 3; and just shy of £30 million in year 4. We have set aside £12·5 million for capital grants this year, out of a total allocation of £38·6 million. That funding envelope will enable the Department to continue to invest in a range of capital grants to third parties, including anti-poverty, improving the quality of rural life, improving industry competitiveness and the environment. We will continue to make those grants through the established delivery methods, including the rural development programme and the European Fisheries Fund.

The Rivers Agency has an allocation of £4 million this year, out of a total allocation of £16 million. That reflects our ongoing commitment to investing in flood defence and drainage infrastructure. We have set aside £3·6 million in year 3 and a further £2·6 million in year 4 for the replacement of APHIS, which also has a current expenditure allocation. We have set aside £1·5 million this year and £1·5 million next year to complete the DARD Direct office network project. We have set aside £13 million in year 4 to relocate DARD headquarters, with the remaining £13 million that we expect to need to complete that project falling into the next budget period.

We have set aside £3 million in recurrent capital this year to replace plant, vehicles and machinery out of a total just shy of £16 million over four years. As I said earlier, that will enable the core Department, the agencies, the College of Agriculture, Food and Rural Enterprise and the

Agri-Food and Biosciences Institute (AFBI) to meet some of their ongoing needs to replace obsolete plant, vehicles and machinery.

I will now turn to our savings proposals. The background to those is that price inflation, which is running at around 2% per annum, erodes our spending power. It effectively represents reductions of about 8% by year 3, rising to just under 11% by year 4. To free up and divert money to fund the additional allocations that I just mentioned, while living within the Executive's baselines, we need to save a total of around £40 million over the four years.

We have brigaded our savings proposals over eight categories. That will be difficult over the four years, particularly given that the Department is very front-facing. We are what might be called a direct-drive Department. A lot of what we do is either a statutory responsibility or a legislative requirement from Europe, which means that many of our baselines are not appropriate to be cut. Therefore, we are looking to scale back in lower priority areas, become more efficient and raise revenue. Of that £40 million savings plan, around £6 million is factored in for the current financial year.

The first category is lower priority savings, which are characterised by projects that are either near completion, those that we have deemed to be lower priority in what we do, or, perhaps, have other sources of income that can take up the slack. We plan to make savings of £2·3 million this year. Some of the most significant items include £320,000 in the food strategy. We will look to AFBI to determine and reconfigure a number of lower priority work areas, and we will look to save £443,000 this year in that area. We will also look to AFBI to generate more revenue from the Corystes vessel, which will spend less time at sea and more time generating commercial revenue. We will look to make savings of around £360,000 this year.

In corporate services, which are existing services to support business areas through human resources, finance, IT, media services and Assembly services, we plan to make savings of £680,000 this year, and we are looking to capitalise on the recent reform projects, Account NI and HR Connect. They are now in a steady state, and we are able to review them and drive out further savings from there.

There is a redundant programmes category, which is not to be confused with redundancy programmes. Those are areas in which completion of programmes is imminent, such as Bill teams, which we have been taking forward over the past number of years. There is scope to redeploy those resources as necessary and to take the opportunity to remove some over-provision in various rural development baselines to save about £500,000 a year.

The category of admin, policy, funding and regulation will save £550,000 this year. A lot of our functions relate to policymaking and research, allocating funding to delivery bodies and developing guidance. There is some scope to realise savings in those areas. Again, we are looking to AFBI, which has agreed a revised method of reclaiming VAT that will save that organisation £450,000 a year.

We can make small savings that total £138,000 this year in what we term the transactional category, which is all about how we characterise our administrative transactions with our stakeholders.

In the procurement category, we plan to make savings of £940,000 this year, and we will continue to maximise the amount of procurement that we put through the centres of procurement expertise, which will ensure that we obtain best value for money in our contracting. We also propose to examine all possible options to reduce the cost of the bovine TB and brucellosis disease programmes, and we believe that that area could yield savings of around £800,000 this year.

We will also look to maximise revenue. Although there is not much scope to raise additional revenue this year, one highlight is that, by year 4 of the budget, we will look to generate at least £1 million a year additional revenue from forestry, particularly by exploiting the forest estate for the generation of renewable energy from wind farms. We will also exploit our commercial revenue from recreation and tourism.

There is a catch-all category that we have termed “other”, and we plan to make savings of £630,000 this year in that area. It includes some corporate savings, and we propose to save over £200,000 a year by capping the costs of some corporate budgets, such as legal fees. In addition, we pay compensation for animals that are slaughtered because of TB and brucellosis on the basis of individual valuations, and we are consulting the industry on moving towards a system based on table values based on average market values with the objective of paying a reasonable level of disease compensation. That proposal could save £250,000 in the current financial year.

Overall, by year 4 of the budget, our main aims and objectives are to be a Department that provides better animal traceability through APHIS, to continue a sound basis for trade and to help to fight animal disease. Towards the end of this budget period, we plan to have addressed the issues raised by European auditors, which have manifested themselves in the ongoing threat of common agricultural policy disallowance. We envisage a Department that is closer to its customers and in which decision-making takes place closer to the community that we serve. We also envisage a more streamlined Department in which we will conduct our transactions with our customers in a more modern, cost-efficient and transparent manner, and we will continue to bear down on administration costs and corporate services costs.

