

Department for the Economy

# **ANNUAL REPORT AND ACCOUNTS**

For the year ended 31 March 2020

**Department for the Economy  
Annual Report and Accounts  
For the year ended 31 March 2020**

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### **Purpose of the Overview Section**

The purpose of the overview section is to provide information on the Department for the Economy (DfE), its purpose, the key risks to the achievement of its objectives and to show how the Department has performed throughout the year.

### **Permanent Secretary's Overview**

I am pleased to present the DfE Annual Report for 2019-20. 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 objectives and targets.

2019-20 has been challenging for the Department largely due to the absence of the Assembly for most of the year and the significant consequences this has had for the Department's plans. In the absence of a functioning Assembly and Executive, we centred our work plans around the Outcomes Framework in the draft Programme for Government and contributed to the Outcomes Delivery Plan developed by the Executive Office.

An even greater challenge arose towards the end of the year in the form of COVID-19, an unprecedented public health crisis. Like all NICS departments, DfE had to put in place mechanisms to maintain proportionate business continuity while at the same time protecting the health and wellbeing of staff and developing rapid interventions to limit the economic impact of the pandemic, all of which has had a considerable bearing on the Department's ability to fulfil its objectives.

A key priority throughout the year was preparing for our departure from the EU and managing the impact of this. The Department played a key role in: supporting the continuation of the Single Electricity Market; minimising the impact on EU funded programmes and projects; and carrying out factual analyses to inform stakeholders, decision makers and help businesses prepare for Brexit.

Throughout the year, we have delivered for local people and the local economy. Some major achievements in 2019-20 include: making natural gas available to businesses and consumers in eight towns in the west of NI; successfully hosting The 148<sup>th</sup> Open which attracted over 237,000 spectators and generated more than £100m to the NI economy; exceeding targets in the number of employees who have been up-skilled through the Skills Focus programme; and supporting over 1,500 young people to participate in the Peace4Youth Programme.

Our achievements as a Department may be considered all the more admirable in light of the uncertain political context in which we worked for most of the year and, more recently, in light of the disruptions brought about by COVID-19. These achievements could not have been accomplished without the hard work, dedication and resilience of staff at all levels of the Department and I would like to take this opportunity to thank staff for their efforts throughout the year and their ongoing support in the challenging times ahead.

**Mike Brennan**

## **PURPOSE AND ACTIVITIES**

### Introduction

The Department for the Economy was established in May 2016 as one of the nine central government Departments in Northern Ireland.

### Vision, Mission and Strategic Objectives

The vision, mission and strategic objectives of the Department are set out below.

#### Our Vision

A globally competitive economy that works for everyone.

#### 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.

#### Strategic Objectives

1. Accelerate innovation and research.
2. Enhance education, skills and employability.
3. Drive inclusive, sustainable growth.
4. Succeed in global markets.
5. Build the best economic infrastructure.
6. Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers.
7. Ensure the Department has effective governance, including programme and project management, and manages its resources, both financial and staff.
8. Implement measures to mitigate the impact of coronavirus.<sup>1</sup>

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1 Strategic Objective 8 was added in March 2020 to take account of the Coronavirus outbreak.

### Organisational Structure

To deliver its mission and strategic objectives the Department was structured into five main business areas (Groups) during 2019-20 as follows:

- EU Exit Preparation and Transition Group;
- Economic Strategy Group;
- Management Services and Regulation Group;
- Skills and Education Group; and,
- Energy Group.

Operating under each of these Groups were a number of functionally independent Divisions, as outlined below<sup>2</sup>:



It should be noted that the Permanent Secretary and Accounting Officer for the Department for the 2019-20 financial year was Mr Noel Lavery until 29 November 2019, when he retired. Mr Mike Brennan was appointed as Acting Permanent Secretary from 1 December 2019 but designated as Accounting Officer from 21 November 2019.

<sup>2</sup> As normal run of business, there were a number of changes in staffing at senior levels during the year due to retirement, transfers etc. The chart reflects the position in March 2020.

## **ECONOMIC CONTEXT**

### **COVID-19 Impact**

The impact of COVID-19 has been unprecedented with huge economic impacts that in normal conditions take months or years to unfold occurring in a matter of days and weeks. Large sections of the Northern Ireland economy have come to a standstill as a result of COVID-19 with most countries imposing lockdown and industry shutdowns.

As a result, initial assessments of the Northern Ireland economy suggest overall current output is potentially running 25% to 30% below normal. The economy is expected to experience a staggering decline in economic growth over the year, with local independent forecasters suggesting that our economy could shrink by something in the region of 7% to 10% in 2020.

Key short-term indicators suggest that there will be severe impacts on the local labour market with high levels of unemployment expected coupled with a severe decline in hiring intentions.

Figures published by HMRC show that some 211,700 workers in NI have been furloughed using the Government's Coronavirus Job Retention Scheme (CJRS) and self-employed individuals in NI have made 69,000 claims using the Government's Self-Employment Income Support Scheme (SEISS) up until the end of May 2020.

***It should be noted that the majority of indicators below pre-date the economic impacts relating to COVID-19 and therefore do not fully reflect the current economic situation.***

### **Global Economy**

The European Commission expects severe contractions in all economies due to Covid-19 and the containment measures it has necessitated. It projects the global economy to contract by 3.5% in 2020 but to recover to grow by 5.2% in 2021. The Euro Area is forecast to shrink by 7.7% in 2020 before a rebound of 6.3% growth in 2021.

### **Northern Ireland Economic Performance**

The impact of COVID-19 on the Northern Ireland labour market is not fully reflected in the latest Labour Force Survey estimates, which showed no change in the employment rate, the unemployment rate and the economic inactivity rate over the quarter to January-March 2020.

However, more timely indicators relating to April (experimental Claimant Count and redundancies information) begin to show the impact of COVID-19 on the labour market. The number of people claiming unemployment benefits increased by 89% over the month to approximately 56,200 while the number of confirmed redundancies (3,108) in the twelve months to April 2020 was 47% higher than in the previous twelve months.



The number of employee jobs continued to increase over the year to December 2019. The total number of employee jobs increased by 1.4% (10,730 jobs) with around 6,810 additional jobs in the private sector and 3,710 in the public sector. At the sectoral level, services employee jobs increased by 1.6%, manufacturing jobs increased by 0.4% and jobs in other industries were up by 1.8% over the year. Construction jobs decreased by 0.2% over the year.

The latest Northern Ireland Composite Economic Index estimates that on a rolling annual average basis Northern Ireland economic output grew by 0.7% in real terms over the year to Q4 2019 compared to the four quarters previously, with growth in both the public sector (1.3%) and the private sector (0.5%). More specifically, the Production and Services sectors experienced annualised growth rates of 1.8% and 0.3% respectively. This was partially offset by a 1.0% contraction in the Construction sector.

In the year to March 2020, the value of goods exported from Northern Ireland (based on HMRC Regional Trade Statistics) was £8.9bn, an increase of 1.9% over the year. The largest markets for our exports continued to be the EU (£5.2bn, and £3.1bn of that to the RoI) and the United States (£1.1bn).

Research & Development (R&D) results for 2018, published in November 2019, show that R&D expenditure by Businesses, Higher Education and Government in Northern Ireland was £794 million in 2018, an increase of 5.2% compared to 2017. Business expenditure on R&D (BERD) accounts for some 69.2% of total R&D. In-house BERD is currently equivalent to 1.3% of Gross Value Added (GVA), with Northern Ireland ranking as the joint fifth highest performing UK region.

### **Future Economic Outlook**

The European Commission and the Office for Budgetary Responsibility estimate that the UK economy will contract by 8.3% and 12.8% respectively in 2020. The Bank of England has warned that the UK economy is heading towards its sharpest recession on record with the economy expected to shrink 14% this year.

Local independent economic forecasters have all predicted a significant decline in economic growth in 2020 due to the impact of COVID-19 with expected contractions in the Northern Ireland economy ranging from around -7% to -10%.

It should be noted that many of these projected growth outcomes for 2020 are predicated to one degree or another upon a Quarter 3 and 4 bounce back, with the massive contraction in the economy largely being confined to Quarter 2. However, if the economy continued to operate well below its usual level beyond Quarter 2, for example with an extended lockdown, the outcome for annual growth could be much worse than even those forecasts set out above.

### **Key Strategies**

The strategic focus of the Department during the year was the Outcomes Framework contained in the draft Programme for Government. DfE contributed to the NICS Outcomes Delivery Plan for 2019-20, leading on the development and implementation of Delivery Plans for Outcomes 1, 5 and 6 and contributing to several others.

With the return of the Northern Ireland Executive in January 2020, work began on a new Outcomes Delivery Plan to reflect the new focus for the NICS as outlined in the New Decade New Approach agreement. However, that work was suspended due to COVID-19.

Underpinning the Department's contributions to the Outcomes Framework are a number of complementary Strategies which the Department continued to work towards progressing in 2019-20, focussing on specific areas of the economy. These included the Skills Strategy, Careers Strategy and Higher Education Strategy.

The Department has also continued to develop a number of other key Strategy documents during the year, such as a new Tourism Strategy and a new Energy Strategy. As outlined in more detail in the Performance Analysis section, work in this regard has been delayed due to the need to re-focus resources on other pressures and priorities.

### **UK's Withdrawal from the EU**

The Department has had a key role in ensuring, as far as possible, that the UK Government's negotiation strategy for leaving the EU has been informed by issues pertaining to the Northern Ireland economy. Working within the NICS-wide EU Exit preparation structures, the Department has continued to take forward considerable work on a number of key areas including: EU Exit contingency planning; research on the impacts of EU Exit on services and data, migration, access to skills and labour, trade, common UK frameworks and internal markets; business readiness; and stakeholder engagement.

The total DEL Resource expenditure associated with the delivery and preparation on EU Exit activities across the Department for the year end 2019-20 was £9.247m, which is 0.9% of the total DfE budget for the year.

In terms of staff resource, the total number of full time equivalent staff working on EU Exit activities was 109, which represents just over 9% of the total number of staff in the Department.

The Department continues to work towards ensuring that comprehensive plans are in place to ensure effective preparation for the end of the transition period, and prepare for a new era from 1 January 2021 onwards.

### **Staffing in the Department**

The staffing situation in the Department was largely stable during the year, with recruitment activity progressing as required, and performance and absence management being closely monitored. The public health crisis which arose in March 2020 did however have a major impact on staffing.

At the beginning of the COVID-19 crisis, the Department took the decision to close all buildings and move staff, as far as possible, to a remote working model. This remains under review, with consideration being given to how and when staff might begin to return to work in an office environment that is safe and takes account of social distancing requirements.

Although no temporary redeployment had been affected as a result of the onset of the COVID-19 emergency in the final 2 weeks of March 2020, the Department commenced work with our HR Business Partner to develop DfE Guiding Principles for Redeployment during the course of the pandemic. In addition, while a large number of DfE staff were already IT enabled for remote working due to the nature of their roles, work commenced in those latter weeks of March on a major roll out of IT equipment with Secure Remote Access to facilitate around a further 500 staff working from home to ensure business continuity going forward.

Moving into 2020-21, efforts have centred on ensuring that resources are focused on priority areas. This has included the suspension of non-business critical activities and the temporary redeployment of staff to ensure the continued delivery of business critical functions. The Department is working with NICS HR to ensure that, following the initial hiatus in resourcing due to COVID-19, recruitment for business critical vacancies can be progressed to address the resourcing challenges being faced.

It is too soon to determine the impact of COVID-19 on absence rates, although initial figures indicate that the DfE monthly absence rate for March 2020 was 5.3% (NICS equivalent was 5.6%). The comparable rate for 2018 was 4.9% (NICS equivalent was 5.4%).

### The Departmental Business Plan

The 2019-20 DfE Business Plan set out the key work planned by the Department during the year. As indicated in the performance summary table below, a significant proportion of the Department's commitments for the year as set out in the Business Plan were not achieved. As will be shown in more detail in the Performance Analysis section in this report, COVID-19 and the absence of an Executive for most of the year were major contributory factors in this regard.

STRATEGIC OBJECTIVES		No. of actions with <b>Green</b> status	No. of actions with <b>Amber</b> status	No. of actions with <b>Red</b> status
<b>SO 1</b>	Accelerate innovation and research.	4	1	2
<b>SO 2</b>	Enhance education, skills and employability.	9	3	3
<b>SO 3</b>	Drive inclusive, sustainable growth.	0	0	2
<b>SO 4</b>	Succeed in global markets.	2	2	1
<b>SO 5</b>	Build the best economic infrastructure.	2	3	0
<b>SO 6</b>	Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers.	5	1	0
<b>SO 7</b>	Ensure the Department has effective governance and manages its resources, both financial and staff.	10	3	1
<b>Total</b>		<b>32</b>	<b>13</b>	<b>9</b>

### **Key Corporate Issues and Risks**

During the year, the Department identified and managed a number of key corporate risks to achieving its objectives. These included risks relating to:

- Education and Skills provision not relevant for the current and future requirements impacting on inclusive economic growth;
- insufficient capacity within the Education and Skills system to meet employer and learner needs;
- increase of “at risk” young people becoming more distant or dropping out of the formal education and training system and available provision;
- failure to develop a draft new Energy Strategy;
- failure to deliver agreed grant support to the Gas to the West project;
- failure to sustain the Single Electricity Market (SEM) after EU Exit with potential negative impact on consumer interests;
- failure to transpose the Clean Energy Package (CEP);
- inadequate security of electricity supply arrangements leading to a significant energy supply failure;
- failure of Project Stratum, resulting in inhibited growth in access to improved broadband speeds in non-commercially viable premises;
- ineffective governance, including programme and project management;
- failure to recoup the financial assistance package provided to the Presbyterian Mutual Society (PMS);
- failure to deliver on the development and implementation of key Departmental strategies and plans, including the Industrial Strategy and underpinning Strategies;
- failure to inform UKG on the Northern Ireland position when they are making decisions that will impact on NI;
- non-compliance with GDPR/Data Protection legislation by DfE or one of its Arm’s Length Bodies (ALBs);
- inability to maximise EU funding opportunities / allocations;
- failure to manage the non-domestic Renewable Heat Incentive (RHI) Scheme in a manner which fulfils our obligations to participants and ensures value for money for the taxpayer;
- failure to manage the Northern Ireland Renewables Obligation (NIRO) policy in a cost effective manner;
- possible significant delay in processing Harland and Wolff claims as employee records and staff resources are retained with Harland and Wolff which is subject to an administration process;
- failure to prepare the Department and its stakeholders for EU Exit, constraining the ability of the Department and its ALBs to deliver services;
- risk that submitted City Growth Deal projects do not represent VFM; and,
- sustainability of Ulster University due to the financing requirements of its Greater Belfast Development Project.

Further information on the Department’s risk management process is contained in the Governance Statement.

### **Purpose of the Performance Analysis**

The purpose of the performance analysis is to provide a detailed summary of how the Department measured its performance during 2019-20. This will include a detailed overview of performance against the commitments in the Department's 2019-20 Business Plan.

### **Business Plan Performance**

The Department's 2019-20 Business Plan contained 54 specific actions/ commitments, grouped under seven Strategic Objectives and designed to bring about improvements in a range of performance measures (indicators) identified in the draft Programme for Government Outcomes Framework. The tables below provide an end-year position for each of them. A RAG (Red, Amber or Green) status has been provided to indicate where actions/ commitments have been achieved, partially achieved or not achieved. Where actions were not fully achieved, explanations are provided.

### Strategic Objective 1 – Accelerate innovation and research

ACTIONS	END YEAR POSITION AT 31 MARCH 2020	RAG Status
1. Lead and manage the six further education colleges to deliver 350 projects in 2019-20 through the InnovateUs programme, enabling small businesses to engage in innovation and development activities.		<b>Green</b>
2. Manage the NI Horizon 2020 Contact Point network to support local Universities to increase participation in, and maximise drawdown of funding from, Horizon 2020.	By end February, approximately €94.1m had been drawn down from Horizon 2020. If the current success rate continues, based on the balance of Horizon 2020 funds still to be allocated there is likely to be slippage from the NI Executive target of €145m from the programme overall. Final drawdown from the programme will not be known for many months after its conclusion in December 2020.	<b>Amber</b>
3. Undertake a strategic review of the draft Industrial Strategy to identify emerging economic policy priorities post-Brexit.	COVID-19 mitigations are short term but some will take us into the medium term. However there is a need to develop longer term plans for economic recovery. This will not be in the form of an economic strategy per se but it will be more of an economic recovery strategy. This work will need considerable resource at a strategic level and that resource is currently being diverted to address the short term mitigations of the grant schemes.	<b>Red</b>
4. Reconstitute the Matrix Panel, and agree a 3 year work programme.		<b>Green</b>
5. City Deals – coordinate the DfE engagement on the NI City Deals and manage DfE input to innovation elements.		<b>Green</b>
6. Develop action plan for NI contribution to delivery of UK 2.4% R&D target by 2027.	Delayed until June/July 2020, target had slipped due to delays at UK level including general election and uncertainty over budget. Now further delayed due to COVID-19 response.	<b>Red</b>
7. Provide analytical support in order to prepare for and inform the shape of EU Exit in supporting Whitehall through a programme of research and analysis on migration, the Common Travel Area and trade related issues.		<b>Green</b>

**Strategic Objective 2 – Enhance education, skills and employability**

ACTIONS	END YEAR POSITION AT 31 MARCH 2020	RAG Status
8. To develop a skills strategy for implementation in 2020. This will include exploration with an internationally recognised organisation to assist in evidence based gathering, international benchmarking and international best practice.		<b>Green</b>
9. To have developed and agreed a new Pathways to Success Priorities and Action Plan - to reduce the number of young people who are not in education, employment or training (NEET).	Largely paused as no staff available to progress the work (due to redeployment and lack of remote access). Significant developmental and preparatory work has been progressed but it will need to be re-examined in light of COVID-19, impact on numbers of young people who are NEET and whether different interventions are needed.	<b>Amber</b>
10. Re-skill up to 320 people through the Assured Skills pre-employment training Academies.		<b>Green</b>
11. Lead and manage the Skills Focus programme to deliver 1,700 qualifications to SMEs to help meet business needs and increase the skills levels of the existing workforce to level 2 and above qualifications.		<b>Green</b>
12. Development of English for Speakers of Other Languages (ESOL) policy for NI.	<p>Up until mid-march the drafting on the ESOL strategy had been progressing in line with the expected timescales, with a proposed policy structure and content set out based largely on desk based research and initial stakeholder feedback gathered through a questionnaire and one-to-one meetings, with the engagement events planned in March to seek further stakeholder views and test early assumptions.</p> <p>Whilst still under consideration and subject to prioritisation of work and availability of staff resources, it is planned that engagement activities will recommence using alternative means as soon as possible. The Policy Team is currently seeking views on viable technical options to accomplish this (mindful that the earlier electronic request for engagement from ESOL providers to respond in February 2020 received only a 10% response rate). Moving towards this the Advisory Group which was established for the policy review has been re-engaged and recently canvassed for their views/ experience on how to best meaningfully engage ESOL learners and providers during this period, with advice also sought from the DfE communications team.</p>	<b>Red</b>



**Strategic Objective 2 – Enhance education, skills and employability**

<b>ACTIONS</b>	<b>END YEAR POSITION AT 31 MARCH 2020</b>	<b>RAG Status</b>
13. Develop with DE a more strategic joined-up approach for 14–19 year old education by progressing the development of joint DE/DFE Transition of Young People in Careers 14/19 Strategy.	Project has been deferred by Department of Education.	<b>Amber</b>
14. Support training delivery for circa 9,000 apprentices.		<b>Green</b>
15. Oversee and manage the delivery of Training for Success provision for up to 4,000 young people.		<b>Green</b>
16. Take forward the Youth Training Strategy through development of a full Traineeship Implementation plan.	As a result of COVID-19 and the associated mitigations, Training for Success will be extended for a year to prepare further preparatory work for 2021 and launch of new Traineeship and complementary Skills for Life/Skills for Work programme.	<b>Red</b>
17. Deliver the Careers Strategy 'Preparing for Success 2015-20' Action Plan for 2019-20, which will: offer face to face careers guidance interviews to all Year 12 pupils with the aim of accessing at least 95% of pupils in their final year of compulsory education; and deliver careers guidance to at least 12,000 adults through the delivery channel which best meets their needs including face to face interviews, webchat and telephony.		<b>Green</b>
18. Support up to 1,500 participants who are suitable to avail of the Peace4Youth offer during 2019-20.		<b>Green</b>
19. Continue to engage with our higher education institutions to protect and promote economically relevant subjects as part of the annual funding allocation process, drawing upon dynamic forecasting information to monitor progress in this area.	For academic year 2018-19, 22.4% of qualifications achieved at an NI Higher Education Institution (HEI) were in narrow Science, Technology, Engineering & Mathematics (STEM) areas. This is a slight reduction on academic year 2017-18 figure which stood at 23.4%. The refreshed Skills Barometer identifies continuing shortages in a subset of STEM areas. However, the Barometer shows that rather than increasing higher education places, there is a need to rebalance provision. Subjects allied to medicine; business and administrative studies; and education, remain the most popular subject choices for students studying at local institutions.	<b>Amber</b>

## Strategic Objective 2 – Enhance education, skills and employability

ACTIONS	END YEAR POSITION AT 31 MARCH 2020	RAG Status
19. continued.	<p>There has also been a slight decline in the number of students enrolled in narrow STEM subjects at the local HEIs. In academic year 2018-19, 25.9% of students at NI HEIs werestudying a Narrow STEM related subject, down from 26% in academic year 2017-18.</p> <p>This continues to be a demand and supply issue: with institutions providing places based on the demand from prospective students in specific subject areas. Work continues on a funding model for higher education which will seek to encourage and incentivise institutions to deliver skills needed by the economy. However, with the potential impact of COVID-19 on admissions this year, it is probable that more expensive STEM subjects may be most impacted.</p>	<b>Amber</b>
20. To develop the understanding of Northern Ireland access to skills/labour issues in the context of EU Exit in order to inform decision makers.		<b>Green</b>
21. Manage year 2 delivery of the 67 live European Social Fund supported projects which aim to combat poverty and enhance social inclusion by reducing economic inactivity and to increase the skills base and employability of potential participants in the workforce.		<b>Green</b>
22. To monitor employment law developments in respect of the “Good Work” Agenda and develop Northern Ireland policy proposals for a future Minister.	<p>Progress in year had been slower than anticipated due to the need to priorities available resources to other work areas that arose throughout the year, including an assessment of the Court of Appeal judgment in relation to a holiday pay case and, towards the end of the year, the need to progress coronavirus related legislation. In addition, with the restoration of the NI Executive in January 2020 there was a need to reconsider this objective to take account of Ministerial priorities and the references to employment relations in the New Decade New Approach document.</p>	<b>Red</b>

