

FROM: Trevor Cooper

DATE: 30 November 2011

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TO: 1. Andrew Crawford
2. Arlene Foster MLA

JANUARY MONITORING 2011/12 INCLUDING ANNUALLY MANAGED EXPENDITURE (AME) FORECASTING 2011/12

Issue: Departments have been asked to identify reduced requirements, bids, proposals for proactive management actions to meet emerging pressures and details of any technical issues to be addressed as part of January Monitoring. Departments have also been asked to provide updated forecasts for Annually Managed Expenditure (AME).

Timing: **URGENT.** January Monitoring is being conducted in two stages, with returns for the first stage due with DFP by Wednesday 7 December along with the AME forecasting return. Returns for the second stage are due with DFP by Tuesday 3 January. As the ETI Committee's final meeting prior to recess is Thursday 15 December, we committed that, if possible we would provide it with written briefing on both stages of Monitoring by Monday 12 December.

Need for referral to the Executive: Executive approval is required for in-year monitoring rounds. DFP is in the lead.

Presentational Issues: There will likely be media interest in the reduced requirements presented by the Department.

Freedom of Information: It may be possible to claim exemption for this submission as policy under consideration.

Programme for Government /PSA Implications: None identified at this stage.

Financial Implications: Reduced requirements across the DETI Budget total £15.9m, including £1.5m additional receipts.

Legislation Implications: Not Applicable.

Statutory Equality: High-level Impact Assessments have been completed for all in-year monitoring proposals.

- Recommendation:**
- a) That you consider the information below and confirm that you are content that we include the matters set out in this minute in the DETI submission to DFP.
 - b) That you also confirm that you are content for this material to be used to prepare briefing for the ETI Committee on both stages of January monitoring, and submit written briefing on Monday 12 December.

Background

1. Following the outcome of October Monitoring the remaining level of Block over-commitment is £11.5 million in terms of non-ringfenced Resource expenditure and £23.8 million Capital investment.
2. This is the final monitoring round of 2011/12 (there will not be a February Monitoring exercise in this financial year), and will determine the content of the Spring Supplementary Estimates. This is therefore the last opportunity to formally approve changes to budgets.

Two Stage Approach

3. In view of the extremely busy months ahead and to facilitate the Estimates process, DFP has decided to split the January monitoring round into two parts.
4. The first stage (with a 7 December 2011 deadline) requires departments to submit all technical adjustments that do not require Executive approval. Departments are also required to provide an update of Annually Managed Expenditure (AME) forecasts for 2011-12, which are due on the same day, which is a separate exercise run with Treasury alongside the Monitoring Round process.
5. The planned second stage (with a 3 January 2012 deadline) of the monitoring round involves submission of transactions that are presented to the Executive, which includes above de minimis proposals for bids, reduced requirements and proactive reallocations. As the ETI Committee's final meeting prior to recess is Thursday 15 December, we committed that, if possible we would provide it with written briefing on both stages of Monitoring by Monday 12 December.

Key Proposals

6. We have consulted all DETI business areas. A full summary of the DETI January monitoring adjustments, in tabular form, is attached at **Annex 1**. The key DETI monitoring proposals are summarised in **Table 1** below:

Table 1: Summary of proposed adjustments

£ millions	Resource	Capital Grant	Capital	Total
Reduced Requirements				
Invest NI - Programme related	(3.0)	(3.0)	(6.0)	(12.0)
Invest NI additional receipts	(0.5)		(1.0)	(1.5)
PMS Loan Interest	(1.1)			(1.1)
Other de minimis reductions (net)	(0.5)	(0.8)		(1.3)
<u>TOTAL REDUCTIONS</u>	<u>(5.1)</u>	<u>(3.8)</u>	<u>(7.0)</u>	<u>(15.9)</u>

Reduced Requirements***Invest NI - £12 million***

7. Invest NI has indicated that the decline in business confidence outlined at October monitoring continues, which has resulted in postponement or delay in a number of key projects. Companies still face a difficult set of market circumstances, and economic recovery remains slow. As a result, many of the larger companies, where Invest NI has a potential financial commitment against agreed projects, are proceeding at a much slower pace than had been anticipated. This slowdown in business activity has necessitated a reduction of **£3m Resource, £3m Capital grant and £6m Capital**, as detailed in Table 2 below:

Table 2: Summary of Invest NI reductions

PROJECT	Total £ millions
Resource	
BITP	(2.0)
Entrepreneurship	(1.0)
Sub Total	(3.0)
Capital Grant	
Bombardier C-Series	(2.7)
Ryobi	(1.0)
Camden	(0.8)
Other smaller items	(1.0)
Transfer from Capital	2.5
Sub Total	(3.0)
Capital	
Net reduction from land acquisitions	(1.2)
Property vesting	(1.0)
Carbon Trust	(0.5)
NISPO	(1.0)

IT projects	(1.0)
Other smaller items	(0.5)
Additional requirements	1.7
Transfer to Capital Grant	(2.5)
Sub Total	(6.0)

TOTAL REDUCTIONS **(12.0)**

8. Invest NI has confirmed that its surrenders take account of its current levels of work-in-progress. The current challenging economic circumstances, which has resulted in delays to existing projects and new investments plans, makes it very difficult to predict the demand for Invest NI funding over the remaining four months of the financial year. Invest NI has carried out a detailed review of current and planned projects and has attempted, wherever possible, to mitigate against known shortfalls through allocating budget to new projects and accelerating other existing projects.
9. Invest NI has also specifically highlighted risks around a number of projects for which it is currently holding Capital budget totalling £7.8m within the 2011/12 year. Whilst it has indicated that it is taking all reasonable steps to manage the projects so as to incur expenditure this year, Invest NI has indicated that there are uncertainties around timing and amounts of some expenditure. The projects concerned are summarised below:-

	£m
(i) <i>Lisburn development project</i> (Risk around completion timeline)	2.9
(ii) <i>NI Screen Paint Hall</i> (Completion subject to ongoing negotiation)	3.4
(iii) <i>Creagh – uncertainty ref tribunal</i>	1.5
Total	£ 7.8

Invest NI Additional Receipts - £1.5 million

10. Invest NI propose to increase the Capital receipts budget by £1m to £9.75m, the bulk of which relates to £0.7m from the sale of Global Email Company which has only recently been transacted. It is also proposed to increase the Resource receipts budget by £0.5m to £2m to account for additional receipts resulting from the administration of Quinn Insurance Ltd as further information has been received which provides more clarity on clawback.
11. While the Invest NI receipts budgets have been adjusted for all known clawback receipts, given the continued deterioration in the economic environment there is an increased risk of default by companies on offer agreements. This is outside of the control of Invest NI and has the potential to increase the receipts budget with a consequent risk of under-spending as this is how any additional receipts would be presented by DFP in outturn summaries.

12. Invest NI will continue to closely monitor in-year spend against profiled budget in order to identify any significant variances at the earliest opportunity. The importance of active budget management continues to be a key operational requirement across the organisation.

DETI HQ: Presbyterian Mutual Society - £1.1 million

13. This relates to loan interest in relation to the Presbyterian Mutual Society £175M loan.

Net de minimis easements - £1.3 million

14. The department has a number of de minimis (under £1m) reduced requirements, which include the following:

- **£0.6m Capital Grant** from NITB due to slippage in the Mourne Mountain Bike Project;
- **£0.3 Resource** from InterTradeIreland as a consequence of management action by the Body and the sponsor Departments to reduce the cash balance held by the Body;
- **£0.2m Capital Grant** from EU Programmes match funding for Interreg IVa projects which have not drawn down the amounts previously forecast by SEUPB
- **£0.2m Resource** in respect of additional receipts generated by the Insolvency Service.

