

FROM: Trevor Cooper

DATE: 28 November 2014

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JANUARY MONITORING 2014-15 and

ANNUALLY MANAGED EXPENDITURE FORECASTING 2014-15 ONWARDS

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 Thursday 4 December along with the AME forecasting return. Returns for the second stage are due with DFP by Friday 2 January 2014. Written Briefing was due with the ETI Committee on **Monday 1 December** for its meeting of 2 December, and oral briefing by officials may be required at the ETI Committee meeting scheduled for Tuesday 9 December.

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

Presentational Issues: None at present.

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: Invest NI has bid for an additional £2.1m Financial Transactions Capital in relation to the Growth Loan Fund and for a Capital Grant pressure of £0.8m.

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 present these proposals in the DETI submission to DFP for January Monitoring.

b) That you confirm that you are content for this material to be used to prepare briefing for the ETI Committee on both stages of January monitoring for submission by 1 December.

Background

1. This is the final monitoring round of 2014-15 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

2. DFP has decided to split the January monitoring round into two parts in line with recent years, which is necessary to facilitate the tight Estimates process timetable.
3. The first stage (with a 4 December 2014 deadline) requires departments to submit all technical adjustments that do not require Executive approval, which includes internal reallocations, technical transfers and EU technical changes. Departments are also required to provide an update of Annually Managed Expenditure (AME) forecasts for 2014-15 to ensure Spring Supplementary Estimates reflect the correct position.
4. The second stage (with a 2 January 2014 deadline) of the monitoring round involves submission of transactions that are presented to the Executive, which includes bids, reduced requirements, reclassifications and proactive reallocations.

JANUARY MONITORING 2014-15

Key Proposals

5. We have consulted all DETI business areas. The key DETI monitoring proposals are described below.

Bids**Invest NI – Growth Loan Fund (£2.1m Financial Transactions Capital)**

6. Invest NI is bidding for an additional £2.1m Financial Transactions Capital (FTC). This is due to the move of the £5m Growth Loan Fund from ERDF to FTC due to pressures in the current ERDF programme. This is partially funded from a reduction of £3m in the FTC requirement for the Agri-food Loan Scheme leaving a bid for £2.1m.

Invest NI - £0.8m Capital Grant

7. Invest NI have a Capital Grant pressure of £900k, but we can only address £130k through reallocation from a de minimis easement leaving a pressure of £770k. The pressure relates to an increased requirement against SFA offers. There has been a significant increase in the value of financial assistance offered over the last 12 to 24 months as the economy has shown tentative signs of recovery that has resulted in increased budget requirements as these offers are now being drawn down. In the June monitoring round a bid of £5m was approved for Capital Grant against a number of SFA offers, and it was signaled at that time that there was a remaining pressure that may require further bids in the later monitoring rounds. As we can only partially meet this bid, we are putting the balance forward to DFP for consideration.

Internal Reallocation to Invest NI Following October Monitoring Resource Allocations

8. Following confirmation of £8.1m (4.4%) Resource cuts for 2014-15 and a Resource allocation of £13.8m in October Monitoring, we were left with £3.4m from reductions agreed across DETI business areas which was required to meet known pressures of £3.1m in Invest NI and reduce the DETI core budget overcommitment by £0.3m from circa £1.1m to circa £0.8m.
9. It is therefore proposed to proactively reallocate £3.1m to Invest NI in January Monitoring to address these in year pressures. A number of internal reallocations required in January Monitoring to effect this adjustment.
10. It is also proposed to reallocate £0.3m to reduce the overcommitment to around £0.8m taken against the DETI Core budget, as the overcommitment is considered too high at this stage in the financial year.