**Strategic Objective 3 – Drive inclusive, sustainable growth**

ACTIONS	END YEAR POSITION AT 31 MARCH 2020	RAG Status
<p>23. Develop a coherent programme for the Department to secure UK Shared Prosperity Funding for economic development activities.</p>	<p>Department of Finance (DoF) lead on the development of the NI element of the UKG Shared Prosperity Funding (SPF). Ministry of Housing, Communities and Local Government (MHCLG) team leading the UK SPF have been diverted to work on COVID-19 work. The SPF focus will need to change and adapt to the changing circumstances and addressing the impacts of COVID-19. Previous aim and objectives were focussed on to UKG policy of “levelling up” and “rebalancing” the economy post Brexit. Significant funding gaps emerge from January 2021 when the UKG SPF was to be operational. DoF / Future Policy and Finance Workstream have undertaken an impact assessment of a 6 month and 12 month gap in funding provision to inform their engagement with Ministers and HMT/UKG on replacement funding.</p>	<p><b>Red</b></p>
<p>24. Through a cross-departmental group, develop a policy framework for the Circular Economy.</p>	<p>There was a delay of around three months in SIB recruiting a project manager to take the work forward and they were only in post from the start of March 2020. Support for the project was initially reduced due to a need to divert resource to assess the City-deal projects. From early March the work was paused because all branch resources were diverted to respond to the design and development of the COVID 19 grant schemes. However some work was still being progressed by Strategic Investment Board (SIB) who have been contracted to take forward on behalf DfE. This was at a much reduced capacity due to the COVID-19 crisis.</p>	<p><b>Red</b></p>

### Strategic Objective 4 – Succeed in global markets

ACTIONS	END YEAR POSITION AT 31 MARCH 2020	RAG Status
25. Develop and publish for public consultation a Draft Tourism Strategy to 2030 for Northern Ireland to increase visitor numbers and revenue and to support job creation.	There have been delays in progressing drafting of Strategy and cross-departmental engagement due to other pressures and priorities during reporting year. Due to the COVID-19 impact, Tourism Strategy to 2030 is on hold for foreseeable future.	<b>Red</b>
26. Support Tourism NI in its lead Operational role for the successful delivery of The 148th Open.		<b>Green</b>
27. To develop, inform and coordinate Northern Ireland's contribution to UK International Trade Policy.		<b>Green</b>
28. To develop an International Engagement Protocol for DfE which supports delivery of the NICS International Relations Strategy.	In order to ensure the Department shapes its international engagements in a manner that maximises strategic benefits, work was taken forward on developing an International Engagement Protocol. That work has identified best practice examples and has led to the development of a database of international engagement across DfE and its ALBs. However, the finalisation of the protocol has been delayed as staff resource dedicated to this action was redeployed to the higher priority COVID-19 economic response work.	<b>Amber</b>
29. Conclude with industry on the position on an agri-food marketing body.	Awaiting response from agri-food representatives.	<b>Amber</b>

**Strategic Objective 5 – Building the best economic infrastructure**

ACTIONS	END YEAR POSITION AT 31 MARCH 2020	RAG Status
30. To award contract for Project Stratum.	Project Stratum is progressing within the current project timeline. The delay in reaching contract award is due to a number of procurement/State Aid compliance issues which have been resolved. Contract award is expected in September 2020.	<b>Amber</b>
31. Complete a consultation on a new Energy Strategy.		<b>Green</b>
32. Natural gas to be made available to all specified towns under the Gas to the West project.	The gas pipeline project in respect of the 220km of new inter-town pipelines has been completed. However the grant verification process has been delayed because of external Financial Consultants F&G, and DfE Agency Accountant being unavailable due to COVID-19 restrictions. Also delay in completion of site works by developers could delay grant submissions.	<b>Amber</b>
33. In partnership with Department for Business, Energy & Industrial Strategy (BEIS) and working with key stakeholders, ensure effective arrangements are in place to support the continuation of the Single Electricity Market in the context of EU Exit.		<b>Green</b>
34. Establish a project to meet the requirements of the Clean Energy Package and deliver against project plan (as required following the UK's exit from the European Union).	The Energy Performance of Buildings Directive (EPBD) work stream (which is managed by DoF and lead by Ministry of Housing, Communities and Local Government (MHCLG) not DfE/BEIS) is delayed due to proposals from England running late. The EPBD transposition deadline of 10 March 2020 was missed by UKG, however EU confirmed that no infraction proceedings would be issued in March. NI is reliant on this policy and technical development from Whitehall. DoF internal preparations continue and DfE is working with DoF, BEIS and MHCLG to ensure we are kept abreast of UK progress. Staffing of DfE Departmental Operations Centre (DOC) for COVID-19 has impacted on DfE staffing for Risk Preparedness Regulation, Governance Regulation and Electricity Directive.	<b>Amber</b>

**Strategic Objective 6 – Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers**

ACTIONS	END YEAR POSITION AT 31 MARCH 2020	RAG Status
35. In preparation for the return of the Northern Ireland Assembly to draft a Bill to update and modernise insolvency legislation and regulation in line with developments in England and Wales and ensure effective arrangements are implemented to accommodate the UK's exit from the EU.		<b>Green</b>
36. To deliver effective administration and investigation of insolvent estates, take enforcement action to protect the public in appropriate cases, and publish performance details in an Annual Report.		<b>Green</b>
37. To introduce Early Conciliation for employment tribunal claimants and respondents.		<b>Green</b>
38. Set up a project to implement a root and branch review of mutual society legislation in Northern Ireland by June 2019.	Project plan will be developed by September 2020.	<b>Amber</b>
39. To set up a Regulators' Forum in Northern Ireland to ensure effective delivery of regulation post Brexit.		<b>Green</b>
40. To assess what consumer protection will look like outside the EU and develop proposals for action as necessary, in particular in relation to: changes to legislation; cross border enforcement and cooperation; funding for specific enforcement and inspection regimes; EU arrangements and frameworks; and Northern Ireland specific issues.		<b>Green</b>

**Strategic Objective 7 – Ensure the Department has effective governance, including programme and project management arrangements, and manages its resources, both financial and staff**

<b>ACTIONS</b>	<b>END YEAR POSITION AT 31 MARCH 2020</b>	<b>RAG Status</b>
41. Continue to implement the lessons learned from the Non Domestic Renewable Heat Incentive Scheme Inquiry, including the development of a comprehensive and effective response to the Inquiry's Final Report.	Achieved with delay due to report publication being delayed.	<b>Amber</b>
42. Agree a Governance Strategy to guide the Department's governance behaviours and activity in future years.	Target not achieved in year. Action is paused due to COVID-19 and will be formally reviewed at the end of the first quarter of this 2020-21.	<b>Red</b>
43. Oversee and promote good governance and accountability arrangements across all of the Department's Sponsored Bodies, including through: ensuring adherence to Framework Documents; approval of business plans; formal assurance reporting; and regular accountability meetings.		<b>Green</b>
44. Deliver an effective system of internal assurance for the benefit of the Accounting Officer and Board, including formal assurance reporting, risk management procedures, and the work of internal and external audit.		<b>Green</b>
45. Implement a Departmental People Plan to respond to the findings of the DfE People Survey, with a range of specific actions and targets owned by all staff within the Department with a view to increasing the Department's Employee Engagement Index.		<b>Green</b>
46. Effectively perform the role of Managing Authority for the delivery of European Regional Development and European Social Fund Programmes, to ensure that through appropriate governance and compliance with EC rules and regulations, financial allocations in excess of €1 billion are safeguarded.		<b>Green</b>
47. To participate in relevant UK wide working groups to ensure that all operational issues are taken into account in EU exit planning and that impact on EU funded Programmes and projects is minimised following EU exit.		<b>Green</b>
48. Ensure that provisional non-ring fenced outturn for each of Conventional Capital and Resource is at least 99%, but does not exceed 100%, of the final Budget. This will be completed through the effective operation of budgetary controls including the application of monitoring rounds.	The Department has not yet finalised the Outturn for 2019-20 however indications, prior to COVID-19, were that the Department would meet the targets for both Non Ring-fenced RDEL and Conventional Capital. However the impact of COVID-19 is still being confirmed, therefore outcomes are unknown.	<b>Amber</b>

**Strategic Objective 7 – Ensure the Department has effective governance, including programme and project management arrangements, and manages its resources, both financial and staff**

<b>ACTIONS</b>	<b>END YEAR POSITION AT 31 MARCH 2020</b>	<b>RAG Status</b>
49. To monitor and deliver a business plan to assist with the delivery of the Presbyterian Mutual Society (PMS) loan repayment within the agreed parameters.	The Department is awaiting an updated report on PMS Investment property values and the impact of COVID-19, therefore until this report has been received and assessed an amber status is appropriate.	<b>Amber</b>
50. Provide strategic oversight for the delivery and governance of seven major Further Education capital build projects and the Systems Technology and Services (STS) IT project with a value £235m.		<b>Green</b>
51. Conduct an internal review of the Department's current EU Exit work programme, and develop proposals for the management of the EU Exit transition portfolio (to include the core Department and its ALBs) going forward.		<b>Green</b>
52. Undertake factual analysis of EU Exit issues and develop a clear understanding of related DfE stakeholder views in order that decision makers can be informed about the risks and opportunities for Northern Ireland as the UK prepares to leave the European Union.		<b>Green</b>
53. Coordinate input and analysis on a range of EU Exit issues including contingency plans, Common Frameworks, legislation, stakeholder engagement etc. to support delivery of services after Exit by the Department and its ALBs.		<b>Green</b>
54. Continue towards completion of inspections at 100% of sites on the Non-Domestic Renewable Heat Incentive Scheme. Complete Phase 2 inspections at 250 sites. Undertake inspections at a further 185 sites.		<b>Green</b>



## Key Performance Measures

The actions/commitments outlined under objectives 1-5 of the Business Plan were all designed to help to bring about improvements in a range of performance measures (indicators) identified in the draft Programme for Government Outcomes Framework. While data for the 2019-20 period is not yet available for most of these indicators, the most recent performance data available is presented in the tables below. The Department will continue to monitor performance against these indicators in future years. Performance measures have also been identified and monitored for objective 7.

### Strategic Objective 1 – Accelerate Innovation and Research

Indicator	Description	Performance
Rate of Innovation Activity	% of companies engaging in innovation activity	Latest data is 2014-2016 which shows that 40% of firms engage in innovation activity.
UK Regional Innovation Ranking	NI Innovation Survey is subset of UK wide Innovation Survey based on proportion of innovative firms for the 12 UK regions.	NI Innovation ranking fell from 11 <sup>th</sup> out of the 12 UK regions in 2012-2014 to 12 <sup>th</sup> in 2014-2016.
Northern Ireland Research and Development Survey	Total expenditure on Research and Development in Northern Ireland.	Total expenditure on R&D in NI in cash terms was £794.0 million (m) in 2018. This was an increase of £38.9m (5.2%) in cash terms in NI total R&D expenditure between 2017 and 2018. Specifically, Business R&D spend rose by £10.6m (2.0%), with Higher Education and Government R&D spend increasing by £25.8m (13.2%) and £2.5m (12.3%) respectively.
Knowledge Economy Jobs	Supports direct, indirect and induced jobs locally.	In 2018, NI remained the 2 <sup>nd</sup> fastest growing knowledge economy in the UK, for the fifth consecutive year. NI knowledge economy employment has grown at an annual average of 2% from 2009 to 2017, the 3 <sup>rd</sup> fastest growth rate of the UK regions.
Business Start Up rates	The number of new businesses formed in NI.	In 2018, 5,900 new businesses were formed in NI, a decrease of 13.9% compared to the previous year.

## Strategic Objective 2 – Enhance Education, Skills and Employability

Indicator	Description	Performance
Economic Inactivity Rate excluding students	The economic inactivity rate excluding students from NISRA's Labour Force Survey	Latest figures show that the inactivity rate excluding students has remained relatively unchanged from 2017 to 2018, standing at 20.0%.
Proportion of Workforce in Employment qualified to level 1 and above, level 2 and above, level 3 and above and level 4 above	Proportion of Workforce in Employment qualified to level 1 and above, level 2 and above, level 3 and above and level 4 above according to NISRA's Labour Force Survey	Proportions of the employed workforce qualified remain broadly unchanged in 2018 from the previous year. Level 1 & above – 90% (+2pps) Level 2 & above – 79% (+3pps) Level 3 & above – 64% (+2pps) Level 4 & above – 42% (+2pps)
Proportion of local graduates from local institutions in professional or management occupations or further study six months after graduation	Percentage of local graduates employed in professional/ management jobs or enrolled in further study 6 months after graduation.	A positive change in this indicator for 2016-17 at 75.5% relative to the previous year of 72.5%. (HESA is implementing a new Graduate Outcomes survey with the first outputs (for 2017-18 leavers) due to be published in spring 2020.)
Proportion of graduates qualifying from NI Higher Education Institutions with an economically relevant STEM qualification	The number of students graduating from Northern Ireland Higher Education Institutions with Narrow STEM qualifications, as a percentage of overall qualifiers.	3,860 students in 2018-19 graduated with Narrow STEM qualifications, a decrease of 7.5% relative to the previous academic year. This accounted for 22.4% of total qualifiers in 2018-19.

### Strategic Objective 3 – Drive Inclusive, Sustainable Growth

Indicator	Description	Performance
Employment Rate by Council Area	Employment rates in Local Council Areas	Rates remain mostly unchanged in 2018 relative to 2017. Antrim and Newtownabbey had the highest rate (77.7%) while Derry City and Strabane had the lowest rate (61.6%), compared to an overall NI average of 70.0%.
Employment rate of 16-64 year olds by deprivation quintile	Employment rates of working age individuals by multiple deprivation quintiles.	Rates have remained relatively unchanged in 2018 compared to 2017. The employment rate varied from 55.1% in the most deprived quintile to 77.3% in the least deprived quintile.
Seasonally Adjusted Employment Rate (16-64)	Results for seasonally adjusted employment rates for NI.	Rate has not changed substantially (69.1% in 2017 compared to 70.0% in 2018).
Jobs promoted via business start programme	RSI target of jobs promoted via the business start programme.	Over the 2018-19 period, 8 of the 11 councils exceeded their RSI target. In total, 1,805 jobs were promoted against a target of 1,625.
Annual Turnover of Businesses	Total turnover of NI businesses	According to the latest Annual Business Inquiry the total turnover of NI businesses in 2018 was £68.4bn, an increase of 3.5% from 2017.
Total Early Stage Entrepreneurial Activity Rate	Northern Ireland's Total Early Stage Entrepreneurial Activity Rate according to the Global Entrepreneurship Monitor.	Rate was 6.5% in 2018, unchanged from the previous year and there has been relatively little sustained change in this Indicator over time.

### Strategic Objective 4 – Succeeding in Global Markets

Indicator	Description	Performance
External Sales	External sales to markets outside Northern Ireland.	According to NI latest Broad Economy Sales and Exports Statistics (BESES) results, external sales to markets outside Northern Ireland fell by £241 million (1.1%) to £21.7 billion in 2018.
Total External Spend by Visitors	Expenditure by external visitors in Northern Ireland.	Expenditure stood at £669 million in 2018, a 2% increase compared to 2017 (£657m).
Nation Brand Index	Northern Ireland's score on the GfK Nation Brand Index.	On a scale of 1 to 100, Northern Ireland's score was 59.38 in 2019, an increase of 0.67 points from the previous year.
Broad Economy Exports measure	Broad Economy Exports measure for NI.	Exports from NI in 2018 were valued at £11.2 billion, an 8.1% increase from the previous year and an increase of 22% compared to 2011.

### Strategic Objective 5 – Building the Best Economic Infrastructure

Indicator	Description	Performance
Proportion of premises with access to broadband services at speeds at or above 30 Mbps	Proportion of premises in Northern Ireland with access to superfast broadband	The proportion in Northern Ireland was 89% in 2019, the same as last year and the lowest of the four UK nations.

**Strategic Objective 7 – Ensure the Department has effective governance, including programme and project management arrangements, and manages its resources, both financial and staff**

<b>Indicator</b>	<b>Description</b>	<b>Performance</b>
DfE Staff Engagement Index	The weighted average of the responses to the five employee engagement questions	2017-18 50% 2018-19 52%; 2019-20 54%
EU Drawdown Error Rates	Reducing the risk that funding is wasted and restricting the risk of error within a tolerable level.	2017-18 ESF: N/A (no claims) ERDF: 0.00% 2018-19 ESF: 0.82% ERDF: 0.22% 2019-20 ESF: 0.23% ERDF: 0.08%
Outturn as a percentage of budget	The amount the department has spent as a percentage of its budget	2017-18 Non Ring Fenced Resource DEL: 99.5% Conventional Capital: 99.7% 2018-19 Non RF RDEL: 99.9% Conventional Capital: 99.9%

### **Link between Performance Indicators, Risk and Uncertainty**

The above performance indicators are ‘population level’ indicators, relating to the population of Northern Ireland, and it must be acknowledged that the work of the Department is not the only influencing factor on their movements. A wide range of organisations – including other Departments, the Department’s ALBs, local Councils, and Voluntary and Community organisations – undertake important work to drive improvements in these areas, and during the year the Department has sought to capture the main contributions of all delivery partners in coherent Delivery Plans for each Objective.

These indicators can also be heavily influenced by wider external developments, risks and uncertainties, many of which lie largely outside of the Department’s control. The UK’s departure from the European Union, for example, has created a raft of uncertainties which could have significant implications for many of the indicators. Significant risks to performance against these indicators are identified and, where possible, managed as part of the Department’s risk management processes.

### **Information on Social Matters, Anti-Corruption and Anti-Bribery**

#### *Rural Needs*

The Rural Needs (NI) Act 2016 introduced a new statutory duty on Northern Ireland departments, district councils and other specified public bodies to have due regard to rural needs when developing, adopting, implementing or revising policies, strategies and plans and when designing and delivering public services.

The Act became operational for government Departments and district councils from 1 June 2017 and covers two main duties. The first is a duty to have due regard to rural needs (referred to as the ‘due regard duty’) and the second relates to monitoring and reporting on how the due regard duty has been exercised. The latter duty requires that public authorities publish this information in their annual reports, and provide a copy of this information to the Department of Agriculture, Environment and Rural Affairs (DAERA) on an annual basis.

The Department has due regard to rural needs when undertaking new or revised policies/ activities by subjecting them to rural needs impact assessments, in accordance with guidance issued by DAERA. Between 1 April 2019 and 31 March 2020 the following policies were subject to a rural needs impact assessment.

Description of the activity undertaken by the public authority which is subject to section 1(1) of the Rural Needs Act (NI) 2016	The Rural policy area(s) which the activity relates to	Describe how the public authority has had due regard to rural needs when developing, adopting, implementing or reviewing the policy, strategy or plan or when designing or delivering the public service
<p>Policy development activity in preparation for the launch of a public consultation into the provision of Parental Bereavement Leave and Pay legislation. It is envisaged that this legislation will provide a new employment right for employed parents. This right will be an entitlement to 2 weeks of statutory leave and pay (subject to qualification) following the death of a child.</p>	<p>Rural businesses &amp; jobs or employment in rural areas</p>	<p>The Department has had due regard to rural needs when developing this policy by considering the needs of rural businesses and people living and/or working in rural areas.</p> <p>A Rural Needs Impact Assessment identified no evidence to suggest a greater or lesser prevalence of childhood deaths among rural parents. Also, there was no evidence to suggest that the social and economic needs of parents from rural areas who experience the death of a child differs from the social and economic needs of parents from non-rural areas.</p> <p>The policy will impact equally on people and businesses in rural and non-rural areas, and will give bereaved employees living or working in rural areas the statutory right to leave and, subject to qualification, pay, following the death of a child.</p> <p>It will also ensure that Northern Ireland employees living or working in rural areas are afforded comparable rights to Parental Bereavement Leave and Pay with all other employees across the UK.</p>
<p>Early Conciliation (EC) into the Employment Tribunal process by way of new legislation.</p>	<p>Rural businesses &amp; jobs or employment in rural areas</p>	<p>The Department has had due regard to rural needs when introducing this legislation by considering the needs of rural businesses and people living and/or working in rural areas.</p> <p>A rural needs impact assessment concluded that with regards to Early Conciliation, the economic needs of people in rural areas are no different to the economic needs of people in urban areas.</p> <p>There is no available evidence to suggest that people who live in rural areas are more/less likely to require an Industrial Tribunal than those who live in urban areas.</p>

Description of the activity undertaken by the public authority which is subject to section 1(1) of the Rural Needs Act (NI) 2016	The Rural policy area(s) which the activity relates to	Describe how the public authority has had due regard to rural needs when developing, adopting, implementing or reviewing the policy, strategy or plan or when designing or delivering the public service
		<p>As regards social needs, the primary method for people informing the Labour Relations Agency (LRA) of their employment issue and intention to claim is via an online portal.</p> <p>We recognised that in some rural areas access to the internet can be patchy and may not be as fast or reliable as in urban areas which is why in addition to the online portal claimants can also contact the LRA by telephone or via a hard copy form.</p> <p>The LRA has a dedicated non-geographic telephone number (charged at local call rates).</p> <p>Having these three options available to potential claimants mitigates the potential adverse impact of limited/ unreliable access to the internet. The LRA has offices in both Belfast and Derry/Londonderry but if individuals require advice on next steps re: their employment, dispute trained conciliators will be available via telephone to provide that advice.</p>



<b>Description of the activity undertaken by the public authority which is subject to section 1(1) of the Rural Needs Act (NI) 2016</b>	<b>The Rural policy area(s) which the activity relates to</b>	<b>Describe how the public authority has had due regard to rural needs when developing, adopting, implementing or reviewing the policy, strategy or plan or when designing or delivering the public service</b>
<p>Legislation that consolidated separate Industrial Tribunals and Fair Employment Tribunal Rules of Procedure into one set of Rules</p>	<p>Rural businesses &amp; jobs or employment in rural areas</p>	<p>The Department has had due regard to rural needs when introducing this legislation by considering the needs of rural businesses and people living and/or working in rural areas.</p> <p>A rural needs impact assessment concluded that with regards to this policy the economic needs of people in rural areas are no different to the economic needs of people in urban areas.</p> <p>DfE found no evidence to suggest that people who live in rural areas are more/ less likely to require an Industrial Tribunal than those who live in urban areas.</p> <p>As regards social needs, the headquarters of the Office of the Industrial Tribunals and Fair Employment Tribunals (OITFET) is in Belfast meaning that those in rural areas may have further to travel to attend a tribunal hearing than those in urban areas.</p> <p>This was the case before the changes to the tribunal rules were made and remained the case after the rules change.</p>

<b>Description of the activity undertaken by the public authority which is subject to section 1(1) of the Rural Needs Act (NI) 2016</b>	<b>The Rural policy area(s) which the activity relates to</b>	<b>Describe how the public authority has had due regard to rural needs when developing, adopting, implementing or reviewing the policy, strategy or plan or when designing or delivering the public service</b>
<p>Project Stratum - to improve internet connectivity by extending access to high-speed broadband coverage in Northern Ireland by increased provision in areas currently poorly served and not capable of attracting wholly commercial investment, which is approximately 10-12% of premises in Northern Ireland.</p>	<p>Rural businesses/ broadband or mobile communications in rural areas/ rural development</p>	<p>The policy aim addresses the needs of rural businesses and people living and/ or working in rural areas by removing the inequality in access to high speed broadband between those in well served areas (principally urban), and those elsewhere (mostly in rural locations). This will be particularly useful in combating rural isolation and aiding dispersed communities to maintain and deepen ties. More generally, improved access to NGA broadband has the effect of removing or alleviating barriers, such as distance or (most) disability, to communication. In turn this opens connections to education, work, culture and relationships.</p> <p>The benefits of improved broadband can include direct benefits to consumers of being able to access new services or cost savings in the delivery of public services. There are also a range of indirect impacts such as economy wide productivity improvements, greater scope for innovation, enhanced labour force participation, and impacts related to improved health, wellbeing, inclusion and other societal benefits. Increasing the uptake of high-speed broadband in presently unserved areas is likely to see improvements in the productivity of businesses through increased online presence, and improved innovation and creativity opportunities. Social impacts include reducing the digital divide and allowing citizens to more actively engage with social media, telemedicine, education, and online government services</p>

<b>Description of the activity undertaken by the public authority which is subject to section 1(1) of the Rural Needs Act (NI) 2016</b>	<b>The Rural policy area(s) which the activity relates to</b>	<b>Describe how the public authority has had due regard to rural needs when developing, adopting, implementing or reviewing the policy, strategy or plan or when designing or delivering the public service</b>
		<p>Rural businesses will also benefit from improvements in broadband services as new work processes and practices take hold and workers' skills are improved. Consumers also benefit and are likely to increase as users make improved use of new applications and services.</p> <p>The project offers the possibility to galvanise areas disadvantaged by distance, and create opportunities for growth, new firms and high-wage employment.</p>

### *Anti-corruption and Anti-bribery*

The Department adheres to and promotes good practice guidance on anti-corruption and anti-bribery matters through a range of measures, many of which are covered in more detail in the Governance Statement (e.g. anti-fraud and whistleblowing arrangements).

