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Department for the Economy

ANNUAL REPORT 2016 / 17

Department for the Economy

Annual Report and Accounts

For the year ended 31 March 2017

Laid before the Northern Ireland Assembly by the Department of Finance (formerly Department of Finance and Personnel) under Section 10(4) of the Government Resources and Accounts Act (Northern Ireland) 2001

27 June 2017

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Permanent Secretary's Statement

I am pleased to present the annual report for 2016-17 for the Department for the Economy in respect of its first year of existence. The report provides information about the range of activities in which the Department has been engaged over the past year and its performance against its key commitments and targets.

The establishment of the new Department for the Economy enabled us to build on the good work that was done by the former Department of Enterprise, Trade and Investment and Department for Employment and Learning in promoting the growth of our economy and improvement of our skills base. It also provided an excellent opportunity to review what we are doing and how we can contribute to the Executive's new outcomes-based Programme for Government.

Despite a challenging budget settlement for 2016-17 and the prolonged period of political uncertainty, momentum in support for policy development and service delivery was maintained during the year. Major achievements included: the development of a draft Industrial Strategy for Northern Ireland, which sets out a framework for our economic growth to 2030; capital investments in the Further Education sector in excess of £12 million, including the completion of the refurbishment of Belfast Metropolitan College's E3 campus; improvements in retention and success rates in our Further Education Colleges; significant increases in Science, Technology, Engineering and Maths qualifiers from our Higher Education Institutions; and the completion of 162 knowledge exchange projects during the year, well in excess of initial targets and further bolstering our innovation capacity.

With these achievements, the year has also brought substantial challenges. The NI Civil Service as a whole continued to feel the effects of the significant reductions in staffing brought about by the Voluntary Exit Scheme run the previous year. The reduction in the number of Departments during the year represented a significant organisational upheaval, the effects of which are still being managed. In addition, the decision taken in June 2016 for the UK to leave the European Union has led to major new issues in relation to European funding streams, global trade, and Northern Ireland's wider place in the world.

Finally, as covered in detail in this year's Governance Statement, significant issues were identified by the Northern Ireland Audit Office with the design, management and cost of the Northern Ireland Renewable Heat Incentive Scheme (RHI) during 2016-17. Nearly £20 million of unapproved, irregular expenditure was incurred during the year and the Scheme overspent by some £27 million due to rising demand and the lack of adequate cost controls. This was unacceptable. While significant resources have been devoted during the year to addressing these issues, including the establishment of a dedicated RHI Taskforce, there is still a great deal of work to be done. This will be a key priority for the Department in 2017-18.

Amidst these considerable challenges, the various achievements delivered during the year, of which I have highlighted only a portion above, may be deemed all the more creditable. They could not have been delivered without the hard work and commitment of staff at all levels of the organisation. I would like to thank staff for their efforts throughout the year.

Dr Andrew McCormick

PURPOSE AND ACTIVITIES OF THE DEPARTMENT

OUR VISION

A globally competitive economy that works for everyone.

BACKGROUND

The Northern Ireland Executive gave a commitment in the Stormont House Agreement to reduce the number of government Departments from twelve to nine. As a result, the Department for the Economy (DfE) was established in May 2016.

DfE combines the majority of the functions of the former Department of Enterprise, Trade and Investment (DETI) and the Department for Employment and Learning (DEL), with the exception of the Employment Service which is now part of the Department for Communities. In addition, responsibility for NI Screen was transferred from the former Department of Culture, Arts and Leisure.

To deliver its mission and strategic objectives the Department has been structured into 4 business areas as follows:

1. Strategic policy;
2. Skills & Business Development policy;
3. Infrastructure & Regulation; and
4. Higher Education & Investment.

OUR MISSION

To develop and implement agile policies and programmes which promote a competitive, sustainable and inclusive economy through investment in:

- skills
- economic infrastructure
- research and innovation; and
- business development.

OUR STRATEGIC OBJECTIVES
1. Assist the development of businesses to compete successfully in the local and global economies and to create employment. 2. Support economic, social and personal development through relevant high quality learning and skills provision. 3. Stimulate research and development, innovation and creativity. 4. Secure high quality inward investment. 5. Facilitate development of the economic infrastructure to provide a strong foundation for economic growth. 6. Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers. 7. Work in partnership with others to support economic growth. 8. Ensure the Department has effective governance, manages its resources, both financial and staff and successfully manages the transfer of DEL and DETI functions to the new Department for the Economy.

PERFORMANCE ANALYSIS

Key Performance Measures

	STRATEGIC OBJECTIVES	No. of targets with Green status	No. of targets with Amber/ Green status	No. of targets with Amber status	No. of targets with Red status
SO 1	Assist the development of businesses to compete successfully in the local and global economies and to create employment.	7	1	0	2
SO 2	Support economic, social and personal development through relevant high quality learning, research and skills.	13	1	2	6
SO 3	Stimulate research & development, innovation and creativity.	14	1	0	0
SO 4	Secure high quality inward investment.	3	1	0	2
SO 5	Facilitate development of the economic infrastructure to provide a strong foundation for economic growth.	9	2	1	1
SO 6	Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers.	0	0	0	5
SO 7	Work in partnership with others to support economic growth.	8	2	2	1
SO 8	Ensure the Department has effective governance, manages its resources, both financial and staff, and successfully manages the transfer of DEL and DETI functions to the new Department for the Economy.	4	0	0	7
	Total	58	8	5	24

As indicated on page 5, of the 95 targets contained in the Department's 2016-17 Business Plan, 58 have been reported as 'achieved' (green). Of the remaining 37, 13 have been reported as 'partially achieved' (amber or green/amber) and 24 have been reported as 'not achieved' (red).

The majority of this underachievement may be explained by the absence of a Minister and functioning Executive for large portions of the year. For example, all of the targets under Strategic Objective 6 were reported as red as they all either required Ministerial approvals or were dependent on the completion of other work requiring Ministerial approvals. Similarly, the development of a Tourism Strategy as a target under Strategic Objective 1 was not achieved as the Strategy, and an initial public consultation period, will both require Ministerial approval. Several targets reported as red have also been explained as a result of resourcing issues, brought about in part through Departmental restructuring which occurred during the year.

Under Strategic Objective 8 (governance and resource management), 6 out of 11 targets were not achieved. The first relates to monitoring and living within the Department's budget allocation, which was unachieved due to the absence of an Executive to approve January Monitoring submissions. This is regarded as a technical issue. The remaining 5 unachieved targets under this Strategic Objective relate to internal sick absence and performance management targets, the approaches to which will be standardised by Central NICS HR in the future.

A detailed report on performance against the Department's 2016-17 Business Plan will be published on the Business Planning page of the Department's website.

DETAILED PERFORMANCE ANALYSIS

ECONOMIC CONTEXT

Global Developments

1. The International Monetary Fund (IMF) estimates global economic activity will continue to grow with global growth in 2017 forecasted to be 3.5% and 3.6% in 2018.

2. The IMF also note that they expect the economic recovery in the Euro Area to continue, at a pace slightly above previous expectations. Expectations now are that output will grow by 1.7% in 2017 and 1.6% in 2018.

Northern Ireland Performance

3. The Northern Ireland economy has continued to show strength in a number of areas in 2016-17 including an improving labour market, a growing economy and strong export performance. Set alongside this however, there has been a slowdown in the growth of employee jobs, and a continuing rise in price inflation.

4. Overall labour market conditions have continued to improve over the year, though the pace of this improvement has begun to slow. The latest labour market statistics released 17 May 2017 show that the number of people claiming unemployment has reduced by 6,300 over the year and by over 33,000 from the most recent peak in February 2013. Whilst the unemployment rate has fallen over the year (by 0.8 percentage points), other labour market indicators were not as positive with inactivity up by 1.6 percentage points and employment down by 1.5 percentage points over the year.

5. The number of employee jobs, across all sectors, continued to increase throughout 2016, albeit at a much slower pace than previously witnessed at the peak of jobs growth in June 2015 (when jobs increased by 16,930 over the year). The total number of employee jobs increased by 0.3% (2,490 jobs) over the year to December 2016. Over the same period, manufacturing employee jobs increased by just over 1%, construction jobs were up by 3.5% and services jobs were down slightly by 0.1%.

6. The latest Northern Ireland Composite Economic Index estimates that on a rolling annual average basis NI economic output grew by 1.6% in 2016 compared to 2015, with growth driven by rises in the private sector. However, these increases were partly offset by a decrease in the public sector jobs index over the same period.

7. In 2016, the value of goods exported from Northern Ireland (based on HMRC Regional Trade Statistics) was £7.7bn, an increase of 11.3% when compared to 2015 – the highest growth of any of the UK nations. The largest markets for our exports were the European Union (EU) generally (£4.24bn), the Republic of Ireland (£2.4bn) and the United States (£1.67bn).

8. Research and Development (R&D) results for 2014, published in November 2016, show that R&D expenditure by Businesses, Higher Education and Government in Northern Ireland was £749.6 million in 2015, increasing by 24% from 2014 levels. Business expenditure on R&D (BER&D), which accounts for some 72% of total R&D, was up by 32% in 2015 compared to the previous year. In-house BER&D is currently equivalent to 1.5 % of GVA, with NI ranking as the fifth highest performing UK region.

Outlook

9. The IMF has revised forecasts for the UK upwards to 2.0% in 2017 and 1.5% in 2018.

10. In March 2017, following the release of further detail in the UK's objectives following the UK exit from the EU, the Office for Budgetary Responsibility has revised upwards the short term UK growth forecasts estimating that the economy will now grow by 1.8% in 2016, then 2.0% in 2017, and then 1.6% in 2018.

11. Looking ahead, independent economic commentators forecast that, on average, the local economy will grow this year by 0.7% and by 1.1% in 2018. The pace of growth is expected to be slower when compared to the UK or the Republic of Ireland.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
1. DEVELOPMENT OF BUSINESSES TO COMPETE SUCCESSFULLY IN THE LOCAL AND GLOBAL ECONOMIES AND TO CREATE EMPLOYMENT	Implement the projects flowing from the Department's two Higher Education Strategies: Graduating to Success and Access to Success.	Implementation remains ongoing in relation to thirteen projects flowing from the two Strategies. An interim review of the implementation of the Strategies concluded in May 2016. The review identified good progress had been made on a project by project basis and the programme was 'on track'. The interim review recommended, in light of a changing fiscal environment, that a refreshed implementation plan should be developed. The Department is currently taking forward this recommendation.
	Through the establishment of an Export Matters Sub-Group: • Undertake an analysis/ audit of existing provision; and • Working with Invest NI, develop a composite Trade Development and Overseas Events Programme.	Action was completed in August 2016.
	Through the Export Matters Forum produce a six monthly report on progress and an annual statement on performance.	Broad Economy Sales and Export Sales Measure (BESESM) figures for 2014 (latest available) were presented to Export Matters Forum on 23 August 2016. 2015 figures should have been available later 2016. These were published February 2017. 2016 figures will not be available until early 2018. Annual statement on Export Matters will be completed by end May 2017.
	Develop a Tourism Strategy to increase visitors and revenue. By December 2016, publish the Strategy.	Draft Tourism Strategy and action plan developed and presented to the previous DfE Minister. Public Consultation will follow approval of the draft Strategy by new DfE Minister and Executive.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
2. SUPPORT ECONOMIC, SOCIAL AND PERSONAL DEVELOPMENT THROUGH RELEVANT HIGH QUALITY LEARNING, RESEARCH AND SKILLS	Increase the number of learners undertaking higher education courses in economically relevant subjects, as outlined by the NI Skills Barometer.	Statistics for 2015-16 (the most recent available) show that 22.9% of higher education awards were in narrow STEM areas, up from 18% in 2008 and exceeding the 22% target set by the higher education strategy. In 2010-11, narrow STEM enrolments accounted for 21.7% of all enrolments at NI Higher Education Institutions (HEIs); this has increased to 26.5% in 2015-16. In terms of both enrolments and awards in STEM subjects, therefore, there has been considerable progress, which is a reflection of the priority placed on these subject areas by the Department in its dealings with the NI HEIs.
	Increase global experience of higher education students through outward mobility opportunities.	Statistics for 2014-15 (the most recent available) show a 24% increase from the previous year in students at NI HEIs undertaking a period of outward mobility. This shows a 73% increase on 2008-09, marking encouraging progress towards the target set out in the Higher Education (HE) strategy (moving towards a doubling of activity by 2020). Northern Ireland HE Erasmus+ participation rose by 29% from 2014 to 2015. During 2016-17 a pilot project was launched with the HEIs whereby they were provided with seed funding to develop a new outward mobility programme. The result of this pilot should show a further increase in the number of students able to avail of a period of study or work abroad as part of their degree.
	Support Department funded postgraduate awards in higher education at Northern Ireland's universities.	In line with the DfE Business Plan target, the Department funded 729 Postgraduate Awards in 2016-17.
	Improve accessibility to the higher education sector by piloting a programme for Disabled Applicants.	Agreement reached with the higher education institutions on a framework for a pilot programme to begin for entry in 2019.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
2. SUPPORT ECONOMIC, SOCIAL AND PERSONAL DEVELOPMENT THROUGH RELEVANT HIGH QUALITY LEARNING, RESEARCH AND SKILLS	Progress the next steps in relation to the revised operating model for quality assessment in higher education.	Guidance documents issued during 2016. The HE Providers submitted the new Governing Body Assurances in December 2016 and the Annual Provider Review process began in January 2017 and is due to report in May 2017. Pilot activity continues in a number of areas and the programme is on target for full implementation in Academic Year 2017-18.
	By March 2017, have 11,300 eligible participants on a range of NI European Social Fund Projects (NI ESF).	Target exceeded. 13,686 eligible participants are engaged on a range of NI ESF Projects.
	By March 2017, support the further education sector to achieve a more sustainable, coherent and modern estate by providing £14.7m of capital investment (to bring forward the design phase of seven major new capital investment projects. This funding will also permit significant investment in minor capital projects across all six colleges).	Completion of £1.2m refurbishment of Belfast Metropolitan College's E3 campus. Completed design of major capital projects in Armagh, Banbridge, Craigavon, Enniskillen and Springtown. Additional land secured to facilitate new Northern Regional College (NRC) campus on expanded site in Coleraine. Allocation and investment of £10.9m in minor works to improve facilities across the Further Education (FE) Estate.
	Implementation programme for 'Further Education Means Success' (FEMS) strategy, which is focussed on the provision of high quality education that supports employers and the economy and helps to overcome educational disadvantage.	Ongoing implementation of eight projects which support improvements across all aspects of further education provision.
	Support social inclusion by: • Addressing barriers to participation in learning including those from deprived areas and those students with learning difficulties and disabilities (SLDD) • Improving levels of literacy, numeracy and ICT in the Northern Ireland population.	In 2015-16 (the latest year for which statistics are available), over two-fifths (42.5%) of regulated enrolments were from the two most deprived quintiles. A fifth (19.9%) of regulated enrolments came from the most deprived quintile, compared with 13.9% from the least deprived quintile. In 2015-16, 3,444 SLDD students were supported through the Additional Support Fund, which helps colleges meet the cost of additional support.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
2. SUPPORT ECONOMIC, SOCIAL AND PERSONAL DEVELOPMENT THROUGH RELEVANT HIGH QUALITY LEARNING, RESEARCH AND SKILLS		In 2015-16 there were 38,147 enrolments in essential skills courses of which almost two thirds (65.4%) gained a qualification. For Numeracy enrolments, the equivalent success rate was 68.2%, while it was 67.5% for Literacy and 56.0% for ICT enrolments.
	Enhance further education quality and provision through inspection and quality improvement processes and a highly qualified teaching workforce.	Over the period 2013-14 to 2015-16 the retention rate in FE colleges increased from 89.1% to 90.2%; the achievement rate increased from 87.1% 89.4%; and the success rate increased from 77.6% to 80.7%.
	Enhance the learner and staff experience through international placements and exchanges.	In 2016 586 students and 223 staff from FE colleges participated on Erasmus + programmes.
	DfE Research Agenda 2016-17 published in July 2016.	The Department has taken forward a wide range of research projects under the Research Agenda. These include: • Best Practice in Small Advanced Economies; • Economic Impact of Corporation Tax Update; • Skills Barometer Update; • Developing Policy for High Growth Firms; and • Economic Impact of National Living Wage. A number of research projects have already been made publically available and others will be released in the coming months.
	By March 2017, deliver the following actions contained within the Careers Strategy Action Plan 2016-17: • pilot the further use of e-delivery channels including Webex and interactive webinars;	Following the completion and evaluation of a one year webchat pilot project, this mode of delivery will be included as a careers guidance delivery channel from May 2017.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
2. SUPPORT ECONOMIC, SOCIAL AND PERSONAL DEVELOPMENT THROUGH RELEVANT HIGH QUALITY LEARNING, RESEARCH AND SKILLS	• establish a central database to advertise work experience opportunities; and • establish an Accountability and Quality Assurance Framework for the Careers Service.	Work has been ongoing to develop a pilot Webex service in two locations. Test sites expected to 'go live' in 2017-18. Connect To Success NI system went live September 2016. Work is underway to engage at strategic level with employers and related bodies to populate the database with work experience opportunities. Working with the Department of Education (DE) to promote the use of the system in schools is also ongoing. A draft accountability and quality assurance framework is currently being revised to incorporate new delivery channels and developments in service delivery and quality assurance before being finalised by September 2017.
	By March 2017, deliver to at least 90% of pupils, in their final year of compulsory schooling, face to face professional careers guidance. Conduct over 15,000 Careers Guidance interviews with adults.	96.62% of year 12 pupils (21,547) were provided with face to face professional careers guidance against a target of 90%. 28,105 individual careers guidance interviews were provided to young people in education (September 2015 to August 2016 academic year). Approximately 11,518 Careers Guidance interviews were provided to both unemployed and employed adult clients by 31 March 2017.
	The Department has continued to implement the commitments set out in Generating Our Success and Securing Our Success strategies to radically transform how traineeships and apprenticeships are delivered in Northern Ireland	The Department has continued to progress the Apprenticeship and Youth Training programme and has established a new curriculum development process for apprenticeships at level 2 and youth training at level 3. A Curriculum development proposal template and guidance materials have been completed and the newly developed process is currently being tested across two sectors, Hospitality and advanced Manufacturing and Engineering. Ten new apprenticeship and traineeship Frameworks at levels 2 and 3 are under development – four for Hospitality (2 at L2 and 2 at L3) and six for Engineering (3 at L2 and 3 at L3). In advance of full implementation of the new youth training and apprenticeship system, a further series of pilots commenced during the 2016-17 academic year.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
2. SUPPORT ECONOMIC, SOCIAL AND PERSONAL DEVELOPMENT THROUGH RELEVANT HIGH QUALITY LEARNING, RESEARCH AND SKILLS		A total of thirteen level 2 traineeship pilots and six level 3 apprenticeship pilots are currently underway across the FE sector across a wide range of occupational areas. Building on the lessons learned from the pilots which commenced in the 2015-16 academic year, the new pilots incorporate greater cross-college collaboration and project-based learning delivery approaches. Higher Level Apprenticeship (HLA) pilots (level 4 and above, equivalent to sub-degree to PhD level) are underway in a broad range of priority occupational areas including: Life Sciences, Insurance, International Tourism and Hospitality Management, Engineering, Building Gas Management, ICT, Business Technology, Sustainable Construction, Civil & Environmental Engineering, Food Manufacturing, Automotive Engineering, Animation, Film and Video, Social Media and Digital Marketing and Professional Services. More than 600 higher apprentices have completed or are undertaking their off-the-job learning across all six FE colleges and Ulster University. Over 50 employers are already engaged in these pilots that are in occupational areas which align closely with the findings of the first Skills Barometer report. In the 2015-16 year, 368 individuals commenced apprenticeships with off the job training delivered by the FE and HE sectors.
	The Department continued to deliver on its upskilling objectives through its key training programmes, ApprenticeshipsNI and Training for Success. The most recent data available indicates that occupancy levels at the end of October 2016 were 7,801 Apprentices and 5,488 Training for Success participants	The links below provide further detail on outcomes and performance for each programme. **Training for Success:** https://www.economy-ni.gov.uk/sites/default/files/publications/economy/TfS-2013-Bulletin-Feb-17.pdf **ApprenticeshipsNI:** https://www.economy-ni.gov.uk/publications/apprenticeshipsni-statistics-august-2013-october-2016

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
2. SUPPORT ECONOMIC, SOCIAL AND PERSONAL DEVELOPMENT THROUGH RELEVANT HIGH QUALITY LEARNING, RESEARCH AND SKILLS	Complete the design, development and launch the public call for a major cross-border programme under PEACE IV Children and Young People (Priority 2.1), in partnership with the Special EU Programmes Body (SEUPB). This will align closely with the aims and objectives of the United Youth Programme in Northern Ireland.	2016-17 target achieved. Procurement exercise will conclude in 2017-18.
3. RESEARCH & DEVELOPMENT, INNOVATION AND CREATIVITY	Effectively manage international programmes such as Horizon 2020 and the US-Ireland Research and Development Partnership. One key area of focus during 2016-17 was to support the drawdown of funding through Horizon 2020.	Northern Ireland Contact Point roles created by the Department play an important part in facilitating drawdown of Horizon 2020 funding, towards the Executive's overall target to secure €145 million. Latest statistics, covering the period up to November 2016, indicate that Northern Ireland participants have secured funding of €53.03m in mainlisted Horizon projects, with Higher Education partners representing 61% of all successful Northern Ireland applicants for mainlisted applications.
	Support research and development through application of a Quality-related Research funding model. Key targets supporting this were: • To contribute to the development of research assessment Research Excellence Framework (REF 2021) • To continue the support of the underpinning research infrastructure necessary for our universities to maintain a dynamic and responsive research base; and • To develop and grow their research infrastructure, providing internationally excellent and world-leading research.	Departmental representation on Stern Review Advisory Group. Full participation of NI HEIs in REF 2021 consultation process. Departmental participation in the development of REF 2021 through membership of/ participation in REF Steering Group.
	Invest in knowledge exchange activities at our Higher and Further Education Institutions. A key target set for this was, by March 2017, to support our universities and FE colleges to undertake a further 112 knowledge exchange projects on behalf of local businesses through the Connected 3 programme (reportable May 2017).	In completing 162 knowledge exchange projects, our original target of 112 was exceeded in 2016-17.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
3. RESEARCH & DEVELOPMENT, INNOVATION AND CREATIVITY	Complete an update report on the actions from The innovation Strategy for the period to 31 December 2016.	The Innovation Strategy update report has been completed. An Innovation Strategy Scoreboard showing innovation performance was also published.
	Use of the Small Business Research Initiative to support projects aimed at improving the efficiency, or sustainability of public services.	Five projects were successfully supported in 2016-17.
	To develop a NI Cyber Security Framework and Action Plan.	Work on the development of a framework for action is ongoing and a Cyber Security Action Plan will go out for consultation in June 2017.
	By October 2016, work with Department of Finance (DoF), Department of Agriculture, Environment and Rural Affairs (DAERA), Department of Health (DoH) and Tourism NI to launch 5 Small Business Research Initiative projects funded by the £1.1m pilot Small Business Research Initiative Challenge Fund.	Competitions have been run for all 5 projects.
4. SECURE HIGH QUALITY INWARD INVESTMENT	Prepare for a reduction in the rate of Corporation Tax from April 2018. Support HM Treasury (HMT) in securing the necessary EU clearances for the introduction of the new Northern Ireland Corporation Tax regime.	Within DfE the planning stage is well underway to ensure the maximum potential benefits are secured from a lower rate. This work includes undertaking a number of pieces of research, promoting the regime both locally and internationally, and aligning provision around skills to support the policy. Ongoing support provided to HMT and the Department of Finance as required. At the initial phase of the State aid procedure, the European Commission have indicated that the devolution of Northern Ireland corporation tax does not raise any particular concerns.
	By December 2016, increase tourism revenue to £756 million and visitor numbers to 4.7 million. Overall target is split as follows: • Target for GB/Overseas Markets (TI) - £476m revenue and 2m visitors. • Target for Domestic/ROI Markets (TNI) - £280M revenue and 2.7m visitors.	The Northern Ireland Statistics and Research Agency published 2016 annual tourism statistics for Northern Ireland on 25 May 2017. Total visitor revenue for January to December 2016 is estimated at £851m generated by 4.6m visitors. Figures indicate that the 2016 revenue target of £756m has been well exceeded while visitor numbers of 4.6m fell slightly short of the 4.7m target (98% achieved).