15. We are proposing to meet a number of **de minimis pressures** comprising £66k Administration and £1,542k Resource from de minimis reductions. The de minimis bids include the following:

- **£66k Administration** to meet minor pressures across the department, to be funded from corresponding reductions in Administration budgets;
- **£900k Resource** to meet potential compensation for asbestosis and also potentially Pleural Plaques cases as a result of the commencement date of the Damages (Asbestos-Related Conditions) Act (NI) 2011 being set for 14 December 2011. This includes a £0.6m allocation from the Admin budget and the balance from the Resource budget;
- **£280k Resource** is required by NITB for Northern Ireland's contribution to a new £4m "stay at home" UK-wide marketing campaign;
- **£268k Resource** for the Insolvency Service to cover additional company inspection costs and staffing costs (which will be met from increased Insolvency Service receipts); and
- **£94k Resource** to meet a number of smaller pressures across the department.

Mainstream Internal Reallocations

16. Mainstream internal reallocations proposed within DETI areas follows:

- **Invest NI reallocation of £9m Capital Grant and £3m Resource to utilisation of provisions budgets.** This is a technical requirement which in practical terms is a separate labelling of existing Budget allocations used in relation to provisions to comply with technical budgeting guidelines.
- **Invest NI £0.6m Non Cash:** A reallocation from the depreciation budget to the impairment budget is required to align budgets with expected outturn.
- **Invest NI reallocation of £0.75m Resource Consultancy and £0.2m HQ PPP Resource budget to mainstream Resource Grant budget.** This aligns budgets with expected outturn, taking into account the 10% reduction in external consultancy costs.
- **Minerals Branch £0.7m Resource:** This reflects a reduction of £0.7m receipts required in the current year in regard to the funding of the Tellus Border EU Interreg project. Expenditure has been deferred to next year because of delays with the airborne contractor and partner GSI in initiating three contracts.
- **NITB £0.1m Resource and £0.29m Capital Grant:** A number of small reallocations are required in NITB's Resource and Capital budgets to realign budgets with expected outturn.
- **DETI £0.2m Resource:** A number of small reallocations are required to realign the department's budgets in line with expected outturn.

EU Internal Reallocations***EU Competitiveness Programme***

17. A number of self financing EU internal reallocations increasing and reducing EU expenditure supported by EU receipts are as follow:

- £2.126m Resource decreases in Invest NI EU expenditure and receipts due to a continued downturn in market conditions referenced at the beginning of this submission;
- £2.5m Capital Grant increase in NITB EU expenditure and receipts due to the realignment of match and EU funding for the Giant's Causeway Visitor Facility in line with the ERDF funding application;
- £0.3m Resource decrease in NITB EU expenditure EU receipts due to the business case for the Tidinet Transition project taking longer than expected;

- £0.2m Resource reduction in European Support Unit EU expenditure and receipts as due to the transfer of LED functions to Invest NI;
- A number of other minor reallocations totalling a net reduction of £6k Resource are also proposed; and

EU Interreg Programme

- £0.278m Resource and £0.623m Capital Grant reductions in European Support Unit EU expenditure and receipts as expenditure in approved projects is slower than had been anticipated by SEUPB and the project promoters.

Technical Transfers

18. A number of technical transfers to and from other departments need to be effected in this monitoring round. This will have the net effect of reducing DETI's budget by £0.376m, and include the following transfers:
 - £300k Resource from Invest NI to DEL in respect of the Bring IT on campaign;
 - £100k Resource from Invest NI to DEL for the Jobs Fund;
 - 38k Resource from DOJ to HSENI in respect of costs associated with an Explosives Compliance Officer; and
 - A range of smaller transfers with a cumulative net effect of a £14k outward transfer.

External Consultancy

19. We advised you in October Monitoring that, with confirmed budgets in DETI core, we remain within target for a 10% reduction (compared to last year) on external consultancy expenditure in 2011/12 with some room to manoeuvre.
20. Further reductions in external consultancy budgets in DETI core of £299k have been identified at January Monitoring, which leaves the department well within the 10% target.
21. NDPBs and North South bodies are managing the 10% reduction in external consultancy costs within their own budgets.

PMS

22. We are engaging with PMS Division on its final input to Monitoring and we will provide separate briefing on this matter.