The Department's Gifts and Hospitality guidance is also a key control in place to mitigate against corruption and bribery. This guidance outlines the types of instances in which it is, and is not, appropriate for staff to accept or offer gifts and hospitality as part of their official duties. All Divisions are required to maintain registers of gifts and hospitality which are regularly monitored.

## **Sustainability Reporting/ Environmental Matters**

### *Corporate Social Responsibility*

DfE supports and promotes Employer Supported Volunteering (ESV) by engaging in Corporate Social Responsibility programmes, which enable staff to volunteer for the benefit of the community, charities and the environment. Volunteering is undertaken freely and without concern for financial gain. It plays an important role in building strong and shared community, brings benefits to individuals and communities and contributes economically and socially to a more cohesive society. It also impacts on the delivery of many Government initiatives across a wide range of policy areas.

In 2019-20, DfE had Silver level membership of the Northern Ireland Cares Programme which is run by Business in the Community (BitC). Due to an increase in demand for volunteering activities this was later increased to Platinum level which allowed the Department to avail of 8 team volunteering challenges for groups of approximately fifteen staff. These included volunteering opportunities at the Ravine Project at Knockbracken Healthcare Park, Belfast by Business and Employment Regulation Division; Crosskennan Animal Sanctuary in Antrim by HE Division; Staff from Tourism, Telecoms, Minerals & Petroleum Division helped bring in the apple harvest at Camphill Community Glencraig; Litter picking at Murlough Nature Reserve, Newcastle by Apprenticeships, Careers and Vocational Education Division and Skills Division and clearing the pathways of leaves, planting crocus bulbs and building bug hotels at Jordanstown Special School by EU Exit Trade Negotiation.

Working with BitC has also allowed the Department to take part in specific volunteering initiatives such as Time to Read and Time 2 Count (assisting school children with reading and mathematical skills at an early age) and 'Book Drive' in support of World Book Week (staff kindly donated books for children aged between 7 and 10 years old – these were distributed to schools taking part in the Time to Read initiative). Departmental staff also took part in BitC's "Get Diggin'" action day during National Allotment Week at WAVE Trauma, Belfast, and Ark Community Gardens in Newcastle.

The Department also worked with Volunteer NOW, an organisation which brought volunteering challenges to our premises for up to half a day, giving staff the opportunity to volunteer in half hour sessions. During the last year staff have participated in these challenges in Netherleigh, Adelaide House and Consumer Affairs/ Trading Standards, Newtownbreda. Tasks have included working to produce Marie Curie daffodil badges and pricing jewellery for Oxfam.

#### *Energy Management*

A part of the premises management role is to encourage staff to conserve energy when there are opportunities to do so. Energy audits are regularly conducted in main DfE buildings and any opportunities to upgrade systems and equipment with more energy efficient versions are explored.

#### *Carbon Reduction Commitment (CRC)*

The Department completed its contributions to the CRC Energy Efficiency Scheme which is a mandatory UK scheme aimed at improving energy efficiency and reducing carbon dioxide (CO<sub>2</sub>) emissions in large public and private sector organisations. The scheme has now closed.

#### *Recycling*

The Department is a party to the NICS contracts for recycling office and domestic waste. This covers the range of plastics, paper, cans and batteries. We have taken steps to reduce non recycled waste and encourage recycling such as the removal of individual bins.

The Department has been using 100% recycled paper for some eleven years.

### 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.

							2019-20 £000	2018-19 £000
Outturn				Estimates			Net Total outturn compared with Estimate: saving/ (excess)	Outturn
Request for Resources	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total		Net Total
A	1,203,859	(140,184)	1,063,675	1,236,871	(140,184)	1,096,687	33,012	877,402
<b>Total resources</b>	<b>1,203,859</b>	<b>(140,184)</b>	<b>1,063,675</b>	<b>1,236,871</b>	<b>(140,184)</b>	<b>1,096,687</b>	<b>33,012</b>	<b>877,402</b>
<b>Non-operating cost Accruing Resources</b>	-	<b>(124,742)</b>	<b>(124,742)</b>	-	<b>(124,742)</b>	<b>(124,742)</b>	-	<b>(103,689)</b>

### 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 2019-20 was £1,064m with an allocation of £1,097m in the Spring Supplementary Estimates (SSE). The difference of £33m arose mainly in respect of:

- Student loan fair value adjustments, which are impacted by the increasing value of the loan book together with movements in economic conditions including RPI. This resulted in outturn £44.7m lower than the Estimate (£20.2m DEL and £24.5m AME);
- Renewable Heat Incentive (RHI), where the new cost structure resulted in outturn being £22.2m lower than the Estimate;
- The provision for claims against Harland & Wolff, which was reduced as a result of actuarial advice, resulting in a release of £12.4m; and,
- Grant in Aid to Invest NI, which was higher than expected by £70m in total due to the need to deliver grants to businesses as a result of COVID-19 towards the end of the year.

### Year on Year Resource Outturn

The trend analysis shown on pages 39 to 42 provides an overview of the expenditure during 2019-20, 2018-19, 2017-18 and 2016-17, with detail included at Annex A.

Resource Outturn for 2019-20 was £1,064m compared to £877m in 2018-19 which represents an increase of £186m or 21.2%. This can be summarised as follows:

	Outturn 2019-20 £000	Outturn 2018-19 £000	Movement £000	Movement %
<b>DEL</b>	<b>654,658</b>	<b>574,241</b>	<b>80,417</b>	<b>14.0</b>
<b>AME</b>	<b>(88,419)</b>	<b>(64,998)</b>	<b>(23,421)</b>	<b>(36.0)</b>
<b>Non-Budget</b>	<b>497,436</b>	<b>368,159</b>	<b>129,277</b>	<b>35.1</b>
<b>Total</b>	<b>1,063,675</b>	<b>877,402</b>	<b>186,273</b>	<b>21.2</b>

#### *Departmental Expenditure Limit (DEL)*

Within DEL, £42.6m of the increase relates to Higher Education and Student Support.

Accounting for student loans has moved to fair value through profit and loss following the adoption of IFRS 9 Financial Instruments in 2018-19. However, budgeting for student loans nationally, in agreement with HM Treasury, remains based on amortised cost, for which effective interest and impairment are still applicable terms.

Student Support includes the non-cash impairments to the carrying value of the student loan book. This includes expected credit losses together with the notional cost to the Department of issuing loans to NI students at a subsidised rate in line with Government policy. The cost in 2019-20 was £47m higher than 2018-19 at £163.0m. 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, and uses NI borrower data and a wage equation to generate future earning paths for borrowers. The model uses several years of actual graduate earnings histories and data from the Student Loans 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. Other reductions within Higher Education and Student Support include the reductions of capital funding due to the completion of projects (£2.4m), reductions in demand for maintenance grants and bursaries to students (£4.3m), less increases to the funding provided to the Student Loan Company (£2.1m).

Economic Development and Infrastructure also increased by £30.3m due to the progression of the Gas to the West project (£30m).

#### *Annually Managed Expenditure (AME)*

AME decreased by £23.4m on 2018-19. The main movements relate to RHI payments under the new cost structure (decreasing by £17.1m) and the release of Harland & Wolff (H&W) provision (£12.3m). Off set against these reductions was an increase of £5.7m due to the volatility of the effective interest applied to student loans and the impacts of changes in macroeconomic forecasts.

#### *Non-Budget*

Total spend for the Non-Budget category increased by £129.2m on 2018-19.

The main component of this category is Grant in Aid paid to Non-Departmental Public Bodies (NDPBs) in respect of their working capital requirements. The working capital requirements of the Further Education Colleges rose by £51.5m, reflecting changes in a range of activities funded including capital projects.

Invest NI's cash requirement was £80m more than last year due to additional cash requirement for emergency grant schemes for businesses as a response to the COVID-19 situation.

#### *Small Business Grant Scheme*

In March 2020, in response to the COVID-19 pandemic, the NI Executive provided one-off grants of £10,000 to small businesses that already pay reduced rates because of Small Business Rate Relief. This is applied automatically to properties with a Total Net Annual Value of £15,000 and below although certain exclusions were applied. The Department worked with Land and Property Services and Invest NI in order to devise the policy and deliver the scheme.

In 2019-20, funding for the payments of £67.7m was provided by the Department in the form of cash based Grant in Aid which appears as Programme Costs in these accounts, with the payments being administered by Land and Property Service (Department of Finance). Expenditure for the scheme appears on an accruals basis in the accounts of Invest NI.

#### **Reconciliation of Net Resource Outturn to Net Operating Expenditure**

SOAS2 shows the reconciliation of Net Resource Outturn to Net Operating Expenditure. Reconciling items included within the Net Operating Expenditure are Consolidated Fund Extra Receipts £1.9m, £1.3m for Foreign Exchange (unrealised) movements as a result of the translation of year end balances, and Non Supply expenditure £18.5m.

Non Supply expenditure represents payments made in relation to the Redundancy Fund. This rose from £5.9m to £18.5m as a result in the level of applications for assistance.



### **Statement of Financial Position**

Student Loans increased by £165.2m to £2,707m. Student Loan movements have included the continued growth in the size of the student loan book, with a further £350m loans issued during the year offset against repayments (£106m) and fair value adjustments.

Financial Asset Investments reduced by £20.4m to £85m reflecting a repayment made by Presbyterian Mutual Society offset against interest charged.

Receivables decreased by £26m largely due to the receipt of funds from the European Commission.

Payables decreased by £7.2m to £75.6m at 31 March 2020 primarily as a result of the reduction in amounts payable to the Consolidated Fund as Extra Receipts (CFERs).

Provisions fell by £16m to £36m. Movements in respect of the provision to meet claims against Harland and Wolff reduced as a result of payments (£3.4m) and the updated actuarial review (£12.4m).

### **Significant Accounting Judgements**

#### **Student loans**

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

Student loans are held at fair value through the profit and loss account (FVPL). This involves the value of the loans issued being discounted to net present value using the effective interest rate method. The effective interest rate for student loans is based on the HMT discount rate. In 2019-20, 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 £350.2m of new loans in 2019-20. 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 borrowers trigger repayment criteria and extend the length of time it can take to repay loans, both of which impact on the carrying value of the loans in the accounts. It can also lead to an increase in future credit losses 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 not 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 fair value of the loan book in this financial year are set out in Note 10 to the Accounts.

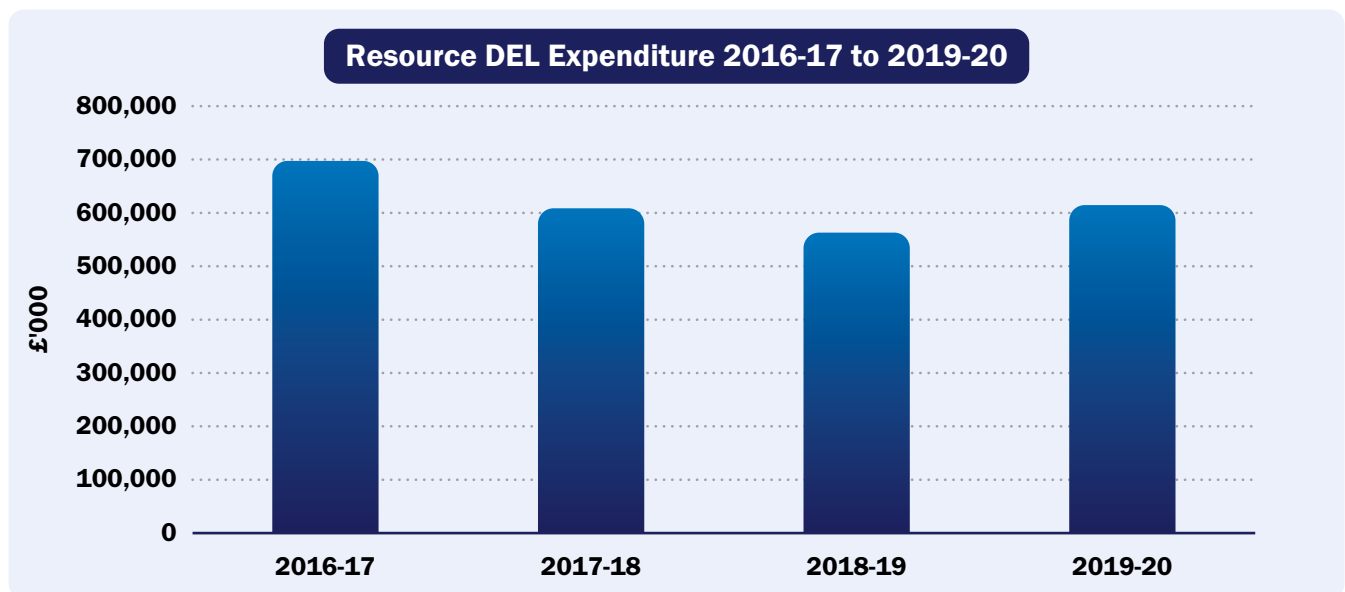
In 2019-20, the conditions arising as a result of the COVID-19 pandemic have increased the above-mentioned risks in terms of economic conditions, negative impact on earnings and the reduction in the Bank of England interest rate. Note 10 to these accounts sets out sensitivity analysis in terms of the potential impact of such conditions on the carrying value of the loan book.

Nationally, 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 sales 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. The Department has opted out of previous loan sales and would have the option of doing so again.

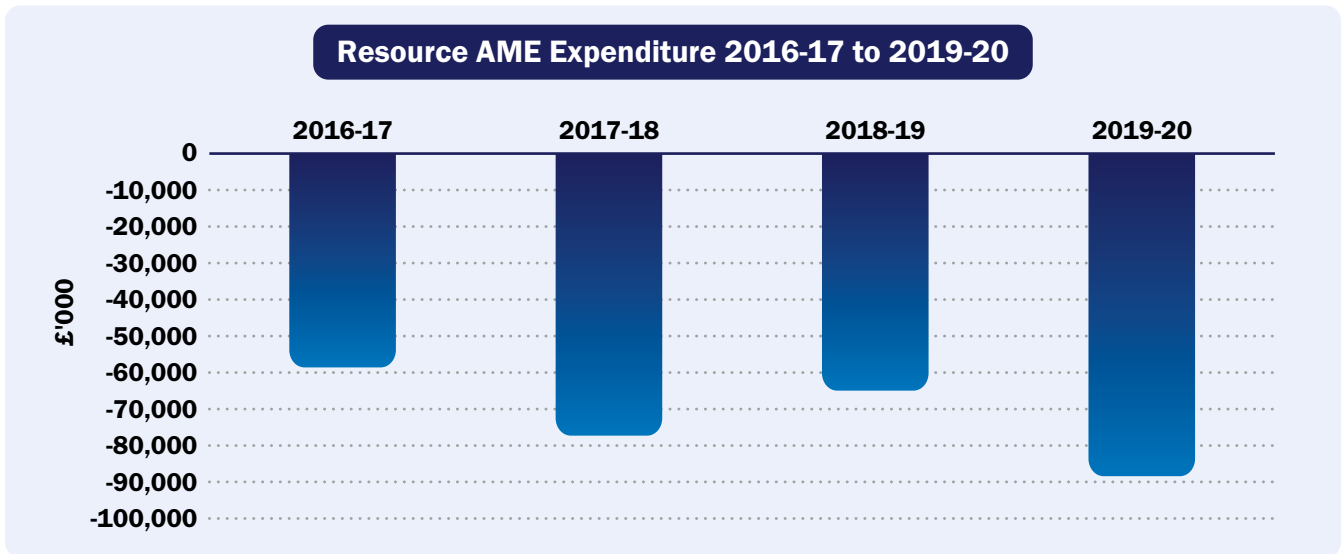
## Long Term Expenditure Trends

### Total Departmental Spend

Total departmental spend comprises Resource DEL and Resource AME allocations, together with Capital DEL and Capital AME allocations. The following tables show the expenditure trends arising over the last four years. The underlying data can be found in Table 1 in Annex A.

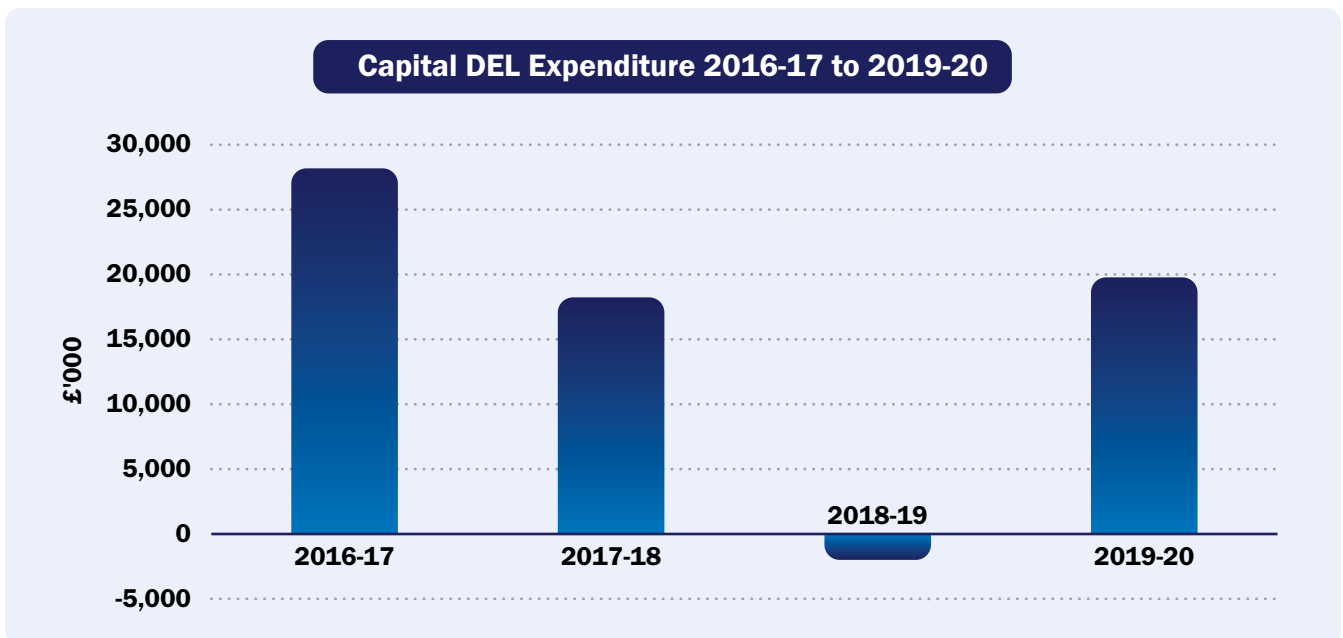


The most significant variation in Resource DEL in recent years has arisen in respect of variations in non-cash student loan book related impairments. The movement in impairments is dependent on the Office for Budgetary Responsibility's (OBR) macroeconomic forecasts, including earnings, RPI and the Bank of England base rate.

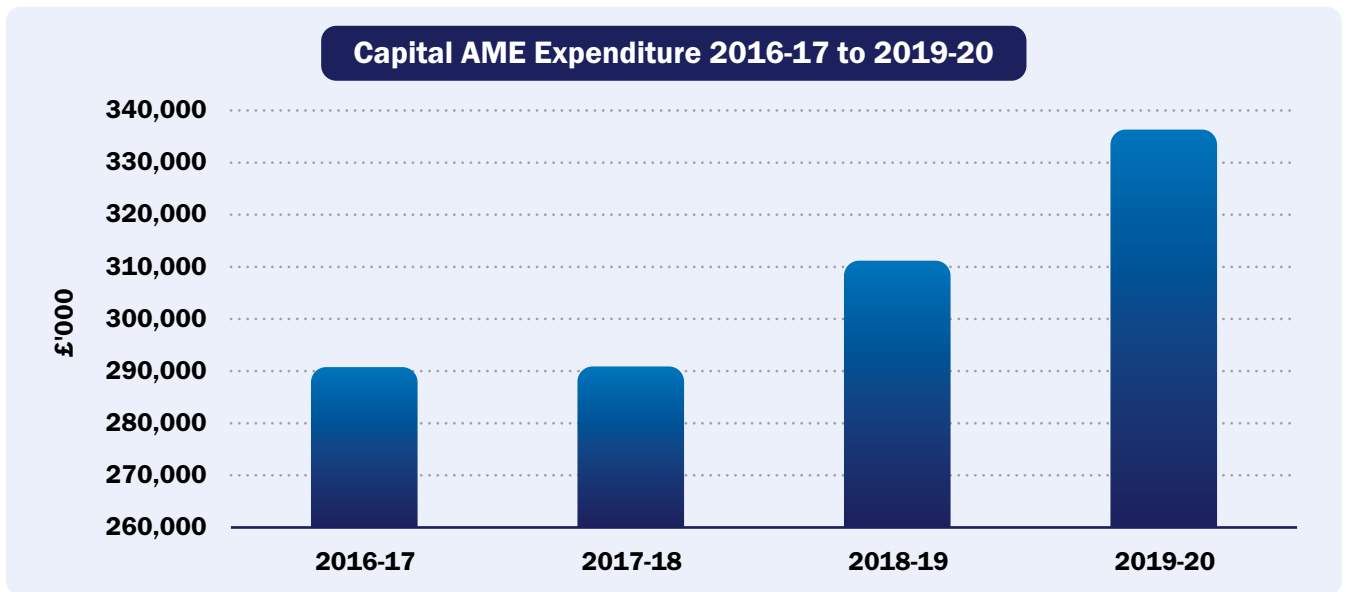


Over the period, Resource AME was impacted by movements in:

- Fair Value adjustments on student loans, directly related to the movements in RPI;
- Provision for liabilities in respect of Harland and Wolff, based on actuarial advice; and,
- Tariffs/ cost structures applicable to the RHI scheme.



