Department of Enterprise, Trade and Investment
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TO:	**1. David Sterling** **2. Andrew Crawford** **3. Arlene Foster MLA**

BUDGET REALIGNMENT 2013-14 AND 2014-15

Issue:	DFP is seeking detail of the spending areas against which budget changes agreed by the Executive for 2013-14 and 2014-15 should be made.
Timing:	**URGENT**.
Need for referral to the Executive:	The Executive approved the changes on 7 November.
Presentational Issues:	There may be reaction to the proposed current expenditure reduction of £12.2m against DETI budgets in both 2013-14 and 2014-15.
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:	The DETI current expenditure budget will be reduced by £12.2m in both 2013-14 and 2014-15. In relation to the £12.2m, it is recommended that the reductions include PMS interest receipts of circa £3m with the balance being applied to Invest NI budgets. Capital budgets will be reduced by £6.5m in 2013-14 and £7m in 2014-15 as a result of including PMS Capital repayments into departmental budgets.
Legislation Implications:	Not Applicable.
Statutory Equality:	The PMS adjustments would have a neutral impact as they relate to scheduled repayments. Reductions to the Invest NI budget could have a negative impact should actual economic activity lead to a funding requirement in the future that exceeded any revised budget position, although there is some comfort in the

Executive Paper in terms of a recognition of the inescapable nature of brought forward commitments.

Recommendation:

a) That you consider the information below and confirm that you are content that the reductions are made from PMS receipts and the Invest NI current expenditure budget and that Capital receipts are included in the PMS budget.

b) That you also confirm that you are content for this material and earlier briefing to you on the draft Executive Paper to be used to prepare briefing for the ETI Committee.

Background

1. The Executive agreed to a range of proposals that will realign budget allocations for the 2013-14 and 2014-15 years at its meeting of 7 November. DFP are now seeking detail of the spending areas against which the agreed budget changes should be made.

2. Reductions in DETI Resource budgets of £12.2m in 2013-14 and £12.2m in 2014-15 were proposed by DFP and confirmed by the Executive, along with the inclusion of Capital receipts of £6.5m in 2013-14 and £7m in 2014-15 from PMS loan repayments. DFP are now seeking detail of the spending areas against which the agreed budget changes should be made.

3. The reduction was arrived at on foot of the DFP analysis below which identified Resource underspending of £17.2m for DETI:

Business Area	Amount £m
PMS interest receipts	2.3
Invest NI easements	10.9
Invest NI underspend	1.1
Range of minor underspending	2.9
TOTAL	**17.2**

4. PMS loan interest receipts account for £2.3m of easements. A total of £12.0m relates to Invest NI easements, in addition to an in-year reallocation of £4.7m, which they made available to Tourism Ireland Ltd for marketing activity.

5. An analysis of the remaining £2.9m shows that other reductions identified for 2011-12 include ring-fenced EU easements (£0.4m), InterTradeIreland’s easement to reduce cash reserves (0.3m), NITB underspending (£0.4m), delay in the set up of the Renewable Heat Incentive scheme (£0.3m), and a range of minor underspending of individually less than £0.3m across DETI business areas, HSENI and Tourism Ireland Ltd. The analysis confirms that there is little scope in the balance of the Department’s spending areas to absorb a reduction. Additionally the North South bodies are already delivering 3% cumulative per annum savings from 2009 to 2015, and to reduce in these areas would require agreement through the NSMC.

6. Setting aside the PMS receipts, you had indicated in your July response to Minister Wilson that that the Resource reductions proposed in 2013/14 and 2014/15 would in reality be applied to Invest NI.

PMS Receipts

7. The original draft of this Executive Paper included a proposal to factor PMS capital receipts of £13 million in 2013-14 and £14 million in 2014-15 into DETI's Capital DEL budgets.

8. DETI officials wrote to DFP setting out our concerns around the inclusion of PMS Capital receipts, pointing out that the PMS loan agreement has a clause that can allow for repayments to be subject to reprofiling with changing market conditions. An updated position from the Joint Supervisors of the PMS anticipates that capital repayments may be up to 50% below these amounts. The final Paper reflected that DFP has taken these concerns on board and the figures for Capital receipts have been adjusted accordingly. We are therefore content with the inclusion of Capital receipts of £6.5m in 2013-14 and £7m in 2014-15 from the PMS loan repayments into DETI budgets.

