Department of
Enterprise, Trade
and Investment
www.detini.gov.uk

FROM: **Trevor Cooper**

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TO: **1. Andrew Crawford**
2. Arlene Foster MLA

OCTOBER MONITORING 2011/12

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 October Monitoring.
Timing:	**URGENT**. October monitoring returns are due with DFP by Tuesday 4 October. The ETI Committee also requires written briefing on October monitoring by Thursday 22 September, with an oral brief from officials anticipated to be requested for Thursday 29 September.
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:	Reduced requirements across the DETI Budget total £29.3m. Approval is also being sought for £7.7m transfers.
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.

Background

1. Following the outcome of June Monitoring the remaining level of Block over-commitment is £43.9 million current expenditure and £21.2 million capital investment.

2. The focus in the remaining three rounds of this year's monitoring process will be on managing the overcommitment while ensuring that the Executive makes full use of the available spending power. The capacity to address any existing or emerging pressures will depend heavily on the extent to which departments provide reduced requirements for reallocation.

Key Proposals

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

Table 1: Summary of proposed adjustments

£ millions	**Resource**	**Capital Grant**	**Capital**	**Total**
INVEST NI				
Invest NI Reduced Requirements	(14.1)	(3.4)	(7.7)	(25.2)
Less proactive management actions				
Tourism Ireland - Promotion	4.7			4.7
NITB – Titanic slipway		3.0		3.0
Reduced Requirements (A)	**(9.4)**	**(0.4)**	**(7.7)**	**(17.5)**
DETI HQ				
Interreg IVA match funding	(0.4)	(1.0)		(1.4)
PMS Loan repayment			(8.7)	(8.7)
De minimis easements (net)	(1.1)	(0.1)	(0.5)	(1.7)
Reduced Requirements (B)	**(1.5)**	**(1.1)**	**(9.2)**	**(11.8)**
TOTAL (A+B)	**(10.9)**	**(1.5)**	**(16.9)**	**(29.3)**
Reclassification of incorrect PMS budget allocation	(50.0)		50.0	0
TOTAL ADJUSTMENTS	**(60.9)**	**(1.5)**	**33.1**	**(29.3)**

Reduced Requirements

Invest NI - £17.5 million

4. David Sterling's note of 9 August on the Invest NI budget advised you that Invest NI had identified significant budget reductions in 2011/12.

5. Invest NI has indicated that the main reason for this is that market conditions have substantially changed for the worse since February, and has accelerated markedly since the agreement of the draft Budget 2010 settlement. It has detected a marked decline in business confidence among its client companies, which is attributed to a much more difficult set of market circumstances than originally assessed when putting forward its draft budget plans. As a result, many of the larger companies, where Invest NI has a potential financial commitment against agreed projects, are proceeding at a much slower pace than had been anticipated.

6. Invest NI has affirmed that its surrenders take account of its current levels of work-in-progress, particularly projects that it anticipates signing up within the next six months, and there are no further in-year surrenders that it can reasonably forecast at this stage. It has, however, not ruled out further reductions during this financial year given the ongoing volatile economic climate.

7. Invest NI has specifically highlighted risks around a number of projects for which it is currently holding Capital budget totalling £14m within the 2011/12 year. Whilst it has indicated that it is taking all reasonable steps to manage the projects so as to incur expenditure this year, it has indicated that there are uncertainties around timing and amounts of some expenditure. The projects concerned are summarised below:-

	£m
(i) Newry/Strabane site development	*8.0*
(ii) Titanic Studio	*3.4*
(iii) Creagh – uncertainty ref tribunal	*2.5*
Total	***£13.9***

8. Given the scale and timing of the Invest NI reduced requirements in this Monitoring return, we expect DFP to challenge whether Invest NI is currently overprovided across the remainder of the Budget 2010 period in terms of its funding.

9. Invest NI has highlighted that over the last year its work-in-progress pipeline of new development projects, including new FDI prospects, has fallen substantially. The current low level of work-in-progress (which by value is approximately 50% versus this point last year) reflects the continued depressed levels of economic activity, restrictions in the availability of bank finance, and lower levels of investor confidence. Invest NI financial

modelling of its existing commitments, the impact of existing work in progress across future years currently indicates that further, and potentially significant, under-spending across the Budget period would be likely, even if it were to meet its proposed 2011/15 Corporate Plan job promotion and investment targets.

10. Invest NI is therefore aware that it needs to rebuild its work-in-progress level in the short term if it is to fully utilise its budget allocations in future years. Invest NI has informed us that it is reviewing its high level forecasting model and that the current economic uncertainty around the global economy mean that it is too early to determine the position around its future budgetary requirements with any real certainty.

