

FROM: Olive Hill

DATE: 11 July 2012

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TO: 1. Andrew Crawford
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**MINISTERIAL SUBMISSION FOR THE INVEST NI SUSTAINABLE
PRODUCTIVITY PROGRAMME**

INITIAL SUMMARY

- Objective:** To seek Ministerial Approval to deliver Invest NI's Sustainable Productivity Programme (SPP).
- Issue:** Invest NI's Sustainable Development team is seeking approval to fund a programme of activity (the "Sustainable Productivity Programme") that will cost £12 million over the period 2012/13 to 2014/15. Ministerial approval is required.
- Timeframe:** Routine
- Need for referral to the Executive:** N/A
- Presentational issues:** None
- Fol issues:** The content of this submission is fully disclosable.
- PfG/PSA implications:** The proposed programme will help Invest NI to meet its Programme for Government targets.
- Financial implications:** The cost of the programme is £12 million which is available from Invest NI's baseline. Some activity will be part funded by the European Regional Development Fund.
- Legislation implications:** None
- Statutory Equality Obligations:** The matters addressed in this note do not raise any S75 issues for Invest NI.
- Recommendation:** It is recommended that you approve £12 million funding of the Sustainable Productivity Programme.

cc: David Sterling
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1. BACKGROUND

Since its inception in 2002 Invest NI has provided resource efficiency support to business - either directly via a Sustainable Development team in Invest NI - or indirectly through a series of Invest NI funded third parties and/or third party programmes. Programmes and organisations such as “Carbon Trust”, “Envirowise” and the “National Industrial Symbiosis Programme” have all delivered support to businesses in Northern Ireland, to promote and deliver efficiencies through improved use of water, energy and materials. Technical advisors within the Invest NI team have also delivered support directly to businesses and complemented the externally delivered activities.

Invest NI has also promoted and raised awareness of business opportunities for local businesses in the renewable energy sector and associated supply chains spanning the globe. Within this area it has worked with a wide range of internal and external stakeholders; it has published research and hosted numerous events designed to encourage local businesses to investigate their potential to service this market. With some success the profile of Northern Ireland as a “renewable energy hub” has been raised and inward investment has been attracted with a large number of indigenous businesses working in renewables.

An independent economic appraisal of all of these activities was commissioned by Invest NI in 2010. This appraisal not only examined the support landscape but also reviewed and took into account evaluations of earlier programmes. Views from across government and industry stakeholders were sought and accounted for during the appraisal process and the appraisal was completed in March 2011.

The proposal arising from the Economic Appraisal is that Invest NI delivers a programme of activity over 3 years within a framework called the “Sustainable Productivity Programme”. It is proposed that this programme be delivered over the period 2012/13 to 2014/15. Delivery of the programme immediately after the appraisal was precluded due to inconsistently timed contract conclusions and a real requirement to maintain continuity of service to business in a period of strong economic challenge.

The programme, costing some £12 million of capital and revenue expenditure, will comprise a number of strands most of which will be delivered and managed using internal resources. Two strands will be delivered externally as per the appraisal recommendations because of the specific expertise required.

Since the Appraisal was completed in March 2011 interim delivery measures were put in place to ensure continuity in service delivery. Expenditure during this period was approved at the appropriate delegated levels. Details of the interim delivery measures, funding and approval levels are presented in Appendix A.

This paper seeks approval for the proposed Sustainable Productivity Programme for the period 2012-2015.

2. OUTLINE OF PROJECT

The aim of the Sustainable Productivity Programme (SPP) is to improve the productivity, competitiveness and sustainability of participating Northern Ireland businesses through:

- Identification and realisation of cost saving opportunities in the use of materials, water and energy
- Promotion of business opportunities in sustainable energy supply chains.