That is a brief run-through of the budget and where we are today. I am happy to take questions.

The Chairperson:

Mr Smith, thank you for your presentation. I suppose the Committee will be very interested in the savings and the delivery plan. I have a question on that issue, although it might be somewhat general. I see a lot of the topics that you talked about as being efficiency plans as opposed to savings plans. There is a difference. Every Department should be making efficiency plans, regardless of the overall budgetary position. Is DARD concerned about any of those subjects or topics? Is there anything that the Department does not want to cut or which would put pressure on an area in which there should not be pressure? That is a general question, but I think that you know what I am trying to get at. Many of the areas that you mentioned seem to be efficiencies, which every Department should be looking to make.

Mr Smith:

As I said, we have taken a good long look at the DARD budget and at all areas of spend. That has manifested itself in the savings that are in front of you. There are some efficiencies. In transactional services, for example, we are looking to ramp up by year 4 the number of farmers who submit their single farm payment applications online. That is a true IT service-led efficiency.

In some areas, as I said, service lines are coming to the end of their lives. In the previous budget period, we set up Bill teams, for example, to take forward the Welfare of Animals Bill and the Dogs (Amendment) Bill. Those Bills have been passed, and we are now into implementation mode. We do not, therefore, need those Bill teams to the same extent. We can redeploy those staff into other priority areas or make savings. Those areas have a natural end.

We will be looking to increase revenue from the Forest Service, but we are also looking to scale back in some lower priority areas. That is difficult, because we do not want to cut needlessly. It is difficult to make savings in a Department that is so focused on the agrifood industry, farmers and rural dwellers. Much of what we do is a statutory or European commitment, which obviously trammels the areas that we can look at.

Mrs D Kelly:

Thank you, John, for the presentation. I am new to some of these issues, as I have not served on the Committee before. I hope that you will bear with me on some of my questions. Given that there was no Programme for Government in advance of the Budget, when might we see one for the Department? How much of the DARD budget is driven by EU considerations, as opposed to strategic planning by the Department? I note with interest the response from the Ulster Farmers' Union, in particular, and other environmental groups on a number of factors, such as the retention of land coverage at 42% by the countryside management scheme and the decision not to seek to stretch it to 50% or more. There is also a commitment to enter into dialogue with local government on its funding to implement powers from the animal welfare legislation. I know that there are widespread concerns about that issue.

With regard to the lack of strategic vision in tackling the causes of diseases at source rather than dealing with the aftermath, the Ulster Farmers' Union stated that the reduction of £1·5 million of compensation over the budget period would adversely impact on innocent farmers. Mr Irwin mentioned that earlier.

Are there concerns about looking at the distinction between savings and efficiencies? Are there any plans to amalgamate AFBI with the Department of the Environment (DOE) research unit, or at least for better management of resources on an all-Ireland basis?

Mr Smith:

Can I —

Mrs D Kelly:

I could go on, but I will let you come in there. *[Laughter.]*

Mr Smith:

I will try to take those questions in the order in which you raised them. Responsibility for taking forward the Programme for Government centrally lies with the Office of the First Minister and deputy First Minister (OFMDFM). Although we have been working with OFMDFM on drafts at an official level, when that will emerge and what it will contain is really a question for that Department. Therefore, I cannot offer any more detail on that.

As regards the extent to which the DARD budget is driven by European considerations, they obviously play a big part in what we do, given that the Department is responsible for dispersing over £250 million a year in single farm payments. That comes with a strict regime of regulation and process function. We have to maintain an extremely robust paying agency to assess and inspect farmers' claims and to make payments. Obviously, we have to maintain a strong presence in that area.

There is also the Northern Ireland rural development programme, through which, over the next four years, we plan to spend just under £340 million of national and European money, current and capital. Again, that is a huge component. An awful lot of European money is involved. Therefore, to a degree, it dominates what we do. As we look forward, we know that we have to assess and address common agricultural policy reform. The current Northern Ireland rural development programme finishes in 2013. We look forward to developing a new programme after that. Work is starting on that already. It is very important to us.

As regards animal welfare, we have committed £760,000 per annum to help to fund local councils in taking forward the Dogs (Amendment) Act (Northern Ireland) 2011 and the Welfare of Animals Act (Northern Ireland) 2011. We have built that into our baseline

Mrs D Kelly:

Is that the estimated full cost recovery?

Mr Smith:

I am not sure exactly how that figure was derived. I can come back to you on that issue.

The Chairperson:

Can I ask for that figure again, please?

Mr Smith:

I think that it is £760,000 per annum. We propose that it is there for the duration of the budget period.

