

From: [McCoy, Laura](#) on behalf of [Cooper, Trevor](#)
To: [Morelli, Emer](#)
Cc: [McCormick, Andrew \(DETI\)](#); [Rooney, Eugene](#); [Stewart, Chris \(DETI\)](#); [Brankin, Bernie](#); [Barrett, Stephen](#); [Scott, Michelle](#); [Millar, Angela \(DFP\)](#); [Partridge, Jeff](#)
Subject: June Monitoring 2015-16
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Attachments: [Note to DFP - June Monitoring 2015-16.pdf](#)
Importance: High

Please see attached from Trevor Cooper.

Regards,

Laura McCoy

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Emer Morelli
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4 June 2015

Dear Emer

JUNE MONITORING 2015-16

1. This letter covers the DETI contribution to the June monitoring exercise. Finance Branch has forwarded the detailed supporting information to DFP Supply and Central Expenditure Division.

Key Mainstream Proposals

2. The key DETI monitoring proposals are set out below:

	Resource £M	Capital £M	Total £M
Substantive Bids:			
Invest NI – Bombardier	4.00		4.00
Tourism NI – Feasibility Studies	1.00		1.00
Invest NI - Seagate		4.30	4.30
<i>Offset by de minimis Capital reductions</i>		<i>(1.00)</i>	<i>(1.00)</i>
Tourism NI – Existing Commitments		1.00	1.00
<i>Offset by £1M held at DETI Core (De Minimis transfer)</i>		<i>(1.00)</i>	<i>(1.00)</i>
Total	5.00	3.30	8.30
Easement			
Energy - Gas to the West		(0.50)	(0.50)
Ring-fenced Easements			
European Support Unit - Reduction in Interreg	(0.725)		(0.725)

Bids

Invest NI Bombardier (£4.0M Resource) - INESCAPABLE

3. Invest NI have bid for £4.0M for a Bombardier Nacelles project, being the amount expected to be claimed by the company before the end of June. There would then be a further £2.4M to be claimed by the company, which may necessitate a further bid later in the year when Invest NI have more visibility of when the claim is likely to be received.

4. Bombardier Aerospace Belfast has been developing leading edge nacelle manufacturing technology and has been offered support by Invest NI to develop a new nacelle for the Pratt & Whitney (P&W) 1400G engine, which is to be used on the Russian Irkut MC21 aircraft. Total project costs will be in the order of £110M with associated grant of £10.95M. The project will support 115 highly skilled R&D jobs with median salary of £32,366 and enhanced manufacturing skills which will result in increased production. The overall benefit is that Northern Ireland will secure £100M R&D investment from Russia, and Bombardier will become the manufacturer of the P&W 1400G nacelle, with sales of \$1.7 billion being forecast. Without Invest NI funding, the R&D and manufacturing would not have been secured for NI.
5. Invest NI may have further in-year pressures in relation to four large R&D projects for Radox that are currently being assessed. However it is too early to indicate the potential 2015-16 requirement and Invest NI are not signaling any other Resource pressures at this point in the year.

Invest NI Seagate (£4.3M Capital offset by reallocating £1M Capital de minimis reductions from DETI Core) - INESCAPABLE

6. Invest NI are bidding for £4.3M Capital for a Seagate R&D project. It is proposed that we partially offset this bid by reallocating £0.9M Capital from Economic Policy Unit, which had been allocated for the Northern Ireland Science Park but which is now being fully funded through Financial Transactions Capital, and £0.1M Capital from Telecoms due to a small forecast reduction in spend on the Superfast Broadband Roll-out Programme Phase II out of £2.4M.
7. In recent years, the Hard Disc Drive (HDD) industry has used 'Perpendicular Recording' as the method for maximising the amount of data that can be stored on a HDD of given size. Seagate Technology (Ireland) has been offered £7.78m Grant for R&D assistance to research the potential of a new technology, Heat Assisted Magnetic Recording (HAMR), to further enhance HDD storage capacity and to seek competitive advantage in the market. The Company is spending £34.7m on this research project. 178 highly skilled staff with median salary of £34,653 will be working on this research project, and it is estimated that over the next ten years this new technology could generate sales of almost £800M.
8. In addition to Seagate, Invest NI may have a further pressure of up to £5M on Capital Grant Selective Financial Assistance, property site development, and ICT infrastructure projects. Invest NI will assess this pressure at the October monitoring stage.

Tourism NI Feasibility Studies (£1M Resource) – HIGH PRIORITY

9. Tourism NI is bidding for £1M Resource for feasibility studies on the following projects:
 - **Mournes Gondola Project** – to provide a “stand out” project to act as a key attractor for the Mournes area, which will entail a ski-lift facility from Donard car park in Newcastle to Thomas’s Quarry in the Mournes;

- **Game of Thrones Project** – to explore opportunities to build on the growing demand for Game of Thrones experiences in Northern Ireland;
- **Tourism Information centre, Londonderry** - to relocate this office in line with visitor and tourism industry expectation for a state-of-the-art tourist office and facility in the centre of the city; and
- **Gobbins Activation Support** – to review visitor management and visitor flow issues to ensure the attraction is a success.