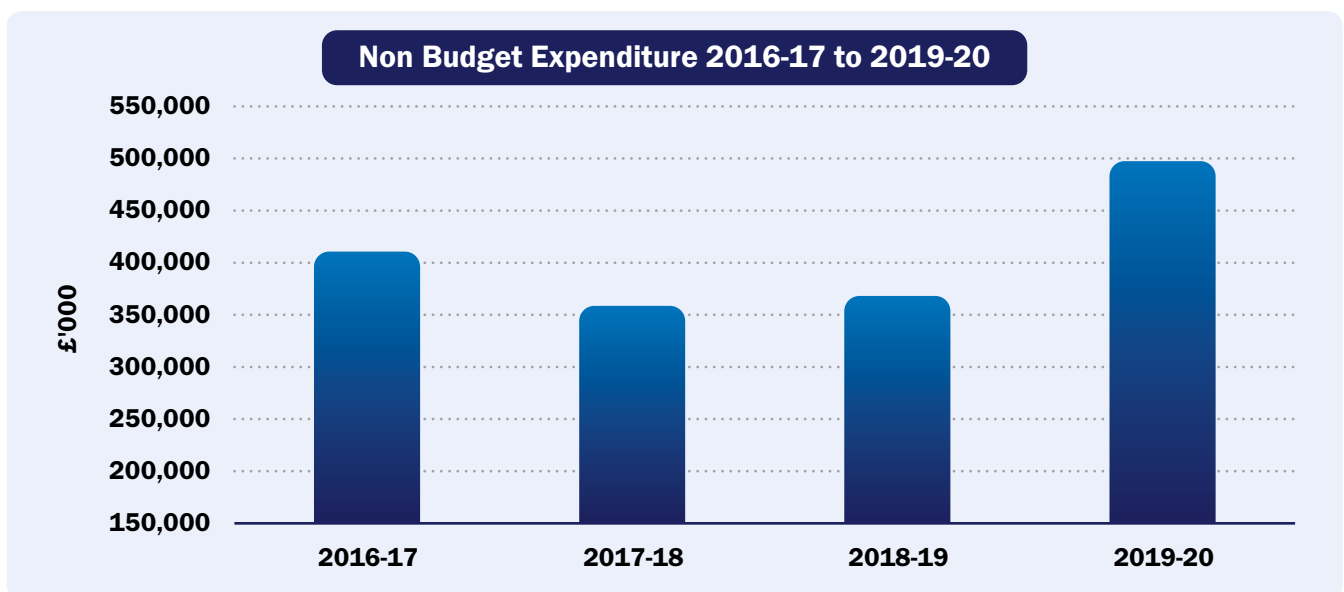
Capital DEL spend mainly comprises capital grants to the Higher Education sector, repayments in respect of the loan to Presbyterian Mutual Society, and capital grant funding for the Gas to the West project (2019-20 only).



Capital AME reflects issues and repayments in respect of student loans. New loans issued are proportionately greater than repayments received, reflecting the ongoing increasing value of the loan book.

### Non-Budget Spend

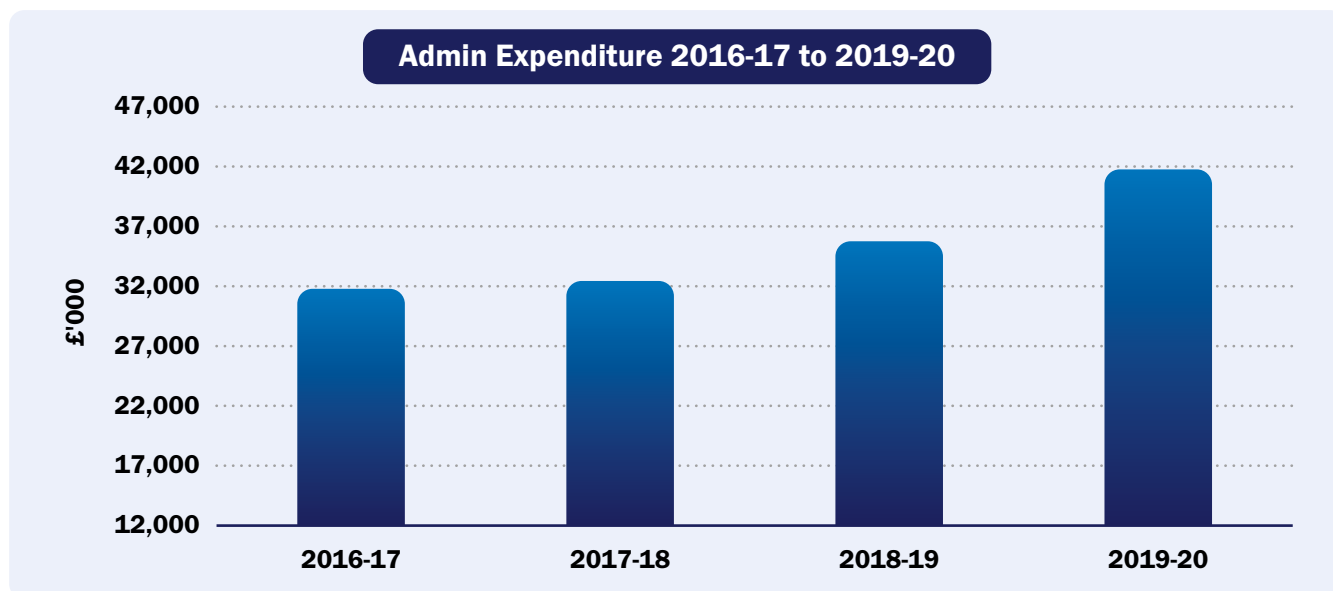
The following table shows the Non Budget expenditure trends arising over the last four years. The underlying data can be found in Table 2 in Annex A.



Non-Budget Spend mainly reflects movements in respect of Grant in Aid to Non- Departmental Public Bodies, which varies according to their cash requirements. 2019-20 InvestNI included emergency grant funding to businesses in response to the COVID-19 pandemic.

### Departmental Administration Spend

The following table shows the trend in Departmental Administration Spend arising over the last four years. The underlying data can be found in Table 3 in Annex A.



Administration spend has increased as a result of preparations to leave the EU and increases in employer pension contribution costs.

## **Future Developments**

The COVID-19 outbreak has had an exceptional impact on the work of the Department and all NICS Departments. The proposed Departmental Business Plan for 2020-21 has had to be repurposed as a COVID-19 Response Business Plan as the Department focusses on leading the economic response to the pandemic.

Looking ahead, significant areas of activity for the Department in 2020-21 will include the following:

- implementation of measures to mitigate the impact of COVID-19;
- supporting businesses through the design and implementation of a Microbusiness Hardship Fund, £10,000 Small Business Grant Scheme and a £25,000 Retail, Hospitality, Tourism and Leisure Grant Scheme;
- development of an Economic Recovery Strategy;
- development of a Tourism Recovery Action Plan;
- preparation for the end of the EU exit transition period by securing our position in the UK internal market and taking steps to support the implementation of the Northern Ireland Protocol;
- further development of a Skills Strategy;
- management of NI City Deals in alignment with DfE's processes for business case approvals and payments;
- review and update of the Further Education Essential Skills Policy;
- the award of contract for Project Stratum;
- delivery of a minimum of 1900 qualifications at level 2 and above through the six Further Education colleges;
- delivery of the requirements of the Clean Energy Package within the Implementation Period; and
- development of a Digital Infrastructure Action Plan 2020-21 for NI to support citizens and businesses.

All of the above matters will be reflected in a Business Plan for the year with quarterly performance updates being provided to the Departmental Board and subsequently published on the Department's website.



**Mike Brennan**  
**Accounting Officer**  
**9 September 2020**

## OVERVIEW

The Accountability Report sets out how we meet the key accountability requirements to the NI Assembly. It is broken down into three areas:

- *Corporate Governance Report*  
The Corporate Governance Report provides an overview of the Department's leadership and our risk management approach.
- *Remuneration and Staff Report*  
The Remuneration and Staff Report sets out DfE's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors. In addition, the report provides details on staff numbers, costs and staff-related policies.
- *Assembly Accountability and Audit Report*  
The Assembly Accountability and Audit Report brings together the key Assembly accountability documents within the Annual Report and Accounts.

## DIRECTORS' REPORT

### The Minister

The Department functioned without a Minister for the majority of the 2019-20 financial year until Diane Dodds MLA was appointed as Minister for the Economy on 11 January 2020.

Chapter 22 of the Northern Ireland (Executive Formation and Exercise of Functions) Act 2019 extended the period for forming an Executive under section 1(1) of the Northern Ireland (Executive Formation and Exercise of Functions) Act 2018 until 13 January 2020 which was met. The Act provided the Department with the power to make decisions (which would have previously required Ministerial approval), in the absence of an Executive. Where a Department made a decision in the absence of a Minister (and that decision falls under the scope of the Act), that decision was supported by a Public Interest Test (PIT).

Forty-four DfE decisions were published from 1 April 2019 until the arrival of the new DfE Minister on 11 January 2020. Decisions relate to a wide range of Departmental issues including public appointments, extensions to apprenticeship programmes, commencement of public consultations, and the introduction of subordinate legislation. Further details of [decisions taken by NI Departments](#) can be found on The Executive Office (TEO) website.

### Departmental Board

The Permanent Secretary and Accounting Officer for the Department for the 2019-20 financial year was Mr Noel Lavery until 29 November 2019, when he retired. Mr Mike Brennan was appointed as Acting Permanent Secretary from 1 December 2019 but designated as Accounting Officer from 21 November 2019. The Permanent Secretary was supported during the year by a Departmental



Board comprising both senior Departmental officials (Executive Board Members) and Non-Executive Board Members (NEBMs). All Board Members for the Department are listed in the table of DfE Board Membership and Attendance set out in the Governance Statement. Total fees and expenses of £12,952 were paid in respect of the Department's NEBMs during 2019-20.

### **Register of Interests**

Declaring conflicts of interest is a standing agenda item at all Departmental Board and Board Committee meetings. In addition, each year an exercise is commissioned to all senior management, including NEBMs and other independent members of the Audit and Risk Assurance Committee (ARAC), reminding them of their responsibilities in regard to declaring interests and prompting them to complete a Declaration of Interests form. The Department maintains a Register of Interests. One significant interest was identified as having the potential to be a perceived conflict of interest so was declared by a Deputy Secretary during the 2019-20 year. This was raised with the Permanent Secretary who decided on appropriate actions to mitigate any conflicts that may arise. There was also four other interests declared by Board or ARAC members and/or key senior staff which may conflict with their responsibilities. There were no transactions during the reporting period with any of these interests but one related party transaction did occur during 2019-20 in relation to an ARAC member's declared interest, details of which are provided in the Notes to the Accounts.

### **Data Management**

The collaborative approach utilised to manage and protect the Department's information assets and the risks to these continued throughout 2019-20. This involved various staff in the Central Services Division providing guidance and support to the Information Asset Owners (IAOs) within business areas on a wide range of issues. The Departmental Information Manager oversaw the management of the Department's Electronic Document and Records Management System (HPRM) and ensured the Department's Retention and Disposal Schedule was updated in readiness for its submission to a restored Northern Ireland Assembly for approval.

The Department continued to demonstrate its full commitment to compliance with both the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. Work completed by the Data Protection Officer included the review of Data Protection Impact Assessments, Privacy Notices, Data Sharing Agreements and a small number of contracts that involved the processing of personal data. Other work included the review of Divisional Information Asset Registers which list personal and non-personal information assets in order to understand and manage these and the risks attached to them; meeting a key objective of the Open Data Strategy for Northern Ireland 2020-2023 by creating and publishing a new Departmental Information Asset Register on the Open Data NI Portal; and continued contribution to the Department for Digital, Culture, Media & Sport's No Deal (EU Exit) Taskforce with contingency planning on data protection in preparation for a No Deal scenario. In addition, a mandatory Responsible for Information e-learning package was rolled out to all staff to update relevant training.

Under GDPR all breaches of personal information which are likely to result in a risk to the rights and freedoms of an individual are required to be reported to the Information Commissioners Office (ICO) within 72 hours. In 2019-20, there were no breaches of personal data which had to be reported to the ICO.

	2019-20	2018-19
<b>Number of GDPR incidents</b>	<b>0</b>	<b>1</b>

Throughout the year, the Senior Information Risk Owner maintained an appropriate information security governance structure within the Department, having Departmental Board-level oversight of security compliance in support of the NICS Information Governance Board. Guidance and updates relating to information risk topics were issued to IAOs as appropriate, and IAOs provided annual assurance statements regarding their information assets. The guidance issued drew attention to the NICS Security Policy Framework which was published in February 2020 and describes the standards, best practice guidelines and approaches required to protect government assets, people, information and infrastructure. It focuses on the outcomes required to achieve a proportionate and risk managed approach to security that enables government business to function effectively, safely and securely. The Department also completed its annual Security Health Check.

The Assistant Departmental Security Officer regularly reviewed information to ensure that it was protectively marked suitably and provided assurance on vetting and ongoing personnel security management, provided appropriate physical security measures to ensure a safe and secure working environment, both for staff and for the information they manage and use, and to protect against a wide range of threats. In addition, business continuity arrangements aligned to industry standards and contingency plans setting out procedures to be followed in the event of a major adverse event were in place and regularly reviewed. The DfE Pandemic Infection Business Continuity Plan was invoked in full operational mode with effect from 16 March 2020.

### Reporting of Complaints

The Department is committed to providing a high-quality service and welcomes all feedback, both positive and negative. We offer a three-stage resolution process each with specific timescales for completion as set out in the DfE complaints procedure available on the Department's website. The Department maintains a register of complaints received and ensures that these are investigated in line with the Departmental Complaints Procedure and appropriate responses are issued to complainants. We also evaluate any 'lessons learned' from individual cases and see if resulting improvements can be embedded into operating procedures. The Department received five formal customer service complaints during 2019-20.

	2019-20	2018-19
<b>Number of complaints</b>	<b>5</b>	<b>8</b>

## **STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES**

Under the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance (DoF) has directed the Department for the Economy to prepare for each financial year resource accounts detailing the resources acquired, held, or disposed of and the use of resources during the year by the Department. 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 income and expenditure, Statement of Financial Position 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 is aware, there is no relevant audit information of which the Department's auditors are unaware, and he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Department's auditors are aware of that information; and,
- confirm that, the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The Department of Finance has appointed the Acting Head of the Department for the Economy, Mike Brennan, as Accounting Officer. The Accounting Officer has also appointed the Chief Executives or equivalents of its sponsored non-Departmental and other arm's length public bodies as Accounting Officers of those bodies. 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.

## **NON-EXECUTIVE BOARD MEMBERS' REPORT**

The DfE Board focussed on a Departmental Business Plan to guide the work of the Department throughout the reporting period, receiving regular progress updates on the plan and corresponding Corporate Risk Register. The Board held wide ranging discussions on subjects of key importance to the economy, such as EU exit preparations and energy and tourism strategies, supporting senior management to be innovative in their interactions with stakeholders.

The Board strove to improve our effectiveness and undertook a review of the Department's Board Operating Framework, in particular the Board structure. As a result, some existing informal groups became formal Committees of the Board as well as a new Delivery Committee being established. This was a welcome addition which added real value to the work of the Board.

The ARAC continued under my chairmanship, in 2019-20, with particular attention given to addressing the complexities surrounding the Renewable Heating Incentive (RHI) scheme as well as keeping abreast of matters involving the Ulster University Greater Belfast Development. The ARAC remained diligent in reviewing the Department's overall approach to risk management and financial control and was satisfied with high level controls in place.

Throughout the year, the dedication and fortitude of officials in managing challenges and uncertainties around key areas such as EU Exit has demonstrated their commitment to deliver for local people and the local economy. More recently, I have been struck by the pace and professionalism of the Department's response to the COVID-19 pandemic. Amidst a global health crisis, the Board's top priority in relation to our people agenda is to protect the health and wellbeing of the Department's staff. Major short-term priorities are to improve remote working capabilities, continue regular communications and make necessary preparations for a safe office environment for eventual return.

Looking beyond that, while the 2019 People Survey results for DfE showed encouraging progress in relation to staff engagement the Board is not complacent and will strive to keep improving results to achieve a more inclusive, high-performing Department, in which staff feel valued. As a non-executive board member I will use my position to encourage the new Economy Minister and lead officials to use the Programme for Government to deliver a strong, competitive and regionally balanced economy with more people working in better jobs through all phases of COVID-19 and the subsequent recovery, within the context of EU Exit.

Finally, one new non-executive member joined the Board towards the end of 2019-20 and I would like to take the opportunity to welcome Fiona Keenan. I look forward to working with her and the wider Department to continue to provide support, challenge and guidance, and to build on the excellent progress made to improve our governance system.

**Colm McKenna**

Non-Executive Board Member

## **THE GOVERNANCE STATEMENT**

### **Introduction**

The Governance Statement sets out the governance structure, risk management and internal control arrangements for the Department in accordance with guidance issued by DoF. It applies for the financial year 1 April 2019 to 31 March 2020 and up to the date of approval of the Annual Report and Accounts.

### **Budget Position and Authority**

The Assembly passed the Budget Act (Northern Ireland) 2020 in March 2020 which authorised the cash and use of resources for all departments for the 2019-20 year, based on the Executive's final expenditure plans for the year. The Budget Act (Northern Ireland) 2020 also authorised a Vote on Account to authorise departments' access to cash and use of resources for the early months of the 2020-21 financial year. While it would be normal for this to be followed by the 2020-21 Main Estimates and the associated Budget (No. 2) Bill before the summer recess, the COVID-19 emergency and the unprecedented level of allocations which the Executive has agreed in response, has necessitated that the Budget (No. 2) Bill is instead authorising a further Vote on Account to ensure departments have access to the cash and resources through to the end of October 2020, when the Main Estimates will be brought to the Assembly and the public expenditure position is more stable.

### **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 powers on which the administration of the Department depends. She 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 (ALBs).

The Permanent Secretary, as the Departmental Accounting Officer, is responsible for the overall organisation, management and staffing of the Department and for ensuring that there is a high standard of financial management in the Department as a whole. He is accountable to the Minister and the Assembly. The Permanent Secretary also has responsibility for maintaining robust governance and risk management structures and a sound system of internal control that supports the achievement of Departmental policies and objectives, whilst safeguarding the public funds and Departmental assets for which he is responsible, in accordance with Managing Public Money Northern Ireland.

DfE is a ministerial Department that is supported by its ALBs, including 14 NDPBs, two North/ South bodies and four Independent Autonomous Bodies (IAB) as listed in the Note 22 of the Accounts. These organisations assist DfE in implementing its policies and public services and achieving its aims and objectives. These organisations for which the Department has oversight responsibility are accountable for ensuring they have robust governance, financial and risk management structures and sound internal controls in place. To provide sufficient assurance that appropriate governance

arrangements are in place, dedicated sponsor teams in DfE monitor and provide guidance to these bodies. The Department has written agreements in place with its ALBs which set out the respective roles and responsibilities of both parties. These are currently being updated in line with new guidance issued by DoF called the Partnerships between Departments and Arm’s Length Bodies: NI Code of Good Practice.

**DfE Governance Structure**

All entities need clear accountability frameworks and processes for governance, risk management, and internal control. Internal control supports a public sector entity, such as DfE, in achieving its objectives by managing its risks while complying with rules, regulations, and organisational policies such as Anti-Fraud and Whistleblowing Policies; Gifts and Hospitality Policy; Equality Screenings; Sponsorship Manual; Information Security policy; and Commercial Management Framework.

Within DfE governance arrangements not only encompass policies and procedures that provide strategic direction, monitor objectives and manage risks but also place emphasis on the importance of leadership to ensure that sound governance practices are instilled throughout the Department in employees’ day-to-day work, focusing on performance and compliance:

- Performance: how the Department uses governance arrangements to contribute to its overall performance and the delivery of services and programmes; and,
- Compliance: how Department uses governance arrangements to ensure it meets the requirements of the law, regulations, published standards and stakeholder expectations of probity, accountability and openness.

**DfE Governance Arrangements**



There is no 'one size fits all' approach to governance and while there are common elements, themes and models throughout the public sector, DfE has developed systems that meet its specific circumstances which can be adapted and evolve to meet changing needs. For instance, the Department uses Committees to support the Accounting Officer and Board in decision-making and governance arrangements, including the ARAC, Delivery Committee, Resourcing and People Committee and Casework Committee. Some Committees are mandatory (such as the ARAC) while others are optional. The appropriate committee structure for any organisation depends on its size, the breadth and diversity of its functions, the complexity of its responsibilities, the nature of its business and its risk profile. The Committees' role is to advise the Accounting Officer and Board and/or to undertake specific work or make decisions about specific issues.

The DfE Board Committees have been designed to build Departmental expertise and share workloads. They do not assume ultimate decision-making power, which is the responsibility of the Accounting Officer and wider Executive Management. Within DfE there are also various internal executive groups that support the Accounting Officer and Board with decision making and execution of policies. To manage the Department efficiently, the Accounting Officer has been supported by formal governance structures with clear remits during 2019-20, details of which are provided in the Committees of the Board section of this Governance Statement.

### **Departmental Board**

The Board's role is to set the strategic direction of the Department, monitor performance against Business Plans, budgets and targets, and to oversee the governance and risk management arrangements of the Department. To fulfil this role, the Board met monthly with the exception of August and December i.e. on ten occasions during the 2019-20 financial year. [DfE board minutes](#) are published on the DfE website.

The Board is chaired by the Permanent Secretary who, as Accounting Officer, is responsible for the appointment of all NEBMs. A recruitment process took place in 2019-20 for an additional NEBM with Mrs Fiona Keenan being appointed with effect from 16 March 2020. Membership of the Board during 2019-20 is shown in the following table along with each member's attendance.

### DfE Board Membership and Attendance Table 2019-20

Board Member	Role/ Title	Meetings Attended
Noel Lavery (left 29/11/2019)	Permanent Secretary	6
Mike Brennan	Deputy Secretary of EU Exit Preparation & Transition (up to 30/11/2019)/ Acting Permanent Secretary (from 01/12/2019)	9
Heather Cousins	Deputy Secretary of Skills and Education	10
Colin Lewis	Deputy Secretary of Management Services and Regulation	9
Richard Rodgers	Deputy Secretary of Energy	8
Eugene Rooney (left 30/09/2019)	Deputy Secretary of Economic Strategy	4
Diarmuid McLean	Deputy Secretary of Economic Strategy (acting 01/10/2019)	6
Paul Grocott	Deputy Secretary of EU Exit Preparation & Transition (acting 02/12/2019)	3
Stephen McMurray	Finance Director	9
Wendy Johnston	Central Services Director	10
Colin Woods (appointed 30/01/2020)	Corporate Governance Director	1
Alan Russell	Corporate Governance Director (acting 13/01/2020 – 23/02/2020)	1
Lisa Morgan	NICS HR Business Partner	9
Colm McKenna	Non-Executive Board Member	9
Fiona Keenan (appointed 16/03/2020)	Non-Executive Board Member	1

Other Directors and staff are invited to attend where significant items pertaining to their business areas 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 2019-20 financial year were quorate. During the reporting period key topics considered by the Board were Finance, Risk, Business Planning, People, EU Exit, RHI and Major Projects as highlighted in the diagram that follows.



### Key DfE Board Topics in 2019-20



### Quality of Data Used by the Departmental Board

The Board uses information based on a number of data sources. Data relating to financial information and performance 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 DoF's Internal Audit Service (IAS). The Board receives relevant, good quality papers on a timely basis. This enables the Board to manage its busy agenda well given the time constraints and allows all members to contribute to discussions and decision making. More recently and driven by the unique circumstances of the COVID-19 pandemic, communication at remote Board meetings has been positive and the information that has been provided has been succinct and well presented. To ensure that the NEBMs are kept fully apprised of the constantly changing landscape regular updates are provided to them by the Permanent Secretary in between Board meetings.