11. Invest NI's position is that there could be pressure on future years if the projects currently not being implemented eventually proceed to their expected levels of employment or investment. Such an eventuality would require a major upward change in economic conditions and is not therefore guaranteed.

12. To proportionately monitor the risks around further in-year surrenders, and the uncertainties around Invest NI's future budgetary requirements, we will continue to closely monitor the in-year position with the Invest NI Finance Directorate on at least a monthly basis. Invest NI will undertake further detailed analysis on the next three financial years with a view to agreement being reached on the position for these years by the end of December.

DETI HQ: Interreg IVa match funding - £1.4 million

13. This represents a reduction in ring-fenced match funding. Following consultation with SEUPB, it is clear that a number of large scale projects that have already been approved have yet to commence or incur expenditure. SEUPB has indicated that there is no likelihood of expenditure being incurred this financial year to any significant degree on these projects. In addition, project submissions from SEUPB on new applications are unlikely in the short term.

DETI HQ: Presbyterian Mutual Society - £8.7 million

14. This relates to the Loan Capital repayment arising from the PMS rescue package. In addition, a payment of £1.211m will be made to Consolidated Fund Extra Receipts in respect of loan interest.

DETI HQ: Net de minimis easements - £1.7 million

15. DETI has a number of de minimis (under £1m) reduced requirements, which include the following:

- **£0.6m Resource** relating to additional Insolvency Service fees;

- **£0.2m Resource** due to the reprioritisation to the workplan of MATRIX and its Secretariat in DETI's Foresight and Horizon Scanning Unit and a reclassification of an element of the Unit's budget;

- **£0.1m Resource** due to unfilled vacancies and associated reduction in training and staff costs within HSENI;

- **£0.1m Resource** reduction relating to a reassessment of resources required for Corporate Services Division;

- **£0.1m Resource** comprising a number of small reductions across a number of DETI business areas;

- **£0.1m Capital Grant** relating to match funding for the Northern Ireland Broadband Fund, as there was only one successful application in the recent call against the fund; and

- **£0.5m Capital** relating to an over-allocation of Interreg funding.

16. We are proposing to meet a number of **de minimis pressures** comprising £310k Administration and £1,163k Resource from de minimis reductions. The de minimis bids include the following:

- **£310k Administration** to meet minor pressures across the department, to be funded from corresponding reductions in Administration budgets. This includes £10k Administration External Consultancy for Tourism Policy to engage aviation consultants for specialist advice on aviation and air access issues, and £50k Administration External Consultancy for a strategic environmental assessment of petroleum licensing in Northern Ireland's internal waters;

- **£35k Resource External Consultancy** is required by Telecoms Policy Unit to cover specialist advice required to carry forward the Branch's projects. In particular, the funding is required to complete two economic appraisals in relation to the Broadband Delivery UK fund;

- **£319k Resource** for Minerals Branch in respect of British Geological Survey services;

- **£210k Resource** is required to implement the Renewable Heat Incentive Scheme in Northern Ireland for this year. The administration of the scheme in Great Britain is undertaken by Ofgem, and given anticipated economies of scale and savings in potentially prohibitive IT set-up costs for Northern Ireland, it is proposed that Ofgem also undertake administration of the NI Scheme;

- **£275k Resource** to meet pressures across a range of front line business areas including Consumer Affairs and Insolvency Service;

- **£100k Resource** is required by the Insolvency Service to cover company inspections costs for the current financial year;

- **£94k Resource** for NITB to support the Foyle and Milk Cup tournaments, which have an impact across the areas of sports development, tourism, children and young people;

- **£60k Resource** is required by Tourism Policy branch to cover an inescapable bid to meet the cost of Tourism Ireland North South Pension costs for 2011/12; and

- **£70k Resource** is required to meet a number of smaller pressures across the department.

Reclassification

17. A reclassification of £50m from Resource to Capital is required to correct the budget allocation made available by the NI Executive for the Presbyterian Mutual Society. The initial allocation was allocated to DETI as Resource in Budget 2010 but as this is a repayable loan we are seeking reclassification to Capital.

Proactive actions to manage emerging pressures

18. Under the new monitoring guidelines for 2011/12 proactive reallocations must be submitted to DFP for approval on an ongoing basis and DFP Supply approval must be obtained prior to monitoring rounds. These movements will now no longer require Executive approval but will be included in the monitoring Executive paper for information.