ANNUALLY MANAGED EXPENDITURE FORECASTING 2011/12

Background

23. The Annually Managed Expenditure (AME) budget is for expenditure that cannot reasonably be subject to firm multi-year limits, or should be subject to special handling. AME expenditure does not therefore fall within Departmental Expenditure Limits (DEL). Examples of AME budgets in DETI include provisions, exchange rate gains/losses, the revaluation of assets and funding for the Renewable Heat Incentive Scheme.
24. As part of this exercise, we advised business areas that it is critical that working assumptions, methodology and forecasts stand up to scrutiny and are fully justifiable.
25. The collated responses from across the Department are attached at **Annex A**. It should be noted that changes to AME budgets are not regarded as bids or reduced requirements to be met as part of a monitoring exercise, but rather as adjustments to budget profiles, and because of the accepted difficulties in forecasting AME breaches in departmental AME do not automatically incur a penalty.

Material Adjustments made in the AME Exercise

26. **H&W Asbestosis Provision (£1.55m):** The unwinding of discounted provision has been forecast at £1.45m, and no further additions are forecast thereby necessitating a reduction of £1.55m against the opening budget provision.
27. **Abandoned Mines Provisions (£6.7m):** The amounts previously forecast for land and remedial mines works costs were higher than the actual costs, and other ancillary work which had been anticipated is ultimately not required. Minerals Branch has confirmed that no work on mines will be outstanding at current year end. In addition the provisions set up / additions budget has been written back in line with DFP advice. The consequence of these adjustments is a £6.7m reduction against the opening budget position.
28. **Invest NI Provisions (set up / additions - £9m):** The Invest NI provisions are set out in the table below. In overall terms the forecast requirement for 2011/12 is £9m lower than the opening position. Invest NI has reduced its grants provision by £5m based on lower levels of WIP in 2011/12, leaving a revised forecast of £9m. Invest NI has also reduced its onerous lease provisions budget by £1.5m as these cases are fully provided for, and the loans, shares and investment provisions budget has been reduced by £0.5m to leave a budget of £6.5m.
29. The revaluation of land and property assets has been reduced by £2m following consultation with Land & Property Services, with the remaining £8m transferred to a dedicated AME revaluation budget.
30. The overall proposed adjustments to Invest NI's AME budget are set out in the following table:

Table 3: Summary of proposed Invest NI AME adjustments

Description	Opening Budget	Movement	Revised Budget	2010/11 Outturn
Provisions				
Grants Provision	14,000	-5000	9,000	11,617
Other provision	1,500	-1,500	0	1,192
Loans & Shares Provision	7,000	-500	6,500	1,675
Sub Total Provisions	22,500	-7000	15,500	14,484
Revaluation of land and property (new budget record)	10,000	-2,000	8,000	7,931
TOTAL	32,500	-9,000	23,500	22,415

31. **Revaluation of Assets Provision requirements for NITB and CCNI (£1.6m):** In addition to the £8m budget for Invest NI noted above, budgets of £1.5m for NITB and £0.1m for CCNI have been added to 2011/12.
32. **NI Renewable Heat Initiative Scheme (RHI - £1.8m):** The Analysis of the RHI consultation responses has led to some changes to the proposed scheme. Implementation of these changes, combined with the need to put in place appropriate legislation and obtain state aid clearance, will mean that it is unlikely that the scheme will be operational in time to fully utilise the bulk of its 2011/12 allocation. Some initial spend may be achieved fairly quickly through premium payments to the domestic sector with £0.2m retained for this purpose. The Department will seek to reprofile the remaining £1.8m into 2012/13 on the basis that the Department of Energy and Climate Change has encountered similar problems in GB and is seeking permission from Treasury to carry money forward to 2012/13.
33. **Exchange Rate gains/losses:** We are currently in discussion with DFP around the appropriate budgetary treatment of exchange rate gains and losses. Provisional adjustments are set out in Annex A. Separate briefing will be provided on this issue.

