



Northern Ireland
Assembly

Committee for Finance

OFFICIAL REPORT (Hansard)

Budget Pressures: Department of Finance

10 April 2024

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Matthew O'Toole (Chairperson)
Ms Diane Forsythe (Deputy Chairperson)
Dr Steve Aiken
Miss Nicola Brogan
Mr Gerry Carroll
Miss Deirdre Hargey
Mr Eóin Tennyson

Witnesses:

Mr Stewart Barnes Department of Finance
Ms Seanin Ferguson Department of Finance

The Chairperson (Mr O'Toole): I welcome Stewart Barnes and Seanin Ferguson. They are here to give us some detail on specific budgetary pressures facing the Department of Finance. They will also be able to answer questions about the proposals to address a potential budget shortfall. I have to empathise with Stewart and Seanin, because they are the people who have to negotiate with their departmental colleagues on the Department's budget.

Mr Stewart Barnes (Department of Finance): That is the hardest part.

The Chairperson (Mr O'Toole): That is very tough: it is a bit like Caesar's wife, as they say.

I ask you to give a brief opening statement, after which we will have time for questions. Thank you for being patient and waiting.

Mr Barnes: I will take you briefly through the paper. I will not go through it, because it is quite a long paper. As you are aware, it is a very challenging year, with the central funds that we were given. In the exercise that was set out at the beginning, we were asked to work on the basis of a flat cash allocation of £147 million resource for the Department. As part of that, the main pressures were around pay, where there was a 5% pay increase plus increments and a 4.2% pension increase. Purely for planning purposes, there was also an assumed 3% pay increase for this year.

There are about £14 million in pressures immediately from pay, and there were other pressures across the Department for us in taking forward various projects and other inflationary increases. In reality, compared with last year, the Department is facing something like £25 million in additional pressures.

The Chairperson (Mr O'Toole): The flat cash allocation is £147 million —

Mr Barnes: In resource, yes.

The Chairperson (Mr O'Toole): — in resource. And what did you say — £27 million?

Mr Barnes: We have pressures of around £25 million to £26 million, in comparison with last year.

The Chairperson (Mr O'Toole): OK, so more than 10%. You are getting flat cash, but your cash requirement is, effectively, 10% greater.

Mr Barnes: Well, yes, in the sense that —.

The Chairperson (Mr O'Toole): I do not mean your cash requirement in its entirety.

Mr Barnes: It is not necessarily a cash requirement but is what we might need in resource terms.

The Chairperson (Mr O'Toole): Yes. I know that "cash requirement" has a specific meaning. OK, go ahead.

Mr Barnes: I have provided detail of what those pressures are. I do not know whether you want me to go through them, or whether you are content that you have read them.

The Chairperson (Mr O'Toole): We have them here: it is about pay and pension increases. Integr8 — is that correct?

Dr Aiken: It is the IT system.

The Chairperson (Mr O'Toole): It is an IT system.

Mr Barnes: It is the new Account NI IT system for the Civil Service. There is an increase in contract costs, progression of key functions such as taxation, budget sustainability and filling vacancies.

It is also worth highlighting the areas that may increase in future. Rates is an area that is very high: there is about £18 million of rates in DOF because we hold the office estate and are responsible for that.

The Chairperson (Mr O'Toole): Does that mean that you pay the rates bill for every Department because you are the landlord, effectively?

Mr Barnes: Yes, basically. We pay the rates for buildings owned by DOF.

The Chairperson (Mr O'Toole): In the case of Dundonald House and soon, possibly, Netherleigh, which are either sold or empty, is that saving you a few quid?

Mr Barnes: Yes. The same would apply for vacant properties. For instance, at the last revaluation, our rates bill went up by £3 million, with no additional budget for that.