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
4. SECURE HIGH QUALITY INWARD INVESTMENT		January - December 2016 tourism performance breakdown is as follows: GB/ Overseas market revenue - £544m GB/ Overseas market visitors - 2.1m Domestic/ ROI market revenue - £307m Domestic/ ROI market visitors - 2.4m Targets set for the GB/Overseas market in terms of revenue and visitor numbers have been exceeded. The Domestic/ROI market exceeded its revenue target but fell short of the visitor numbers target (89% of target achieved). The shortfall can be accounted for by a decline in domestic visitor numbers (-11%). The ROI market delivered strong growth in visitor numbers (+36%).
	To meet the 2016 GB/Overseas visitors target of £2m and to exceed the market revenue target of £476m.	Regarding tourism investment, the Department is on track to exceed the 2016 GB/Overseas market revenue target of £476 (92% of this achieved during January - September 2016) and meet the target of two million GB/ Overseas visitors. January - September 2016 performance figures indicate that we are also on track to meet the 2016 Domestic/ ROI market revenue target.
5. FACILITATE DEVELOPMENT OF THE ECONOMIC INFRASTRUCTURE TO PROVIDE A STRONG FOUNDATION FOR ECONOMIC GROWTH	By 31 March 2017, incur €30m eligible expenditure (including pre-financing) to enable meeting the 2017 ERDF expenditure target (N+3) of €38.9m by 31 December 2017.	Achieved - €34.5m of eligible expenditure incurred (including pre-financing) by 31 March 2017.
	Exercise Competent Authority role under the EU Trans-European Networks for Energy (TEN-E) Regulation relating to EU Projects of Common Interest (PCI).	Member State certification exercises completed for two projects (Islandmagee Gas Storage and Gaelectric Compressed Air Energy Storage (CAES) projects) on developer compliance with Grant Agreement obligations. Certification exercise also completed in respect of Annual Status Report for CAES project. Liaison with Department for Business, Energy and Industrial Strategy (DBEIS) and developers on Connecting Europe Facility (CEF) funding opportunities and grant applications by developers resulting in CEF grant funding secured by NI PCIs in excess of €110 million to support environmental and technical studies and exploratory drilling and construction works.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
5. FACILITATE DEVELOPMENT OF THE ECONOMIC INFRASTRUCTURE TO PROVIDE A STRONG FOUNDATION FOR ECONOMIC GROWTH	Support delivery of efficient grid investment, including the North South Interconnector.	The Department provided written and oral evidence to the Planning Appeals Commission inquiry into the statement of case for the Interconnector. Under its legislative remit the Department also considered applications for compulsory wayleave orders to support the delivery of electricity distribution and transmission line infrastructure, most notably work to deliver a £50 million critical upgrade on transmission infrastructure between Omagh and Tamnamore to support the integration of wind generation into the energy mix. In 2016-17, the Department published for consultation guidance on how it will manage necessary wayleave applications associated with extension of gas networks in Northern Ireland. It also undertook statutory consultation in conjunction with Marine Division in Department of Agriculture Environment Regional Affairs in respect of an application for development of a 100MW offshore generation project and drafted a consent order in respect of the proposed facility.
	Work with Department for Business, Energy and Industrial Strategy (DBEIS), Department of Communication, Climate Action and Environment (DCCAE) and the Regulatory Authorities in London, Dublin and Belfast and with the European Commission to progress arrangements for the delivery of regional electricity market integration and coupling under the EU Target Model.	Under various steering and working group arrangements the Department has worked closely with the interested parties to progress the redesign of the Single Electricity Market under the Integrated Single Electricity Market (I-SEM) programme. The Department has also worked with DBEIS, the Northern Ireland Office and the Department for Exiting the EU (DExEU) to provide information about energy arrangements in Northern Ireland in the context of UK exit considerations and in support of the continuation of efficient and stable market arrangements post-exit.
	Engage with Northern Ireland Authority for Utility Regulation (NIAUR), the energy sector and the Consumer Council for Northern Ireland (CCNI) on electricity/gas tariff reviews and price determinations.	In 2016-17, the Department continued, and completed its engagement with the Utility Regulator, Northern Ireland Electricity Networks (NIEN) and CCNI to test consumer and stakeholder priorities for investment in the electricity grid under the sixth NIEN Price Determination (RP6) covering the period 1 October 2017 to 31 March 2024. The output from that exercise was published and has been included in NIEN's business case submission to the Regulator.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
5. FACILITATE DEVELOPMENT OF THE ECONOMIC INFRASTRUCTURE TO PROVIDE A STRONG FOUNDATION FOR ECONOMIC GROWTH	Work with Gas to the West developers Mutual Energy and Scotia Gas Networks (SGN), and with Phoenix Natural Gas in relation to extension of the gas network in East Down.	During 2016-17, the Department continued to work with the Gas to the West developers Mutual Energy and SGN, and the Utility Regulator, on plans to extend the natural gas network to Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Strabane, Enniskillen and Derrylin. The project is to be grant supported by the NI Executive and the Department has been working with the developers on arrangements for payment of up to £32.5m grant upon completion of the gas transmission element of the project, which subject to planning consent, is expected by end of 2018. In addition, the Department has liaised with Phoenix Natural Gas and the Utility Regulator in relation to extension of gas networks to connect some thirteen towns and villages in East Down to natural gas.
	Carry out planning, surveys and network infrastructure build for Phases 1, 2a and 2b, and planning and surveys for Phase 3a of the Superfast Rollout Programme (SRP) by 31 March 2017.	£2.65 million contributed to the SRP during 2016-17 with support from Department for Culture Media & Sport (DCMS) and DfE leading to completion of the Phase 1 and 2a and 2b surveys, design and solutions, and Phase 3a surveys in line with the project implementation plan. Ofcom statistics show that in terms of superfast broadband connectivity some 83% of premises across Northern Ireland can now access services of 30Mbps or greater.
	Administer and promote the Better Broadband Scheme in Northern Ireland. This is a national initiative launched by DCMS which aims to provide broadband to homes and businesses unable to receive fixed line broadband speeds, greater than 2Mbps and aims to ensure no customer pays more than £400 to access a basic broadband scheme over a 12 month period.	During 2016-17, 1,113 applications have been received, with 1,080 codes issued. According to Ofcom, this has contributed to some 97% of premises now being connected to a broadband service of 2Mbps or greater.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
5. FACILITATE DEVELOPMENT OF THE ECONOMIC INFRASTRUCTURE TO PROVIDE A STRONG FOUNDATION FOR ECONOMIC GROWTH	Develop a new energy efficiency retrofit scheme to meet NI energy savings requirements under Article 7 of the Energy Efficiency Directive (EED).	The Northern Ireland Sustainable Energy Programme (NISEP) is currently NI's only contribution towards energy savings under Article 7 of the EED. It was due to close in 2016 but has been extended by the Utility Regulator until 2018 to enable a replacement scheme to be developed and put in place. Work is ongoing to develop a suitable replacement scheme (EnergyWise) to replace NISEP in the longer term. The scheme will seek to ensure a cross governmental approach to provision of energy efficiency advice and support.
	By December 2016, finalise closure arrangements for new small scale wind under the NI Renewables Obligation (NIRO).	The Renewables Obligation Closure (No.2) Order (Northern Ireland) 2016 was made on 28 June 2016, closing the NIRO to new small scale wind on 30 June 2016.
	By 31 May 2016, work with the National Museum of the Royal Navy to ensure HMS Caroline is opened as a visitor attraction.	On 31 May 2016, the ship HMS Caroline opened as a visitor attraction. The ship closed at the end of October 2016 for planned essential repairs, to be undertaken to the hull in dry dock. Re-opening has been delayed pending completion of enabling works at permanent mooring location. The ship is now expected to re-open to the public on 1 July 2017.
6. DELIVER A REGULATORY ENVIRONMENT THAT OPTIMISES ECONOMIC OPPORTUNITIES FOR BUSINESS AND COMMERCE, WHILE ALSO PROTECTING CONSUMERS AND WORKERS	Transpose the Posting of Workers Enforcement Directive in NI by 18 June 2016.	We successfully ensured the Posting of Workers Enforcement Directive in NI by 18 June 2016 as stated.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
6. DELIVER A REGULATORY ENVIRONMENT THAT OPTIMISES ECONOMIC OPPORTUNITIES FOR BUSINESS AND COMMERCE, WHILE ALSO PROTECTING CONSUMERS AND WORKERS	To make relevant payments under the Redundancy Payments Scheme within statutory limits and to provide certain compensation to employees who have been unfortunate enough to have been made redundant and their employer cannot make, or fails to make a redundancy payment.	A total of £5,424,000 was paid out during the 2016-17 financial year for 4,500 claims for redundancy and insolvency claims.
	Ensure timely processing of the caseload of the Industrial Tribunals and Fair Employment Tribunal.	(a) 3,921 claims to the Tribunal were registered. (b) The Tribunals have embedded an Early Case Management process for all tribunal claims, leading to narrowing of the issues to be determined at hearing and shorter substantive hearings. (c) Target timeframes for listing claims for hearing (22 or 26-39 weeks from receipt, depending on the type of claim) have largely been achieved.
7. WORK IN PARTNERSHIP WITH OTHERS TO SUPPORT ECONOMIC GROWTH	Develop a draft Industrial Strategy in line with the timescales for developing the Programme for Government (PfG) 2016-2021.	A draft Industrial Strategy (formerly known as Economic Strategy) was developed and issued for public consultation in January 2017.
	In tandem with the development of the new PfG contribute to the development of the Strategic Investment Board's (SIB), Strategic Investment Plan; and the DfC led Social Strategy.	Ongoing liaison has taken place with counterparts in SIB, The Executive Office (TEO) and Department for Communities (DfC) during development of the draft PfG, Industrial Strategy, Investment Strategy and Social Strategy.
	Develop and deliver proposals for an annual energy efficiency support scheme to replace the existing NISEP.	EnergyWise is being developed by DfE in conjunction with DfC and TEO, overseen by a cross-Departmental Project Board.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
7. WORK IN PARTNERSHIP WITH OTHERS TO SUPPORT ECONOMIC GROWTH	Economic Advisory Group (EAG) met three times during 2016-17. Competitiveness Scorecard and EAG Summary published in August 2016.	The Economic Advisory Group has delivered the first ever Competitiveness Scorecard for Northern Ireland. This provides a baseline position with which to measure the future progress of the PfG and draft Industrial Strategy, and will allow for regular monitoring of NI's international competitiveness going forward.
	By December 2016, support a successful bid for Rugby World Cup (RWC) 2023.	A NI specific business case for RWC 2023 has been successfully developed and approved. The bid is now in the final Candidate Phase with the final bid submission to be made by 1 June 2017. The announcement by World Rugby on the winning bid will be made in November 2017.
	DfE input to NI Executive preparations for EU Exit.	Actively represented the wider economic views and objectives of DfE to the NI Executive, and to the UK Government in relation to UK's decision to leave the EU. Ongoing liaison DExEU, Department for International Trade, DBEIS & other Whitehall leads on key priorities and sectors, and on relevant working groups (including the DBEIS EU Exit Project Board). Inter-Departmental Coordinating Group on EU Exit – provision of assessment/analysis/advice in relation to the wider economy remit. EU Exit Project Board: oversight and management of DfE preparations for EU Exit, including key workstreams.
	• DfE's preparations (within the Department) for EU Exit.	Central coordination of DfE preparations for Brexit - ensuring assessment/ advice from policy and operational leads across divisions/groups/ALBs is taken on board.
	• EU/International strategic role.	Strategic lead on Erasmus+ (including engagement with FE & HE).

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
8. ENSURE THE DEPARTMENT HAS EFFECTIVE GOVERNANCE, MANAGES ITS RESOURCES, BOTH FINANCIAL AND STAFF, AND SUCCESSFULLY MANAGES THE TRANSFER OF DEL AND DETI FUNCTIONS TO THE NEW DEPARTMENT FOR THE ECONOMY	Oversee and promote good governance and robust accountability arrangements across all the Department's sponsored bodies.	The Department has continued to maintain good governance and accountability arrangements with sponsored bodies through application of financial memoranda.
	By March 2017, ensure that our Provisional Non Ring-Fenced Outturn (Capital and Resource) is at least 99% of the Final Budget and does not exceed 100%.	The target was not met due to a technical issue in transferring £20 million set aside by the Executive for the Renewable Heat Incentive (RHI) pressure. However, excluding a technical pressure of £14.7m in relation to the Non Domestic Renewable Heat Incentive Scheme the Department achieved a target of 99.7% for DEL Resource and Admin and 99.3% for DEL Capital.
	Establish Procurement Unit to provide advice and guidance on procurement matters. Initiate Project to scope capacity and capability to manage commercial relationships.	Procurement Unit established and Operational. Project Underway and due to report later in 2017.
	By March 2017, submit all outstanding claims to the European Commission in relation to the 2007-2013 European Regional Development Fund (ERDF) & European Social Fund (ESF) Programmes. By March 2017, submit Final Implementation Report to the European Commission in relation to the 2007-2013 ERDF & ESF Programmes.	Achieved. ERDF final claim submitted 21 March 2017. ESF final claim submitted 29 March 2017. Achieved. ERDF final implementation report submitted 21 March 2017. ESF final implementation report submitted 29 March 2017.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
8. ENSURE THE DEPARTMENT HAS EFFECTIVE GOVERNANCE, MANAGES ITS RESOURCES, BOTH FINANCIAL AND STAFF, AND SUCCESSFULLY MANAGES THE TRANSFER OF DEL AND DETI FUNCTIONS TO THE NEW DEPARTMENT FOR THE ECONOMY	To facilitate the 2016-17 DfE assessment against the Investors in People (IiP) Standard.	Assessment conducted in November 2016 – IiP status secured for DfE.
	To represent the Department at workstreams to inform the development of the Northern Ireland Civil Service (NICS) centralised Human Resources (HR) model.	Departmental HR staff involved in a range of workstreams – contributing to the design of future HR services.
	To provide learning and development opportunities to allow staff to meet business requirements and to self develop.	DfE corporate Induction programme and supporting local guidance produced and published. A Guide to Managing Industrial Relations developed in liaison with Trade Union Side, endorsed at Permanent Secretary level and published to all staff. Centre for Applied Learning (CAL) services promoted within the Department in addition to Assistance to Study.
	Collate and standardise DETI and DEL vacancy management information and processes following transfer of functions to DfE. Business critical vacancies filled and surplus staff effectively redeployed in line with the Vacancy Management and Redeployment Policy.	All vacancy management information held in standardised format and baseline of approved posts established for new Department. Workforce Planning procedures standardised and implemented within DfE to ensure robust control of headcount and funding. Career Development process introduced to DFE to facilitate efficient filling of vacancies with experienced staff. 84 vacancies have been filled from the date of restructuring. 24 surplus staff successfully redeployed from the date of restructuring.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
8. ENSURE THE DEPARTMENT HAS EFFECTIVE GOVERNANCE, MANAGES ITS RESOURCES, BOTH FINANCIAL AND STAFF, AND SUCCESSFULLY MANAGES THE TRANSFER OF DEL AND DETI FUNCTIONS TO THE NEW DEPARTMENT FOR THE ECONOMY	85% of sickness absences recorded on first day of absence and first day of return. 85% of return to work interviews completed within two days of return from sickness absence.	Managing Attendance Action Plan 2016-17 agreed and implemented. Ongoing engagement with Trade Union Side (TUS). Monthly HR Connect Business Intelligence reports issued to managers at Staff Officer (SO) and above. Corporate managing attendance objectives included in Personal Performance Agreements (PPAs). Reminders of roles and responsibilities issued to staff and line managers. Compliance levels monitored and quarterly reports provided to the Departmental Board. Actual outturn for: • opening absences on first day was 43%; • Closing absences on first day was 56%; and • Completing return to work interviews within two days was 70%.
	Ensure a robust Departmental Business Continuity Management (BCM) system is in place.	Interim Business Continuity Plans (BCPs) for Adelaide House and Netherleigh in place. BCM Forum established.
	Participation in the Carbon Reduction Scheme.	Registration complete for the Department for the Economy.
	Develop a Health and Safety Strategy for DfE and associated action plan.	Health &Safety (H&S) Committee established. Sub Group identified to work on the strategy and associated action plan. Both delayed due to ongoing issues with TUS.

OBJECTIVE	KEY OUTPUTS	PERFORMANCE
8. ENSURE THE DEPARTMENT HAS EFFECTIVE GOVERNANCE, MANAGES ITS RESOURCES, BOTH FINANCIAL AND STAFF, AND SUCCESSFULLY MANAGES THE TRANSFER OF DEL AND DETI FUNCTIONS TO THE NEW DEPARTMENT FOR THE ECONOMY	Manage and complete the relocation of DfE staff as a result of restructuring.	All but two (postponed due to unforeseen issues) planned moves between Adelaide House, Waterfront Plaza and Netherleigh have been completed. A number of internal moves continue in Adelaide House and Netherleigh as structures are finalised.
	All IT Health Checks and Penetration checks completed and actioned.	100% met. IT Health Checks and Penetration Checks of systems carried out and recommendations actioned.
	To have in place a DfE digital action plan to support the NICS Citizen Contact Strategy.	Departmental Digital Action Plan implemented and updated on a six-monthly basis.
	To provide support to DFE's statutory obligations in respect of Freedom of Information/Environmental Information Regulations (FOI/EIR) requests.	DfE FOI/EIR Handling arrangements in place. 195 FOI/EIR requests administered. Advice and guidance provided to business areas required. 6 Internal Review requests processed.
	To provide an effective Departmental Records Management service to meet statutory requirements.	Creation of the DfE file plan in HPRM (TRIM). DfE Retention and Disposal Schedule sent to PRONI on 19 January 2017 - to be laid in front of the new Assembly. PRONI timescales met for the twice yearly Sensitivity Reviews and the release of files to the public for the years 1989 and 1990. Updating policies for DfE including Data Breach Management Policy, Information Security Policy and Customer Complaints Policy. The annual information security survey for DfE was completed in March 2017 by all Information Asset Owners.

Statement of Assembly Supply (SOAS)
This is the primary statement that demonstrates the Department's accountability for its spending to the Assembly. It records the net outturn compared with the Estimate in accordance with the Supply Estimates Manual.

							2016-17 £000	2015-16 £000
	Estimate (£000)			Outturn (£000)				Outturn
Request for Resources	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Saving/ (excess)	
A	1,053,285	(57,756)	995,529	1,134,283	(57,146)	1,077,137	(81,608)	-
Total Resources	1,053,285	(57,756)	995,529	1,134,283	(57,146)	1,077,137	(81,608)	-
Non-Operating Accruing Resources		(76,371)	(76,371)		(76,371)	(76,371)	-	-

Net Resource Outturn
SOAS1 reflects the analysis of Net Resource Outturn by function. This shows outturn by budget category within the Departmental Expenditure Limit (DEL), Annually Managed Expenditure (AME) and Non Budget. Resource Outturn for 2016-17 was £1,077m with an allocation of £996m in the Main Estimates (MEs).

Year on Year Resource Outturn
Following the restructuring of Northern Ireland Civil Service (NICS) Departments from twelve to nine, the former Department of Enterprise, Trade and Investment (DETI) together with functions from the former Department for Employment and Learning (DEL) and certain functions from the former Department of Culture, Arts and Leisure (DCAL) became the new Department for the Economy (DfE) on 9 May 2016.

As no Supply Estimate was presented to the Assembly for the 2015-16 year for the new Department, the prior year comparatives in the SOAS for 2016-17 have been shown as zero. As there are no comparatives for budgetary outturn for previous years, a trend analysis has not been included in these accounts. An analysis of current year spend is included at Annex A.

Variance between DEL Resource Outturn and Estimate (SOAS1)
A technical excess of £81.6m arose due to the Assembly being dissolved in January 2017 and therefore the process of approving 2016-17 Spring Supplementary Estimates and associated Budget Bill not taking place. Consequently, the Supply Estimates position shown in the Statement of Assembly Supply is the Main Estimates position. Had the Spring Supplementary Estimates and associated Budget Bill been approved by the Assembly to reflect changes to Departmental budgets that had previously been agreed by the Executive or changes that could reasonably have been expected to have been agreed in the January Monitoring Round, this Excess would not have occurred.

Statement of Comprehensive Net Expenditure

The formation of the new Department for the Economy (DfE), as a result of the restructuring of the NICS Departments, constituted a Machinery of Government change which requires merger accounting principles to apply in the 2016-17 financial statements. The functions transferring to DfE in May 2016 have, therefore, been accounted for as transferring from the beginning of the reporting period and the comparative figures in the primary statements have been restated to include all functions that transferred into DfE.

	2016-17 £000	**2015-16 £000**	**Variance £000**	**Variance %**
Net operating cost for the year ended 31 March	1,082,399	850,492	231,907	↑27.3

During the year, there has been an increase in net operating cost of £232m which is mainly attributable to student loans.

Funding in respect of Student Support has increased by £309.7m on last year. Student Support includes the Notional Loan Subsidy charge, which reflects the notional cost to the Department of issuing loans to NI students at a subsidised rate in line with Government policy. These costs are calculated using a complex financial model and are dependent upon a range of factors including RPI, student earning potential and repayment patterns.

The financial model is known as the Stochastic Earning Path (StEP) financial model, adapted for Northern Ireland. The model uses wage equation to generate future earning paths for borrowers. The model uses several years of actual graduate earnings histories and data from the Student Loan Company to improve the accuracy of forecasts. The HM Treasury discount rate applied to Student Loans is RPI plus 0.7%, in line with the Government's long term cost of borrowing.

There was a significant increase in the Notional Loan Subsidy from a £106m credit in 2015-16 to a £210m charge in 2016-17. The credit in 2015-16 was due to a change in the HMT discount rate from RPI plus 2.2% to RPI plus 0.7%. This resulted in a significant reduction to cumulative impairments in 2015-16. In 2016-17, impairments have increased as a result of the impact of updated forecasts by the Office for Budget Responsibility (OBR). This increased cost has been offset by a £51m increase in the effective interest earned on student loans during the year.

Other movements have included a £25m reduction in grant in aid paid to the Further Education colleges. This was mainly due to 2015-16 including voluntary exit scheme (VES) payments and no VES scheme was run in 2016-17. There were also a number of other smaller variances across the Department resulting in a further overall £8m reduction in spend.

Statement of Financial Position
Student Loans increased by £118.8m to £2,112m. Student Loan movements have included the continued growth in the size of the student loan book, with a further £332m

loans issued during the year. Total repayments received and effective interest earned were £80.7m and £78.1m respectively.

Financial Asset Investments reduced by £5.7m to £126.6m reflecting repayments made by Presbyterian Mutual Society and new loans issued to Catalyst Inc (formerly Northern Ireland Science Park).

Receivables decreased by £13.6m largely due to a reduction of £22.7m in the EU debtor balance following claims being received for the NI European Social Fund 2007-13 programme. This has been offset by an increase of £11.7m in the 2016-17 Supply Receivable balance, increasing from £3.7m to £15.4m.

Payables increased marginally by £1.5m from £113.8m at 31 March 2016 to £115.3m at 31 March 2017.

Significant Accounting Judgements

Student loans
The Departmental Statement of Financial Position is dominated by the value of the student loan book. This loan book is valued based on anticipated future repayments measured at today's rates.

Student loans are held at amortised cost. This involves the value of the loans issued being discounted to net present value using the effective interest rate. The effective interest rate for student loans is based on the HMT discount rate. In 2016-17, the discount rate used remained at RPI plus 0.7% in line with the Government's long term cost of borrowing.

The face value of the loan book has increased since last year mainly following the issue of £331.6m of new loans in 2016-17. However, the valuation is impacted by a number of macro economic assumptions used in our modelling that are reviewed annually. The major risk to student loan repayments arises when there is an economic downturn and a reduction in growth. Where there is a negative impact on earnings growth, the risk is that graduate earnings may not reach the levels predicted when student loans were issued. This can lengthen the time period before loans are in repayment and extend the repayment period, both of which impact on the carrying value of the loans in the accounts. It can also lead to an increase in the provision for future write offs against loans as it increases the likelihood that some graduates may not repay their loans in full by the end of the loan period.

The risk of the Government recovering the real value of student loans issued is further exacerbated when the Bank of England base rate is low and the rate of inflation is comparatively high, because the base rate cap comes into operation. The cap arises because students are charged interest equivalent to the rate of inflation, or the Bank of England base rate plus 1%, whichever is the lower. As such, when the base rate cap is in operation, interest on loans is charged at a lower rate than inflation. Details of the impairments made to the loan book in this financial year are set out in Note 11 to the Accounts.

Government is continuing to assess how best to manage its holding of current and future loans, including the potential to realise value for the taxpayer from a sale of its portfolio. These accounts present the student loans portfolio valued on the basis that they will continue to be held by the Department until such time as a decision to sell the assets has been made. This is consistent with prior years and reflects the requirements of the Government Financial Reporting Manual.

Future Developments

Looking ahead, significant areas of activity for the Department include the following:

Business Engagement

- Seek to develop a strategic and co-ordinated approach to air route development in NI, working closely with the local airports and key public sector bodies;
- Continue to work with the Department of Agriculture, Environment and Rural Affairs, Invest NI and Agri-food industry representatives to finalise a supporting business case and obtain the necessary approvals and budget to establish a single Northern Ireland Agri-food Marketing Board; and
- Engage with the eleven Councils, and Invest NI, to support and monitor the implementation of the NI Business Start Up Programme, which is led by the eleven Councils.

Strategic Policy

- Secure agreement on strategic support and development of the NI cyber security sector to effect the creation of a dynamic eco-system incorporating talent provision, world leading research and increase in high value knowledge jobs;
- Introduce a new scheme (a first in the UK) to encourage and give companies credit for their investment in innovative new practices and procedures;
- Develop an economic social inclusion framework to ensure the Department adheres to its social inclusion responsibilities;
- The Northern Ireland Executive has committed to implementing a Northern Ireland Corporation Tax regime. A policy of instigating a substantial cut in our rate of Corporation Tax is expected to promote private sector investment, attract foreign direct investment and boost productivity. The Department will continue to further develop the work and strengths already built up in order to prepare for the implementation of the lower rate; and
- An EU Exit team has been put in place to take on the strategic and policy responsibilities in terms of the impact on Northern Ireland when leaving the EU. Key areas indentified in respect of strategic and policy responsibilities include :
  - Market areas including sectoral impacts and policy;
  - The Land Border;

- Migration including skills needs, students and the Common Travel Agreement;
- Trade policy and future trade;
- State Aid, competition and rural policy;
- Legislation - scoping and fixing legal inoperabilities;
- Domestic consequentials (NI response to support areas of EU competence);
- Energy (to be taken forward by the Department's Energy Division and co-ordinated by the EU Exit team); and
- Programme management and co-ordination across the Department, the Executive, the Department for Exiting the EU and the Department for International Trade.

The Department will also continue to work closely with Whitehall Departments in order to contribute to the UK preparation for leaving the EU.

Higher Education

- Progress the Higher Education Strategies for the period to 2020. Ensure delivery of the outcomes and projects identified to achieve the strategic vision for Higher Education and to ensure Higher Education programmes and policies are aligned to the Programme for Government, Industrial Strategy and key Departmental strategic priorities; and
- Extend the Department's student support package from the beginning of the 2017-18 academic year to include:
    - tuition fee loans of up to £3,022.50 being made available for part-time undergraduate and full-time distance learning study; and
    - postgraduate tuition fee loans for Northern Ireland students with eligible students being able to apply for non-means-tested tuition fee loans of up to £5,500 to help with course costs.

Insolvency

- Continue to enact legislation, in line with developments in Great Britain which will modernise and streamline the law governing insolvency procedure. The legislative changes are designed to remove red tape and give office holders more discretion over the administration of cases. In addition, the changes will allow the increased use of modern communication methods and digital technologies to improve the efficiency and effectiveness of the insolvency process.

Youth Policy

- Reform the Department's Apprenticeship and Youth Training provision. It is proposed that the reforms will be phased in over a number of years and will build upon and improve the Department's existing Training for Success and ApprenticeshipsNI schemes.

Energy, Telecoms, Minerals and Petroleum

- Continue to engage with the Regulatory Authorities in Northern Ireland and the Republic of Ireland and with the Department of Communications, Climate Action and the Environment (DCCAE) to progress delivery of the new wholesale electricity market (I-SEM) by May 2018;
- Work with the Northern Ireland Authority for Utility Regulation (NIAUR) and developers to progress the gas network extension projects in both the West and East Down areas of Northern Ireland;
- Continue to implement the Telecoms Strategy 2015-2017 ‘Continuing to Connect’ which will see the conclusion of the Superfast Roll-out Programme (SRP); and
- Seek to implement the Northern Ireland Broadband Improvement Project (NIBIP) Gainshare.

Tourism, Careers and Skills Development

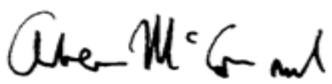
- Develop strategic and local partnerships to better understand the employability skills, qualifications and attributes needed by employers to grow their business, including the development of an optimal model of school/ employer engagement; and
- Supported by Tourism NI and Tourism Ireland, the Department will lead on the development of a new Tourism Strategy for Northern Ireland to 2025 to drive growth in this sector. The intention is that the new tourism strategy must have a global focus, and for Northern Ireland to be an internationally competitive and inspiring visitor destination.

Renewable Heat Incentive (RHI)

- The new task force established in 2016-17 will continue to address the issues that have arisen in the non-domestic RHI scheme to bring the scheme back in line with original Policy and Budgetary intent within a proper governance framework;
- New regulations were introduced on 1 April 2017 for one year and longer term options are being considered for new regulations to apply from 1 April 2018;
- Options for the application of 100% inspection of non-domestic RHI sites are being considered and the ‘enforcement’ process is being strengthened; and
- A Public Inquiry was established in January 2017, under the Chairmanship of Sir Patrick Coghlin, to consider the events surrounding the Non Domestic Renewable Heat Incentive Scheme. The Department is continuing to assist with the work of the Inquiry.

Finance

- In December 2016, the Executive agreed to proceed with the proposals outlined in the 2013 Review of the NI Financial Process (the Review), subject to some amendments, with the aim of creating a single coherent financial framework that is effective, efficient and transparent and enhances scrutiny by and accountability to the Assembly. One of the main implications of the Review is the amendment of the Departmental accounting boundary structures to include Non-Departmental Public Bodies (NDPBs). This results in the Department being required to consolidate the financial information of its NDPBs within the Resource Accounts and Estimates, planned from 2020-21 onwards. The Department will be progressing plans to ensure that the requirements of this initiative will be met within the timetable.



Dr Andrew McCormick
Accounting Officer
20 June 2017

Directors' Report

Introduction
The Department's annual report and accounts for the financial year to 31 March 2017 demonstrate the resources that have been consumed in delivering its objectives.

This Annual Report has been prepared in accordance with the guidance set out in the Government Financial Reporting Manual and guidance issued by the Department of Finance (DoF).

Departmental accounting boundary
Following the restructuring of Northern Ireland Civil Service (NICS) Departments from twelve to nine, the former Department of Enterprise, Trade and Investment (DETI) together with functions from the former Department for Employment and Learning (DEL) and functions from the former Department of Culture, Arts and Leisure (DCAL) became the new Department for the Economy (DfE) on 9 May 2016. This constituted a Machinery of Government change requiring merger accounting principles to apply in the 2016-17 financial statements for DfE. The functions transferring to DfE in May 2016 have therefore been accounted for as transferring from the beginning of the reporting period as required under merger accounting. The comparative figures in the primary statements have been restated to include all functions that transferred into DfE.

Bodies outside the Departmental boundary
Public Sector bodies not consolidated in these accounts but for which the Department for the Economy is responsible for the sponsorship and oversight of are:

14 Non Departmental Public Bodies
- Invest Northern Ireland (Invest NI);
- Tourism Northern Ireland (Tourism NI);
- Health and Safety Executive for Northern Ireland (HSENI);
- Consumer Council for Northern Ireland (GCCNI);
- Northern Ireland Screen;
- CITB–NI;
- Labour Relations Agency;
- Stranmillis University College;
- the six Further Education colleges;

Four independent Autonomous Bodies
- Ulster University;
- Queens University Belfast;
- the Open University; and
- St Mary's University College.

The Department also acts as co-sponsor Department to two organisations set up under the Belfast Agreement which are also regarded as falling outside the accounting boundary.

These are:

(i) InterTradeIreland (Trade and Business Development Body); and
(ii) Tourism Ireland Company Limited by Guarantee (TICLG) (which carries out overseas marketing and promotion activity for Fáilte Ireland and Tourism Northern Ireland)

In addition, Harland & Wolff Plc, a limited company which is wholly owned by the Department, is also regarded as being outside the accounting boundary. Further details are contained in the Notes to the Resource Accounts.

In 2010, the Office for National Statistics made a decision that the Further Education colleges, Stranmillis University College and St Mary's University College should be reclassified as Central Government bodies. The former Department for Employment and Learning had not treated St Mary's in line with the Office for National Statistics (2010) ruling on its classification as a Non Departmental Public Body, subject to a review of that classification by ONS.

The ONS Economic Statistics Classifications Committee met during the year to consider the classification review of St. Mary's and concluded that it is no longer under public sector control. St Mary's has been classified to the private sector as a Non Profit Institution Serving Households Body. This classification applies with effect from 11 September 2012 when the revised Scheme of Management and Memorandum of Agreement were signed.

The Minister
DfE was created on 9 May 2016, comprising the majority of the functions of the former DETI and the former DEL.

Jonathan Bell MLA was Minister for the former DETI from 1 April 2016 – 5 May 2016. Dr Stephen Farry MLA was Minister for the former DEL from 1 April 2016 – 5 May 2016.

On creation of DfE, Simon Hamilton MLA was Minister from 25 May 2016 until the election on 2 March 2017. The Department functioned without a Minister for the remainder of the year.

Permanent Head of the Department and the Management Board
The Permanent Secretary for the Department for the Economy, for the 2016-17 financial year was Dr Andrew McCormick.

The Board Members for the Department for the Economy are listed in the table of attendance at the DfE Board Meetings which is set out in the Governance Statement on page 41 of this report.

Appointments to these posts are made and their remuneration determined under normal arrangements for Senior Civil Service posts. Details of remuneration are included in the Remuneration Report within these Accounts.

Independent Board Members
Professor Russel Griggs OBE (resigned 27 June 2016);
Dr Brian Scott (term expired on completion of DEL Resource Accounts – 27 June 2016);
David Beck; and
Claire Hughes.

Expenses for Independent Board Members
Total fees and expenses of £22,651 were paid in respect of the Department's Independent Board Members.

