

FROM: Trevor Cooper

DATE: November 2012

Copy Distribution List Below

TO:

1. Colin Lewis
2. David Sterling
2. Andrew Crawford
3. Arlene Foster MLA

JANUARY MONITORING 2012/13

ANNUALLY MANAGED EXPENDITURE (AME) FORECASTING 2012/13

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 Friday 7 December along with the AME forecasting return. Returns for the second stage are due with DFP by Thursday 3 January. Written Briefing is due with the ETI Committee by noon on Monday 10 December, and January Monitoring will be discussed at its meeting on Thursday 13 December.

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

Presentational Issues: None.

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: Ring fenced Invest to Save Resource budget of £0.4m and Interreg budget of £0.1m Resource and by £0.1m Capital Grant would be released.

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 include the matters set out in this minute in the DETI submission to DFP.
- b) That you also 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 10 December.

Background

1. This is the final monitoring round of 2012/13 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, which is necessary to facilitate the tight Estimates process timetable.
3. The first stage (with a 7 December 2012 deadline) requires departments to submit all technical adjustments that do not require Executive approval. Departments are also required to provide an update of Annually Managed Expenditure (AME) forecasts for 2012-13 to ensure Spring Supplementary Estimates reflect the correct position.
4. The planned second stage (with a 3 January 2013 deadline) of the monitoring round involves submission of transactions that are presented to the Executive, which includes bids, mainstream reduced requirements and proactive reallocations.

Key Proposals

5. We have consulted all DETI business areas. A full summary of the DETI January monitoring adjustments, in tabular form, is attached at **Annex 1**. The key DETI monitoring proposals are summarised in **Table 1** below:

Table 1: Summary of proposed adjustments

£ millions	Resource	Capital Grant	Capital	Total
Ring fenced budget				
Invest to Save reduction - Nitrates	(0.4)			(0.4)
	<u>(0.4)</u>			<u>(0.4)</u>
Easements				
ESU – Ring Fenced Interreg IVA Match Funding	(0.1)	(0.1)		(0.2)
Sub-total	<u>(0.1)</u>	<u>(0.1)</u>		<u>(0.2)</u>

Easements in Ring-fenced Budgets

Ring Fenced Nitrates budget: £0.45m Resource

6. The Department and Invest NI have been exploring potential options for resolution of the problems raised by the EU Directive in relation to Nitrates and the disposal of waste litter from the chicken industry.
7. Innovation Policy Unit (IPU) are at an early stage of discussions on scoping a project using the Technology Strategy Board's SBRI programme to accelerate the development of alternative technologies to help NI meet its obligations under Nitrates. IPU are seeking to progress this project as a priority, and the aim is to launch a project in late 2012 or early 2013 at the latest. The latest estimated costs for 2012/13 are now £51k, and we therefore propose to release the balance of £449k ring-fenced resource as this cannot be used for any other purpose than that for which approval was initially granted. The £51k will be transferred to OFMdFM to enable SIB to run an SBRI competition for the sustainable utilisation of poultry litter.

Ring-fenced Interreg Match Funding - £0.1m Resource and £0.1m Capital Grant

8. Following discussions with SEUPB and the Interreg IVA team, a reduced requirement in ring-fenced match funding of £116k Resource and £79k Capital Grant has been identified, together with associated EU expenditure supported by EU receipts of £348k Resource and £236k Capital Grant. The reduction is due to expenditure in approved projects being slower than had been anticipated by SEUPB and the project promoters. DETI officials continue to work with SEUPB to encourage maximisation of expenditure against existing budgets.

Mainstream Easements

9. Accounts Branch has a £16k non cash easement due to a reduction in amortisation following a review of the timing of capital expenditure; the Consumer Council has a £6k non cash easement from depreciation

charges; and Consumer Affairs has a £7k reduction in Capital budget due to lower than anticipated costs of replacing a vehicle.

