Northern Ireland
Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Revised Expenditure Plans 2010-11

20 January 2010

NORTHERN IRELAND ASSEMBLY

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Revised Expenditure Plans 2010-11

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Adrian Doherty	)	Department of Finance and Personnel
Ms Deborah McNeilly	)	

The Chairperson (Ms J McCann):
I welcome Deborah McNeilly, finance director, and Adrian Doherty of the finance branch, Department of Finance and Personnel (DFP). Deborah will make a few opening remarks and then we will take questions.

Ms Deborah McNeilly (Department of Finance and Personnel):
In 2009-2010, the Department faced pressures across business areas and, in particular, within the Land and Property Services agency (LPS). However, we hope that, with the outcome of the December monitoring round and as the February monitoring round approaches, those issues will

be resolved and there will be an easement of the financial position in 2009-2010. However, we have always recognised that 2010-11 would be a challenging year, and in preparation for this, business areas across the Department had already been developing plans to live within their baselines.

As Members will have seen from the briefing paper, the most significant funding problem that faces the Department is in Land and Property Services. We will return to that later.

In the light of the draft revised spending plans, the Department is required to deliver further savings of £4·1 million in current expenditure, which is about 2·4%, and £2·1 million in capital investment, which is about 12%. Those are to help mitigate the wider financial pressures faced at the Northern Ireland block grant level. In view of that, and of the need for DFP to contribute towards it, business areas have had to re-evaluate their savings options and see how they can both contribute to those central reductions and live within their means. That has not been an easy task, but we have focused on it at departmental board level and across business areas.

Business areas have had to look at their statutory requirements — what they must do to maintain service delivery and to meet Programme for Government (PFG), departmental and ministerial targets — and to see whether there is any expenditure that they can stop. However, the nature of the Department is that there are no large taps that we can suddenly turn off. We cannot decide not to provide accommodation, IT or HR services. The challenge for the Department is to consider what it can do and how it can improve and do things better, as opposed to turning off anything obvious. The savings that have been put forward to manage the central reduction and meet internal pressures focus on different areas to streamline and improve, rather than turn off a large chunk of the Department.

All the business areas of the Department have in place plans to implement those savings, and steps have already been taken in some cases to start the chain of events that will deliver those savings. Delivering the required savings will be a challenge for us, particularly where there are staffing implications. If we are to make savings in staffing, there may be a need for redeployment, and helping staff to redeploy before the new financial year will be difficult.

The key message from the Department is that it has plans in place to deliver the savings required. Members will have seen from the paper that there are key issues, particularly in regard to LPS. It will be a very difficult year for us.

Ms Purvis:

How were the figures of £4·1 million in current expenditure and £2·1 million in capital arrived at?

Ms McNeilly:

As part of the ongoing review of spending plans, the Department was asked to submit options to central finance group and to the Minister. They subsequently reviewed those options and set the level of savings that the Department must deliver.

Ms Purvis:

Is there any supporting information to show that those are appropriate amounts, that the delivery of front line services will be safeguarded, and that the Department will still be able to meet its Programme for Government and public service agreement (PSA) targets?

Ms McNeilly:

I understand from the Executive's paper, which was agreed on the 17 December, that the Executive set the level of savings for the Department, particularly on the resource front, and took account of the fact that DFP's baseline was one of the few to be reduced in cash terms — by 1·4% — in 2010-11. I think that that was part of the consideration of the centre.

DFP provides front line services through the General Register Office (GRO), in respect of the registration of births, deaths and marriages, and Land and Property Services. The proposed savings, which are set out in our paper, do not apply to GRO or LPS. Although no reductions are being applied to LPS's current budget, it has a funding deficit. What was the second part of your question?

Ms Purvis:

It was about what information has been used to arrive at those figures. How did the Department determine whether the amounts are appropriate and not detrimental to delivering front line services and whether it can still meet its PFG and PSA targets?

Ms McNeilly:

As I said, we are not applying any reductions to front line services. The options were developed by the various business areas. The departmental board then reviewed and assessed them to see whether they were high-pain, medium-pain or low-pain options. The board also assessed whether or not the options would impede the delivery of our Programme for Government targets. The Workplace 2010 contract is the key target that will be difficult for us to deliver in light of the current economic climate and market conditions; that has already been highlighted. These savings have not been identified as having any further detrimental impact.

Ms Purvis:
Do the savings that will be made from closing the rating policy division relate to staff costs?

Ms McNeilly:
Yes.

