Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Draft DFP Budget 2016-17: DFP Officials

13 January 2016

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Mr Gordon Lyons
Mr John McCallister
Mr Ian McCrea
Mr Máirtín Ó Muilleoir

Witnesses:

Ms Janis Marynowski	Department of Finance and Personnel
Ms Brigitte Worth	Department of Finance and Personnel

The Chairperson (Mr McKay): Brigitte, you are welcome to the Committee, as is Janis Marynowski. Brigitte, do you want to make an opening statement?

Ms Brigitte Worth (Department of Finance and Personnel): Thanks, Chair. I will make a few comments about the Department's position following the announcement of the 2016-17 Budget.

As I note in my paper, the headline figure of a 1% reduction for DFP does not fully show the position for most of the Department. It does not take account of the fact that just over £4 million is needed for the implementation of the reduction in the corporation tax rate. Once that is considered, the overall cut for the rest of the Department is more like 4%.

The Department also has a high proportion of fixed costs. About 55% of our spend is staff costs. A further 42% is contractually committed or is money that we need to spend to generate income. If we did not spend it, an amount of income foregone would balance it. That does not leave us with much in "discretionary" spend; it is only around 3%. Within our discretionary spend, there are inescapable costs that we still need to fund. I referred, for example, to the need to implement corporation tax. We also have to fund things from discretionary expenditure that are fundamental to running the Department and, indeed, other Departments such as IT infrastructure, communications infrastructure, printing, postage and stationery. Those areas can be reduced, but not to zero if the Department is to continue to function in any meaningful way.

We find ourselves in the position whereby further cuts would have left us with nowhere else to go, and we would have had to look towards our ability to recharge some of our shared services to other Departments in order to make the budget balance. The relatively small reduction to our Department gives you a bit of context of the support that we provide to other Departments. An additional cut to our budget would simply have meant that costs would have ended up being passed around the system.

With that in mind, I am happy to take questions.

The Chairperson (Mr McKay): I will ask the question that I asked Mike: how challenging does the next financial year look for the Department?

Ms Worth: It looks very challenging. It is on the cusp of what is possible for us. We have enough money to run the Department next year, but it is barely enough money. We will have to make use of a fifth tranche of the voluntary exit scheme (VES) to balance the budget next year. The unknown factor is the impact of a loss of staff. By the time the fifth tranche comes through, we estimate that we will have lost 350 staff, which is just over 10% of our staffing complement.

With such a large proportion of our budget being spent on staff, we have little option but to try to cut as far as we can into staff costs in order to make ends meet. However, the outworkings of those staff not being around any more have yet to be scoped out fully. We are just looking at the impact of those who have been programmed to leave under the fourth tranche, and we will have to wait and see who goes under the fifth tranche.

The Chairperson (Mr McKay): How is that impacting on the staff who are left behind? Obviously, there are fewer staff overall, but it is the same amount of responsibility. Has there been an increase in stress-related leave?

Ms Worth: It is a little too early to tell. Two of the five tranches have already left. We are still benefiting from the Christmas effect, with the second tranche having left only at the end of November. In December, people were anticipating Christmas and preparing for Christmas leave. It will only be as we settle into the new year and the third and fourth tranches leave that we will start to see how that impacts on the staff who remain.

We are looking across the Department at ways in which we can restructure what we do to be able to do things more efficiently. We are also looking at focusing on key priorities and at lesser priorities that can be reduced. We are looking at things like our internal controls and recognising that, in the past, we have maybe been very cautious and taken a belt-and-braces approach to control. We have looked at our risk appetite and at whether the belt is enough, and maybe we do not need the braces as well.

The Chairperson (Mr McKay): Such a significant reduction in staff would also equate to a reduction in work space. Have any savings been realised by that reduction?

Ms Worth: The outworkings of that for cash-releasing savings will take a while. We will probably not see them in 2016-17 because we need to reconfigure where staff are. As part of the restructuring of Departments, we need to move staff around and exit leases. It would be great if we had leases that ended at exactly the right time for us to be able to stop paying for them at the same time as we move staff out, but the reality is that we will have to wait until those leases come to an end. We are working very strongly on the basis that we will not renew leases and that staff will be moved and reaccommodated in existing accommodation through the accommodation that is freed up by staff leaving and by looking at how we can make better use of and have higher density in our existing buildings.

The Chairperson (Mr McKay): How will the Department change with the reduction from 12 Departments to nine? What additional functions will you get?

Ms Worth: We will get very few. Colin mentioned in his briefing that there is a very small impact on this Department. We are taking a couple of small functions from OFMDFM: the government advertising unit and, I think, the web development team that supports the online aspect of NI Direct. The NI Direct web development team is already funded from the DFP baseline: we transfer money every year to OFMDFM to fund that team. The government advertising unit is funded through in-year budget transfers to OFMDFM. There will be virtually zero impact on the Department's budgets.