Exchange Rate Losses on the Building Sustainable Prosperity Programme

10. Following the closure of the Building Sustainable Prosperity Programme and the payment of the final claim to DFP a £2.5m pressure arose as a result of exchange rate losses.
11. This was partially addressed in October monitoring leaving pressure in DETI Core (£0.6m) and NITB (£0.6m) to be addressed in January monitoring. It is proposed to meet the DETI Core pressure by reallocating £0.6m from the H&W asbestosis payment provision. This budget is available as a result of a reduction in forecast spend in the financial year on Harland & Wolf employers liability in respect of asbestosis claims based on forecasts from the claims handler. The £0.5m pressure in NITB is to be met from a reallocation from Invest NI as a result of an adjustment following receipt of the final claim, and £0.1m from de minimis reductions in DETI Core.

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

12. We are proposing to meet a number of **de minimis pressures** comprising £214k Administration and £419k Resource from de minimis reductions. This will also include a £135k reclassification from Admin to Resource. The de minimis reallocations include the following:
 - **£214k Administration** to meet minor pressures across the department, to be funded from corresponding reductions in Administration budgets;
 - **£140k Resource** for NITB Easter 2013 Events including Warhol at the MAC and the Circuit of Ireland Rally which will be met from increased Insolvency Service receipts;
 - **£112k Resource** to partially meet NITB's exchange rate losses as set out in paragraph 12; and
 - **£167k Resource** to meet a number of smaller pressures including consultancy fees, Departmental Solicitor Office costs, CPD fees, staff costs for statutory services, and Insolvency Company inspections to be funded from reductions in Resource budgets.
13. This leaves an £110k Resource bid for NIEC ongoing investigation costs and a £59k Resource bid for overtime in Insolvency Service. It is proposed to meet these bids through having a small Resource over commitment of £169k. This over commitment represents 0.09% of the Resource budget and as such it is not considered to be high risk to carry such a level of over commitment into the year-end.

Analysis of Invest NI Budget Requirements

14. Invest NI outturn in the seven months of 2012/13 is significantly ahead of the 2011/12 position, and is shown in the following table:

Table 2: Invest NI Expenditure Comparison April - October

Expenditure Period	Expenditure / £m	% of Invest NI Budget
Apr-Oct 2012/13	67.0	47.5
Apr-Oct 2011/12	49.6	33.6

15. For comparison purposes we have excluded the £10m ring fenced Invest to Save allocation for a Nitrates solution from Invest NI's Current expenditure budget. Invest NI's Current expenditure to date has been steady and the forecast current expenditure profile is relatively flat, with only a modest increase in the last quarter.
16. In terms of gross capital expenditure, Invest NI is ahead of the position for the same period in 2011/12, with £16.9m gross expenditure in 2012/13 versus £10.1m gross capital expenditure in the same period in 2011/12.
17. Forecast expenditure for 2012/13 displays a sizeable increase in forecast capital expenditure compared to last year - £32.1m versus £15.6m. Therefore whilst capital expenditure in the first five months of this financial year has increased, this is against a background of an increased budget and Invest NI has stated that they have little contingency should projects not proceed as expected. Finance Branch will continue to closely monitor the position as the year progresses.

Mainstream Internal Reallocations

18. The most significant internal reallocations proposed in this monitoring round are set out below:
 - Realignment of Invest NI capital budgets due to several unplanned cases requiring restructuring loans have necessitated a reallocation of £1.7m budget from Capital Grant to Direct Capital;
 - Additional budget cover is required for bad debt provision. It is proposed to meet this pressure by reallocating £1.7m from the H&W asbestosis payment provision, which has been made available as a result of the reduced forecast in uptake of claims;
 - Reallocations of £0.5m from Invest NI to NITB and £0.1m from DETI Core to NITB to cover Foreign Exchange losses following the closure of the BSP Programme;
 - An adjustment of £0.4m is required against the Tellus Border Project (EU Interreg IV programme) due to reduced salary costs at Queens University and Dundalk Institute and reduced GSNI overhead costs; and,
 - Reallocation of £80k in HSENI from Admin to meet Programme pressures.

19. A number of other minor reallocations totalling £112k are also proposed, and include an increase in receipts and expenditure for Minerals branch, reallocations between salaries budgets and other administrative expenditure budgets, and reallocations between non cash budgets.