Ms Purvis:
If staff are transferred to another branch, that is not really a saving. Are staff actually leaving?

Ms McNeilly:
Staff numbers will be reduced because that service will no longer be provided. Savings will, therefore, be made in that business area.

Ms Purvis:
Will staff be transferred to other business areas?

Ms McNeilly:
They will fill vacancies in business areas that have a budget for them.

Ms Purvis:
OK. Where will Central Procurement Directorate (CPD) derive the realisation of income from? Does that include charging?

Ms McNeilly:
Yes.

Ms Purvis:

Is it a true saving in respect of the wider system if CPD will be charging other business areas?

Ms McNeilly:

CPD provides discretionary services; Departments can go elsewhere, to a degree, for those services. Failing that, CPD will have to reduce its staffing levels and respond to the state of the market.

Ms Purvis:

Is it possible for the information on each business area and the baselines for the 2008-2011 budget to be provided in a table so that we can make comparisons?

Ms McNeilly:

So that the Committee can see the reductions that have been applied at business area level? Yes, we can get that for you.

Mr Hamilton:

Dawn touched on the issue of the part saving from closing the rating policy division. I want to establish how that will work out. I presume that the Department is not doing away with rating or devising rating policy, so where is that division moving to?

Ms McNeilly:

It will move into the wider central finance group. Until the recent round of reforms in the past few years, only a few staff were involved in rating policy. Given the high focus on it, staffing levels have obviously increased, and it is now about bringing them back to pre-change levels. Staff will be redeployed to funded areas in DFP or to other Departments.

Mr Hamilton:

In the overall context, it is a small saving. However, it is significant on the scale of that division. Is it effectively administration cost, rather than personnel cost, that will be saved?

Ms McNeilly:

It will be salary costs and associated general administrative expenditure (GAE). Therefore, administration expenditure will be reduced in that division. Where other business areas have budgeted for staffing levels and have potential vacancies or wastage, staff will be moved across into other funded areas.

Mr Hamilton:

We can see where savings are being made on the capital side. We can see that it is not being targeted at front line services. In many respects, the Department is not customer-facing, with the notable exception of LPS. I suppose that it does not matter to customers whether spending on the Civil Service office estate is not improved annually, its IT equipment is not updated or data systems are not improved. None of that, in itself, affects customers. However, it could if it continues for a period of time. You mention, for example, reduced replacement of IT equipment. What does that mean in practice? Rather than upgrading systems or computers after three years, will it be four years? Is it just a matter of simply knocking any replacements down the line by a year?

Ms McNeilly:

That business area has a £7·3 million capital budget for IT. The quantum of £300,000, therefore, is not a significant reduction for that area. For its replacement programme, that might mean that some equipment is replaced in the next financial year. However, it is not a big amount in the context of the overall capital budget.

Mr Hamilton:

Clearly, if a system breaks down, it has to be replaced.

Ms McNeilly:

It has to be fixed.

Mr Hamilton:

I suppose that it does not matter whether someone operates a five-year-old computer as opposed to one that is four years old.

Ms McNeilly:

With the IT Assist shared service centre being set up, the aim is to ensure that all Departments are sitting on similar assets. Some Departments had different standards of assets. Work is currently being done to standardise all of that. Afterwards, it will look at whether a new strategy for replacement should be adopted. At present, I believe that replacement is after four years, which could become four and a half years.

Mr O'Loan:

I want to ask about staffing reductions. There is reference to redeployment of 90 staff. Out of roughly how many staff would that be?

Ms McNeilly:

There are over 3,000 staff; around 3,300.

Mr O'Loan:

Therefore, it is a small proportion of the overall number of staff. Did you say already that front line services would be protected?

Ms McNeilly:

None of the reductions that are being applied to meet central requirements are being applied to front line service budgets.

Mr O'Loan:

Where will the 90 staff who are redeployed in order to effect savings go? Do you anticipate that they will go outside the Department? If you simply redeploy them inside the Department, it is not obvious where any savings would be made.

Ms McNeilly:

Staff could be redeployed either inside the Department or outside it. A business area may want to redeploy staff at a certain grade because of business change or need, but may require a member of staff at a different grade. Therefore, it will, effectively, try to recycle those staff. That means that staffing levels in a business area may be reduced. However, there may be critical requirement and budgeted staffing levels in another business area where there are some vacancies built in.

Mr O'Loan:

I see. You will use redeployment to fill vacancies.

Ms McNeilly:

Yes.

Mr O'Loan:

You will fill vacancies rather than go to external recruitment.