Departmental Reporting Cycle
The Department publishes its annual report and accounts each year on the Department's website (www.economy-ni.gov.uk). They are laid in the Northern Ireland Assembly. The Annual Report contains details of the Department's objectives, key outputs and performance and provides detailed textual and financial descriptions of performance against targets. Departmental performance is monitored during the year on a monthly basis. In-year monitoring is provided in the form of Spring Estimates which outline what resources are needed for the current year. These are published by The Stationery Office and laid in the Northern Ireland Assembly.

Pension liabilities
Staff pension liabilities are borne by the Civil Service Pension Schemes (Northern Ireland) and are therefore not reflected in these accounts but in the accounts of that scheme.

Register of Interests
The Department maintains a Register of Interests, a copy of which is available on request.

Auditors
The financial statements are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001. He is head of the Northern Ireland Audit Office. He and his staff are wholly independent of the Department and he reports his findings to the Northern Ireland Assembly.

Managing Attendance
Staff sickness and absence is managed in accordance with the Northern Ireland Civil Service Inefficiency Sickness Absence Policy.

Persons with Disability
The Department follows the code of practice of the Northern Ireland Civil Service in aiming to offer equality of opportunity for people with disabilities to make full use of those skills and abilities that they possess.

Equal Opportunities
The Department follows the Northern Ireland Civil Service policy that all eligible persons shall have equal opportunity for employment and advancement on the basis of their ability, qualifications and aptitude for the work.

Consultation with employees
Throughout the year, in order to maintain and develop the provision of information to and consultation with employees, the Department continued to hold periodic meetings with Trade Union Side through the Departmental Whitley Committee.

Personal Data Related Incidents
There were no reported Personal Data breaches in DfE during the 2016-17 period.

Complaints Procedure
The Department received seven complaints during the 2016-17 period. Details of the DfE Complaints Procedure are available on the DfE website.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance has directed the Department to prepare for each financial year resource accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Department of Finance, including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis;
- confirm that, as far as he or she is aware, there is no relevant audit information of which the entity's auditors are unaware, and has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information; and
- confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

The Department of Finance has appointed the Permanent Head of the Department as Accounting Officer of the Department. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in Managing Public Money NI issued by the Department of Finance.

The Governance Statement

The Governance Statement sets out the governance structures, risk management and internal control procedures that operated within the Department during the 2016-17 financial year. It also considers any material post balance sheet events up to the date of approval of the Annual Report and Accounts. This Governance Statement has been prepared in accordance with guidance issued by the Department of Finance.

Scope of Responsibility

The Department operates under the direction and control of the Minister for the Economy, who is responsible and answerable to the Assembly for the exercise of the powers on which the administration of the Department depends. He has a duty to the Assembly to account and to be held to account for all the policies, decisions and actions of the Department, including its Arm's Length Bodies. The Permanent Secretary is accountable to the Minister. On creation of DfE, Simon Hamilton MLA was Minister from 25 May 2016 until the election on 2 March 2017. The Department functioned without a Minister for the remainder of the year.

The Permanent Secretary and Accounting Officer for the Department has responsibility for maintaining a robust governance and risk management structure and a sound system of internal control that supports the achievement of departmental policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which he is personally responsible, in accordance with the responsibilities assigned to him in Managing Public Money Northern Ireland.

The public bodies for which the Department has oversight responsibility are accountable for ensuring they have robust governance and risk management structures and sound internal control arrangements in place. In order to ensure appropriate governance arrangements are in place, dedicated sponsor branches monitor and provide guidance to these Arm's Length Bodies. The Department has written agreements in place with its Arm's Length Bodies which set out the respective roles and responsibilities of both parties. In addition, the Department receives mid-year and end-year assurance statements from each of its Arm's Length Bodies to confirm that appropriate systems and controls are in place and operate effectively within each organisation.

In order to manage the Department efficiently, the Accounting Officer has been supported by formal governance structures with clear remits, details of which are provided below.

The Departmental Board

The Board's role is to set and oversee the strategic direction of the Department within the strategic framework set by the Minister, to monitor performance against corporate and business plans, budgets and targets, and to establish and oversee the governance and risk management arrangements of the Department. In order to fulfil this role, the Board met monthly with the exception of August and December during the 2016-17 financial year.

The Board operates within the guidelines set out in the April 2013 DFP publication "Corporate Governance in Central Government Departments: Code of Good Practice NI 2013".

The Board is chaired by the Permanent Secretary, who, as Accounting Officer, is responsible for the appointment of all Board Members. Membership comprises:

- the Permanent Secretary;
- the Deputy Secretaries;
- the HR and Finance Director; and
- two Independent Board Members.

As a result of departmental restructuring, the former DEL and DETI Departmental Boards each held their final meetings in April 2016:

Attendance during the year at Board meetings was as follows:

DETI:

Board Member	**Attended**	**Number of DETI Meetings Held**
Andrew McCormick	1	1
Eugene Rooney	1	1
Chris Stewart	1	1
Trevor Cooper	1	1
Wendy Johnston	1	1
Independent Board Members		
David Beck	1	1
Claire Hughes	1	1

DEL:

Board Member	**Attended**	**Number of DEL Meetings Held**
Derek Baker	1	1
Heather Cousins	1	1
Stephen McMurray	1	1
Belinda Tunnah (deputising for Lisa Morgan)	1	1
Independent Board Members		
Russell Griggs (IBM)	1	1
Brian Scott (IBM)	1	1

From the creation of DfE in May 2016, the DfE Departmental Board met a total of nine times:

Board Member	**Number of Meetings Attended**	**Number of DfE Meetings Held**
Andrew McCormick	5	9
Derek Baker Diarmuid McLean (deputised on 1 occasion)	6 1	8 1
Heather Cousins	9	9
Eugene Rooney	8	9
Chris Stewart	8	9
Stephen McMurray Andrea Quail (deputised on 3 occasions) Ronan Murtagh (deputised on 1 occasion)	5 3 1	9
Wendy Johnston	9	9
Independent Board Members		
David Beck	9	9
Claire Hughes	9	9
Janine Fullerton, the strategic HR business partner for DfE in the new NICS HR (with effect from 3 April 2017), attended two meetings of the Departmental Board in 2016-17.		

Other Directors are invited to attend where significant items pertaining to their business area are to be discussed by the Board.

A minimum of three members of the Board must be present for the meeting to be deemed quorate. All Board meetings during the 2016-17 financial year were quorate.

During the 2016-17 year, issues considered by the board included:

(i) Departmental Restructuring;
(ii) 2016 Budget. Management accounting information relating to the actual use of financial resources as well as periodic in-year forecasts of the expected outturn against financial budgets of resource and capital expenditure and of income;
(iii) Programme for Government/ Industrial Strategy;
(iv) human resource issues, including staff engagement, managing attendance and the voluntary exit scheme;
(v) human resource management systems and processes;
(vi) development of NICS HR;
(vii) Business plan and progress against targets;
(viii) Non-Domestic Renewable Heat Incentive Scheme;
(ix) six monthly Assurance Statements;
(x) Risk Management;
(xi) feedback from Departmental Audit Committee meetings;
(xii) ALB Operating Plans;
(xiii) BREXIT;
(xiv) Freedom of Information;

(xv) Procurement Plan; and
(xvi) Direct Award Contracts

Quality of Data Used by the Departmental Board
The Departmental Board uses information based on a number of data sources. In relation to performance targets, the Board draws assurance from the fact that a number of the data sources used are also utilised for the publication of Official Statistics or National Statistics. Data relating to financial information and absenteeism is derived from NICS wide systems such as Account NI and HR Connect. The Departmental Board takes assurance on the quality of this data from the internal controls in place in the Department and the scrutiny of the Account NI and HR Connect systems by the Department of Finance's Internal Audit Service and the supply of information on absenteeism to departments by the Northern Ireland Statistics and Research Agency (NISRA).

Board Performance and Effectiveness
In April 2017, the Board carried out an assessment of its own effectiveness. This assessment was completed through a detailed evaluation questionnaire based on Cabinet Office guidance which sought to determine how the Board approached its work including its contribution to strategy, risk and control, performance management and communication. It also assessed how the Board works together, through its culture and dynamics, composition, size and tenure. Through completion of this assessment, a number of points were raised from the members, notably the lack of discussion around departmental leadership, development and training, and the desire for fuller discussion on emerging strategic issues. It was also noted that the agenda should promote the development of ideas and presentations by executives or officials below Board level. Members also identified that with the increasing significance of energy and telecoms in the economy that it would be beneficial to have more experience on the board in this area.

The Departmental Audit and Risk Assurance Committee
The Departmental Board has established an Audit and Risk Assurance Committee which acts in an advisory capacity and reports to the Accounting Officer. The Audit and Risk Assurance Committee's overall purpose is to assist the Accounting Officer and the Board in fulfilling their corporate governance responsibilities. Its' role is one of advice and scrutiny in accordance with the relevant guidance issued by the Department of Finance.

The Audit and Risk Assurance Committee is chaired by an Independent Board Member. Members of the Audit and Risk Assurance Committee are:

- two Independent Board Members (including the Chair); and
- two external members.

As a result of departmental restructuring, the former DEL held three Departmental Audit and Risk Assurance Committees, two in May and one in June, whilst the former DETI held two Departmental Audit and Risk Assurance Committees, one in May and one in June.

Attendance by each former Department in the 2016-17 financial year is set out below:

DETI

Committee Member	**Meetings Attended**	**Out of a Possible**
Independent Board Members		
David Beck *(Chair)*	2	2
Claire Hughes	2	2
External Senior Civil Servant		
Anthony Harbinson	2	2
Official Attendees		
Andrew McCormick	1	2
Heather Cousins	1	2
Stephen McMurray	1	2
Internal audit representation	2	2
Northern Ireland Audit Office (NIAO) representation	2	2
European Regional Development Fund (ERDF) Audit Authority	1	2

DEL

Committee Member	**Meetings Attended**	**Out of a Possible**
Independent Board Members		
Professor Russel Griggs *(Chair)**	3	3
Dr Brian Scott	3	3
External Senior Civil Servant		
Grace Nesbitt	2	3
Official Attendees		
Derek Baker	1	3
Heather Cousins	2	3
Stephen McMurray	3	3
Internal audit representation	1	3
Northern Ireland Audit Office (NIAO) representation	2	3
European Social Fund (ESF) Audit Authority	1	3

*Professor Russel Griggs attended the three meetings via conference call.

From the creation of DfE in May 2016, the DfE Audit and Risk Assurance Committee met a total of three times (October 2016, December 2016 and March 2017):

Committee Member	Meetings Attended	Out of a Possible
Independent Board Members		
David Beck *(Chair)*	3	3
Claire Hughes	3	3
External Senior Civil Servant		
Grace Nesbitt	3	3
Anthony Harbinson	3	3
Official Attendees		
Heather Cousins	3	3
Stephen McMurray*	2	2
Ronan Murtagh**	1	1
Internal audit representation	3	3
Northern Ireland Audit Office (NIAO) representation***	2	2
European Union (EU) Audit Authority	3	3

* Stephen McMurray (Finance Director) temporarily moved to head up the RHI Taskforce on 20 December 2016.
** Ronan Murtagh has been acting as Director of Finance since 20 March 2017.
*** Northern Ireland Audit Office did not attend the Departmental Audit and Risk Assurance Committee meeting held in October 2016, as this was simply an introductory meeting which purpose was to formally agree the governance arrangements around the Committee and to provide members with an opportunity to consider legacy issues which have been carried forward from the two previous departments.

Other attendees are invited to attend the Audit and Risk Assurance Committee meetings if a discussion is to be held about their particular business area.

The Terms of Reference for the Departmental Audit and Risk Assurance Committee which were drafted, agreed and issued in December 2016, state that the Committee should meet at least four times a year, and more frequently as circumstances require. A quorum for any meeting of the Audit and Risk Assurance Committee is two members. All Committee meetings during the 2016-17 financial year were quorate.

The key issues discussed at the Audit and Risk Assurance Committee meetings during the 2016-17 financial year were as follows:

- European Programmes Update;
- Non domestic Renewable Heat Incentive (RHI) Scheme;
- DfE Departmental Audit & Risk Assurance Committee Terms of Reference/ Forward Work Plan;

- Update on Information Security;
- Risk management Report – Transitional Corporate Risk Register;
- European Sustainable Competitiveness Programme NI;
- Internal Audit plan, progress updates and annual report and opinion, as well as updates on outstanding internal audit recommendations;
- Accountability Grids – Reports to Those Charged with Governance and updates on commitments made to Public Accounts Committee;
- Mid Year Assurance Statements;
- Updates from NDPBs and cross border bodies;
- Northern Ireland Audit Office audit strategy, updates and Audit Findings; and
- Review of the Annual Report, Governance Statement and Resource Accounts.

The Board takes assurance from the annual report provided by the Audit and Risk Assurance Committee which reports on the above discussions undertaken during the financial year.

Other Organisational Structures
Other organisational structures that contribute to sound corporate governance in the Department are the Procurement Sub-Committee, the Casework Committee and the Senior Management Team.

The Procurement Sub-Committee
The Procurement Sub-Committee provides strategic oversight of the Department's procurement activities across all areas of the Department and its Non Departmental Public Bodies. Its key role is to lead on the dissemination and co-ordination of public procurement policy and practice for the Department and oversight of compliance with public procurement policy.

Membership of the Sub-Committee consists of senior staff with responsibility for procurement from each Division and Non Departmental Public Bodies and is chaired by the Deputy Secretary, Higher Education and Investment. The Procurement Sub-Committee met once during 2016-17.

Senior Management Team
Senior Management Team meets regularly to discuss ongoing operational issues, including forthcoming Executive and Assembly business. It is chaired by the Permanent Secretary and membership comprises the Deputy Secretaries and Heads of Divisions and Grade 6 Heads of Business Units. The Head of Central Management Branch, the Principal Information Officer and the Minister's Private Secretary are also in attendance.

Casework Committee
The DfE Casework Committee meets as and when required to consider and approve DfE projects involving expenditure above £1,000,000. All members of the DfE Senior Management Team are eligible to participate in the Casework Committee. However, the Head of a Group from which an expenditure proposal emanates is debarred from sitting on the Casework Committee which considers the proposed expenditure.

The Casework Committee is chaired by an officer of at least Deputy Secretary level, and requires a minimum of three members to be quorate.

Casework Committees are also in place to consider significant expenditure proposals emanating from the NDPBs, Cross Border Bodies and Independent/Autonomous bodies. The Departmental Board receives regular updates on the progress of Casework across the Department.

Compliance with the Corporate Governance Code
Within Northern Ireland, Departments are required to operate under the *"Corporate Governance in Central Government Departments: Code of Good Practice NI 2013"*. The 2013 Code contains the requirement for Departments to "comply or explain" any significant departures from the guidance set out in the Code.

During 2016-17, the Department complied with the principles and supporting provisions set out in this Code. The Code outlines a model Board Operating Framework that can be used to document a board's roles and responsibilities. It also sets out departmental responsibilities in the management of Arm's Length Bodies.

The Department is currently in the process of drafting a formal Corporate Governance Framework for the Department. There are draft Terms of Reference in place which are currently being followed.

Register of Interests
A register of all declarations of potential or perceived conflicts of interest is maintained by the Department. Declaring conflicts of interest is a standing agenda item at all Departmental Board, Audit and Risk Assurance Committee, Procurement Sub-Committee and Senior Management Team meetings. In addition, each year an exercise is commissioned to all staff at Grade 7 and above, including Independent Board Members and external Senior Civil Servants serving on the DfE Audit and Risk Assurance Committee, reminding them of their responsibilities in regards to declaring interests and prompting them to complete a Declaration of Interests form.

Risk Management
The Department places significant emphasis on risk management. Risk management is viewed as an essential element of the Department's Corporate Governance Framework, and is closely linked to the business planning and monitoring process.

During the year the Department's Risk Management Framework, outlining the Department's approach to Risk Management, was developed and published. A number of focused workshops were held and training rolled out to all staff that have been designated as risk co-ordinators for their divisions.

The Departmental Board set the Risk Appetite for the Department. The Risk Appetite defines the level of exposure the Department is willing to accept and helps risk owners decide whether risks have been managed to a level acceptable to the Board.

The Department has an averse risk appetite for those risks which are assessed as being likely to:

- require additional funds in excess of the budget allocation;
- impact adversely upon the Department's strategic and business objectives;
- impact adversely upon the delivery of the Department's statutory requirements;
- impact adversely upon the Department's compliance with its wider legislative responsibilities; and
- result in significant adverse publicity or reputational damage for the Department or Minister.

The Department has a more open risk appetite for those risks which are assessed as being likely to offer opportunities to:

- release and redirect resources;
- provide cash releasing efficiency savings;
- improve delivery of frontline services; and
- promote innovation.

Corporate Governance, Planning and Equality Branch acts as a central point for advice and guidance on effective risk management and corporate governance arrangements. This team also coordinates commissioning and collating of the Corporate Risk Register, which is the route by which significant risks are escalated to the Departmental Board.

Risk management is viewed by the Department as a dynamic process which is continuously changing. Risks are therefore assigned to the appropriate individual and reviewed by the Board on a monthly basis to ensure that the disclosed corporate risks are appropriate in the context of delivering corporate and business plan commitments.

The Corporate Risk Register focuses on risks at a strategic level. The corporate risks identified for the register during 2016-17 were: Delivery; Demand; Supplier; Governance; Finance; European Funding; Presbyterian Mutual Society; Information; EU Directives/ Regulations; and Renewable Heat Incentive Scheme.

During 2016-17 there were significant residual risks, outlined below, which required active management by the Department. They were:

- Failure to achieve Provisional Non Ring-Fenced Outturn (Capital and Resource) of at least 99% but not exceeding 100% of the Final 2016-17 Budget;
- Failure to agree 2017-18 Budget;
- Failure to address Commission queries in relation to closure of the EU programmes 2007-13 which results in a failure to draw down the full allocation; and
- Failure to manage the Non-Domestic Renewable Heat Incentive Scheme within the budget allocated.

The risks in relation to the year and future year budgets were caused by factors outside of the Department's control, namely the fact that no Executive was in place to approve January Monitoring submissions and agree the 2017-18 Budget.

The Department took a number of steps to manage the budgetary pressures throughout the year. These included:

- Completing monthly management accounts and regular monitoring of savings delivery plan against progress;
- Engaging in in-year bilateral meetings with each division and regular reporting to the Board on financial management and performance; and
- Working closely with DoF on the implementation of Section 59 contingency arrangements.

During the year final closure documents were submitted to the European Commission for the ERDF and ESF programmes covering the period 2007-2013. Total Community funding was close to €0.5bn and final claims were within 1% of the Commission control total. Further detail is outlined in the European Fund Management section below.

Further detail on the controls put in place to mitigate the risk in relation to RHI is outlined in the RHI scheme section below.

Renewable Heat Incentive

Background
In its Programme for Government 2011-2015, the Executive set a target of achieving 4% of Northern Ireland's heat consumption from renewable sources by 2015 and 10% by 2020. In pursuit of these targets the non-domestic RHI scheme was introduced in Northern Ireland in November 2012, following the introduction of a parallel scheme in the rest of the UK. The RHI scheme was a financial incentive scheme designed to increase uptake of renewable heat technologies and for approved installations pays a fixed amount for every kilowatt of heat energy produced by various renewable technologies for a period of twenty years after installation. The main methods of generating heat included biomass heating systems, solar thermal and heat pumps. A similar RHI scheme for domestic properties was introduced in December 2014.

Issues Identified
During 2016-17 concerns were raised by the Department's Internal Audit Service and the Northern Ireland Audit Office (NIAO) about the design, management and cost of the non-domestic RHI Scheme. The main points were as follows:

- Expenditure was being incurred without proper approvals being in place, which made the expenditure 'irregular'. In 2015-16 the amount of irregular expenditure was £11.9m; in 2016-17 it is approximately £18.8m;

- The RHI Scheme in Northern Ireland lacked the cost controls that exist in Great Britain to ensure that the Scheme remains affordable and within budget. As a result there was no quick or easy way to control costs when demand increased. Changes to the Northern Ireland Scheme could only be made by amendments to the Regulations which requires a legislative process to be followed in the NI Assembly. As a result of a mistake within DETI, the initial tariff for small and medium biomass boilers was not tiered (whereas the corresponding tariff in GB was tiered), which had the effect of making the incentive too generous. Also, the additional control of degression, which was introduced in the GB scheme in 2013, was not introduced in Northern Ireland. Eventually a tiered payment structure, to better reflect fixed and variable costs, was applied to new entrants to the scheme between November 2015 and the suspension of the Scheme in February 2016, but during the period when the overly generous tariff was on offer, a very large number of applications had to be accepted, which led to a serious loss of financial control;

- The Department's arrangements with Ofgem, which administers the Scheme on behalf of the Department, were neither adequate nor effective. NIAO noted the Department's over reliance on Ofgem and the failure by the Department to adequately oversee Ofgem's work, especially in relation to physical site inspections which were carried out on a very low number of sites;

- There was potential for the Scheme to be abused, as detailed in allegations received from a whistleblower in January 2016; and

- Internal Audit noted a lack of appreciation of the risks associated with the non-domestic RHI Scheme, as well as a failure to ensure the continuity of staff involved in the management of the Scheme.

In response to these issues the Public Accounts Committee began an enquiry into the Scheme in September 2016. The Committee held seven evidence sessions up to January 2017, taking evidence from both the current and previous Departmental Accounting Officers, the consultants who had been involved in the original design of the scheme, and Ofgem which administered the scheme on behalf of the Department. However, the Committee was unable to complete its work and produce a report before the NI Assembly was dissolved on 26 January 2017. An independent Public Inquiry, chaired by a retired judge, Sir Patrick Coghlin, was established in January 2017 to investigate, inquire into and report on the Non-Domestic RHI Scheme.

Internal Audit Service also raised a number of issues following its review of the domestic RHI Scheme. The key issues raised related to the rate of return on investment received by applicants, the monitoring of the scheme through inspection visits, and the risk management processes used by management.

Financial Implications
As a result of a combination of the limited cost controls and rising demand, especially in the period immediately prior to the November 2015 tariff changes, the Scheme was

overspending against the available budget. In 2016-17, the overspend was approximately £27.1m.

The financial statements include the following amounts in respect of RHI for 2016-17:

	2016-17 £000
Within the Departmental Expenditure (DEL)	27,077
Annually Managed Expenditure	18,120
Total Expenditure	**45,197**

The Assembly was dissolved in January 2017, and therefore the process of approving 2016-17 Spring Supplementary Estimates and associated Budget Bill did not take place. Consequently, the Supply Estimate position shown in the Statement of Assembly Supply is the Main Estimates position. Overspend for RHI against the Main Estimate allocation was £27,077k. Had the Spring Supplementary Estimates and associated Budget Bill been approved by the Assembly to reflect changes to departmental budgets that had previously been agreed by the Executive or changes that could reasonably have been expected to have been agreed in the January Monitoring Round, this overspend would have been £14,722k.

During the year, £20m was set aside for RHI by the Executive in October Monitoring, but was not allocated to the Department and was to be further assessed during January monitoring.

Department's Response
In response to the issues referred to above, the Department took the following actions to improve control during 2016-17:

- Establishment of a Steering Group, followed by the creation of a dedicated RHI taskforce to oversee a programme of remedial action. The Steering Group was chaired by the Permanent Secretary and was in place from May 2016 to December 2016;

- The Taskforce, created in December 2016, operates broadly under the Prince 2 Methodology with a Project Board, Senior Responsible Owner and strands of work led by Strand Leaders. Documentation produced for and reviewed by the Project Board includes a Project plan; a Risk Register and an Issues Log. An Oversight Board comprising Senior Civil Servants from other parts of the Northern Ireland Civil Service provides the Senior Responsible Officer with independent advice on the range of complex issues being addressed;

- The procurement of a programme of site inspections by independent consultants in response to the whistleblower allegations that the scheme was being abused. Approximately 300 separate installations on 80 sites were inspected as part of this process. This piece of work was overseen by the Steering Group which signed off the report received from the consultants in December 2016. Ofgem is taking appropriate enforcement action in relation to issues of non-compliance identified during the programme of inspections;

- A review by the independent consultants of the controls in place in both the Department and Ofgem for the management and monitoring of the Scheme. This review took place alongside the programme of site inspections. A number of recommendations were made and accepted and arrangements with Ofgem have been enhanced as a result. A Northern Ireland RHI Oversight Board, comprising Departmental and Ofgem personnel, now meets monthly and reviews action taken, progress made on the agreed programme of work and upcoming issues; and

- The development of new Regulations, approved by the Assembly in January 2017 and given State Aid approval in March 2017 which place all Scheme recipients on the November 2015 tiered tariff and annual cap on the number of hours that will be paid. These changes took effect from 1 April 2017, though they are subject to Judicial Review. Work is ongoing to develop tariffs for the longer term.

Current and Future Work
The Taskforce referred to above is taking forward a wide range of actions associated with the Scheme. The key activities which will be taken forward in 2017-18 are:

- Procurement of a comprehensive programme of site inspections by independent consultants to provide assurance and evidence of the operation of the Scheme. This will be preceded and informed by a pilot programme of targeted inspections;

- Development of a solution that will ensure that the Scheme is affordable in the long term. This will involve the design of a long term tariff and cost control measures;

- Subject to State Aid approval, the development and introduction of amended Regulations, to give effect to the tariff and cost control measures referred to above;

- Working with Departmental Solicitor's Office (DSO) to defend the challenges to the legality of the 2017 Regulations;

- Provision of information and documentation to the Public Inquiry which was established on 24 January 2017, to investigate, inquire into and report on the Non-Domestic Renewable Heat Incentive Scheme;

- Follow up on all of the recommendations set out in the NIAO report, Internal Audit Service report and independent consultants' report; and

- Strengthening enforcement functions.

European Fund Management
European Fund Management Division combines the responsibilities of Managing Authority for the European Regional Development Fund (ERDF) and European Social Fund (ESF). The combined programme value for the existing period (2014-2020) is in excess of €1 billion.

During the reporting year final closure documents were submitted to European Commission for the ERDF and ESF programmes covering the period 2007-2013. Total Commission funding was close to €0.5 billion and final claims were within 1% of the EU control total. The Audit Authority position was that the final statement of expenditure presents fairly, in all material respects, the expenditure paid under the operational programme, that the application for payment of the final balance of the Community contribution to this programme is valid and that the underlying transactions covered by the final statement of expenditure are legal and regular.

Variance between DEL Resource Outturn and Estimate (SOAS1)
A technical excess of £81.6m arose due to the Assembly being dissolved in January 2017 and therefore the process of approving 2016-17 Spring Supplementary Estimates and associated Budget Bill not taking place. Consequently, the Supply Estimates position shown in the Statement of Assembly Supply is the Main Estimates position. Had the Spring Supplementary Estimates and associated Budget Bill been approved by the Assembly to reflect changes to Departmental budgets that had previously been agreed by the Executive or changes that could reasonably have been expected to have been agreed in the January Monitoring Round, this Excess would not have occurred.

Fraud Reporting
During 2016-17, there were thirty six cases of suspected Fraud reported to the Department. Fourteen of the cases reported during the year were in relation to the Renewable Heat Incentive Scheme. The majority of these cases have been referred to Ofgem with 100% site inspections taking place. Further and Higher Education Divisions reported eleven suspected fraud cases, with Tourism NI reporting five fraud cases. The remaining seven suspected fraud cases were reported from other areas within the Department and across other Arm's Length Bodies. Appropriate actions have been taken on all cases reported and any recommendations made are being implemented and policies and procedures updated. In line with appropriate guidance, all cases of fraud during the year have been reported to the Department of Finance and the Northern Ireland Audit Office.

Whistleblowing
On creation of the new Department, the Department's whistleblowing policy was updated in July 2016 which outlines the relevant NICS and statutory framework. Specific guidance has also been developed for stakeholders external to the department. The number of incidents notified during 2016-17 was twenty seven. Twelve cases relate to the Non Domestic Heat Incentive Scheme (RHI), eleven of which were initially referred to Ofgem and one is with Internal Audit who are seeking additional information to enable further investigation. Ten cases were notified by the Further and Higher Education Divisions. Seven out of the ten cases have now been resolved with the remaining three cases only

received in March 2017 and individual investigations are continuing. The remaining five cases were reported to the Department and three of these cases have now been resolved.

Quality Evaluations
The Department commissions the Education and Training Inspectorate (the Inspectorate) to inspect and report on the quality of provision across further education and training programmes. Where issues of quality are identified, follow-up inspections take place at regular intervals to monitor progress towards improvement.

During the financial year, twelve providers (29%) of training programmes (Training for Success and Apprenticeships NI) had follow-up inspections to review if the necessary quality improvements were achieved.
In addition, each provider is required to submit an annual self-evaluation report and quality improvement plan in order to build the capacity for self-improvement. These documents are evaluated by the Inspectorate which carries out a short scrutiny inspection to confirm the strengths and weaknesses identified by each provider.

The Inspectorate also continued work in evaluating the Youth Training and apprenticeship pilot programmes at level 3. In addition, all baseline inspection visits to European Social Fund (ESF) projects were completed, with thirty three graded inspection visits to projects completed by the end of March 2017.

The Department's Quality Improvement Team continued to visit providers of pilot Higher Level Apprenticeships and shared feedback about quality of provision from apprentices, employers and lecturers with policy colleagues and relevant providers.

As of 31 March 2017, two of the three lead contractors for the Department for Communities Steps 2 Success programme have had a full quality evaluation visit from the Departmental Quality Assessors. Feedback including grades has been given to these providers. Other thematic evaluations took place during the year.