The Chairperson (Mr O'Toole): Can you not ask your colleagues in Land and Property Services (LPS) to help you out? *[Laughter.]*

Dr Aiken: Did you not say, "Ilan, give us our money back"? *[Laughter.]*

Mr Barnes: We have tried that. *[Laughter.]* Those revaluations happen every three years. Granted, it may go up or down, but rarely, so far, have we seen it going down for our office estate: it tends to go up. This year is not a revaluation year, but we are looking at increasing regional and council rates. We are probably facing a pressure of around £375,000 in 2024-25.

The other thing is rate rebate. The rate rebate budget is normally held by the Department for Communities, and then it is paid across to us as we pay out the money. Normally, DFC would hold around £30 million, which would be transferred in year to us. However, this year, because of its pressures, DFC was able to pay us only around £24 million, and there was a bill of around £27 million.

Therefore, as a Department, we had to find an extra £2.5 million or so to fund that from our own resources.

This year, the rate rebate is in line with universal credit; as that goes up, it is projected that the rate rebate might be as high as £40 million next year. We are looking to the centre to see whether that can be funded before the budget is given out, because we could not fund what would be up to another £13-odd million from a DOF budget for what is essentially a benefit. We need to resolve that as well.

The Chairperson (Mr O'Toole): When the rates rebate scheme was introduced, the way it was accounted for was that the money was provided by DFC but DFC billed it back to the Department of Finance.

Mr Barnes: It was a budget transfer across the various monitoring rounds. We did not have it in our budget at the beginning, but by the end of the financial year, DFC would have transferred the full amount to what it is. This year, DFC could not afford to do that.

The Chairperson (Mr O'Toole): It is demand-led, so you build in a certain amount of headroom to account for it. Is that how it works?

Mr Barnes: Yes, but then DFC transfers the budget.

The Chairperson (Mr O'Toole): The expectation is that it will be significantly higher, so that needs to be built in.

Mr Barnes: If DFC could not afford the full £27 million this year, there is no way that it would be able to afford up to £40 million next year, so we are looking at dealing with that in a different way.

The Chairperson (Mr O'Toole): In a sense, that is an additional pressure on top of the other amount.

Mr Barnes: Yes. It is not included in that figure.

The Chairperson (Mr O'Toole): It is not included in the £27 million?

Mr Barnes: No.

The Chairperson (Mr O'Toole): OK.

Mr Barnes: On page 6, we set out some proposals for how we might meet the pressures. I have to say that they are merely proposals. We have looked at them, but they may have to be reviewed as we go through, once we get our final budget set.

Looking at the application of accounting treatment, this treats it properly. Some costs are treated as resource and some are treated as capital. It is about interpreting how that should be. We are not suggesting that we are doing anything wrong; we are just making sure that everything is accounted for in the right basket, if you like, and that, where possible, if it is allowed under accounting terms, properly looked at and reviewed, we can move some costs towards capital. I appreciate that capital is not particularly plentiful either at the moment, so there are still issues around getting bids met with the amount that we would transfer.

Then there is increased income. Again, we are looking at some internal charges. As you know, we are basically a shared service for a lot of the other Departments, so we will have to put up our charges to other Departments to cover our costs. We are looking at that and at how we could charge more externally, perhaps by providing the services more widely to other Departments, as in LPS. There may also be the fact that we are not covering the full cost of rates collection from the council, but how that comes in would have to be negotiated with the council.

Then there is estate rationalisation. As you may know, we disposed of, I think, 10 buildings last year. We are looking to increase that this year and to dispose of a lot of leases. The main strategy is to get more people into fewer buildings, which we are doing, because occupation has reduced with hybrid working. We are trying to accelerate that.

GAE reduction means reductions in travel and minor areas around that.

On not filling vacancies, the Department has about 357 vacancies at the moment.

The Chairperson (Mr O'Toole): Of a headcount of about 1,500?

Mr Barnes: Of 3,400-odd.

The Chairperson (Mr O'Toole): OK. That is 10%, basically, or close to it.

Mr Barnes: Yes, in and around that. We are looking at perhaps not filling some of those. Obviously, some of them will have to be filled. Some vacancies will be income generating, which will not have an impact. We are looking at not filling some of those vacancies.

