Northern Ireland Audit Office

REPORTS BY THE COMPTROLLER AND AUDITOR GENERAL

HC 901, Session 2005-06, 9 March 2006

Department for Social Development:

Social Security Agency - Third Party Deductions from Benefit
And
The Funding of Fernhill House Museum

Northern Ireland Audit Office

Reports by the Comptroller and Auditor General
for Northern Ireland

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JM Dowdall CB	**Northern Ireland Audit Office**
Comptroller and Auditor General	7 March 2006

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Abbreviations

BATs	Belfast Action Teams
BRO	Belfast Regeneration Office
C&AG	Comptroller and Auditor General
DCAL	Department of Culture, Arts and Leisure
DFP	Department of Finance and Personnel
DMU	Debt Management Unit
DOE	Department of the Environment
DSD	Department for Social Development
DWP	Department for Work and Pensions
GB	Great Britain
MBW	Making Belfast Work
MID	Mortgage Interest Direct
NDPB	Non Departmental Public Body
NIAO	Northern Ireland Audit Office
NIE	Northern Ireland Electricity
NIHE	Northern Ireland Housing Executive
PAC	Public Accounts Committee
PWC	PriceWaterhouseCoopers
RCA	Rates Collection Agency
SSA	Social Security Agency

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Department for Social Development:

Social Security Agency - Third Party Deductions from Benefit

Social Security Agency: Third Party Deductions from Benefit

Background

1. The Social Security Agency (the Agency) is responsible for the management of the third party deductions schemes (the Schemes) which involve making deductions from specified benefits[1] (payable to homeowners and tenants) towards current costs and debt recovery for certain mortgage and accommodation costs, fuel costs and rates. The aim of the Schemes is to provide a last-resort welfare service to a vulnerable minority on income-related benefit. The Mortgage Interest Direct (MID) Scheme was introduced in 1992 as part of a package of measures, agreed with lenders, to avoid mortgage repossessions and consequent homelessness. The Fuel Direct Scheme was introduced in 1976, against a background of increasing fuel prices and a rising number of disconnections. The Schemes broadly mirror those operating in other UK regions. However, in practice, the Fuel Direct Scheme in Northern Ireland has only been utilised for electricity fuel costs, although the current legislation does provide for deductions in respect of mains gas.

2. All third party deductions measures are legislated for in the Social Security Administration (NI) Act 1992 and the Social Security (Claims and Payments) Regulations (NI) 1987[2]. Under the Schemes, customers in receipt of specified benefits, who are in debt and in threat of eviction or re-possession, can have a standard amount deducted from benefit at source by the Agency. This is to pay for the outstanding debt, safeguard their assets and, if appropriate, can take account of ongoing fuel consumption. The Agency has discretion to make deductions from specified benefits within guidelines set down in legislation and expanded on in the Agency's Decision Makers Guide. In making a decision, the Agency considers a range of factors to determine if deductions from benefit are appropriate. These include:

- **the level of outstanding debt**; e.g. third party deductions can only commence for fuel if there is outstanding debt and it is vital that the customer is not disconnected;
- **the interest of the family**; e.g. threat of eviction or repossession. Third party deductions will not normally be in the interest of the customer or their family if they have shown evidence of a determination to clear the debt and have undertaken to clear the debt themselves;
- **the liability for the debt**; of the individual receiving the specified benefit has been established; and
- **the amount that should be deducted from benefit**; the actual calculation of the level of deduction will reflect the level of outstanding debt and often an element for current consumption in fuel direct cases. In all cases the customer should be left with a minimum of 10 pence of specified benefits.

3. As set out in Table 1, during 2003-04 around 26,000 benefit customers were involved in the Schemes, with £18.4 million paid to third parties. The bulk of the third party deductions (£13.0 million) were made to qualifying lenders[3] under the MID Scheme. Of the remaining £5.4 million, £3.2 million was paid to the Northern Ireland Housing Executive (NIHE), the Rates Collection Agency (RCA) and Housing Associations in respect of rent and rates arrears, and £2.2 million was paid to Northern Ireland Electricity (NIE) under the Fuel Direct Scheme.

1. Social Security Benefits which are specified for Third Party Payment purposes include; Income Support; Jobseeker's Allowance; Pension Credit; Incapacity Benefit; Retirement Pension; Severe Disablement Allowance; Widow's Pension and Widowed Mother's Allowance.

2. The legislative basis of the schemes is sections 5 and 13A of the Social Security Administration (NI) Act 1992, Regulation 34ZA, 34ZB and 34A of, and Schedules 8A and 8B to the Social Security (Claims and Payments) Regulations (NI) 1987.

3. There are currently 153 Qualifying Lenders, including approved banks; building societies; insurance companies; district councils; NI Housing Executive and bodies incorporated under Companies (NI) Order 1986 & Companies Act 1985 whose main objectives include making loans secured by a mortgage or charge over land.

Table 1: £18.4 million was deducted from benefits in 2003-04

Third Party Creditor	No. of Benefit Customers (at Feb '04)	Value of Payments Deducted from Benefits £
Mortgage Interest Direct Scheme	14,670	13,077,273
NI Housing Executive	7,510	2,733,523
NI Electricity	2,729	2,172,510
Rates Collection Agency	929	315,253
Housing Associations	547	134,011
Other	30	9,846
Totals	**26,415**	**18,442,416**

Source: Social Security Agency

4. In July 1997, the Department of Social Security in Great Britain conducted a review[4] of the Fuel Direct Scheme examining the efficiency and effectiveness of the scheme as it operated in the United Kingdom (including Northern Ireland) and whether;

- the right balance was struck between the utility companies' own payment and collection schemes, the responsibility of the individual, and the role of the state;
- help was targeted effectively on those who need to make use of it; and
- opportunities provided by technological developments are fully exploited.