### Board Performance and Effectiveness

The Board is led by the Permanent Secretary and has a proactive approach to its work which has continuously improved over the last two years. It is an effective Board that adds real value, there is a continuing positive dynamic at Board meetings and the addition of a new NEBM is welcome. It is also sufficiently flexible to allow for adjustment due to shocks such as COVID-19. The Board is continually aware of the key strategic issues facing the Department and works collegiately to address these. The Board assumed responsibility in the absence of a Minister and provided invaluable support and assurance to the Accounting Officer. Members find the Board open to challenge and therefore it is a safe place to disagree if necessary. All members' views are encouraged and valued. It is reported that the tone of meetings facilitates a healthy, open and fulsome discourse and appropriate challenge.

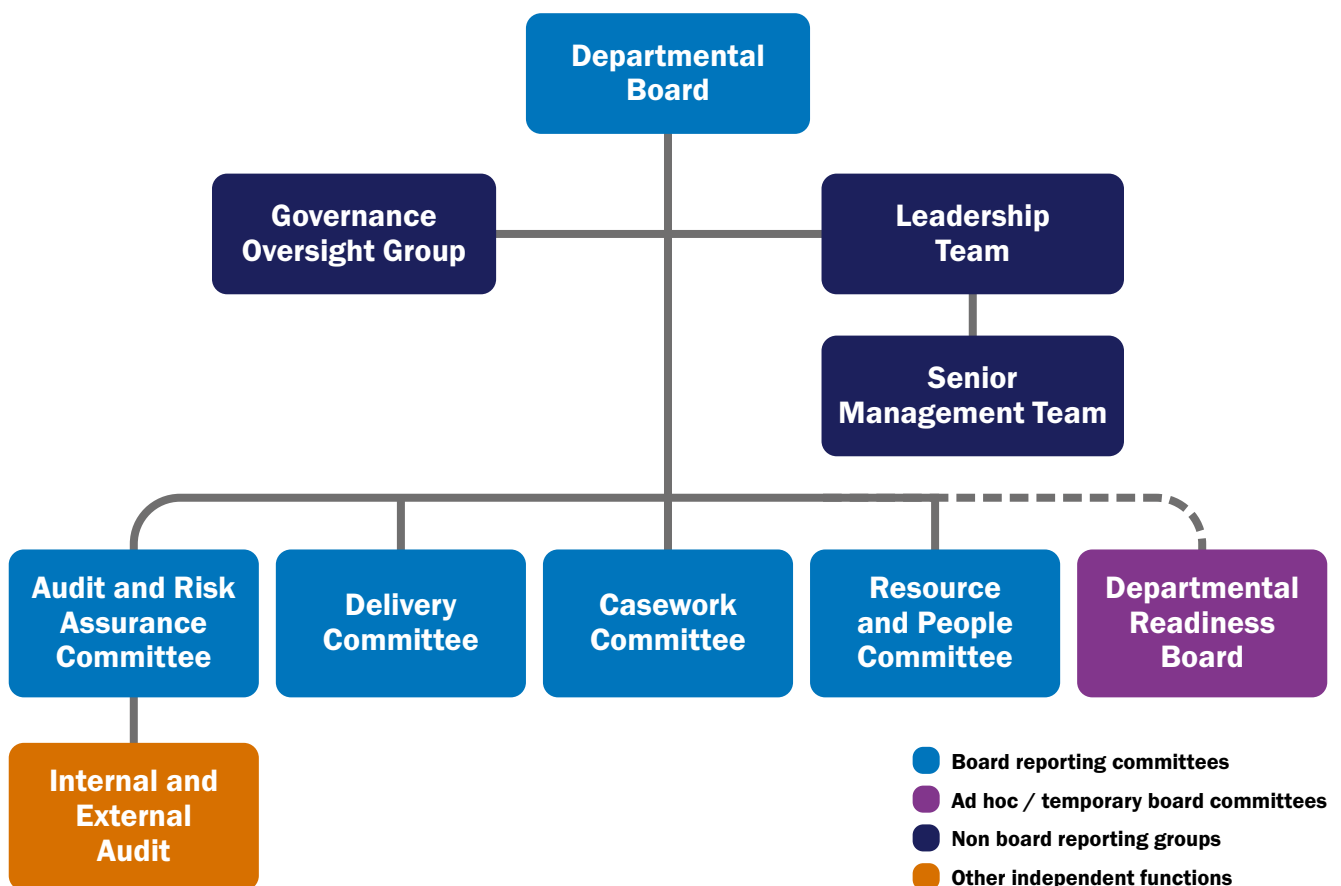
The Board carried out an internal assessment of its performance in May 2020. The Department has focused recently on the adequacy and operational usefulness of its Corporate Risk Register. The establishment of the Board Delivery Committee during 2019-20, which monitors and challenges

Business Plan commitments and corporate risks, has increased awareness of risk appetite and mitigating controls. The establishment of this ‘strong centre’ in the Department has been a positive step and also provides the correct level of support for the Accounting Officer and enables the Board to comply with the Corporate Governance Code.

**Committees of the Board**

As at 31 March 2020 there were four formal committees of the Board and one ad-hoc committee, as illustrated below.

**DfE Board Structure**



*Audit and Risk Assurance Committee*

The well-established DfE ARAC acts in an advisory capacity and reports regularly to the Accounting Officer and Board. The ARAC’s overall purpose is to assist the Accounting Officer and the Board in fulfilling their corporate governance responsibilities such as risk management, internal control and associated assurances.

The ARAC is chaired by an NEBM. Membership during 2019-20 included three members, two of which are unremunerated External Senior Civil Servants. As mentioned previously the Department appointed a second NEBM, who is also an ARAC member, in March 2020 so did not have the opportunity to attend any ARAC meeting during the period. A quorum for any meeting of the ARAC is two members. All ARAC meetings during the 2019-20 financial year were quorate.

During 2019-20, the ARAC met five times (May 2019, June 2019, September 2019, November 2019 and February 2020) with ARAC membership and attendance listed in the following table.

#### **DfE ARAC Membership and Attendance Table 2019-20**

<b>ARAC Members</b>	<b>Role/ Title</b>	<b>Meetings Attended</b>
Colm McKenna	NEBM and Chair	5
Grace Nesbitt	External Senior Civil Servant	4
Anthony Harbinson	External Senior Civil Servant	3

ARAC meetings are attended by the Permanent Secretary, relevant Deputy Secretaries as required, the Finance Director, the Corporate Governance Director, and other representatives from DfE, a representative from the Northern Ireland Audit Office (NIAO), and the Head of the Department's IAS.

The key areas of focus at the ARAC meetings during the 2019-20 financial year were:

- examining and challenging the overall control environment including the risk and governance arrangements to support the Accounting Officer in his stewardship of Departmental resources;
- supporting and challenging the EU Exit Programme and the development of a long-term strategy for renewable heat;
- scrutinising the Annual Report and Accounts to ensure the Department's performance and financial status are appropriately reflected;
- reviewing DfE's Post Project Evaluations (PPEs) with a focus on reducing the number of outstanding PPEs;
- considering the NI Renewable Obligations (NIRO) scheme and sought updates on the Department's work in this area; and,
- discussing the Ulster University Greater Belfast Project, highlighting the issues that had arisen and querying lessons learned with the project.

The Board takes assurance from the ARAC Annual Report provided by the ARAC Chair which reports on the Committee's programme of work during the year. The Committee is content that adequate control systems are in place to support the Board and the Accounting Officer in his decision taking and accountability obligations.

### *Casework Committee*

The Departmental Casework Committee is responsible for the scrutiny (but not approval) of business cases where expenditure exceeds a threshold of £1 million. Its aim is to deliver better value for the taxpayer by challenging expenditure proposals on the grounds of deliverability, affordability and value for money and to review the quality of business cases being submitted to the Department of Finance. By drawing on the experience of its members, the Casework Committee seeks to assess the identification of options and alternative ways of delivering project objectives and outcomes, the cost effectiveness of proposals and the management and mitigation of risk.

Experience shows that projects progress more smoothly through the approval process when there is early engagement between all parties as the casework papers are being developed and that subjecting projects to scrutiny by the Casework Committee leads to a more streamlined process in terms of securing formal approval by DoF and/ or the Minister. Following Casework Committee scrutiny several options may occur:

- cases may require only Ministerial approval (mostly Accounting Officer approval in 2019-20 in the absence of a Minister);
- cases may require DoF approval where DoF delegations have been exceeded; or,
- cases may not be supported by the Committee.

Sixteen projects exceeding departmental delegations were presented to DfE Casework Committee in 2019-20. Ten cases were presented from InvestNI, two from Youth Policy, with EU Fund Management, Higher Education, Skills and Tourism each presenting one case. The table below shows the caseworks presented throughout this period.

### **DfE Casework by Business Area Table 2019-20**

<b>Sponsored Body/ Division Name</b>	<b>Type</b>	<b>Caseworks in 2019-20</b>
Invest NI	NDPB	10
Skills Strategy and Policy	Core	1
Apprenticeships Careers and Vocational Education	Core	2
EU Fund Management	Core	1
Higher Education	Core	1
Tourism, Telecoms, Minerals & Petroleum	Core	1
<b>TOTAL</b>		<b>16</b>

Ten of the above cases were approved by the DfE Accounting Officer prior to the return of the Assembly. The remaining six received Ministerial approval. Due to the Covid-19 crisis, the operation of the casework committee was temporarily suspended in March 2020. Impacted caseworks were rescheduled for early 2020-21.

### *Resourcing and People Committee*

The Resourcing and People Committee provides a strategic view of how the NICS human resource policies and procedures can best be applied to ensure that they contribute effectively to the delivery of the Department's business needs, in line with priorities set out in the draft Programme for Government, the draft Industrial Strategy, the DfE Corporate and annual Business Plans and the NICS People Strategy. Within this remit the Committee is responsible for making decisions and recommendations on the implementation of corporate NICS wide people-related policies in DfE and the effective use of resources across the Department. The Committee is responsible for providing assurance to the Accounting Officer that the Department is operating within its affordability and staffing limit, and applies a corporate approach to ensure that staff resources have been effectively allocated across the Department, including consideration of internal redeployment of staff. It takes decisions on the approval of new or upgraded posts sought by Divisions within DfE, in line with the Management Guide to Workforce Planning. Decisions are taken within the context of the overall resources available and Departmental priorities taking account of the financial implications in-year, across the budget period and beyond in the assessment of affordability. The Committee also reviews compliance with managing attendance and performance management requirements to ensure policies are being applied and set targets are being achieved and is responsible for agreeing and monitoring the implementation of the DfE People Plan.

Resourcing and People Committee meetings are held quarterly and during 2019-20 financial year the Committee met in June 2019, July 2019 (extraordinary meeting), September 2019 and December 2019. The final 2019-20 meeting had been scheduled for late March 2020 but, given the prevailing circumstances due to COVID-19, relevant papers were considered by correspondence instead.

### *Delivery Committee*

The Board established the Delivery Committee during the reporting period to support them in the development and management of performance, of the Department's strategic work plans, including corporate and annual Business Plans and any delivery plans relating to the Programme for Government. Related to this, the Committee also scrutinises the effectiveness of the management of key risks to achieving the objectives set out in those plans.

The Departmental Business Plan and Corporate Risk Register are the primary tools by which the Accounting Officer and Board manages the business of the Department. The main function of the Delivery Committee is to assist the Board in clearly demonstrating that it is monitoring and challenging the delivery of initiatives and targets outlined in Business Plans and regularly questioning the adequacy of associated risk management arrangements.

In the 2019-20 financial year, the Delivery Committee met twice in October 2019 and January 2020. Meetings for early 2020-21 were scheduled but subsequently cancelled due to the impact of the COVID-19 pandemic. The Committee itself was temporarily suspended given the practical difficulties involved in attempting to convene remotely.

At its meetings the Delivery Committee considered and challenged the progress updates provided by colleagues on Business Plan commitments, prompting several changes to more accurately reflect the position and ensure greater transparency in the Department's performance reporting. Contributions to the Corporate Risk Register were also significantly improved and streamlined following the Committee's review.

#### *Departmental Readiness Board*

In January 2020, the DfE Board agreed to establish a Departmental Readiness Board (DRB) as a formal committee of the Board with the overall purpose of overseeing the Department's preparations for the end of the EU Exit transition period in December 2020 (following the UK's exit from the EU in January 2020). The DRB replaced the EU Exit Programme as the Department's overarching EU Exit oversight and governance structure. It is chaired by the Permanent Secretary with membership comprising the Department's five Deputy Secretaries.

The first DRB meeting took place in early March 2020 and was the only one that occurred during the 2019-20 financial year. Issues considered and agreed by the DRB included its Terms of Reference, underpinning Departmental Readiness Planning Assumptions and a Forward Work Plan prioritising areas requiring action and assurance.

Following the March meeting, the economic impact of the COVID-19 pandemic made it necessary for the Department to prioritise immediate COVID-19 response actions in the short term, and the DRB was suspended to help enable this. In 2020-21, a Strategic Oversight Group (SOG) was established to oversee Departmental preparations for both the end of the EU Exit transition period and the COVID-19 recovery phase in parallel which replaced the DRB.

#### **Other Organisational Structures**

Other internal structures that contribute to sound corporate governance in the Department are weekly leadership team meetings, monthly senior management meetings and a newly established governance oversight group.

#### *Leadership Team*

The DfE Leadership Team comprises the Permanent Secretary, Deputy Secretaries and the Director of Central Services. Leadership Team meets once per week, where possible, and met forty-three times during 2019-20. It provides the Permanent Secretary and his top team with an opportunity to discuss live issues. Leadership Team is also used, as appropriate, to discuss and agree cross cutting issues. Issues typically considered at Leadership Team include a readout from the previous week's Permanent Secretary Stocktake meeting, Freedom of Information, EU Exit and, from March 2020, COVID-19.

The Department is at the forefront of the immediate COVID-19 economic response and in mid-March 2020 the Leadership Team also met as part of a Pandemic Information Management Team (PIMT). Leadership Team went from operating in a 'business as usual' environment to one focused

on managing a national emergency largely facilitated by a remote working operating model. Through participating in daily PIMT meetings Leadership Team responded purposefully and effectively to the Executive's COVID-19 crisis management requirements which is pivotal to the work that will be done to plan for Northern Ireland's economic recovery.

#### *Senior Management Team*

SMT meets once per month and met eleven times during 2019-20. Meetings are chaired by the Permanent Secretary and membership comprises the five Deputy Secretaries and all Heads of Division. The Head of Central Management Branch and the DfE Press Officer are also in attendance. SMT meetings provide an opportunity for senior officials within DfE to discuss and brief attendees on a range of ongoing operational issues. Attendees provide feedback to their business areas as appropriate. Issues considered at SMT include a readout from previous NICS Board, media and finance. Topical issues such as EU Exit, City Deals and specific issues around the Department's response to COVID-19 were discussed.

#### *Governance Oversight Group*

The Governance Oversight Group (GOG) was set up by the Permanent Secretary in December 2019 to examine current and emerging governance issues. The GOG is chaired by the Permanent Secretary and membership consists of the Leadership Team, Director of Corporate Governance and the Head of Internal Audit. Project Assurance and Support Branch attends in a secretariat function.

It was planned that the GOG would meet twice a month with each session dedicated to individual areas where attendance by the relevant Director/s was required. Whilst papers and formal briefing is not a pre-requisite the format for discussion is as follows:

- Update on the current position;
- Summary of the next steps; and,
- Identification of any specific issues/ concerns.

The purpose of the GOG is to aid the oversight and challenge on topical governance issues. The meetings are relatively informal and are part of the regular stocktake for Departmental Board Assurance. To date, there have been five meetings exploring eight projects, details of these meetings are provided in the list below but as a result of the COVID-19 pandemic meetings have been suspended.

#### **Projects explored:**

- Ulster University Greater Belfast Development;
- HMS Caroline;
- RHI Hardship;
- Entry Level/Level 1;
- Educational Maintenance Allowance;
- Clean Energy;
- Energy Strategy; and,
- RHI Moving Forward.

### **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 Code outlines a model Board Operating Framework that can be used to document a Departmental Board’s roles and responsibilities. It also sets out Departmental responsibilities in the oversight of ALBs. Departments are required to either comply with the Code or explain any significant departures from it.

During 2019-20, the Department complied with most of the principles and supporting provisions set out in this Code. However, the Board operated the majority of the 2019-20 year with only one NEBM resulting in an imbalance of representatives on the Board. However as mentioned previously a new NEBM was appointed on 16 March 2020 to address this matter.

### **Review of the effectiveness of risk management and internal controls**

The review of the effectiveness of our risk management and internal controls has been informed by officials, the annual internal audits carried out by IAS and comments made by NIAO. Our ARAC also provided further assurance. DfE has continued to make improvements to the governance, risk management and control environment. More broadly our Department has taken steps to improve its capability and capacity.

### **Risk Management**

Risk management is an integral part of the Department’s corporate governance framework and is closely linked to the Department’s Business Planning process. The Department’s risk management framework has been developed in accordance with the HMT’s Orange Book and requires all business units (branches and divisions) to formally manage risks on a periodic basis through the maintenance of risk registers, from which key risks can be escalated to a Corporate Risk Register maintained and regularly reviewed by the Departmental Board. Separate risk registers for programmes and projects are also maintained.

The Corporate Risk Register was monitored and managed by the Departmental Board on a monthly basis during 2019-20. A comprehensive list of the risks managed during the year is provided in the Performance Report section of this document. The Board also agreed a corporate risk appetite at the outset of the year which was used to inform risk management activity and behaviours at all levels; it was also updated in March 2020 to provide for a more open approach to risk in relation to work required to combat the impact of COVID-19.

During the year a review of the Board Operating Framework resulted in the establishment of a new Delivery Committee as a formal Committee of the Board. Its wider role and purpose is covered in more detail above but in relation to risk management it helped to review the content of the Department’s Corporate Risk Register in much more depth before its presentation to the Departmental Board, resulting in various improvements to the length, intelligibility and, most importantly, relevance of the Register.



## Key Control Issues

A key source of assurance when drafting this Governance Statement is the year end assurance statements obtained from ALBs and internal DfE Directorates and Deputy Secretaries. 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. They also provide an opportunity to report any significant issues or control weaknesses identified during the year.

The Department has made good progress in helping to address weaknesses in controls and processes. We have also implemented several actions to help improve controls in critical areas outlined below. While there have been great improvements, work continues to refine and strengthen compliance with Departmental corporate policies given the release of the RHI Inquiry Report on 13 March 2020. The report contained specific recommendations for improving governance within the Department. During 2019-20, in anticipation of the report, several major aspects of DfE's system of internal control and assurance were reviewed and enhanced:

- Creation of a strengthened corporate centre to the Department and better alignment of different business areas;
- Enhanced system of assurance on Raising Concerns (Whistleblowing);
- A review of the DfE Casework Committee and associated recommendations;
- Establishment of a dedicated Project Oversight, Monitoring and Support and Commercial Management and Awareness functions; and,
- Development of leadership skills across the Department.

Further strengthening and enhancement in direct response to the report are anticipated in 2020-21 to ensure full compliance with the Inquiry's recommendations.

### *EU Exit*

Following the UK's departure from the EU on 31 January 2020, the DfE EU Exit programme was reviewed and revised to manage and oversee the Department and its ALBs' EU Exit preparations for the end of the transition period, including measures to protect all of our business with Great Britain, negotiations on the UK's Future Economic Partnership with the EU, development of the UK's independent International Trade Policy and future Immigration policy. Stakeholder events continue to provide the Department with information to help businesses respond to and manage the impact of EU Exit and now also COVID-19.

EU Exit related risks continue to be managed at all levels throughout the Department in accordance with the Departmental Risk Management Framework, with guidance and support from DfE's dedicated EU Exit teams. The Department continues to liaise and engage on a regular basis with UK Government counterparts to ensure that the NI position is accurately reflected and considered. The Department will continue its preparations for the end of the transition period on 31 December 2020, monitoring risks and escalating through the Corporate Risk Register and the wider NICS EU Exit management structures.

## *RHI*

During 2019-20, the RHI Taskforce has focused on a number of strategic areas in the Non-Domestic scheme, namely:

- independent research into potential hardship and an independent review of the tariffs for medium biomass technologies;
- creation and launch of voluntary buy-out arrangements;
- ongoing defence of legal challenges taken against DfE in relation to the scheme;
- preparation of the Department's response to the letter of representation containing the initial findings of the Inquiry;
- ongoing performance management of Ofgem in delivery of the Scheme;
- continued progress with the programme of inspections and compliance by scheme participants; and,
- developing options for the future of the scheme, in light of the commitment to scheme closure contained within the New Decade New Approach deal (NDNA).

The Northern Ireland (Regional Rates and Energy) Act 2019 conferred powers on the Department for the Economy to operate voluntary buy-out (VBO) arrangements during the period while there was no Northern Ireland Executive. On 14 October 2019 the RHI Taskforce launched a call for applications under 2019-20 VBO arrangements.

On 9 January 2020 the New Decade, New Approach deal was published, making the following commitment in relation to RHI: *"RHI will be closed down and replaced by a scheme that effectively cuts carbon emissions"*. In light of this commitment, and the return of the NI Executive on 11 January 2020, the Department halted the 2019-20 VBO arrangements on 23 March 2020 with no offers issued. This was essential to enable equitable treatment of all participants as options for the future of the Non-Domestic Scheme were developed.

The key risk faced during the reporting period continued to be the potential failure to manage the RHI schemes in a manner fulfilling the Department's obligations to participants whilst delivering value for money, resulting in public criticism, significant budget pressures and further reputational damage. The RHI Taskforce managed this risk through the continued adherence to agreed governance arrangements, in line with project management best practice. In May 2019, it was determined that the needs of the Department would be best served through the consolidation of the RHI Project and Oversight Boards into a single governance forum. These new arrangements continued to support robust, evidence based decision making whilst retaining the crucial independent challenge and scrutiny provided to date.

The Taskforce is directed by the RHI Board which meets on a regular basis, chaired by the Permanent Secretary. The Board comprises senior officials alongside DfE and Non-Departmental representatives who are experts from a range of disciplines. To promote effective governance the taskforce was subject to a Project Assessment Review undertaken by independent Gateway assessors during 2019-20, continued to operate a project risk register and issues log, escalating issues to the Board and/ or ARAC on a timely basis and are supported by the Energy Group Programme Management Office (PMO).

Both the Domestic and Non-Domestic schemes remain suspended to new applications. Ongoing legal cases, including the appeal of the 2017 Regulations and challenge to the 2019 Bill were managed through close liaison with Departmental Solicitor's Office (DSO).

The comprehensive programme of inspections, analysis and compliance also continued during the period to provide assurance to the Department, public and other interested parties that the schemes are operating as intended and where this is not the case, appropriate actions is being taken to address the issues identified. Following the introduction of strict social distancing requirements by the UK Government in late March 2020, on-site inspections were suspended which led to an inevitable setback in progress towards the targets for June 2020 with 187 of the 250 sites, identified for inspection, subject to a site visit. Site visits have now re-commenced and a Strategy for 2020-21, which details how the Department will complete the 100% programme of investigations by 31 March 2021, is being implemented. The Department's Service Delivery partner, Ofgem, continued to be managed through a Service Delivery Board with supporting governance documentation.