EU Internal Reallocations

EU Competitiveness Programme

20. A number of self financing EU internal reallocations increasing and reducing EU expenditure supported by EU receipts are as follow:
- £1.6m Resource decrease in Invest NI EU expenditure and receipts due to market conditions;
 - £0.2m Capital Grant increase in Invest NI EU expenditure and receipts on ERDF Capital funded projects;
 - £0.3m Resource decrease in NITB EU expenditure EU receipts to keep within expenditure controls on media advertising;
 - A number of other minor reallocations totalling a net reduction of £64k Resource are also proposed, which comprise a small reduction in Energy ERDF expenditure, a reduction in LED expenditure following the confirmation of final budget positions, and a reduction in DETI's technical assistance requirements.

EU Interreg Programme

- £0.348m Resource and £0.236m Capital Grant reductions in European Support Unit EU expenditure and receipts as expenditure in approved projects is slower than had been anticipated by SEUPB and the project promoters.

Technical Transfers

21. Two technical transfers to other departments need to be effected in this monitoring round. This will have the net effect of reducing DETI's budget by £0.266m, and include the following transfers:
- £200k Resource from Invest NI to DEL for the Jobs Fund;
 - £250k from OFMdfM (ILEX) and DSD to £NITB which along 200k EU funding and an internal allocation of £50k in NITB will provide £500k for UK City of Culture Promotion & Marketing ; and
 - £66k Admin NISRA (DFP) in respect of costs associated with the transfer of statistics functions.
 - £51k transfer from Invest NI to OFMdfM to enable SIB to run an SBRI competition for the sustainable utilisation of poultry litter.

External Consultancy

22. We advised you in October Monitoring that that the overall External Consultancy spend for DETI including ALBs is reducing year-on-year within the 10% restrictions set by DFP.
23. Further adjustments to external consultancy budgets in DETI core have been identified at January Monitoring, which have the net effect of reducing expenditure by £83k and leaves the department within the 10% target.

ANNUALLY MANAGED EXPENDITURE (AME) FORECASTING 2012/13Background

24. 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.
25. As part of this exercise, we advised business areas that it is critical that working assumptions, methodology and forecasts stand up to scrutiny and are fully justifiable.
26. The collated responses from across the Department are attached at **Annex 2**. 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.

Material Adjustments made in the AME Exercise

27. **H&W Asbestosis Provision – Set Up / Additions (£7.3m increase):** The unwinding of discounted provision has been forecast at £1.45m. An increase of £7.3m is required due to a change in accounting treatment for discount rates impacting current and future years, based on HMT guidance.
28. **H&W Asbestosis Provision – Release (£3.5m easement):** This reflects reductions in estimated cash spend in the current financial year on Harland & Wolf plc's liability in respect of asbestosis claims.
29. **Abandoned Mines Provisions (£0.25m easement):** The £0.25m mines provision has been removed following decision to write down the value of the provision.
30. **Invest NI Provisions:** The Invest NI provisions are set out in the table below. Following consultation with Land & Property Services, £12m is required for the revaluation of land and property assets, which reflects continuing property devaluation. A further £10m has been released from the grants provision as a result of reduced activity due to the economic climate and all onerous leases being bought out or fully provided.

31. The release of provisions line has been adjusted to reflect £7.5m resource and £3.5m capital in relation to grant claims. As cleared with the Audit Office, Invest NI review all their company grants claims and take a provision for any claims that are made after year end. The corresponding DEL adjustments in relation to the utilisation of these provisions were included in October Monitoring.
32. The overall proposed adjustments to Invest NI's AME budget are set out in the following table:

Table 3: Summary of proposed Invest NI AME adjustments

Description	Opening Budget	Movement	Revised Budget
Provisions			
Grants Provision	31,500	-16,500	15,000
Release (Resource)	0	-7,500	-7,500
Release (Capital)	0	-3,500	-3,500
Sub Total Provisions	31,500	-27,500	4,000
Revaluation of land and property	0	12,000	12,000
TOTAL	31,500	-15,500	16,000

33. **Revaluation of Assets Provision requirements for NITB (£1.5m addition):** A budgets of £1.5m has been included for the revaluation of the NITB pension fund in line with the 2011-12 movement.