The Programme consists of a portfolio of resource efficiency and supply chain activities that will help the business community achieve operational savings in water, energy and materials use and which will increase turnover in sustainable energy supply chains. The objectives for the Programme will be achieved through a portfolio of 4 key areas of business support activity costing a total of £12 million. This will return £5.44 for every £1 spent and deliver an NPV of £34.1 million (- or £123 million over 3 years if carbon savings are included):

The 4 key areas are:

1. An Energy Efficiency Loan Fund
(Providing interest free loans to businesses of between £3k and £400k for installation of more energy efficient equipment)
2. A Capital Grant scheme
(Providing grants of up to £50k for installation of materials and water cost saving equipment)
3. Industrial symbiosis services
Generating commercial opportunities for the exchange of commodities including waste materials
4. Direct Project Management Support
Project management support for resource efficiency and promotion of renewable energy supply chain opportunities

Specifically the Programme will increase regional productivity by:

- helping business to implement resource efficiency projects that result in cost savings (or increased sales) of £22.5m equivalent to 0.08% of annual Northern Ireland GVA per annum by 2015
- helping business to achieve growth in the turnover of sustainable energy firms of £16.5m over the period 2012-2015 and in doing so contribute to the growth of the Northern Ireland sustainable energy sector to 8.9% of NI GVA by 2015

The cost, structure, delivery mechanisms and integration of these strands will reflect the recommendations of the Economic Appraisal which has been validated by the

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conclusions drawn by DETI Economists.

3. STRATEGIC FIT

The aim of the Sustainable Productivity Programme is to improve the productivity, competitiveness and sustainability of participating Northern Ireland businesses through:

- Identification and realisation of cost saving opportunities in the use of materials, water and energy
- Promotion of business opportunities in sustainable energy supply chains.

The Programme will deliver directly against Invest NI's Corporate Plan target:

"Support businesses to identify £60 million of resource and waste prevention savings"

This target is also incorporated within Northern Ireland's Sustainable Development Strategy and the associated Sustainable Development Implementation Plan published by OFMDFM. (see: www.ofmdfmi.gov.uk/eisusdevstrategy.pdf and www.ofmdfmi.gov.uk/focus_on_the_future.pdf)

The programme is aligned with the conclusions relating to Invest NI's support for the wider business base contained in the Independent Review of Economic Policy (IREP) and will deliver results against Priority 1 of the PfG – Growing a Sustainable Economy and Investing in the Future – a strand which includes activity to grow the green economy.

4. ADDITIONALITY/MOBILITY

The Economic Appraisal recognised some deadweight is inevitable but it is also clear that businesses will not invest in resource efficiency measures without incentivisation - particularly in today's challenging economic circumstances.

The Economic Appraisal team applied a conservative level of additionality in determining the Return on Investment of the Programme. Evaluations of previous programmes have found that additionality lay between 25 and 65% - so the Economic Appraisal team used an average additionality figure of 51% in its appraisal of the delivery options.

It is expected however that owing to the focus of this Programme on achieving savings and turnover growth rather than just identifying savings and potential growth opportunities greater levels of additionality will be achieved.

The Sustainable Productivity Programme is non mobile.

5. PROPOSED ASSISTANCE AND RATIONALE FOR FORMAT OF SUPPORT

The Economic Appraisal team's assessment of feedback on the previous programmes was generally positive, although several areas for improvement were

highlighted through the consultations and evaluations. The key factors arising from the appraisal team's assessment of past provision of support is the need to simplify the landscape of support offered and the need for a greater focus on implementation support. Other factors identified and highlighted in the Appraisal include: businesses requiring more bespoke information tailored to their needs; greater sharing of best practice; providing clearer information on the support available; and integrating separate resource audits into a single audit.

The portfolio of support through the Sustainable Productivity Programme includes strands that have been effective in the past such as industrial symbiosis and the Energy Efficiency Loan Fund whilst other strands are new – the Resource Efficiency Grant Scheme, greater direct engagement and delivery through an enlarged Invest NI team and framework of external technical consultants.

The following table translates the funding requirement as set out in the economic appraisal into expenditure that will be incurred by Invest NI whilst delivering the Programme. The difference between the two budgets is that the EA budget does not include VAT but does include existing staff, whereas the actual expenditure includes VAT and new programme funded staff.