De Minimis Pressures and Adjustments (individual amounts below £1m)

11. We are proposing a range of internal reallocations to meet a number of **de minimis pressures** comprising **£231k Administration, £185k Resource and £130k Capital** from de minimis reductions. .
12. The de minimis reallocations include the following:

- **£157k Admin** for additional Accrued Employee Benefit costs, which are expected to increase due to a change in the method of calculating these costs as recently advised by DFP;
 - **£112k Resource** for Energy Division for the delivery of the Renewable Heat Incentive Scheme. HMT has provided funding of £25m (AME) over the 2010 budget period for a NI Renewable Heat Incentive (NI RHI) Scheme. As this funding cannot be used for administration of the scheme, there is an ongoing budget requirement over the life of the scheme. Administration in Northern Ireland is undertaken by Ofgem (as with GB scheme). Operating costs are currently estimated at £212k for 2014-15, and Energy Division was allocated £100k in June Monitoring leaving a balance required of £112k which forms this bid; and
 - **£74k Admin DEL and 73k Resource DEL** for a number of smaller pressures across the department.
 - **£130k Capital Grant** to Invest NI to part-fund existing £900k Capital Grant commitments
13. Given the level of detail and small sums in relation to de minimis bids, we propose to provide the ETI Committee with a high level summary.
14. This would leave **£55k Admin** and **£276k Resource**, which we propose to use to further offset the overcommitment in the DETI HQ budget to reduce it to **£0.497k**. We are also holding £100k Resource pending clarification on the position in relation to a £100k TIL bid in regard to advertising the Circuit of Ireland Rally. A decision on where this £100k should be allocated can be made between now and January.
15. Underspending against DETI Core budgets in 2013-14 was £1.3m compared to £0.85m in 2012-13, representing 4.5% of Resource budget. Finance Branch has challenged business areas on their budget management performance throughout the year and has held workshops with the main contributors to the 2013-14 DETI Core underspend to try to prevent reoccurrence of this level of underspending. An overcommitment position of **£0.5m** represents 1.9% of the DETI Core budget (0.25% of the total DETI Resource budget), and is considered manageable at this stage in the financial year.

Other Mainstream Internal Reallocations

16. A number of other minor internal reallocations are proposed in this monitoring round to realign budgets with forecast expenditure, the most significant of which include the following:
- Invest NI reallocations of £212k from Capital to Capital Grant to realign Invest NI budgets with forecast requirements;
 - NITB propose to reallocate £70k from Promotion & Marketing to Admin to cover inescapable pressures that were unforeseen at the beginning of the year;
 - Finance Accounts Branch propose to reallocate £69k from Foreign Exchange budget to Accrued Employee Benefit costs, which are expected to increase due to a change in method by which these costs are calculated as recently advised by DFP; and
 - NITB propose to reallocate £120k Capital from TDS projects (due to slippage) to meet £120k Capital pressures relating to the capitalisation of a Web Platform project (£50k) and the essential replacement of a Grant Management IT system (£70k).

Reclassification**Consumer Council (£9k Resource to Non Cash)**

17. The Consumer Council requires additional Non Cash budget in relation to an increase in depreciation charges. The majority of this pressure was addressed in October. However, there was insufficient Non Cash budget from other business areas to fully meet CCNI's requirements. It is therefore proposed to reclassify £9k from Resource budget to Non Cash.

EU Internal Reallocations

18. A number of self financing EU internal reallocations increasing and reducing EU expenditure supported by EU receipts are required, the most significant of which are as follows:

EU Competitiveness Programme

- £106k Resource increase and £7,611k Capital decrease in Invest NI EU expenditure and receipts to realign EU budgets with forecast requirements and availability;
- £170k Resource reduction in European Programmes expenditure and receipts for Technical Assistance; and
- £15k Resource increase in Invest NI EU expenditure and receipts for Technical Assistance.

19. Adjustments in EU expenditure are to reflect current profile of spend.

Technical Transfers

20. 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 increasing DETI's budget by £45k, and includes the following transfers:
- £178k Resource from DSD to Invest NI in respect of Social Enterprise Hubs;
 - £59k Resource from Invest NI to DEL in respect of the Jobs Fund;
 - £45k Resource from Invest NI to OFMDFM in respect of SBRI Poultry Litter projects;
 - £13k Resource from Invest NI to DE in respect of a Stock Market Challenge;
 - £12k Resource from DETI to DFP to cover Content Management System (CMS) Replacement and Website Consolidation for the remainder of 2014-15; and
 - Two smaller transfers (each under £10k) in and out of the department with the net effect of reducing the department's Admin budget by £4k.