Responsibility for the Steps 2 Success programme, which is designed to help those who are long-term unemployed to find work, now rests with the Department for Communities. Under a Service Level Agreement between the Department for Communities and Department for Economy, assessors from the Quality Improvement Team are continuing to provide a full programme of quality evaluations of the three Lead Contractors and their supply chains.

Information Security
The Department has continued to work towards full implementation of the NICS Information Management Strategy. During the reporting period Information Management Unit set up an Information Asset Register which was completed by all business areas. The Annual Information Security Survey was issued to all business areas in March 2017. It is currently undergoing analysis. The Information Commissioners Office delivered two training sessions to staff on Freedom of Information. The Departmental Security Health Check (formerly the Security Risk Management Overview (SRMO)) was completed in July 2016 with no significant issues identified. This is an exercise which reports to the Head of

the NICS and includes a single return for DfE and all its ALBs. The report contains an independent assurance statement from the Head of Internal Audit and is endorsed by the Permanent Secretary as Accounting Officer.

There were no new policies added to the DfE Information Security Policy compendium during the year. The Department carried out its annual Information Security Survey in March 2017. This exercise provides a further assurance to the Accounting Officer that information is being securely handled and effectively managed across all business areas. Information Security continues to be a regular item at Departmental Board meetings and Heads of Branches are required to review information security compliance in their six monthly internal assurance statement checklists.

A full Risk Management and Accreditation Document Set (RMADS) was completed in Q4 for the TMS application. All other RMADS for the larger departmental applications are up-to-date as this is essential for the internal departmental applications to maintain accreditation to run on the NICS network. The departmental public facing application websites recently underwent an external IT Health Check/Penetration Test and any issues reported will be actioned.

The Control Environment
The Accounting Officer has responsibility for reviewing the effectiveness of the governance structures and the system of internal control. His review is informed by:

- assurance statements from:
  - CITB NI;
  - Labour Relations Agency;
  - General Consumer Council for Northern Ireland;
  - Health and Safety Executive for Northern Ireland;
  - Invest Northern Ireland;
  - Northern Ireland Screen Commission;
  - Tourism NI;
  - Tourism Ireland Ltd;
  - Intertrade Ireland;
  - the six Further Education Colleges, namely: Belfast Metropolitan College; Northern Regional College; North West Regional College; Southern Regional College; South Eastern Regional College; and South West College;
  - Stranmillis University College;
  - the two universities, namely: Queen’s University Belfast and Ulster University;
  - Student Loans Company;
  - the Education Authority; and
  - Directors of divisions within the Department which also take account of the assurances provided by the Arm’s Length/ Autonomous Bodies for which their respective divisions have responsibility. The statements provided by Directors are reviewed by the respective Deputy Secretaries who provide written assurance to the Accounting Officer that they have reviewed the assurance statements;
- the work of Internal Audit Service throughout the year (according to a pre-agreed audit strategy);

- a programme of annual accountability meetings with the respective Accounting Officers of all of the Department's Non Departmental Public Bodies and the Higher Education Institutions; and
- the comments made by our external auditors, the Northern Ireland Audit Office, in its Report to those Charged with Governance and other reports to the Department.

Assurance Statements
A key source of assurance when drafting this Governance Statement is the end of year assurance statements obtained from Directors of divisions within the Department and all Arm's Length and Autonomous Bodies of the Department. These statements provide important assurances about the internal controls in operation within the Department and the various bodies, the drafting and monitoring of business plan objectives, and the monitoring and reporting of fraud. These assurance statements also require business areas to report any significant issues or control weaknesses identified during the year.

The main issues noted in the assurance statements were:

- Retrospective approval had been sought on 19 July 2016 from Department of Finance for the payment of training allowances, travel, accommodation and childcare costs to participants of academies under the Assured Skills Programme. DoF wrote to the department on 12 June 2017 to confirm that retrospective approval had not been granted. This expenditure is therefore deemed irregular. The level of expenditure between 2010 and 12 January 2017 is £1,339,280 of which £313,191.90 is attributed to the 2016-17 financial year. The branch concerned has detailed this approval in its process maps to ensure that there is no reoccurrence. In addition guidance has been communicated throughout the Department and has been placed on the Departmental intranet.

- NIAO, identified in their Report to those charged with Governance to Northern Regional College, an issue with regard to the lateness and quality of the draft accounts originally submitted in 2015-16. The College has recently met with NIAO and has provided an action plan for the 2016-17 Accounts which NIAO have stated that they are content with.

- HMS Caroline as a sustainable tourism attraction has been highlighted as a substantial risk in the Tourism NI Risk Register. Following a successful opening, the ship has now transferred to dry dock for further works to be completed. At this time there remains a lease outstanding with the Belfast Harbour Commissioners, which is required to allow dockside work to proceed. An endowment fundraiser has not been appointed; hence, an endowment fund is not yet in place to mitigate any potential shortfall in operating costs. This may impact upon the resources available in Tourism NI to deliver on its strategic objectives in 2017-18.

- A number of business areas with Arm's Length Body sponsor control responsibilities have noted concerns about the lack of clarity in relation to their sponsorship responsibilities under the new Department. The Department has commissioned a consulting review of sponsor control arrangements which, when finalised, will inform the development of a Sponsorship Manual to provide clarity on the responsibilities of sponsor control. It will also help to inform the resource requirements of sponsor teams.

- Divisions within the Department and a number of Arm's Length Bodies have noted their concerns regarding delays in allocating budgets and not being able to secure Ministerial approval. This could result in adverse impacts on the delivery of some of the new programmes/ projects the Department and its ALBs have in line (FE and HE capital projects).

- No Executive was in place to approve January monitoring submissions. DoF advised that where this resulted in outturn exceeding target it would be treated as a technical issue. The result has been that the Department has a technical excess vote and the Comptroller and Auditor General's audit opinion is qualified in this respect.

- Departmental compliance in relation to closing of sickness absences is below the corporate target for the period. Processes were in place to monitor and report on compliance levels.

- Internal Audit identified a potential historic issue relating to appropriate approvals in place for financial assistance totalling £2,426,109, which was allocated to the Study USA programme for the period December 2011 to June 2015. An economic appraisal was produced for the programme; however, management was unable to provide the Ministerial and Permanent Secretary approval records for the expenditure. The expenditure was approved by the current Permanent Secretary on 18 June 2017.

Business Continuity Management
The Department has in place a Business Continuity Management (BCM) process, whereby each Branch/ Division and Departmental building has a dedicated and managed Business Continuity Plan (BCP). With the formation of DfE the two main building plans have been completely revised, and a Business Impact Analysis exercise is underway. All Branch/Divisional BCPs are reported on in the Six Monthly Assurance statement. A new DfE BCM forum for Departmental staff involved in BCM has been established and will meet twice yearly. The BCM process is subject to an annual review by Internal Audit Service.

Internal Audit Service
Internal Audit Service's main remit is to provide the Accounting Officer with an independent and objective opinion on the overall adequacy and effectiveness of the Department's risk management, control and governance processes. The Internal Audit Annual Opinion and Report is a key element of the framework of assurance that the Accounting Officer needs to inform this Governance Statement. Internal Audit Service operates in accordance with HM Treasury's Public Sector Internal Audit Standards.

Audit Strategy

During 2016-17, Internal Audit undertook the development of a new risk based Audit Strategy for the Department covering the period 2017-18 – 2019-20. The strategy is in accordance with the Public Sector Internal Audit Standards and uses a risk based methodology to assess the risks and activities of the Department and maps the proposed coverage to the Department's Corporate Risk Strategy and Objectives. Consideration is given to new systems, areas of high risk and any other central government requirements.

Audit Plan for 2016-17

The Internal Audit plan for 2016-17 was endorsed by the Audit and Risk Assurance Committee and the Accounting Officer. The plan was regularly updated to reflect the changing priorities of management, changing circumstances and emerging issues. Any changes to the original plan were endorsed by the Departmental Audit and Risk Assurance Committee. A mid-year review of the plan resulted in it being revised. This revision was agreed by the Accounting Officer and endorsed by the Audit and Risk Assurance Committee.

Audit Opinion for 2016-17

The Internal Audit opinion provided by the Head of Internal Audit states that the Department for the Economy has established and maintained Limited risk management, control and governance processes during 2016-17.

In arriving at the overall opinion for the Department, Internal Audit gave due regard to the work undertaken by Internal Audit during 2016-17 and that the majority of audit assignments had received Satisfactory audit opinions. In particular, Internal Audit noted that audit opinions provided in respect of EU funded programmes had been Satisfactory and that the Limited Audit opinion provided in 2015 in respect of ESF Management Verifications was subject to follow-up review as a result of which the opinion was revised to Satisfactory. It should also be noted that satisfactory overall audit opinions were given to the former Department for Enterprise, Trade and Investment and the former Department for Employment and Learning in 2014-15 and 2015-16.

However, consideration had also been given to the impact and importance of the unacceptable audit opinion issued in respect of the Non-Domestic Renewable Heat Incentive Scheme (RHI) and the Limited audit opinion provided in respect of the Domestic RHI scheme during 2016-17. The audit opinions issued in relation to both these assignments remain in place and are subject to follow-up review as part of the 2017-18 audit plan.

The Head of Internal Audit considered that there were lessons for the Department to learn from the experience of the Non-Domestic RHI scheme and from previous projects that have featured at PAC such as the Bytel project. Internal Audit identified a number of common themes that had emerged which included:

- embedding programme and project management at the heart of all major projects and initiatives with the Department;
- ensuring that project teams are adequately resourced;

- ensuring that, where required, specialist knowledge and skills including appropriate technical knowledge is present within project teams; and
- when developing new initiatives, ensuring that there is a clear understanding of the potential risks and how these are being proactively managed.

Taking all of the above into consideration the Head of Internal Audit considered that the overall Limited opinion on the Department's risk management, control and governance processes was appropriate.

The Department of Finance's Internal Audit Service has provided its end-year Assurance Report and Opinion on Enterprise Shared Services. Enterprise Shared Services has received an overall satisfactory audit opinion.

Public Accounts Committee Issues

1. On 18 March 2015, the Department provided evidence to the Assembly's Public Accounts Committee on an NIAO report "Cross-border broadband initiative: the Bytel project". The Public Accounts Committee's report, containing eight recommendations, was published on 1 July 2015. A Memorandum of Reply responding to the Committee's recommendations was laid before the Assembly on 2 October 2015. A progress report on the implementation of recommendations was provided by the Permanent Secretary to the PAC Chairperson on 11 November 2016.

2. On 21 October 2015, the Department provided evidence to the Assembly's Public Accounts Committee on an NIAO report "The Northern Ireland Events Company". The Northern Ireland Events Company was a Non Departmental Public Body sponsored by the Department of Culture, Arts and Leisure. The Department's evidence related to its role in the appointment and oversight of Company Inspectors and subsequent action taken on foot of the Company Inspectors' report. The Committee published its report on 24 February 2016. Two recommendations were made relating specifically to the Department. A response, in the form of a Memorandum of Reply was laid before the Assembly on 22 June 2016.

3. The Public Accounts Committee began an enquiry into the Non–Domestic Scheme Renewable Heat Incentive (RHI) Scheme in September 2016. The Committee held seven evidence sessions up to January 2017, taking evidence from both the current and previous Departmental Accounting Officers, the consultants who had been involved in the original design of the scheme, and Ofgem which administered the scheme on behalf of the Department. However, the Committee was unable to complete its work and produce a report before the NI Assembly was dissolved on 26 January 2017. An independent Public Inquiry, chaired by a retired judge, Sir Patrick Coghlin, was established in January 2017 to investigate, inquire into and report on the Non-Domestic RHI Scheme.

Ministerial Directions
There was one Ministerial direction given during the 2016-17 financial year in relation to the provision of financial assistance for United Airlines.

Remuneration Report

Remuneration Policy

The Minister of Finance approves the pay remit for Senior Civil Service (SCS) staff. The SCS remuneration arrangements are based on a system of pay scales for each SCS grade containing a number of pay points from minima to maxima, allowing progression towards the maxima based on performance. In 2012, upon creation, there were 11 points on each scale. The minimum point has been removed in each year from 2014 to 2016 (the scales now have 8 pay points) to allow progression through the pay scales within a reasonable period of time.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, may result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.nicscommissioners.org.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and most senior management of the Department.

Remuneration (Audited Information)

Ministers	**2016-17**			**2015-16**		
	Salary £	**Pension benefits* (to nearest £1000)**	**Total £000**	**Salary £**	**Pension benefits* (to nearest £1000)**	**Total £000**
Simon Hamilton MLA *25/05/2016 – 02/03/2017*	29,419	9,000	35-40	-	-	-
Jonathan Bell MLA *01/04/2016 – 05/05/2016 &* *11/05/2015 – 31/03/2016*	3,677	1,000	0-5	30,000	12,000	40-45
Arlene Foster MLA *01/04/2015 – 10/05/2015*	-	-	-	4,000	17,000	20-25

Officials	**2016-17**			**2015-16**		
	Salary £000	**Pension benefits* (to nearest £1000)**	**Total £000**	**Salary £000**	**Pension benefits* (to nearest £1000)**	**Total £000**
Andrew McCormick *Permanent Secretary*	125-130	43,000	165-170	120-125	(2,000)	120-125
Heather Cousins *Deputy Secretary*	90-95	85,000	175-180	85-90	27,000	115-120
Derek Baker *Deputy Secretary* *01/04/2016 – 26/02/2017* *Acting Permanent Secretary* *01/04/2015 – 31/03/2016*	100-105 (110-115 full year equivalent)	17,000	115-120	105-110	54,000	160-165
Eugene Rooney *Deputy Secretary*	85-90	(14,000)	70-75	85-90	28,000	110-115
Diarmuid McLean *Acting Deputy Secretary* *13/03/2017 – 31/03/2017*	0-5 (85-90 full year equivalent)	7,000	10-15	-	-	-
Chris Stewart *Deputy Secretary*	85-90	31,000	115-120	85-90	70,000	155-160
Wendy Johnston *Assistant Secretary*	60-65 (75-80 full year equivalent)	9,000	65-70	55-60 (70-75 full year equivalent)	(720,000)	(660-665)

Officials (continued)	**2016-17**			**2015-16**		
	Salary £000	**Pension benefits* (to nearest £1000)**	**Total £000**	**Salary £000**	**Pension benefits* (to nearest £1000)**	**Total £000**
Trevor Cooper *Assistant Secretary* *01/04/2016 – 07/05/2016 &* *01/04/2015 – 31/03/2016*	70-75	2,000	70-75	65-70	(10,000)	55-60
Stephen McMurray *Assistant Secretary* *08/05/2016 – 18/12/2016*	70-75	14,000	85-90	-	-	-
Andrea Quail *Acting Assistant Secretary* *19/12/2016 – 19/03/2017*	15-20 (65-70 full year equivalent)	21,000	35-40	-	-	-
Ronan Murtagh *Acting Assistant Secretary* *20/03/2017 – 31/03/2017*	0-5 (65-70 full year equivalent)	9,000	10-15	-	-	-
David Beck *Non-Executive Director*	5-10	-	5-10	10-15	-	10-15
Claire Hughes *Non-Executive Director*	10-15	-	10-15	10-15	-	10-15
Professor Russel Griggs OBE *Non-Executive Director* *01/04/2016 – 27/06/2016 &* *01/04/2015 – 31/03/2016*	0-5	-	0-5	5-10	-	5-10

**The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation and any increase or decrease due to a transfer of pension rights.*

Non-Executive Directors are remunerated on a per diem basis.
None of the above received benefits in kind in 2016-17 or 2015-16.

	2016-17	2015-16 *(restated)*
Band of Highest Paid Director's Total Remuneration (£000)	125-130	120-125
Median Total Remuneration (£)	27,776	27,501
Ratio	4.59	4.45

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation and any ex-gratia payments.

The Department for the Economy was under the direction and control of Simon Hamilton from 25 May 2016 to 2 March 2017. For the period from 1 April 2016 to 5 May 2016, the Department for Enterprise, Trade and Investment was under the direction and control of Jonathan Bell. Their salaries and allowances were paid by the Northern Ireland Assembly and have been included as a notional cost in these accounts. These amounts do not include costs relating to the Ministers' roles as Members of the Legislative Assembly (MLA) which are disclosed elsewhere.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. No benefits in kind were awarded to senior officials in respect of 2016-17 and 2015-16.

Median Total Remuneration

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The median remuneration of the Department's staff is the total remuneration of the staff member(s) lying in the middle of the linear distribution of the total staff, excluding the highest paid director. This is based on annualised, full-time equivalent (FTE) remuneration as at the reporting period date.

Total remuneration includes salary, non-consolidated performance-related pay, and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions. Total remuneration is calculated on an annualised basis to remove any fluctuations caused by employee turnover, which do not reflect changes in pay policy.

The FTE measurement of staff is specified to ensure a level of comparability that would otherwise be distorted, if a member of staff represented a whole unit, irrespective of the hours worked.

The ratio is calculated as follows:

$$\frac{\text{Midpoint in highest paid director's pay band}}{\text{Median remuneration of Department's staff}}$$

The banded remuneration of the highest paid director in the Department in the financial year 2016-17 was £125,000–130,000 (2015-16: £120,000-125,000). This was 4.59 times (2015-16: 4.45 times) the median remuneration of the workforce, which was £27,776 (2015-16: £27,501).

In 2016-17, one individual (2015-16: one individual) received remuneration in excess of the highest paid director. Remuneration ranged from £130,000 to £135,000 (2015-16: £130,000 - £135,000).

The movement in the ratio between 2016-17 and 2015-16 is primarily attributable to an increase in the midpoint of the highest paid director's pay band.

Pension Benefits (Audited Information)

Ministers	Accrued pension at pension age as at 31/03/2017 £000	Real increase in pension at pension age £000	CETV at 31/03/2017 £000	CETV at 31/03/2016 £000	Real increase in CETV £000
Simon Hamilton MLA *25/05/2016-02/03/2017*	0-5	0-2.5	34	28	2
Jonathan Bell MLA *01/04/2016-05/05/2016*	0-5	0-2.5	25	25	-

Ministerial pensions

Pension benefits for Ministers are provided by the Assembly Members' Pension Scheme (Northern Ireland) 2012 (AMPS). In 2011, the Assembly passed the Assembly Members (Independent Financial Review and Standards) Act (Northern Ireland) establishing a Panel to make determinations in relation to the salaries, allowances and pensions payable to members of the Northern Ireland Assembly. In April 2016, the Independent Financial Review Panel issued The Assembly Members (Pensions) Determination (Northern Ireland) 2016 which introduced a Career Average Revalued Earnings scheme for new and existing members. Existing members born on or before 1 April 1960 retain their Final Salary pension arrangements under transitional protection until 6 May 2021. The new scheme is named Assembly Members' Pension Scheme (Northern Ireland) 2016 and replaces the 2012 scheme.

As Ministers are Members of the Legislative Assembly they also accrue an MLA's pension under the AMPS (details of which are not included in this report). Pension benefits for Ministers under transitional protection arrangements are provided on a "contribution factor" basis which takes account of service as a Minister. The contribution factor is the relationship between salary as a Minister and salary as a Member for each year of service as a Minister. Pension benefits as a Minister are based on the accrual rate (1/50th or 1/40th) multiplied by the cumulative contribution factors and the relevant final salary as a Member. Pension benefits for all other Ministers are provided on a career average revalued earnings (CARE) basis.

Benefits for Ministers are payable at the same time as MLAs' benefits become payable under the AMPS. Pensions are increased annually in line with changes in the Consumer Prices Index. Ministers pay contributions of either 9% or 12.5% of their Ministerial salary, depending on the accrual rate. There is also an employer contribution paid by the Consolidated Fund out of money appropriated by Act of Assembly for that purpose representing the balance of cost. This is currently 14.4% of the Ministerial salary.

The accrued pension quoted is the pension the Minister is entitled to receive when they reach normal pension age for their section of the Scheme. Ministers under transitional arrangements may retire at age 65. Ministers in the CARE scheme have a pension age aligned to their State Pension Age.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total office holder service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008, and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Pension Entitlements (Audited Information)

Officials	**Accrued pension at pension age as at 31/03/2017 and related lump sum £000**	**Real increase in pension and related lump sum at pension age £000**	**CETV at 31/03/2017 £000**	**CETV at 31/03/2016 £000**	**Real increase in CETV £000**	**Employer contribution to partnership pension account Nearest £100**
Andrew McCormick *Permanent Secretary*	65-70 Plus lump sum of 100-105	2.5-5.0 Plus lump sum of 0-2.5	1,432	1,328	43	-
Heather Cousins *Deputy Secretary*	20-25 Plus lump sum of 60-65	2.5-5.0 Plus lump sum of 10.0-15.0	433	338	76	-
Derek Baker *Deputy Secretary* *01/04/2016 – 26/02/2017*	50-55 Plus lump sum of 160-165	0-2.5 Plus lump sum of 2.5-5.0	1,242	1,171	17	-
Eugene Rooney *Deputy Secretary*	35-40 Plus lump sum of 110-115	(0-2.5) Plus lump sum of (0-2.5)	841	816	(13)	-
Diarmuid McLean *Acting Deputy Secretary* *13/03/2017 – 31/03/2017*	25-30 Plus lump sum of 80-85	0-2.5 Plus lump sum of 0-2.5	620	612	7	-
Chris Stewart *Deputy Secretary*	30-35 Plus lump sum of 95-100	0-2.5 Plus lump sum of 2.5-5.0	639	584	26	-
Wendy Johnston *Assistant Secretary*	0-5 Plus lump sum of 0-5	0-2.5 Plus lump sum of 0-2.5	29	16	8	-
Trevor Cooper *Assistant Secretary* *01/04/2016 – 07/05/2016*	15-20 Plus lump sum of 50-55	0-2.5 Plus lump sum of 0-2.5	342	340	2	-
Stephen McMurray *Assistant Secretary* *08/05/2016 – 18/12/2016*	20-25 Plus lump sum of 60-65	0-2.5 Plus lump sum of 0-2.5	486	454	14	-
Andrea Quail *Acting Assistant Secretary* *19/12/2016 – 19/03/2017*	10-15 Plus lump sum of nil	0-2.5 Plus lump sum of 0-2.5	172	153	13	-

Officials (continued)	Accrued pension at pension age as at 31/03/2017 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/2017 £000	CETV at 31/03/2016 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Ronan Murtagh *Acting Assistant Secretary* *20/03/2017 – 31/03/2017*	5-10 Plus lump sum of nil	0-2.5 Plus lump sum of 0-2.5	157	150	7	-

Northern Ireland Civil Service (NICS) Pension arrangements

Pension benefits are provided through the Northern Ireland Civil Service pension arrangements which are administered by Civil Service Pensions (CSP). Staff in post prior to 30 July 2007 may be in one of three statutory based ‘final salary’ defined benefit arrangements (classic, premium and classic plus). These pension arrangements are unfunded with the cost of benefits met by monies voted by the Assembly each year. From April 2011, all Civil Service pensions payable under classic, premium and classic plus are reviewed annually in line with changes in the cost of living. Prior to 2011, pensions were reviewed in line with changes in the Retail Prices Index (RPI). New entrants joining on or after 1 October 2002, and before 30 July 2007, could choose between membership of premium or joining a good quality ‘money purchase’ stakeholder arrangement with a significant employer contribution (partnership pension account). New entrants joining on or after 30 July 2007 were eligible for membership of the nuvos arrangement or they could have opted for a partnership pension account. Nuvos is a ‘Career Average Revalued Earnings’ (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The current rate is 2.3%. CARE pension benefits are increased annually in line with increases in the cost of living.

A new pension scheme, alpha, was introduced for new entrants from 1 April 2015. The majority of existing members of the NICS pension arrangements have also moved to alpha from that date. Members who, on 1 April 2012, were within 10 years of their normal pension age did not move to alpha and those who were within 13.5 years and 10 years of their normal pension age were given a choice between moving to alpha on 1 April 2015 or at a later date determined by their age. Alpha is also a ‘Career Average Revalued Earnings’ (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The rate will be 2.32%. CARE pension benefits are increased annually in line with increases in the cost of living.

Increases to public service pensions are the responsibility of HM Treasury. Pensions are reviewed each year in line with the cost of living. Any applicable increases are applied from April and are determined by the Consumer Prices Index (CPI) figure for the preceding September. The CPI in September 2016 was 1% and HM Treasury has announced that public service pensions will be increased accordingly from April 2017.

Employee contribution rates for all members for the period covering 1 April 2017 to 31 March 2018 are as follows:

Scheme Year 1 April 2017 to 31 March 2018

Annualised Rate of Pensionable Earnings (Salary Bands)		**Contribution rates** – Classic members or classic members who have moved to alpha	**Contribution rates** – All other members
From	**To**	**From 1 April 2017 to 31 March 2018**	**From 1 April 2017 to 31 March 2018**
£0	£15,000.99	4.6%	4.6%
£15,001.00	£21,422.99	4.6%	4.6%
£21,423.00	£51,005.99	5.45%	5.45%
£51,006.00	£150,000.99	7.35%	7.35%
£150,001.00 and above		8.05%	8.05%

Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but, where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach their scheme pension age, or immediately on ceasing to be an active member of the scheme if they are at or over pension age. Pension age is 60 for members of classic, premium, and classic plus and 65 for members of nuvos. The normal pension age in alpha is linked to the member's State Pension Age but cannot be before age 65. Further details about the NICS pension arrangements can be found at the website https://www.finance-ni.gov.uk/topics/working-northern-ireland-civil-service/civil-service-pensions-ni.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and, from 2003-04, the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the NICS pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. The actuarial factors used to calculate CETVs changed during the 2015-16 year and, consequently, CETV figures increased even without any further pension accrual. However, the real increase calculation uses common actuarial factors at the start and end of the period so that it disregards the effect of any changes in factors and focuses only on the increase that is funded by the employer.

Compensation for loss of office (Audited Information)

There was no compensation for loss of office payments in respect of Board Members during 2016-17.

Staff Report

Staff costs (Audited Information):

				2016-17 £000	2015-16 £000 *(restated)*
	Permanently employed staff*	**Others**	**Minister**	**Total**	**Total**
Wages and salaries	35,754	186	33	35,973	38,311
Voluntary Exit Scheme	-	-	-	-	4,823
Social security costs	3,499	6	4	3,509	2,955
Other pension costs	8,016	-	5	8,021	8,939
Movement in employee benefits accrual	27	-	-	27	(130)
Sub Total	**47,296**	**192**	**42**	**47,530**	**54,898**
Less recoveries in respect of outward secondments	(169)	-	-	(169)	(135)
Total net costs**	**47,127**	**192**	**42**	**47,361**	**54,763**

Of which:	**Charged to Administration**	**Charged to Programme**	**Total**
Core Department	**26,644**	**20,717**	**47,361**
Total net costs	**26,644**	**20,717**	**47,361**

** Permanently employed staff includes the cost of the Department's Special Adviser who is paid in the pay band £59,627 - £91,809 (2015-16: £59,627 - £91,809).The 2016-17 pay award for Special Advisers is currently outstanding.*

*** Of the total, no staff costs have been charged to capital in 2016-17 (2015-16: £nil).*

The Northern Ireland Civil Service pension arrangements are unfunded multi-employer defined benefit schemes but the Department for the Economy is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2012. This valuation is then reviewed by the Scheme Actuary and updated to reflect current conditions and rolled forward to the reporting date of the DoF Superannuation and Other Allowances Resource Accounts as at 31 March 2017.

For 2016-17, employers' contributions of £8,016k were payable to the NICS pension arrangements (2015-16: £8,939k) at one of four rates in the range 20.8% to 26.3%

(2015-16: 20.8% to 26.3%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. A new scheme funding valuation based on data as at 31 March 2012 was completed by the Actuary during 2014-15. This valuation was used to determine employer contribution rates for the introduction of alpha from April 2015. For 2017-18, the rates will range from 20.8% to 26.3%. The contribution rates are set to meet the cost of benefits accruing during 2016-17 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £4,006.83 (2015-16: £7,680.14) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2015-16: 3% to 14.7%) of pensionable pay. Employers also match employee contributions up to 3% (2015-16: 3%) of pensionable pay. In addition, employer contributions of £249.51, 0.5% of pensionable pay (2015-16: £348.17, 0.5%), were payable to the NICS Pension Arrangements to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting date were £nil. Contributions prepaid at that date were £nil.

Six persons (2015-16: four persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £10,905 (2015-16: £10,875).

Average number of persons employed (Audited Information)

The average number of whole-time equivalent persons employed during the year was as follows:

					2016-17 Number	2015-16 Number *(restated)*
Activity	**Permanent staff**	**Others**	**Minister**	**Special advisers**	**Total**	**Total**
	1,108	11	1	1	1,121	1,195
Staff engaged on capital projects	-	-	-	-	-	-
Total	**1,108**	**11**	**1**	**1**	**1,121**	**1,195**

Office of Industrial and Fair Employment Tribunals Service

Judicial office holders are covered by the provisions of the Judicial Pensions Scheme (JPS). The terms of the pension arrangements are set out in the provisions of two Acts of Parliament, the Judicial Pensions Act 1981 and the Judicial Pensions & Retirement Act 1993 (JuPRA). The JPS is an unfunded public service scheme, providing pensions and related benefits for members of the judiciary. The cost of benefits accruing for each year of service is shared between the Appointing Bodies and the judicial office-holders.