The report concluded that, for the short-term, there was a continuing need for the scheme but numbers making use of it could be reduced by returning to the original intention, i.e. fuel direct deductions were a measure of last resort. The report also concluded that larger-scale reductions in numbers on the scheme might be possible in the longer-term as new technology develops and new payment schemes become more readily available.

Administration of the Third Party Deductions Schemes

5. The management of the third party deductions schemes is devolved to the Agency's 35 local offices who liaise with, and manage enquiries from, benefit customers and third party bodies to whom payments are made. Apart from the direct payment of benefit into customers' bank accounts, procedures at local offices have seen little change since the introduction of the Schemes with procedures being almost entirely clerical, making the process very staff intensive. A small proportion of benefit customers' deductions are also managed by the Agency's Debt Management Unit (DMU) in respect of Incapacity Benefit, Severe Disablement Allowance, Retirement Pension and Widows Benefit.

6. In 2001-02, revised procedures were developed jointly between the Agency and the Department for Work and Pensions (DWP) in Great Britain that enabled third party creditors to be paid four weeks in arrears through direct payments. Before these new arrangements were introduced, creditors were paid 13 weeks in arrears by payable order. These arrangements make DWP a paying agent for all automated third-party payments, which make up the majority of the payments in respect of the Schemes. Their introduction has also enabled the Agency to manage these payments in a more cost-effective way. Although it has yet to quantify the actual savings, the original business case estimated these to be in the region of £75k. The revised arrangements also offered a number of non-monetary benefits:

- improved efficiency and accuracy through a reduction in manual form completion and an increase in automated work, with resultant manpower savings and a fall in keying errors; and
- resource accounting and budgeting requirements are satisfied through the facilitation of creditor reconciliations and presentation of accurate balances in the Agency's accounts.

4. The review of the Income Support direct payment scheme was announced in Parliament on 19 July 1996 (Hansard, Written Answers, Column 715). The subsequent report, "Review of Income Support Direct Payments for Fuel and Water: Report and Recommendations" was produced by the Department of Social Security in February 1997.

However, this was only applicable for deductions from Income Support and Jobseeker's Allowance and was not extended to third party deductions administered by the DMU. The Agency told us that its current Debt Transformation Programme will deliver new processes and new information technology that should have a significant impact on the DMU processes for paying over deductions from benefit to third party creditors.

The Mortgage Interest Direct Scheme

7. The Social Security (Claims and Payments) Regulations (NI) 1987 permit the Agency to defray its expenses *"in administering the making of payments"*, by recovering costs from qualified lenders, i.e. the Agency can recover the relevant associated cost of deducting the actual mortgage interest direct payment. It is only this element of work that is re-chargeable to the qualified lending companies. Cost-recovery was set at £0.73 pence per transaction in 2003-04[5] in parity with DWP. The Agency told us that it is not in a position to determine this amount independently from DWP. The transaction charge, which is reviewed annually, is based upon: statistics of numbers on Income Support, Jobseeker's Allowance and Pension Credit; assumptions on the expected number of new claims; and the cost of administering the Mortgage Interest Direct Scheme. Table 2 reflects the Fees and Charges information contained in the Agency's Annual Report and Accounts which records its performance against a financial objective of *"full cost recovery"*. The Accounts have, up to 2003-04, presented an under-recovery each year of around £500,000 of costs associated with the MID Scheme from qualifying lenders.

Table 2: The Agency has consistently under-recovered the administration costs of the Mortgage Interest Direct Scheme

	2003-04 £'000	2002-03 £'000	2001-02 £'000	2000-01 £'000
Cost of Administration	645	669	668	684
Income Recovered from Lenders	151	130	111	101
Amount under-recovered (Deficit)	**(494)**	**(539)**	**(557)**	**(583)**

Source: Social Security Agency Annual Report and Accounts 2000-01 to 2003-04

8. Our examination of the costs of administering the MID Scheme noted that the costs have been based on an estimate of staff costs, i.e. current average salary costs applied against an estimate of staff numbers administering the Scheme calculated in 1994-95. The Agency has advised us that the use of this outdated methodology has possibly resulted in the costs attributable to the MID Scheme being potentially overstated, thus resulting in deficit amounts being reported in its accounts.

9. As a result of our concerns, the Agency undertook a benchmarking exercise to identify the time needed to process all essential work-steps in administering the MID Scheme. From this the Agency identified optimum staff resources required of 8.4 full-time equivalent staff. In the absence of detailed management information quantifying the volume of new MID transactions processed, the Agency applied estimates based on an approximation from three local offices[6] and through a count of MID payment notifications received within the Agency's Pension Credit Section in a single week. The Agency's Statistics and Research Branch provided details of the "live-load" of MID cases from which a volume for maintenance of cases was calculated. Based on these estimates the Agency has calculated that, for 2004-05, the total staff costs for administering the Scheme are around £150,000 which, if correct, means that the Agency has achieved full-cost recovery.

5. £0.78 from 2004-05.

6. The Agency polled 5 of the 35 local Social Security Offices of which three responded with estimates of volume of transactions per week, the other two did not know.

10. We welcome the Agency's work in assessing the optimum staffing levels for MID activities. However, the calculation of the overall cost is sensitive to the volume of transactions. In this case the Agency's estimate has been based on estimates of maintenance cases and a basic approximation of new cases. In our opinion, this is unlikely to result in reliable or accurate information on which to calculate costs. We recommend that the Agency considers putting in place the necessary management information systems to provide it with a measure of the volume of MID transactions that will enable an accurate calculation of staff costs associated with the administration of the Scheme to be made. The Agency acknowledges that the calculation of cost is sensitive to the volume of transactions and has introduced a new system, operational from 1 October 2005, whereby all 35 offices are required to keep count of all new MID cases; the existing caseload can already be determined from DWP. The Agency informed us that it will therefore have the necessary management information systems to provide it with a measure of the volume of MID transactions. This will enable an accurate calculation of staff costs associated with the administration of the scheme to be made for the 2005-06 accounts.