9. PMS is also liable to make interest payments on its loan amounting to circa £3m in 2013/14 and £2.7m in 2014/15. It is recommended that these receipts are used in the first place to identify the £12.2m Resource reductions over the next two years. This would leave reductions of 9.2m in 2013/14 and £9.5m in 2014/15 to be identified.

Balance of budget reductions

10. The Executive paper that was agreed on 7 November recognises the impact of the current economic climate on the work of the department, coupled with the fact that an upturn in the economy will lead to additional pressures for the department. The paper also recognises that an upturn in the economic cycle is likely to lead to an inescapable call upon the financial assistance contracts already signed with client companies. DFP has previously met Invest NI bids in the past, and Minister Wilson has confirmed that Invest NI bids are given high priority by the Executive. This, together with the limited scope for reductions in other areas of the Department, would suggest that the reductions of £9.2m in 2013/14 and £9.5m in 2014/15 be applied to Invest NI, and your approval is sought for this action.

11. You have already raised with Executive colleagues that Invest NI has new and emerging Capital pressures post Budget 2011-15 from proposed Loan and Development Funds following a technical EU decision that means they would not qualify for EU support as had been originally planned. You have advised that, at this point in time, it is forecast that Invest NI will have an inescapable Capital pressure of £11m in 2013-14 which would need to be considered by the Executive as an inescapable call. Should we not be successful in securing £11m ERDF funding for the Funds in 2014/15 this would also be an inescapable call that would require management at the centre.

Budgetary Management going forward

12. The reductions that would have to be applied to Invest NI mean that should there be an upturn in the economy it could have insufficient budget to meet high priority business. Minister Wilson has separately highlighted the Executive's track record in meeting Invest NI bids in a note to the ETI Committee on budget flexibility. The Executive paper also does provide some assurance on this matter as it recognises the inescapable nature of brought forward commitments, although it does not go as far as providing a blanket guarantee.

13. It will be important going forward that these reductions do not hamper our support to the economy by impinging on our ability to deliver high value new business. Going forward, Invest NI and the Department will need, on an ongoing basis, to make a reasonable assessment of the position in relation to the level of brought forward commitments and new business against the revised Budget baseline. This should ensure that we can flag to DFP at the earliest opportunity robust pressures that we would need to demonstrate could not be addressed internally without damaging the economy. The Minister has already flagged the assessment of inescapable Capital commitments as noted at paragraph 11.

14. An ongoing assessment of risk will need to be taken by Invest NI and DETI when committing to new business. This assessment would be no more than what one would undertake in terms of normal budgetary management as it will be important that we do not add any unnecessary administrative burden to Invest NI and the Department as a result of the Executive decision.

15. The assessment should consider:-

    - DFP's feedback on their support for the pressures presented;
    - The timing in which any pressure could be formalised in Monitoring (i.e. first or last Monitoring round); and,
    - Other known inescapable pressures across the Block and the level of Block overcommitment.

16. Depending on the outcome of the assessment, and the actual success of bids put forward by Invest NI, there may be a need in the future for you to engage with Minister Wilson get some additional assurances that pressures will be met.

Recommendation

17. That if content the Minister confirms that:

    - The Resource reductions of £3m in 2013-14 and £2.7m in 2014-15 are made against PMS Resource receipts and Resource reductions of £9.2m in 2013-14 and £9.5m in 2014-15 are made to the Invest NI budget;

- Capital receipts of £6.5m in 2013-14 and £7m in 2014-15 are included in the PMS budget;

- The background to the proposals in the draft Executive Paper as previously provided (attached), and in this briefing is used to brief the ETI Committee. In this regard, David Sterling will be attending the ETI Committee on 6 December; and

- That the Minister notes the position as regards ongoing budgetary management going forward.

18. I would be happy to discuss.

TREVOR COOPER

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