We will have to look at maintenance reduction in more detail. We are concerned that maintenance is reaching a level where any further reductions might impact on things such as health and safety. We want to make sure that that is not the case.

Then there is stopping projects. A lot of those are IT projects that provide services to other Departments. We might have to reduce, for example, the Business Consultancy Service (BCS), some of the Northern Ireland Statistics and Research Agency (NISRA) projects, some of the LPS projects and even some of the Departmental Solicitor's Office (DSO) modernisation projects. We are looking carefully at where we can stop spending without impacting too much externally.

On the two big projects, NOVA is the big LPS project that is looking at rates, valuation and land registry.

The Chairperson (Mr O'Toole): One of the things that we asked LPS about was its income generators, because it charges conveyancing solicitors and other people who need to use its services. This might be an ignorant question, but would halting or delaying investment in NOVA harm its commercial potential?

Mr Barnes: It would, because that is what NOVA is looking to do. A big part of NOVA is that, on revenue raising, it would bring in about £40 million of rates by around 2029-2030. It is a new system that is looking to join up valuation and rates and other things, to make it a more informative system and to bring in more revenue. There is also a small element of about £2.5 million of savings in staff costs. Put it this way: delaying is something that we do not want to do. It would provide a better service — a much better self-service — for the public.

Dr Aiken: I have a quick question. Is the proposal to stop NOVA and Integr8? Or is the proposal to not go to the next level of funding?

Mr Barnes: It would have to stop, at the moment, unless funding is provided. There are two elements to that. The funding that they have, at the moment, is sitting in their baselines. Part of this is also predicated on bids that we have going forward. Therefore, if we did not get the bids, going forward, there would be no point in moving these further.

Dr Aiken: We have also signed contracts for these, have we not?

Mr Barnes: No, we have not. There is an intent to award a contract for Integr8, but we have not awarded it yet, and there is no commitment yet to do that. We have systems that are 17 years old, and we are trying to move forward with our financial and HR systems. Integr8 would be of benefit and provide better ways of working, and there would be about £14 million of savings to come out of NOVA if we could take it forward.

We have put bids in. As you can see, we put in bids to take forward Integr8, and we put bids in for NOVA. Between those, there is about £17 million or £18 million. We are also making bids to progress key functions. That relates to Budget sustainability, the fiscal framework and some census and COVID work. The increases in contract costs mainly relate to big IT contracts in which there have been inflationary costs, for instance, that we cannot necessarily charge out. We had stepped down a lot of posts to try to make savings in previous years, but, with the return of the Executive, we are obviously trying to get them back so that we can do our work properly in servicing the Executive.

Finally, the capital bids are listed. We have up to £49 million of capital bids, the big one being NOVA, which is the Land Registry and LPS capital project. NOVA is the big one. We are quite a small capital-spending Department. The capital budget for 2023-24 is about £37 million, and the proposed increase is due, mainly, to the big NOVA bid.

This is about this year. We are looking to put more resources into trying to do a five-year plan, because, like all Departments, we are struggling and lurching from year to year. It is not helped by the single-year Budget. The centre is hamstrung by the fact that it is not getting multi-year Budgets. It is difficult to find out in one year that you are getting a cut and then try to put plans into operation. We are doing our best to keep up with that. We are looking to do a bit more work on what the landscape might look like when we have NOVA and Integr8 implemented.

The Chairperson (Mr O'Toole): To summarise, at the minute, you are going to have to find £27 million of cuts.

Mr Barnes: Yes, £25 million or £26 million, depending on how many of our bids are met.

The Chairperson (Mr O'Toole): This is based on the budget for 2024-25. There is an embargoed statement about slightly increased allocations — we may come on to talk about that — but this is basically where you are with that pressure.

Mr Barnes: We are not particularly hopeful on getting all our bids met, put it that way.

The Chairperson (Mr O'Toole): It might be slightly lower. The pressures might be slightly eased from that.