Tourism NI Existing Commitments (£1M Capital offset by a de minimis transfer of £1M Capital from DETI Core) – INESCAPABLE COMMITMENTS

10. Tourism NI is also bidding for £1.0M Capital to meet existing commitments relating to three key projects. Two of these are as a result of slippage from commitments entered into for 2014-15 (Waterfront Convention Centre and Railway Preservation Society of Ireland), with one new commitment for SS Nomadic.
11. It is proposed that we offset this bid for existing commitments by reallocating the £1M Capital being held in DETI Core for tourism projects for Tourism NI following the Final Budget 2015-16 settlement.

Financial Transactions Funding Capital**Invest NI**

12. Invest NI currently has an FTC allocation of £15.9M, and has previously flagged a range of potential FTC projects which, depending on progress and uptake, could range between £15.9M and 30.9M in 2015-16.
13. Latest projections show that £0.5M will not be required on the Growth Loan Fund budget of £5M, and there is a high risk that the Titanic Studios will not draw down the entire £5.7M allocated for 2015-16. However, there are potentially additional requirements of £8.2M on the Sustainable Use of Poultry Litter project, and up to £3.5M for the Agri-Loan Scheme. Invest NI will have more clarity on these projects at the next monitoring round, but have flagged at this stage a possible additional requirement of c£5.5M in 2015-16.

AME forecasts for the Chancellor's Summer Budget including the Renewable Heat Incentive (RHI) Initiatives

14. Following DFP's request on the 19 May, we have provided you with revised Annual Managed Expenditure (AME) budget forecasts including the Renewable Heat Incentive Initiatives from 2015-16 through to 2020-21 for the Chancellor's Summer Budget 2015. It is vital that these additional AME requirements are addressed.
15. As regards the RHI, we currently have £11.6m AME budget in 2015-16 and our requirement is estimated at just over £23m to meet anticipated demand for these initiatives in the current financial year. We also have additional requirements for these initiatives for future years.

16. Up to the end of 2014-15 our requirements under the Non-Domestic and Domestic Schemes have fallen within the Barnett Formula allocation resulting from the overall AME allocation to the Department of Energy and Climate Change (DECC). Increased demand in Northern Ireland under the Non- Domestic Scheme means that we are forecasting that we would fall outside an allocation based on such a Barnett Formula in 2015-16 and beyond. It is therefore vital that the forecast additional AME budget requirements for this scheme are addressed.
17. I would welcome further discussions with DFP colleagues on how this will be progressed with Treasury and DECC.

Easement

Energy – Gas Extension Project (£0.5M Capital)

18. There is a reduction of £0.5M Capital against a £3M allocation for the gas extension project to the West and North-West. A detailed Letter of Offer is expected to issue to Mutual Energy, the successful applicant in respect of the high pressure gas transmission assets, in June 2015. However, design work will have to be completed and planning and other approvals sought prior to commencing construction works.
19. It is anticipated that initial project construction work will start later in 2015 with the major pipelines expected to be laid in 2016-17 and the project completed in 2017-18. Mutual have confirmed anticipated eligible spend of £7.3M in 2015-16, which equates to grant @ 35% of approx £2.5M.
20. Energy Division has flagged that there does remain uncertainty regarding the level of expenditure which can be achieved in 2015-16 as the timetable for delivery of large infrastructure projects can be challenging. Energy Division is therefore flagging at this stage that there may be a further unavoidable reduced requirement in subsequent monitoring rounds.

Ring-Fenced Easements

European Support Unit – Interreg Va budget (£0.725m Resource)

21. In relation to the Interreg Va Programme, SEUPB manage the Programme and projects and DETI as Accountable Department is required to transfer funding to SEUPB to meet its forecast funding requirements. Following consultation with SEUPB and with DFP as Member State, match funding for Interreg Va projects is no longer required in 2015-16.
22. Following adoption of the programme by the European Commission in February 2015, an initial call for projects is taking place during May 2015. However, expenditure by successful applicants is not anticipated in this financial year by SEUPB.

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

23. We are proposing to meet a number of inescapable de minimis pressures comprising £0.3M Administration and £0.7M Resource, and other pressures comprising £0.1M Capital and £3k Non Cash from de minimis reductions.
24. The most sizeable de minimis transactions (those over £100k) include £280k to the Insolvency Service for legal costs in respect of Directors Disqualification Unit and other IS pressures, £160k to meet enhanced NISRA official tourism statistics, and £131k to meet current service pension costs for InterTradeIreland.

