MINUTES OF INVEST NI – DETI CASEWORK COMMITTEE

SUSTAINABLE DEVELOPMENT SUPPORT PROGRAMME

11 SEPTEMBER 2015

COMMITTEE:	Eugene Rooney Trevor Cooper Shane Murphy	(Chairman, DETI) (Finance Division, DETI) (Analytical Services Unit, DETI)
IN ATTENDANCE:	**PROJECT TEAM**	
	Vicky Kell	(Invest NI, Director Innovation & Technology Solutions)
	George Healy	(Invest NI, Programme Manager, Sustainable Development)
	Peter Larmour	(Invest NI, Sustainable Development Manager)
	Michael Denny	(Cogent Management Consulting LLP)
ECONOMIST:	David Leonard	(DETI, ASU)
OBSERVER ROLE:	Angela Millar	(DFP, Supply)
SECRETARIAT:	Francine Manikpure	(DETI, ACB)

Introduction

1. ER welcomed attendees to the Invest NI – DETI Casework Committee meeting to consider the Sustainable Development Support Programme.

2. It was confirmed that there were no conflicts of interest.

Approvals

3. ER referred to the four questions which he posed to the Invest NI team in advance of the meeting.

4. ER stated that the INI Board Casework Panel concluded that they “were content that the project should proceed to DETI Board for consideration” and asked the Invest NI officials to confirm that the Panel has formally approved the programme.

5. PL responded that firstly Board casework approval has been given. He confirmed that signed board casework is evidence of an approved process.

6. VK assured the panel that approval has been given at all levels within Invest NI.

7. ER asked the Invest NI officials whether the use of Financial Transactions Capital funding as a potentially more affordable means of funding the £3.15m loans within the scheme had been considered by Invest NI.

8. PL responded that the financial management team have looked at all the loan funds to see if FTC funding would be appropriate. It was decided that the Energy Efficiency Loan was not structured in such a way that FTC could be used as there was no planned repayment period for this fund.

9. SM recalled that it was also due to the fact that they were part way through a contract but he was not convinced that these represented insurmountable barriers. He added that the programme could still potentially be funded by FTC even if the loan was structured as a recycled evergreen fund. He added that alternative routes which offer more affordable sources of finance warrant further investigation.

10. PL responded that the finance team might be open to further discussion on this.

11. TC added that some principles would need to be confirmed from the outset. It would need to be agreed if repayment is being sought or if it is a recycled evergreen fund. If repaid then can go down the conventional FTC route. He asked the Invest NI officials why there is no repayment.

12. PL responded to give more energy efficiency loans from the funds coming back in.

13. TC queried the level of management costs.

14. PL explained that admin costs are approximately 7% of disbursed funds per year.

15. He added that CPD have advised that from 1 October 2016 the fund should be tendered.

16. TC asked who owns the loans.

17. PL responded that it is Invest NI money, and that the loans are held on Invest NI's balance sheet.

18. TC sought confirmation that this loan fund was not conventional venture capital funds or not a partnership loan.

19. GH explained that this was one of the things Invest NI was looking into from an operational side. The money is being disbursed through an EDO.

20. SM added that if it is just a case of the financial and budgetary flows being different, that the FTC could represent a different more affordable route for moving money into the fund.

21. TC asked approximately how much the fund was lending annually.

22. PL responded that they were lending just over £3m a year.

23. TC asked the Invest NI officials what they are currently carrying on the balance sheet.

24. GM responded that £12.1m has been put into the fund since 2002 and that as at June 2015 there was £9.8m on the balance sheet. The difference related to admin fees and bad debt.

25. ER clarified that traditionally programmes and projects were delivered through baseline or a particular budget. We currently have access to FTC whereas our access to other funding sources via the budget is currently expected to be more significantly constrained. Not all Departments can use FTC as the support needs to be in the form of a repayable loan to the private sector. This could free up capital budget for other projects. It is important to explore all sources of funding. He concluded that from what we know it would be worth exploring.

26. ER advised that Invest NI already have some experience of FTC e.g. William McCulla has accessed FTC for other projects e.g. Growth Loan Fund and it would be worth the team discussing with William the potential to use FTC in this case.