Mr Barnes: Yes.

The Chairperson (Mr O'Toole): OK. That is useful.

The saving from stopping NOVA is about £2.6 million. That is the calculation. Is that effectively how much pausing activity in procurement for the financial year 2024-25 would save?

Mr Barnes: Yes, it is.

The Chairperson (Mr O'Toole): That does not cancel the project; it just stops it.

Mr Barnes: In effect, it freezes it. It stops it being done for that year, and it may be that we will have to go back and start doing work on procurement again.

The Chairperson (Mr O'Toole): What you are procuring may be more. That number will not be static, because the £2.6 million might increase. Or is it a contract?

Mr Barnes: No. Well, it may be in some cases. I do not have the full detail on that, but it is likely that, if you have to go back and procure a year or two years later, the costs will have gone up. It unlikely that they will ever come down.

The Chairperson (Mr O'Toole): OK.

Mr Barnes: That is the saving from the baseline budget that LPS has at the moment. It needs a lot more to take it forward, as you can see from the bids.

The Chairperson (Mr O'Toole): Yes. OK. That is helpful but concerning.

Ms Forsythe: Thank you for coming here today. I want to ask about the increased income. It is quite a big number: £7.3 million of potential extra income that you could get from charging other Departments. When we look at things such as the potential to remove rate relief — something that would effectively increase the burden of rates on members of the public — the fact that there is potential within the Department to increase its charges to other Departments is very attractive. We would rather see the money coming from there, if DOF is undercharging other Departments for its services. How advanced

are discussions on that? In what sort of timeline could we expect to see some of those savings realised and captured in the budget?

Mr Barnes: They are not all internal. Some of them are external. For instance, a lot of the LPS ones would impact councils. Having looked at them, we have a rider in there to say that some of them will take a lot more investigation as to whether they can actually be delivered.

The downside of charging other Departments is that it is almost circular, because it is coming out of the Northern Ireland block. If we charge another Department, let us say, a figure of £2 million, that is £2 million less that it has to provide its services. It is circular, in that sense. However, as a shared service centre, we have nowhere else to go, unless it is external. It is about getting the balance. Charging for the services that we provide is all that we are really trying to do at the moment.

Ms Forsythe: Thank you.

On not filling vacancies as a saving, do most of those vacancies sit in any particular functionalities, teams or departments, or are they spread across the board?

Mr Barnes: It is spread across the board. DOF has a much higher share of professional services in procurement and accountancy. There is a big problem in just getting those posts filled at the moment. A lot of it is down to availability and the market not being there. We cannot get people in for that. Some of the vacancies are not being filled naturally, because we just cannot get the people in to do it. When we go out on recruitment drives, we do not get sufficient numbers in. Some of it is happening naturally, but, generally, I cannot say that it is in one area in particular: it is across the board. We would need to look at what will have the least impact.

Ms Forsythe: Absolutely.

On estate rationalisation, you talked about the rates bills all coming to the Department of Finance as the landlord because it owns the estate. If you are to sell off property, will the benefit of the money from the sale all go to the Department of Finance? Will you receive most of the benefit of that in your budget?

Mr Barnes: Not necessarily. There are two elements to that. We will have savings as far as rates, rent, maintenance and energy and utility bills are concerned. However, the actual receipt from selling a building comes as capital. It does not necessarily come back to DOF. If we sell it in year and make the case that we can spend that money in year, that is fine, but, if we cannot spend it in year, it will go back to the centre as such. It is not guaranteed, and, as you probably know, you cannot carry money over from one year to the other. Therein lies the problem in the office estate. We would love to get all the money back in again and actually spend it on updating and trying to keep the office estate in better condition, but the rules do not necessarily allow that.

Ms Forsythe: I appreciate that. As you said, there is very little potential for movement in the Department of Finance to make savings on anything. What you have is very tight. I appreciate that. Thank you.

The Chairperson (Mr O'Toole): Thank you very much. Steve Aiken is next. Sorry: it is Gerry Carroll. My apologies, Steve.