Assurance Statement

34. As noted at the beginning of this submission, Invest NI has highlighted risks around a number of capital projects and an increased risk of default by companies on offer agreements, which could result in underspending in the remainder of the financial year.
35. The backloading of Invest NI forecast expenditure (63% of budget in last five months of the year) will continue to present Invest NI with challenges in terms of meeting its proposed revised Budget position. In addition, the ongoing volatility in the economic climate means that changes in currently planned implementation proposals of investment plans by client companies between now and the year end could cause under-spending against the proposed budget position.
36. Statements of assurance have been obtained from NDPB Chief Executives and DETI Senior Managers who have confirmed that they are satisfied with the financial forecasts provided by their business areas and the underlying

assumptions on which they are based for DEL and AME budgets. On the basis of the returns and on foot of assurances received from DETI business areas, the forecasts represent the most robust and accurate assessment that can be prudently provided at this stage of the year.

37. We will of course continue to closely monitor budgets between now and the year end. In particular we will look to ensure with all areas that if there is any change in their forecast budget requirements between now and 3 January that this is communicated to the Department and a further note issues to you seeking your approval for any suggested further adjustments.

Recommendation

38. That you note the above and, if content, confirm that DETI can present these proposals to DFP and the ETI Committee for the January monitoring and AME forecasting exercises. Please note that we are scheduled to provide written briefing on January monitoring for the ETI committee by 12 December.
39. I would be happy to discuss.

TREVOR COOPER

cc David Sterling
Colin Lewis
David Thomson
Alastair Ross, MLA, Assembly Private Secretary
Bernie Brankin
Philip Angus
David Beck

**SUMMARY OF JANUARY 2012 MONITORING ADJUSTMENTS
(MAINSTREAM)**

	2011-12 JANUARY MONITORING ADJUSTS				
<u>MAINSTREAM BUDGETS</u>	Admin	Resource	Capital Grant	Capital	Total
<u>1. Non –Deminis Reduced Requirements</u>					
Invest NI – Decline in business confidence		-3,000	-2,979	-6,021	-12,000
Invest NI – additional receipts		-500		-1,000	-1,500
PMS Loan Interest		-1,058			-1,058
<u>1.Total Non-Deminimis Reduced Requirements</u>	0	-4,558	-2,979	-7,021	-14,558
<u>2. De Minimis Reduced Requirements to DFP</u>					
NITB – Delay in Mourne Mountain Bike Project			-600		-600
InterTradelreland – Reduction in grant funding		-295			-295
Insolvency Service – Increase in fees		-182			-182
ESU – Reduction in Interreg IVA Match			-207		-207
<u>2.Total De Minimis Reduced Requirements to DFP</u>	0	-477	-807	0	-1,285
<u>3. De Minimis Reduced Requirements to meet De Minimis Bids</u>					
InterTradelreland – Reduction in grant funding		-205			-205
Insolvency Service – Increase in fees		-268			-268
Social Economy – Reduction in budget		-165			-165
ESU – Reduction in Interreg IVA Match		-92			-92
ESU – Reduction in Competitiveness Tech Asst Match		-26			-26
HSENI – additional vacancies		-93			-93

	2011-12 JANUARY MONITORING ADJUSTS				
<u>MAINSTREAM BUDGETS</u>	Admin	Resource	Capital Grant	Capital	Total
CAB – reduction in salary budget		-50			-50
DETI Other Resource		-32			-32
DETI Other Admin	-677				-677
3. Total De Minimis Reduced Requirements used to meet Deminis Bids	-677	-931	0	0	-1,608
<u>4. De Minimis Bids met by De Minimis Reductions</u>					
Asbestosis and Pleural Plaques use of provision		900			900
NITB – Stay at Home Campaign – P&M		280			280
Insolvency Service – bid iro company inspections		190			190
Insolvency Service – bid iro salaries & GAE		78			78
DETI Other Resource		94			94
DETI Other Admin	66				66
<u>4. Total De Minimis Bids</u>	66	1,542	0	0	1,608
4. NET De Minimis Bids and Reduced Requirements	-611	611	0	0	0
<u>5. Internal Reallocations</u>					
Invest NI – Reallocation from DEL to spend on provision budget		-9,000	-3,000		-12,000
Invest NI – Reallocation from DEL to spend on provision budget		9,000	3,000		12,000
Invest NI – Reallocation from depreciation		-600			-600
Invest NI – Reallocation to impairments		600			600
Invest NI – Reallocation from consultancy		-750			-750
Invest NI – Reallocation from HQ PPP budget		-200			-200
Invest NI – Reallocation to resource grant		950			950
NITB – Causeway Masterplan			-40		-40
NITB – Mournes			-250		-250
NITB – GCVC			40		40