		£
A	Annual cost from economic appraisal (p156)	3,962,264
B	less capital costs (loans & grant)	-1,550,000
C	Total Annual Revenue costs	2,412,264
D	less total staff costs (9 @55k)	-495,000
E	Total vatable costs	1,917,264
F	VAT@20% (of E above)	383,453
G	Annual cost (from A above)	3,962,264
H	add VAT (from F above)	383,453
I	Total annual cost incl. VAT & Staff	4,345,717
J	less existing staff (6@55k)	-330,000
K	Annual costs for approval	£4,015,717
L	3 year programme cost for approval (3xK above)	£12,047,151

The following table sets out the detail of the proposed cost and outcomes from each of the strands for the Programme these reflect the "logic chain" of activities and costs set out in the Economic Appraisal.

STRAND	COST TO INVEST NI (PER ANNUM)	LEVERAGED PRIVATE INVESTMENT (PER ANNUM)	KEY OUTPUTS TARGET 1 RESOURCE SAVINGS	KEY OUTPUTS TARGET 2 SUPPLY CHAIN TURNOVER	COMMENT
1. ENERGY EFFICIENCY LOAN FUND (TO SUPPORT INSTALLATION OF ENERGY EFFICIENT EQUIPMENT)	£1 MILLION NEW CAPITAL + £187K MANAGEMENT COSTS	£1.88 MILLION	£1.73 MILLION ACHIEVED SAVINGS PA	£2.4 MILLION TURNOVER INCREASE IN THE SUPPLY OF ENERGY EFFICIENT EQUIPMENT	INVEST NI HAS INVESTED £8.6 MILLION IN THIS REVOLVING LOAN FUND – IT IS ESTIMATED THAT £12.7 MILLION OF LOANS WILL BE DISBURSED OVER THE 3 YEARS. IT IS PLANNED THAT CARBON TRUST WILL CONTINUE TO MANAGE THE LOAN FUND
2. CAPITAL GRANT SCHEME ¹ (TO SUPPORT INSTALLATION OF EQUIPMENT TO REDUCE WATER AND MATERIALS CONSUMPTION)	£550K	£550K	£880K ACHIEVED SAVINGS PA	£500K TURNOVER INCREASE IN SUPPLY OF ENERGY EFFICIENT EQUIPMENT	IT IS ANTICIPATED THE GRANT SCHEME WILL PROVIDE GRANTS OF UP TO £50K PER PROJECT ACROSS ALL SIZES OF COMPANY AT RATES OF BETWEEN 35% AND 55%
3. INDUSTRIAL SYMBIOSIS (TO PROMOTE THE COMMERCIAL EXCHANGE OF COMMODITIES INCLUDING WASTE)	£252K	£750K	£1.15m ACHIEVED SAVINGS/ADDITIONAL SALES	NIL	INDUSTRIAL SYMBIOSIS PROVISION WILL BE DELIVERED BY AN EXTERNAL EXPERT CONTRACTOR
4. DIRECT PROJECT MANAGEMENT SUPPORT (TO MANAGE AND DELIVER DIRECT ENGAGEMENTS WITH BUSINESS /LEVER IN THE MOST APPROPRIATE EXTERNAL SUPPORT)	£2,026,717	£3.88 MILLION	£3.74 MILLION ACHIEVED SAVINGS	£2.65 MILLION TURNOVER INCREASE AND GROWTH IN RENEWABLE ENERGY SUPPLY CHAIN TURNOVER	THE INVEST NI TEAM WILL DRAW UPON EXTERNAL TECHNICAL EXPERTISE AND PROGRAMME FUNDED STAFF TO IDENTIFY, PRIORITISE AND HELP IMPLEMENT PROJECTS ACROSS RESOURCE EFFICIENCY AND RENEWABLE ENERGY SUPPLY CHAINS.
TOTAL PER ANNUM	£4,015,717	£7.06 MILLION	£7.50 MILLION	£5.5 MILLION	
TOTAL FOR 3 YEARS	£12 MILLION	£21.2 MILLION	£22.5 MILLION	£16.5 MILLION	

¹ The SEC Committee recommended that if separate budget was available and suitable projects were identified these potential projects could be funded through this programme but appraised on their own merit.

In terms of State Aid compliance the bulk of the support available from the Programme will be provided on a De Minimis basis however the proposed Grant Scheme will be delivered within the terms of the General Block Exemption Rules – specifically the Rule permitting support for business improvements beyond statutory environmental requirements.

