

DRAFT BUDGET 2011-15:

**BUDGET SETTLEMENT AND PROPOSALS TO REDUCE
EXPENDITURE FOR THE DEPARTMENT FOR
EMPLOYMENT AND LEARNING**

10 JANUARY 2011

BUDGET SETTLEMENT AND PROPOSALS TO REDUCE EXPENDITURE FOR THE DEPARTMENT FOR EMPLOYMENT AND LEARNING

Introduction

1. The Northern Ireland Executive's '*Draft Budget 2011-15*' was announced by the Minister for Finance and Personnel on 15 December 2010. The Executive's Draft Budget provides proposed departmental Current expenditure and Capital investment allocations for the four year Budget period. To allow Ministers time to make decisions on priorities, the proposed allocations were presented at an overall departmental level. The announcement of the Draft Budget triggered the public consultation period, the closing date for which is **16 February, 2011**. A copy of the Executive's '*Draft Budget 2011-15*' can be accessed on the Budget website: www.northernireland.gov.uk/budget2010.
2. Clearly, Budget 2010 takes place in a very difficult fiscal environment. This presents us with the challenge of making resource savings in order to fund business-critical services over the forthcoming Budget 2010 period, covering the financial years from 2011-12 to 2014-15.
3. The purpose of this paper is to set out the impact of the Draft Budget for the Department for Employment and Learning's (DEL) over the period 2011-15. The public consultation period on the department's budget settlement and proposals to reduce expenditure runs in tandem with the public consultation on the Executive's Draft Budget.

Consultation Arrangements

4. The department has already taken a number of steps to engage with key stakeholders, setting out the challenges for the department's own finances and the anticipated impact of a Budget settlement.
5. The department has consulted with the Assembly Committee for Employment and Learning in developing its spending proposals.
6. Over the forthcoming weeks the department will continue to engage with the Committee for Employment and Learning. In addition, we are publishing this document on our website www.delni.gov.uk. We have also taken steps to inform our staff of the likely departmental implications of the Draft Budget settlement. In addition, business areas across the department will continue to update their key stakeholders of the likely impacts of the Draft Budget on the services which they deliver as part of their ongoing engagement.
7. We are interested in hearing views on any aspects of this document and the budget settlement and proposals to reduce expenditure contained within it. We encourage all interested parties to make their responses as soon as possible before the consultation closing date of **16 February 2011**.
8. If this document is not in a format which suits your needs, please let us know. Contact details can be found below.

Contact Details

9. Should you wish to make comments in relation to any of the issues contained within this document, the address for consultation responses is as follows:

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Comments should be sent to arrive no later than 16 February 2011.

10. In order to promote environmental sustainability respondents will not receive an acknowledgement letter. A list of respondents will be placed on the department's website along with copies of responses (in full or in part). If you do not wish your response or name to be published on the website, please make this clear in your response to us.

DEPARTMENT FOR EMPLOYMENT AND LEARNING (DEL)

INTRODUCTION

1. This paper sets out the outcome of the proposed budget settlement for the Department for Employment and Learning (DEL), and assesses its implications in the context of increasing inescapable demands on the services provided by the Department and the targeted reductions in expenditure for the period 2011-12 to 2014-15.
2. The department's overall aim is "to promote learning and skills, to prepare people for work and to support the economy". It is responsible for further and higher education, training and skills and employment programmes. In pursuing its aim the department's key objectives are:
 - to promote economic, social and personal development through high quality learning, research and skills training; and
 - to help people into employment and promote good working practices.
3. It seeks to achieve these through four key areas of activity:
 - enhancing the provision of learning and skills, including entrepreneurship, enterprise, management and leadership;
 - increasing the level of research and development, creativity and innovation in the Northern Ireland economy;
 - helping individuals to acquire jobs, including self employment, and improving the linkages between employment programmes and skills development; and
 - the development and maintenance of the framework of employment rights and responsibilities.