Following the Hutton Review and the reform of public sector pensions, two new pension schemes, Judicial Pension Scheme (JPS) 2015 and Northern Ireland Judicial Pension Scheme (NIJPS) 2015, were introduced from 1 April 2015. These mirror each other and other public sector career average pension schemes. From 1 April 2015 the Department pays contributions in relation to salaried excepted and devolved salaried Judicial Office Holders and excepted fee paid Judicial Office Holders. A subsequent revaluation of the Judicial Pension Schemes resulted in a contribution rate for Appointing Bodies of 38.45% which includes an element of 0.25% as a contribution towards the administrative costs of the schemes.

O'Brien v Ministry of Justice

In 2013, the Supreme Court (and the Court of Justice of the European Union) held that a retired fee paid recorder (Mr O'Brien) was a part-time worker within the meaning of the Directive and Regulations, and was therefore eligible to pension entitlement. The cost of providing the pension entitlement for all part-time judges who were fee paid by the Department has been reflected in the financial statements of this Department. The Department is named, amongst others, as a respondent in an ongoing industrial tribunal case involving 'O'Brien' claims by fee-paid judicial office holders.

Attendance Management

In the last year, HR worked closely with line managers, staff and the support services to tackle the sensitive issue of sickness absence through the consistent application of the processes which underpin absence management.

The projected outturn at 31 March 2017 is 10.3 days (NB: 31 March 2016 comparable figures are not available for the Department, due to restructuring).

Reporting of Civil Service and other compensation schemes – exit packages (Audited Information)

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	2016-17 Total number of exit packages by cost band	2015-16 *(restated)* Total number of exit packages by cost band
<£10,000	-	-	-	7
£10,000 - £25,000	-	4	4	79
£25,000 - £50,000	-	4	4	68
£50,000 - £100,000	-	1	1	16
£100,000 - £150,000	-	-	-	-
£150,000 - £200,000	-	-	-	-
Total number of exit packages	**-**	**9**	**9**	**170**
Total resource cost/ £000	**-**	**310**	**310**	**4,877**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (Northern Ireland), a statutory scheme made under the Superannuation (Northern Ireland) Order 1972. Exit costs are accounted for in full in the year of departure. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

In 2016-17, the Special Advisers received an exit package in accordance with the Code Governing the Appointment of Special Advisers issued under the Civil Service (Special Advisers) Act (Northern Ireland) 2013.

The 2015-16 figure included costs of £4.823 million relating to the NICS voluntary exit scheme. There are no comparable costs in 2016-17, as this scheme only operated in 2015-16.

Staff Composition

The table below provides a breakdown of the number of persons employed by the Department as at 31 March 2017, by gender for each of the following groups:

- Directors (interpreted to be the Permanent Secretary, Deputy Secretaries and Departmental Board Members);
- Senior Managers (staff at Senior Civil Servant level that are not included in the Directors Group); and,
- All other employees.

	As at 31 March 2017			**As at 31 March 2016 *(restated)***		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Directors	4	1	5	7	3	10
Senior Managers	10	6	16	6	7	13
Employees	493	612	1,105	493	695	1,188
Total	**507**	**619**	**1,126**	**506**	**705**	**1,211**

Note - the above table includes staff temporarily promoted to Senior Civil Servant grades.

Off-Payroll Engagements

The Department had no ‘off-payroll’ engagements at a cost of over £58,200 per annum in place during 31 March 2017.

Consultancy and Temporary Staff

During the year to 31 March 2017, the Department spent £506,652 on external consultancy (31 March 2016: £227,828), and £280,733 on temporary staff (31 March 2016: £160,609).

Number of SCS (or equivalent) staff by band

The following table summarises the number of Senior Civil Servants in post by pay range as at 31 March 2017. Salary ranges represent full-time equivalent rates.

Pay range	**Number of SCS staff within ranges as at 31 March 2017**	**Number of SCS staff within ranges as at 31 March 2016 *(restated)***
£125,000 - £130,000	1	-
£120,000 - £125,000	-	1
£115,000 - £120,000	-	-
£110,000 - £115,000	-	1
£105,000 - £110,000	-	-
£90,000 - £95,000	1	-
£85,000 - £90,000	3	3
£75,000 - £80,000	1	-
£70,000 - £75,000	11	4
£65,000 - £70,000	4	11
Total	**21**	**20**

Note - The above table includes staff temporarily promoted to Senior Civil Servant grades.

Managing Attendance

Staff sickness and absence is managed in accordance with the Northern Ireland Civil Service Inefficiency Sickness Absence Policy. Further information on performance during the year is contained within the Performance Analysis on page 71.

Persons with Disability

The Department follows the Code of Practice of the Northern Ireland Civil Service in aiming to offer equality of opportunity for people with disabilities to make full use of those skills and abilities that they possess.

Equal Opportunities

The Department follows the Northern Ireland Civil Service policy that all eligible persons shall have equal opportunity for employment and advancement on the basis of their ability, qualifications and aptitude for the work.

Consultation with Employees

Throughout the year, in order to maintain and develop the provision of information to and consultation with employees, the Department continued to hold periodic meetings with Trade Union Side through the Departmental Whitley Committee.

Statement of Assembly Supply and Supporting Notes (Audited Information)

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires the Department for the Economy to prepare a Statement of Assembly Supply (SOAS) and supporting notes to show resource outturn against the Supply Estimate presented to the Assembly, in respect of each Request for Resources.

As a result of Departmental restructuring during 2016-17, the prior year comparative figures in the IFRS-based primary statements have been restated in accordance with FReM accounting requirements. However, the prior year comparatives for the Statement of Assembly Supply have not been restated as this statement is indelible. As no Supply Estimate was presented to the Assembly for the 2015-16 year for the new Department for the Economy, the prior year comparatives in the SOAS for 2016-17 have been shown as zero.

Summary of Resource Outturn 2016-17

								2016-17 £000	2015-16 £000
		Estimate			Outturn				Outturn
Request for Resources	*Note*	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total (restated)
A	*SOAS1*	1,053,285	(57,756)	995,529	1,134,283	(57,146)	1,077,137	**(81,608)**	-
Total resources	*SOAS2*	**1,053,285**	**(57,756)**	**995,529**	**1,134,283**	**(57,146)**	**1,077,137**	**(81,608)**	**-**
Non-operating cost Accruing Resources			**(76,371)**	**(76,371)**		**(76,371)**	**(76,371)**	**-**	**-**

Net cash requirement 2016-17

				2016-17 £000	2015-16 £000
	Note	Estimate	Outturn	Net total outturn compared with Estimate: Outturn saving/ (excess)	Outturn (restated)
Net cash requirement	*SOAS3*	**1,187,242**	**1,184,238**	**3,004**	**-**

The notes on pages 92 to 134 form part of these accounts.

Summary of income payable to the Consolidated Fund
In addition to Accruing Resources, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

		2016-17 £000 Forecast		2016-17 £000 Outturn	
	Note	Income	*Receipts*	Income	*Receipts*
Total	*SOAS4*	**-**	***-***	**14,079**	***14,570***

The Department has incurred a technical Excess of £81,608k. This Excess arose due to the Assembly being dissolved in January 2017 and therefore the process of approving 2016-17 Spring Supplementary Estimates and associated Budget Bill did not take place. Consequently, the Supply Estimate position shown in the Statement of Assembly Supply is the Main Estimates position. Had the Spring Supplementary Estimates and associated Budget Bill been approved by the Assembly to reflect changes to Departmental budgets that had previously been agreed by the Executive or changes that could reasonably have been expected to have been agreed in the January Monitoring Round, this Excess would not have occurred. The Department will seek Assembly approval by way of an Excess Vote in the next Budget Act.

Explanations of variances between Estimate and outturn are given in Note SOAS1 and in the Performance Report.

SOAS1 ANALYSIS OF NET RESOURCE OUTTURN BY FUNCTION

									2016-17 £000	2015-16 £000
						Outturn			Estimate	
	Admin	Other current	Grants	Gross resource expenditure	Accruing Resources	Net Total	Net Total	Net Total outturn compared with Estimate	Net Total outturn compared with Estimate, adjusted for virements	Prior-year outturn
Request for Resources A:										
To promote a competitive, sustainable and inclusive economy through investment in skills, economic infrastructure, research and innovation, and business development										
Economic Development & Infrastructure	5,883	3,400	29,749	39,032	(242)	38,790	21,607	(17,183)	(20,526)	-
Economic Development & Infrastructure – Repayment of Assistance in respect of the Presbyterian Mutual Society	-	-	-	-	(2,482)	(2,482)	(2,700)	(218)	(218)	-
Invest Northern Ireland and Tourism	469	60	-	529	(2)	527	1,134	607	-	-
Employment & Skills	21,606	8,642	83,891	114,139	(8,216)	105,923	103,154	(2,769)	972	-
Student Support & Higher Education	2,251	210,346	343,931	556,528	(2,614)	553,914	467,615	(86,299)	(84,883)	-
Tourism Ireland Ltd	156	-	-	156	-	156	184	28	-	-
InterTrade Ireland	138	-	-	138	-	138	104	(34)	-	-
Representation & Regulatory Services	1,278	14,958	263	16,499	(3,788)	12,711	14,418	1,707	1,192	-
EU Structural Funds – ERDF Support for Economic Development	-	-	820	820	(492)	328	1,026	698	(5,290)	-
EU Programmes	-	-	24,905	24,905	(9,667)	15,238	9,948	(5,290)	-	-
Total	31,781	237,406	483,559	752,746	(27,503)	725,243	616,490	(108,753)	(108,753)	-
Annually Managed Expenditure:										
Provisions	-	1,824	-	1,824	-	1,824	1,250	(574)	-	-
NI Renewable Heat Incentive	-	-	18,120	18,120	-	18,120	18,300	180	180	-
Student Support	-	(49,012)	-	(49,012)	(29,643)	(78,655)	(45,576)	33,079	32,505	-
Revaluations	-	(93)	-	(93)	-	(93)	5	98	98	-
Total	-	(47,281)	18,120	(29,161)	(29,643)	(58,804)	(26,021)	32,783	32,783	-

Non Budget:										
Invest Northern Ireland	-	-	166,802	166,802	-	166,802	148,643	(18,159)	(5,286)	-
Northern Ireland Tourist Board	-	-	23,960	23,960	-	23,960	24,520	560	-	-
General Consumer Council for Northern Ireland	-	-	1,466	1,466	-	1,466	1,329	(137)	-	-
Health and Safety Executive NI	-	-	687	687	-	687	649	(38)	-	-
Tourism Ireland Ltd	-	-	12,194	12,194	-	12,194	11,539	(655)	-	-
InterTrade Ireland	-	-	3,888	3,888	-	3,888	2,549	(1,339)	-	-
Teachers' Premature Retirement – on-going liabilities	-	1,998	-	1,998	-	1,998	1,797	(201)	-	-
Construction Industry Training Board	-	-	50	50	-	50	1	(49)	-	-
Labour Relations Agency	-	-	3,630	3,630	-	3,630	3,745	115	-	-
Further Education Colleges	-	-	181,640	181,640	-	181,640	197,200	15,560	-	-
Higher Education Colleges	-	-	5,608	5,608	-	5,608	4,493	(1,115)	-	-
Northern Ireland Screen	-	-	352	352	-	352	-	(352)	(352)	-
Notional Charges	8,423	-	-	8,423	-	8,423	8,595	172	-	-
Total Non-Budget	8,423	1,998	400,277	410,698	-	410,698	405,060	(5,638)	(5,638)	-
Resource Outturn	**40,204**	**192,123**	**901,956**	**1,134,283**	**(57,146)**	**1,077,137**	**995,529**	**(81,608)**	**(81,608)**	**-**

Explanation of the variation between Estimate and Outturn (2016-17)

The Supply Estimate position shown in the Statement of Assembly Supply is the Main Estimates position due to the process of approving the 2016-17 Spring Supplementary Estimates (SSEs) not taking place. Consequently significant variances are shown across DEL, AME and Non Budget expenditure.

(1) DEL

- Economic Development & Infrastructure £(17.2)m includes the costs arising in respect of the Renewable Heat Incentive Scheme. Sufficient budget was requested during in year monitoring.
- Employment & Skills £(2.8)m includes additional costs in respect of the skills agenda that would have had sufficient budget under SSEs.
- Student Support & HE £(86.3)m includes the additional cost of impairments to student loans as a result of the impact of updated OBR economic forecasts, that would have had sufficient budget under SSEs.

(2) AME

- Outturn was £32.8m less than the Main Estimate position due to the changes to Student Loan effective interest during the year that would have had sufficient budget under SSEs.

(3) Non Budget

- Mainly reflects the grant in aid requirements of NDPBs which would have had sufficient budget under SSEs.

SOAS2 Reconciliation of outturn to net operating cost

			2016-17 £000		2015-16 £000 *(restated)*
	Note	**Outturn**	**Supply Estimate**	**Outturn compared with Estimate**	**Outturn**
Net Resource Outturn	*SOAS1*	1,077,137	995,529	(81,608)	-
Non-supply income (CFERs)	*SOAS4*	(222)	-	222	-
Non-supply expenditure: Redundancy Fund Payments	*4*	5,424	-	(5,424)	-
Net Operating Cost in Statement of Comprehensive Net Expenditure		**1,082,339**	**995,529**	**(86,810)**	**-**

SOAS3 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Resource Outturn	*SOAS2*	995,529	1,077,137	(81,608)
Capital				
Acquisition of property, plant and equipment	*6,7*	1,152	563	589
Financial Asset Investments	*12*	7,100	3,669	3,431
Investments – Student Loans funding	*11.1*	366,496	331,617	34,879
Research and development		12,346	-	12,346
Non-operating Accruing Resources				
Student loan repayments applied		(70,307)	(70,307)	-
PMS Loan repayment		(6,064)	(6,064)	-
PMS Loan repayment interest	*12*	-	(2,601)	2,601
Accruals to cash adjustments				
Adjustments to remove non-cash items:				
Depreciation and Amortisation	*4*	(1,014)	(115)	(899)
Revaluation of Investment			92	(92)
Notionals		(8,595)	(8,423)	(172)
Other non-cash items		(137,890)	(130,732)	(7,158)
Changes in working capital other than cash		29,000	(15,021)	44,021
Changes in payables falling due after more than one year	*17*	-	10	(10)
Use of provisions & financial liabilities	*11.2,18*	(511)	4,413	(4,924)
Net cash requirement		**1,187,242**	**1,184,238**	**3,004**

SOAS4 Income payable to the Consolidated Fund

SOAS4.1 Analysis of income payable to the Consolidated Fund

In addition to Accruing Resources, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

	Note	Forecast 2016-17 £000		Outturn 2016-17 £000	
		Income	*Receipts*	Income	*Receipts*
Operating income and receipts – excess Accruing Resources		-	*-*	-	*-*
Other operating income and receipts not classified as Accruing Resources		-	*-*	222	*713*
		-	***-***	**222**	***713***
Non-operating income and receipts – excess Accruing Resources	*SOAS6*	-	*-*	13,857	*13,857*
Total income payable to the Consolidated Fund		**-**	***-***	**14,079**	***14,570***

SOAS5 Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	Note	2016-17 £000	2015-16 £000
Operating income	*5*	105,796	-
Income authorised to be Accruing Resources		(91,717)	-
Operating income payable to the Consolidated Fund	*SOAS4.1*	**14,079**	**-**

SOAS6 Non-operating income – Excess Accruing Resources

	2016-17 £000	2015-16 £000
NBV on disposal of property, plant and equipment	-	-
PMS Loan repayments	3,436	-
Student Loan repayments	10,421	-
Non-operating income – excess Accruing Resources	**13,857**	**-**

Other Assembly Accountability Disclosures

Payment of suppliers

The Department is committed to the prompt payment of suppliers of goods and services in accordance with the Confederation of British Industry's prompt payer's code and British Standard BS 7890. Unless otherwise stated in the contract, payment is due within 30 days of receipt of the goods or services, on presentation of a valid invoice or similar demand, whichever is later.

In the year ended 31 March 2017, 96% of invoices from suppliers were paid within the timescale noted above (31 March 2016: 98% (restated)). No amounts were paid to suppliers in interest under the Late Payment of Commercial Debts (Interest) Act 1998.

In November 2008, Finance Minister Nigel Dodds set a target for all Northern Ireland Departments to pay supplier invoices within 10 working days of receipt in order to help local business in the current economic climate. The Department is committed to this target and for the year ended 31 March 2017, 90% of invoices from suppliers were paid within this timescale (31 March 2016: 94% (restated)).

The following link to the Account NI website discloses Northern Ireland Departments' performance both in terms of paying invoices within 30 days and 10 days:
https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/NICS%20Prompt%20Payment%20Table%20for%202016%20-%202017_march17.pdf

HM Treasury Cost allocation

The Department has complied with the cost allocation and charging requirements set out in HM Treasury (HMT) and the Office of Public Sector Information guidance, applicable to the Department as a Public Sector Information Holder.

i. Regularity of Expenditure (Audited Information)

Losses Statement

	2016-17	2015-16
Total number of losses	1,505	926
Total value of losses (£000)	1,307	642
Cash losses	2	10
Claims abandoned	1,502	908
Administrative write-offs	1	-
Fruitless payments	-	8
Store losses	-	-

Special Payments

	2016-17	2015-16
Total number of special payments	1	1
Total value of special payments (£000)	1	1

There were no cases over £250,000 in 2016-17 or 2015-16.

ii. Fees and Charges (Audited Information)

	Income £000	Full Cost £000	2016-17 (Surplus)/ deficit **£000**	Income £000	Full Cost £000	2015-16 (Surplus)/ deficit **£000**
Insolvency Account	(3,270)	4,188	918	(2,621)	4,154	1,533

iii. Remote Contingent Liabilities (Audited Information)

The Department has no remote contingent liabilities to disclose.

Dr Andrew McCormick
Accounting Officer
20 June 2017

I certify that I have audited the financial statements of the Department for the Economy for the year ended 31 March 2017 under the Government Resources and Accounts Act (Northern Ireland) 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Assembly Supply and the related notes and the information in the Remuneration and Staff Report and the Assembly Accountability and Audit Report within the Accountability Report that is described in that report and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor
As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals and that those totals have not been exceeded. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity arising from inadequate controls and expenditure incurred without the necessary approvals in place
I was unable to obtain sufficient evidence that the Department's controls over spending on the non-domestic Renewable Heat Incentive (RHI) scheme were adequate to prevent or detect abuse of the scheme. Because of this lack of evidence I was unable to form an

opinion on whether the expenditure on the scheme of £42.3 million had been applied for the purposes intended by the NI Assembly.

Included within this expenditure is an amount of £18.8 million on which approval had not been granted by the Department of Finance. This arose because the Department had been due to seek re-approval of the scheme from the Department of Finance from 1 April 2015, but this approval was not sought until the end of October 2015. During this seven month period in 2015-16, 788 applications were accepted onto the scheme by the Department and as there was no approval in place for them from the Department of Finance, the £18.8 million expenditure incurred on them in 2016-17 is irregular. Consequently, my regularity opinion has been qualified in respect of this expenditure, as the expenditure does not conform to the authorities which govern it.

Basis for qualified opinion on regularity arising from breach of an Assembly control total

In 2016-17, the Department for the Economy expended more resources than the Assembly had authorised in Request for Resource (RFR) A resulting in an excess vote. Net resource outturn for RFR A of £1,077,137,000 was £81,608,000 in excess of the £995,529,000 limit authorised by the Assembly.

This excess arose because the Assembly dissolved at the end of January 2017 and therefore the process of considering and approving the 2016-17 Spring Supplementary Estimates by way of a Budget Bill could not take place. Had the Assembly approved these Estimates the excess would not have occurred.

Qualified opinion on regularity

In my opinion, except for the £42.3 million of expenditure on the non-domestic RHI scheme and the breach described in the basis for qualified opinion paragraphs above, in all material respects:

- the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2017 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Assembly Accountability and Audit Report to be audited have been properly prepared in accordance with Department of Finance directions made under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect only of the issues relating to the non-domestic RHI expenditure I have not received all of the information and explanations that I require for my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Remuneration and Staff Report and the Assembly Accountability and Audit Report to be audited are not in agreement with the accounting records; or
- the Governance Statement does not reflect compliance with Department of Finance's guidance.

My detailed observations are included in my report attached to the financial statements.

K J Donnelly

KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

23 June 2017

STATEMENT OF COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2017

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

	Note	2016-17 £000	2015-16 £000 *(restated)*
Other Operating Income	*5*	(103,138)	(55,193)
Total Operating Income		**(103,138)**	**(55,193)**
Staff costs	*3,4*	47,361	54,852
Purchase of Goods & Services	*3,4*	11,207	14,549
Depreciation and impairment charges	*3,4*	115	6,019
Provision Expense	*4*	1,947	(424)
Other Operating Expenditure	*3,4*	1,127,505	833,414
Total Operating Expenditure		**1,188,135**	**908,410**
Net Operating Expenditure		**1,084,997**	**853,217**
Finance Income	*5*	(2,658)	(2,726)
Finance Expense	*3*	-	1
Net Expenditure for the year		**1,082,339**	**850,492**
Other Comprehensive Net Expenditure ***Items that will not be reclassified to net operating costs:*** Net (gain)/loss on revaluation of Property, Plant and Equipment/Intangibles	*6,7*	(50)	(345)
Comprehensive Net Expenditure for the year		**1,082,289**	**850,147**

The notes on pages 92 to 134 form part of these accounts.

DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION
as at 31 March 2017

This statement presents the financial position of the Department for the Economy. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

	Note	**2017 £000**	**2016 £000 *(restated)***	**2015 £000 *(restated)***
Non-current assets:				
Property, plant and equipment	*6*	2,267	2,368	2,179
Intangible Assets	*7*	759	235	5,876
Financial Assets – Student loans	*11.1*	2,112,002	1,993,187	1,614,489
Financial Assets – Other	*12*	116,172	123,333	126,931
Total non-current assets		2,231,200	2,119,123	1,749,475
Current assets:				
Trade and other receivables	*16*	69,243	82,815	102,796
Financial Assets	*12*	10,409	8,930	16,742
Cash and cash equivalents	*15*	476	449	376
Total current assets		80,128	92,194	119,914
Total assets		2,311,328	2,211,317	1,869,389
Current liabilities:				
Trade and other payables	*17*	(114,862)	(113,388)	(125,803)
Provisions	*18*	(5,008)	(6,047)	(7,061)
Total current liabilities		(119,870)	(119,435)	(132,864)
Total Assets less Current Liabilities		2,191,458	2,091,882	1,736,525
Non-current liabilities:				
Provisions	*18*	(55,204)	(56,378)	(61,006)
Other payables	*17*	(449)	(459)	(475)
Financial Liabilities	*11.2*	(3,660)	(4,617)	(5,700)
Total non-current liabilities		(59,313)	(61,454)	(67,181)
Total assets less total liabilities		**2,132,145**	**2,030,428**	**1,669,344**
Taxpayers' equity & other reserves:				
General fund		2,130,587	2,028,885	1,667,073
Revaluation reserve		1,558	1,543	2,271
Total equity		**2,132,145**	**2,030,428**	**1,669,344**

Signed

Dr Andrew McCormick
Accounting Officer
20 June 2017

The notes on pages 92 to 134 form part of these accounts.

DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS
for the year ended 31 March 2017

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Department during the reporting period. The statement shows how the Department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Department's future public service delivery.

	Note	2016-17 £000	2015-16 £000 *(restated)*
Cash flows from operating activities			
Net operating cost	*SOAS2*	(1,082,339)	(850,492)
Adjustments for non-cash transactions	*3,4,5*	139,178	(120,642)
(Increase)/Decrease in trade and other receivables	*16*	13,572	19,981
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure	*16*	12,054	(11,197)
Increase/(Decrease) in trade and other payables	*17*	3,639	(4,423)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	*17*	(13,803)	4, 023
Use of provisions	*11.2,18*	(4,413)	(5,563)
Net cash outflow from operating activities	*SOAS3*	**(932,112)**	**(968,313)**
Cash flows from investing activities			
Purchase of property, plant and equipment	*6*	(44)	(40)
Purchase of intangible assets	*7*	(612)	(125)
Proceeds of disposal of property, plant and equipment		-	1
Loans to other Bodies	*12*	(3,669)	(2,704)
Repayment of Loans- principal	*12*	9,500	14,000
Repayment of Loans- interest	*12*	2,601	2,742
Student Loan Funding	*11.1*	(331,564)	(317,103)
Student Loan Repayments	*11.1*	80,067	70,704
Net cash outflow from investing activities		**(243,721)**	**(232,525)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		1,168,809	1,196,770
From the Consolidated Fund (Supply) – prior year		3,698	11,698
Capital element of payments in respect of finance leases		-	(7)
From the National Insurance Fund		6,165	3,574
Net financing		**1,178,672**	**1,212,035**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**2,839**	**11,197**
Payments of amounts due to the Consolidated Fund		(637)	(3,116)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**2,202**	**8,081**
Cash and cash equivalents at the beginning of the period	*15*	**(3,234)**	**(11,315)**
Cash and cash equivalents at the end of the period	*15*	**(1,032)**	**(3,234)**

The notes on pages 92 to 134 form part of these accounts.

DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for the year ended 31 March 2017

This statement shows the movement in the year on the different reserves held by the Department for the Economy, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. Other earmarked reserves are shown separately where there are statutory restrictions of their use. The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

	Note	General Fund £000 *(restated)*	Revaluation Reserve £000 *(restated)*	Taxpayers' Equity £000 *(restated)*
Balance at 31 March 2015		**1,667,073**	**2,271**	**1,669,344**
Net Assembly Funding		1,196,770	-	1,196,770
National Insurance Fund	*SOAS2*	2,286	-	2,286
Supply (payable)/receivable adjustment	*16*	3,698	-	3,698
CFERs payable to the Consolidated Fund	*17*	1,235	-	1,235
Comprehensive Net Expenditure for the Year	*SOAS2*	(850,492)	346	(850,146)
Non-cash charges – notional costs	*3*	7,103	-	7,103
Non-cash charges – auditor's remuneration	*3*	138	-	138
Transfers between reserves		1,074	(1,074)	-
Balance at 31 March 2016		**2,028,885**	**1,543**	**2,030,428**
Net Assembly Funding		1,168,809	-	1,168,809
National Insurance Fund	*SOAS2*	5,424	-	5,424
Supply (payable)/receivable adjustment	*16*	15,429	-	15,429
CFERs payable to the Consolidated Fund	*17*	(14,079)	-	(14,079)
Comprehensive Net Expenditure for the Year	*SOAS2*	(1,082,339)	50	(1,082,289)
Non-cash charges – notional costs	*3*	8,325	-	8,325
Non-cash charges – auditor's remuneration	*3*	98	-	98
Transfers between reserves		35	(35)	-
Balance at 31 March 2017		**2,130,587**	**1,558**	**2,132,145**

The notes on pages 92 to 134 form part of these accounts.

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2016-17 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance (formerly the Department of Finance and Personnel). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Department for the Economy for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Department are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the *FReM* also requires the Department to prepare one additional primary statement. The *Statement of Assembly Supply* and supporting notes at pages 75 to 82 show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

Merger accounting

Following the restructuring of Northern Ireland Civil Service (NICS) Departments from twelve to nine, the former Department of Enterprise, Trade and Investment (DETI) together with functions from the former Department for Employment and Learning (DEL) and functions from the former Department of Culture, Arts and Leisure (DCAL) became the new Department for the Economy (DfE) on 9 May 2016. This constituted a Machinery of Government change requiring merger accounting principles to apply in the 2016-17 financial statements for DfE. The functions transferring to DfE in May 2016 have, therefore, been accounted for as transferring from the beginning of the reporting period as required under merger accounting. The comparative figures in the primary statements have been restated to include all functions that transferred into DfE.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of investment property, property, plant and equipment, intangible assets and certain financial assets and liabilities.

1.2 Property, plant and equipment and intangible assets

Expenditure on property, plant and equipment of over £1,000 is capitalised.

Software and associated licences costing greater than £1,000 are capitalised under intangible assets. Licences running for a year or less than one year are not capitalised regardless of value. Databases are capitalised where the specific recognition criteria of IAS 38 are met.

On initial recognition property, plant and equipment and intangible assets are measured at cost including any expenditure, such as installation, directly attributable to bringing them into working condition.

All property, plant and equipment and intangible assets are carried at fair value.

With the exception of land and buildings and items under construction, fair value is estimated by restating the value annually by reference to indices compiled by the Office of National Statistics (ONS).

Subsequent expenditure on an asset that meets the criteria in compliance with International Accounting Standards (IAS) 16 (Property Plant and Equipment) is capitalised, otherwise it is written off to revenue.

1.3 Depreciation

Property, plant and equipment and intangible assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Depreciation is charged in the month of acquisition; none is charged in the month of disposal. The base useful lives of assets are as follows:

Buildings	50 years
Plant and Machinery	3 - 20 years
Fixtures and fittings	3 - 10 years
Computer equipment and software	3 - 10 years
Transport equipment	3 - 10 years
Intangibles (Software and Databases)	2 - 30 years

Valuations of property, plant and equipment and intangible assets are based on a review of values as at the reporting date. No depreciation is provided on freehold land as it has an unlimited or very long established useful life. Items under construction are not depreciated until they are commissioned.

Legal title to the Government-owned land and specialised buildings occupied by the Department rests in the Department of Finance.

The remaining buildings used by the Department (some of which have shared occupancy) are part of the Government Estate. As rents are not paid for these properties an assessment of the rent that would be payable on an open market basis has been charged in order to reflect the full economic cost.

1.4 Impairments

At each reporting period end, the Department checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount.

If there has been an impairment loss, the asset is written down to its recoverable amount, with the loss charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to the Statement of Comprehensive Net Expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to the Statement of Comprehensive Net Expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

1.5 Investments

Financial interests in bodies that are outside the Departmental boundary are treated as non-current asset investments since they are held for the long term.

