Minister: for your consideration and if content please. [handwritten initials] 15/12/15

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Cleared by Minister [signature] 15/12

FROM: Trevor Cooper

DATE: 14 December 2015

TO:
1. Eugene Rooney (Content 14 12 15)
2. Andrew McCormick (Content 14 12 15)
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DETI SUB 1266/2015 (Received in Private Office 14 12 15 @ 17.49)

BUDGET 2016-17 - ASSESSMENT OF IMPACT OF 5% & 10% REDUCTIONS; PRIORITISATION OF RESOURCE BIDS AND CAPITAL BIDS

Issue:	The potential implications of 5% and 10% Resource DEL reductions; the prioritisation of Resource bids; and confirmation of Capital bids as DETI input to the Budget process.
Timing:	<u>URGENT</u> – Returns are due with DFP by 5pm, 14 December. DFP plan to issue a draft Budget for the Executive meeting on 17 December.
Executive Committee Referral:	This exercise will inform DFP advice to the Executive on the Draft Budget. The Executive is due to discuss on 17 December.
Presentational Issues:	There is likely to be significant interest on the impact of reductions to budgets, and Resource and Capital bids.
FOI Implications:	May not be disclosable at present as policy in development.
Financial Implications:	This submission addresses the financial position of DETI and its ALBs for 2016-17 as regards its Resource position in the context of 5% and 10% reductions, and 2016-17 to 2020-21 for Capital.
Recommendations:	This submission asks that you:

i. Consider the assessment of the impact of 5% and 10% Resource reductions for DETI and its ALBs and indicate whether you are content with the proposed return to DFP;

ii. **Confirm the submission of the proposed Resource bids;**
iii. **Confirm your position on prioritisation of Capital bids; and**
iv. **Agree that information can be prepared for the ETI Committee taking account of your views on this submission and the forthcoming Executive paper.**

Background

1. The Budget needs to be agreed by the end of January 2016 to adhere to the Budget timetable commitments as set out in the Fresh Start Agreement.

2. On 25 November 2015, the UK Chancellor announced the outcome of the UK Spending Review which set the overall funding envelope for the Northern Ireland Executive for the years 2016-17 to 2019-20 for Resource DEL, and to 2020-21 for Capital DEL.

3. The Resource DEL outcome equates to a 5.3% real terms reduction over the next four years. Increases in conventional Capital DEL mean that there is an additional £643 million of Capital over the 2015-16 baseline for investment across the next five years, representing a 12.4% real terms growth. However, as Financial Transactions Capital funding reduces in future years compared with 2015-16, the real terms growth in the overall Capital DEL budget is 6%.

4. DFP have developed guidelines on the Budget 2016-17 process, which involves a reduction of between 5% and 10% on non ring-fenced Resource baselines. Following the Executive agreement to the Budget process last Thursday, DFP issued the final guidelines on 11 December. We have sought inputs from DETI's NDPBs on the impact of potential 5% and 10% reductions to the non ring-fenced Resource Budget. We have also asked NDPBs and DETI to identify Resource bids in 2016-17; Capital bids for 2016-17 to 2020-21; and technical adjustments for 2016-17.

5. Agreement of the North/South Bodies Business Plans for 2016 is subject to separate arrangements. As regards the financial year 2016-17, we have asked for returns on reduced requirements and bids versus a rolled forward 2015-16 baseline; the budgets will be subject to review within the context of the Northern Ireland 2016-17 Budget monitoring process. The North/South Bodies have also been asked to update Capital bids for 2016-17 to 2020-21.

A. Returns on Impact of 5% and 10% Reductions

6. DETI's opening Resource budget which would roll forward from 2015-16 into 2016-17 is summarised below.

Table 1 – DETI Opening Budgets 2016-17

£000s

		2015/16 roll forward to 2016/17			
Business Area	**2014-15 Opening Position (excludes non cash & ring fenced budgets)**	**Total Resource**	**Of which Admin**	**Of which Programme**	**% Change versus Opening Position**
DETI (1)	29,387	26,374	18,705	7,669	-10.3%
Invest NI (2)	110,877	125,334	29,331	96,003	+13.0%
Tourism NI	13,948	20,789	7,083	13,706	+49.0%
CCNI	1,409	1,196	1,102	94	-15.1%
HSENI	6,710	5,978	5,451	527	-10.9%
Tourism Ireland	13,800	11,690	4,465	7,225	-15.3%
InterTradeIreland	3,034	2,583	790	1,793	-14.9%
TOTAL	**179,165**	**193,944**	**66,927**	**127,017**	**+8.2%**

Note 1: Excludes £250k from the Change Fund for Health and Life Sciences Initiative and EU Interreg funding

Note 2: Invest NI budget excludes £7.14M ring-fenced Change Fund allocation

7. In 2015-16 all DETI business areas were initially subject to 15.12% reductions. Once the Budget 2015-16 settlement was agreed, a number of inescapable pressures were also addressed, largely for Invest NI and Tourism NI.

