

Joanne McBurney
Department of Finance and Personnel
Rathgael House
Balloo Road
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5 June 2014

Dear Joanne,

JUNE MONITORING 2013/14

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

Key Adjustments to Existing Budgets

2. We have consulted all DETI business areas. The key DETI monitoring proposals to existing budgets are summarised in **Table 1** below:

	Resource £M	Capital £M	Total £M
Bids			
Invest NI – SFA & R&D Projects	10.5*	5.0	15.5
Invest NI – Property Development		1.6	1.6
NITB – Events	3.4		3.4
Total Bids	13.9	6.6	20.5
<u>Note</u>			
*It is proposed to offset this bid with £7.7m reinstatement leaving a £2.8m bid.			
Easements			
Energy Gas Project		(9.5)	(9.5)
Ring-fenced Easements			
Invest NI Non Cash - depreciation	(1.05)		(1.05)
PMS Receipts	(0.2)		(0.2)
Total Ring-fenced Easements	(1.25)		(1.25)

Bids**Invest NI Programme Budgets (Resource £10.5M Capital £6.6M)**

3. We had advised the Finance Minister on 30 April 2014 that Invest NI mainstream pressures in 2014-15 were estimated at £8.0M Resource, £9.9M Capital. Invest NI has refined its estimated pressures and has an inescapable bid for SFA and R&D projects requiring additional funding of **£10.5M Resource** and **£6.6M Capital**.
4. The Resource pressures and most of the Capital pressures faced by Invest NI are as a result of clients bringing forward projects which they had not been able to implement as originally planned because of the economic downturn. With the recovery in the economy the implementation of these projects is leading to inescapable calls on financial assistance contracts already signed with client companies in 2014-15 and beyond. Demand is strong, with assistance levels on accepted offers increasing by 56% from £92M to £144M over the last twelve months.
5. The Invest NI Resource budget was reduced by £7.7M in 2014-15 as part of the Budget Realignment exercise in January 2013, as a result of reduced requirements identified in 2011/12 and 2012/13 years following the downturn in the economy. Proportionately, DETI was the only Department that experienced a Resource reduction at this level in that exercise.
6. The Executive acknowledged that *“the upturn in the economic cycle is likely to lead to an inescapable call upon the financial assistance contracts already signed with client companies.”* Given the economic upturn, there is now a clear rationale that the **£7.7M Resource** reduction from the Budget Realignment should be reinstated to the DETI /Invest NI baseline.
7. This would still leave an immediate **£2.8M Resource** shortfall in the Invest NI budget in regard to the £10.5M Resource bid. We also propose that the Invest NI pressure of **£6.6M Capital** is met from a £9.5M Capital reduction in Energy Division.
8. Additionally, it should be noted that the latest Invest NI budget projections show potential further pressures in 2014-15 of up to £7.5M Resource as the year progresses, and it may therefore be necessary to bid for further resources in October Monitoring.

NITB Programme Budgets (Resource £3.4M)

9. NITB has an inescapable bid for **£3.4M Resource** against the Events Fund comprising the following:
 - £2.3M for Events Fund contractual commitments where letters of offer have issued to event organisers. These cover the closed call and open call international events, sponsorship of national events, and pre-commitments for the Tall Ships 2015;
 - £0.7M relates to the Giro d'Italia, which is an Executive commitment;
 - £0.2M relates to the Irish Open. This would also assist in the delivery on an Executive Commitment in the Programme for Government, and

- £0.2M for ongoing work related to the HMS Caroline project.

Easements

Energy – Gas Extension Project (£9.5M Capital)

10. There is a reduction of £9.5M Capital against a £10M allocation for the gas extension project to the West and North-West. This reduction has arisen because the Regulator will not now formally award a licence to the successful developer before this autumn. It is hoped that the developer will then complete design works, planning consent etc. to allow actual construction work to commence later in 2015. The consequence is that the requirement of £9.5M would arise in 2015-16.

Ring-Fenced Easements

11. Invest NI has reviewed its forecasts for depreciation and impairments, and are releasing £1.05M from the Non Cash budget. These adjustments are technical in nature and do not have any impact on the overall level of support that Invest NI provides to business.
12. An increase in PMS loan interest receipts for 2014-15 of £0.2M has been identified.

Financial Transactions Funding Capital

Invest NI

13. Invest NI signalled to the Department in March estimated requirements in 2014-15 from the Financial Transactions Fund of £19.7M. This included a further £10M for the Agri-Loan Scheme in addition to the base allocation already made. However given the uncertainties on timing Invest NI does not propose to bid for further funding for the Agri-Loan Scheme at this time.
14. Also included in the £19.7M was £6.5M to build a new Titanic Studios production facility. Negotiations are ongoing with a potential new anchor tenant and this project may be on a larger scale than originally planned. Given the uncertainties on spend on the existing £10M baseline, at this moment Invest NI are not requesting funding, but as negotiations become clear they will advise the Department.
15. The remaining £3M identified against the Financial Transactions Fund relate to the Access to Finance schemes. Invest NI are not bidding at this point in the year until they have further clarity on the timing and amounts of any drawdown.
16. In summary given the uncertainty on forecast spend on Agri- Loan and the existing £10M Agri-Loan baseline, with the uncertainties around the final requirements for the Titanic Studios and Access to Finance, Invest NI do not propose to bid in June for additional Financial Transactions Funds. Invest NI still intend drawing significant resources from the Financial

Transactions Fund this year as previously stated, and we will confirm the amounts as soon as is practical and in time for October monitoring.