6. AFFORDABILITY

Funding for the Programme is available from the Invest NI baseline.

7. DISPLACEMENT

It is expected that displacement will be lower than occurred with previous programmes because:

(a) the integrated nature of the SPP will ensure no overlap in support can occur between strands;

(b) under current economic conditions internal finance and bank finance are not as available as they had been in the past and so the financial incentives proposed are not likely to displace these other sources of finance.

8. VIABILITY/KEY RISK ASSESSMENT

The project is viable – the team has confirmed that the funding from Invest NI's baseline is available to fund the Programme.

Key risks and mitigating actions are:

Technical – technical issues that prevent companies participating in the programme. This will be mitigated through close working with Invest NI colleagues to ensure businesses can access complementary support from other Invest NI teams such as the Technical Advisory Unit and Innovation Research and Technology Division.

Market – the general economic environment may result in reduced demand for support and/or reduced investment in sustainable development activities. The team will ensure that the support available is readily accessible and can support as wide a range of businesses and projects as possible. The team will also ensure that businesses are provided with accurate information about the benefits of resource efficiency and renewable energy markets.

9. VALUE FOR MONEY (VFM) ASSESSMENT

The conclusions of DETI Economists on VFM are:

The preferred option is estimated to have a public sector cost of £11.9m over three years, therefore offering significant cost savings when compared to public sector costs of £16.3m under the status quo. This suggests that the preferred option represents a more cost effective use of funding.

However, no conclusion has been made on the value for money of each of the individual elements of the programme. The appraisal states that "any further reduction in costs and activities is expected to reduce outputs and outcomes by at least a proportional amount". In the absence of any consideration of individual elements, it is not clear how this conclusion has been reached.

The consultants have stated that the preferred option represents better value for money than the status quo, producing an incremental net benefit in excess of £100m when compared to the status quo. This represents a discounted net benefit for the preferred option of £123.32m over three years – a significant positive contribution to the economy. DETI Economists are therefore content that, of the options considered in the Economic Appraisal, the preferred option offers the greatest potential to achieve a value for money outcome.

10. TERMS AND CONDITIONS OF FINANCIAL ASSISTANCE

Invest NI will endeavour to deliver the Programme as established through the economic appraisal.

11. RECOMMENDATION

On the 21st March 2012, Invest NI's Board Casework Committee provided approval for the case for funding of the Sustainable Productivity Programme to progress to the DETI Board Casework Committee.

It is recommended that DETI/DFP approve the expenditure of £12,047,151 to fund the Sustainable Productivity Programme over the 3 year period 1st April 2012 to 31st March 2015.



Olive Hill

Date

23/5/12

**Director Innovation & Technology Solutions
Invest NI**

INVEST NI CHIEF EXECUTIVE ENDORSEMENT

I am content that this submission accurately reflects the case being presented for approval, and can confirm that the appropriate approvals are in place and that they are consistent with the relevant delegated limits.

I recommend that the proposed package of assistance is approved.

 24-5-12.

Alastair Hamilton
Invest NI Chief Executive

APPENDIX A

SUSTAINABLE DEVELOPMENT SUPPORT DELIVERY 2011/12

It was Invest NI's intention through an Economic Appraisal to simplify both the approval and the evaluation processes for all of the strands of activity encompassed within the Sustainable Development team's remit - and within the Sustainable Productivity Programme (SPP).

However whilst Invest NI had planned to complete an Appraisal well in advance of the 2011/12 year-end leaving sufficient time to ensure approvals could be sought and obtained before delivery commenced on 1 April 2011, a host of delays resulted in the Appraisal not being completed within the timescale originally envisaged. These delays primarily resulted from the complexity of offering being appraised.

As a result of the Appraisal timeline interim measures that would take effect from 1 April 2011 were needed to ensure that no gaps appeared in the portfolio of services and support for businesses during a difficult economic period in which demand for services remained high. The funding and budget allocation (as set out in the table below) for these measures is outside the funding approval being sought through this casepaper.