Invest NI – Social Economy Incubation Hubs (£0.83m Resource)

21. A £1.134m Resource technical transfer from DSD to Invest NI for the Social Economy Incubation Hubs programme was proposed in June and October Monitoring, but was not processed as DSD indicated that they must firstly receive the funding from OFMDFM through the Accelerating Social Enterprise Signature programme.
22. DSD has agreed to allocate £178k to Invest NI in January Monitoring, leaving a balance outstanding of £956k.
23. The Accelerating Social Enterprise fund is administered by OFMDFM and has been oversubscribed in 2014-15. As a consequence OFMDFM is bidding for additional funding in January Monitoring, and the allocation of the £956k balance from OFMDFM to Invest NI is dependent on the outcome of January Monitoring. We have been advised by DFP that we should not bid for this in January Monitoring, but should note this in our return to DFP.

Telecoms Super Connected Cities Programme

24. Telecoms Policy Unit was allocated a budget of £5.8m by the Department for Culture, Media and Sport (DCMS) in 2013-14 for the Super Connected Cities programme. This can only be disbursed to Belfast City Council once DCMS direct that the expenditure is eligible. £0.1m was spent in the last

financial year; however, an agreement exists between DFP and HM Treasury whereby any unspent funding will carry forward into the next financial year as end-year flexibility.

25. £5.7m from 2013-14 is therefore available to be drawn down this year from HM Treasury, and Telecoms Policy Unit indicated in October Monitoring that £5m may be required for 2014-15. Latest projections now estimate that £4.9m will be required, resulting in a reduction of £0.1m. The actual drawdown of funds from HM Treasury will take place as part of their supplementary estimate round and actual figures will be confirmed by mid December 2014.

ANNUALLY MANAGED EXPENDITURE FORECASTING 2013/14 ONWARDS

26. 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, the revaluation of assets and funding for the Renewable Heat Incentive Scheme.
27. The Department is required to provide details of AME forecasts to DFP and DFP provides AME information on behalf of the Northern Ireland Executive to the Office of Budget Responsibility (OBR). This is the final opportunity to update AME forecasts for 2014-15.
28. 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.

Adjustments made in the AME Exercise

29. **Invest NI: Revaluation of Assets - (£9m increase)** Invest NI has set up a revaluation of assets budget of £9m to reflect the continued decline in the valuation of their property portfolio for this financial year.
30. **Invest NI: Provisions - Set up / Additions - (£4m decrease)** The AME budget line for set up/additions to provisions is set at £31.5m per year based in the position at the start of the Budget 2010 period. Current forecasts based on the level of business written in 2013-14 and 2014-15 show a provision requirement for 2014-15 of £27.5m.
31. **Energy Division (£0.2m decrease)** has further refined its forecast for a Resource AME budget allocation to cover anticipated costs of the Renewable Heat Incentive scheme, which has resulted in an easement of £0.2m in the Resource AME budget. Energy will now have a Resource AME budget of £4.63m and a Capital AME budget of £1.14m.

Assurance Statement

32. Statements of assurance have been obtained from DETI Senior Managers and NDPB Chief Executives confirming that they are satisfied with the forecasts provided by their business areas. DFP has asked Accounting Officers to confirm that the forecasts represent the most robust and accurate assessment that can be prudently provided at this stage of the year. On the basis of the returns from DETI business areas, I am content to recommend that the Accounting Officer endorse the return. However, the following areas of risk should be noted:

NITB Capital Grant

- NITB latest profiles continue to forecast the majority of Capital expenditure to occur from January 2015, with 67% of the £6.0m Capital budget profiled to be expended in the final quarter as Capital projects will in the main not commence until later in the year. The NITB Capital position is ahead of 2013-14, but nonetheless end-year loading remains a concern.