27. ER asked whether aspects of the scheme would involve a Direct Award Contract (in relation to delivery via the Carbon Trust and ISL).

28. The Industrial Symbiosis Service will continue to be a tendered service via EU open contract. Invest NI received CPD advice in respect of the Energy Efficiency Loan Fund which they will retender on 1 October 2016.

29. SM queried if they planned to run with the Carbon Trust for one year.

30. PL responded that the contract will expire on 30 September 2016. In the meantime they will be a running a tender to get a new provider in place. There is a clear exit plan in the Letter of Offer with Carbon Trust.

31. ER asked how it went from no tender in the previous programme to requiring a tendering process in October 2016.

32. PL responded that the CPD advice which was sought was to continue for a further 18 months while Invest NI investigate if there are any other suitable companies who could provide this service.

33. SM asked what happens the loan book should Carbon Trust not win the tender.

34. PL confirmed that the new company would take over the loan book and that there would be a 6 month handover period whereby bank accounts, marketing etc will be changed over.

    SM sought confirmation of what our approval will cover, bearing in mind loans have been made and are repaid and then the funds are lent out again and in addition we are approving a new tranche of funding. Are we happy that our approvals cover everything (i.e.) new funding plus what is recycled.

35. TC stated for the avoidance of doubt to include previous amounts on the balance sheet in addition to additional new monies requested.

36. ER queried whether in view of the energy efficiency component of the Programme there had been any views sought earlier from DETI's Energy Division.

37. PL explained that they were part of the consultation process in the Economic appraisal. He added that they have a very good working relationship with the DETI energy team.

38. MD added that he had met with Davina McKay earlier in the year in regards to the Energy Loan Fund. This had been followed up with a consultation with Seamus Hughes in relation to RHI where they discussed where the loan fund fits vis a vis the other offerings in the market place. There were two consultations with Energy branch to ensure that there is no duplication with any Energy Branch projects and no state aid issues.

39. SM queried if the Energywise or Heat scheme was mentioned in the discussions.

40. PL responded that the SDSP complements Energywise.

41. TC stated that the Energy efficiency loan might be managed by the same provider and asked if they were considering a joint procurement.

42. VK responded that they have worded the terms or reference to leave flexibility to do a joint procurement or a parallel procurement.

43. SM asked if the loans were also for renewable energy in addition to energy efficiency.

44. PL confirmed that they were for energy efficiency and adoption of new technologies, and that the SDSP complements the Energywise scheme. SDSP targets mainly larger businesses with annual energy or raw materials costs greater than £30k. The Energywise scheme is concentrated mainly around the domestic side. He added that he was

reasonably comfortable that there was no overlap. He added that there might be the potential to do some complementary branding and marketing.

45. ER queried if it was a standalone proposal or is it dependant on Energywise.

46. VK responded that there are synergies but one is not dependent on the other.

47. ER queried if they had looked into any other options around funding bearing in mind the budget is unknown beyond 2015/16. He also asked if the project was scalable and at what point would the project no longer represent value for money. In other words is there a threshold below which this would not be VFM?

48. SM added that the pitch is for £7.8m but no doubt Invest NI has some existing commitments.

49. PL responded that from a practical point of view there are some legal commitments and in terms of the Energy Efficiency Loan Fund the administrators need to be paid for the next 4 years but other than that the project is fully scalable.

50. ER asked if there were any other forward commitments.

51. PL responded that there were not and that the legacy of commitments is diminishing year on year. Most of the expenses are around the resource efficiency grant and technical consultancy. In terms of the consultancy costs, businesses receive up to 5 days consultancy. These represent more short term controllable commitments. There are no guarantees of any specific amounts of work. It is demand driven and affordability driven so this is flexible. The resource efficiency grant is also controllable. The different areas can be controlled in different ways.

52. MD added that in regards to VFM the different aspects of the project can be controlled but that from an economic benefits standpoint based on the findings of the previous evaluation the level the project has been scoped at represents the optimum level in terms of net GVA and benefits. If we scale the project back we will be reducing the benefits. The previous evaluation was carried out at programme level. The benefits were strong but the analysis did not look at individual strand levels and where you would put your last pound. The figures are reported at Programme level and the findings were very positive. He confirmed that it is scalable up and down but that there is a minimum overhead.

