From: Downie, Jill
To: DoF AQS CSG; McNaught, Jonathan
Cc: McBurney, Joanne; Morelli, Emer; Caldwell, Alison; Brennan, Mike; Cairns, Robyn; Braniff, Joan
Subject: PSD Co-ordinated Topical Questions and Headline Issues
Date: 11 January 2017 14:51:05
Attachments: Public Spending Directorate (PSD) Co-ordinated Topical Questions Briefin....docx
Public Spending Directorate (PSD) Co-ordinated Topical Questions Briefin....tr5
Public Spending Directorate (PSD) - Headline Issues Briefing.docx
Public Spending Directorate (PSD) - Headline Issues Briefing.tr5
image003.jpg

Assembly Section
Please find attached PSD Topical Questions briefing and Headline issues, cleared by Joanne McBurney, CED.
Many thanks.
Jill

finance-bilingual

JILL DOWNIE
SPS to the Budget Director

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From: Simpson, Susan
Sent: 10 January 2017 08:40
To: DG_DoF GRP_Oral/Topical Questions Circulation List
Cc: McGuinness, Jeff; Barrett, Stephen; Dickson, William (DoF); McKeown, Patrick; Ramsey, Alan; McAvoy, Andrew; Scott, Michelle; Smith, Maryann; Vickers, Bruce; Stevenson, Stuart; Jakobsen, Peter; Armstrong, Barry
Subject: URGENT Oral/Topical Questions

Please see attached list of DoF Oral questions which the Minister is due to answer on **Monday 16th January 2017**, with proposed business area allocation outlined below. Please could you let me know as soon as possible if any of these AQOs have been incorrectly allocated.

CED 1, 2, 10, 11, 13
SPD 3, 5
RPD 4, 7
CPD 6
SUPPLY 9, 12
CHR 14
TBC 8

Current guidance on Oral/Topical Questions and Headline Issues is attached, however please note the following:

Oral answers must be limited to 80-90 words and should be in the format of Annex B - draft responses and background notes must be returned to aqs.csg@finance-ni.gov.uk by **12 noon on Wednesday 11th January 2017.**

The Pre Brief - will take place, at **2pm on Thursday 12th January 2017, in Room 2.6, Clare House.** Officials covering the first 10 Oral Questions should attend**. Please advise Assembly Section the name of the official who will be attending the pre-brief asap.**

Topical Questions should be in the format of Annex C – officials should ask themselves why the issue is topical rather than updating previous TQs, and provide lines to take on that basis**.**

Briefing for TQs will be required no later than **close of play on Wednesday 11th November 2017** and should be sent to aqs.csg@finance-ni.gov.uk and Jonathan.McNaught@finance-ni.gov.uk. The list of MLAs selected to ask Topical Questions will be issued when it is received on Wednesday afternoon.

Headline Issues – please see attached the Headline Issues provided to the Minister for his previous Question Time. Officials should note the format of this and provide, if appropriate, updated content.

Regards

Susan Simpson
Assembly Section
Ext: 76719

PUBLIC SPENDING DIRECTORATE (PSD)

TOPICAL QUESTIONS BRIEFING – 16 JANUARY 2017

CENTRAL EXPENDITURE DIVISION

TOPIC

1. 2016-17 IN-YEAR MONITORING
2. BUDGET 2017-18
3. REVIEW OF FINANCIAL PROCESS
4. COMMUNITY REGENERATION FUND

SUPPLY

TOPIC

5. INVESTMENT FUND
6. DORMANT ACCOUNTS – (COMMUNITY FINANCE FUND)
7. FLAGSHIP SCHEMES
8. RENEWABLE HEAT INCENTIVE
9. APPRENTICESHIP LEVY
10. SPRING SUPPLEMENTARY ESTIMATES

1. 2016-17 IN-YEAR MONITORING

LINES TO TAKE:

- The Executive concluded its October Monitoring round with a £27.4 million overcommitment in respect of Resource DEL and £11.8 million on Capital DEL. On Financial Transactions Capital £77.5 million remained unallocated following slippage in the timetable for establishing the Investment Fund.

- Since then departments have declared a number of reduced requirements that have significantly reduced the level of overcommitment on both Resource DEL and Capital DEL. I am therefore confident that we will live within our Treasury control totals for 2016-17.

- It now seems unlikely that a January Monitoring round will be agreed by the Executive and as such there is no scope for further allocations this year.

- The Executive previously recognised the potential Resource DEL pressure which exists in relation to commitments under the Renewable Heat Incentive and has set aside £20 million relating to this issue. In the absence of a January Monitoring round this will not be allocated to the Department for the Economy. However, it does remain available to cover this pressure at a Block level.