Ms McNeilly:

Yes, we will recycle staff, if you like, and try to maximise.

Mr O'Loan:

I had anticipated that there could be redundancies in this.

Ms McNeilly:

At this stage, we do not anticipate any redundancies. Further discussions regarding the figure of 90 are ongoing. We met the trade union side earlier this week. The number could be cut to about 60 because our permanent secretary has made it very clear to business areas that they need to look at what else they can do before they start into high numbers of staff.

Mr O'Loan:

Relative to other Departments, DFP is top-heavy in relation to senior staff. Has this exercise led to any sort of rethinking around that issue? Is the structure in DFP inappropriate?

Ms McNeilly:

Obviously, the new shared service organisation has been set up. That has led to some restructuring in the central finance group, which has cut a grade 3. It has also cut one grade 5 and plans to cut another. However, as we go forward, I suspect that it will be revisited because 2010-11 will clearly be a difficult year, but 2011-12 will get more difficult.

Mr O'Loan:

I welcome that small step in the thinking in those terms because the question is clearly significant in relation to DFP.

How is the equal pay issue bedding down in DFP? It bears differently on different Departments. Do you have any estimate of the recurring cost to DFP?

Ms McNeilly:

We have received figures for 2009-2010 from colleagues in central finance group in relation to the costs of equal pay and the impact on us as a Department. In 2009-2010, the cover is being provided centrally for us. It is estimated that for DFP the recurrent elements going forward into 2010-11 will be in the region of £3 million.

Two things will impact on those figures: the pay award that was due to staff on 1 August 2009, which is currently the subject of negotiation with the trade union side, and any pay award or pay freeze implications going forward in 2010-11. All of those numbers together will impact on staff costs and the relative budget for the 2010-11 year. It is something that has been reviewed by the Department. Some money has been set aside for the ordinary pay award this year and next year. We will see, in relation to the outcome of that wider discussion on the pay award, whether there is any netting off from the costs of equal pay.

Mr O'Loan:

Was the £3 million the cost of the equal pay element alone?

Ms McNeilly:

It is in relation to the revised scales going forward for the next 12 months.

Mr O'Loan:

That is quite substantial.

Ms McNeilly:

Yes.

Mr F McCann:

Paragraph 6.2 of your briefing paper states that LPS:

> "has plans in place to realise current expenditure savings of up to £6.2m."

What level of staff reductions or redeployments will be necessary in LPS? What other plans are in place to achieve the necessary savings?

Ms McNeilly:

LPS has had a detailed engagement on this. In the current year, 2009-2010, it has already made savings of £1·2 million, which has involved releasing some 40 temporary staff. Those savings will roll forward into next year. In addition, it is expected that LPS will have to drop about 37 further temporary staff. That will give combined savings of about £3 million when rolled forward with the associated GAE savings for those staff.

Action has been taken to redeploy staff within the agency, for example, from registration services because of the downturn in the housing market. It now has to work the temporary staff out of the system. There is possibly a need for some redeployment in LPS, but the figures are changing quite quickly, so I do not want to quote any numbers. However, the numbers are not significant for LPS. It is also trying to get further income in relation to mapping. It is working with the Department of Agriculture and Rural Development, which has an issue with regard to the need for mapping support. It is hoped that we will get additional support from that to mitigate some of the pressures in LPS.

One of the other issues is that LPS will be able to make a saving on its bad debt costs because of a change in the budgeting treatment. There are some references to technical issues in the consultation paper, and LPS will be able to make a saving of about £1 million simply from a technical change, and that has helped to mitigate the £6·2 million. Therefore, it has been taking significant steps to take the matter forward.

Mr F McCann:

You spoke about releasing agency workers. Will they be redeployed, or will they lose their jobs altogether?

Ms McNeilly:

The agency workers will no longer be employed by LPS; they will go back to the recruitment agency to find other work. There will be a general reduction in staffing levels in LPS, but it started down that road in 2009-2010, and it has realised savings by reducing the number of temporary workers. There was a peak in number of temporary workers because of the backlogs, but LPS has indicated that some of the backlogs have been addressed in respect of the administration of rate reliefs, revaluations and registration, and that has allowed it to reduce staff numbers.

Mr F McCann:

In your paper, it states that there was reduced spending of £300,000 on data systems in Land and Property Services. I know that Land and Property Services has been going through a period of restructuring, but will that reduction in staff and lack of spending on new data systems not impact on its ability to deliver an efficient service?