Recovering the Cost of Administering other Third Party Deductions Schemes

11. As shown in Table 1, around £5 million was paid to third party creditors under the Schemes during 2003-04. Over £3.2 million was paid to Housing Associations, NIHE and the RCA in respect of deductions from benefit for rent and rates arrears. In addition, some £2.2 million was paid to NIE for deductions from benefit under the Fuel Direct Scheme. This service is not used by other private utility companies in Northern Ireland, although the option does exist. The Agency processes requests to recover arrears directly from benefit. However NIE, at the discretion of the Agency, may also include a deduction for ongoing consumption which is subject to significant fluctuations.

12. Whilst present legislation allows for the defrayment of expenses in administering the making of payments for the MID Scheme, there are no similar legislative provisions for recovering administration costs incurred by the Agency in respect of other third party deductions schemes. The issue of charging the utility companies for making these deductions was addressed in the Review of the Direct Payments for Fuel and Water report in 1997 (see paragraph 4). The Review considered that, *"as long as there is a need for even a residual scheme for fuel and water, the question as to whether a charge should be sought from the companies for the service remains live."* The review did not favour charging as an *alternative* policy option to gradual disengagement, but saw no reason in principle why companies should not *"defray at least part of the cost of the residual scheme; it would remain, after all, a debt collection service on their behalf."* The review also noted that such a charging regime would require primary legislation and detailed negotiations with the companies about the level of the charge, the arrangements for paying it etc. Whilst acknowledging that further consultation would be needed, it recommended that, when a suitable vehicle is available, the primary powers needed to impose a charge should be taken.

13. In his Report to the NI Assembly[7], the Comptroller and Auditor General (C&AG) commented on the third party deduction arrangements in place with other agencies including RCA, NIHE and NIE. He considered that, given the fundamental change in the status of NIE to that of a private company, it should not be provided with a debt collection service at taxpayers' expense. At that time the Agency undertook to investigate whether or not the question of charging privatised utilities had been considered. The C&AG recommended that the Agency discuss the matter with its parent department (Department for Social Development) and DWP (formally the Benefits Agency, Department of Social Security in Great Britain) with the aim of introducing a service level agreement that reflects the full cost of the service provided. In addition, he recommended the need for service level agreements with RCA and NIHE to be regularised in more formal agreements.

7. "The Management of Social Security Debt Collection" Report to the NI Assembly (NIA 71/00 June 2001)

14. Following the publication of the C&AG's Report and after consultation with the Benefits Agency, the Department indicated that they had no plans to change the existing arrangements as these were in line with GB with whom there is a general policy of parity on social security matters. Furthermore, it considered that if cost-reflective tariffs were to be introduced, the costs would be passed onto the customer or result in the utility company withdrawing from the scheme. The service level agreement with NIHE however, was reviewed and now fully incorporates arrangements for third party deductions; it is complemented with a lower level handbook providing greater detail on the roles and responsibilities of both parties. The Agency has advised us that a Service Level Agreement with the RCA has now been produced and is ready for signing. It is similar to that in place for NIHE and will be subject to regular reviews by both bodies.

15. While we accept that the arrangements in Northern Ireland reflect those in place between DWP and privatised utilities companies in Great Britain, their import is that, although aiming to safeguard vulnerable customers on income related benefits, the public sector is effectively continuing to provide free debt collection and budgeting services to private companies. We recommend that the present arrangements should be reviewed by the Agency, in consultation with DWP (see paragraph 22). This should consider the merits of pursuing the implementation of the recommendation of the Direct Payments for DSS Fuel and Water Report 1997 (see paragraph 12), taking into account the implications for the intent to provide a last resort service to vulnerable customers on income-related benefits. The Agency told us that it (and the Department) maintains a policy of parity with DWP that dictates that any departmental policy change would have to be made in tandem with DWP. As such it cannot act unilaterally on this matter.

16. At the time of our examination the Agency had not calculated the number of Agency staff involved in processing third party deductions, other than MID, at local offices and had not attempted to identify the full cost of providing the third party deductions schemes. The Agency explained that a separate exercise would have to be completed in order to fully determine the costs associated with other third party deductions schemes within local social security offices and DMU. However, the Agency estimates (using their staff complementing model) that the costs for staff involved in this activity throughout the network could be £100k. The Agency also explained that the introduction of its Programme Accounting and Computer System Accounts Payable module has successfully helped to automate the administrative processes for making third party payments through Income Support and Jobseeker's Allowance; it is currently investigating the possibility of extending this automated facility to other benefits e.g. motability/disability third party payments. DMU are also reviewing their procedures and supporting systems for making payments to third party creditors with a view to improving the delivery of the service.

17. Notwithstanding our reservations surrounding the sensitivity of the Agency's calculation of staff costs to volume changes (see paragraph 10), based on the number of benefit customers using the scheme, it would appear that the Agency is bearing the cost of debt recovery on behalf of NIE, other Government Departments, Non-Departmental Public Bodies (NDPBs) and Agencies. For example, in the case of NIHE, this may equate to over £64,000 a year. This runs contrary to Government accounting rules that require Departments and NDPBs to meet the costs of activities undertaken on their behalf through either charges or through cost-sharing arrangements.

18. A key feature of the Government's Spending Review 2004, has been the focus on the delivery of improved public services through maximising efficiency. It would appear to us that establishing the full cost of administering the third party deductions schemes and reviewing the present administrative arrangements, may also offer scope for potential savings and/or improved efficiency through, for example, centralised administration or recovery of costs. The Agency informed us that it is currently reviewing certain administrative areas in relation to third party deductions with a view to improvement, and it will also consider the issue of determining the full cost of making these deductions. However,

in order to recover costs from other government bodies, it would have to consider the full budgetary implications and benefits, and the impact this would have on all the other bodies concerned.