- I have had positive discussions with the Chief Secretary to the Treasury on putting in place arrangements to secure much of the Financial Transactions Capital that cannot be spent this year. I expect arrangements to be confirmed in the near future.

Background

1. The Executive concluded the October Monitoring round overcommitted by £27.4 million Resource DEL and £10.8 million Capital DEL. In anticipation of the January Monitoring round, departments have declared reduced requirements amounting to £28.6 million Resource DEL and £16.6 million Capital DEL.

2. Without an Executive it is not possible to agree a January Monitoring round meaning it will not be possible to make any further allocations this year.

3. The potential pressure in relation to the Renewable Heat Incentive and has been factored in and £20 million has been held at the Centre for this and is included within the stated overcommitment position.

4. In Financial Transactions Capital, £78 million remains unallocated, however it seems likely that Treasury agreement will be received to reprofile £55 million of this relating to the Investment Fund into future years. The Budget Exchange Scheme will provide for the carry forward of around £9 million. Departments have not registered any new proposals to spend FTC in this year leaving some £14 million at risk of being lost to the Executive. Any underspend recorded by departments would also be lost.

2. BUDGET 2017-18

LINES TO TAKE:

- It is highly unlikely that I will oversee a 2017-18 Budget process in my post as Finance Minister in this current mandate.

LEGAL IMPLICATIONS

- I have sought legal advice and am satisfied that there are mechanisms in place to allow the continuation of public services into 2017-18 should there not be an Assembly in place.

GENERAL FISCAL OUTLOOK

- The outlook on Resource DEL remains challenging with the Budget seeing a 3.7 per cent real terms reduction on Resource DEL over the period 2016-17 to 2019-20.

- The Capital DEL budget will increase by 15.4% in real terms by 2020-21

BACKGROUND:

1. The following table sets out our Resource and Capital DEL control totals.

£million

NI NON RING FENCED RDEL	2016-17	2017-18	2018-19	2019-20	2020-21
Outcome after UK Autumn statement 2016	9,760.6	9,895.7	9,902.6	9,920.7	
Cash changes		*1.4%*	*0.1%*	*0.2%*	

NI CDEL	2016-17	2017-18	2018-19	2019-20	2020-21
Outcome after UK Autumn statement 2016	1,024.9	1,091.0	1,155.1	1,223.7	1,271.4
Cash changes		*6.5%*	*5.9%*	*5.9%*	*3.9%*

2. Section 59 of the Northern Ireland (1998) Act allows for the continuation of public funds in the event of a Budget Act not having been passed.

59 Payments out of Fund without appropriation Act.

(1) If an Act is not passed at least three working days before the end of a financial year ("year 1") authorising the issue out of the Consolidated Fund of Northern Ireland of sums for the service of the next financial year ("year 2")—

(a) the authorised officer of the Department of Finance and Personnel may, subject to any Act subsequently passed, authorise the issue of sums out of that Fund for the service of year 2; and

(b) the sums so issued shall be appropriated for such services and purposes as the officer may direct.

(2) The aggregate of the sums issued under subsection (1) for the service of year 2 shall not exceed 75 per cent of the total amount appropriated by Act for the service of year 1.

(3) If an Act is not passed before the end of July in any financial year authorising the issue out of the Consolidated Fund of Northern Ireland of sums for the service of the year—

(a) the authorised officer of the Department of Finance and Personnel may, subject to any Act subsequently passed, authorise the issue of sums out of that Fund for the service of the year; and

(b) the sums so issued shall be appropriated for such services and purposes as the officer may direct.

(4) The aggregate of the sums issued under subsection (3), and (where applicable) the sums issued under subsection (1), for the service of any financial year shall not exceed 95 per cent of the total amount appropriated by Act for the service of the preceding financial year.

(5) In this section—

- “Act” means an Act of the Assembly or, in relation to any time before the appointed day, an Order in Council under Schedule 1 to the Northern Ireland Act 1974;
- “authorised officer”, in relation to the Department of Finance and Personnel, means the Permanent Secretary or such other officer as may be nominated by him for the purpose.

3. REVIEW OF FINANCIAL PROCESS

LINES TO TAKE:

- The Budget, Estimates and Accounts documents currently present financial information on a different basis making it difficult to track spend from plans to outturn.
- This has led to criticism from Assembly Committees and members across all parties who felt that it limited their scrutiny of the financial process and their ability to challenge departments effectively.
- In moving forward with the implementation of the key recommendations of the Review we will create a framework that is effective, efficient and transparent with changes coming into effect in 2020-21.
- This will deliver a significant set of reforms which I am sure we will all welcome.