The Chairperson (Mr McKay): How many staff are you taking on?

Ms Worth: I do not know off the top of my head, but it is a relatively small number.

The Chairperson (Mr McKay): Is it fewer than 50?

Ms Worth: I do not know. I would not like to speculate, but I would guess that it is fewer than 100 and, quite possibly, fewer than 50.

Ms Janis Marynowski (Department of Finance and Personnel): We do not have that information yet.

The Chairperson (Mr McKay): There is £4 million of funding for systems development for corporation tax. Why does it cost that amount of money?

Ms Worth: HMRC runs the overall tax collection system for the UK Government. We are in a position whereby we have no alternative but to buy the service from it. To develop our own system would be prohibitively expensive. We are challenging the figures that have been provided to us by HMRC in terms of the exact question that you asked, but, if we want a corporation tax system, we will have to pay what HMRC asks for. We are not in a particularly strong position for bargaining, but we will certainly challenge it. Four million pounds is an initial estimate. As things develop and time goes on, we will be able to probe that more deeply.

The Chairperson (Mr McKay): We discussed other issues this morning to do with what came out of the Fresh Start Agreement. Those issues are being held at the centre. Why would corporation tax not also be held at the centre until it is more concrete?

Ms Worth: I am afraid that that is a question for Mike. From my perspective, I wanted to ask for the money that I needed to deliver corporation tax, and I was fortunate enough to be given it. Obviously, if we can deliver it for less than the allocation and it is above the de minimis limit, we will return it to the centre for reallocation.

Mr Cree: There is a built-in saving this year with the voluntary exit scheme.

Ms Worth: Yes.

Mr Cree: How much is that?

Ms Worth: We had projected that the first four tranches would save us £10 million in 2016-17. That would be the full-year impact of the first four tranches. We estimate a further saving of up to £1·5 million from the fifth tranche, which is not a full-year saving. We estimate that we might get that from a June exit date, but we do not yet know the exact exit date for the fifth tranche.

Mr Cree: Is it likely to be the second half of the Budget year?

Ms Worth: No: it is likely that staff will exit by the end of June at the latest. We are being told that that is when they will exit, so £1·5 million is the maximum, I think, that we will get from a three-quarter-year saving.

Mr Cree: That is built into the budget. The Chair raised the issue of asset management. The ministerial statement refers to property management. Is that the same thing?

Ms Worth: Broadly, yes.

Mr Cree: How does it differ?

Ms Worth: The Executive asset management strategy has more in it than the DFP element of property; the collaborative procurement strategy is in it, for example. I tend to use it in a synonymous way, but the overarching Executive asset management strategy has more in it than just the DFP office estate management aspect of property.

Mr Cree: What do you expect to get from asset management in DFP in the Budget year?

Ms Worth: I do not know the exact answer to that. I understand that the £1·5 million that has been allocated will be used to develop business cases for the rationalisation of the office estate. Some Departments have office estates outside of DFP, so I will need to liaise with the Strategic Investment

Board (SIB) to clarify how much of that will impact on DFP's office estate as opposed to the office estate that currently sits with other Departments.

Mr Cree: Would that not have been necessary before the budget figures were finalised?

Ms Worth: Given that the SIB has an overarching view of the entire Northern Ireland Civil Service (NICS) office estate as opposed to just the DFP one, it is in a good position to understand how much money it needs to allocate to that strategy. It will take a strategic view and deploy that money to where it can best realise savings rather than looking at which Department is benefiting from it. From that perspective, it will avoid the inevitable potential for a Department to focus solely on what would benefit its budget rather than looking at what would benefit the Northern Ireland Budget as a whole — if that makes sense.

Mr Cree: Has a bit of flexibility been built in by accident?

Ms Worth: I do not think that it is by accident. I am speculating, because Mike would be better able to tell you exactly why it was done in the way that it was done, but I would have thought that it is there deliberately to give the flexibility that is needed to point it towards the projects that will have most benefit.

Mr Cree: So, at the moment, it is really off budget.

Ms Worth: As I understand it, that element is still being held at the centre.

Mr Cree: It is not in the list of things that are held at the centre.

Ms Worth: Is it not? OK. It is not in my budget.

Mr Cree: I will take the issue up elsewhere. Thanks.

The Chairperson (Mr McKay): What is the grade profile of the VES leavers to date? Has any particular grade been impacted?

Ms Worth: I do not have that information with me. I know that the first four tranches in DFP were made pro rata across all grades.

The Chairperson (Mr McKay): Can we get a copy of those figures?

Ms Worth: I am sure that we can request them.

Mr Ó Muilleoir: Thank you very much for the information in your presentation. I have a couple of quick questions. What was the average payout for those who left under the voluntary exit scheme?

Ms Worth: I have that figure with me. I think that it is £38,800.