Northern Ireland Science Park (£0.4M FTF Capital bid)

17. The Science Park is unable to meet current tenant demand, and an extension is proposed which will accommodate small start up businesses with limited trading history which are not willing or able to enter into a long term lease. Due to market failure on such enterprises the Science Park is unable to borrow funds to build the required extension.
18. Additional funding of £0.8M mainstream Capital and £2.5M FTF Capital was signalled in April to facilitate the commencement of this project in 2014-15. This profile has been revised and funding is now required over the next two financial years.
19. £0.1M mainstream Capital and up to £0.4M FTF Capital is now required in 2014-15, with £0.9M Capital and 2.1M FTF Capital required in 2015-16

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

20. We are proposing to meet a number of inescapable de minimis pressures comprising £0.4M Administration, £1.9M Resource and £0.2M Capital inescapable from de minimis from de minimis reductions. The de minimis bids include the following:
 - **£436k Admin DEL** for a range of inescapable pressures across DETI Core business areas, including research projects and statistical surveys (£176k), external technical assistance (£91k), financial capabilities awareness campaign (£50k), European Barossa secondments (£50k) and a range of other smaller inescapable pressures (£69k);
 - **£366k Resource DEL** for Tourism Ireland in relation to inescapable current service costs for their pension scheme (£325K) and for a Northern Ireland stand at the World Routes Development Forum (£41K);
 - **£119k Resource DEL** for InterTradeIreland in relation to inescapable current service costs for their pension scheme;
 - **£306k Resource DEL** to the Insolvency Service to meet inescapable costs in relation to company inspections, legal expenses and recurring overhead costs;
 - **£365k Resource DEL** for Economic Policy Division to meet inescapable costs including the funding for the Higher Education EU Support Fund (£200k) and the Northern Ireland Centre for Economic Policy (£100k);
 - **£200k Resource DEL** to meet inescapable costs for Minerals Branch for urgent remedial work to abandoned mines;

- **£100k Resource DEL** to Energy to meet inescapable operating costs of the NI Renewable Heat Incentive Scheme;
- **£194k Capital DEL** for the planned extension of the Northern Ireland Science Park (£100k) and replacement equipment for Consumer Affairs Branch and HSENI;
- **£287 Resource DEL** to meet an inescapable ESU Interreg pressure; and
- **£119k Resource DEL** for a range of smaller inescapable pressures across the department.

Mainstream Internal Reallocations

21. The most significant internal reallocations proposed in this monitoring round are set out below:

- **Telecoms (£5M Resource):** The creation of receipts and expenditure budgets is required for the receipt of DARD funding of £5M for the delivery of the DETI-led Northern Ireland Broadband Improvement Project; and
- **Consumer Council (£0.4M 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 NIAUR for the Consumer Council's representative role in relation to energy activities;
- **NITB (£0.3M Resource):** NITB has forecast that they will generate additional Resource receipts relating to Promotion & Marketing activities which can be utilised for P&M 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.

EU Internal Reallocations

22. 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 decrease and £13.1M Capital increase in Invest NI EU expenditure and receipts to realign EU budgets with forecast requirements;

- £5.0M Resource decrease and £0.7M Capital decrease in LED ERDF expenditure and receipts; and
- A number of other minor reallocations totalling a net increase of £0.1M Resource.

EU Interreg Programme

- £0.6M Resource reduction and £0.75M Capital Grant increase in European Support Unit EU expenditure and receipts to align with SEUPB projections.

Technical Transfers

23. A number of technical transfers to and from other departments need to be effected in this monitoring round. These include the following transfers:
- £0.5M Capital Grant from Invest NI to DARD for processing and marketing programme;
 - £0.2M Resource from Economic Policy Unit to DEL for Higher Education EU Support Fund;
 - £0.1M Resource from Invest NI to DCAL for Music Industry Support;
 - £0.1M Resource from Invest NI to DCAL for the NI Screen pay deal; and
 - Eight smaller transfers in and out of the department with a net effect of reducing DETI's budget by £0.1M.

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 not count against DETI budgets and will be available for the project in 2014-15.
25. £5.7M from 2013-14 is therefore available to be drawn down this year from HM Treasury. We understand that the actual drawdown of funds from HM Treasury will not take place until their supplementary estimate round and actual numbers will be confirmed by mid December 2014.

Assurance Statement

26. 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:

Nitrates

- Invest NI is holding budget cover of £5m in 2014-15 for an Executive priority to deal with the EU Directive in relation to Nitrates and the disposal of waste litter from the poultry industry. At this point in time it is still not clear how the nitrates issue will be resolved. Invest NI in partnership with DETI and SIB is developing a £12m loan scheme (Sustainable Utilisation of Poultry Litter scheme) to help address this issue. However, there is a potential risk in 2014-15 budget requirements.

Agri-Loan Scheme

- A budget of £10M under the Financial Transactions Fund has been allocated to Invest NI in 2014-15 for the Agri-Food Loan Scheme, which has now been formally launched by Invest NI and the participating banks. However, the Environment Agency has raised objections against the building of poultry/broiler houses under this scheme due to the lack of progress on identifying a solution to the Nitrates issue. As a consequence there is a high degree of uncertainty over the amount of budget that will be required this year. Invest NI are continuing to hold the budget at £10M and we will provide a further update as soon as more information is available.

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

**TREVOR COOPER**

cc David Sterling
Eugene Rooney
David Thomson
Bernie Brankin
Stephen Barrett
Michelle Scott
Sylvia Sands
Jeff Partridge