Background

1. The Executive met on 14 December 2016 and agreed that the key recommendations contained within the original review should be taken forward.
2. Assembly controls will better align Budgets Estimates and Accounts with each department’s Resource DEL, Capital DEL, Resource AME, Capital AME and Non Budget if necessary being presented in the Estimates document in a format that is easily reconcilable to the Budget Document. In creating this alignment NDPBs will be consolidated within the department accounting boundary.
3. In taking forward these changes there will be challenges for departments but officials will work closely to ensure that all necessary actions are taken.

4. COMMUNITY REGENERATION FUND

LINES TO TAKE:

- As part of its 'First Step Stimulus package', the Executive has agreed in the October Monitoring Round to provide £5 million Capital DEL in 2016-17 for a Community Regeneration Fund. It is anticipated that this will be funded through RRI Borrowing made available through slippage on the Public Sector Transformation Fund.

- The Community Regeneration Fund is aimed at funding infrastructure projects in our most deprived and marginalised communities, seeking to maintain momentum on peace building and enhance our diverse heritages.

- As allocations from the Community Regeneration Fund require Executive approval it now seems unlikely there will be any allocations in this year.

5. INVESTMENT FUND

LINES TO TAKE:

- The Executive has agreed to establish a £100 million Investment Fund. This funding commitment stands despite the delay in setting up the Fund.

- The overall aim of the proposed Fund is to promote investment, economic growth and jobs in the North of Ireland. DoF officials continue to progress work towards establishing the Fund, working alongside the European Investment Bank.

- The Fund will be using public money (Financial Transactions Capital) and will seek to address access to finance market failure. The intention is that the Fund will provide loan, equity or mezzanine finance to viable local private sector projects that cannot obtain funding from commercial banks. Funding is expected to be provided at commercial terms to avoid falling foul of State Aid rules.

- The focus of the Fund is expected to be urban regeneration projects, including Grade A property, energy efficiency and low carbon projects.

- The next step is procurement of an existing fund to deliver the Executive's investment objectives. I anticipate that this will be launched once all internal approvals have been secured.

Background:

1. Consultants Deloitte was appointed to progress the feasibility study and this work has now concluded. The objective of the study was to inform

the scope, scale, design and investment strategy of the proposed Fund. In terms of managing this complex and cross-cutting project, a cross-departmental Project Board was established (involving the then DFP, DETI, Invest NI, DSD and SIB). This Project Board was engaged as the feasibility study progressed and Members commented on draft reports.

2. Subsequently, the Department appointed the European Investment Bank (EIB) to provide advisory services in setting up the Fund. This ensures that best international practice is incorporated into the Fund design. Strategic Investment Board (SIB) officials - Scott Wilson (Head of AMU) and Gregor Hamilton (SIB Legal Director) - have also been fully engaged on the Investment Fund work.

3. The delivery team consisting of DoF, SIB and EIB officials have now finalised the draft Investment Strategy. This was based on additional market testing consisting of structured meetings with the local banks, commercial property agents, Invest NI, DSD and specialist fund managers. The proposed draft Investment Strategy has also now been tested through a formal Market Engagement exercise, which was conducted through the Central Procurement Directorate.

4. DoF Officials, in liaison with EIB and SIB, are currently preparing the documents for the fund manager procurement process. The Office for National Statistics has responded on the classification issue and has unfortunately indicated that it will not give a classification view until the contract has been signed. This imposes a risk, which needs to be carefully managed and officials are currently developing risk mitigation measures.

5. A Project Board, chaired by David Sterling, has now been established to oversee the Fund procurement process. A Gateway Review health check has also been completed. This recognised that there is a need for the Fund and that there are good working relationships between the project team and EIB. However, it also highlighted a number of issues and risks, with the ONS classification risk the most important.

6. DORMANT ACCOUNTS

LINES TO TAKE:

- Section 22 of the Dormant Bank and Building Society Accounts Act 2008 allows for the establishment of a scheme to utilise Dormant Accounts here. This allows the Department of Finance to direct the Big Lottery to establish a scheme here.

- Given that the proposed use of the Dormant Accounts monies was cross-cutting in nature, I had sought Executive approval for the parameters of Directions to the Big Lottery. Subject to consultation with the Big Lottery these Directions would in turn inform a Strategic Plan for the use of the Dormant Accounts monies here.

- I had expected that the scheme would be open to applications in the new financial year.

7. FLAGSHIP SCHEMES

LINES TO TAKE:

- As part of Budget 2016-17 the Executive committed to take forward seven key flagship projects, the A5, A6, Belfast Rapid Transport, Mothers and Children's Hospital, Desertcreat and Regional and Sub Regional Stadia.