Reviewing the Need for the Fuel Direct Scheme

19. As set out in paragraph 2, when making a decision as to whether deductions from benefit are appropriate, the Agency considers factors such as the level of debt and, in the case of Fuel Direct deductions, the overriding interests of the benefit customer or their family. In making an assessment the Agency Decision Maker will consider:

I. the debt

a) is unlikely to be paid before disconnection is threatened; **or**

b) has resulted in the threat of disconnection; **or**

c) has resulted in disconnection; **and**

II. no other source of fuel is available for the same purpose; **and**

III. there is no suitable way of dealing with the debt.

One of the main reasons for the introduction of the Fuel Direct scheme in 1976 was as a last resort measure to avoid disconnection of supply by utilities. Disconnections for debt in the electricity industry in the UK have all but disappeared in recent years, companies preferring to install prepayment meters rather than disconnect customers. In fact in Northern Ireland there are no electricity disconnections because of debt.

20. The 1997 DSS Review (paragraph 4) concluded that it was unclear whether the scheme, as operated across the United Kingdom during the time of the Review, was intended to be simply a means to avert the crisis of disconnection, or something much wider, in effect part of the utility companies' armoury of budget payment schemes. The Report did not think that this was acceptable in the case of the Fuel Direct Scheme, as it is funded by the taxpayer.

21. To establish the use made of the scheme in Northern Ireland, we asked the Agency to provide us with details of the numbers of customers repaying a debt and those whose deductions were for current consumption only, i.e. those using the scheme as a budgeting aid. The statistics produced (see Table 3) indicate that around one in four of benefit customers have deductions from benefit for current consumption only. We have also noted that a number of budgeting aids, other than the Fuel Direct Scheme, are available to energy users, including Home Energy Direct, a 'Pay as You Go' way of buying electricity which also offers NIE customers a discount off the standard home energy unit price. Similar budgeting aids are also used by private utilities in GB.

Table 3: Electricity Arrears and Consumption details August 2004

Deduction from Benefit	All Customers	Not including Arrears (i.e. consumption only)
Income-based JSA	70	14%
Pension Credit	560	32%
Income Support	1,860	26%
Other Benefits*	200	25%
Total All Benefits	2,690	27%

*DMU - Approximately 200 NIE customers

Source DSD Statistics and Research Publications - August 2004

22. The 1997 Review (see paragraph 4) concluded that, for the short-term, there was a continuing need for the scheme but that numbers making use of it could be reduced by returning to the original intention, i.e. a measure of last resort, or through new technology developments and as new payment schemes become more readily available. Significant changes have taken place over the past eight years and, in our opinion, a further review of the scheme is now warranted. Indeed one of the key features of good policy-making[8] is an on-going programme of review to ensure that existing/established policy is really dealing with problems it was designed to solve. Accordingly, as well as taking into account the implications and impact on the policy intent to provide a last resort service to vulnerable customers on income-related benefits, a key ingredient of the Agency and Department of Social Development's consideration of the third party deductions schemes' effectiveness, should be establishing the true cost of its administration (see paragraph 15).

23. The Agency told us that it agrees that a full review of the third party deductions schemes would be beneficial and that indeed, within its own internal organisational arrangements, it is reviewing how administrative improvements within this area could be made. However, it added that, in order to make any significant changes/improvements to the scheme, a wider, fully comprehensive review would have to be initiated and completed for the United Kingdom as a whole. The Agency explained that it would be through such a fundamental review process that relevant policy changes could be directly actioned for both DWP and the Agency. The Agency also said that it would have to consider any changes to the Fuel Direct Scheme in relation to the provision of the Agency's services to its customers, and the wider social impact of the scheme itself.

8. A Practical Guide to Policy Making in NI (OFMDFM, July 2003)
Professional Policy Making for the Twenty-First Century (Cabinet Office 1999)

Northern Ireland Audit Office

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HC 901, Session 2005-06, 9 March 2006

Department for Social Development:

The Funding of Fernhill House Museum

Department for Social Development: Funding of Fernhill House Museum

Purpose of Report

1. During the Northern Ireland Audit Office's (NIAO) audit of the Department for Social Development (DSD) 2004-05 Resource Account, we examined a number of projects funded by the Department's Urban Regeneration and Community Development Group. One project examined, Fernhill House Museum, was of particular concern. The Comptroller and Auditor General's (C&AG) report on the qualified audit opinion given on DSD's Resource Accounts stated that NIAO would report, in more detail, on this project at a later date. This report completes our investigation of Fernhill House Museum.

2. The C&AG qualified his opinion on DSD's 2004-05 expenditure of the Urban Development and Community Development Group (which includes payments under the Making Belfast Work (MBW) initiative) to voluntary and community bodies arising from weaknesses in financial control and monitoring of expenditure. System weaknesses were sufficiently significant for the C&AG to have insufficient assurance that expenditure in this area was applied to the purposes intended by Parliament and conformed to the authorities which govern them. The C&AG therefore qualified his audit opinion on the regularity of this expenditure. The C&AG's opinion on DSD's Accounts have been qualified for the same reason each year since 1999-2000.

Introduction

3. Fernhill House Museum is a community museum in the Glencairn area of West Belfast. The Museum houses a number of significant exhibits relating to the history and culture of the Greater Shankill area. Glencairn People's Project, which owns the Museum, was awarded a grant of £84,262 by Belfast Regeneration Office (BRO) of DSD on 5 November 2004 (this increased to £98,175 in December 2004) under the MBW initiative[1]. The grant was provided to fund the salaries of the Museum's manager and his staff and other running costs between October 2004 and October 2005. In addition to the manager, the Museum employs a part-time assistant manager, a part-time administrator and four full-time security staff. NIAO has identified a number of concerns about the Department's funding of this project (paragraphs 13 to 35).