1.6 Investment in Associates

An associate is an entity over which the Department is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or joint control over those policies. Investments in associates are carried at the Department's share of the net assets of the associate.

1.7 Operating income

Operating income is income that relates directly to the operating activities of the Department. It comprises effective interest from student loans, income from the European Union in support of Departmental activities, fees and charges for services provided, on a full cost basis, to external customers and public repayment work and other income.

It includes not only the Department's accruing resources but also income payable to the Consolidated Fund, which is treated as operating income.

Operating income is stated net of Value Added Tax (VAT).

1.8 Administration and programme expenditure

The Statement of Comprehensive Net Expenditure is analysed in the notes to the accounts between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in FReM by the Department of Finance.

Administration costs reflect the costs of running the Department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs reflect non-administration costs, including delivery of frontline services, payments of grants and other disbursements by the Department.

1.9 Financial assets

The Department measures and presents financial instruments in accordance with IAS 32, IAS 39 and IFRS 7 as modified by the *FReM.* The Department holds financial assets in the form of loans to students, loans to Catalyst Inc (formerly Northern Ireland Science Park) as well as trade receivables, cash and cash equivalents. Financial assets which are due to be repaid within one year are shown within current assets on the Statement of Financial Position.

1.9.1 Student loan valuation

The Department accounts for a share of the UK totals of student loan assets administered by the Student Loan Company Limited and related financial liabilities using information on the domicile of student receivables supplied by the Student Loan Company Limited on the Northern Ireland share of the relevant balances and transactions.

In accordance with IAS 39, Student Loans are classified as Loans and Receivables and are recorded in the Accounts at amortised cost.

Student loans are currently issued under Articles 3 and 8(4) of the Education (Student Support) (Northern Ireland) Order 1998. They were first issued in 1990-91. The Department initially issued mortgage style loans, which required borrowers to repay a fixed amount each year until the loan was repaid with repayments being collected by the Student Loans Company. From 1998-99 onwards the Department has issued income contingent loans where repayments are calculated as a percentage of earnings in excess of a threshold (2016-17 £17,495 and from 1 April 2017 the threshold will be £17,775) and are collected by HMRC through the tax system.

Measurement and carrying values

Student loans are held at amortised cost. This involves the value of the loans issued being discounted to net present value using the effective interest rate. The effective interest rate for student loans is based on RPI plus 0.7%, which is the HMT discount rate.

The value of student loans issued is also impaired based on an estimate of the future cost of policy write offs ("deferment and default impairment"). This reflects the fact that not all of the loans issued will be recoverable due to death, disability or age of the student.

The Department considers that the carrying value as described above is a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm's length transactions. A valuation technique is used to estimate the present value of future cash flows, and the outputs of this modelling provide the basis for the net present value calculations and the estimate of irrecoverable amounts due to policy decisions.

Income Contingent loans are subsidised as students are only charged interest equivalent to the rate of inflation, or Bank of England base rate plus 1% whichever is the lower ('the Base Rate Cap'). The Department estimates the future cash flows arising from repayments, and discounts these at RPI plus 0.7% to represent the Government's cost of borrowing and therefore to determine the current value of the loans. The Department increases the accumulated amortisation based on a percentage of loans issued in year. The percentage is calculated using a modelling tool which takes into account borrower behaviour, earnings on graduation and other assumptions.

There are significant uncertainties in assessing the actual likely costs and the liability will be affected by the assumptions used. These are formally reviewed by the Department each year and the amounts provided reflect the Department's current estimate.

Disclosures relating to risk can be found in Note 10 while further details of the movements in the loan valuation can be found in Note 11.

1.9.2 ***Other financial assets***

Current financial assets, such as trade receivables and cash, are measured at amortised cost as a reasonable approximation of fair value.

1.10 ***Financial liabilities***

Financial liabilities are measured at amortised cost. Long term financial liabilities are discounted where material.

Financial liabilities include legal or constructive obligations for student support cost related to student loans which are of uncertain timing or amount at the reporting date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant the estimated risk adjusted cash flows are discounted using the Treasury discount rate for provisions.

1.11 ***Employee Benefits including Pensions***

Under the requirements of IAS 19 Employee Benefits, staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave that has been earned at the year end. This cost has been estimated using data held on the payroll system.

Past and present employees are covered by the provisions of the Civil Service Pension Schemes in Northern Ireland. These defined benefit schemes are unfunded. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Civil Service Pension Schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the Pension Schemes. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

The Department is required to meet the additional cost of benefits beyond the normal Civil Service Pension Schemes benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and this is binding on the Department.

1.12 ***European Union (EU) income***

All income from the EU is separately identified and is released to the Statement of Comprehensive Net Expenditure in the period in which the underlying activity takes place.

1.13 ***Notional costs***

Some of the costs directly related to the running of the Department are borne by other Departments and are outside the Department's vote. These costs have been included in these accounts on the basis of the estimated cost incurred by the providing Department.

1.14 ***Value Added Tax***

Where output VAT is charged or input VAT is recoverable, the amounts are stated net of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property, plant and equipment. VAT is recoverable on a Departmental basis.

1.15 Grants payable

Grants payable, which include the Renewable Heat Incentive scheme, are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs.

In line with *FReM,* Grant in Aid paid to Non-Departmental Public Bodies is accounted for on a cash basis.

1.16 Provisions

The Department provides for legal or constructive obligations, which are of uncertain timing or amount at the reporting date on the basis of the best estimate of the expenditure required to settle the obligation where this can be determined. As shown in Note 18, this includes:

- the cost of paying the pensions of employees who retire early from the date of their retirement until they reach normal pensionable age;
- the cost of paying Long Service Awards in respect of Judiciary relating to the Office of the Industrial and Fair Employment Tribunals; and
- the cost of the Department's liability to Harland and Wolff. During 2016-17 an Actuarial Review of the Department's liability to Harland and Wolff plc was completed. The review provided updated expected future cash flows, discounted to allow for the time value of money. The cash flows are quoted in nominal amounts reflecting assumptions for claim inflation and, consequently, in this situation HM Treasury does not mandate the discount rate to be used. The report therefore applies the rates attaching to the UK Government Liability Yield Curves as published by the Bank of England to approximate a conservative return for hypothetical investments with duration matching the expected pay out of liabilities.

1.17 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the Department discloses for Assembly reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to the Assembly in accordance with the requirements of *Managing Public Money Northern Ireland*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to the Assembly separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to the Assembly.

1.18 *Third party assets*

Insolvency Account
The Department's Insolvency Account holds money received in respect of company liquidations, bankruptcies and estates of deceased insolvents, pending authorised appropriation. This is not a Departmental asset and is not included in the accounts, since neither the Department nor Government more generally has a direct beneficial interest in it.

Northern Ireland National Insurance Fund
The Department acts as agent for the Northern Ireland National Insurance Fund in relation to various aspects of the Employment Rights (Northern Ireland) Order 1996. The transactions and balances arising are reflected in the accounts of the Northern Ireland National Insurance Fund and are not included in these financial statements.

1.19 *Foreign Exchange*

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction. At the end of the reporting period monetary items are translated at the closing rate applicable at the reporting date. Translation differences are charged directly to the Statement of Comprehensive Net Expenditure.

1.20 *Prior Period Adjustment*

In 2015-16, the former Department for Employment and Learning reviewed the carrying value of the student loan debt sale liability in the accounts (Note 11.2). The review incorporated discussions with the Department for Business Innovation and Skills, analysis of information provided by their economists as well as consideration of the level of claims from the purchasers of the loan book. The review identified that the debt sale liability at 31 March 2015 was overstated by £15.0m and a prior period adjustment has been included in the accounts in order to bring the opening liability of the debt sale to £5.7m.

1.21 *Employee Benefits*

IAS 19 requires that the Department recognises the cost of employee benefits that have been earned but not paid by the year end as a liability. An accrual for the estimated cost of total employee annual leave at the year end has been included in the accounts. This figure is provided by HR Connect.

1.22 *Early Retirement Costs*

The Department is required to meet the additional cost of benefits beyond the normal PCSPS (NI) benefits in respect of employees who retire early.

1.23 Cash and Cash Equivalents

Cash and cash equivalents are comprised entirely of cash on hand. The Department does not have any demand deposits or any short term, highly liquid investments.

1.24 Critical Accounting Estimates and Key Judgements

As a result of the uncertainties inherent in all business activities, many items in financial statements cannot be measured with precision but can only be estimated. Where estimates have been required in order to prepare these financial statements in conformity with *FReM*, management has used judgements based on the latest available, reliable information. Management continually review estimates to take account of any changes in the circumstances on which the estimate was based or as a result of new information or more experience.

The most significant area involving accounting estimates and key judgements is the carrying value of student loans. Information on these estimates and judgements are shown at Note 11 and Note 12.

In addition, property market conditions and the option to extend the realisation date of the investment portfolio are important estimation considerations for the loan to Presbyterian Mutual Society. As regards provision in respect of Harland and Wolff plc, estimation techniques included percentage apportionment between expected settlement values and legal costs to estimate total claim costs of existing claims; projected number of future claims and estimated recoveries from third parties.

1.25 Impending application of newly issued accounting standards not yet effective

The IASB issued new and amended standards (IFRS 10, IFRS 11 & IFRS 12) that affect the consolidation and reporting of subsidiaries, associates and joint ventures. These standards were effective with EU adoption from 1 January 2014.

Accounting boundary IFRS' are currently adapted in the FReM so that the Westminster Departmental accounting boundary is based on ONS control criteria, as designated by Treasury. A similar review in NI, which will bring NI Departments under the same adaptation, has been carried out and the resulting recommendations were agreed by the Executive in December 2016. With effect from 2020-21, the accounting boundary for Departments will change and there will also be an impact on Departments around the disclosure requirements under IFRS 12. Arms Length Bodies apply IFRS in full and their consolidation boundary may change as a result of the new Standards.

2. Statement of Operating Costs by Operating Segment

The Department's operating segments have been identified by the structure of activities, the division of responsibilities and the basis of reporting to the Accounting Officer. The reportable segments have therefore been identified as the units of service within the Department, with the exception of Finance, HR and Top Management. Net assets are not reported in this way.

The main activities of the Operating Segments comprise:

1. **Economic Development & Infrastructure** - economic infrastructure in support of economic development including energy and minerals; sustainable energy; renewable heat incentive scheme; telecommunications; innovation and R&D policy; policy evaluation and research.
2. **Economic Development & Infrastructure: Repayment of Assistance in respect of the Presbyterian Mutual Society** - manage repayments of the fixed term loan made to Presbyterian Mutual Society (in administration).
3. **Invest Northern Ireland and Tourism** - driving the development of Northern Ireland tourism and delivery of the Department's policies and strategies in relation to business support in Northern Ireland. These include encouraging investment (foreign and indigenous); stimulating entrepreneurial activity; increasing exports and trade; promoting R&D/innovation; and providing development support.
4. **Employment & Skills** – Further and adult education, youth and adult skills training, management and enterprise training.
5. **Student Support & Higher Education** – Funding and support to students, including student loans, Education and Maintenance Allowances and other matters relating to tertiary education and funding and support of higher education, including universities and colleges of education.
6. **Tourism Ireland Ltd** - Tourism Ireland's role is to grow overseas tourism revenue and visitor numbers to Northern Ireland, and to help Northern Ireland to realise its tourism potential.
7. **InterTrade Ireland** - to support SMEs across Northern Ireland and to develop North/South trade and business development opportunities for the mutual benefit of both economies.
8. **Representation & Regulatory Services** – business regulation; including company law, Insolvency Service, trading standards and consumer affairs services, Registry of Credit Unions and Industrial and Provident Societies, the provision of a debt advice service, Health & Safety Executive (NI); and labour market services, including tribunals and labour relations, employment law and redundancy payments.
9. **EU Structural Funds – ERDF Support for Economic Development** – payments and associated income under European Union Structural Funds programmes.
10. **EU Programmes** – payments and associated income under European Social Funds Programmes.

2. Statement of Operating Costs by Operating Segment *(continued)*

	2016-17			2015-16
Operating Segments	**Gross Expenditure £000**	**Income £000**	**Net Expenditure £000**	**Net Expenditure £000** *(restated)*
Economic Development & Infrastructure	57,152	(242)	56,910	50,798
Economic Development & Infrastructure – Repayment of assistance in respect of the Presbyterian Mutual Society	(93)	(2,482)	(2,575)	3,023
Invest Northern Ireland & Tourism	191,291	(2)	191,289	195,309
Employment & Skills	281,014	(8,216)	272,798	293,941
Student Support & Higher Education	513,124	(32,257)	480,867	192,771
Tourism Ireland Ltd	12,350	-	12,350	11,859
InterTrade Ireland	4,026	-	4,026	1,968
Representation and Regulatory Services	22,282	(3,788)	18,494	40,682
EU Structural Funds – ERDF Support for Economic Development	820	(492)	328	255
EU Programmes	24,905	(9,667)	15,238	10,125
EU Community Initiatives	-	-	-	1,408
Total	**1,106,871**	**(57,146)**	**1,049,725**	**802,139**

2.1 Reconciliation between Operating Segments and Statement of Comprehensive Net Expenditure (SoCNE)

	2016-17				2015-16
Operating Segments	Total Net Expenditure £000	Non Supply Income (CFERs) £000	Non Supply Expenditure £000	Total Net Expenditure per SoCNE £000	Total Net Expenditure per SoCNE *(restated)* £000
Economic Development & Infrastructure	56,910	(51)	-	56,859	53,074
Economic Development & Infrastructure – Repayment of assistance in respect of the Presbyterian Mutual Society	(2,575)	-	-	(2,575)	3,023
Invest Northern Ireland & Tourism	191,289	(14)	-	191,275	197,311
Employment & Skills	272,798	(4)	-	272,794	293,907
Student Support & Higher Education	480,867	-	-	480,867	207,796
Tourism Ireland Ltd	12,350	-	-	12,350	11,859
InterTrade Ireland	4,026	-	-	4,026	1,968
Representation and Regulatory Services	18,494	(100)	5,424	23,818	42,786
EU Structural Funds – ERDF Support for Economic Development	328	(13)	-	315	255
EU Programmes	15,238	(40)	-	15,198	10,125
EU Community Initiatives	-	-	-	-	1,408
	1,049,725	**(222)**	**5,424**	**1,054,927**	**823,512**
Reconciling Items:					
Finance, Corporate Services and Top Management				27,412	26,980
Total Net Expenditure per SOCNE				**1,082,339**	**850,492**

3. Other Administration Costs

	2016-17 £000	2015-16 £000 *(restated)*
Staff Costs:		
Wages and Salaries	20,128	25,869
Social Security Costs	2,019	1,670
Other Pension Costs	4,497	4,149
Goods and Services	5,179	7,682
Interest Charges on Finance Leases	-	1
Non-cash items:		
Depreciation	-	7
Notional Accommodation costs (DoF)	4,589	3,074
Other notional costs	3,694	3,941
Auditors' remuneration and expenses	98	138
Total	**40,204**	**46,531**

During the year, the Department purchased the following non-audit services from its auditor, the Northern Ireland Audit Office:

- National Fraud Initiative Exercise £1,261 (2015-16: £nil).

4. Programme Costs

	Note	2016-17 £000	2015-16 £000 *(restated)*
Staff Costs:			
Wages and Salaries		15,703	18,429
Social Security Costs		1,490	1,130
Other Pension Costs		3,524	3,605
Grants		894,074	921,574
EU Grant		10,159	6,868
Goods and Services		6,028	6,867
Non-voted expenditure	*SOAS2*	5,424	2,287
Foreign exchange (gain)/ loss - realised		29	(443)
Bad Debt		13	1
Non-cash items:			
Financial liability and impairments	*11.1, 11.2*	209,444	(106,389)
Borrowing costs (unwinding of discount) on financial liability	*11.2, 18*	609	1,541
Depreciation and Amortisation	*6,7*	115	438
Foreign exchange movement – unrealised		-	2,280
Provision provided for in year	*18*	1,338	(1,965)
Investment Revaluation	*12*	(92)	61
Impairment of Intangible Assets		-	5,580
Profit on disposal of property, plant and equipment		-	(1)
Loss on disposal of property, plant and equipment		73	16
Total		**1,147,931**	**861,879**

Renewable Heat Incentive (RHI) Scheme

The Financial Statements include the following amounts in respect of the Renewable Heat Incentive Scheme (RHI):

- Grant expenditure *(above)* includes RHI expenditure of £45.2m (2015-16: £32.4m). This amount includes DEL spend of £27.1m (2015-16: £nil) and AME spend £18.1m (2015-16: £32.4m) as included in the Statement of Assembly Supply (pages 75 to 82);

- Trade payables at Note 17 includes £15.1m for RHI (2015-16: £17.5m; 2014-15: £1.2m); and
- Financial Commitments at Note 9.2 includes £24.6m for RHI (2015-16: £1,135m; 2014-15: £198.8m).

5. Income

	2016-17 £000	2015-16 £000 *(restated)*
Administration	4	34
Programme	1,730	1,108
DVA exit scheme	-	3
Student Loan – Effective Interest	78,071	26,704
Science Research Investment Fund	1,330	1,676
Insolvency Service & Fees and Charges	3,457	2,585
Other Services Fees and Charges	283	161
Project Funding	-	5
Advisory Services Funding	-	779
Recovery of Secondee Costs	-	89
Invest NI CFER	14	(2,002)
Rents	2	2
Interest Receivable	2,658	2,726
EU	18,247	24,049
Total	**105,796**	**57,919**

Income includes the following amounts that will be due to the Consolidated Fund:

- Administration income £4k (2015-16: £34k);
- Programme income £21k (2015-16: £nil);
- Insolvency Fees and Charges £nil (2015-16: £38k);
- Other Service Fees and Charges £51k (2015-16: £nil);
- Invest NI £14k (2015-16: £19k);
- Interest Receivable £92k (2015-16: £nil);
- EU Income £40k (2015-16: £nil); and
- Student Loan Receipt £nil (2015-16: £546k).

The former Department of Enterprise, Trade and Investment (DETI) recorded a CFER receivables amount from Invest NI of £2,021k as at 31 March 2015. A review conducted by Invest NI identified that the balance included amounts which should have been retained by Invest NI resulting in the balance owing to DETI being overstated. The receivable amount was adjusted accordingly and the income previously recognised was reversed in 2015-16.

6. Property, plant and equipment

2016-17

	Land £000	Building £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000	Total £000
Cost or valuation						
At 1 April 2016	**1,075**	**1,000**	**345**	**184**	**751**	**3,355**
Additions	-	-	-	-	20	20
Disposals	-	-	-	(92)	(119)	(211)
Revaluations	-	-	1	-	11	12
At 31 March 2017	**1,075**	**1,000**	**346**	**92**	**663**	**3,176**
Depreciation						
At 1 April 2016	**-**	**-**	**325**	**176**	**486**	**987**
Charged in year	-	41	11	6	37	95
Disposals	-	-	-	(92)	(46)	(138)
Revaluations	-	(41)	2	-	4	(35)
At 31 March 2017	**-**	**-**	**338**	**90**	**481**	**909**
Carrying amount at 31 March 2017	**1,075**	**1,000**	**8**	**2**	**182**	**2,267**
Carrying amount at 31 March 2016	**1,075**	**1,000**	**20**	**8**	**265**	**2,368**
Asset financing						
Owned	1,075	1,000	8	2	182	2,267
Finance Leased	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount at 31 March 2017	**1,075**	**1,000**	**8**	**2**	**182**	**2,267**

Land and buildings have been professionally revalued by Land and Property Services, on the basis of existing use as at the following dates:

Land – Ulster American Folk Park, Omagh	31 March 2015
Buildings – Consumer Affairs Building, Newtownbreda, Belfast	31 March 2016

In intervening years, Land and Buildings were revalued using indices provided by Land and Property Services.

Transport Equipment, Information Technology, and Furniture & Fittings are valued using Office of National Statistics (ONS) indices.

Included in the above are fully depreciated assets with an original cost of £737,914 which are still in use.

2015-16 *(restated)*

	Land £000	Buildings £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000	Total £000
Cost or valuation						
At 1 April 2015	**860**	**1,046**	**345**	**214**	**781**	**3,246**
Additions	-	-	-	3	4	7
Disposals	-	-	-	(33)	(34)	(67)
Revaluations	215	(46)	-	-	-	169
At 31 March 2016	**1,075**	**1,000**	**345**	**184**	**751**	**3,355**
Depreciation						
At 1 April 2015	**-**	**142**	**277**	**202**	**446**	**1067**
Charged in year	-	35	48	6	58	147
Disposals	-	-	-	(32)	(19)	(51)
Revaluations	-	(177)	-	-	1	(176)
At 31 March 2016	**-**	**-**	**325**	**176**	**486**	**987**
Carrying amount at 31 March 2016	**1,075**	**1,000**	**20**	**8**	**265**	**2,368**
Carrying amount at 31 March 2015	**860**	**904**	**68**	**12**	**335**	**2,179**
Asset financing						
Owned	1,075	1,000	20	8	265	2,368
Finance Leased	-	-	-	-	-	-
Carrying amount at 31 March 2016	**1,075**	**1,000**	**20**	**8**	**265**	**2,368**

7. Intangible Assets

2016-17

	Software Licence £000	Externally Developed Software £000	Assets under Construction £000	Total £000
Cost or valuation				
At 1 April 2016	**8**	**974**	**184**	**1,166**
Additions	-	26	517	543
Disposals	-	-	-	-
Revaluations	-	2	-	2
At 31 March 2017	**8**	**1,002**	**701**	**1,711**
Amortisation				
At 1 April 2016	**5**	**926**	**-**	**931**
Charged in year	2	18	-	20
Disposals	-	-	-	-
Revaluations	-	1	-	1
At 31 March 2017	**7**	**945**	**-**	**952**
Carrying amount at 31 March 2017	**1**	**57**	**701**	**759**
Carrying amount at 31 March 2016	**3**	**48**	**184**	**235**
Asset financing				
Owned	1	-	701	702
Finance Leased	-	57	-	57
Carrying amount at 31 March 2017	**1**	**57**	**701**	**759**

Software Licence is valued using indices.

Assets under construction comprise initial stage payments towards the upgrade of the Insolvency Service Case Management and Financial Management System.

2015-16 ***(restated)***

	Software Licence £000	Externally Developed Software £000	Assets under Construction £000	Total £000
Cost or valuation				
At 1 April 2015	**7,882**	**928**	-	**8,810**
Additions	-	46	184	230
Disposals	(7,874)	-	-	(7,874)
Revaluations	-	-	-	-
At 31 March 2016	**8**	**974**	**184**	**1,166**
Amortisation				
At 1 April 2015	**2,032**	**902**	**-**	**2,934**
Charged in year	267	24	-	291
Disposals	(2,294)	-	-	(2,294)
Revaluations	-	-	-	-
At 31 March 2016	**5**	**926**	**-**	**931**
Carrying amount at 31 March 2016	**3**	**48**	**184**	**235**
Carrying amount at 31 March 2015	**5,850**	**26**	**-**	**5,876**
Asset financing				
Owned	3	48	184	235
Finance Leased	-	-	-	-
Carrying amount at 31 March 2016	**3**	**48**	**184**	**235**

Database impairment relates to the Tellus database which was a project that collected geological data across Northern Ireland and stored the data from which licences were granted to third parties. Due to changes in government policy, namely the Open Data Strategy, the database was made publically available and is therefore no longer deemed to have a direct value to the Department.

8. Impairments

	2016-17 £000	2015-16 £000	2014-15 £000
Charged direct to the Statement of Comprehensive Net Expenditure	-	5,580	-
Taken through the Revaluation Reserve	-	-	-
Total	**-**	**5,580**	**-**

9. Capital and other commitments

9.1 Capital Commitments

There were no contracted capital commitments at 31 March 2017 or 31 March 2016 not otherwise included in these financial statements.

9.2 Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts or other service concession arrangements). Fulfilling the terms of letters-of-offer are included in this definition. The payments to which the Department is committed as follows:

	2016-17 £000	2015-16 £000 *(restated)*	2014-15 £000 *(restated)*
Other			
Not later than one year	511,626	527,749	478,858
Later than one year and not later than five years	26,881	225,186	69,145
Later than five years	-	865,350	147,977
Total	**538,507**	**1,618,285**	**695,980**

Included in the commitments figure is an amount of £24.6m (2015-16: £1,135m; 2014-15: £198.8m) relating to the Renewable Heat Incentive Scheme. New one year regulations for the Renewable Heat Incentive Scheme were introduced from 1 April 2017. This year no amount has been included as a commitment for the Renewable Heat Incentive Scheme from April 2018 onwards as the amount cannot be estimated with reasonable certainty as it is dependent upon the regulations in place at that time. Work is ongoing in this regard.

9.3 Commitments under leases

9.3.1 Operating leases

There were no operating leases for land or buildings at 31 March 2017, 31 March 2016 or 31 March 2015.

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

	2016-17 £000	2015-16 £000 *(restated)*	2014-15 £000 *(restated)*
Other			
Not later than one year	5	7	8
Later than one year and not later than five years	-	2	-
Later than five years	-	-	-
Total	5	9	8

10. Investments - Financial Instruments

Financial Instruments

As the cash requirements of the Department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to very little credit, liquidity or market risk.

The Department measures and presents financial instruments in accordance with IAS 32, IAS 39 and IFRS 7 as interpreted by the *FReM*. IFRS 7 (Financial Instruments: Disclosure) requires disclosure of information about the significance of financial instruments held by the entity over the year and the nature and extent of risks arising from those financial instruments.

Financial Assets at carrying value

Student loans, trade receivables, cash and cash equivalents are included as loans and receivables, and are measured at fair value initially and subsequently at amortised cost.

Financial Liabilities at carrying value

Trade payables, early departure cost and debt sale are measured at fair value initially and subsequently at amortised cost.

Fair values of financial instruments

The fair value of the financial instruments above is equivalent to the carrying value disclosed in the financial statements. Financial assets and financial liabilities have not been offset nor presented net in these accounts.

Student loans

The student loan asset is a significant part of the Department's Statement of Financial Position, and the valuation is based on a complex set of assumptions, including borrowers' earnings on graduation and their likely earnings growth over the life of the loan (25 years). Any changes to these assumptions could have a significant impact on the value of the loan book included in the accounts.

At a national level, the Government is continuing to assess how best to manage its holding of current and future loans, including the potential to realise value for the taxpayer from a sale of its portfolio. While the Department is part of the project taking this forward, led by the Department for Education England (DfE England) and involving all Devolved Administrations, it has been decided not to take part in the current loan sale as there was no evidence of value for money for Northern Ireland.

These Accounts present the student loans portfolio valued on the basis that they will continue to be held by the Department until such time as a decision to sell the assets has been made. The valuation basis of income contingent loans reflects the requirements of IAS 39 to hold the loans at amortised cost. Should sales take place in 2017-18 or subsequently, it will be necessary to re-assess the basis for the carrying value, in accordance with the relevant Accounting Standards.

In the absence of an active market for the income contingent loans or any similar arm's length transactions, the discounted cash flow analysis used to value the loans in Note 11 is the most reliable method to derive fair value. In deriving this figure, the Department has used the Treasury's long-term discount rate of RPI plus 0.7%. If an active market existed for student loans, the discount rate applied by potential buyers may be different from the Treasury's RPI plus 0.7%. If the discount rate applied was greater than RPI plus 0.7%, the fair value of the student loans may be lower than the values calculated on the basis applied here.

Credit Risk

The Department has a statutory obligation to issue student loans and seek repayments in line with legislation. The Department is not permitted to withhold loans on the basis of poor credit rating nor is it able to seek collateral. The Department is therefore exposed to the risk that some student loans will not be repaid, although this is partly mitigated by the fact that most repayments are collected by Her Majesty's Revenue & Customs as part of the tax collection process.

As disclosed in Note 11 and the accounting policy Note 1.9.1, the Department estimates the value of future write-offs when loans are issued based on a model which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour.

DfE England works together with the Student Loans Company Limited (SLC) and Her Majesty's Revenue and Customs (HMRC) to manage the collection of student loan repayments and manage the associated credit risks.

There is a Memorandum of Understanding in place between DfE England and the devolved administrations, including the Department who account for the loan book, the SLC who administers the loan book, and HMRC who collects repayments via the tax system. This sets out the responsibilities of all the parties and contains performance targets and indicators, which are revised annually. The Accounting Officers of HMRC and the SLC report quarterly to DfE England's Accounting Officer on progress towards the agreed targets and performance indicators.

Interest rate risk

Income contingent loans are repayable at the same interest rate as the RPI as at March each year, with the proviso that the interest rate can never be more than 1% above the Bank of England base rate nor can it be less than 0%. The amount of student loan interest repayable is therefore subject to the fluctuations in the market interest rate. This can lead to a risk in forecasting the amount of interest payable. Furthermore, if the UK continues to experience interest rates that are lower than RPI and, therefore, the interest rate cap reoccurs with frequency, the future cash flows will be impaired as the modelling assumes, in the long term, that interest is added in line with RPI. The model incorporates the assumption that rates will continue to be less than 1% in the medium term.

Financial modelling uses short and long term forecasts as published by the Office for Budgetary Responsibility (OBR). Any change to these assumptions has the potential to lead to an adjustment to the Department's calculations.

Liquidity Risk

The Department's net revenue resource requirements (as well as its capital expenditure) are financed by resources voted annually by Parliament. The Department is not therefore exposed to significant liquidity risks in the same way that a private sector organisation would be.