In 2020-21, the biggest risks facing the Department will emanate from work on closure of the scheme, including a risk to the completion of the programme of inspections and further legal challenges alongside the current challenges to the 2019 Act of Parliament, as well as the ongoing appeal to the 2017 Regulations.

Reports published during the year in relation to the schemes are the [non-domestic RHI hardship call for evidence consultation](#) in October 2019 and the [Non-Domestic RHI Scheme Analysis and Domestic RHI Scheme Analysis](#) in November 2019.

### *NIRO*

NIRO is the main support mechanism for renewable electricity generation in NI and operates in parallel with the Renewables Obligations in GB. The scheme is now closed to all new generation. It has achieved the NI Executive's target of 40% electricity consumption from renewable sources by 2020, delivering 43.7% over the period January to December 2019 as described in the [electricity consumption and renewable generation statistics](#).

Allegations associated with small groups of stations, in terms of numbers and installed capacity, have emerged since 2017. The NIRO Assurance & Risk Management Steering Group (the Steering Group), comprising membership from the Department, the NI Utility Regulator and Ofgem was established to consider the allegations and to identify, understand and address the wider risks associated with the scheme. The Steering Group has identified the high-level risks associated with the NIRO along with the key risk causes and introduced additional mitigation measures and processes to manage the risks. The Steering Group continues to meet regularly to review the existing risks and to consider other NIRO related issues of common interest.

Ofgem administers the NIRO on behalf of the NI Authority for Utility Regulation, along with the ROs in GB. The [Ofgem renewables obligation annual report 2018-19](#) across the UK was published on 31 March 2020.

### *Presbyterian Mutual Society*

Following the collapse of the Presbyterian Mutual Society (PMS) the Department of Enterprise, Trade and Investment (DETI), now DfE, were designated in March 2011 to manage a bridging loan of £175m with a 10 year repayment agreement, under the Financial Assistance Act (Northern Ireland) 2009. Under a Court appointed scheme the PMS is administered by KPMG and Arthur Boyd as Joint Supervisors.

A Departmental PMS Steering Group is responsible for overseeing the strategic direction of the PMS project, as well as maintaining appropriate monitoring and control procedures to ensure sufficient oversight of the management of the scheme. The Steering Group are also responsible for assessing and providing advice to the DfE Permanent Secretary and Minister on key events and managing the risks associated with the repayment of the PMS loan.

Throughout the scheme, the Department in conjunction with its external professional advisors have carefully monitored the strategy in relation to the timing of property disposals and repayments available in respect of the £175 million loan by holding regular meetings (at least quarterly). Meetings and correspondence have continued throughout the COVID-19 lockdown period with updates provided to the DfE Minister and Board and on how the PMS portfolio has been affected by the global pandemic. When investment markets resume the Joint Supervisors with the assistance of their property agents will present options to the Department which will allow realisations to be maximised on the outstanding loan. These in turn will be reviewed and assessed by both the Department and its advisors and will be presented to the Permanent Secretary and Minister for final approval.

### *Harland and Wolff (H&W)*

H&W plc (“the company”) is wholly owned by DfE. Its operations are managed by the company’s Board which consists of three DfE officials with a fourth official providing a company secretarial function. The H&W plc Board is chaired by the Department’s Finance Director and meets on a regular basis throughout the year. The company has its own risk register which is considered at every Board meeting. During 2019-20, a new risk emerged because of H&W Heavy Industries entering administration. This risk was not only escalated through H&W plc’s Board but also through the Department’s Corporate Risk Register.

Under the 1989 sale agreement, H&W Heavy Industries provide administrative support to the Department. To reduce/eliminate the risk to H&W plc, Board members entered detailed discussions with the administrators and their legal advisors. Following the sale of H&W Heavy Industries, the new owners, Infrastrata, agreed to continue to uphold the agreement. However, the inherent risk continues to be high due to the assessment of the company’s future liabilities and funding requirements. To reduce this risk, the Directors rely on actuarial valuations every 3 years, with the most recent undertaken during the 2019-20 year. Other data, relating to claims against the company, is provided by the company’s professional advisers. The Directors are satisfied with the quality of data provided by members of professional bodies and are also content that while both Departmental

and H&W admin staff are remotely working during the COVID-19 lockdown, this has not had a disproportionate effect on the output of the company, and work practices are being adjusted to maintain the same level of service.

#### *HMS Caroline*

In 2012 DETI, now DfE, reached an agreement with the National Museum of the Royal Navy (NMRN) to retain HMS Caroline (HMSC or “the Ship”) in Belfast and to develop it into a world class maritime heritage visitor attraction. The capital phase of the project was jointly funded by Tourism NI and the Heritage Lottery Fund and the Ship opened to the public in April 2018. However, the Ship closed on 17 March 2020 due to COVID-19 restrictions.

The Ship is operated by NMRN but the Department has ongoing legal obligations which are set out in agreements signed in 2012 and 2017. The key financial responsibility is that the Department is liable to fund any shortfalls should they arise. The Department has been progressing work to establish appropriate governance structures to ensure that the Department’s operational duties are effectively managed. Whilst this work is ongoing, several risks have been identified in relation to the existing financial and governance arrangements in place which have been escalated to the Corporate Risk Register.

There is a financial risk that HMSC is not self-sustaining as a visitor attraction on an ongoing basis which has already materialised with a deficit being incurred earlier than anticipated, mainly due to lower visitor numbers which has been further exasperated by the impact COVID-19 has had on the Tourism sector. The key governance issue is in relation to the current operating agreement which lacks sufficient controls and further work is required on developing a revised operating agreement to include more robust controls, KPIs and funding mechanisms.

The Department has been progressing work to mitigate these risks by:

- appointing a Project Manager to oversee and manage all areas of the project and support the work streams;
- putting arrangements in place to establish a Project Board;
- appointing consultant forensic services to validate and independently verify the deficit claimed by NMRN; and,
- preparing to procure specialist tourism consultancy advice regarding operation of the attraction.

#### *Ulster University Greater Belfast Development*

The Ulster University Greater Belfast Development project aims to relocate the vast majority of UU’s activities which are currently based at Jordanstown to a significantly expanded Belfast campus.

Following increased costs on the project, UU submitted a business case to the Department in July 2019 to request additional finance in the form of a £126m Financial Transaction Capital (FTC) loan to bridge a funding gap and ensure the successful completion of the University’s flagship project. On receipt of the business case, the Department appointed Deloitte to carry out an independent due

diligence exercise. The outputs from the Deloitte report have been used to verify that the project has stabilised and is suitable for further funding. The business case was scrutinised and supported by the Departmental Casework Committee and subsequent approval was obtained from DoF.

As part of the pre conditions of the FTC loan, independent reviews are underway to provide assurance over the future funding ability of the University and ensure they can bring the GBD project to a successful completion. A DE Project Oversight Board is currently being established to monitor project progress and viability, as well as facilitate drawdown of the FTC loan at appropriate stages. The Department's Higher Education (HE) Division is also in the process of strengthening staff resource in relation to major capital projects to increase scrutiny and oversight of higher risk HE capital projects.

A report published in December 2019 by NIAO provides a review on Major Capital Projects in the Northern Ireland public sector. The report includes a review on the progress of UU's GBD, identified as one of the NI Executive's highest priority flagship infrastructure projects.

The Department is aware of the significant impact of COVID-19 on the entire University sector through the loss of international student fee income, commercial income and costs of delivering courses remotely. The Department is working with the universities in assessing the impacts and striving to secure additional funding to support the going concern of the providers.

#### *Other Control Issues*

Aside from the main control issues outlined previously, other control issues facing the Department during the reporting period as highlighted in the assurance statements were:

- In the absence of an Economy Minister until 11 January 2020, it was not possible to secure North South Ministerial Council (NSMC) approval of 2019 and 2020 Business Plans for Tourism Ireland and InterTradelreland. While arrangements have been made with DoF to ensure legality of payments in the absence of business plans, expenditure will be irregular until the NSMC approves Business Plans.
- Republic of Ireland funding of Tourism Ireland has disproportionately increased as the Irish Government seeks to address industry concerns and the impact of the UK's exit from the EU, whereas funding from NI has been flat-lined for a number of years due to the absence of local Ministers and the NSMC. This has distorted agreed funding ratios between jurisdictions. DoF and TEO are aware of the concerns but the Department is hopeful the issue can be resolved in the 2020-21 financial year with the restoration of the NI Assembly.
- Following a resignation in summer 2019, the LRA Board is operating with less members than is quorate, per the required level specified in Schedule 4 of the Industrial Relations Order (Northern Ireland) 1992. Unfortunately LRA Board appointments could not be made in the absence of a Minister as stated in their legislation however a Board appointment process has now been planned by the Department for 2020-21.
- A new area of work to DfE are the City and Growth Deals. There are some concerns around the project management arrangements, including the approval process, risk management and designated roles in such a novel, cross cutting expenditure stream with such processes not yet

embedded. With the need for detailed knowledge and expertise in certain areas such as the tourism sector to assess the potential and sustainability of the various tourism projects proposed it is likely that additional staff resources with a specific skill set may need to be sought.

Note DfE has requested retrospective approval for €54,250 (£39,418) paid by Tourism NI to its Dublin-based staff for pay awards processed in the period 2005-06 to 2013-14, for which DoF approvals were not obtained. In addition, a further request for retrospective approval was sought for €4,733.62 for the error in payment incurred by TNI when processing the 2017-18 pay award. A further retrospective approval request was submitted to DoF on the 11 December 2019 in relation to LRA Arbitrators Fees which amounted to £308.48 due to unapproved increase in payment rates. DoF granted retrospective approval in these instances as assurance was provided that suitable actions have been put in place which will help to avoid any further recurrence.

### **Internal Audit Annual Opinion**

The Annual Opinion provided by the Head of Internal Audit (HIA) states that the Department for the Economy has established an overall Satisfactory opinion during 2019-20.

A Limited overall audit opinion was provided by Internal Audit in 2018-19. In considering the opinion for 2019-20, the HIA sought to balance the results of audit work undertaken during the year against the extent to which the issues that gave rise to the Limited overall opinion in the previous year had been addressed. The results of audit work undertaken in 2019-20 provided a positive perspective with the majority of audit assignments receiving satisfactory audit opinions. In particular, Internal Audit noted the results of systems audits undertaken on areas such as Stratum, PMS, H&W and the successful implementation of recommendations relating to the Gas to the West Project.

Further, Internal Audit has provided overall Satisfactory Audit opinions to Invest NI, Tourism NI, NI Screen and the Northern Ireland Consumer Council to whom it provides the direct Internal Audit Service. In addition, the DoF Internal Audit Service has provided its end-year Assurance Report and Opinion on Enterprise Shared Services. With all completed audits on Enterprise Shared Services having received satisfactory audit opinions.

However, in forming an overall opinion the HIA also gave consideration to the two draft Limited opinions issued during 2019-20 and the Non Domestic RHI follow up audit. The current positions in respect of the two limited reports are set out in the table below:

<b>Assignment</b>	<b>Number of Recommendations</b>	<b>Current Position</b>
Peace 4 Youth Programme	One priority 1 and three priority 2 recommendations	DfE are working closely with SEUPB on provision of Peace 4 Youth management information, audit information and evaluation data collection in order to address the full range of IA recommendations.
Disability Support Service	Eight priority 1 recommendations	The business area responsible have developed a comprehensive management response to address the recommendations. A number of suggested process changes have already been put in place to address issues identified in draft report.

While these audit opinions are of concern they do not reflect a systemic issue of governance in the Department. Indeed, the HIA noted that during the year there has been an ongoing improvement in Governance and Oversight in the Department including the establishment of the Governance and Oversight Group which meets regularly to consider new and emerging governance issues in the Department.

The two most important issues that impact on the Overall Audit Opinion still remain the Non-Domestic and Domestic RHI Schemes. Internal Audit provided an Unacceptable Audit Opinion on the Non-Domestic RHI scheme and a Limited opinion in relation to the Domestic Scheme in 2016-17. Follow-up assignments have been undertaken in 2019-20 and the HIA is content to raise the audit opinion on Domestic RHI. In relation to non-domestic RHI the audit has identified improvements in the governance and oversight of Ofgem by the Department in particular in relation to the programme of inspections. However, given the challenges still facing the scheme in relation to dealing with the issue of Hardship and the Closure of the Scheme it is not possible to say that all risks are satisfactorily managed at this time. Having considered the improvements which have been made, HIA is content to raise his audit opinion from unacceptable. However, HIA is still unable to provide a positive assurance that all risks are satisfactorily managed, therefore a Limited opinion has been provided for this system.

HIA notes the progress made by Department in establishing robust corporate governance structures including the enhancements to the casework process and the work being undertaken to improve Sponsor Control of Arm's length Bodies. He also noted that the majority of Internal Audit Opinions issued in 2019-20 provided a Satisfactory Opinion. Where Limited opinions were issued he is content that these do not reflect a systemic issue in the Department. While there are still challenges to be overcome in relation to the Non-Domestic RHI Scheme he does not consider that this alone reflects on the overall Governance and Control of the Department and therefore his overall opinion on the Department for 2019-20 is Satisfactory.

### **Fraud and Whistleblowing Reporting**

During 2019-20, the Department further enhanced its management of fraud and whistleblowing (now known within DfE as raising concerns) cases by creating a dedicated branch. A thorough review of policies and processes was undertaken, and a new recording and management system is being implemented. This will help improve the Department's oversight and control of all reported cases.

#### *Fraud*

At 1 April 2019, fifteen ongoing fraud cases were brought forward from previous years. During 2019-20, there were thirty-one cases of suspected fraud reported to the Department, five of which were in relation to the RHI Scheme and were referred to Ofgem for investigation. Further and Higher Education Divisions reported a total of thirteen suspected fraud cases, Tourism NI reported four, Tourism Ireland one and Invest NI, four cases. Of the remaining four cases, three were reported by European Fund Management and one by Energy, Sustainability and Infrastructure.



In total, twenty-seven cases were closed during the year. Appropriate actions have been taken on all cases reported. Any recommendations made are being implemented and policies and procedures updated where necessary. In line with appropriate guidance, all cases of fraud during the year have been reported to DoF and NIAO. Nineteen cases were ongoing at 31 March 2020.

After the year end, a further seven suspected fraud cases, all pertaining to the Domestic RHI Scheme, were retrospectively notified to the Department and, subsequently, DoF and NIAO. All appropriate investigative actions have been taken on these cases and the failure to complete the notifications was an administrative oversight which has now been rectified. Action in each of these cases was ongoing at the year end.

### *Raising Concerns*

At 1 April 2019, there were fourteen open Raising Concerns cases, brought forward from previous years. During 2019-20, the Department received thirteen raising concerns allegations. Further Education Division reported a total of seven allegations, Corporate Governance two allegations and Apprenticeships Delivery & Performance two allegations. Of the remaining two referrals, both were reported by other Arm's Length Bodies (Health & Safety Executive and Construction Industry Training Board).

In total, seventeen cases were actioned and closed during the year. Any recommendations made are being implemented and policies and procedures updated where necessary. Investigations into ten raising concerns allegations were ongoing at 31 March 2020.

### **Public Accounts Committee Issues**

There was one PAC hearing in the 2019-20 year. Following the publication of NIAO's Report on Major Capital Projects on 18 December 2019, the Department was called to appear at a session of the Public Accounts Committee on 19 March 2020. At this closed session, the Department discussed with members a case study from the Report on Ulster University's Greater Belfast Development.

### **Ministerial Directions**

There was one Ministerial direction given during the 2019-20 financial year on 26 March 2020 in relation to the COVID-19 £10,000 Business Support Grant Scheme. Two further Ministerial directions were granted post year end on 10 April 2020 in respect to the COVID-19 £25,000 Business Support Grant Scheme for Retail, Hospitality, Tourism and Leisure and on 5 May 2020 in respect to the COVID-19 Microbusiness Hardship Scheme. All three Directions received Executive Committee approval. Given the late stage of 2019-20 at which the Executive brought forward the £10,000 Scheme, the payments made during the 2019-20 year are not reflected in the DfE Spring Supplementary Estimate position.

### **Small Business Grant Scheme**

As outlined above, on the 26 March 2020 the Small Business Grant Scheme was launched at pace to help mitigate the unprecedented impact of COVID-19 on businesses. This was an NI Executive initiative to provide one-off emergency grants to small businesses to address immediate liquidity risks, which if unchecked would significantly increase the potential threat of business closures.

In order to deliver the scheme, the Department agreed a Memorandum of Understanding (MOU) with Invest NI, DoF and Land and Property Service (LPS). Under the terms of the MOU, Invest NI recorded the full estimated costs of the grant scheme on an accruals basis in their 2019-20 accounts as they had the necessary vires and the Department took responsibility on behalf of the NI Executive for the design and delivery of the scheme, and also assumed responsibility for any potential error, fraud or losses arising from the administration of the scheme. DoF (via LPS) were entirely responsible for the identification and checking of eligible businesses and arranging the payments from the DfE bank account to those businesses.

The cost of the scheme for 2019-20 of £220m was included in Invest NI's financial statements and funded by DfE based upon claims data held by LPS. The financial statements for DfE reflect the cash based grant in aid requirement of £67.7m in 2019-20. During the course of the year-end audit process, NIAO reviewed the payments prepared by LPS in respect of the scheme. The sample testing identified three errors amounting to a total of £30,000. This has been extrapolated under NIAO sampling to indicate a total possible irregular expenditure of £13.5m within the £220m, an error rate of 6.1%. As a result the C&AG has issued a qualification on the Department's and Invest NI's 2019-20 Accounts in respect of this expenditure. Control procedures within LPS have identified 374 grant payments (total £3.74m) that they advise have been made in error. Further details of this can be found in the C&AG's Report.

The scheme was required to be implemented at a rapid pace to urgently combat the impact of COVID-19 on NI businesses. Processes were put in place to ensure that reasonable governance and control mechanisms were established in advance of payments, albeit in a manner proportionate to the extraordinary urgency with which the scheme was introduced. It was in recognition of these particular circumstances, and the associated difficulties in demonstrating value for money that the scheme was subject to a Direction from the Economy Minister, which was provided further to discussion and agreement at the wider Executive.

## REMUNERATION REPORT

### Remuneration Policy

The pay policy for the Northern Ireland (NI) public sector, including senior civil servants (SCS), is normally approved by the Minister of Finance. In the absence of an Executive, the Department of Finance's Permanent Secretary set the 2019-20 NI public sector pay policy (October 2019) in line with the overarching HMT parameters and in a manner consistent with the approach taken by the previous Finance Minister in 2016-17. Annual NICS pay awards are made in the context of the wider public sector pay policy. The pay award for NICS staff, including SCS staff, for 2019-20 has been finalised but not yet paid.

The pay of SCS is 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.

### Service Contracts

The Civil Service Commissioners (NI) Order 1999 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Code published by the Civil Service Commissioners for Northern Ireland specifies the circumstances when appointments may be made otherwise.

Unless otherwise stated, the officials covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would 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 for Northern Ireland can be found at [www.nicscommissioners.org](http://www.nicscommissioners.org).

### Remuneration and pension entitlements

The following sections provide details of the remuneration and pension interests of the Minister and most senior management (i.e. Board Members) of the Department.

#### Remuneration and pension entitlements – Minister (audited information)

Single total figure of remuneration						
Minister	Salary (£)		Pension Benefits* (to nearest £1,000)		Total (to nearest £1,000)	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Diane Dodds MLA 11/01/2020 – 31/03/2020	10,720 (48,205 full year equivalent)	N/A	3,000	N/A	14,000	N/A

There was no Minister in place during 2018-19.

\*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.  
 No benefits in kind were received in 2019-20.

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**Remuneration and pension entitlements – Officials (audited information)**

Single total figure of remuneration						
Officials	Salary (£'000)		Pension Benefits* (to nearest £1,000)		Total (£'000)	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Mike Brennan <i>Acting Permanent Secretary</i> 01/12//2019 – 31/03/2020 <i>Deputy Secretary</i> 01/04/2019 – 30/11/2019 & 01/04/2018 – 31/03/2019	100-105 (115-120 full year equivalent)	90-95	116,000	37,000	220-225	130-135
Noel Lavery <i>Permanent Secretary</i> 01/04/2019 – 29/11/2019 & 01/04/2018 – 31/03/2019	80-85 (120-125 full year equivalent)	120-125	38,000	38,000	120-125	160-165
Heather Cousins <i>Deputy Secretary</i>	100-105	95-100	29,000	23,000	125-130	120-125
Eugene Rooney <i>Deputy Secretary</i> 01/04/2019 – 30/09/2019 & 01/04/2018 – 31/03/2019	45-50 (95-100 full year equivalent)	90-95	2,000	19,000	50-55	110-115
Colin Lewis <i>Deputy Secretary</i> 01/04/2019 – 31/03/2020 & 08/10/2018 – 31/03/2019	100-105	50-55 (100-105 full year equivalent)	19,000	2,000	120-125	50-55
Richard Rodgers** <i>Deputy Secretary</i> 01/04/2019 – 31/03/2020 & 29/11/2018 – 31/03/2019	105-110	35-40 (90-95 full year equivalent)	-	-	105-110	35-40
Diarmuid McLean <i>Acting Deputy Secretary</i> 01/10/2019 – 31/03/2020	45-50 (90-95 full year equivalent)	-	55,000	-	100-105	-
Paul Grocott <i>Acting Deputy Secretary</i> 02/12/2019 – 31/03/2020	30-35 (90-95 full year equivalent)	-	12,000	-	40-45	-
Chris Stewart <i>Deputy Secretary</i> 01/04/2018 – 07/10/2018	-	45-50 (90-95 full year equivalent)	-	24,000	-	70-75
Wendy Johnston <i>Assistant Secretary</i>	55-60 (80-85 full year equivalent)	50-55 (80-85 full year equivalent)	15,000	10,000	70-75	60-65

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<b>Single total figure of remuneration</b>						
<b>Officials</b>	<b>Salary (£'000)</b>		<b>Pension Benefits* (to nearest £1,000)</b>		<b>Total (£'000)</b>	
	<b>2019-20</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2018-19</b>
Stephen McMurray Assistant Secretary	75-80	75-80	25,000	19,000	100-105	95-100
Colm McKenna Non-Executive Board Member	10-15	5-10	-	-	10-15	5-10
Fiona Keenan Non-Executive Board Member 16/03/2020 - 31/03/2020	-	-	-	-	-	-
Claire Hughes Non-Executive Board Member 01/04/2018 - 27/06/2018	-	0-5	-	-	-	0-5
Lisa Morgan*** Non-Executive Board Member	-	-	-	-	-	-

\*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.

\*\*This Board Member is on secondment from Strategic Investment Board (SIB), and is on their payroll. This Department reimburses SIB for the individual's salary only.

\*\*\*This Non-Executive Board Member is employed by Department of Finance and, as such, is paid by that Department. Non-Executive Board Members are remunerated on a per diem basis. None of the above received benefits in kind in 2019-20 or 2018-19.