4. Fernhill House was purchased in 1993 with funding provided under the Belfast Action Teams (BATs) initiative of the then Department of the Environment (DOE). The BATs and MBW initiatives were amalgamated in April 1995 and have been the responsibility of DSD since December 1999. In November 1997 the Committee of Public Accounts (PAC) at Westminster reported on the Control of Belfast Action Teams' Expenditure[2] following NIAO's report on this matter[3]. Two payments to Glencairn People's Project in respect of Fernhill House were among the 98 projects examined as part of our report on BATs. The payments examined were:

(i) £726,048 – to develop a community enterprise centre, including museum, shop, office facilities, conference centre, restaurant; and

(ii) £67,334 – for security costs/salaries. This was to secure the premises in the eighteen-month period between the purchase and the development commencing.

5. PAC's report highlighted a number of concerns regarding administrative weaknesses within BATs including that, in the majority of cases examined (including the £67,334 payment in respect of Fernhill) there had been an inadequate or deficient investment appraisal. PAC stated:

"We are concerned that investment appraisal procedures were ignored in such an alarming proportion of cases and note DOE's assurances that adequate arrangements are now in place to appraise all projects." PAC added "We recognise that Action Teams were dealing with some very disadvantaged communities in very tense security and political situations. Nevertheless, we must take the view that high standards of administration are required to safeguard public money and we expect the same high standards to apply in all parts of the United Kingdom."

1. Fernhill also received £10,000 from BRO in 2001 to fund audio-visual equipment.
2. Control of Belfast Action Teams' Expenditure, Sixth Report of the 1997-98 Session, HC 382
3. DOE: Control of Belfast Action Teams' Expenditure, November 1996, HC 63

6. DOE accepted that there were serious deficiencies in the arrangements for appraising schemes. DOE confirmed[4] that "arrangements are now in place which ensure that all projects submitted for financial assistance under the Making Belfast Work initiative are subject to assessment and appraisal in accordance with DFP guidelines". DOE added that it had carried out a wide-ranging review of working practices[5] and "arising from this work the Department has implemented the recommendations contained in the review which are aimed at improving the administrative deficiencies identified by the Northern Ireland Audit Office." The recommendations of the review were incorporated into MBW (and later BRO) Procedures Manuals.

BRO agreed to fund a One-Year Rescue Package for Fernhill in 2004

7. On 18 October 2004 the Museum wrote to BRO West Team requesting funding for a rescue package. Fernhill was experiencing financial difficulties due to the cessation of other (mainly charitable) funding sources and continuing low visitor numbers. DSD had not previously funded recurrent expenditure at Fernhill.

8. On 20 October 2004 a BRO minute set out the options for funding. These were:

- "Doing nothing will result in immediate closure and the potential loss of valuable exhibits with the likelihood of very significant political fall out. That is not considered a viable option.
- Continuing long-term grant funding without addressing the fundamental weaknesses is not a viable option.
- The recommended option is to provide financial breathing space by way of a "rescue package" to allow a proper consideration of the finances, address management issues and explore possibilities for developing the business and reducing the level of public subvention. The "rescue package" would need to have adequate safeguards to meet the requirements for regularity, propriety and value for money."

The "rescue package" would provide financial breathing space for one year to consider the Museum's finances and to allow DSD to work with colleagues in other departments to develop a long-term solution to its problems. BRO noted that the Department of Culture, Arts and Leisure (DCAL) had, at that time, no plans or budget to provide further assistance to Fernhill and that the Northern Ireland Museums Council had no statutory provision to fund local museums. The Museum had identified possible sources of funding from the Department of Foreign Affairs in Dublin (£75,000) and from the sale of property adjacent to the Museum, subject to re-negotiating restrictive covenants attached to the leases, letters of offer and debentures which transferred the property to Glencairn People's Project. These sources could not therefore be realised in the short-term. Consultants PriceWaterhouseCoopers (PWC) had carried out an analysis of the Museum's position during 2003. The consultant's report noted that the Museum could never be viable on visitor numbers alone and concluded that the Fernhill Museum Board had to address a number of key internal issues in order to agree a way forward. These issues included the declining visitor numbers and high degree of reliance on grant income. The consultants' report, presented to Fernhill in late 2003, identified a number of opportunities that would enable Fernhill to exploit its particular expertise and to secure income. The report concluded that the Museum's management team needed to develop its management skills in order to implement an effective strategic plan.

9. BRO's view was: "Doing nothing will result in immediate closure and the potential loss of valuable exhibits with the likelihood of very significant political fall out...the issue with Fernhill is the historical significance of the building itself, as well as its role in exhibiting and supporting key aspects of loyalist/unionist culture and heritage. There is a strong case for trying to rescue this initiative – it is at the heart of one of the most deprived loyalist communities in Belfast and its closure, at a time when we are trying to underline our commitment to supporting such communi-

4. Department of Finance and Personnel's Memorandum on PAC's Report (Cm 3893 March 1998)
5. The Jack Report, December 1996 and January 1997

ties, would send a very negative signal indeed." The case for a one-year "rescue package" was accepted, and the Museum was notified on 21 October 2004, three days after the receipt of the request for funding. The Department pointed out that the offer did not take effect until the contract for funding was issued on 5 November 2004. The Department has told us that "in recommending to the Minister the case for funding it was content that the objectives of the Glencairn People's Project (including the Museum) were in line with its funding criteria. These objectives, as set out in the BRO response to an audit query, are to stimulate economic regeneration, create jobs for local people and create educational and recreational opportunities."