8. Table 1 also shows the final distribution of the non ring fenced Resource budget in 2015-16 and the percentage change from the opening position. Consideration of the changes to be applied in 2016-17 is informed by the current budgets available for 2015-16.

9. Invest NI and Tourism NI account for around 75% of the overall DETI Resource budget. Applying a pro-rata approach to the 5% and 10% reductions would mean cuts would be distributed as follows:-

Table 2 – Illustrative Pro Rata Reductions in 2016-17

000s

Business Area	**Pro Rata 5%**	**Pro Rata 10%**
DETI	-1,319	-2,637
Invest NI	-6,295	-12,590
Tourism NI	-1,039	-2,079
CCNI	-62	-123
HSENI	-305	-610
Tourism Ireland	-585	-1,169
InterTradeIreland	-129	-258
TOTAL	**-9,734**	**-19,466**

10. The following paragraphs provide an assessment of the financial position for DETI and each of its NDPBs and why a pro rata approach across DETI and its ALBs is not being recommended for 2016-17.

DETI

11. Table 1 shows that DETI HQ experienced a net 10.3% reduction in 2015-16 which reflected a rolled forward Resource baseline which was subject to reduction of 15.1%, and a number of small allocations which were made to address specific inescapable pressures relating to the Renewable Heat Incentive Scheme, Insolvency Service, Agri-food marketing and the Small Business Research Initiative. DETI HQ was also allocated ring-fenced budget of £1.5M EU Interreg funding and £0.25M Change Fund for the HILS programme, which is not reflected in table 1 as these allocations are ring-fenced and do not roll forward.

12. Most of the DETI budget is required for administration costs. Savings were made in administration costs this year through the operation of the Voluntary Exit Scheme, with staff headcount numbers reducing by 52 on a total headcount of 472, as well as Programme savings being made across the Core Department on areas such as travel and subsistence. The paybill savings will help offset pay uplift and national insurance pressures for 2016-17.

13. The headcount savings made to date were dependent on access to the Voluntary Exit Scheme and any further significant paybill reductions would similarly require access to VES. It is proposed that in light of the reductions that have already been delivered and the scope to provide further savings next year, a 2% reduction should be applied to the DETI Budget over and above any programme reductions from this area.

14. The £7.7M DETI Programme budget rolled forward consists of £7M in relation to Harland and Wolff asbestos related claims, and a number of smaller budgets including a budget for the maintenance of abandoned mines, energy and economic development projects, and technical assistance for EU projects. Historical spend over the last number of years and current forecasts indicate that there is potential to deliver a £1M reduction in the H&W budget without impacting on the claims process and this amount has been identified as a reduced requirement. Other reductions available are £0.6M that DETI had allocated to Debt Advice which will be funded out of Northern Ireland's share of a levy, and £0.2M available from the use of EU technical assistance on EU-related activity.

15. The main anticipated DETI reductions are detailed below:-

	£M
Harland & Wolff claims budget	1.00
Ending of Debt Advice contract	0.59
Use of EU Technical Assistance	0.19
Total	1.78

16. Further Programme reductions are not considered deliverable as the balance of the Programme budget relates to the Department's legal obligation to underwrite the cost of asbestos related claims which fall on Harland & Wolff.

Invest NI

17. Invest NI's budget saw a net increase of £21.5M in 2015-16, including £35M additional to address inescapable commitments to client companies and a £7.1M allocation from the Change Fund for joint support with DEL on skills. The £7.1M Change Fund allocation was made on a ring-fenced one-off basis and will be removed from the Invest NI rolled forward Resource baseline. The removal of the Change Fund means that the starting point for 2016-17 is effectively 5% lower than 2015-16 prior to any further reductions being applied.

18. Invest NI has provided DETI with details of its Resource requirement for next year including meeting its anticipated financial commitments under multi-year letters of offer, and to deliver in-year funding requirements under anticipated new letters of offer. The Invest figures indicate that it would have a shortfall of £2.4M in its required Programme expenditure after reducing its rolled forward Programme budget by 5% or £6.3M. In effect, therefore, the level of demand on the Invest NI Programme is expected to be significantly lower than in 2015-16: a shortfall of £2.4m is considered manageable in a budget of this size. Invest NI has indicated it would have pressures of £4.4m if a 10% scenario was applied. It is proposed to bid to meet these pressures in the return to DFP.