53. ER referred to the 15 recommendations in the evaluation and asked if they had all been addressed.

54. PL referred to the board casework and the evaluation action points from page 47 to 51. This outlines the 15 recommendations, the Invest NI

management response and the action that has been taken. He added that there is monitoring of the action plan by the finance team in Invest NI.

55. SM asked if there was a database or any method whereby applicants are tracked and if so if there are any repeat customers. Are there any additionality impacts and is this information captured.

56. PL responded that technology changes quickly. Normally businesses initially apply for the loan fund and then are motivated to make use of the technical advisors and consultancy service to see what other energy efficiencies they can make within their businesses.

57. SM asked about tracking and data collection.

58. GH responded that they track data under the 4 key areas of support. Invest NI's CCMS records every interaction with the company including the size of the company.

59. ER referred to the fact that technology is changing and the fact that the Programme has now been running for some time. He asked how well the programme is adapting to changing technologies and changing business requirements.

60. PL explained that while the project has been around since 2002 it has been ever evolving. It was born out of national programmes and then some of these programmes ceased and Invest NI commissioned an EA to see if it was worthwhile continuing. Since then the Programme has been brought in house and it is all done through the Invest NI team. This is really only the second time the Programme has been rolled out and this SDSP has evolved and built on the previous SPP.

61. ER asked what the situation is in relation to offering support of this nature in the rest of the UK and sought confirmation that comparable schemes exist with comparable levels of support.

62. PL responded that the different regions run schemes in different ways to a greater or lesser extent. In Wales they run the efficiency loan scheme which is comparable but they offer smaller loans. In Scotland they operate a different model and Enterprise Ireland also provides support to businesses but they do not have a streamlined programme. He added that each region in England offers different support.

63. DL added that there is also evidence to suggest that the NI productivity gap lags behind the rest of the UK. NI is the third most expensive region for electricity in the EU. This also adds to the market failure.

64. ER queried if creating energy efficiencies and sourcing alternative or renewable energy is not embedded in to the culture of the businesses.

65. PL responded that there are approximately 100k businesses in NI and INI are only working with a few thousand of these. INI is constantly finding new businesses to work with and there are several case studies highlighting the benefits brought to NI businesses through this Programme. For example they recently came across a company which was still using coal as their heating for their business.

66. VK added that from the feedback the insight given by the Technical advisors was excellent. Sometimes it takes someone from outside the company to spot the inefficiencies.

67. ER referred to the discussion in the papers around charging businesses for the technical advice and the arguments against this and asked the Invest NI officials if there are services that could be charged for and are they looking at charging models any further.

68. VK responded that Invest NI is looking at all of the advisory services which Invest NI offers to see if they could be charged out. She added that they will fall in line with whatever is recommended. It is David Roberts team that are doing this study.

69. ER asked when this review/paper would be completed.

70. VK responded that work is ongoing and that she was not sure of the end date but that it will cover this Programme.

71. SM noted that the CO2 savings have been quantified but have not been rolled into the NPV. He explained that this was not an issue but just to highlight that these are other benefits that can be converted into monetary terms.

72. TC asked if it is the job of the project team to monitor and manage the loan provider.

73. PL confirmed that this was the case and also EDO inspections had been carried out which were satisfactory.

74. DL confirmed that he was content that the project was VFM.

75. AM confirmed that she had no additional points.

Conclusions

76. ER summed up that affordability was a general issue but not specific to this programme. He advised Invest NI to follow up on suitability of FTC funding. He added that the fact that the project was scalable was in this projects favour. He took comfort that the team was taking advice from CPD in relation to the tender element and that they have engaged with DETI Energy Division and that there did not appear to be any duplication issues.

77. **The Committee was content to support the proposed programme and for it to be forwarded on to DFP and the Minister for their consideration and if content approval. The investigation into whether FTC can be used instead of capital budget can be looked into in parallel. The approval sought should cover the ability to continue to recycle loan repayments within the fund.**

Action point: Invest NI to investigate whether FTC funding can be used instead of Invest NI baseline capital budget.

78. The Chairman thanked those in attendance for their contributions and the meeting was concluded.