Mr Ó Muilleoir: I thought that I was going to catch you out. I had estimated that it was around £40,000.

Ms Worth: I have it in my briefing somewhere. Yes — it is £38,800.

Mr Ó Muilleoir: That confirms the figures that I am working on. The number of people leaving under the voluntary exit scheme will be well short of 20,000, according to the money that we have set aside and the average cost of departure to date.

Will you explain why the £4 million for corporation tax is allocated to you? What will that look like when it is spent? Will it be software? Will it be specialists? Are we going to end up with one of those welfare schemes in Britain, with the software not working for 300 years? Do we know what we are doing with this £4 million?

Ms Worth: It will go towards changes that are being made to HMRC's existing system. It will, effectively, be software development for HMRC.

Mr Ó Muilleoir: Will those jobs be here or in London?

Ms Worth: As I understand it, the money will be spent on the HMRC system, so I imagine that it will be wherever HMRC is located.

Mr Ó Muilleoir: Talk to me about the rate rebate of £2 million. Is that dependent on the domestic rates review? Is it in case that changes?

Ms Worth: No. That is to pay for the changes that we need to make to the system for the introduction of universal credit.

The Chairperson (Mr McKay): It would be useful if the Department could give the Committee a table outlining each of its business areas, including all provisions and contingent liabilities — those stated in the DFP annual report — and to integrate into that the number of staff leaving and expected to leave under VES. That would give us a transparent picture of the areas in the Department that will be impacted most by the voluntary exit scheme.

Ms Worth: I will give you a flavour of why that is not straightforward. We can quite easily give you a table of where people have left. Over the coming months, the Department will, for instance, look at teams that previously had 20 people but that now, since VES, have 10 people; we will need to look to other teams from which nobody left and move people around the Department. It is very easy for us to give you a table showing the areas that people left from, but that will not necessarily be entirely —

The Chairperson (Mr McKay): You could also include where you plan to introduce more staff to make up that deficit and include that information in the table that we are requesting.

Ms Worth: We can certainly have a look at that. That will take us a little more time, because we know where people are leaving from, but we are still working through the implications of who we need to move and where we need to move them to. We can do the first thing very quickly for the first four tranches, but the second piece will take more time.

The Chairperson (Mr McKay): It would be useful if you could provide us with the initial information for next week.

What are the implications of the OECD review for the Department and for departmental budgets?

Ms Worth: I am afraid that I have not seen the outcome of that. Is a briefing scheduled with Colin Sullivan's team for that?

The Chairperson (Mr McKay): Yes.

Ms Worth: I do not have that information. I am not aware of what is coming out of that review at this time.

The Chairperson (Mr McKay): You are not aware of any major budgetary impact.

Ms Worth: I am not expecting it to have a major cost impact in that more costs will be required in DFP's budget. I hope that ideas will come out of the review that will help us to save money in the future, but whether they can be implemented in time for 2016-17 remains to be seen.

Mr Cree: Just one last question, if I may, Chair, on personnel and VES. A lot of work was done at the beginning to consider how we would handle the scheme. We were not simply going to wait until people had left and then say that there is a hole. Is there a personnel work plan or strategy for how VES will be handled?

Ms Worth: Yes. I am talking a little bit out of turn because it is not my area. However, at a high level, the first thing that we have done is to say to business areas that the default position is, if somebody goes, you look to do without them. Secondly, if that post needs to be filled, you look to see whether there is lower priority work in your business area that can be ceased, and somebody can then be moved from that area to fill that post. We have still to reach the third part, which is to take it up a notch and say that business areas have done everything that they can within their own area, and, at a departmental level, people need to move from one part of the Department to another to make sure that we are prioritising in the right way. That is a broad high-level indication of the way in which Departments approach things.

Mr Cree: It is OK to stand back and look at that objectively, but, in reality, you had a plan, and, when those people indicated their wish to leave, presumably someone updated the plan. You had prior notice that those people were leaving.

Ms Worth: Yes, we would have had that. Business areas knew who had applied at the start of the scheme. As you say, business areas had two months' notice of who was definitely leaving so that they could make plans, but things take time to work through. In my area, I am looking at certain posts and asking whether we can manage without them, but, if we find that that is not working in a couple of months' time, we may need to revise it. I imagine that colleagues have said this to you previously: VES is not a strategic HR intervention; it is a budget reduction tool.

Mr Cree: Yes, but I would have hoped that the other one would have gone hand in hand. Is that not reality?

Ms Worth: It is reality, but it is also a reality that the time frames did not allow us to do what would be done in a planned strategic HR intervention. We are not doing it in the ideal way that it would be done if you had the time that you needed to look at the way you wanted to restructure your business before staff left. We are not in that place. We are in a place where we have to do the two things partly in tandem, with the strategic piece coming behind the exits.

The Chairperson (Mr McKay): Brigitte and Janis, thank you both very much indeed.