KEY ISSUES / CHALLENGES OVER PERIOD 2011 -15

4. The Department faces the following key issues and challenges over the Budget 2010 period:

- DEL's cash funding is reduced by £53m over the Budget 2010 period, increasing to a reduction of over £124m when inflation at 2% pa is included;
- the above reductions exclude the pressures being exerted on the Department's budget in its response to the economic downturn, and from the increase in the numbers unemployed, welfare reform, higher demand for student support and cessation of funding for innovation and research;
- when these are taken into account the Department has a funding deficit of £40m and £31m in years 20011-12 and 2012-13 respectively after delivering savings of £40/72/108/144m across the four years of the budget settlement period;
- this real reduction in funding and the deficit above is impacting at a time when our services are most needed to assist increasing numbers of unemployed adults back to work, to support our young people to improve their skills and find work and to help industry to climb out of the downturn through improving its skills base; the Department's plans seek to protect capacity in these essential services as far as possible;
- but we do have to acknowledge that as a result of the budget settlement we will struggle to deliver parity in our services to the unemployed with the rest of the UK;
- the implementation of our proposed skills strategy will be severely restricted by a lack of resources;
- the Further Education (FE) sector will continue to struggle to sustain capacity and financial balance;
- important and successful initiatives in innovation, knowledge transfer and research and development will need to be curtailed;
- given the need for the Employment Service and training capacity to be maintained as far as possible, it is inevitable that in line with decisions elsewhere Higher Education (HE) must bear a significant proportion of the necessary reductions in expenditure; and
- in addition, student fees will need to increase if capacity and service quality in that sector is to be maintained.

BUDGET 2011-15 ALLOCATIONS

5. The overall draft expenditure allocation for DEL is set out below:-

Table 1 – Draft Budget Settlement for DEL

	£m				
	2010-11	2011-12	2012-13	2013-14	2014-15
Current Expenditure:					
Proposed Allocation	798.9	775.4	767.4	785.6	813.8
Year-on-year % change		-2.9%	-1.0%	2.4%	3.6%
Capital Investment:					
Proposed Allocation	37.6	41.2	32.3	18.5	28.3
Year-on-year % change		9.6%	-21.6%	-42.7%	53.0%

6. Over the four year period the Department will seek to sustain its current level of activity, subject to the service implications of the proposals to reduce expenditure set out below.

CURRENT EXPENDITURE

7. The proposed current expenditure settlement for DEL is as follows:

	10-11 Baseline (£m)	11-12 (£m)	12-13 (£m)	13-14 (£m)	14-15 (£m)
Resources Available	798.9	775.40	767.40	785.60	813.80
Funding Change from 10-11 baseline		(23.5)	(31.5)	(13.3)	14.9
% change from 10-11 baseline		(2.9%)	(3.9%)	(1.7%)	1.9%

8. This table shows that the proposed allocation for DEL in 2011-12 is some £24m less than that provided in 2010-11, some £32m less in 2012-13 and some £13m less in 2013-14. The allocation improves at the end of the period showing an increase of some £15m over the 2010-11 baseline. But in overall terms there is a cash reduction of some £53m over the four year period.

9. There are two important considerations in assessing these figures in money terms.

- Firstly, they are in cash terms. Hence the impact of inflation effectively increases the above % change. The year on year effects of a 2% inflationary rise are as follows:

	11-12	12-13	13-14	14-15
% change from 10-11 baseline @ 2%	(4.9%)	(5.9%)	(3.7%)	(0.1%)

- Secondly, the allocation includes the Barnett consequential for the increase in the cost of the student loan subsidy associated with the fees changes in England. This amounted to £0/5/20/36m over the 4 year period to 2014-15. This is a ring fenced sum which must be used for the cost of the loan subsidy and the resources will need to be returned to the Treasury if they are not utilised.

10. If these resources are stripped out to provide for a like for like comparison with the 10-11 baseline, the results are as follows:

	10-11 Baseline (£m)	11-12 (£m)	12-13 (£m)	13-14 (£m)	14-15 (£m)
Proposed Allocation	798.9	775.40	767.40	785.60	813.80
Less ringfenced loan subsidy		0.00	5.10	20.40	36.40
Net like for like comparison	798.9	775.40	762.30	765.20	777.40
£ Change from 10-11 baseline		(23.5)	(36.6)	(33.7)	(21.5)
% change from 10-11 baseline		(2.9%)	(4.6%)	(4.2%)	(2.7%)
Real term change @ 2%		(4.9%)	(6.6%)	(6.2%)	(4.7%)

11. This shows a different picture than that provided at paragraph 7 above. There is a cash reduction compared to the 10-11 baseline in each year of the Budget 2010

period ranging from some £22-37m per year and a real terms reduction of some 5-7%. (assuming 2% inflation). Overall, after making this adjustment the cash reduction over the 4 year period amounts to some £115m.

RESOURCE REQUIREMENTS

12. The Department's resource requirements are not only determined by the cost of existing services, but by the cost of any inescapable requirements it faces and the resource consequences of any new developments it wishes to pursue.