- I would expect these projects to proceed as planned going forward.

8. RENEWABLE HEAT INCENTIVE

LINES TO TAKE:

- I am deeply concerned by the significant overspend which has emerged within the Department for the Economy budget as a result of the Renewable Heat Incentive scheme.

- Anyone who has read the recent Audit Office report will agree there have been shortcomings in both the design and management of this scheme.

- The future budgetary implications of the Renewable Heat Incentive scheme will depend on the actions taken by the Economy Minister to address the significant cost of the scheme.

- [I have not yet received a business case from the Economy Minister on the future operation of the RHI scheme. Once this case is submitted I will work, on behalf of the public, to ensure that the Economy Minister's plan is robust and protects public finances.] DN THIS MUST BE UPDATED BEFORE MONDAY 16 JAN

IF PRESSED ON FUTURE OPERATION OF THE SCHEME

- I cannot comment on the proposals for the future operation of the RHI scheme until my department has received and had time to consider the detail of the Department for the Economy's business case.

- We are all agreed there are weaknesses in the design and operation of this scheme which must be addressed. However this is a complex issue and we must take the necessary time to fully test any solutions proposed.

IF PRESSED ON FUNDING AVAILABILITY

- The Chief Secretary to the Treasury confirmed the financial allocation to the North of Ireland for the Renewable Heat Incentive for the period 2016-17 to 2019-20 in January 2016.

- The funding available is

    - £18.3m in the current financial year,
    - £22.3m in 2017-18,
    - £25.7m in 2018-19 and
    - £28.9m in 2019-20

- Any expenditure above this profile must be funded from the Executive's DEL budget.

BACKGROUND:

1. The high level of uptake experienced within the Department for the Economy's Renewable Heat Incentive has resulted in significant budgetary pressures. The Department's management of this scheme was the subject of a NI Audit Office report, published 5 July 2016, which concluded the scheme had serious systemic weaknesses from the start and was potentially vulnerable to abuse.

2. The Department for the Economy (DfE) has projected a funding deficit of circa £30 million for the Renewable Heat Incentive scheme in this financial year.

3. The table below sets out the AME funding which is available to DfE for the RHI scheme. Any expenditure above this profile must be funded from the Executive's DEL budget.

	2016-17	2017-18	2018-19	2019-20
RHI AME Allocation	£18.3m	£22.3m	£25.7m	£28.9m

4. The funding requirement from above this AME allocation will be determined by the ongoing work to explore options for reducing the financial impact of the scheme.

5. At the current time (11am 11 January) no business case has been received from DfE on the future operation of the RHI scheme.

9. APPRENTICESHIP LEVY

LINES TO TAKE:

- I have listened carefully to concerns expressed by the business community regarding the introduction of an Apprenticeship Levy.

- While Tax policy remains largely a Reserved Matter, the introduction of this levy will have clear implications for skills policy here.

- It is clear from the information provided by Treasury that the additional expenditure on apprenticeships in England resulting from the introduction of this levy will be largely offset by reductions elsewhere in apprenticeships budgets. As members will be aware, the Barnett Formula provides us with a population share of both increases *and* reductions in spend in England – therefore Treasury are giving with one hand but taking away with the other.

BACKGROUND:

1. There has been engagement at official level with Treasury on the Public Expenditure implications of the UK-wide Apprenticeship Levy.

2. In his letter dated 12 August, David Gauke has confirmed that an additional £8.2m will be made available in 2017-18 followed by £3.7m in 2018-19. This additional funding is being allocated in response to a higher level of funds being raised through the Levy than will be spent in the early years.

3. It is the Treasury position that the proposed allocations now fulfill their commitment to ensure the devolved administrations receive a fair share of the Apprenticeship levy during the Spending Review period.

4. While the NI Executive will benefit from the additional Barnett consequentials arising from Apprenticeship Levy funded expenditure, these will be partially offset by the negative consequentials resulting from the cessation of expenditure on apprenticeships elsewhere within BIS and DfE departments in Whitehall. The table below shows the net allocation to the North of Ireland arising from the introduction of the Apprenticeship Levy, including the additional allocations notified by the CST.

	2017-18	**2018-19**	**2019-20**
Apprenticeships funded by Levy	+66	+74	+80
Additional funding notified by CST on 12 August	+8	+4	-
Other apprenticeships	-52	-52	-52
Net impact on NI RDEL	+22	+26	+28

10. SPRING SUPPLEMENTARY ESTIMATES

LINES TO TAKE:

- Failure to have Spring Supplementary Estimates means that the Assembly will not have an opportunity to approve all the financial adjustments made by the Executive since the Main Estimates process in June 2016.