19. Our analysis of the impacts of 5% and 10% cuts to the North South Bodies, HSENI and CCNI is detailed at paragraphs 26 to 29. This analysis is that there is limited further scope for reductions.

20. In relation to CCNI and HSENI we believe that, as with DETI Core, cuts should be limited to 2% to avoid impacting statutory or critical health and safety activities. Subsequently, it is proposed that a reduction of £1M over and above the £12.59M that would result from a pro rata 10% reduction be applied to Invest NI. The Invest NI bid of £4.4M returned would be adjusted to £5.4M in this scenario, with a bid of £2.4M in the 5% scenario.

21. Whilst Invest NI did not avail of the Voluntary Exit Scheme in 2015-16, it has constrained further additional increases in its pay budget by operating at a projected level of 556 FTE Admin staff by the end of 2016-17 as opposed to its preferred 575 FTE. Invest NI has put in a bid for VES funding in 2016-17.

22. Thus the overall assessment is that Invest NI would have some challenges in the 5% and 10% scenarios and would inevitably have to scale back on activity given lower budget allocations but that it should not impact significantly on their current projected commitments and expected new business next year.

Tourism NI

23. Tourism NI's budget was subject to 15.1% reductions in 2015-16. However, allocations to address inescapable Resource pressures of £7M for international Events and £2M for Marketing (including Focus on Food) resulted in a £6.8M or 49% increase in budget. The international Events

allocation included funding for pressures specific to 2015-16, including payments for The Open, Irish Open, Giro d'Italia Gran Fondo and Tall Ships.

24. It is proposed that reductions of 5% and 10% in Tourism NI's budget would be mainly funded by reductions in the Events budget which was increased substantially in 2015-16 for one-off events and rolled forward into 2016-17. A new pressure next year is £2m for the Year of Food which will need to be addressed. It should be possible for Tourism NI to meet its Events commitments including Year of Food and fund most programmes at current year levels whilst also meeting a reduction of 10% from the 2015-16 baseline.

25. Given the limited scope in other areas of the department to absorb a full 10% reduction, it is proposed that a further £1M reduction be applied to Tourism NI in the "10%" scenario. This would mean that current marketing activity could remain at close to 2015-16 levels and Year of Food commitments would be met. However, proposed increases of £1.8M for marketing support for conferences, tourism growth fund activity and product marketing would require to be constrained by up to this additional £1M. We would increase Tourism NI's bids by £1M under this approach.

Consumer Council NI

26. The CCNI budget is mainly spent on salary costs. The staff headcount has been reduced from 45 to 32 this year partly through access to the VES funding in-year reflecting the application of a 15% reduction their budget in 2015-16. Significant further budget reductions of 5-10% could only be effected through reductions in staff numbers which would impact on the delivery of statutory functions. It is proposed therefore that a reduction to the current budget be limited to 2% for CCNI.

Health and Safety Executive NI

27. Similarly HSENI budget is mainly for the costs of their staff. In 2015-16 HSENI accessed VES funding and reduced staff numbers by 13%. HSENI also cut their Programme budget in 2015-16 by around 50%. A 5% cut to HSENI would be effected through cuts in training and inspections; a further 5% cut would be delivered through cuts to the Programme budget, mainly cuts to safety campaigns and to prosecutions. As for the Consumer Council, it is considered that it would be a significant detrimental impact to HSENI's operations if cuts were applied above a level of around 2%.

Intertradelreland and Tourism Ireland Ltd

28. We are working on the current basis that the North/South Bodies baselines would roll forward at the 2015 level without further reductions: the assessment is that further reductions would impact on the ability of these organisations to continue to deliver their mandated areas of responsibility. The North/South bodies also do not have access to funding from the Voluntary Exit Scheme to reduce their paybill through that means.

29. Given that the Bodies work on a calendar year basis, it would be possible to effect a reduction in the final quarter of 2016-17, which would impact on the baselines for 2017, which would impact on the baselines for 2017. It is therefore proposed that a reduction of 2% be applied to the Tourism Ireland Ltd budget in Quarter 1 of 2017.

30. There are pension costs relating to these Bodies totalling £0.4M, which are an inescapable bid and would therefore be returned to DFP. Tourism Ireland did not bid for any Programme additions. InterTradeIreland has bid for £0.2M to partially reinstate reductions made in 2015-16, meaning cumulative reductions of 12% in the 2014 to 2016 Corporate Plan period. As this InterTradeIreland £0.2M bid is de minimis and not inescapable, it would not be considered by DFP and it is therefore not proposed to include it in our return.