There were also practical reasons why it was not possible to put in place the Appraisal's recommendations immediately on its completion. It was not feasible to withdraw core revenue funding from Carbon Trust within the space of weeks or months – indeed as it transpired later in 2011/12 questions about TUPE arose in the context of Carbon Trust (now settled) which precluded the recruitment of the additional technical staff advocated in the Appraisal's conclusions.

Under these circumstances Invest NI initiated approval processes for those activities described in the appraisal requiring external delivery as timing and need dictated.

In the case of external delivery of industrial symbiosis activity Invest NI's contract with the service provider came to an end on 31 March 2011. Invest NI extended the contract for 3 months as a single tender, with the appropriate approvals, whilst approval for continued longer term delivery could be obtained and the associated tendering process could be completed. In earlier tendering for industrial symbiosis services only one bid was obtained so in order to provide some confidence to longer term planning (for the service provider and Invest NI) and perhaps encourage a greater number of bidders Invest NI believed that a tender for three years with an option for a one year extension was the most appropriate course of action. This approach resulted in two potential service providers submitting bids. Should approval for funding of the Sustainable Productivity Programme as sought in this casepaper be forthcoming that approval would supersede the earlier approval and would extend it for a further year.

Approval was in place at the appropriate level for all expenditure incurred in 2011/12. All caseworks referenced the Sustainable Productivity Programme appraisal and highlighted the rationale for proceeding with interim measures.

Support in 11/12	Approval Level	Expenditure in 2011/12
Q1 Industrial Symbiosis	CEO / Permanent Secretary single tender approval for Q1 extension to previous one year contract.	£39,999
Q2-4 Industrial Symbiosis	Invest NI Senior Executive Casework Committee approval for 2 years 9 months	£195,048
Q1 Carbon Trust Revenue	CEO approval to extend the funding period of the earlier Ministerial Approval for Q1	£237,221
Q2-4 Carbon Trust Revenue*	Invest NI Board Casework Committee for Q2 to Q4 2011/12	£741,281
Carbon Trust Loan Capital*	Invest NI Board Casework Committee for Q2 to Q4 2011/12	£500,000
Technical Consultancy - external audits & implementation support	Projects of approximately £1k to £10k approved on a case by case basis in line with the delegated approval limits (G7 or G5)	£390,878

*Carbon Trust Board casework included both revenue and capital

**Addendum and update to an Economic Appraisal of Invest NI's
Sustainable Productivity Programme 2012/13 to 2014/15**

1. Whilst Invest NI had planned to complete an Economic Appraisal well in advance of the 2011/12 year-end leaving sufficient time to ensure approvals could be sought and obtained before commencing delivery from 1 April 2011, delays arising from the complexity of the programme, resulted in the Appraisal not being completed within the timescale originally envisaged.

The delay resulted in a number of practical issues that led to a series of interim measures having to be put in place in 2011/12 to ensure that no gaps appeared in the portfolio of support for businesses during a difficult economic period in which demand for services remained high. Expenditure during this period was approved at the appropriate delegated level. If approval for the expenditure set out here is forthcoming an earlier delegated approval (for industrial symbiosis services) will be superseded. Expenditure on 2011/12 interim measures is not included in this request for approval.

2. From their review of casepapers DETI economists are content that the 2012-2015 Programme appears to be in line with that appraised. DETI economists are also content that although the amount for which approval is being sought differs from the appraisal, due to the inclusion of VAT and the exclusion of existing internal staff resources, the value for money judgement of the EA is not affected.
3. Appendix 1 to this addendum sets out how the funding requirement as established in the economic appraisal has been translated into actual expenditure that will be incurred by Invest NI whilst delivering the Programme over the period 2012/13 to 2014/15. The difference between the two is that the EA does not include VAT but does include existing staff, whereas the actual expenditure includes both VAT and new programme funded staff.
4. It is believed the market failure reflected in the Appraisal and subsequent casepapers continues to be demonstrated – indeed growing the green economy which this Programme will help achieve is a specific strand falling within Priority 1 of the Programme for Government – “Growing a Sustainable Economy”.

APPENDIX 1

SUSTAINABLE PRODUCTIVITY PROGRAMME 2012/13 to 2014/15

FUNDING REQUIREMENT

		£
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