With regard to animal disease generally, we pay at least £10 million in disease compensation payments for TB and brucellosis. Obviously, that is a significant amount of money. It is in everybody’s interests, therefore, to reduce disease levels. TB and brucellosis levels are at their lowest since 1996. I believe that animal disease and herd incidence of TB have fallen by 50% since 2002. Therefore, it is on the right trajectory. The eradication of brucellosis within the current budget period is a realistic aim. We continue to make progress on those fronts. We have set aside around £11 million for a range of new initiatives on animal health and welfare over the budget period, which will involve research into TB; the wildlife factor and how that plays into bovine tuberculosis.

We are looking to AFBI to save around £5 million in total over the budget period.

Mrs D Kelly:

What is the cost of AFBI?

Mr Smith:

We give AFBI around £40 million a year in grant-in-aid. On top of that, it generates around £10 million a year in commercial revenue from contracts and tenders that it wins. Therefore, its overall turnover is around £50 million per annum. AFBI is our preferred research provider. We contract with it for a lot of our research. We have identified a range of savings for AFBI. It will conduct more efficient procurement, which we would expect it to do anyway. It has been working with HM Revenue and Customs to agree a more efficient way of reclaiming VAT, which will benefit it by about £450,000 a year. We will look to it to scale back some of the lower priority research work, which forms part of the agreed work programme. That will save significant amounts as part of the overall savings package.

The overall package for AFBI is commensurate with the size of the budget that it consumes in DARD. Roughly speaking, about one sixth of DARD's budget goes to AFBI, and about one sixth of the savings delivery plans are attributable to AFBI.

Mrs D Kelly:

My question related to shared services with other Departments such as the DOE.

Mr Smith:

There are already some very close daily working relationships between the Northern Ireland Environment Agency and AFBI, and they look to ensure that there is no overlap or duplication. Obviously, they always keep that under review. However, there is no specific project to consider how what AFBI does might merge or be amalgamated with the DOE.

Mr Swann:

With your indulgence, I have three points. First, taking in the budget constraints and where we will be in year 4, can you confirm that it is the new Minister's intention to follow on with the relocation of the headquarters at a cost of £13·3 million? Secondly, you referred to the upgrade of APHIS. APHIS served the farming economy well during a number of disease outbreaks and enabled us to have full traceability of our herds. Has the replacement system been designed in-house or will there be an off-the-shelf package that has been used elsewhere? Our APHIS was world leading, and I do not want it to be replaced by something that will leave us vulnerable. Finally, you referred to a number of stages, and I note that you said that you will "look to" AFBI to raise additional revenues. Have those additional revenues been agreed by the AFBI board? What are the implications on AFBI's core funding from DARD if it does not generate that additional revenue, which you seem to have already budgeted into DARD's budget?

Mr Smith:

We have made an allocation in year 4 to set up a project team to take the HQ relocation project forward. At this stage, it is in the agenda of the Minister and the Department to take that project forward. APHIS is a key component in enabling the Northern Ireland farming industry to continue to trade. It is reaching the end of its useful life and is becoming technically obsolete. It is more than a decade old, and we have continued to upgrade it in a piecemeal fashion, but it is now time to go out and replace it. At this stage, we expect that we will tender for a package. I do not think that we will look to use our own IT programmers to do it. We will put it out to the market and derive the most competitive, best value-for-money price.

In respect of the AFBI savings plans, AFBI has agreed and accepted the proposals as part of the budget consultation. They have been built into the baselines that AFBI will get from the Department over the next four years, and it needs to live within those baselines. Should any of the savings or revenue-generating proposals not come to pass, in the first instance it will be the responsibility of the AFBI board to seek alternative revenues or savings plans to balance the books. However, as is customary across all Departments, AFBI always has recourse to submit bids in the in-year monitoring rounds.

Mr Swann:

This issue may not be in your remit, but will farmers have to work a duplicate system while the new system is being brought in to replace APHIS, or will it be handled by the Department?

Mr Smith:

I am not sure about the operational aspects, but questions such as that will be fleshed out when we get to a more detailed business case over the next 12 months or so.

Mr Irwin:

You gave us a figure for compensation being paid out for brucellosis and TB reactors. Does that figure take into account the salvage value of the animals? Does the figure include the salvage value that the Department receives from meat plants?

Mr Smith:

The figure that I quoted was the actual compensation. There is a separate revenue stream for the salvage of animals.

Mr Irwin:

Does the Department receive payments for the salvage of animals?

Mr Smith:

We do.

Mr Irwin:

Are those payments included in the figure that you gave us for compensation?

Mr Smith:

No; I said that we pay out more than £10 million a year in compensation payments. That is just the money that goes out from DARD to farmers. We have budgeted for that as part of the overall DARD budget, but we have also recognised the fact that there is an income stream when we take custody of an animal and sell it for salvage.

Mr Irwin:

That is what I thought. The income should be possibly 40%. I am not sure, but it is sizeable.

Mrs Dobson:

You spoke of the importance of AFBI, but farmers are not aware of that. Why does AFBI not publish research regularly?

Mr Smith:

That is a question for AFBI. I am not that close to its operations.

Mrs Dobson:

I keep getting asked why farmers do not know what research is being carried out.

The Chairperson:

Thank you very much for your presentation and for answering the questions that were put to you. We look forward to seeing you in the future.