31. In light of the above assessments it is proposed that in the return to DFP the reductions of 5% and 10% would be reflected as set out below:-

Table 3 – Potential Implications of Reductions identified in 2016-17

Business Area	**5% Reduction Scenario £000**	**Percentage Reduction**	**10% Reduction Scenario £000**	**Percentage Reduction**
DETI	-2,311	*-8.8%*	-2,311	*-8.8%*
Invest NI	-6,061	*-4.8%*	-13,356	*-10.7%*
Tourism NI	-1,039	*-5.0%*	-3,421	*-16.5%*
CCNI	-24	*-2.0%*	-24	*-2.0%*
HSENI	-120	*-2.0%*	-120	*-2.0%*
Tourism Ireland	-234	*-2.0%*	-234	*2.0%*
InterTradeIreland	0	*0*	0	*0*
TOTAL	**-9,789**	***5.0%***	**-19,466**	***10.0%***

32. Our summary assessment of the impact of the reductions is detailed below:-

Table 4 – Proposed Reductions in 2016/17 under the 5% and 10% scenarios

Business Area	**5% Reductions**	**10% Reductions**
DETI	Reductions in H&W, Debt Advice Service and Technical Assistance and 2% cut in the dept's administration budget	Reductions in H&W, Money Advice Service and Technical Assistance. A 2% cut in the DETI administration budget.
Invest NI	Cut to unallocated rolled forward programme budget	Cut in new SFA and R&D projects and closure of some overseas offices.
Tourism NI	Met from unallocated NI Events Fund rolled forward	Reduction in destination Marketing and NI Events Fund, and very significant reduction in advertising campaigns in Northern Ireland.
CCNI	Reduction in staff numbers	2% reduction in administration costs.

HSENI	Reduction in training and site visits	2% reduction in administration costs, with reduction in staff training and site visits.
Tourism Ireland	Reduction in tourism marketing	Reduction in tourism marketing
InterTradeIreland	N/A	N/A

33. The distribution of reductions would require to be revisited in the event of any of DETI's inescapable bids being met.

Returns to DFP on Impact of Reductions

34. The substance of the detail of the impact of potential reductions from the returns across DETI and its ALBs and reflecting the proposed approach set out above is attached at **Annex A**. You are asked to confirm whether you are content for these potential impacts to be returned to DFP.

B. Resource Bids

35. We have sought to identify new pressures for 2016-17 which could be the subject of bids. Our proposed inescapable and high priority Resource bids are set out in detail at **Annex B** and summarised below. Essentially we have considered new inescapable pressures beyond existing baseline commitments. DFP has advised that only inescapable bids would be considered in the Budget 2016-17.

Table 5 – Summary of Resource DEL Pressures

BUSNESS AREA	BID (5% scenario) £M	BID (10% scenario) £M
Inescapable bids:		
Invest NI *Corporation Tax activities/*	*2*	*2*
Invest NI *– Inescapable brought forward inescapable commitments under offers to client companies/*	-	*3.4*
Tourism NI *2016 Year of Food and essential marketing commitments on Conference Subvention, Product Marketing and Tourism Growth Fund.*	*2.0*	*3.0*
DETI (including HSENI) *– Inescapable*	*1.8*	*1.8*
North South Bodies *– Inescapable Pension Costs*	*0.4*	*0.4*
TOTAL INESCAPABLE BIDS	6.2	10.6
High Priority bids:		

Tourism NI – tourism industry development programmes	1.0	1.0
TOTAL HIGH PRIORITY BIDS	**1.0**	**1.0**
Energy – possible inescapable bid for RHI Scheme	**Subject to discussion with DFP**	

Inescapable Resource Bids

36. **Invest NI:** Invest NI has an inescapable pressure of £2M for sales activities to promote Corporation Tax devolution in both 5% and 10% scenarios. Invest NI also have inescapable pressures of £3.4M under the 10% scenario (see paragraphs 17 to 22 above.

37. **Tourism NI:** Tourism NI has an inescapable pressure of £2M for the promotion of the 2016 Year of Food in the 5% scenario and £3M in the 10% scenario.

38. **DETI & HSENI:** There is an inescapable pressure of £1.8M mainly to take new work forward where no budget cover was available including:-
    - Air Route Development,
    - Energy Renewable Heat Incentive and EnergyWise Schemes costs,
    - Matrix support costs,
    - Digital Catapult support,
    - Central Procurement Directorate costs for Ni Science Park Concourse III.