- This means that the June and October Monitoring adjustments will not be approved by the Assembly in Estimates positions. This may trigger Excess Votes in some departments.

2016-17 IN-YEAR MONITORING

Following the October Monitoring round the Executive was overcommitted by £27.4 million Resource DEL and £10.8 million Capital DEL.

In the lead up to the January Monitoring round, departments have declared a number of reduced requirements that has significantly reduced the overcommitment on both Resource and Capital DEL. While a January Monitoring round cannot proceed without an Executive I am confident we will live within Treasury control totals.

In the likely absence of a January Monitoring round, there will be no further allocations this year.

The potential pressure in relation to the Renewable Heat Incentive has been factored in with £20 million being held at the Centre for this. This is included in the overcommitment position.

On Financial Transactions Capital, £78 million remains unallocated however I anticipate Treasury confirmation in the near future of extended End Year Flexibility arrangements for Financial Transactions Capital.

BUDGET 2016

The outlook on Resource DEL is challenging with the Budget seeing a 3.7% real terms reduction on Resource DEL over the period 2016-17 to 2019-20. The Capital DEL budget will increase by 15.4% in real terms by 2020-21.

I have sought legal advice and am satisfied that there are mechanisms in place to allow the continuation of public services into 2017-18 should a Budget not be agreed before the start of the financial year.

INVESTMENT FUND

DoF officials continue to progress work towards establishing the Investment Fund. This Fund is intended to help to boost investment and promote economic growth here. The Executive has agreed to allocate £100 million of Financial Transactions Capital to the Fund and this commitment stands despite the delay in establishing the Fund.

The next step is procurement of a Fund to deliver the Executive's investment objectives. I anticipate that the procurement process will commence once all internal approvals have been secured.

RENEWABLE HEAT INITIATIVE

The future budgetary implications of the Renewable Heat Incentive scheme will depend on the actions taken by the Economy Minister to address the significant cost of the scheme.

[I have not yet received a business case from the Economy Minister on the future operation of the RHI scheme. Once this case is submitted I will work, on behalf of the public, to ensure that the Economy Minister's plan is robust and protects public finances.] DN THIS MUST BE UPDATED BEFORE MONDAY 16 JAN

I cannot comment on the proposals for the future operation of the RHI scheme until my department has received and had time to consider the detail of the Department for the Economy's business case.

We are all agreed there are weaknesses in the design and operation of this scheme which must be addressed. However this is a complex issue and we must take the necessary time to fully test any solutions proposed.

SUPPLY KEY ISSUES

TOPIC

1. INVESTMENT FUND
2. DORMANT ACCOUNTS – (COMMUNITY FINANCE FUND)
3. FLAGSHIP SCHEMES
4. RENEWABLE HEAT INCENTIVE
5. APPRENTICESHIP LEVY
6. SPRING SUPPLEMENTARY ESTIMATES

1. **INVESTMENT FUND**

LINES TO TAKE:

- The Executive has agreed to establish a £100 million Investment Fund. This funding commitment stands despite the delay in setting up the Fund.

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<u>Background:</u>

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5. A Project Board, chaired by David Sterling, has now been established to oversee the Fund procurement process. A Gateway Review health check has also been completed. This recognised that there is a need for the Fund and that there are good working relationships between the project team and EIB. However, it also highlighted a number of issues and risks, with the ONS classification risk the most important.

6. A paper has also been circulated to the Executive seeking agreement to proceed to procurement based on the ‘off balance sheet’ option. This paper has not yet been formally considered by the Executive and until agreement has been secured, the procurement cannot be launched. The current timetable, predicated on Executive agreement having been secured, suggested launch of the procurement process in February. However, this timescale is now at risk if Executive agreement cannot be secured before then.

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4: RENEWABLE HEAT INCENTIVE

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- Anyone who has read the recent Audit Office report will agree there have been shortcomings in both the design and management of this scheme.

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5. At the current time (11am 11 January) no business case has been received from DfE on the future operation of the RHI scheme.

5: APPRENTICESHIP LEVY

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Other apprenticeships	-52	-52	-52
Net impact on NI RDEL	+22	+26	+28

6: SPRING SUPPLEMENTARY ESTIMATES

LINES TO TAKE:

- Failure to have Spring Supplementary Estimates means that the Assembly will not have an opportunity to approve all the financial adjustments made by the Executive since the Main Estimates process in June 2016.

- This means that the June and October Monitoring adjustments will not be approved by the Assembly in Estimates positions. This may trigger some Excess Votes in some departments.