Mr Carroll: Thanks. Obviously, the talk about services being reduced and cut is concerning, to put it mildly, but it is somewhat of a return to type. In one of the tables provided, Stewart, there is a saving measure of "Stopping projects" totalling £6.2 million, but it does not elaborate on which projects could be stopped. Do you have a breakdown of what they might be?

Mr Barnes: We have things such as the DSO modernisation project, reducing cybersecurity and health checks in LPS, and slowing down the NOVA valuation project. We have NISRA slowing down labour market surveys. In the strategic policy and reform directorate, we have things such as reducing the work that is done by the Business Consultancy Service. We are reducing health checks and things in what was IT Assist, but is now called Digital, Security and Finance Shared Services (DSF), which is the IT element of it, and wider IT services to other Departments. They tend to be more internal than external.

Mr Carroll: To hear that cybersecurity is being reduced is a bit of a warning sign, obviously, given all the warnings that we get about it in Stormont and elsewhere. That is quite concerning. Have you considered or discussed working towards a managed overspend?

Mr Barnes: No.

Mr Carroll: No? OK, well —.

Mr Barnes: I am not sure that, as the Department of Finance, we would want to do that.

Mr Carroll: It is worth considering, especially given the projects that may not be delivered.

Can you remind me about the NOVA scheme? Is Fujitsu involved in that as well?

Mr Barnes: It is involved in an element of it, yes.

Mr Carroll: Yes. It is pretty astounding that, for the part of the LPS that is under contract, £125 million, I think, is being paid to Fujitsu. It is obviously being held up at the moment due to a legal challenge. We are talking about several more millions of pounds being paid to a company that is being challenged right across the board, but the Department is saying that it is facing challenges of £26 million, if I have picked up the figure correctly. That is astounding. I appreciate that there is updating of IT systems. I am definitely not an expert in that, but it seems to me that there should be some sort of review to look again at the Fujitsu contracts across the board — never mind its principles and ethical practices with regard to the Horizon scandal — and whether it is good value for money. That is screaming out at me. Aside from what the Minister outlined in her responses to questions for oral answer on Tuesday, has there been any review of Fujitsu contracts across the Department?

Mr Barnes: Not in general. As you are aware, a case is being taken forward on the Land Registry one, but, in general, there is no review of Fujitsu as such.

Mr Carroll: Thanks.

The Chairperson (Mr O'Toole): OK. Next is Steve Aiken.

Dr Aiken: Thanks very much indeed. I have a declaration of interest. Matthew, Eóin and I previously had lots of briefings from Neil. I think that you were there, Stewart. Every time, he said that we needed to update the IT systems or we would be unable to deliver any form of transformation across the Civil Service, and, what is more, the whole system was likely to collapse as it had already collapsed a couple of times and was no longer supportable; yet the proposals here are for NOVA and Integr8 to be either slowed down or halted for a period. The risk of that happening must be glowing red on every risk register there is. Speaking from my previous experience in the Ministry of Defence, it is almost as though we are putting something up there that is supposed to be so huge that nobody would ever take it. We are, therefore, putting it there just to demonstrate where we are. Is this actually a serious proposal?

Mr Barnes: As you can see, at the back of the briefing, we provided the Committee with charts as to where our spend is. Most of our spend is on staff. Unlike other Departments, we do not have lots of programmes to take money from. We do not have the money in our budget. Those are new projects. We are trying to carry on providing services that we already have. On top of that, there are those new projects. As a Department, there is no way that we can afford the tens of millions each year that that is going on top of, unless we stop something else.

It is certainly not something that we are putting forward as a false impression because we will never stop it. We are emphasising the point that those are very important projects, and they need to be done, so they need to be funded.

Dr Aiken: Again — this may be for the Chair — I would like an update from Neil particularly about the challenges of what it would mean if we stopped this. Everything that I have heard over the past couple of years was, "We need this, we need this, we need this".

The Chairperson (Mr O'Toole): NOVA?