10. Funding was conditional on the Museum demonstrating to the Department that it was actively pursuing other funding streams. On 8 October 2004, BRO asked PWC for its assessment of the Fernhill Museum situation and PWC provided to BRO, for information, a copy of its earlier report (see paragraph 8, above). The Department also intended to set up a steering group of DSD and DCAL staff and a representative of the Northern Ireland Museums Council to monitor and assess the ongoing situation of Fernhill House Museum. The Department's Contract for Funding with the Museum allowed it to cease or reduce funding at any point should it become clear in light of the work of the steering group that the Museum was unsustainable in the long or short term.

11. A formal steering group was not established, however, DSD met with staff from DCAL and the Museums Council on 3 December 2004 to discuss the future of the Museum. This meeting was followed by a further series of meetings and discussions throughout the funding period with the Museums Council, Belfast City Council, the Department of Foreign Affairs, International Fund for Ireland, PWC and the Museum Manager. The involvement of the consultants was restricted to providing updates on the progress of their work for BRO, and in the delivery of their final report to BRO on 20 April 2005. The consensus was that this is an important collection but that there were a number of significant issues to be resolved including the accessibility of the collection, the shortage of curatorial staff and issues around ownership of the exhibits.

12. As the "rescue package" funding of staff and running costs ran out in October 2005, we asked the Department whether any solution had been found. The Department has told us that following the range of meetings with the other statutory agencies, no funding stream has been identified, and the Museum has decided that it will have to close. The Northern Ireland Museums Council has offered its help in the closure process, which will involve the return of some artifacts to their owners and the dispersal of other items to other exhibitors. The total funding offered to the Museum of £98,175 had been paid out prior to the decision to close.

DSD did not follow its own or DFP Procedures in evaluating this project

13. BRO's Procedures Manual requires an application form to be completed for each application. It also requires an Internal Economic Appraisal to be completed for all revenue projects of between £50,000 and £200,000 in value. During the examination of this payment, we noted that no application form was completed for this project, nor was any economic appraisal undertaken. The case for funding was also not scrutinised by BRO's internal Review Panel, which reviews all MBW funding decisions.

14. We asked BRO why standard procedures had not been followed in this case. The Department told us that "it acknowledges that due to the circumstances pertaining at that time, standard internal DSD procedures regarding the completion of an application form and a pro-forma economic appraisal were not followed." The Department has also told us that the application took the form of a letter from the Museum Manager, that its minute of 20 October 2004 (paragraph 8) had "all the elements of an economic appraisal" and that "this project was an essential one to 'buy time' for the organisation to secure future funding, restructure and avoid imminent closure. In such circumstances, a normal economic appraisal was not considered appropriate".

15. The Department told us that despite the ab-

sence of a formal application and appraisal in the recognised formats, it is satisfied that the Museum's request for financial assistance was subjected to appropriate assessment and appraisal and considers that the supporting evidence on file clearly demonstrates this.

16. The Department said that while a formal appraisal pro-forma was not completed in line with its normal procedures, it is satisfied that sufficient information about the project was gathered and recorded throughout the assessment process to form an adequate basis to support the decision to fund. This includes consideration of the two options to "do nothing" and "do minimum". BRO stated that "in the time available" the file could not be considered by the Review Panel, but that advice had been taken from senior colleagues in the Department, including BRO Review Panel members**,** and from Internal Audit. The Department is also of the view that all of the information gathered to support the decision to fund this case was proportionate to the amount and nature of funding provided.

17. BRO's Procedure Manual makes it clear that applicants must not only demonstrate the need for the project but also "*some reasonable possibility of success*". The Department believed that there were opportunities for funding that could be explored further, and it was for this reason that the package of support was provided. The Department has advised that this view is consistent with the findings of the consultants outlined at paragraph 8 of this report. The BRO Procedures Manual adds: "All applicants should be made to understand that the BRO assessment and appraisal process is rigorous, is worthwhile and that *all BRO projects are subject to it*." We are concerned that, as Fernhill was not subject to the usual application process, it might be perceived to have had more favourable treatment than other applicants for funding. In fast-tracking a direct approach for funds (paragraph 9) without following procedures that applied to all other applicants for funding, there was at the very least a perception of favouritism, not withstanding the cash flow crisis at the Museum. The Department breached its internal procedures to fund the request from Fernhill as it had no procedures or guidance to govern urgent requests for a "rescue package" or "buying time" assistance. The Department has commented that there was no question of favouritism in the handling of this case and that no such perception of favouritism has been expressed by any party. It said that the only possible benefit that may have accrued to the applicant was the speed of the decision making process, which it regarded as entirely justified by the circumstances of the case.

18. We are of the view that the BRO minute does not satisfy the requirements of an economic appraisal set out in the Procedures Manual. It also does not conform to the minimum requirements for an economic appraisal required by DFP[6]. While DFP guidelines state that economic appraisal principles must be applied with appropriate and proportionate effort, they add that even where expenditure is small (less than £250,000) *"the key steps of defining needs and objectives, identifying alternative options, and assessing their costs and benefits should always be undertaken, no matter how small the proposed expenditure involved."* The BRO minute does not examine the costs and benefits of the options and the assessment of alternative options was limited.

19. The Department has told us that it does not agree with this view, and has pointed out that the minute contained an assessment of need in the Glencairn area, identified two options and their costs, and referred to the adverse consequences of allowing the Museum to close. The Department's view was that this minute was consistent with guidance from DFP. Supporting this view, the Department has quoted from a note to Finance Directors from the Treasury Officer of Accounts (7 February 2005), which states "…it is important to stress that not every appraisal or assessment requires a full economic appraisal. An economic appraisal is fundamentally an option analysis tool to help decision-making and the purpose of an option appraisal is to help develop a value for money solution that meets the objectives of Government action." The DFP note from the Treasury Officer of Accounts goes on to state, "Sometimes the option to be taken is very obvious and doesn't require an extensive appraisal. A few pages outlining why the decision has been arrived at is perfectly reasonable. Others may require some further analyses before an

6. Contained in the Northern Ireland Practical Guide to the Green Book, 2003

informed decision can be taken. But that analysis does not always require complex workings or detailed lengthy appraisals. In particular, there is a belief that there is a cut-off point at £250,000. For many projects costing only a few million pounds, the options, with their associated costs and benefits, can be determined relatively easily, and this note confirms formally that it is not intended that there should be a simple division between projects valued at greater or less than £250,000. For all projects, whatever the cost, a proportionate appraisal is required". The Department was satisfied that the process it used to reach a decision was reasonable and proportionate.