Telecoms Broadband Project

- There is risk around spend against £5m Capital Grant held against funding for the superfast broadband extension programme, which is profiled in March 2015. It is unlikely that a contractor will be appointed until the final quarter of the year, so at this time there remains uncertainty around the actual amount of expenditure that will be delivered to the end of the year. Finance Branch will closely monitor progress against this project but given the timing of any contract there will remain a risk of underspending.

Recommendation

33. The internal reallocations, technical transfers and EU technical changes will be processed in the First Stage of January monitoring. The easements and the reclassification will be considered in the Second Stage. Should there be any adjustments arising from the ongoing monitoring of the risk areas noted in the previous paragraph between now and the end of December, we would provide separate briefing to you. Subject to your approval, these can also be reflected in the Second stage return.
34. It is recommended that you note the above and, if content:
- (a) Confirm that we can present these proposals in the DETI submission to DFP for January monitoring; and
 - (b) Confirm that this material can be used to prepare briefing for the ETI Committee on both stages of January monitoring for submission by 1 December.
35. I would be happy to discuss.

TREVOR COOPER

cc Chris Stewart
Ian McCrea, MLA, Assembly Private Secretary
Wendy Johnston
David Beck
Bernie Brankin
David McCune
Jeff Partridge
Rod Robson
John Murray
Rosie Clarke

**Proposed Inescapable & High Priority De Minimis Bids in
January Monitoring**

| Business Area | Bid Description Categorisation of Bids: Inescapable (I); Pre-committed (P); High Priority (H); Desirable (D). | Amount (£000's) |
|---|---|--------------------|
| <u>CONSUMER COUNCIL (NI)</u> | | |
| CCNI – Resource Non Cash | Increase in Depreciation charges (I) | 9 |
| <u>INVEST NI</u> | | |
| Invest NI - Capital | Increase in Capital Commitments (I) | 130 |
| <u>TOURISM, TELECOMS & GSNI POLICY</u> | | |
| Telecoms Policy - Resource | Additional costs in relation to Technical Support (I) | 19 |
| Tourism Policy - Resource | HMS Caroline Endowment Fund (I) | 15 |
| Tourism Policy - Admin | Additional Costs for Tourism Statistics Unit (P) | 9 |
| Minerals - Admin | Increase in Salary Costs due to additional DP (I) | 25 |
| <u>BUSINESS REGULATION</u> | | |
| Insolvency Service - Resource | Increase in Miscellaneous Costs due to Overdrawn Balances (I) | 15 |
| Insolvency Service - Resource | Increase in GAE Costs(I) | 15 |
| <u>ENERGY</u> | | |
| Energy - Resource | Ongoing Funding required for the Delivery of the RHI Scheme (I) | 112 |
| Energy - Admin | Additional funding required for legal costs (EMR) (I) | 30 |
| Energy - Admin | Additional Salary Costs for approved posts (I) | 5 |
| <u>FINANCE</u> | | |
| Accounts - Admin | Pressure in relation to Accrued Employee Benefits (I) | 157 |
| <u>TOURISM IRELAND</u> | | |
| Tourism Ireland - Resource | Contribution towards the Circuit of Ireland Rally (H) | 100 |
| | Total Admin Bids To Meet | 231 |
| | Total Resource Bids To Meet | 276 |
| | Total Resource Non Cash Bids To Meet | 9 |
| | Total Capital Bids To Meet | 130 |
| | Total De Minimis Bids To Meet | 646 |

De Minimis Bids Not to be Met in January Monitoring

| Business Area | Bid Description Categorisation of Bids: Inescapable (I); Pre-committed (P); High Priority (H); Desirable (D). | Amount (£000's) |
|-------------------------------|---|--------------------|
| <u>TOURISM IRELAND</u> | | |
| Tourism Ireland - Resource | NI Air Connectivity (H) – bid not supported by Tourism Policy Branch | 110 |
| <u>NITB</u> | | |
| NITB - Resource | Spring 15 Marketing Campaign (H) – bid supported by Tourism Policy Branch. Corresponding EU bid not supported by European Support Unit | 400 |
| | | |
| | Total Resource Bids Not Met | 510 |
| | Total Bids not Met | 510 |