Assurance Statement

34. 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 and our overall assessment of the Invest NI budget noted at paragraphs 14 to 17 above, I am content to recommend that the Accounting Officer endorse the return on this basis. However, the following areas of risk should be noted:

Invest NI expenditure

- It is encouraging to note that the increased Invest NI expenditure in the year to date in comparison to that for the same period in 2011/12 is being sustained, albeit that it is against the backdrop of a larger overall budget. However, significant Capital budget expenditure is planned in the remainder of the year and much work still needs to be done, especially as Invest NI has indicated that there is little contingency available in the event of projects or programme expenditure being delayed.

NITB Capital Grant

- NITB have expended just £295k of their Capital Grant budget of £6.5 million. 90% of the remaining budget is forecast to be spent in the final four months, posing a significant risk to NITB and Departmental spending targets. While the DETI Tourism Policy Branch and Finance Branch have engaged with NITB on its management and monitoring of Capital projects, the increasing end year loading is a concern.

Telecoms Broadband Project

- Telecoms Policy Unit has a capital budget of £1.25m for a broadband project, and expenditure is dependent on the conclusion of a procurement exercise due to commence 28 November, with contract award targeted for early 2013. Any slippage would impact spending. Telecoms have confirmed this project currently remains on track.

Recommendation

35. All adjustments with the exception of those set out in paragraph 8 and 10 will be processed in the First Stage of January monitoring. The £0.4m Invest to Save reduction and the £29k mainstream adjustments will be processed in the Second Stage. Should there be any adjustments arising from the ongoing monitoring of the risk areas noted at paragraph 34 between now and the end of December, we would provide separate briefing to the Minister. Subject to the Minister's approval, these can also be reflected in the Second stage return.
36. It is recommended that you note the above and, if content, confirm that DETI can present both stages of January monitoring proposals and AME forecasting exercises to DFP and the ETI Committee. Please note that we are scheduled to provide written briefing on January monitoring for the ETI committee by Monday 10 December.
37. I would be happy to discuss.

TREVOR COOPER

cc David Thomson
Alastair Ross, MLA, Assembly Private Secretary
Bernie Brankin
Alan Lamont
David Beck
Jeff Partridge

**SUMMARY OF JANUARY 2012 MONITORING ADJUSTMENTS
(MAINSTREAM)**

Ring Fenced Invest to Save Nitrates - Easement		-449			-449
ESU – Ring Fenced Interreg IVA Match Funding		-116	-79		-195
DETI Non Cash – reduction in depreciation charges		-22			-22
CAB - easement				-7	-7
Energy – Reduction in Salaries	-15				-15
Tourism Policy – Reduction in Salaries	-5				-5
Financial Capability – Reduction in Salaries	-5				-5
HRCS – Reduction in Salaries & GAE	-44				-44
Audit Authority – Reduction in Salaries & GAE	-32				-32
ESU – Reduction in Salaries & GAE	-15				-15
Company Law – Reduction in Salaries & GAE	-8				-8
Accounts Branch – Reduction in Salaries & GAE	-4				-4
ASU – Reduction in Salaries & GAE	-15				-15
Finance – Reduction in CPD Fees & Charges	-40				-40
Telecoms – Reduction in Consultancy	-20				-20
Press Office – Reduction in Advertising & Publicity	-7				-7
Minerals – Reduction in GAE	-4				-4

	2011-12 JANUARY MONITORING ADJUSTS				
<u>MAINSTREAM BUDGETS</u>	Admin	Resource	Capital Grant	Capital	Total
Insolvency Service – Increase in Fees		-200			-200
EPD – Reduction in Social Economy Budget		-33			-33
ESU – Reduction in Technical Assistance Match		-19			-19
Certifying Authority – Reduction in Technical Assistance Match		-1			-1
Consumer Affairs – Reduction in Consumer Strategy		-10			-10
ITI – Reduction in Pension Costs		-9			-9
EPD – Reduction in EAG Budget		-3			-3
DETI – Other	-23	-9			-32
<u>3. Total De Minimis Reduced Requirements used to meet Deminis Bids</u>	-237	-284	0	0	-521
<u>4. De Minimis Bids met by De Minimis Reductions</u>					
EPD – Divisional Salary Costs	50				50
Internal Audit – Staff Substitution	50				50
Financial Capability Unit – Omnibus Survey	30				30
Accountability & Casework – DSO Costs	5				5
DETI – Pay Award Costs	79	46			125
NITB – Easter 2013 Events		140			140
Consumer Affairs – CCNI Review		15			15
Tourism Policy – CPD Fees		2			2
HSENI – Grade 7 on loan from DETI		29			29
Energy – ERDF Match		19			19
Insolvency Service – Company Inspections		31			31
Insolvency Service – Additional GAE		25			25