## 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 severance or ex-gratia payments.

The Northern Ireland Assembly was dissolved from 26 January 2017 until an Executive was formed on 11 January 2020. Ministers were not in place during this time. From 11 January 2020, the Department for the Economy was under the direction and control of Diane Dodds MLA. Her salary 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 Minister's role as MLA which are disclosed in the appropriate legislature accounts.

## 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 2019-20 and 2018-19.

## Fair Pay Disclosures (Audited Information)

	2019-20	2018-19
<b>Band of Highest Paid Director's Total Remuneration* (£000)</b>	115-120	120-125
<b>Median Total Remuneration (£)</b>	30,526	29,752
<b>Ratio</b>	3.85	4.12

*\*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.*

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 banded remuneration of the highest paid director in the Department in the financial year 2019-20 was £115,000-120,000 (2018-19: £120,000-125,000). This was 3.85 times (2018-19: 4.12 times) the median remuneration of the workforce, which was £30,526 (2018-19: £29,752).

The movement in the ratio between 2019-20 and 2018-19 is primarily attributable to a decrease in the band of the highest paid director's total remuneration and an increase in the Department's median total remuneration.

In 2019-20, two individuals (2018-19: two individuals) received remuneration in excess of the highest paid director.

Remuneration ranged from £18,052 to £116,627 (2018-19: £17,352 to £117,969), based on pay scales as at 31 March 2020.

### Pension Entitlements – Minister (audited information)

	Accrued pension at age as at 31/03/2020 £000	Real increase in pension at pension age £000	CETV at 31/03/2020 £000	CETV at 31/03/2019 £000	Real increase in CETV £000
Diane Dodds MLA 11/01/2020 – 31/03/2020	0-2.5	0-2.5	3	-	2

There was no Minister in place during 2018-19.

### Ministerial pensions

Pension benefits for Ministers are provided by the Assembly Members’ Pension Scheme (Northern Ireland) 2016 (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. The new scheme is named Assembly Members’ Pension Scheme (Northern Ireland) 2016 and replaces the 2012 scheme. Existing members born on or before 1 April 1960 retain their Final Salary pension arrangements under transitional protection until 6 May 2021. The final decision on the McCloud judgement has yet to be agreed and the outcome may have an impact on Members affected by the Transitional Protection policy.

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 (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 protection arrangements may retire at age 65. Ministers in the CARE scheme have a pension age aligned to their State Pension Age.

### **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) Regulations 1996 (as amended) 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.

### **The real increase in the value of the CETV**

This is the increase in accrued pension due to the department's contributions to the AMPS, and excludes increases due to inflation and contributions paid by the Minister and is calculated using valuation factors for the start and end of the period.



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**Pension Entitlements – Officials (Audited Information)**

	Accrued pension at pension age as at 31/03/2020 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/2020 £000	CETV at 31/03/2019 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Mike Brennan <i>Acting Permanent Secretary</i> 01/12/2019 – 31/03/2020 <i>Deputy Secretary</i> 01/04/2019 – 30/11/2019 & 01/04/2018 – 31/03/2019	40-45 Plus lump sum of 110-115	5-7.5 Plus lump sum of 7.5-10	882	747	97	-
Noel Lavery <i>Permanent Secretary</i> 01/04/2019 – 29/11/2019 & 01/04/2018 – 31/03/2019	40-45 Plus lump sum of 20-25	0-2.5 Plus lump sum of 0-2.5	911	852	40	-
Heather Cousins <i>Deputy Secretary</i>	25-30 Plus lump sum of 75-80	0-2.5 Plus lump sum of 2.5-5	604	544	29	-
Eugene Rooney <i>Deputy Secretary</i> 01/04/2019 – 30/09/2019 & 01/04/2018 – 31/03/2019	45-50 Plus lump sum of 140-145	0-2.5 Plus lump sum of 2.5-5	1,112	1,089	3	-
Colin Lewis <i>Deputy Secretary</i> 01/04/2019 – 31/03/2020 & 08/10/2018 – 31/03/2019	35-40 Plus lump sum of 105-110	0-2.5 Plus lump sum of 2.5-5	847	805	19	-
Richard Rodgers* <i>Deputy Secretary</i> 01/04/2019 – 31/03/2020 & 29/11/2018 – 31/03/2019	-	-	-	-	-	-
Diarmuid McLean <i>Acting Deputy Secretary</i> 01/10/2019 – 31/03/2020	30-35 Plus lump sum of 100-105	2.5-5 Plus lump sum of 7.5-10	800	752	55	-
Paul Grocott <i>Acting Deputy Secretary</i> 02/12/2019 – 31/03/2020	5-10 Plus lump sum of nil	0-2.5 Plus lump sum of nil	81	72	4	-

\*This Director is on secondment from Strategic Investment Board (SIB), and is on their payroll. This Department reimburses SIB for the individual's salary only.

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	Accrued pension at age as at 31/03/2020 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/2020 £000	CETV at 31/03/2019 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Wendy Johnston <i>Assistant Secretary</i>	0-5 Plus lump sum of 10-15	0-2.5 Plus lump sum of 0-2.5	89	69	15	-
Stephen McMurray <i>Assistant Secretary</i>	25-30 Plus lump sum of 75-80	0-2.5 Plus lump sum of 2.5-5	615	587	25	-

### Northern Ireland Civil Service (NICS) Pension Schemes

Pension benefits are provided through the Northern Ireland Civil Service pension schemes which are administered by Civil Service Pensions (CSP).

The alpha pension scheme was introduced for new entrants from 1 April 2015. The alpha scheme and all previous scheme arrangements are unfunded with the cost of benefits met by monies voted each year. The majority of existing members of the classic, premium, classic plus and nuvos pension arrangements 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 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 is 2.32%.

New entrants joining can choose between membership of alpha or joining a '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 also a 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%.

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). From April 2011, pensions payable under classic, premium, and classic plus are reviewed annually in line with changes in the cost of living. New entrants joining on or after 1 October 2002, and before 30 July 2007, could choose between membership of premium or joining the partnership pension account.

All pension benefits are reviewed annually in line with changes in 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 2019 was 1.7% and HM Treasury has announced that public service pensions will be increased accordingly from April 2020.

Employee contribution rates for all members for the period covering 1 April 2020 to 31 March 2021 are as follows:

### **Scheme Year 1 April 2020 to 31 March 2021**

<b>Annualised Rate of Pensionable Earnings (Salary Bands)</b>		<b>Contribution rates – All members</b>
<b>From</b>	<b>To</b>	<b>From 1 April 2020 to 31 March 2021</b>
£0	£23,999.99	4.6%
£24,000.00	£55,499.99	5.45%
£55,500.00	£152,499.99	7.35%
£152,500.00 and above		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. Scheme Pension age is 60 for members of classic, premium, and classic plus and 65 for members of nuvos. The normal scheme 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 schemes can be found on the [NICS Pension Schemes](https://www.finance-ni.gov.uk/landing-pages/civil-service-pensions-ni) website at; <https://www.finance-ni.gov.uk/landing-pages/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 2015 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. 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 officials during 2019-20.

## Staff Report

### Staff Costs (Audited Information)

				2019-20 £000	2018-19 £000
	Permanently employed staff*	Others	Minister	Total	Total
Wages and salaries	40,061	1,560	9	41,630	37,500
Social security costs	3,827	118	1	3,946	3,653
Other pension costs	11,511	433	1	11,945	8,238
<b>Sub Total</b>	<b>55,399</b>	<b>2,111</b>	<b>11</b>	<b>57,521</b>	<b>49,391</b>
Less recoveries in respect of outward secondments	(52)	-	-	(52)	(96)
Less charged to EU Programmes as Technical Assistance	(1,112)	-	-	(1,112)	(1,071)
<b>Total net costs**</b>	<b>54,235</b>	<b>2,111</b>	<b>11</b>	<b>56,357</b>	<b>48,224</b>
Of which:	<b>Charged to Administration</b>	<b>Charged to Programme</b>	<b>Total</b>		
<b>Core Department</b>	<b>35,307</b>	<b>21,050</b>	<b>56,357</b>		
<b>Total net costs</b>	<b>35,307</b>	<b>21,050</b>	<b>56,357</b>		

\* There were no staff costs incurred in respect of the Department's Special Adviser in 2018-19. The 2019-20 figures include the cost of the Department's Special Adviser who was paid in the pay band £55,000 - £69,999.

\*\* Of the total, no staff costs have been charged to capital in 2019-20 (2018-19: £nil).

The Northern Ireland Civil Service main pension schemes 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 Government Actuary's Department (GAD) is responsible for carrying out scheme valuations. The Actuary reviews employer contributions every four years following the scheme valuation. The 2016 scheme valuation was completed by GAD in March 2019. The outcome of this valuation was used to set the level of contributions for employers from 1 April 2019 to 31 March 2021.

For 2019-20, employers' contributions of £11,511k were payable to the NICS pension arrangements (2018-19: £7,947k) at one of three rates in the range 28.7% to 34.2% (2018-19: 20.8% to 26.3%) of pensionable pay, based on salary bands.

This change is primarily due to the reduction in the SCAPE discount rate (as announced at Budget 2018) to 2.4% per annum above CPI. The contribution rates are set to meet the cost of the benefits accruing during 2019-20 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 £8,727.76 (2018-19: £14,490.38) were paid to one or more of the panel of two appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75 (2018-19: 8% to 14.75%) of pensionable pay.

The partnership pension account offers the member the opportunity of having a 'free' pension. The employer will pay the age-related contribution and if the member does contribute, the employer will pay an additional amount to match member contributions up to 3% of pensionable earnings.

Employer contributions of £326.78, 0.5% of pensionable pay (2018-19: £785.74, 0.5%), were payable to the NICS Pension Schemes 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.

Five persons (2018-19: four persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2018-19: £19,316).

### Average number of persons employed (Audited Information)

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

Activity	Permanent Staff*	Others	Minister**	Special Advisers**	2019-20	2018-19
					Number	Number (Restated)
					Total	Total
1	1,152	41	1	1	1,195	1,122
Staff engaged on capital projects	-	-	-	-	-	-
<b>Total</b>	<b>1,152</b>	<b>41</b>	<b>1</b>	<b>1</b>	<b>1,195</b>	<b>1,122</b>

\*Includes 100 Permanent Staff in respect of Health and Safety Executive for Northern Ireland (HSENI) (2018-19: 98)

\*\*The Minister was in post from 11/01/2020 and the Special Adviser was in post from 21/02/2020.

### **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 has paid 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.

The Fee-Paid Judicial Pension Scheme (FPJPS), established under the Judicial Pensions (Fee-Paid Judges) Regulations 2017, was implemented from 1 April 2017 to deliver the litigation remedy to eligible fee-paid office-holders in the case of O'Brien v MoJ and related litigation, including in Northern Ireland.

Provisions have been recognised in these accounts for the liability to fee paid judicial office holders in respect of the Judicial Service Award, as this liability is not covered by the Judicial Pension Schemes and the governing legislation.

A number of claims by judicial office holders have been made against DfE under the Part Time Workers (Prevention of Less Favourable Treatment) Regulations (Northern Ireland) 2000. These claims continue.

### **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 actual outturn at 31 March 2020 is 10.2 days (31 March 2019: 9.8 days).

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

Exit package cost band	2019-20		2018-19 Total number of exit packages by cost band
	Number of compulsory redundancies	Number of other departures agreed	
< £10,000	-	1	-
£10,000 - £25,000	-	1	2
<b>Total number of exit packages</b>	<b>-</b>	<b>2</b>	<b>2</b>
<b>Total resource cost/ £000</b>	<b>-</b>	<b>21</b>	<b>37</b>

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. The table above shows the total cost of exit packages agreed and accounted for in 2019-20 and 2018-19. £20,760 of exit costs were paid in 2019-20, the year of departure (2018-19: £37,383). 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.

## Staff Composition

The table below provides a breakdown of the number of persons employed by the Department as at 31 March 2020, 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 2020			As at 31 March 2019 (Restated)		
	Male	Female	Total	Male	Female	Total
Directors	5	1	6	5	1	6
Senior Managers	21	10	31	20	8	28
Employees	536	736	1,272	483	701	1,184
<b>Total*</b>	<b>562</b>	<b>747</b>	<b>1,309</b>	<b>508</b>	<b>710</b>	<b>1,218</b>

\*Includes 52 Male, 53 Female, 105 Total, in respect of Health and Safety Executive NI (HSENI) (2018-19: 51 Male, 56 Female, 107 Total).  
Note - the above table includes staff temporarily promoted to Senior Civil Servant grades.



## Off-Payroll Engagements

	Year ended 31 March 2020	Year ended 31 March 2019 (Restated)
<b>Table 1: Off- Payroll Engagements</b>		
Number of off-payroll engagements at 1 April	18	8
Number of new off-payroll engagements:		
Those caught by IR35	-	-
Those not caught by IR35	40	28
Number of engagements which have come onto the payroll	-	-
Number of engagements which have come to an end	<u>(24)</u>	<u>(18)</u>
<b>Number of off-payroll engagements at 31 March</b>	<b><u>34</u></b>	<b><u>18</u></b>

**Table 2: For any off-payroll engagements of board members, and/ or, senior officials with significant financial responsibility**

Number of off-payroll engagements of board members, and/ or senior officials with significant financial responsibility during the year.	<u>-</u>	<u>-</u>
Total number of individuals on payroll and off-payroll that have been deemed "board members, and/ or, senior officials with significant responsibility", during the financial year.	<b><u>12</u></b>	<b><u>11</u></b>

The Department had no 'off-payroll' engagements at a cost of over £58,200 per annum in place during 31 March 2020.

## Consultancy and Temporary Staff

During the year to 31 March 2020, the Department spent £656,471 on external consultancy (31 March 2019: £303,923), and £666,508 on temporary staff (31 March 2019: £336,172).

### 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 2020. Salary ranges represent full-time equivalent rates.

Pay range	Number of SCS staff within ranges as at 31 March 2020	Number of SCS staff within ranges as at 31 March 2019
£115,000 - £120,000	1	1
£105,000 - £110,000	1	-
£100,000 - £105,000	1	1
£95,000 - £100,000	1	1
£90,000 - £95,000	2	3
£80,000 - £85,000	2	-
£75,000 - £80,000	9	9
£70,000 - £75,000	7	9
<b>Total</b>	<b>24</b>	<b>24</b>

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

### 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.

### Employment, training and advancement of disabled persons

The Northern Ireland Civil Service applies the recruitment principles as set out in the Recruitment Code of the Civil Service Commissioners for Northern Ireland, appointing candidates based on merit through fair and open competition. Recruitment and selection training, which includes raising awareness of unconscious bias, is offered to all members of NICS recruitment panels. Unconscious bias training is available to all staff.

To maintain and promote a diverse and inclusive workforce, the NICS has policies in place to support alterations to the working environment required by disabled persons.

The NICS has a wide and active network of Diversity Champions and has appointed one of its' Deputy Secretaries as the NICS Diversity Lead for Disability. The NICS has a committed Disability Working Group and is a lead partner with Employers for Disability Northern Ireland. Through this collaboration the NICS is working towards creating a truly inclusive workplace where all colleagues feel valued. The NICS promotes a number of schemes for disabled colleagues, including a Work Experience Scheme for People with Disabilities.

## **Other Employee Matters**

The 2018-21 NICS People Strategy sets out the shared view of the people priorities across the NICS under the following themes:

- A well-led NICS
- High performing NICS
- Outcomes-focused NICS
- An inclusive NICS in which diversity is truly valued – a great place to work.

### Equality, Diversity and Inclusion

The NICS People Strategy 2018-21 places diversity and inclusion at its centre and includes a range of actions that will help accelerate the NICS' ambition to be a service that reflects the society we serve.

The NICS continues to carry out its statutory obligations under fair employment legislation, including the annual return to the Equality Commission for NI. The NICS publishes a wide range of NICS human resource statistics.

### Learning & Development

The NICS recognises the importance of having skilled and engaged employees and continues to invest in learning and development.

NICS HR Learning and Development is responsible for development and delivery of all generic staff training. It offers a variety of learning delivery channels to enable flexible access to learning, blending different learning solutions into coherent learning pathways that are aligned to both corporate need and the NICS Competency Framework.

The NICS offers a wide range of career development opportunities through mentoring, secondment and interchange opportunities, elective transfers, temporary promotion, job rotation and job shadowing.

Talent Management is a key theme of the NICS People Strategy and work is underway to develop a more corporate approach to managing talent across the NICS.

### Employee Consultation and Trade Union Relationships

The Department of Finance is responsible for the NICS Industrial Relations Policy. The centralised human resource function, NICS HR, consults on HR policy with all recognised Trade Unions and local departmental arrangements are in place to enable consultation on matters specific to a department or individual business area.

## **STATEMENT OF ASSEMBLY SUPPLY AND SUPPORTING NOTES (AUDITED INFORMATION)**

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Department for Economy (DfE) to prepare a Statement of Assembly Supply (SoAS) and supporting notes.

The SoAS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the Northern Ireland Assembly.

The SoAS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision for resource and cash (drawn primarily from the Consolidated Fund), that the Assembly gives statutory authority for entities to utilise. The Estimate details Supply and is voted on by the Assembly at the start of the financial year and is then normally revised by a Supplementary Estimate at the end of the financial year. It is the final Estimate, normally the Spring Supplementary Estimate, which forms the basis of the SoAS.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoAS mirrors the Supply Estimates to enable comparability between what the Assembly approves and the final outturn. The Supply Estimates are voted by the Assembly and published on the DoF website.

The supporting notes detail the following: Outturn detailed by Estimate line, providing a more detailed breakdown (note SOAS1); a reconciliation of outturn to net operating expenditure in the SOCNE, to tie the SoAS to the financial statements (note SOAS2); a reconciliation of net resource outturn to net cash requirement (note SOAS3); an analysis of income payable to the Consolidated Fund (note SOAS4), a reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund (note SOAS5); and detail on non-operating income – excess Accruing Resources (note SOAS6).

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Summary tables – mirror Part II and III of the Estimates

Summary of Resource Outturn 2019-20 presented in £000

Request for Resources	Note	Outturn			Estimate			2019-20 £000	2018-19 £000
		Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Outturn vs Estimate: saving/(excess)	Outturn
A	SOAS1	1,203,859	(140,184)	1,063,675	1,236,871	(140,184)	1,096,687	33,012	<b>877,402</b>
<b>Total resources</b>	SOAS2	<b>1,203,859</b>	<b>(140,184)</b>	<b>1,063,675</b>	<b>1,236,871</b>	<b>(140,184)</b>	<b>1,096,687</b>	<b>33,012</b>	<b>877,402</b>
<b>Non-operating Accruing Resources</b>		-	<b>(124,742)</b>	<b>(124,742)</b>	-	<b>(124,742)</b>	<b>(124,742)</b>	-	<b>(103,689)</b>

Net cash requirement 2019-20, all figures presented in £000

	Note	Outturn	Estimate	2019-20 £000	2018-19 £000
				Outturn vs Estimate, saving/(excess)	Outturn
<b>Net cash requirement</b>	SOAS3	<b>1, 200,551</b>	<b>1,204,003</b>	<b>3,452</b>	<b>1,114,086</b>

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**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).

			2019-20 £000 Forecast		2019-20 £000 Outturn
	<i>Note</i>	<i>Income</i>	<i>Receipts</i>	<i>Income</i>	<i>Receipts</i>
<b>Total</b>	SOAS4	<b>298</b>	<b>298</b>	<b>4,473</b>	<b>9,497</b>

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

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**SOAS1 Analysis of net resource outturn by function**

This note mirrors Part II of the Estimates: (Revised) Subhead Detail and Resource to Cash Reconciliation.

	Resource Outturn						2019-20 £000		Estimate	Outturn vs Estimate (inc. Virements), saving/ (excess)	2018-19
	Admin	Other current	Grants	Gross resource expenditure	Accruing Resources	Net Total	Net Total	Net Total inc. virements			Prior-year outturn
<b>Request for Resources A:</b>											
<b><i>To promote a competitive, sustainable and inclusive economy through investment in skills, economic infrastructure, research and innovation, and business development</i></b>											
Economic Development & Infrastructure	14,416	4,778	32,126	51,320	(2,176)	49,144	49,556	-	49,556	412	18,878
Economic Development & Infrastructure – Repayment of Assistance in respect of the Presbyterian Mutual Society	-	-	-	-	(1,886)	(1,886)	(1,944)	-	(1,944)	(58)	(2,144)
Invest Northern Ireland and Tourism	502	501	-	1,003	(1)	1,002	947	55	1,002	-	(329)
Employment & Skills	22,463	7,837	78,288	108,588	(8,246)	100,342	101,591	(290)	101,301	959	92,859
Student Support & Higher Education	2,430	162,986	320,494	485,910	(2,645)	483,265	503,480	-	503,480	20,215	440,714
Tourism Ireland Ltd	222	-	-	222	-	222	252	-	252	30	144
InterTradeIreland	156	-	-	156	-	156	159	-	159	3	118
Representation & Regulatory Services	1,568	16,739	244	18,551	(2,919)	15,632	15,496	-	15,496	(136)	13,221
EU Structural Funds – ERDF Support for Economic Development	-	-	801	801	(480)	321	369	-	369	48	270
EU Programmes	-	838	20,795	21,633	(17,458)	4,175	3,941	235	4,176	1	8,863
EU Community Initiative	-	-	7,757	7,757	(6,593)	1,164	1,193	-	1,193	29	776
EU Peace	-	-	7,472	7,472	(6,351)	1,121	1,133	-	1,133	12	871
<b>Total</b>	<b>41,757</b>	<b>193,679</b>	<b>467,977</b>	<b>703,413</b>	<b>(48,755)</b>	<b>654,658</b>	<b>676,173</b>	<b>-</b>	<b>676,173</b>	<b>21,515</b>	<b>574,241</b>

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					Outturn		Estimate		2019-20 £000	2018-19 £000	
	Admin	Grants	Gross resource expenditure	Accruing Resources	Net Total	Net Total	Virement	Net Total inc. virements	Outturn vs Estimate (inc. Virements), saving/ (excess)	Prior- year outturn	
<b>Annually Managed Expenditure:</b>											
Provisions	-	(11,817)	(11,817)	-	(11,817)	5,709	(17,526)	(11,817)	-	246	
NI Renewable Heat Incentive	-	-	6,680	6,680	-	6,680	28,899	(12,152)	16,747	10,067	23,771
Student Support	-	8,091	-	8,091	(91,429)	(83,338)	(58,868)	(23,041)	(81,909)	1,429	(88,968)
Revaluations	-	56	-	56	-	56	5	51	56	-	(47)
<b>Total</b>	-	(3,670)	6,680	3,010	(91,429)	(88,419)	(24,255)	(52,668)	(76,923)	11,496	(64,998)
<b>Non-Budget:</b>											
Invest NI	-	-	175,751	175,751	-	175,751	105,751	70,000	175,751	-	96,000
Northern Ireland Tourist Board	-	-	23,601	23,601	-	23,601	24,101	(500)	23,601	-	23,819
General Consumer Council for Northern Ireland	-	-	1,372	1,372	-	1,372	1,434	(62)	1,372	-	1,349
Health and Safety Executive NI	-	-	760	760	-	760	760	-	760	-	912
Tourism Ireland Ltd	-	-	12,287	12,287	-	12,287	14,387	(2,100)	12,287	-	13,503
InterTradeIreland	-	-	3,155	3,155	-	3,155	4,655	(1,500)	3,155	-	4,351
Teachers' Premature Retirement – on-going liabilities	-	2,066	-	2,066	-	2,066	2,076	(10)	2,066	-	2,045
Construction Industry Training Board	-	-	-	-	-	-	1	-	1	1	-
Labour Relations Agency	-	-	4,177	4,177	-	4,177	4,166	11	4,177	-	3,768
Further Education Colleges	-	-	245,246	245,246	-	245,246	257,351	(12,105)	245,246	-	193,705
Higher Education Colleges	-	-	4,962	4,962	-	4,962	5,236	(274)	4,962	-	5,254
Northern Ireland Screen	-	-	14,859	14,859	-	14,859	14,859	-	14,859	-	14,582
Notional Charges	9,200	-	-	9,200	-	9,200	9,992	(792)	9,200	-	8,871
<b>Total Non-Budget</b>	<b>9,200</b>	<b>2,066</b>	<b>486,170</b>	<b>497,436</b>	<b>-</b>	<b>497,436</b>	<b>444,769</b>	<b>52,668</b>	<b>497,437</b>	<b>1</b>	<b>368,159</b>
<b>Resource Outturn</b>	<b>50,957</b>	<b>192,075</b>	<b>960,827</b>	<b>1,203,859</b>	<b>(140,184)</b>	<b>1,063,675</b>	<b>1,096,687</b>	<b>-</b>	<b>1,096,687</b>	<b>33,012</b>	<b>877,402</b>



### **Explanation of the variation between Estimate and Outturn (2019-20)**

Virements are the reallocation of provision in the Estimates that do not require Assembly authority (because the Assembly does not vote to that level of detail and delegates to DoF). Further information on virements are provided in the Supply Estimates in Northern Ireland Guidance Manual, available on the DoF website.