	2011-12 JANUARY MONITORING ADJUSTS				
<u>MAINSTREAM BUDGETS</u>	Admin	Resource	Capital Grant	Capital	Total
NITB – TDS			250		250
NITB – Admin		-100			-100
NITB – Promotion & Marketing		100			100
NITB – Mourne Bike Project			-50		-50
NITB – IT expend				50	50
Minerals – phasing of budget in the Tellus Border Project – expend		-700			-700
Minerals – phasing of budget in the Tellus Border Project – receipts		700			700
Telecoms – reallocation from tech asst to consultancy due to incorrect coding		-95			-95
Telecoms – reallocation from tech asst to consultancy due to incorrect coding		95			95
Energy – reallocation from consultancy		-66			-66
Energy – reallocation to Infrastructure, Research & Policy		66			66
Energy – realignment of consultancy budgets – match		-40			-40
Energy – realignment of consultancy budgets - mainstream		40			40
Telecoms – Sharing in Benefit Next Generation Networks receipt from BT		-40			-40
Telecoms – Sharing in Benefit Next Generation Networks expenditure		40			40
CCNI – reallocation from consultancy		-9			-9
CCNI – reallocation to grant expenditure		9			9
6. Total Reallocations	0	0	-50	50	0
7. Technical Transfers					
Transfer to DEL from Invest NI iro Bring IT on Campaign		-300			-300

	2011-12 JANUARY MONITORING ADJUSTS				
<u>MAINSTREAM BUDGETS</u>	Admin	Resource	Capital Grant	Capital	Total
Transfer to DEL from Invest NI iro Jobs Fund		-100			-100
Transfer to DARD from Invest NI iro Food Strategy & Kilhorne Bay Seafoods		-2	-14		-16
Transfer from DOJ to HSENI iro Explosives Compliance Officer		38			38
Transfer from DFP iro depreciation for Ministerial car (not approved in Oct)	2				2
7. Total Technical Transfers	2	-364	-14	0	-376

DETI ANNUALLY MANAGED EXPENDITURE (AME) BUDGETS 2011/12

DESCRIPTION	Opening Budget	Plus/Minus Changes	AME Forecast
BAD DEBTS			
DETI - Bad Debts	10	-10	0
CCNI - Bad Debts	41	-23	18
Sub Total	51	-33	18
DETI PROVISIONS			
Early Retirement - Set Up	3	67	70
Early Retirement - Release	-80	-19	-99
Personal Compensation payments -Set Up	0	-75	-75
H&W Asbestosis - Set Up/Additions	3,000	-1,550	1,450
H&W Asbestosis - Release	-5,000	0	-5,000
Mines - Set Up / Additions	650	-6,484	-5,834
Mines - Release	-500	-187	-687
Sub Total	-1,927	-7,348	-9,275
INVEST NI PROVISIONS			
Invest NI Provisions - Set Up / Additions	22,500	-7,000	15,500
Sub Total	22,500	-7,000	15,500
EQUAL PAY CLAIM			
Equal Pay Settlement	0	-19	-19
Equal Pay Claim	0	-53	-53
Sub Total	0	-72	-72
EXCHANGE RATE GAINS/LOSSES			
DETI – Foreign Exchange Rates	1,000		1,000
Invest NI - Foreign Exchange Rates	2,500	-1,650	850
NITB - Foreign Exchange Rates	200	100	300
Sub Total	3,700	-1,550	2,150
REVALUATION OF ASSETS			
Invest NI - Revaluation of Assets	10,000	-2,000	8,000
NITB - Revaluation of Assets	0	1,500	1,500
CCNI - Revaluation of Assets	0	131	131
Sub Total	10,000	-369	9,631
NI RENEWABLE HEAT INITIATIVE SCHEME			
Energy Division - RHI Scheme	2,000	-1,800	200
Sub Total	2,000	-1,800	200
TOTAL AME BUDGETS	36,324	-18,172	18,152