19. 2012 offers a major and unique opportunity for Northern Ireland. The launch of the Titanic Signature Building, the Cultural Olympiad, the completion of several key physical projects such as the Metropolitan Arts Centre, the Lyric Theatre and the Giant's Causeway Visitor Centre and major local anniversaries such as the Queen's Diamond Jubilee, the 100th Anniversary of Titanic and the 50th Anniversary of Belfast Festival at Queens offer the chance to challenge and change perceptions of Northern Ireland as a place to live, learn, work and visit.

20. **£4.7m Resource is required for TIL** to market this message with dedicated campaigns for NI2012 and golf on TV, radio, social media and print, as well as consumer promotion and cooperative tactical marketing campaigns with carriers. TIL will target all main markets including GB, USA, France and the Netherlands, with the main focus on the GB market. In addition, TIL will build on recent golf successes which provide the opportunity to sell Northern Ireland as the “home of golf.”

21. **£3m Capital Grant is also required by NITB** for additional work on the surrounding public realm and buildings to Titanic Belfast. The funding would be spent on the completion of the public realm that was originally the slipway where the Titanic was built. This is a critical piece of public realm as it is hoped to hold major events at it next year and the view down the slipways from Titanic Belfast is a key feature of the attraction. Some of the grant would also be used to tidy up and allow some access to the H&W Headquarters and Drawing Offices. These are listed buildings that are located very close to Titanic Belfast, and it is important that they are improved in time for the opening of Titanic Belfast to showcase Northern Ireland.

22. Invest NI has been working in partnership with NITB and TIL to promote Northern Ireland as a place to work, live, learn and visit and will proactively reallocate £4.7m Resource and £3m Capital for this purpose.

23. We have put our proposals to DFP for these proactive reallocations. A response is awaited.

Mainstream Internal Reallocations

24. The most significant internal reallocations proposed in this monitoring round arises within Invest NI where a reallocation of £8.8m from Capital Grant to Capital is required to realign budgets with expected outturn, Minerals Branch where £1.7m is being made available by DOE and SEUPB to fund the Tellus Border EU Interreg IVA project, and the Consumer Council where £0.6m is being made available by NIAUR for the Consumer Council's representative role in relation to water. All internal reallocations proposed within DETI are set out in **Annex A**.

EU Internal Reallocations

EU Competitiveness Programme

25. **Invest NI has signalled a decrease in EU expenditure and receipts of £5.666m Resource and £5.829m Capital grant respectively** due to a downturn in market conditions referenced at the beginning of this submission.

26. **European Support Unit has signalled a decrease in EU expenditure and receipts of £4.351m Resource and £0.260m Capital Grant:** The LED measure has been slow to spend due to a lack of applications coming forward from Councils, who have cited a difficulty in securing the necessary match funding and identifying activity which aligns with the existing support available from Invest NI.

27. To address these issues, administration of the measure will transfer to Invest NI from 1 September 2011 whereby Invest NI has committed to contributing up to half of the match (25% of total projects costs) going forward. This should significantly ease the pressure on Council budgets and hopefully increase the number of applications coming forward.

28. **NITB has signalled an increase in EU expenditure and receipts of £3m Capital Grant respectively** due to the realignment of match and EU funding for the Giant's Causeway Visitor Facility in line with the ERDF funding application.

29. **DETI Telecoms has signalled a decrease in EU expenditure of £0.040m Resource and £0.125m Capital Grant respectively:** Ongoing monitoring by Telecoms Policy Unit of the Logon.ni programme has resulted in an easement of £0.040m. The £0.125m reduction in Capital Grant relates to the Northern Ireland Broadband Fund, where there was only one successful application in the recent call against the fund.

EU Interreg Programme

30. **DETI European Support Unit has signalled a decrease in EU expenditure and receipts of £1.050m Resource and £3.075m Capital Grant respectively:** Following consultation with SEUPB, it is clear that a number of large scale projects that have already been approved have yet to

commence or incur expenditure. There is no likelihood of expenditure being incurred this financial year to any significant degree on these projects. In addition new project submissions from SEUPB on new applications are unlikely in the short term.

Technical Transfers

31. A number of technical transfers to and from other departments need to be effected in this monitoring round. This will have the net effect of reducing DETI's budget by £11.6m, and include the following transfers:

- £11.340m in respect of Capital Launch Investment from Invest NI to BIS with regard to the Bombardier C Series project;
- £0.445m Capital Grant from Invest NI to DARD for the Marketing Grant Scheme;
- £132k Administration from DEL for the provision of audit services;
- £65k Resource from DRD to Consumer Council for work on public transport issues;
- 42k Administration from NISRA for a Grade 7 post in Analytical Services Unit;
- £25k Administration from DFP in respect of the return of budget for IBWG secondments to the EU;
- A range of smaller transfers from the department totalling £48k Resource, and
- £18k Capital Grant into the department from DFP in respect of transfer of responsibility for the Ministerial car.