Ms McNeilly:

LPS has indicated that it will be able to manage the reductions that it has to apply. LPS developed that plan; it has not been imposed on it.

The LPS capital budget for next year was £2 million; therefore, the £300,000 is not significant this year. Its spend this year is about £1·5 million, but during the in-year monitoring round we will have to keep an eye on its needs in respect of IT equipment, and, if it does have an issue or a problem, we may have to reduce spend somewhere else and pass it to LPS. It is something that we are alert to, and we will keep an eye on it as we go through next year. However, at the minute it has indicated that the figure is reasonable.

Mr F McCann:

When efficiencies are mentioned, I am always concerned that staff will be first to take the hit. If they are providing a service up to that date, it must have some impact. Over the next year, will a review be carried out in the Departments to ensure that it is not affecting front line services, or that they are not understaffed and unable to deliver the efficient service?

Ms McNeilly:

Obviously it will have targets to meet, and it will have the expectations of the customers to meet, and there will be scrutiny in respect of councils, etc. From that point of view, there will be a lot of focus on whether it is still able to deliver the service that is required. We will have to respond if there are any issues, so there will be monitoring to that effect at those levels.

Ms Purvis:

You said that LPS had £2 million capital for next year, and there is £300,000 reduced capital spend on the table, but in the September monitoring round, LPS made bids for £900,000 and £300,000 capital grant. Those bids were not met, and the culmination of that is greater than

£300,000.

Ms McNeilly:

As part of the December monitoring round, we were able to internally reallocate LPS some money to meet its identified pressures, and even as part of the February monitoring round, LPS has been looking for another £100,000 or £200,000, and we have sought to provide that money. Therefore, in the current year, we have given LPS what it wanted.

Dr Farry:

You also talked about the realisation of additional income into LPS. What does that involve?

Ms McNeilly:

At the minute, LPS is looking at a new fees Order for land registration fees. It is required to recover full cost in land registration and, in the current year, because of the downturn in the market, and even though LPS has taken steps to significantly reduce staffing levels in land registration, it is not quite recovering its full cost. Therefore, it is looking at a new fees Order. It is also hoping that there will be a slight upward trend in the housing market that will give it a further modest increase. Overall, from those sources combined, it hopes to increase its income by about £1·2 million.

Dr Farry:

The balance of that £6·2 million will be addressed from cuts, reductions, savings or efficiencies — however you term it.

Ms McNeilly:

LPS's forecast increase in income is £1·2 million. The roll-forward of the savings made in the year 2009-2010 to a 12-month impact — the savings were only implemented late on in this year — gives £2·2 million. A further review of staffing levels, which represents another 30 or 40 temporary staff, will give savings of another £1·2 million. On top of that, there is the change in the budgetary treatment, which will give another £1 million. Those four actions bring us almost there.

Dr Farry:

On a very superficial reading, LPS is ring-fenced from the direct financial savings and efficiencies in this round. There is a recognition that its budget is inadequate. It has got through the monitoring round, but, as you have identified, there is in effect a practical £6·2 million deficit to be addressed. Can you remind me of the overall budget set for 2010-11 for LPS?

Ms McNeilly:

In 2010-11, LPS has a gross expenditure forecast of £55·9 million. Against that, it has an expected income, forecast before the increase which we talked about, of £29 million, and that gives it a net spend of £26·9 million. It has an available baseline of £15·7 million. That figure is net.

Dr Farry:

Therefore, the budget allocated from the Northern Ireland block grant to LPS is £15·7 million for 2010-11. In practice, there is a working acceptance that that budget has a shortfall of about 40%, in relation to the net costs of running LPS.

Ms McNeilly:

Over the last two years, LPS has had a deficit of £5 million per annum.

Dr Farry:

If you compare the £6·2 million with the net running cost of, what is in effect, £26 million, you are talking about a 25% efficiency saving that LPS has to find.

Ms McNeilly:

That is net. In gross terms, where expenditure is being reduced, that is against a gross expenditure budget of £55 million.

Dr Farry:

Yes.

Ms McNeilly:

LPS is trying to protect the income-generation aspect. Savings are having to be made be on the expenditure side.

Dr Farry:

However, LPS is being asked to find a saving of 25% in relation to the net figure, which, for our purposes, is the money that is transferred to LPS. My point is that LPS is the main customer-facing organisation in DFP, and it is taking a 25% hit.

In the wider community, I am sure that there is no love for LPS, as compared to the Health Service. However, it is one aspect of the Department's work, and a customer-facing one, which is taking a disproportionate hit.