Dr Aiken: Yes, and Integr8. I am just really concerned that this has been put up. One of the things about putting up something that people do not think will ever be taken as a savings measure is that, when they actually do take it, it creates absolute mayhem. We have been told, time and time again, "We've got to upgrade the IT system because it is not sustainable", and here we are proposing not to do it. It might be a budgetary reason, but it might actually be a serious conversation that the Minister of Finance needs to have with her Executive colleagues, because, if we do not sort the IT system out, we are not going anywhere.

The Chairperson (Mr O'Toole): That is a reasonable thing for us to ask for.

Dr Aiken: If you are content, Chair.

The Chairperson (Mr O'Toole): Yes, that is reasonable.

Mr Tennyson: I have a comment and, hopefully, a very quick question. The comment comes on the back of what Steve said. I am conscious of the nature of the circumstances that we are in: we are so focused on a one-year budget that decisions are largely driven to be living within budget. It would be nice to have an idea — NOVA and Integr8 are, effectively, transformation projects — of what the cost implication would be in future years were they to be stopped. I imagine that the systems that we have are not as efficient as what we are planning to achieve.

My question is about the identified saving around estate rationalisation. Is the saving that we are expecting to achieve in line with the Department's business plan that is focused on estate rationalisation, or is that a suggestion that we could save additional money by going further or faster somehow in that space?

Mr Barnes: No. It is what we have planned at the moment. There was a re-look at the estate rationalisation and an attempt to speed that up, which is what we have done. At the moment, we are looking at up to 28 potential savings of around £17 million overall. That is a mixture of capital and resource.

We then need to have a reset to see, at that stage, the attendance and the capacity of buildings, and move again. On top of that, there are the jobs and benefits offices. That is dependent on the model that is being taken forward by DFC as to how we want to progress with that. There are about 33 of those, and they are not included in the estate rationalisation as it sits.

Mr Tennyson: That is helpful, thank you. I have just one other question. For NOVA and Integr8 and the £6 million identified from stopping other projects, they are existing projects that are already in train. Are there any new projects or policy initiatives that the Minister has indicated that she would wish to commence that you do not believe that she would be able to do under the flat cash assumption?

Mr Barnes: There could be a lot more under transformation. We are talking about projects in and around the fiscal framework, which we bid for, and the budget sustainability is part of the money coming. Budget sustainability is one of the conditions that we need to work on. A lot of work is required on that, and we have a bid in for that at the moment. That is a big priority for the Department and the Minister.

Mr Tennyson: That is helpful, thank you.

The Chairperson (Mr O'Toole): Eóin asked about things that the Minister wants to do that she and the Department might not be able to afford to do. You talked about the fiscal framework. Are you talking about having the headcount in order to do the work?

Mr Barnes: Yes. It is about setting up the team and getting people in to do that at the moment.

The Chairperson (Mr O'Toole): What about the Fiscal Council? It comes out of your budget too. It is a relatively small team, but, if it is put on a statutory footing, does that change how it is budgeted for?

Mr Barnes: I do not think that it would impact on whether the budget goes up or down. I am not 100% sure on that; I will have to come back to you, but I do not think that it would impact on the funding. It would just change its legislative standing.

The Chairperson (Mr O'Toole): Does that mean that the Fiscal Council has to be funded via the black box at the moment?

Mr Barnes: It is at the moment, yes.

The Chairperson (Mr O'Toole): If the Fiscal Council was not funded by the black box, it would have to realise that. If it is funded and then does not actually have to do that, is it in the baseline? Has it been baselined properly?

Mr Barnes: It is in our baseline at the moment. They are looking at taking forward the legislation. That has been stalled, obviously. We do not like things being in the black box for too long. It is there on a temporary basis, and we hope to move it out of that, as it were, once the legislation goes through.

The Chairperson (Mr O'Toole): Hopefully, that will be soon.

Members do not have any other questions. Thank you very much, Stewart and Seanin, for coming. We will see you again.