Foreign Currency Risk

The Department's main exposure to foreign currency risk is in relation to the impact of movements in the Euro on claims made to the European Union, and on advances received from the European Union that are included within payables. The Department does not enter into forward currency contracts and the risk is managed within voted funding provision. Apart from this, the Department's exposure to foreign currency risk is not significant.

At 31 March 2017, with a 10% weakening or strengthening of sterling against the euro, the outturn for the year would have increased by £2.14m or decreased by £2.14m respectively. This movement is attributable to the foreign exchange gains or losses on translation of euro denominated payables.

11. Investments - Financial Instruments

11.1 Student Loans

	Note	2016-17 £000	2015-16 £000	2014-15 £000
Total value of loans outstanding at 1 April		**1,993,187**	**1,614,489**	**1,463,893**
Additional loan funding	*SOAS3*	331,617	317,196	298,537
Repayments		(80,725)	(70,853)	(60,278)
New Impairments				
Deferment and Default	*11.1a*	(54,412)	(63,113)	(77,401)
Interest Subsidy	*11.1b*	(155,736)	168,764	(74,682)
Effective Interest	*5*	78,071	26,704	64,420
Total value of loans at 31 March		**2,112,002**	**1,993,187**	**1,614,489**

The Student Loans Company Limited issues loans on behalf of the Department for Northern Ireland, the Department for Education (in England and Wales) and the Scottish Executive. The split of total loans between the three Departments is provided by the Student Loans Company.

Student loans are held at amortised cost. This involves the value of the loans issued being discounted to net present value using the effective interest rate. The effective interest rate for student loans is RPI plus 0.7%, which is the HMT discount rate. In 2016-17 the effective interest was 4.14% (2015-16: 1.48%).

The face value of the loan book at 31 March 2017 was £2,939m (31 March 2016: £2,660m; 31 March 2015: £2,383m).

As outlined on the Statement of Cash Flows, student loan cash advances for the period were £331.6m (2015-16: £317.1m) and repayments were £80.1m (2015-16: £70.7m).

Student Loans issued during the year can be summarised as follows:

	2016-17 £000	2015-16 £000	2014-15 £000
Tuition Fee Loans payable to Institutions	197,181	183,839	166,430
Maintenance Loans payable to students	134,436	133,357	132,107
Total	**331,617**	**317,196**	**298,537**

11.1a Movements on Deferment and Default Impairment

	2016-17 £000	2015-16 £000	2014-15 £000
Balance at 1 April	**434,207**	**366,066**	**275,534**
New Impairment	54,412	63,113	77,401
Utilisation in the year	(1,059)	(574)	(532)
Borrowing costs	17,901	5,602	13,663
Balance at 31 March	**505,461**	**434,207**	**366,066**

The student loan deferment and default impairment reflects the future cost of loans which could not be recovered due to the death of the student, their income not reaching the income threshold, or other causes. Each year the Department estimates the future cost of policy write offs based on a percentage of new loans issued during the financial year. This is offset by the actual debts written off by the Student Loans Company.

11.1b Interest Subsidy Impairment

	2016-17 £000	2015-16 £000	2014-15 £000
Balance at 1 April	**232,194**	**402,730**	**372,814**
New Impairment	155,736	(168,764)	74,682
Utilisation in the year	(80,370)	(4,782)	(62,000)
Borrowing costs	14,041	3,010	17,234
Balance at 31 March	**321,601**	**232,194**	**402,730**

Student loans are subsidised as students are only charged interest equivalent to the rate of inflation, or Bank of England base rate plus 1%, whichever is the lower. The Department meets the costs resulting from difference between the forecast future interest paid by students and the cost of capital on loans, which is known as the interest subsidy. The interest subsidy impairment therefore reflects the cost to the Government of issuing and holding the loan. The Department increases the impairment based on a percentage of loans issued in year. The percentage is calculated using a modelling tool which takes into account borrower behaviour, earnings on graduation and other assumptions.

The estimates underpinning these impairments are based on a forecasting model (the Stochastic Earnings Path model, adapted for Northern Ireland) which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour and estimates the likely repayments of student loans. The valuation is based on a set of simulated borrower profiles, derived from a complex set of assumptions, including earnings on graduation and their likely earnings growth over the life of the loan (which could be 25 years). Any changes to these assumptions could have an impact on the value of the loan book included in these Accounts.

The assumptions used are formally reviewed by the Department each year and the amounts provided reflect the Department's current estimate as at 31 March 2017.

Assurance over the carrying value

Each year the carrying value of the student loan book in the Accounts is compared with the latest outputs from the student loan repayment model, which is re-run using current assumptions. If there is a significant difference, a review is undertaken to determine the reasons for the variance. The carrying value would only be adjusted if there was sufficient evidence to suggest that the divergence constituted a permanent reduction in the carrying value.

Changes in assumptions and modelling

There were no changes in assumptions and modelling during 2016-17 other than updated forecasts by the Office for Budget Responsibility (OBR).

Key assumptions used to calculate the student loan balance at 31 March 2017

The key assumptions that impact on the value of the loan book are the discount rate used, and assumptions made about graduate earnings.

It should be noted that many of the assumptions are independent of each other and could change at the same time. However, changes in earnings, unemployment and other macroeconomic factors would only have a significant impact on the value of the loan book if they were long term.

Discount rate

To value the future cash flows, the Department has used RPI plus 0.7%, which is the HM Treasury's long-term discount rate. If an active market existed for student loans, the discount rate applied by potential buyers may be different from this rate - reflecting the buyers' cost of capital and assessment of risk.

Graduate earnings and employment

The Stochastic Earnings Path model (adapted for Northern Ireland) assumes future real earnings growth (net of RPI inflation) to be 1.5 percentage points, as this is HMT's long-term forecast. The Stochastic Earnings Path model assumes short-term average nominal earnings growth will be in line with OBR forecasts until 2020-21. Future earnings growth is then assumed to be 4.5% from 2025-26, as this is the long-term forecast, with a linear change from the 2020-21 value each year up to 2025-26.

Graduate Income Distribution

The model assumes future graduate income distributions will be similar to those of past graduates and are based on historical data for the Labour Force Survey, the British Household Panel and administrative data held by the Student Loans Company.

Base Rates

The model assumes that Bank of England base rates will be in line with OBR forecasts up to 2020-21. The base rate is assumed to equal the long term OBR forecast of 5.0% from 2025-26, with linear change from the 2020-21 value each year up to 2025-26. The base rate cap is forecast to apply intermittently until 2020-21.

Sensitivity Analysis

The tables below indicate the sensitivity of the valuation of future cash flows to key assumptions that affect the value of the student loan book. They show the changes required in RPI, earnings growth and the Bank of England base rate to create an increase/decrease in the carrying value of the loan book of 1%.

A 1% shift in the carrying value is a relevant deviation to consider as it is larger than the magnitude of the inherent random variation present in the forecasting model. The assumptions could change by a larger amount, causing the carrying value to change by more than 1%. There are no earnings growth forecasts specifically for graduates, so the assumptions include both graduates and non-graduates.

RPI

The OBR forecast for March RPI in 2016-17 is 3.03%, falling to 3.01% in 2025-26 falling to 3.00% over the long term. The table below shows the relative percentage changes in RPI that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £21.1m
Increase by 1%	-2.812%
Decrease by 1%	2.985%

Earnings Growth

Higher earnings growth will increase repayments. The OBR forecast for 2016-17 average earnings growth is 2.57% rising to 4.30% in the long term. The table below shows the relative percentage changes in earnings growth that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £21.1m
Increase by 1%	3.944%
Decrease by 1%	-4.087%

Bank of England base rate

The OBR forecast for the Bank of England base rate in 2016-17 is 0.50%, rising to 4.90% in the long term. The table below shows the relative percentage changes in the Bank of England base rate that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £21.1m
Increase by 1%	29.331%
Decrease by 1%	-23.784%

Historical data over the last five years shows the extent of change to earnings growth, RPI rates and base rates compared to current levels is:

- The long term OBR assumption for earnings growth is currently 4.30%. Since 2010, the ONS outturn figures for the financial year average of earnings growth have varied between 1.30% and 2.36%.
- The long term OBR assumption for RPI is currently 3.00%. Since 2010, the ONS outturn figures for March RPI have varied between 0.90% and 5.30%.
- The long term OBR assumption for base rates is currently 4.90%. Since 2010, the outturns have all equalled 0.50%.

11.2 Financial Liabilities

	2016-17 £000	2015-16 £000	2014-15 £000
Balance at 1 April	**4,617**	**5,700**	**8,540**
New Impairment	(704)	(738)	(1,154)
Borrowing costs	124	84	474
Receipts/(Payments)	(377)	(429)	(139)
Prior Period Adjustment	-	-	(2,021)
Balance at 31 March	**3,660**	**4,617**	**5,700**

Student loan debt sale costs

The student loan debt sale subsidy is classified within other financial liabilities and is measured at amortised cost in accordance with IAS 39.

The student debt sale subsidy is the additional cost to the Department arising from the Government subsidising the purchaser of the debts beyond the cost that the Government would have incurred had the debts remained in the public sector. This liability arose from loan sales in 1998 and 1999 and represents the proportion of the national sale applicable to Northern Ireland. The subsidy will continue until all the loans are extinguished which is expected to be no earlier than 2028, which is the 30 year duration of the first debt sale agreement.

The annual debt sale subsidy payments are calculated according to a formula set out in the debt sale contracts signed in 1998 and 1999. The subsidy consists of two elements. The interest subsidy element of the payment is calculated as LIBOR plus margin less RPI. Margin is calculated as a percentage of the portfolio with different rates for each contract. The key risk is therefore that the gap between LIBOR and RPI increases. The other key element relates to compensation payable for loan repayments which are deferred or written off, under the terms of the original loan contracts with borrowers.

In 2015-16, the Department has reviewed the carrying value of the liability based on forecast economic condition and historical claims paid. As a result, a prior period adjustment was made to reduce the liability at 31 March 2015 to £5.7m.

12. Financial Asset Investments

	*Presbyterian Mutual Society £000	**Share Capital H&W plc £000	***Catalyst Inc (formerly Northern Ireland Science Park) £000	Total £000
Gross amount:				
Balance at 1 April 2016	154,438	4,600	2,825	161,863
Additions	-	-	3,669	3,669
Interest charged	2,482	-	176	2,658
Loan Repayment – Principal	(9,500)	-	-	(9,500)
Loan Repayment – Interest	(2,601)	-	-	(2,601)
Revaluation	92	-	-	92
Balance at 31 March 2017	**144,911**	**4,600**	**6,670**	**156,181**
Provision:				
Opening Provision at 1 April 2016	(25,000)	(4,600)	-	(29,600)
Provided in Year	-	-	-	-
Balance at 31 March 2017	**(25,000)**	**(4,600)**	**-**	**(29,600)**
Balance at 31 March 2017	**119,911**	**-**	**6,670**	**126,581**

Analysis of expected timing of cash flows

	*Presbyterian Mutual Society £000	**Share Capital H&W plc £000	***Catalyst Inc (formerly Northern Ireland Science Park) £000	Total £000
Not later than one year	10,409	-	-	10,409
Later than one year	109,502	-	6,670	116,172
	119,911	**-**	**6,670**	**126,581**

* On 1 August 2011, a 10 year fixed rate loan of £175m at a rate of 2.02% and an interest free loan of £25m were issued to the Presbyterian Mutual Society Limited (in Administration).

The interest free loan of £25m has been provided against based on advice regarding current property market values. This loan may be recoverable, in full or in part, depending on property market valuations in future years.

As per IAS 39, the £175m loan has been recorded at amortised cost at an effective interest rate of 1.916%. In November 2013 The Joint Supervisors of the Presbyterian Mutual Society Limited (in Administration) produced financial projections on the timing and quantum of cash flows in respect of repayment of the 10 year fixed term loan.

DfE retains flexibility, as required, to manage loan repayments to ensure full repayment of the fixed term loan taking into consideration potential movements pertaining to the property market. This flexibility includes the option to extend the repayments beyond the original 10 year time horizon, if required, to ensure repayment of the fixed term loan in full. While anticipating full repayment of the fixed term loan, DfE has agreed with the Joint Supervisors an amendment to the timing and quantum of cash flows in certain years. This has resulted in an adjustment to the fair value of the fixed term loan of £92k in the current year.

**The Department holds all 10,996,082 shares of H&W plc which were purchased in September 1989 at a cost of £4.6m. The amount has been fully provided for to reflect the fact that due to the level of the company's liabilities the share capital is deemed to have no value.

***In 2016-17, a loan of £3.67m was provided to Catalyst Inc (formerly Northern Ireland Science Park) under the Financial Transactions Capital Loan Scheme for the development of Concourse III. As per IAS 39, the loan has been recorded at amortised cost at an effective interest rate of 2.789%. A £2.75m loan was advanced in prior years for the same project. This loan has been recorded at amortised cost at an effective interest rate of 2.596%.

12.1 Financial Asset Investments *(comparative)*

	*Presbyterian Mutual Society £000	**Share Capital H&W plc £000	***Catalyst Inc (formerly Northern Ireland Science Park) £000	Total 2015-16 £000
Gross amount:				
Balance at 1 April 2015	168,623	4,600	50	173,273
Additions	-	-	2,704	2,704
Interest charged	2,618	-	71	2,689
Loan Repayment – Principal	(14,000)	-	-	(14,000)
Loan Repayment – Interest	(2,742)	-	-	(2,742)
Revaluation	(61)	-	-	(61)
Balance at 31 March	**154,438**	**4,600**	**2,825**	**161,863**
Provision:				
Opening Provision at 1 April 2015	(25,000)	(4,600)	-	(29,600)
Provided in Year	-	-	-	-
Balance at 31 March 2016	**(25,000)**	**(4,600)**	**-**	**(29,600)**
Balance at 31 March 2016	**129,438**	**-**	**2,825**	**132,263**

13. Investment in associates

	2016-17 £000	2015-16 £000	2014-15 £000
Balance at 1 April	**3,340**	**3,340**	**3,340**
Additions	-	-	-
Disposals	-	-	-
Balance at 31 March	**3,340**	**3,340**	**3,340**
Provision:			
Opening provision at 1 April	(3,340)	(3,340)	(3,340)
Charged in year	-	-	-
Reversal	-	-	-
Balance at 31 March	**(3,340)**	**(3,340)**	**(3,340)**
Balance at 31 March	**-**	**-**	**-**

Viridian Growth is a venture capital fund, established in August 2001. The investment is similar to unsecured, interest-free loans, repayable only on termination or liquidation of the funds. Repayments from the fund to the Department will not be made until all other investors' loans are repaid plus an internal rate of return of 10% per annum. Given that the current value of the fund is below the cost of the initial investments, the Department has provided in full against its investment.

14. Investments and loans in other public sector bodies

Student Loans Company Limited

The Department holds one share, with a nominal value of fifty pence, in the Student Loans Company Limited. The other shares are held by the Government in England and the Devolved Administrations in Scotland and Wales.

15. Cash and Cash Equivalents

	2016-17 £000	2015-16 £000 *(restated)*	2014-15 £000 *(restated)*
Balance at 1 April	(3,234)	(11,315)	(4,200)
Net change in cash and cash equivalent balances	2,202	8,081	(7,115)
Balance at 31 March	**(1,032)**	**(3,234)**	**(11,315)**

	Note	2016-17 £000	2015-16 £000 *(restated)*	2014-15 £000 *(restated)*
The following balances at 31 March were held at:				
Commercial Banks	*17*	(1,508)	(3,683)	(11,691)
Mineral Bank Account		475	449	376
Cash in hand		1	-	-
Balance at 31 March		**(1,032)**	**(3,234)**	**(11,315)**

16. Trade receivables, financial and other current assets

	2016-17 £000	2015-16 £000 *(restated)*	2014-15 £000 *(restated)*
Amounts falling due within one year:			
Trade receivables	6,803	6,418	6,569
Deposits and advances	260	1,421	4,659
Other receivables:			
VAT	318	1,883	235
EU receivables	43,976	66,737	68,253
Due from National Insurance Fund	1,446	1,689	2,790
Prepayments and accrued income	919	932	6,571
Amounts due from the Consolidated Fund in respect of supply	15,429	3,698	11,698
Other Consolidated Fund Extra Receipts due	92	37	2,021
	69,243	**82,815**	**102,796**

Included within the trade receivables is £nil (2015-16: £0.5m; 2014-15: £nil) that will be due to the Consolidated Fund once the debts are collected.

17. Trade payables and other current liabilities

	2016-17 £000	2015-16 £000 *(restated)*	2014-15 £000 *(restated)*
Amounts falling due within one year:			
Trade payables	11,014	7,636	7,736
Accruals and deferred income	86,358	97,950	83,578
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:			
received	13,987	52	47
receivable	92	39	2,024
EU Programme Advances	1,084	3,158	17,671
Amounts due to the Consolidated Fund in respect of excess Accounts Receivable:			
received	-	546	-
receivable	-	-	2,917
Amounts due to National Insurance Fund	819	324	139
Bank overdraft	1,508	3,683	11,691
	114,862	**113,388**	**125,803**
Amounts falling due after more than one year:			
Other payables, accruals and deferred income	449	459	475
Total	**115,311**	**113,847**	**126,278**

18. Provisions for liabilities and charges

	H & W £000	Early Departure Costs £000	Long Service Award £000	2016-17 £000
Balance at 1 April 2016	60,446	57	1,922	62,425
Borrowing costs (unwinding of discount)	485	-	-	485
Provided in year	1,353	-	-	1,353
Provisions release	-	(15)	-	(15)
Bad debts previously provided for and written off in the year	-	-	-	-
Provisions utilised in year	(4,000)	(34)	(2)	(4,036)
Balance at 31 March 2017	**58,284**	**8**	**1,920**	**60,212**

Analysis of expected timing of discounted flows

	H & W £000	Early Departure Costs £000	Long Service Award £000	2016-17 £000
Not later than one year	5,000	8	-	5,008
Later than one year and not later than five years	29,057	-	-	29,057
Later than five years	24,227	-	1,920	26,147
Balance at 31 March 2017	**58,284**	**8**	**1,920**	**60,212**

18 Provisions for liabilities and charges *(comparative)*

	H & W £000	Early Departure Costs £000	Long Service Award £000	2015-16 £000
Balance at 1 April 2015	65,964	103	2,000	68,067
Borrowing costs (unwinding of discount)	1,457	-	-	1,457
Provided in year	(1,965)	-	-	(1,965)
Provisions release	-	-	-	-
Bad debts previously provided for and written off in the year	-	-	-	-
Provisions utilised in year	(5,010)	(46)	(78)	(5,134)
Balance at 31 March 2016	**60,446**	**57**	**1,922**	**62,425**

	H & W £000	Early Departure Costs £000	Long Service Award £000	2014-15 £000
Balance at 1 April 2014	67,932	84	2,000	70,016
Borrowing costs (unwinding of discount)	1,682	-	-	1,682
Provided in year	-	162	-	162
Provisions release	-	-	-	-
Bad debts previously provided for and written off in the year	-	(25)	-	(25)
Provisions utilised in year	(3,650)	(118)	-	(3,768)
Balance at 31 March 2015	**65,964**	**103**	**2,000**	**68,067**

18.1 Harland and Wolff plc

The provision in respect of Harland and Wolff plc activities is based on assumptions as to future liabilities and revenues. The outcome of these matters cannot be certain. The provision reflects the approximate amount that the Department may be required to contribute to enable Harland and Wolff plc to fulfil its obligations as they fall due.

The provision reflects the Department's potential liability to meet claims against Harland and Wolff plc in respect of employers' and public liability arising from the collapse of the company's insurer, Chester Street Insurance Holdings Ltd, which went into liquidation on 10 January 2001. This provision is based on actuarial advice and includes known claims, largely in relation asbestos related illnesses of former employees of Harland and Wolff plc, together with unreported claims which may be expected to crystallise over a significant number of years. The amount, £58m as at 31 March 2017 (2015-16 £60m), represents the total estimated liability discounted back to today's prices. The accuracy of the provision is subject to a considerable number of uncertainties including future mortality rates, emergence of new diseases, improvements in medical treatments, and the outcome of future legal cases. An updated actuarial review outlining projected future cash flows was completed during 2016-17 which resulted in a moderate increase in the overall discounted liability. This was primarily due to an update in the rates used to discount future cash flows, the basis of which is disclosed in note 1.16, which more than offset reductions in estimated future cash flows.

The overall undiscounted liability in relation to the employers' and public liability claims referred to above, based on actuarial advice, amounts to £60m (2015-16: £67m).

18.2 Early departure costs

The Department meets the additional costs of benefits beyond the normal Civil Service Pension Schemes (Northern Ireland) benefits in respect of employees who retire early by paying the required amounts annually to the Civil Service Pension Schemes (Northern Ireland) over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate.

18.3 Long Service Award

Provision has been made for a long service award for members of the judicial pension scheme within the Office of the Industrial and Fair Employment Tribunals. The purpose of the long service award is that, subject to any future changes in legislation, the award will compensate for any tax or national insurance charges on lump sums payable from the deregistered judicial pension schemes on retirement, whatever the personal circumstances of the judge or his other pension benefits.

19. Contingent Liabilities

The Department has the following quantifiable contingent liabilities:

a. Litigation cases

There are thirty-two outstanding cases as at 31 March 2017. The estimated potential liability is less than £200k.

b. Future Redundancy Payments

As part of the arrangement for the transfer of training centres to Further Education colleges, the Department agreed that, for staff that became redundant in the future, it would fund any difference between their redundancy payment and that which they would have received had they remained in the Northern Ireland Civil Service. Due to the inherent uncertainty as to the amount and timing of the future redundancy payments the Department has underwritten, it is not practical to quantify the potential liability that might arise from this undertaking.

20. Financial Guarantees, Indemnities and Letters of Comfort

The Department did not enter into any quantifiable guarantees, indemnities or did not provide any letters of comfort in 2016-17, 2015-16 or 2014-15. There is therefore no liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39.

There are no associated costs to be disclosed to the Assembly in accordance with the requirements of Managing Public Money Northern Ireland.

21. Related-party transactions

The Department sponsors the Non-Departmental Public Bodies (NDPBs), Independent Autonomous Bodies (IABs) and Cross Border Bodies (CBBs) listed in Note 23. In addition, Harland & Wolff Plc, a limited company which is wholly owned by the Department, is also regarded as being outside the accounting boundary. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department, its NDPBs, IABs and CBBS have undertaken a number of material transactions with other Government Departments and other central Government bodies. Most of these transactions have been with the Department of Education, the former Social Security Agency; and the Department of Finance (formerly Department of Finance and Personnel).

Transactions that the Department, its NDPBs, IABs or CBBs have undertaken with Members of the Departmental Board and Departmental Audit Committee or companies/bodies in which they have an interest were as follows:

Harland and Wolff plc

A company wholly owned by the Department received £4m to enable it to meet its liabilities. The directors of Harland and Wolff plc are appointed ex-offcio. During 2016-17, the directors were Stephen McMurray, Iain McFarlane and Terry Coyne, all of whom were Departmental employees.

22. Third party assets

	31 March 2016 £000	Gross inflows £000	Gross outflows £000	31 March 2017 £000
Insolvency Account	27,287	14,196	12,576	28,907
Northern Ireland National Insurance Fund	32,096	5,645	6,518	31,223

These are not departmental assets and are not included in these financial statements. Further information is contained in the published Insolvency Account and the accounts of the Northern Ireland National Insurance Fund.

Insolvency Account
Under Article 358 (1) of the Insolvency (Northern Ireland) Order 1989 trustees in bankruptcy and liquidators of companies must pay the money received in respect of Company Liquidations, Bankruptcies and Estates of Deceased Insolvents, including Arrangements under the control of the Court up to 30 September 1991, into the Insolvency Account pending authorised appropriation.

Northern Ireland National Insurance Fund
The Department acts as agent for the Northern Ireland National Insurance Fund in relation to various aspects of the Employment Rights (Northern Ireland) Order 1996. The transactions and balances arising are reflected in the accounts of the Northern Ireland National Insurance Fund and are not included in these financial statements.

23. Entities within the Departmental boundary

These accounts comprise the accounts of the core Department.

The accounts of the following entities, all of which are sponsored by the Department, are not included by way of consolidation:

Non-Departmental Public Bodies:
- Invest Northern Ireland (Invest NI);
- Tourism Northern Ireland (Tourism NI);

- Health and Safety Executive for Northern Ireland (HSENI);
- Consumer Council for Northern Ireland (GCCNI);
- Northern Ireland Screen;
- CITB–NI;
- Labour Relations Agency;
- Stranmillis University College;
- the six Further Education colleges;
- InterTradeIreland (Trade and Business Development Body); and
- Tourism Ireland Company Limited by Guarantee (TICLG).

Independent Autonomous Bodies:
- Ulster University (Higher Education Institution);
- Queens University (Higher Education Institution);
- Open University; and
- St Mary’s University College (Non Profit Institution Serving Households Body).

In addition, Harland & Wolff Plc, a limited company which is wholly owned by the Department, is also regarded as being outside the accounting boundary.

Financial information about each of the above entities may be obtained from their separate published annual reports and accounts.

24. Events after the Reporting Period

The Department continues to address the issues that have arisen in the non-domestic RHI scheme as described in the Governance Statement (pages 48 to 51) to bring the scheme back in line with original Policy and Budgetary intent within a proper governance framework. New regulations were introduced on 1 April 2017 for one year and longer term options are being considered for new regulations to apply from 1 April 2018. The new regulations do not affect the expenditure shown in these financial statements.

There were no events after the reporting period which would require adjustment to the financial statements.

25. Harland and Wolff plc

Harland and Wolff plc is wholly owned by the Department.

The Department holds all 10,996,082 shares of H&W plc which were purchased in September 1989 at a cost of £4.6m.

Details of the group's trading are contained in its accounts, which are prepared under UK GAAP.

Key Figures extracted from these accounts are:

Statement of income and retained earnings for the year ended 31 March 2017

	2016-17 £000	2015-16 £000
Turnover	-	-
Administration expenses	-	-
Operating loss	-	-
Interest receivable and similar income	-	-
Profit on ordinary activities before taxation	-	-
Tax on ordinary activities	-	-
Profit for the financial year	-	-

Statement of financial position as at 31 March 2017

	2016-17 £000	2015-16 £000	2014-15 £000
Current Assets			
Debtors	56,358	59,080	62,638
Cash at bank and in hand	2,002	1,473	1,525
	58,360	**60,553**	**64,163**
Creditors: amounts falling due within one year	(36)	(23)	(23)
Net current assets	**58,324**	**60,530**	**64,140**
Provisions for liabilities	(58,324)	(60,530)	(64,140)
Net assets	-	-	-
Capital and reserves			
Called up share capital	10,996	10,996	10,996
Profit and loss account	(10,996)	(10,996)	(10,996)
Total shareholders' funds	-	-	-

Date of authorisation for issue

The Accounting Officer authorised the issue of these financial statements on 23 June 2017.

(1) Total Departmental Spend

The table below shows an analysis of Resource Departmental Expenditure Limits (DEL) and Annual Managed Expenditure (AME).

Table 1.1

	2016-17 £000 Outturn
Resource DEL	
Economic Development & Infrastructure	35,334
Economic Development & Infrastructure – Repayment of Assistance PMS	(2,482)
Invest NI & Tourism	527
Employment & Skills	105,811
Student Support & Higher Education	527,776
Tourism Ireland Ltd	156
Intertrade Ireland	138
Representation & Regulatory Services	12,711
EU Structural Funds – ERDF Support	289
EU Programmes	15,108
Total Resource DEL	**695,368**
of which:	
Salaries	46,710
Consultancy	572
Depreciation	115
Support to Higher Education	226,055
Support to Students	89,359
Notional Cost of subsidising Student Loans	210,542
Training Programmes	59,106
Support to Further Education	14,960
Renewable Heat Incentive Scheme	27,077
European Programmes	18,788
Other	2,084
Resource AME	
Economic Development & Infrastructure	20,046
Employment & Skills	(15)
Student Support & Higher Education	(78,655)
Total Resource AME	**(58,624)**
of which	
Harland & Wolff Provision	1,839
Renewable Heat Incentive Scheme	18,300
Early Retirement	(15)
Take up/ Revaluation of Debt Sale	(584)
Effective Interest	(78,071)
Other	(93)
Total Resource Budget	**636,744**

The table below shows an analysis of Capital Departmental Expenditure Limit (DEL) and Capital Annual Managed Expenditure (AME) categories.

Table 1.2

	2016-17 £000 Outturn
Capital DEL	
Economic Development & Infrastructure	7,334
Economic Development & Infrastructure – Repayment of Assistance PMS	(6,064)
Employment & Skills	41
Student Support & Higher Education	26,142
Representation & Regulatory Services	553
EU Structural Funds – ERDF Support	39
EU Programmes	130
Total Capital DEL	**28,175**
of which	
Broadband Stimulation	2,661
Presbyterian Mutual Society	(6,064)
Learning and Teaching for HE Sector	16,965
University Funding	7,879
Northern Ireland Science Park	3,844
FE IT System	602
BIS Receipt	(1,330)
Student Loan Capital	2,140
Capitalised Salaries	796
Other	682
Capital AME	
Economic Development & Infrastructure	(180)
Student Support & Higher Education	290,952
Total Capital AME	**290,772**
of which	
Renewable Heat Incentive Scheme	(180)
Student Loan Issued	331,616
Student Loan Receipts	(70,307)
Student Loan Capitalised Interest	29,643
Total Capital Budget	**318,947**
Total Departmental Spending	**955,691**
Of which:	
Total DEL	723,543
Total AME	232,148

(2) Non-Budget

The table below shows an analysis of Non-Budget expenditure.