39. **Energy RHI:** Following the Chancellor's Autumn Statement, a cap was placed on Renewable Heat Incentive RHI) Scheme allocations for future years. The RHI is funded out of Annually Managed Expenditure but it is subject to controls determined by Treasury. We are in discussion with DFP on the implications for the DETI budget and there may be an impact for the DETI Resource DEL depending on the outcomes of those discussions.

High Priority Resource Bids

40. **Tourism NI:** A £1M bid for a business support programme for tourism industry development has been identified by Tourism NI.

41. **North / South Bodies:** The joint guidance set down for North South Implementation Bodies for the Corporate Plan period 2014-2016 stipulated 4% cumulative reductions in each year, representing a minimum reduction of 12% by 2016-17. However, in 2015-16 DETI implemented a 15.1% cut for Tourism Ireland and InterTradeIreland in line with other DETI business areas. InterTradeIreland has registered a £0.2M Programme bid. As this is de minimis and not inescapable, it would not be considered by DFP and it is therefore not proposed to include it in our return. Tourism Ireland has not bid for additional Programme funding.

C. Capital Bids

42. DFP has asked for bids to be categorised as Contractual Commitments, Executive Commitments, High Priority or Desirable. DFP has also requested that Capital items, apart from contractual commitments, should be ranked in priority order.

43. High Priority bids have been ranked in order within each business area. The highest priority has been given to Invest NI and Tourism NI programmes/projects, followed by Telecoms projects. We have also separated Mainstream Capital items from Financial Transactions Capital (FTC) items, and included a forecast for FTC loan repayments.

44. Collated Capital requirements are set out in the table at **Annex C**, with a high level written summary on the background detail of bids set out in **Annex D**.

ETI Committee

45. DFP has recommended that all Departments should brief their respective Assembly Committees on the Budget scenarios. Several Departments have already submitted the implications to their Committees. We propose to send to the ETI Committee information on the DETI position based on your decisions on this submission, and taking account of the Executive discussion of the Budget later this week.

Conclusions

46. Unlike in 2015-16 Invest NI and Tourism NI do not have major pressures above baselines next year arising from commitments to new job investments and international events respectively. The significant increases in Invest NI and Tourism NI's budgets in 2015-16 reflected such sizeable commitments; other budgets in the DETI family were reduced in reflection of the priority attached to Invest NI and Tourism NI. Going into 2016-17 neither body has the same level of pre-existing commitments hence the level of new inescapable bids are assessed as being much smaller: a total of £6.2M inescapable pressures under the 5% scenario and £10.6M inescapable pressures under the 10% scenario have been identified. The bids are also predicated on the basis that there will be cuts to the DETI budget.

47. The allocations made to Tourism NI in the last budget exercise for one-off costs but which roll into 2016-17 means that there may be more scope in its budget to absorb reductions were they to fall at the higher end of the scale (i.e. 10%) of those set out by DFP. Our assessment on Invest NI having reviewed its most recent forward forecast budget requirements is that allocations made in the last budget would also position them to be able to absorb reductions of 5% and above.

48. Given the significant cuts that were applied to the smaller bodies last year the assessment is that they could not absorb significant further cuts in 2016-17 without adversely impacting on key services. The CCNI, HSENI and DETI have all lost significant numbers of staff this year. There is limited capacity to absorb significant further cuts and still continue to deliver core functions. It is considered that reductions would be mainly applied to Invest NI and Tourism NI under the 5% and 10% scenarios given the very limited

scope to find reductions elsewhere. The presentation of the scenarios to DFP at Annex A therefore focuses on the potential implications for Invest NI and Tourism NI. The bids being put forward as inescapable are for DETI HQ (£1.8M), Invest NI (£2M), and Tourism NI (£2M) in the 5% scenario, together with North South Body pension costs of £0.4M. The Invest NI and Tourism NI bids increase to £5.4M and £3M in the 10% scenario, with the pension bid remaining. If any of the bids were met this would help to mitigate the effects highlighted in the scenarios, and we would need to revisit the distribution of reductions.

49. This submission is seeking your views on the presentation of cuts scenarios and bids to DFP and in due course to the ETI Committee. Further advice on the allocation of the Budget will be provided when the likely position from the Budget is known.

Recommendations

50. I recommend that you:

i. Consider the assessment of the impact of 5% and 10% Resource reductions for DETI and its ALBs and indicate whether you are content with the proposed return to DFP;
ii. Confirm the submission of the proposed Resource bids;
iii. Confirm your position on prioritisation of Capital bids; and
iv. Agree that information can be prepared for the ETI Committee taking account of your views on this submission and the forthcoming Executive paper.

Trevor Cooper

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cc Ian McCrea, MLA
Chris Stewart
Wendy Johnston
Bernie Brankin
Jeff Partridge