13. The Department faces a number of inescapable demands over which it has limited control and little, if any, discretion over its response. For example:

- the unemployment register is anticipated to rise further as a result of the economic downturn; this will place an additional demand on the Employment Service which will have to be resourced;
- UK government policy with regard to welfare reform will also place an additional and unavoidable demand on the Employment Service as a result of the migration of those currently in receipt of Incapacity Benefit to Employment Support Allowance or Job Seekers Allowance, and other changes to the arrangements for lone parents;
- the Department's budget for student support is already under severe pressure and these pressures will continue over the Budget 2010 period and will need to be properly resourced;
- resources will also need to be set aside for services which are currently funded by time limited monies such as the Funding for Innovation, which cease in March 2011; these include knowledge transfer and research activities in the Higher and Further Education sectors;
- recurrent provision also needs to be made available for the Assured Skills programme which has been funded on a time limited pilot basis to date; and

- although our financial strategy will be to bear down on pay and price inflation increases payable to our providers, we must recognise that some increases in costs will be inevitable as we progress through the Budget 2010 period.

14. Taking these issues into account our resource requirements for the Budget 2010 period compared to the resources available are as follows:

	11-12 (£m)	12-13 (£m)	13-14 (£m)	14-15 (£m)
Baseline 2010-11	799	799	799	799
Increased demand for Employment Service	14	20	16	18
Student Support Pressure	21	25	32	41
Innovation and Research	13	11	8	7
Assured Skills	3	3	3	3
Pay and Price Pressures	5	7	28	50
Total Requirement	855	865	886	918
Less Resources Available	775	762	765	777
Deficit	(80)	(103)	(121)	(141)

15. This table demonstrates that if our cost and service pressures are to be met the Department faces a deficit of some £80m next year rising to some £141m by 2014-15. These deficits can only be met by reducing expenditure (either by improving efficiency or reducing services) or by generating additional income.

OPTIONS TO REDUCE EXPENDITURE OR GENERATE ADDITIONAL INCOME

16. The Department was tasked by DFP earlier in the year to identify areas to reduce expenditure by some 5% year on year. This amounted to a target of reduced expenditure as follows:

	11-12 (£m)	12-13 (£m)	13-14 (£m)	14-15 (£m)
5% cash releasing reductions	40	72	108	144

17. If these reductions in expenditure are delivered the impact on our resource requirements is as follows:

	11-12 (£m)	12-13 (£m)	13-14 (£m)	14-15 (£m)
Target reduced expenditure	40	72	108	144
Total additional requirement	(80)	(103)	(121)	(141)
TOTAL	(40)	(31)	(13)	+3

18. The table above shows that, even after achieving the target reductions, the Department continues to face a deficit of £40m and £31m in years one and two respectively. The position improves slightly in year 3 and particularly in year 4, but this is critically dependent on the target reductions being met. Given the scale, these will become increasingly difficult to deliver as we move through the Budget 2010 period - £144m by 2014-15 is an 18% reduction on the existing baseline.

STRATEGY FOR REDUCING EXPENDITURE

19. The Department's strategy for delivering the necessary reductions in expenditure focuses on:

- squeezing out unnecessary bureaucracy, concentrating resource on front line services;
- bearing down on pay and price inflation;
- recognising the public benefit of investment, but seeking greater contributions from service users and beneficiaries; and
- seeking improvements in efficiency from HE sector in particular, given the generous funding it has been allocated over the last 5 years.

20. Details are provided below:

	11-12 £m	12-13 £m	13-14 £m	14-15 £m	Notes
Proposed Budgetary Reductions	8.5	8.5	8.5	8.5	(1)
10-11 Savings carried Forward	3.0	3.0	3.0	3.0	(2)
Pay and Price Restraint	12.0	22.5	34.0	46.0	(3)
Staffing efficiencies	0.0	2.0	3.0	5.0	(4)
Employment Relations and European Division	0.5	0.5	0.5	0.5	(5)
Further Education	4.0	4.0	4.0	4.0	(6)
Employment Service	2.0	4.0	4.0	4.0	(7)
Skills and Industry	2.5	5.0	5.0	5.0	(8)
Higher Education	7.5	22.5	46.0	68.0	(9)
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TOTAL REDUCTION	40.0	72.0	108.0	144.0	(10)
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NOTES

- (1) This represents a general tightening of budgetary provision across spending areas through improving efficiency and squeezing discretionary spending areas. It will not impact directly on existing services but it will reduce the Department's flexibility in responding to new and as yet unforeseen demands over the period.
- (2) In June 2010 HM Treasury imposed reductions of £128m across the NI Block. The Department's share of this reduction amounted to some £6m which has been removed from the 2010-11 budget. £3m of these are available to carry forward from 2011-12 onwards.
- (3) In order to avoid reductions in service provision and jobs the Department will seek to contain costs by bearing down on annual pay and price uplifts across its own cost

structures and its service providers. This will be effected initially in the Department by the Executive's freeze on annual cost of living increases for all of those Departmental staff earning over £21,000 for two years. External providers and arms length bodies will be expected to exercise similar disciplines in containing costs.