External Consultancy

32. We advised you in June Monitoring that, with confirmed budgets in DETI core, we remain within target for a 10% reduction (compared to last year) on external consultancy expenditure in 2011/12 with some room to manoeuvre.

33. The position for external consultancy costs in DETI core at October Monitoring is set out in Table 2 below:

Table 2 - Summary of Proposed External Consultancy Budgets for 2011/12

	2010/11 Provisional Outturn £000s	Revised 2011/12 Budget £000s	October Adjustments £000s	Proposed Closing October Position £000s
Stats/Economics	108	10		
Energy	1,323	1,186	(156)	1,030*
Bus Reg	151			
SPD	35	160	(160)	20
Social Economy	9			
Telecoms	120	84	35	129
Finance	16			
EU	39	100		100
Minerals	52	25	50	75
HR	111	114		13
Tourism Policy	14	20	10	30
Total **90% Ceiling**	**1,979** **1,781**	**1,699**	**(221)**	**1,397**

**** Includes £392k gross EU Competitiveness funding and £82k gross EU Interreg funding.***

34. We propose to meet the three bids detailed in the first two bullet points of paragraph 16 above which will bring proposed expenditure on external consultancy to £1.397m. This would leave £0.384m available for allocation in-year to remain within target of £1.781m in DETI core, assuming that further external consultancy is required and the necessary Resource budget becomes available from reduced requirements in the next monitoring round.

35. NDPBs and North South bodies are managing the 10% reduction in external consultancy costs within their own budgets.

<u>Assurance Statement</u>

36. Statements of assurance have been obtained from NDPB Chief Executives and DETI Senior Managers confirming that they are satisfied with the financial forecasts provided by their business areas and the underlying assumptions on which they are based.

37. As noted at paragraph 7, Invest NI has noted risks around a number of capital projects for which it is currently holding Capital budget totalling £14m within the 2011/12 year. There is also a clear risk of further changes in the macro-economic environment that would result in reduced activity within Invest NI client companies. The consequence of such a risk crystallising would be further reduced requirements within Invest NI later in the year. These cannot be ruled out.

38. On the basis of the returns and assurances received from DETI business areas, the forecasts represent the most robust and accurate assessment that can be prudently provided at this stage of the year.

Recommendation

39. That you note the above and, if content, confirm that DETI can present these proposals to the ETI Committee and to DFP for October monitoring. Please note that we are scheduled to provide written briefing on October monitoring for the ETI committee by 22 September, with an oral session scheduled for 29 September.

40. I would be happy to discuss.

TREVOR COOPER

cc David Sterling
Colin Lewis
David Thomson
Alastair Ross, MLA, Assembly Private Secretary
Bernie Brankin
Philip Angus
David Beck
Donal Flanagan

MAINSTREAM INTERNAL REALLOCATIONS

1. **Invest NI - reallocation of £8.831m from Capital Grant to Capital:** This is a request to align the capital budget control totals to Invest NI requirements.

2. **Minerals Branch £1.700m Resource:** This funding is being made available by DOE and SEUPB to fund the Tellus Border EU Interreg IVA project. This will increase both the receipts and expenditure budgets.

3. **Minerals Branch £0.280m Resource:** GSNI was commissioned by DOE to undertake a project to produce a minerals map of Northern Ireland. This was included in the SLA between DETI and the British Geological Survey, and DETI will invoice DOE for this work. This will result in an increase in both the receipts and expenditure budgets for Minerals Branch.

4. **Consumer Council £0.552m Resource:** Costs of the Consumer Council's consumer representation role in relation to water will be collected by NIAER and transferred to the Consumer Council. This will increase both the receipts and expenditure budgets.

5. **Consumer Council £0.142m Resource:** a number of small reallocations totalling £142k are required across a number of Consumer Council budgets to realign budgets with expected outturn and to increase expenditure and receipts on costs of the Consumer Council's consumer representation role in relation to energy.

6. **DETI £0.202m Non Cash:** A number of small reallocations are required to realign the department's non cash budgets in line with expected outturn.

7. **Departmental HR £0.125m Resource:** A reduction in both the receipts and expenditure budgets for seconded staff costs is required due to a smaller number of staff now on secondment.