20. We are of the opinion that the economic appraisal was not sufficient for decision-making in this case. We would point out that the guidance quoted by the Department above, also states that it is necessary to "have regard to the sensitivity of the issues and the degree of novelty in the proposal….there can be cases which give rise to sensitive issues where it might be necessary to go into detail about a low cost project, but such cases will be very much the exception". We are of the view that this is one such case.

21. We are also concerned that in failing to appraise the project in line with DFP guidelines, the Department has not complied with the undertaking given to PAC in 1998 (paragraph 6). The Department advised us that in light of guidance on commensurate effort in respect of decision-making, it is satisfied that it complied with DFP guidance.

22. DSD told us that there are likely to be other such "rescue packages" to assist projects. We are aware that the Department has recognised that it may need to introduce policies and procedures to process and evaluate any such assistance.

23. The Department told us that while it accepted that it should determine new procedures for rescue packages, the Department believed "it is important to retain the flexibility to work outside formal internal procedures when circumstances so require, subject of course to applying proper controls and safeguards and ensuring that the Accounting Officer is content". The need to respond flexibly is a challenge which is not infrequently faced by grant schemes of this nature. However, in our view, the proper approach is to recognise that there will occasionally be exceptional cases which require urgent consideration and to have pre-arranged priority procedures for identifying and dealing with these, which ensure that there is proper accountability, particularly in safeguarding equity of treatment and thereby avoiding any perception of favouritism.

DFP approval is required for novel and contentious expenditure

24. Government Departments in Northern Ireland derive their authority to incur expenditure under delegated authority from DFP. However, as Government Accounting Northern Ireland[7] makes clear, expenditure on novel or contentious proposals is never delegated to Departments and such expenditure must be approved by DFP. In circumstances where DFP approval is required and it has not been obtained, any expenditure is irregular. Where DFP approval is required, expenditure cannot go ahead until it has been obtained.

25. Fernhill House Museum was funded as an MBW project. However, this expenditure did not seem to us to fall into the descriptions of the criteria for such funding as set out in the BRO Procedures Manual and detailed in the BRO Draft Strategy of March 2002 which was used to determine which projects could be funded. The criteria/strategic aims are:

1. Encouraging investment and physical regeneration;
2. Raising educational achievement;
3. Improving access to employment; and
4. Creating safe, healthy communities.

The draft strategy includes detailed objectives supporting each aim and provided examples of the type of project which BRO is likely to support, none of which match the funding provided to the Museum. The Department has advised us that the decision to

7. Government Accounting Northern Ireland 2004

support Fernhill was in line with the criteria for MBW. The Department's view is that there are linkages with raising educational attainment, since a museum is an educational resource, and with improving access to employment since the funding sustained seven jobs in the Glencairn area. The Department further advised that there were less direct, but nonetheless significant links with physical regeneration and community safety, and that while the BRO Draft Strategy gave examples of the type of project that BRO was likely to support, it was never intended to define an exhaustive list.

26. We are of the view that the expenditure was novel and contentious: the Department chose not to follow its own internal procedures; there were no procedures for fast-tracking "rescue packages" or "buying time" initiatives, and the project did not, in our view, fit readily within the criteria for funding MBW projects. The fact that there was no prospect of viability or, in our view, sufficient evidence of sustainability[8] in these circumstances is an additional factor in our assessment that the expenditure was novel and contentious. Therefore, in line with Government Accounting Northern Ireland requirements, DFP approval should have been obtained. The Department has advised that it does not agree with the NIAO view about the "prospect of viability" or "evidence of sustainability". It has pointed out that the opportunities available at the time had been identified by the consultants (as discussed at paragraph 8) and warranted a 12 month period in which they could be further explored. The Department has advised that it was always aware that there was little prospect of viability, in the sense of commercial viability, with this project. However, it does not accept that there was no prospect of sustainability. The Department has commented that buying time to explore the prospects for sustainability was the purpose of this funding package.

27. The Department has told us that, at the time, of the assessment, it did not consider the Museum's request for financial assistance to be novel or contentious. It was satisfied that the funding decision was in line with its funding criteria, namely tackling disadvantage through economic and social regeneration, creating and maintaining jobs for local people and maintaining educational and recreational resources in this deprived area.

28. We have considered the Department's views; however we remain of the opinion that the "rescue package" of £98,175 for Fernhill House Museum was novel and contentious expenditure which required the prior approval of DFP. Having failed to obtain DFP approval, subsequent payments were, in our opinion, irregular.

Concerns about the Value for Money of this Project

29. In the case for funding Fernhill, the BRO minute of 20 October 2004 recorded the following view on the value for money of the project: "Given the danger of significant political fallout at this time and given the interest of the Department of Foreign Affairs that [£95,000 funding] would appear to represent value for money". In our view this does not represent a robust case for the value for money of the project. We asked BRO how value for money was demonstrated. BRO replied that "It is difficult, if not impossible, to demonstrate in financial terms that the payments represented value for money. However, it is clear that serious consequences for the community of Glencairn and Greater Shankill would have resulted if the museum had been allowed to collapse". The Department has told us these were:

- The loss of employment;
- The loss of an educational resource in the area;
- The loss of a tourist attraction;
- The certainty that the building would fall into disrepair and dereliction;
- The message to the loyalist community that their cultural identity was of no importance to government;
- The signal that government was not prepared to support a community that attempted to resolve

8. DSD defines sustainability as the capacity of the group or project to continue to achieve its impact in the longer term, often with a reliable funding stream from a mainstream statutory source.

its own difficult community relations issues; and

- The loss and/or destruction of irreplaceable historical artefacts of local, national and international significance.