Ms McNeilly:

Yes. The Department looked at options whereby it might take £11·2 million from the rest of the Department to put into LPS, and where money might be found for the purpose. However, that option implied 25% and 30% cuts to accommodation, Account NI, HR Connect and all of the other business areas. When that was considered at departmental board level, it was decided that the Department could not sustain the business that it had to provide in those areas. Other Departments would not have accepted that option either. We cannot withdraw services from those areas. You will be aware of the background to the situation in LPS. Some 43 changes and reforms have been made recently, and they have not received funds —

Dr Farry:

That is the point that I was going to make. When the budget for 2008-11 was set, the level of reform that LPS would be asked to manage was not envisaged.

As a result of these changes, and especially in relation to LPS, what is your assessment of the risks to the delivery of services from these efficiencies?

Ms McNeilly:

The total pressure facing LPS is £11·2 million. LPS has indicated that, if it were to make savings of £6·2 million and the Department was able to provide it with an extra £5 million of funding, it would be in the same position as it was in this financial year and should be able to continue with service delivery without a detrimental impact. It is focused on the priority areas of its business — the revenue and benefits side, which impacts on customers.

Dr Farry:

Is that bravado on the part of LPS, or does the Department feel that those figures can be stood over and delivered?

Ms McNeilly:

The Department feels that it is deliverable, given that £5 million has been required in each of the previous two years. A significant increase in revenue is forecast for next year. The board and the permanent secretary are monitoring that.

Dr Farry:

Do you anticipate changing the risk assessment of a deterioration in the service in that aspect of the Department's work as a consequence of those savings?

Ms McNeilly:

Not at this stage, no.

Dr Farry:

Can the move from 100% grants for capital investment to 50% grants be viewed as something of a false economy?

Ms McNeilly:

The reduction of grants to 50% means that other business partners will have to put 50% into capital projects. Therefore, they will have to be more committed to those schemes than they have been in the past, when they got 100% grants. This will allow those partners to put in their share of the investment, and they will benefit from 100% of the savings.

Dr Farry:

Will we have to factor in any resource implications to the figures?

Ms McNeilly:

Are you referring to the savings?

Dr Farry:

Yes, the savings that can be made from the running costs.

Ms McNeilly:

The savings can be realised by district councils or by other public bodies such as libraries. Those bodies get to keep 100% of the savings that they make from energy efficiency.

Mr Weir:

I appreciate the logic that, at a certain level, a 100% grant is unrealistic. Will a reduction of that nature, which is intended to save £1 million, act as a discouragement to save public money? Logic suggests that reducing a 100% grant to 50% makes it less attractive. How does the potential reduction of the energy efficiency fund fit in with the concept of invest to save?

Ms McNeilly:

It is not my area, but a new carbon reduction commitment is coming into effect. Although we are reducing central energy efficiency fund grants by 50%, that reduction will not dispel the interest of public bodies in this area, because it may have cost implications for bodies that are not in the right place in the league table for their use of carbon. From that perspective, there is going to be an increased focus.

Mr Weir:

If I were being cynical, I would suggest that some carrot is being taken away and being replaced with more stick.

Ms McNeilly:

A stick is possibly being introduced at central government level as a result of an EU directive.

Mr Weir:

You are taking away the carrot and handing the stick to someone else.

Ms McNeilly:

Quite possibly, yes. There are EU aspects to it. As I said, it is not my area, but it is being driven by central government.

The Chairperson:

Declan asked about staffing reductions. Evidence shows that DFP has a high percentage of higher earners in the Senior Civil Service (SCS), who earn a substantial amount of money. In DFP, 97 staff earn between £50,000 and £71,000, eight earn between £71,000 and £82,000 and 14 earn in excess of £82,000. Why is that the case with DFP? Is there any suggestion that a review or an assessment of that will take place?

Ms McNeilly:

Staff numbers have been reviewed as part of the ongoing work in developing options, and SCS levels have been reduced. The reductions are modest, but a start.

In DFP there are professional grades — for example, the Departmental Solicitor's Office — where pay scales tend to be higher than in some of the administration grades. On pay in general, the Executive asked for options such as a pay freeze and a hold on recruitment or promotion to be considered as part of the engagement on revised spending plans. Central personnel group and corporate HR are looking at those options on behalf of SCS staff and non-SCS staff across the Civil Service. I understand that a submission or a paper from them on the issues involved will be going to our Minister.

The Chairperson:

I thank the witnesses for attending.