Voluntary Exit Scheme Costs

25. DETI Core has registered £2.4M and HSENI £0.5M requirements for the Voluntary Exit Scheme, which were considered in the first tranche of bids under the scheme.
26. DETI has also registered bids under the second tranche from Arms Length Bodies. The Tourism NI approved business case totals £0.4M and the Consumer Council approved business case totals £0.2M, bringing the total bid from DETI to £3.5M.

Employer Pension Costs

27. Employer contribution rates for the main unfunded public service pension schemes increased from April 2015, with average rates increasing from 19.5% to 22.3%. Based on figures provided by Pensions Division, the Executive has set aside £122.5 million as part of Budget 2015-16, to meet these pressures in-year, which is currently held at Centre for distribution to departments during June Monitoring as ring-fenced allocations.
28. DETI estimates that the increase in Employer Contribution Rates from 19.5% to 22.3% will amount to £502k for the Core department. As the increase applies to all Schedule 1 bodies whose employees are part of the PSCPSNI scheme, Invest NI and the Consumer Council are also impacted. Invest NI has advised that the estimated increase is £570k and CCNI has estimated an increase of £33k, bringing the overall requirement for DETI to £1.105M.

Mainstream Internal Reallocations

29. The most significant internal reallocations proposed in this monitoring round are set out below:
 - **Consumer Council (£0.3M Resource):** Funding is being made available by NI Water for the Consumer Council's representative role in relation to water;
 - **Consumer Council (£0.2M Resource):** Funding is being made available by Northern Ireland Authority Utility Regulation for the Consumer Council's representative role in relation to energy activities;

- **Tourism NI (£0.2M Resource):** Tourism NI has forecast that they will generate additional Resource receipts relating to Promotion & Marketing activities which can be utilised for Promotion & Marketing expenditure; and
- **European Technical Assistance (0.4M Resource):** To facilitate the reallocation of European technical assistance match funding to a range of DETI business areas.

30. There are also a number of other minor internal reallocations to realign budgets to business needs.

EU Internal Reallocations

31. 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

- £0.9M Resource increase and £9.1M Capital decrease in Invest NI EU expenditure and receipts to realign EU budgets with forecast requirements;
- £4.4M Capital Grant increase in EU expenditure and receipts for the Northern Ireland Broadband Improvement Project;

EU Interreg Programme

- £4.108M Resource reduction in European Support Unit EU expenditure and receipts to align with SEUPB projections (see also £0.725M ring-fenced match funding easement above).

Technical Transfers

32. A number of technical transfers to and from other departments need to be effected in this monitoring round. These include the following transfers:

- £4.4M Capital Grant from the Department of Culture, Media and Sport to Telecoms Policy Unit for the Northern Ireland Broadband Improvement Project;
- £1.9M Capital Grant from the Department of Culture, Media and Sport to Telecoms Policy Unit for the Super Connected Cities programme;
- £1.1M Resource from DSD to Invest NI for the Social Economy Incubation Hubs programme which is subject to a successful bid to the Delivering Social Change Fund;
- £0.6M Resource from Tourism Policy to Northern Ireland Statistics and Research Agency (DFP) for the provision of official tourism statistics;

- £0.3M Capital Grant from the Department of Culture, Media and Sport to Telecoms Policy Unit for the Superfast Roll Out Programme Phase II project;
- £0.2M Resource from Economic Policy Unit to DEL for the Higher Education EU Support Fund;
- £0.15M Resource from Invest NI to DCAL for Music Industry Support;
- £0.1M Resource from Economic Policy Unit to DEL to fulfil DETI's commitment to the Northern Ireland Centre for Economic Policy;
- £0.1M Resource from DARD to HSENI for the Farm Safety Campaign;
- And five smaller transfers out of the department with a net effect of reducing DETI's budget by £0.1M.

Assurance Statement

33. I can confirm that the Accounting Officer is satisfied that the forecasts represent the most robust and accurate assessment that can be prudently provided at this stage of the year. However, the following areas of risk should be noted:

- The potential further Invest NI Resource pressures in relation to Bombardier and Radox set out at paragraphs 3 and 5 and the potential Capital pressure set out at 8;
- It is anticipated that the Gas to the West project construction work will start later in 2015 with the major pipelines expected to be laid in 2016-17 and the project completed in 2017-18. However, DETI recognises that the timetable for delivery of large infrastructure projects can be challenging and there is significant uncertainty regarding the level of spend which can be achieved in 2015-16; and
- There may be a potential need for an in-year bid due to the impact of the declining Euro on the sterling value of DETI's EU Sustainable Competitiveness Programme allocation. If the current exchange rate were to prevail and full expenditure forecasts achieved, there would be a need to bid for c£2.6m to cover a shortfall in the previously forecast sterling value of the remainder of the programme.

34. The June monitoring return has been cleared with the DETI Minister.

**TREVOR COOPER**

cc Andrew McCormick
Eugene Rooney
Chris Stewart
Bernie Brankin
Stephen Barrett
Michelle Scott
Angela Millar
Jeff Partridge