The Department was of the view that the benefits of attempting to avoid the above eventualities represented value for money in terms of the £98,175 grant offered.

30. In September 2005 the Public Accounts Committee (PAC) reported on the use of public funds to support the Navan Centre[9], a visitor and interpretive centre outside Armagh. PAC commented on the continuing funding of the centre even after it had become clear that it could never be viable: "…despite the fact that it was clear that commercial viability would not be achieved funding continued to be provided to the Centre. This support was in the form of a short-term mechanism of buying time assistance and lasted from 1995 to 2001." The report also criticised the funding department for continuing to support the centre although other potential funders could not be persuaded to become involved because of viability concerns:

"We are particularly concerned that although the Heritage Lottery Fund had refused to provide more funding, because they felt the Centre was not viable, the Department ignored this very significant warning and was prepared to carry on in an attempt to keep it afloat."

31. The Department has told us that, in the case of Fernhill, the provision of a time-limited package of support was designed to buy time to establish whether other funders could be involved on a sustainable basis. The Department commented that the outcome of the Fernhill case demonstrates that DSD has not replicated the failings evidenced in the Navan case, where funding continued to be provided even after other potential funders could not be persuaded to become involved. Having gone through an exhaustive process of trying to identify potential sources of funding, the Department's 12 month contract for funding came to an end.

32. We note that, at the meeting with DSD, DCAL staff had referred to the Department's experience with Navan which had suggested that "in the absence of a long-term funding stream, it was better to opt for a controlled closure than to continue working up cocktail funding packages". We understand that DSD was the only Northern Ireland statutory body prepared to become involved in funding Fernhill. The Department has told us that "unlike the Navan Centre financial assistance, the decision to limit funding to one year in this instance was taken to ensure any risk to Departmental funding was restricted to one year only and to reduce the potential for any future liability on the Department." It has also advised us that "its staff were fully aware of the criticism of the Navan Centre case and therefore at no time proposed the provision of revenue funding to Fernhill in the longer term. The funding package agreed was to allow a finite time to consider fully all the options, however, long term funding by DSD is not under consideration".

33. We note that BRO's draft strategy emphasises that sustainability is a key issue in taking forward the regeneration of Belfast: "Sustainability will be at the heart of assessment criteria used by BRO to prioritise funding decisions as they arise". We find it difficult to reconcile the emphasis on sustainability with the Department's decision to proceed with a short-term funding package for a project for which there was no prospect of viability and which was very unlikely to be sustainable given that other funders could not be attracted. The Department has emphasised that it had full regard to sustainability, and that the purpose of the funding package was to establish whether other funding opportunities could be brought to fruition. DSD has commented that whilst the failure to identify sustainable funding was a risk with this project, that risk was recognised and managed by limiting the funding period.

34. The Department has told us that in its view many of the projects that it funds as part of its regeneration efforts in disadvantaged communities could not be regarded as viable in the sense that they generate enough income to cover their costs without subvention. However, they are nevertheless important in terms of their contribution to social regenera-

9. Navan Centre, Eighth report of the 2005-06 Session, HC 414

tion and the Department attempts as far as possible to ensure that assisted projects have in place funding sources to secure their sustainability. Similarly, few museums are completely viable but this does not mean that they are not worthwhile. The Department has also pointed out that in this instance, the decision to award short-term funding for one year was taken with sustainability in mind to provide an opportunity for other longer-term funding to be secured for a worthwhile project. The Department's view is that the decision to provide funding was taken in light of all the risks involved and that the management of that risk included the time-bounded nature of the funding package.

35. We remain concerned that the value for money of the decision to fund this project has not been demonstrated.

Conclusions and Recommendations

36. We are of the view that the 'rescue package' of £98,175 for Fernhill House Museum was novel and contentious expenditure which required the prior approval of DFP. Having failed to obtain DFP approval, payments were, in our opinion, irregular. As Fernhill's application for funding was not subject to the usual application and assessment process, it might well be perceived to have had more favourable treatment than other applicants for funding. We consider that the value for money of the funding decision has not been demonstrated. We are of the view that the Department's assessment of the application did not conform to the minimum requirements for an economic appraisal required by DFP nor did it satisfy the Department's own requirements. We are particularly concerned that, in failing to appraise the project in line with DFP guidelines, the Department has acted contrary to an undertaking given to PAC in 1998 (paragraph 6).

37. We recommend the Department take action on the following issues in light of the concerns raised by its funding of Fernhill House Museum:

- The Department should ensure that where an assurance is given to PAC as to how a programme will be operated, this should be adhered to, even when that undertaking was given by a preceding body;
- The Department must ensure that all projects submitted for financial assistance are subject to assessment and appraisal in accordance with DFP guidelines;
- The Department needs to introduce defined policies and procedures if it is to introduce "rescue packages" or "buying time initiatives";
- The application process must continue to be fair to all applicants. Fast-tracking funding applications where time is of the essence, is reasonable in principle, but nevertheless requires pre-arranged priority procedures which ensure proper controls and safeguards; and
- Officials need to be alert to the requirements of Government Accounting Northern Ireland on circumstances requiring DFP approvals. The Department should consider further training for its officials.

NIAO Reports 2005-06

Title	NIA/HC No.	Date Published
2005		
Modernising Construction Procurement in Northern Ireland	NIA 161/03	3 March 2005
Education and Health and Social Services Transport	NIA 178/03	9 June 2005
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