Table 2

	2016-17 £000 Outturn
Non Budget	402,275
Notionals	8,423
Total Non Budget	**410,698**
of which	
Invest NI	166,802
Tourism NI	23,960
Tourism Ireland	12,194
FE Colleges	181,640
Other	26,102

The table below shows the reconciliation between the tables above and SOAS 1.

	2016-17 £000 Outturn
SOAS 1 Analysis of NET Resource Outturn by Function	
Request for Resources A	725,243
Annual Managed Expenditure	(58,804)
Non-Budget	410,698
	1,077,137
Tables Above	
Resource DEL	695,368
Capital DEL	28,175
Resource AME	(58,624)
Capital AME	290,772
Non-Budget	410,698
	1,366,389
Reconciling Items	289,252

Reconciling items relate to capital transactions recorded in the Statement of Financial Position and not SOAS1.

(3) Departmental Administration Spend

Table 3

	2016-17 £000 Outturn
Economic Development & Infrastructure	5,883
Invest NI & Tourism	469
Employment and Skills	21,606
Student Support & Higher Education	2,251
Tourism Ireland Ltd	156
Intertrade Ireland	138
Representation & Regulatory Services	1,278
Total Admin	**31,781**
of which	
Salaries	26,644
Consultancy	371
VES	-
Other	4,766

Introduction

1 The Department for the Economy (the Department) was formed on 8 May 2016 when the Department of Enterprise, Trade and Investment (DETI) and the Department for Employment and Learning (DEL) (except for the Employment Service) merged following restructuring of Government Departments in Northern Ireland. The newly formed Department has responsibility for a range of functions including economic policy, energy, further and higher education, employment and skills programmes, tourism, telecoms, research and statistic services, health and safety at work, and mineral development.

2 Last year, I reported on significant concerns surrounding the operation of the non-domestic Renewable Heat Incentive (RHI) scheme. These included that the scheme:

- did not include any viable cost controls despite the fact that it should have been clear that it would not be funded without limit by HM Treasury;
- did not reflect adequate consideration of the tiering of rates similar to GB, which was a critical mistake;
- did not take the opportunity in 2013 to mirror the GB scheme and introduce cost control measures that were introduced in GB at that time;
- did not take account of changes to underlying costs since 2012 and therefore was over-generous in incentivising renewable heat;
- could not be changed promptly when it became clear that demand was rising quickly;
- was not approved by the Department of Finance and Personnel (DFP) between April 2015 and October 2015;
- facilitated the possibility of funding that was at best not in line with the spirit of the scheme and at worst possibly fraudulent;
- was not properly monitored and controlled by the Department who solely relied on the work being done by the Office of Gas and Electricity Markets (Ofgem); and
- had not identified the risk of significant overspending for the NI budget even though Treasury had advised the Department that its funding for RHI was limited.

3 In my report last year I had said that I would return to this issue and in this report I intend to provide an update on what has changed since last year. However, I will not be going back over the history of the establishment of the scheme which is now the responsibility of the Inquiry[1] to examine.

Total costs in 2016-17

4 In my report last year it was estimated that the total cost of the RHI scheme in 2016-17 would exceed the NI share of the UK Budget funding provided by HM Treasury for

[1] The Renewable Heat Incentive Inquiry (www.rhiinquiry.org) established January 2017.

the scheme by over £32 million and would therefore have to be met out of the Northern Ireland Budget. In order to meet this estimated cost £12 million was funded from within the Department's own budget and £20 million was set aside from the wider NI Executive Budget which would have otherwise been allocated to departments through the normal in-year process. The Department has now reported that the actual net cost to the NI Executive Budget in 2016-17 was £27 million as set out in Table 1 below.

Table 1: 2016-17 costs of the RHI scheme

	2016-17
	£million
Total cost of RHI scheme in 2016-17 *	**45**
Costs covered through NI share of UK RHI budget Annually Managed Expenditure	**18**
Costs met from the NI Executive Departmental Expenditure Limit (DEL)	**27**

*The cost of the RHI scheme in 2016-17 is comprised of £42 million for the non-domestic RHI scheme and £3 million for the domestic scheme.
Source: Department

Public Accounts Committee

5 The Public Accounts Committee (the Committee) first met in September 2016 to consider my report, which was appended to the 2015-16 DETI Resource Accounts. The Committee held seven evidence sessions up to January 2017, taking evidence from both the current and previous Departmental Accounting Officers, the consultants who had been involved in the original design of the scheme and Ofgem who administered the scheme on behalf of the Department. However, although much progress had been made during the evidence sessions and more had been planned, the Committee was unable to complete its work and produce a report before the NI Assembly was dissolved on 26 January 2017.

6 Although the Committee did not issue a report it did comment in a press release on 15 December 2016 that it had been *'shocked, not just at the apparent failure of the Department to control the way the Scheme was designed, implemented and monitored, but at the enormous cost to the public purse'*.

7 Considerable information, including that set out below, was presented to the Committee during the period of its examination of the evidence:

- The consultants who helped in the establishment of the scheme from 2011 to 2012 initially recommended subsidy rates of 4.5 pence per kWh for installations smaller than 45kW and 1.3 pence per kWh for those between 45-100kW in size, with no tiering; following consultation they proposed an increased rate of 5.9 pence per kWh for installations up to 99 kW, which was then more than the cost of fuel, but crucially still did not identify the need for tiering as they were not asked specifically to consider the issue at this stage. The consultants did accept that, in hindsight, they should have raised the need for tiering of the small scale commercial biomass band;[2]

- The regulations supporting the scheme were poorly defined, particularly in the definitions of what constituted an eligible use of heat, the use of multiple boilers and whether heat generated in the non-domestic scheme could be used to heat a domestic property;
- The scheme had no senior project manager in place, did not appear on the Department's risk register, and once the project began, key staff moved on to other policy objectives within the Department or were transferred out of the Department;
- DFP gave approval of the non-domestic scheme in 2012 on the understanding that there would be regular reviews by the Department. The first review was due to begin in January 2014 but did not happen until 2015. The Department was unable to explain the reasons for this delay to the Committee as this was under investigation (see paragraph 22 below); and
- Checks carried out by Ofgem on new applications were desk-based and there was no evidence of any significant oversight by the Department of Ofgem's work until November 2015.

8 At an early stage in the work of the Committee, the Department identified emails from a concerned citizen over a couple of years starting in September 2013 which had highlighted a number of significant issues regarding the structural problems within the non-domestic RHI scheme. I was not aware of this correspondence when I reported last year and it is regrettable that the concerns raised were not addressed at the time that they were received.

9 Under whistleblowing legislation, public employees or members of the public can raise concerns about the use of taxpayers' or ratepayers' money directly with me and will be treated in confidence. To date, I have received a number of specific concerns from members of the public about applicants on this scheme and I have passed these concerns over to the Department to investigate and report back to me.

10 It is important that the Department has processes in place to fully address concerns raised by members of the public. In November 2014, I along with the other audit agencies of the UK published a good practice guide for workers and employers titled "Whistleblowing in the Public Sector." Whilst this guide is primarily aimed at how to treat concerns raised by workers, there is an expectation that the same principles also apply to concerns raised by members of the public and I asked the Department what action it has taken to ensure that all concerns raised by members of the public are investigated thoroughly.

11 The Department told me that in June 2016, following the creation of the new Department for the Economy, whistleblowing guidance was developed and published for dealing with concerns raised by its staff and members of the public. This replaced

[2] Opening statement PAC hearing 23 November 2016.

guidance which was previously in place for the former Department of Enterprise, Trade and Investment and the Department for Employment and Learning and is based on "Whistleblowing in the Public Sector". The guidance outlines the Department's commitment that where a concern has been raised, an investigation will be undertaken by people with the necessary expertise, experience and independence, and that all concerns will be properly and promptly investigated whether they have been raised directly with the Department or with an Arms Length Body. The Department's Audit and Risk Assurance Committee considers the status of ongoing Whistleblowing investigations on a quarterly basis.

PricewaterhouseCoopers report

12 In response to my report last year, the Department had undertaken to review the administration of the scheme to see if it was operating in compliance with the legislation and to carry out a number of site inspections. The Department has told me that it had been seeking to investigate serious allegations received by the then First Minister in January 2016, and it appointed PricewaterhouseCoopers (PwC) to undertake site inspections to secure evidence in relation to the allegations, and to follow up the issues highlighted in my Report. There were four key issues that PwC reported on to the Department in November 2016:

- concerns around the NI scheme legislation and the guidance supporting the scheme;
- operation of processes and controls around the scheme including work of Ofgem;
- results of the site inspections undertaken; and
- an opinion on the allegations received anonymously from a 'whistleblower'.

13 In relation to the regulations, PwC said that the NI scheme largely mirrored the GB scheme except for two fundamental differences, both of which I had also identified last year as being critical omissions. These were the absence of a tiered tariff to discourage heat waste and also the fact that that there was no suspension or degression mechanism to act as a cost control. PwC also pointed out that while the eligibility criteria for the scheme was essentially the same as in GB there was a general lack of clarity as to what was an eligible use of heat. This, when combined with the lack of tiered tariffs, created an incentive to generate heat over and above that which was useful or useable.

14 The absence of the tiered tariff system and degression in the NI scheme significantly increased its risk profile. If there had been a robust risk assessment at the start of the scheme then this might have identified the need for additional preventative and detective controls to mitigate that risk or to have amended the scheme at an earlier juncture. Unfortunately, no such assessment took place.

15 Weaknesses were also identified across a range of operational controls, including the challenge and scrutiny of applications by Ofgem and the robustness of processes for independently validating information provided by scheme applicants, such as meter readings and explanations for unusual heat generation. There was also a

fundamental weakness in the communication between the Department and Ofgem which I had also reported on last year. This included a lack of regular and detailed information being both sought by the Department and provided by Ofgem to show that the scheme was being appropriately administered and any compliance issues were being properly addressed. PwC concluded that the control framework fell short of that required to manage the risks to the NI scheme effectively.

16 PwC also undertook a number of site inspections to examine if the heat being generated was for an eligible purpose and within the intentions of the scheme when it was established. This involved two phases of work from August to September 2016 in which 295 boilers spread over 80 sites (78 businesses) were examined. The results of this work were split over four categories as set out in the table below:

Table 2: Summary of site inspections carried out by PwC

Category	Conclusion	Number of boilers inspected
Category 1	Heat generated for an eligible purpose within the intentions of the scheme	**138 (47%)**
Category 2	Heat generated for an eligible purpose, **which does not meet the intentions of the scheme**	**110 (37%)**
Category 3	Heat generated for an eligible purpose**, but using heat in a way that's not energy efficient**	**28 (10%)**
Category 4	Heat generated which may be for an ineligible purpose and therefore **may be in breach of the scheme**	**19 (6%)**[3]
		295

Source: PwC

17 Generally, PwC found that poultry, farm and general commercial sectors were in Category 1. However, it should be noted that PwC's site review only looked at whether heat generated was for an eligible purpose and within the intentions of the scheme. The Department has told me that its calculations clearly show that users included in Category 1 may still have been generating excessive profits from the scheme because of high levels of use and the lack of tiering of tariff rates or a cap on usage.

18 Sites that were involved with process drying and the drying of woodchip were categorised in Categories 2 to 4. They found a significant number of drying operations that were considered to be wasteful and inefficient, which included some that would not have been economically viable in the absence of support payments from the scheme. They also found a number of boilers, all of which were included in Category 4, for which the majority or all of the heat output had the potential to be serving a domestic dwelling. This is significant because the RHI scheme for domestic customers was considerably less generous than that for non-domestic customers.

[3] Note that Ofgem subsequently established that one of the inspection sites involved an additional installation, bringing the total number of installations referred to Ofgem by PwC to 20.

19 Within those sites engaged in wood-fuel drying, PwC identified another issue in relation to 'parasitic wood chip drying' – this was where woodchip was dried purely for internal use to supply boilers drying the woodchip or other boilers such as those supplying a domestic house. In these cases, subsidy payments may have been received for the heat used to dry the fuel which would then be used to dry more fuel for which further support payments would be received. These were categorised in either Category 2 or Category 3 depending on whether there was any commercial resale of woodchip. The December 2016 UK Government response[4] to proposals for a reformed RHI scheme in GB indicated that the Government will be doing further detailed work to assess whether wood fuel drying should remain as an eligible heat use because of concerns about the value for money of RHI support for this heat use.

20 Another issue identified by the site inspections related to the use of multiple boilers which were used to gain a higher rate of subsidy than would have been the case where one boiler was used. This is an issue that was also discussed at the Public Accounts Committee and which I discuss later in this report.

21 All of the details from PwC's inspections, particularly in relation to those boilers classified as Category 4, were passed to Ofgem. At the date of this report, of the 20 cases passed to Ofgem, 16 have been cleared to continue on the scheme, 2 remain under investigation and two installations have been revoked from the scheme. For the two revoked installations the Department is currently seeking recovery of all grants paid.

Departmental fact finding investigation

22 Following the first Public Accounts Committee evidence session on 28 September 2016, concerns emerged about the handling of whistleblowers and the possible role of Departmental staff in the range of issues that had been identified with the scheme. As a result, the Departmental Accounting Officer commissioned PwC to undertake an in-depth review of decisions taken by Departmental staff over the period from the inception of the scheme. This review began in October 2016, but its work was halted on the establishment of the RHI Inquiry in January 2017 before a formal report was prepared. The Department has told me that as a consequence there are some aspects of the facts of the case where it is not able to state a firm position, as there would be a risk of pre-judging the investigative processes.

Use of multiple boilers

23 One of the key issues identified both during the course of the Public Accounts Committee sessions and through PwC's work was the use of multiple boilers at single sites. The way that the subsidy rates for the scheme (up to 18 November 2015) were established meant that there was a much higher subsidy rate for heat created by

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577024/RHI_Reform_Government_response_FINAL.pdf

biomass boilers less than 100kW as can be seen in Table 3 below. This meant that there was a clear disincentive to install a boiler higher than 100 kW. In many cases, if more than 100kW of heat energy was required applicants would install a number of boilers which were less than 100kW so that the heat generated could obtain the higher rate. At the Committee hearing on 26 October 2016, Ofgem confirmed the Regulations allowed for separate boilers to be treated as separate installations provided they are on separate heating systems. As shown in Table 3, 99 per cent of the boilers applied for in the scheme prior to 18 November 2015 were less than 99kW.

Table 3: Subsidy rates in 2016-17 for biomass boilers (applications pre 18 November 2015)

	Up to 18 November 2015		
Boiler type	**Installation capacity**	**Tariff Pence / kWh**	**Number of boilers installed**
Small	< 20kW	6.7p	16
Medium	20-99kW	6.5p	1,772
Large	>99kW	1.5p	13
			1,801

Source: Department

24 Out of the 1,788 99kW and less boilers applied for before 18 November 2015, 1,294 (72 per cent) were at sites with more than one boiler on the scheme. In a number of cases, more than 10 boilers were installed and accredited at a single site meaning that the applicants could avail of the higher tariff of 6.5 pence per kWh for all of the heat generated by each of the boilers.

25 After 18 November 2015, the new two-tier system came into effect which allowed the tariff to apply to medium-sized boilers up to 199kW, while also applying tiering and a maximum cap (327 boilers were applied for under the scheme in this period up until the scheme closed on 29 February 2016). This had an immediate effect on behaviour in that 200 boilers (61 per cent) applied for under the new rate were between 100 and 199kW. In addition, 125 (38 per cent) of the boilers approved after the tariff change were part of multiple-boiler installations at 56 single sites.

Table 4: Subsidy rates in 2016-17 for biomass boilers (applications after 18 November 2015)

	After 18 November 2015			
Boiler type	**Installation capacity**	**Tariff Pence /kWh**		**Number of boilers installed**
		Tier 1	Tier 2	
Small *	< 20kW	6.7p	1.5p	15
Medium *	20-99kW	6.5p	1.5p	99
	100-199kW	6.5p	1.5p	200
Large	>199kW	1.5p		13
				327

*New Tier 2 applied to applications received after 18 November 2015 for all hours after the first 1,314 hours (representing 15 per cent of total hours in the year) of use in the year and up to a maximum of 400,000 kWh).
Source: Department

26 In total, out of 2,128 boilers who applied to be in the scheme, 1,419 were part of multiple-boiler installations at 437 single sites. I am concerned at the extent of the use of multiple boilers which allowed applicants to claim a considerably higher level of subsidy payments than would have been payable for installations with a single boiler of a more appropriate size greater than 100kW (or 200kW after November 2015). I asked the Department to explain why this was allowed to happen.

27 The Department told me that applications are received by Ofgem and administered in accordance with the Regulations. Approval was given for the installations on an individual basis. The Department, supported by its legal advisers, is currently exploring with Ofgem the interpretation of the eligibility of some sites with multiple boilers.

Potential excessive returns

28 I reported last year that I was concerned that the design of the scheme, and the way that the Department operated and monitored it, made it vulnerable to abuse. I also outlined that the level of subsidy that had been set for the scheme i.e. without tiering, meant that users could make excessive returns even when they were using the boilers within the intentions of the scheme.

29 Table 5 outlines the actual extent that boilers were used in 2016-17 and the amount of subsidy received per boiler. For applications received before 18 November 2015, tiering of the subsidy rates does not apply and based on the extreme assumption of virtually continuous use throughout the year for one boiler, an applicant would obtain a maximum annual grant of £56,371 for a single 99kW boiler.[5]

[5] Calculation based on 8,760 hours, a 99kW boiler and 6.5p/kWh subsidy.

30 While this is a theoretical maximum that could be paid, Table 5 shows that the actual level of usage for a number of boilers came close to this level.

Table 5: Number of hours run by boilers during 2016-17 for installations before 18 November 2015

Percentage of total annual hours operated in 2016-17	Total annual hours run by one boiler in 2016-17	Number of boilers	Typical RHI payment for one 99KW boiler in 2016-17 at this level of usage *
0-10%	Up to 876	81	£2,819
10-20%	876 - 1,752	192	£8,456
20-30%	1,752 - 2,628	219	£14,093
30-40%	2,628 - 3,504	269	£19,730
40-50%	3,504 - 4,380	267	£25,267
50-60%	4,380 - 5,256	242	£31,004
60-70%	5,256 - 6,132	213	£36,641
70-80%	6,132 - 7,008	129	£42,278
80-90%	7,008 - 7,884	65	£47,915
90-100%	7,884 - 8,760	10	£53,552
		1,687**	

* This figure is based on the midpoint of the range of hours and a 99kW output boiler and the subsidy rates prior to 18 November 2015.
**114 other boilers were applied for under the scheme but have not received any payments because either they have not yet been accredited or because they were rejected for a variety of reasons, or were withdrawn voluntarily.
Source: Department, *NIAO calculations

31 For boilers applied for after 18 November 2015, a tiered rate was used so that the higher rate of 6.5 pence per kWh was only available for the first 15 per cent of hours used in a year before dropping to 1.5 pence per kWh. There was also a maximum cap of 400,000 kWh. This appears to have had a significant impact on the amount of use of these boilers, as set out in Table 6, with the majority using the boilers for less than 20 per cent of the hours in the year and only one user above 50 per cent. As already noted in paragraph 24, the majority of boilers installed after 18 November 2015 were 199 kW boilers.

Table 6: Number of hours run by boilers during 2016-17 for installations after 18 November 2015

Percentage of total annual hours operated in 2016-17	Total annual hours run by one boiler in 2016-17	Number of boilers	Typical RHI payment for one 199 kW boiler in 2016-17 at this level of usage *
0-10%	Up to 876	69	£5,666
10-20%	876 - 1,752	148	£16,997
20-30%	1,752 - 2,628	25	£19,611
30-40%	2,628 - 3,504	7	£19,611
40-50%	3,504 - 4,380	1	£19,611
50-60%	4,380 - 5,256	0	£19,611
60-70%	5,256 - 6,132	1	£19,611
70-80%	6,132 - 7,008	0	£19,611
80-90%	7,008 - 7,884	0	£19,611
90-100%	7,884 - 8,760	0	£19,611
		251**	

* This figure is based on the midpoint of the range of hours and a 199kW output boiler and the subsidy rates after 18 November 2015.
** 76 other boilers were applied for under the scheme but have not received any payments either because they have not yet been accredited or because they were rejected for a variety of reasons, or were withdrawn voluntarily.
Source: Department, *NIAO calculations

32 As discussed later in this report, the Department has reduced the subsidy rate in 2017-18 for all users of the scheme to the tiered, post-18 November 2015 rate that also includes a cap on usage. I would urge the Department to closely monitor if this reduction in the incentive to burn wood excessively results in a similar change in behaviour for those who had previously been paid the higher rates and to seek explanations where this is the case. The Department has told me that it intends to monitor closely the amount of heat generated by each installation following the change in the RHI payment structure, in the context of the 400,000kWh usage limit.

Ofgem

33 Ofgem has carried out a number of responsibilities on behalf of the Department in relation to the non-domestic RHI scheme. These have included:
- Approval of applications to the scheme;
- Inspections of existing users of the scheme to ensure compliance with rules; and
- Recommending actions where potential breaches of the rules have been identified.

34 The amount that has been paid by the Department to Ofgem for administering the scheme since 2012 and the number of applications received and inspections undertaken by Ofgem is shown in the table below.

Table 7: Payments to Ofgem and inspections undertaken

Year	Amount paid to Ofgem	Number of inspections	Number of applications received
2012-13	£526,000	-	-9
2013-14	£165,000	5	119
2014-15	£211,000	12	434
2015-16	£253,000	14	1,566
2016-17	£445,000	57	Scheme Suspended

Source: Department

35 As a result of the issues identified in my report last year and the considerable spike in applications, the amount of inspections undertaken by Ofgem in 2016-17 has increased. Of the total of 88 inspections undertaken by Ofgem since 2012-13:
- 11 are still under review;
- 77 inspections have been finalised and the results are outlined below;
  - 6 have been viewed as good;
  - 28 have been viewed as satisfactory;
  - 35 have been viewed as weak and/or unsatisfactory and sanctions/further investigations remain ongoing;
  - 8 are still under investigation at one site and haven't been given an initial rating yet; and
  - None have yet been removed from the scheme.

36 In addition PwC provided details of the cases it had examined to Ofgem to consider if further action was required. The Department has told me that:
- of 20 category 4 cases referred to Ofgem, 18 have been concluded of which 2 installations have been revoked with the other 16 installations still continuing on the scheme. The remaining 2 cases are still under investigation; and
- the 51 category 2 and 3 cases referred to Ofgem are currently being investigated. Again, to date, none have been removed from the scheme.

37 I asked the Department how it is working with Ofgem to ensure that there is better sharing of information and enforcement of instances of non-compliance. The Department told me that they have formalised the relationship by means of the “Administrative Arrangements” document between the two organisations and are finalising a revised Memorandum of Understanding. In addition the Department and Ofgem now have in place dedicated weekly conference calls and monthly Ofgem NIRHI Board meetings (with DfE representation) at which performance is monitored, risks reviewed and issues documented and discussed.

100 per cent site inspections

38 In response to the significant concerns I raised last year in my report, the PwC report, PAC evidence sessions and general public interest, the Department had intended to procure a suitably qualified independent external organisation to undertake a detailed on-site inspection of all non-domestic RHI installations. This review had been expected to start in early summer 2017. However the initial procurement process has not been successful. I asked the Department how it now intends to proceed with the inspection process and what its anticipated timeline is. The Department told me that it sought and received feedback from potential suppliers and after consideration of the points made decided that a pilot programme of inspections in partnership with Ofgem should be undertaken. It is still considering the extent of this pilot programme which is expected to take place in the second half of 2017.

39 It is of vital importance that when the full inspection process commences that there are detailed plans in place to deal with enforcement of any issues that are identified during the process. There would clearly be little benefit in carrying out the inspections if no action was taken when issues were identified. In respect of enforcement the Department told me the pilot programme will consider how enforcement should be undertaken given that the pilot inspections will cover an element of business analysis as well as technical checks.

Cost control measures in 2017-18 and anticipated impact

40 I reported last year that if no action was taken, there would be a substantial cost to the NI Block in respect of the amounts committed to be paid for 20 years which were in excess of the Treasury funding. At that time the Department had estimated a cost to the NI Block of around £140 million for the five years to 2020-21, with further costs continuing to be incurred until 2037-38.

41 In order to address the issue of potentially excessive returns for some users, and to reduce the possible incentive for wasting heat, the Department has introduced a new tiered tariff rate and a cap on heat output, which is in place for one year commencing 1 April 2017. This tiered rate applies to scheme users who joined before 18 November 2015 and makes the rate the same as that for users who joined after that date up to the date of scheme closure. The new rates are set out in the table below.

Table 8: Scheme subsidy rates 2017-18 (for medium sized (20-199Kw) biomass boilers)

	2017-18 rates/kWh	**2016-17 rates/kWh**
Up to 1,314 hours	6.7p	6.5p
Remaining hours in the year (up to maximum of 400,000 kWh – based on a 99kW boiler this would allow for use for about 11 hours per day 365 days a year)	1.5p	6.5p (1.5p for applications post 18 November 2015)
Maximum output allowable	400,000 kWh	No maximum for installations accredited before 18 November 2015
Maximum annual grant receivable (approximate)	£12,765*	None (based on maximum annual usage would be up to £56,371**)

* Based on 99 kW boiler - 1,314 hours of 99 kW boiler = 130,086 kWh at 6.7p = £8,716 plus 269,914 kWh at 1.5p = £4,049.
** Based on 99 kW boiler - 8,760 hours (365 days at 24 hours) of 99 kW boiler = 867,240 kWh at 6.5p = £56,371.

42 The new tiered rate in 2017-18 is subject to an ongoing judicial review, which has challenged the ability of the Department to significantly vary the subsidy rates other than in line with inflation. Assuming the new tiered tariff is allowed to stand, the Department estimate a huge reduction in the cost of the scheme. As shown in the table below, the annual cost of the scheme to the NI block is projected to reduce to £2 million compared to £30 million at the time of my report last year.

Table 9: Projected scheme costs in 2017-18

	Revised estimated 2017-18 costs (new tiered rate*)	**Previously estimated 2017-18 (old subsidy rate)**
	£million	**£million**
Total projected cost of RHI scheme in 2017-18 *	**24**	**52**
Costs covered through NI share of UK RHI budget Annually Managed Expenditure	**22**	**22**
Costs met from the NI Executive Departmental Expenditure Limit (DEL)	**2**	**30**

*subject to judicial review
Source: Department

43 The Department intends to consult later this year on the appropriate rates for the scheme in the remainder of its lifetime. As a result of the uncertainty relating to both the ongoing judicial review and the proposed consultation it is not possible at this

stage to estimate the total costs and the impact on the block grant for the remainder of the scheme.

Qualified audit opinion

44 I am required under the Government Resources and Accounts Act (Northern Ireland) 2001 to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

45 I have qualified my audit opinion again this year for the same reasons as last year:
- ongoing weaknesses in controls in the non-domestic RHI scheme; and
- expenditure incurred without the necessary approvals in place.

46 As was the case in 2015-16, I was unable to obtain sufficient evidence that the controls over the spending on the non-domestic RHI scheme were adequate to prevent or detect abuse of the scheme. As I stated last year the scheme had serious systemic weaknesses including:
- there were no cost control measures put in place which encouraged some applicants to burn heat in order to claim the subsidy;
- it was over-generous in incentivising renewable heat;
- the Department did not properly monitor or control the scheme and placed too much reliance on the work of Ofgem who administered the scheme on their behalf; and
- the Department had not identified the risks of overspending at an earlier stage which has cost the Northern Ireland block grant a total of £27 million in 2016-17.

47 I have again also qualified my regularity audit opinion because of a lack of required approvals being received by the Department in relation to a significant proportion of the spending on the non-domestic RHI scheme. At the commencement of the scheme in November 2012, the Department of Finance and Personnel (DFP – now the Department of Finance (DoF)) had given approval for expenditure under the scheme up to 31 March 2015. DETI was due to seek re-approval of the scheme from DFP from 1 April 2015 but this was overlooked and DFP approval was not granted until 29 October 2015.

48 During this seven-month period in 2015-16, there were 788 boiler applications to the scheme, out of a total of 2,128 boiler applications (37 per cent). The ongoing costs incurred during 2016-17 in relation to these 788 applications amounted to £18.8 million (£11.9 million in 2015-16) and as stated above, because these applications were accepted onto the scheme by DETI during a period in which there was no DFP approval, the total expenditure in relation to them continues to be irregular.

49 The above irregular expenditure incurred on the non-domestic RHI scheme in 2016-17 of £18.8 million represents 44 per cent of the total expenditure incurred on the non-domestic RHI scheme of £42.3 million in 2016-17. It is likely that a similar proportion of the non-domestic RHI expenditure will continue to be irregular each year until 2037-38 when the scheme closes unless the Department is able to obtain retrospective approval from DoF.

Conclusion

50 The Department has made some progress in addressing the issues arising from my report last year. In particular the tiering of the tariff subsidy rate and longer term consultation on a reasonable rate of return for the scheme will have a big impact on costs. This is dependent on the outcome of various legal challenges.

51 However I continue to have significant concerns about the operation of this scheme and the serious systemic weaknesses in controls that have facilitated the possibility of funding that is at best not in line with the spirit of the scheme and at worst is fraudulent. The proposed physical inspection of all scheme installations will provide some evidence about the scale of any abuse and how the Department respond to enforcement where any abuse is identified will be very important.

K J Donnelly

KJ Donnelly	**Northern Ireland Audit Office**
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