- (4) In addition to pay restraint, the Department will seek to achieve a 10% improvement in staff efficiency over the period whilst maintaining service quality. This should release some £5m by end of year 4.
- (5) This small saving will be effected through a number of small scale budgetary adjustments of the divisions overall budget providing, for example, for improved efficiency in the Labour Relations Agency and managing down discretionary spend.
- (6) Maintaining capacity in the FE sector throughout the period will be critical to maintaining an acceptable response to the economic downturn. But given the overall financial position the FE sector cannot be fully protected from reductions in expenditure. It expected however that this modest reduction will be delivered through a further 3% improvement in efficiency by the sector. This is on the back of efficiencies of some 20% delivered over the last few years.
- (7) The aim will be to maintain as far as possible existing capacity in the Employment Service and its provision for those out of work. But given the overall position some reductions are unavoidable. The reduction will be delivered through improved targeting of resources to measures which are deemed most effective in enhancing individuals' opportunities to return to work.
- (8) Enhancing skills levels in the economy are essential if the recognised productivity gap in the local economy is to be addressed and NI plc is to be supported in attracting foreign investment and maintaining a competitive position in the global economy. But again, a reduction in this budget is unavoidable. This will be effected by reducing the support infrastructure associated with the current arrangements, withdrawing funding for adult apprenticeships and encouraging employers to bear a greater proportion of the costs associated with delivery of other current adult programmes. Support for young people including the training guarantees for 16-17 year olds will be maintained at current levels.

(9) Given the need for the Employment Service and training capacity to be maintained as far as possible, if these services are to cope with the increasing demands they will face as a result of the economic downturn, it is inevitable that in line with decisions elsewhere HE must bear a significant proportion of the necessary reductions in expenditure. By the end of the period it is estimated that funding to the sector will need to reduce by at least £68m. A significant proportion of this will be delivered by a 22% real terms operational efficiency with the balance being delivered either by reductions in capacity, or by better targeting of existing support for students and additional income from fees. Final decisions on these matters have yet to be taken.

(10) Achieving the required reductions of £40/72/108/144m over the four year period leaves unresolved the deficit in funding of some £40m in 11-12 and £31m in 12-13 identified in paragraph 17 above. This is an issue of very significant concern to the Department and it continues to examine how it might close this funding gap. As part of this process it will wish to examine the degree to which some of the inescapable additional demands giving rise to the deficit can be reduced and to assess the service implications of this. But the room to manoeuvre is extremely limited as a significant proportion of the costs are already in the system. Even if these could be pared back by some 50% there would remain an unfunded gap of some £15-20m in each of the years 2011-12 and 2012-13.

21. If the funding gap identified above remains unresolved there will be a number of adverse impacts on services currently financed or delivered by the Department.

- provision to support people back to work will be spread more thinly over increasing numbers of unemployed people. Although we will have no choice but to implement the migration of people currently on Incapacity Benefit to job related programmes, very few individuals would progress to a work focussed interview and no additional provision would be available in the Steps to Work programme for them. Clients would be left waiting for excessive periods and little done to improve their employability;

- unlike in the rest of the UK we will not be able to bring forward the trigger point for intervention from 18 to 12 months for the over 25 age group, with real risks of this group becoming long term unemployed;
- generally our resources would have to be restricted to individuals who are required to participate in employment programmes as a condition of their benefits, leaving voluntary clients unsupported;
- funding for the 300 additional post graduate places financed in the last Programme for Government would be withdrawn in mid stream;
- funding to support knowledge transfer and innovation activity in the HE sector would be withdrawn and activity would cease. Further reductions in block funding to the sector would have to be contemplated threatening widening participation initiatives; and
- similarly no resources would be available to sustain activities in the FE sector currently financed by Funding for Innovation.

CAPITAL EXPENDITURE

22. The capital expenditure allocation will enable DEL to:

- fund the contractually committed elements in respect of the PFI contracts at Belfast Metropolitan College and South Eastern Regional College;
- fund the ongoing development works at the Springvale E3 campus of Belfast Metropolitan College;
- provide support to the FE sector in respect of Health and Safety and Minor works; and
- fund the development of teaching and research infrastructure at both the universities and the two university colleges.

EQUALITY & GOOD RELATIONS

23. Virtually all of the Department's budget allocation underpins sustainable development and increases economic activity. Despite the difficulties the budget as a whole will impact positively on well-being and on poverty within the region and foster good relations among the community. Preliminary equality impact assessments of individual measures have been completed. A high level impact assessment of the savings proposals is currently being finalised and will be published on the Department's website as soon as possible.