	2011-12 JANUARY MONITORING ADJUSTS				
<u>MAINSTREAM BUDGETS</u>	Admin	Resource	Capital Grant	Capital	Total
4. De Minimis Bids	214	307	0	0	521
<u>NET De Minimis Bids and Reduced Requirements</u>	-23	23	0	0	0
<u>5. Internal Reallocations</u>					
Invest NI – Reallocation of capital budget to align budgets correctly			-1,737		-1,737
Invest NI – Reallocation of capital budget to align budgets correctly				1,737	1,737
DETI – Reallocation of Provision re bad debt provision		-1,740			-1,740
DETI – Reallocation of Provision re bad debt provision		1,740			1,740
Minerals – Reduction in costs iro Tellus Border Project - Expenditure		-400			-400
Minerals – Reduction in costs iro Tellus Border Project - Receipts		400			400
HSENI – Reallocation from Admin to meet Programme Costs		-80			-80
HSENI – Reallocation from Admin to meet Programme Costs		80			80
Minerals – Increase in receipts iro Geological Publications		-48			-48
Minerals – Increase in expenditure iro GSNI Payments to NERC		48			48
NITB - Foreign Exchange Loss		615			615
Invest NI – reallocation of BSP		-503			-503
DETI – Reallocation of Admin Other	-112				-112
<u>5. Total Reallocations</u>	-112	112	-1,737	1,737	0

	2011-12 JANUARY MONITORING ADJUSTS				
<u>MAINSTREAM BUDGETS</u>	Admin	Resource	Capital Grant	Capital	Total
<u>6. Technical Transfers</u>					
Invest NI – Transfer to DEL iro Jobs Fund		-200			-200
OFmDFM (ILEX) – Transfer to NITB for UK City of Culture P&M		250			250
DETI – Transfer to DFP (NISRA) iro postage, printing & stationery	-66				-66
<u>6. Total Technical Transfers</u>	-66	50	0	0	-16
<u>7. Total January Monitoring Adjustments</u>	-201	47	-1,816	1,730	-240

DETI ANNUALLY MANAGED EXPENDITURE (AME) BUDGETS 2012/13

DESCRIPTION	Opening Budget	Plus/Minus Changes	AME Forecast
BAD DEBTS			
CCNI - Bad Debts	35	-35	0
Sub Total	35	-35	0
DETI PROVISIONS			
Early Retirement - Set Up	2	38	40
Early Retirement - Release	-50	-44	-94
Personal Compensation payments -Set Up	0	0	0
H&W Asbestosis - Set Up/Additions	1,450	7,277	8,727
H&W Asbestosis - Release	-8,000	3,502	-4,498
Mines - Set Up / Additions	0	0	0
Mines - Release	-250	250	0
Sub Total	-6,848	11,023	4,175
INVEST NI PROVISIONS			
Invest NI Provisions - Set Up / Additions *	31,500	-16,500	15,000
Invest NI Provisions – Release (Resource)	0	-7,500	-7,500
Invest NI Provisions – Release (Capital)	0	-3,500	-3,500
Sub Total	31,500	-27,500	4,000
REVALUATION OF ASSETS			
Invest NI - Revaluation of Assets	0	12,000	12,000
NITB - Revaluation of Assets	0	1,500	1,500
CCNI - Revaluation of Assets	131	-111	20
Sub Total	131	13,389	13,520
NI RENEWABLE HEAT INITIATIVE SCHEME **			
Energy Division - RHI Scheme	5,800	-4,900	900
Energy Division - RHI Scheme Premium Payments (Capital)	0	600	600
Sub Total	5,800	-4,300	1,500
TOTAL AME BUDGETS	30,618	-7,423	23,195

Notes:

* £6.5m reduction in grant provision made in October monitoring

** RHI adjustments were made in October monitoring