The Outturn vs Estimate column is based on the total including virements. The Estimate total before virements have been made is included so that users can reconcile this Estimate back to the Estimates approved by the Assembly.

After virement, the most significant variances were as follows:

#### **Resource DEL**

Accounting for student loans has moved to fair value through profit and loss following the adoption of IFRS 9 Financial Instruments (IFRS 9). However nationally, budgeting for student loans, in agreement with HM Treasury, remains based on amortised cost, for which effective interest and impairment are still applicable terms.

The Resource DEL underspend of £21.5m mainly reflects unused budget cover set aside for potential volatility of student loan book related impairments. The movement in impairments is dependent on the Office for Budgetary Responsibility's (OBR) macroeconomic forecasts, including earnings, RPI and the Bank of England base rate, which are published after Supplementary Estimates are finalised.

#### **Resource AME**

Final outturn was £11.5m lower than the budget mainly in respect of the RHI scheme, with expenditure based upon 2019-20 tariffs and the current legal status of Judicial Reviews of the 2017 and 2019 regulations.

Detailed explanations of the variances are given in the Management Commentary.

## SOAS2 Reconciliation of Outturn to Net Operating Expenditure

As noted in the introduction to the SoAS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this note reconciles the resource outturn to net operating expenditure, linking the SoAS to the financial statements.

				2019-20 £000	2018-19 £000
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	SOAS1	1,063,675	1,096,687	33,012	877,402
Non-supply income (CFERs)	SOAS4	(1,879)	(298)	1,581	(11,499)
Foreign Exchange	4	1,333	-	(1,333)	(220)
Non-supply expenditure: Redundancy Fund Payments	4	18,542	16,700	(1,842)	5,938
<b>Net Operating Expenditure in Statement of Comprehensive Net Expenditure</b>		<b>1,081,671</b>	<b>1,113,089</b>	<b>31,418</b>	<b>871,621</b>

Non-supply income includes amounts arising in excess of the amounts permitted in the Estimate and are payable to the Consolidate Fund as Extra Receipts. Foreign exchange relates to unrealised gains and losses on retranslation of year end balances.

### SOAS3 Reconciliation of Net Resource Outturn to Net Cash Requirement

This note mirrors Part II of the Estimates: Resource to Cash Reconciliation.

	Note	Outturn £000	Estimate £000	Outturn vs Estimate, saving/(excess) £000
<b>Resource Outturn</b>	SOAS1	1,063,675	1,096,687	33,012
<b>Capital</b>				
Acquisition of property, plant and equipment	6,7	96	460	364
Investments	10.1, 11	441,810	450,649	8,839
<b>Non-operating Accruing Resources</b>				
Student loan repayments applied	10.1	(104,242)	(104,242)	-
PMS Loan repayment	11	(20,500)	(20,500)	-
<b>Accruals to cash adjustments</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation, Impairment and Revaluation	3,4	(171,547)	(213,484)	(41,937)
New provisions & adjustments to previous provisions	10.2, 17	11,988	(5,544)	(17,532)
Notionals	3	(9,200)	(9,992)	(792)
Prior Period Adjustments		-	-	-
Other non-cash items		-	-	-
Changes in working capital other than cash				
Increase/(decrease) Receivables		(14,769)	(28,000)	(13,231)
Increase/(decrease) Financial Investment		-	-	-
(Increase)/decrease Payables		(2,516)	34,000	36,516
Changes in payables falling due after more than one year	16	-	-	-
Use of Provisions	10.2, 17	4,423	3,969	(454)
Foreign Exchange		1,333	-	(1,333)
Excess cash receipts surrenderable to the consolidated fund	SOAS4	-	-	-
<b>Net cash requirement</b>		<b>1,200,551</b>	<b>1,204,003</b>	<b>3,452</b>

As noted in the introduction to the SoAS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. This reconciliation bridges the resource outturn to the net cash requirement.

The main reasons for the net cash requirement being lower than anticipated relate to the timing of receipts and payments and the resulting impact on payable and receivable balances.

#### SOAS4 Income payable to the Consolidated Fund

This note mirrors Part III of the Estimates: Extra Receipts 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 2019-20 £000		Outturn 2019-20 £000	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
Operating income and receipts – excess Accruing Resources		-	-	1,572	6,625
Other operating income and receipts not classified as Accruing Resources		298	298	307	307
		298	298	1,879	6,932
Non-operating income and receipts – excess Accruing Resources	SOAS6	-	-	2,594	2,565
<b>Total income payable to the Consolidated Fund</b>		<b>298</b>	<b>298</b>	<b>4,473</b>	<b>9,497</b>

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

	Note	2019-20 £000	2018-19 £000
Operating income	5	49,010	59,404
Adjustments for transactions between RfRs		-	-
Gross Income	5	49,010	59,404
Income authorised to be Accruing Resources		(140,184)	(97,541)
Income in gross sub head netted off spend in SoCNE		93,053	49,636
Income netted off in gross sub-head grossed up in SoCNE		-	-
<b>Operating income payable to the Consolidated Fund</b>	SOAS4.1	<b>1,879</b>	<b>11,499</b>

**SOAS6 Non-operating income – Excess Accruing Resources**

	2019-20 £000	2018-19 £000
Student Loan repayments	2,594	2,565
<b>Non-operating income – Excess Accruing Resources</b>	<b>2,594</b>	<b>2,565</b>

## **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 2020, 97% of invoices from suppliers were paid within the timescale noted above (31 March 2019: 98%). 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 2020, 94% of invoices from suppliers were paid within this timescale (31 March 2019: 95%).

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: [Prompt Payment 2019-20.  
https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/NICS%20Prompt%20Payment%20Table%20for%202019-2020\\_3.pdf](https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/NICS%20Prompt%20Payment%20Table%20for%202019-2020_3.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.

### **Entities outside the Accounting Boundary**

DfE is a ministerial Department that is supported by its ALBs, including 14 NDPBs, two North/ South bodies and four IABs as listed in the Note 22 of the Accounts.

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

## Losses and Special Payments (Audited Information)

### Losses Statement

	2019-20	2018-19
Total number of losses	497	601
Total value of losses (£000)	478	466
Cash losses	-	2
Claims abandoned	497	599
Administrative write-offs	-	-

### Special Payments

	2019-20	2018-19
Total number of special payments	-	3
Total value of special payments (£000)	-	13

There were no cases over £250,000 in 2019-20 or 2018-19.

## Fees and Charges (Audited Information)

	2019-20			2018-19		
	Income £000	Full Cost £000	(Surplus)/ Deficit £000	Income £000	Full Cost £000	(Surplus)/ Deficit £000
Insolvency Account	(2,505)	4,444	1,939	(2,754)	4,040	1,286

Fees and charges relate to the administration and realisation of assets in insolvency cases.

## Remote Contingent Liabilities (Audited Information)

The Department has no remote contingent liabilities to report.



**Mike Brennan**  
**Accounting Officer**  
**9 September 2020**

## **CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY**

### **Opinion on financial statements**

I certify that I have audited the financial statements of the Department for the Economy for the year ended 31 March 2020 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, including significant accounting policies. 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 Accountability Report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the Department's affairs as at 31 March 2020 and of its net expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance directions issued thereunder.

### **Emphasis of matter**

I draw attention to the disclosures made in notes 1.9.1, 1.22, 9 and 10 to the financial statements concerning the uncertainties inherent in the valuation of student loans. My opinion is not modified in respect of this matter.

I also draw attention to the disclosures made in notes 1.22, 11 and 18 to the financial statements, which describes the material uncertainties inherent in the recovery of the Presbyterian Mutual Society (PMS) loan due to the consequences of the COVID-19 pandemic. My opinion is not modified in respect of this matter.

### **Qualified opinion on regularity**

In my opinion, except for the expenditure on the non-domestic Renewable Heat Incentive (RHI) scheme, Tourism Ireland Limited, InterTradelreland and estimated levels of ineligible grant expenditure described in the basis of opinions section below, in all material respects:

- the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals for the year ended 31 March 2020 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.



### **Basis of opinions**

I was unable to obtain sufficient evidence that the Department's controls over spending on the non-domestic 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 £6.7 million had been applied for the purposes intended by the NI Assembly.

Included within this expenditure is an amount of £0.74 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 £0.74 million expenditure incurred on them in 2019-20 is irregular. I have therefore qualified my opinion on regularity, as the expenditure does not conform to the authorities which govern it.

In addition, due to the absence of a DfE Minister it was not possible to secure North South Ministerial Council (NSMC) approval for the 2019 and 2020 Business Plans for Tourism Ireland Limited and InterTradelreland. While arrangements have been made with the Department of Finance (DoF) to ensure the legality of payments in the absence of Business Plans, the expenditure in 2019-20 of £12.3 million to Tourism Ireland Limited and £3.2 million to InterTradelreland is irregular until the NSMC approves the Business Plans. I have therefore qualified my opinion on regularity, as the expenditure has been incurred without the necessary approvals in place.

Included within expenditure is £67.7 million on the Small Business Grant Scheme. I identified an estimated £4.2 million paid to recipients who were not eligible under the scheme rules. I consider this to be material to my opinion on the accounts. I have therefore qualified my opinion on regularity, as the expenditure has not been made for the purposes intended by the Assembly and does not conform to the authorities which govern it.

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of this certificate. My staff and I are independent of the Department for the Economy in accordance with the ethical requirements of the Financial Reporting Council's Revised Ethical Standard 2016, and have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinions.

### **Conclusions relating to going concern**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Department for the Economy's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Department for the Economy has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Department for the Economy's ability to continue to adopt the going concern basis.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises the information included in the annual report other than the financial statements, the parts of the Accountability Report described in the report as having been audited, and my audit certificate and report. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Opinion on other matters**

In my opinion:

- the parts of the Accountability 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.

### **Responsibilities of the Accounting Officer for the financial statements**

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.

### **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001.

My objectives are to obtain 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

In addition, 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 Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

#### **Matters on which I report by exception**

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 Accountability Report to be audited are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with the Department of Finance's guidance.

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



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

*11 September 2020*

**DEPARTMENT FOR THE ECONOMY**  
**FINANCIAL STATEMENTS**  
**STATEMENT OF COMPREHENSIVE NET EXPENDITURE**  
**for the year ended 31 March 2020**

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.

		<b>2019-20</b>	<b>2018-19</b>
		<b>£000</b>	<b>£000</b>
	<i>Note</i>		
Revenue from Contracts with Customers	5.1	(3,247)	(3,236)
Other Operating Income	5.2	<u>(43,687)</u>	<u>(53,838)</u>
<b>Total Operating Income</b>		<b>(46,934)</b>	<b>(57,074)</b>
Staff costs	3,4	56,357	48,224
Purchase of Goods & Services	3,4	15,243	16,324
Depreciation and impairment charges	4	153	111
Provision Expense	4	(12,198)	320
Other Operating Expenditure	3,4	<u>1,071,126</u>	<u>866,046</u>
<b>Total Operating Expenditure</b>		<b><u>1,130,681</u></b>	<b><u>931,025</u></b>
<b>Net Operating Expenditure</b>		<b>1,083,747</b>	<b>873,951</b>
Finance Income	5.3	<u>(2,076)</u>	<u>(2,330)</u>
<b>Net Expenditure for the year</b>		<b><u>1,081,671</u></b>	<b><u>871,621</u></b>
<b>Other Comprehensive Net Expenditure</b>			
<b>Items that will not be reclassified to net operating expenditure:</b>			
Net (gain)/loss on revaluation of Property, Plant and Equipment/Intangibles		<u>(65)</u>	<u>(50)</u>
<b>Comprehensive Net Expenditure for the year</b>		<b><u>1,081,606</u></b>	<b><u>871,571</u></b>

The notes on pages 108 to 154 form part of these accounts.

**DEPARTMENT FOR THE ECONOMY**  
**FINANCIAL STATEMENTS**  
**STATEMENT OF FINANCIAL POSITION**  
**as at 31 March 2020**

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.

		2020 £000	2019 £000
	<i>Note</i>		
<b>Non-current assets:</b>			
Property, plant and equipment	6	2,308	2,341
Intangible assets	7	919	882
Financial assets – Student loans	10.1	2,707,303	2,542,115
Financial assets – Other	11	67,070	89,718
<b>Total non-current assets</b>		<u>2,777,600</u>	<u>2,635,056</u>
<b>Current assets:</b>			
Trade and other receivables	15	50,046	76,123
Financial assets	11	17,971	15,747
Cash and cash equivalents	14	812	772
<b>Total current assets</b>		<u>68,829</u>	<u>92,642</u>
<b>Total assets</b>		<u>2,846,429</u>	<u>2,727,698</u>
<b>Current liabilities:</b>			
Trade and other payables	16	(75,572)	(82,753)
Provisions	17	(3,400)	(3,000)
<b>Total current liabilities</b>		<u>(78,972)</u>	<u>(85,753)</u>
<b>Total Assets less Current Liabilities</b>		<u>2,767,457</u>	<u>2,641,945</u>
<b>Non-current liabilities:</b>			
Provisions	17	(32,986)	(48,788)
Other payables	16	-	-
Financial liabilities	10.2	(1,140)	(2,038)
<b>Total non-current liabilities</b>		<u>(34,126)</u>	<u>(50,826)</u>
<b>Total assets less total liabilities</b>		<u>2,733,331</u>	<u>2,591,119</u>
<b>Taxpayers' equity &amp; other reserves:</b>			
General fund		2,731,727	2,589,537
Revaluation reserve		1,604	1,582
<b>Total equity</b>		<u>2,733,331</u>	<u>2,591,119</u>

**Signed**



**Mike Brennan**  
**Accounting Officer**  
**9 September 2020**

The notes on pages 108 to 154 form part of these accounts.

**DEPARTMENT FOR THE ECONOMY**  
**FINANCIAL STATEMENTS**  
**STATEMENT OF CASH FLOWS**  
**for the year ended 31 March 2020**

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.

		2019-20 £000	2018-19 £000
	Note		
<b>Cash flows from operating activities</b>			
Net operating expenditure	SOAS2	(1,081,671)	(871,621)
Adjustments for non-cash transactions	3,4,5	74,958	29,019
(Increase)/Decrease in trade and other receivables	15	26,077	6,774
<i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>	15	1,827	(8,571)
Increase/(Decrease) in trade and other payables	16	(7,035)	(11,075)
<i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>	16	9,480	(10,750)
Use of provisions	10.2,17	(4,421)	(3,423)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>(980,785)</b>	<b>(869,647)</b>
<b>Cash flows from investing activities</b>			
Purchase of non-financial assets	6,7	(97)	(91)
Proceeds from disposal of non-financial assets		-	-
Repayment of Loans – principal	11	20,500	13,500
Repayment of Loans – interest	11	1,944	2,176
Student Loan Funding	10.1	(349,745)	(355,501)
Student Loan Repayments	10.1	105,894	92,442
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(221,504)</b>	<b>(247,474)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		1,195,706	1,109,327
From the Consolidated Fund (Supply) – prior year		4,759	14,009
Net financing from the National Insurance Fund		16,074	6,349
<b>Net financing</b>		<b>1,216,539</b>	<b>1,129,685</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>			
		<b>14,250</b>	<b>12,564</b>
Payments of amounts due to the Consolidated Fund		(14,064)	(3,129)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>			
		<b>186</b>	<b>9,435</b>
<b>Cash and cash equivalents at the beginning of the period</b>	14	<b>(3,912)</b>	<b>(13,347)</b>
<b>Cash and cash equivalents at the end of the period</b>	14	<b>(3,726)</b>	<b>(3,912)</b>

**DEPARTMENT FOR THE ECONOMY**  
**FINANCIAL STATEMENTS**  
**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**  
**for the year ended 31 March 2020**

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**

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.

		General Fund £000	Revaluation Reserve £000	Taxpayers' Equity £000
	Note			
<b>Balance at 31 March 2018</b>		<b>2,346,291</b>	<b>1,571</b>	<b>2,347,862</b>
Net Assembly Funding		1,109,327	-	1,109,327
National Insurance Fund		5,935	-	5,935
Supply (payable)/receivable adjustment	15	4,759	-	4,759
CFERs payable to the Consolidated Fund	16	(14,064)	-	(14,064)
Comprehensive Net Expenditure for the year	SOAS2	(871,621)	50	(871,571)
Notional costs	3	8,781	-	8,781
Auditor's remuneration	3	90	-	90
Other reserves movements including transfers		39	(39)	-
<b>Balance at 31 March 2019</b>		<b>2,589,537</b>	<b>1,582</b>	<b>2,591,119</b>
Net Assembly Funding		1,195,706	-	1,195,706
National Insurance Fund		18,542	-	18,542
Supply (payable)/receivable adjustment	15	4,843	-	4,843
CFERs payable to the Consolidated Fund	16	(4,473)	-	(4,473)
Comprehensive Net Expenditure for the year	SOAS2	(1,081,671)	65	(1,081,606)
Notional costs	3	9,110	-	9,110
Auditor's remuneration	3	90	-	90
Other reserves movements including transfers		43	(43)	-
<b>Balance at 31 March 2020</b>		<b>2,731,727</b>	<b>1,604</b>	<b>2,733,331</b>

The notes on pages 108 to 154 form part of these accounts.

## **1. Statement of Accounting Policies**

These financial statements have been prepared in accordance with the 2019-20 Government Financial Reporting Manual (FReM) issued by the Department of Finance. 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 88 to 97 show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

### **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, 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 Income**

In line with IFRS 15 Revenue from Contracts with Customers, the Department recognises its income as either Revenue from contracts with customers or Other Operating Income.

- (a) Revenue from contracts with customers includes income that relates directly to operating activities of the Department and comprises fees and charges, to be recovered for services provided to external customers, including under legislation, and income repayable to the consolidated fund.
- (b) Other Operating Income includes income received from the European Union and other miscellaneous grants in support of departmental activities, interest receivable and income payable to the Consolidated Fund.

Income is stated net of Value Added Tax (VAT).

### **1.6 Administration and Programme Expenditure**

The Statement of Comprehensive Net Expenditure is analysed 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.

### **1.7 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.

### **1.8 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.

## **1.9 Financial Assets**

The Department measures and presents financial instruments in accordance with IAS 32, IFRS 7 and IFRS 9 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) and Presbyterian Mutual Society, 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 student loan assets in respect of NI and eligible EU borrowers, administered by the Student Loans Company Limited and related financial liabilities, using information on the domicile of student receivables supplied by the Student Loans Company Limited on the Northern Ireland share of the relevant balances and transactions.

Student loans are currently issued under Articles 3 and 8(4) of the Education (Student Support) (Northern Ireland) Order 1998. The Department issues income contingent loans where repayments are calculated as a percentage of earnings in excess of a threshold (2018-19: £18,935, and, from 1 April 2020, the threshold will be £19,390) and are collected by HMRC through the tax system. In cases where individuals work outside the UK tax system, or repay early, payments are made directly to the Student Loans Company Limited.

#### **Change in Accounting Policy**

IFRS 9 Financial Instruments was introduced in 2018-19. Student loans are now recorded at fair value through the profit and loss account (FVTPL). Previously student loans had been recorded at amortised cost under IAS 39, with income and impairments being reflected separately in the financial statements. Under IFRS 9, movements are captured in the fair value adjustment.

#### **Measurement and carrying values**

In accordance with IFRS 7 and IFRS 9, Student Loans are classified as Loans and Receivables and are recorded in the Accounts at fair value (FVTPL).

Student loans suffer a Day 1 fair value loss due to the difference between the initial fair value of new loans and their transaction price at issue. Day 1 fair value losses are deferred to SoFP since student loans are classified as Level 3 per IFRS 13's hierarchy. Deferred balances are then expensed as part of the loans' first year end fair value re-assessment.

The fair value adjustment involves the value of the loans issued being discounted to net present value using the effective interest rate method. The effective interest rate for student loans is the higher of the rate intrinsic to the instrument, and the real long term discount rate as set by HMT. The rate is based on RPI plus 0.7%, which is the HMT discount rate.

The net present value calculation also takes account of an estimate of the future cost of policy write offs. This reflects the fact that not all of the loans issued will be recoverable due to death, disability or age of the student.

Income contingent 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 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 thereby determining the current value of the loans. The Department increases or decreases the accumulated fair value adjustments 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 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. IFRS 13 sets out 3 levels of input categories in terms of the drivers of the fair value calculation. Student loans falls into Level 3, measurements using significant unobservable inputs. 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.

There are significant judgements applied by the Department in assessing the actual likely costs and fair value adjustments will be affected by the assumptions used. These are formally reviewed by the Department each year and amounts included reflect the Department's current estimate. Disclosures relating to risk can be found in Note 9 while further details of the movements in the loan valuation can be found in Note 10.

### **1.9.2 Other Financial Assets**

Loans to Catalyst Inc. and Presbyterian Mutual Society, together with 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 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 17, this includes:

- the cost of paying Long Service Awards in respect of Judiciary relating to the Office of the Industrial and Fair Employment Tribunals;
- the cost of the Department's liability to Harland and Wolff. During 2019-20, 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; and,
- the cost of paying the holiday pay of employees as a result of the Court of Appeal ruling in respect of Northern Ireland Industrial Tribunal's November 2018 decision on cases taken against the PSNI on backdated Holiday Pay.

### **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 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.

### **1.21 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.

### **1.22 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 9 and Note 10.

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.

### **1.23 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 2022-23, the accounting boundary for departments will change and there will also be an impact on departments around the disclosure requirements under IFRS 12. Arm's Length Bodies apply IFRS in full and their consolidation boundary may have changed as a result of the new Standards.

IFRS 17 Insurance Contracts will replace IFRS 4 Insurance Contracts and is effective for accounting periods beginning on or after 1 January 2023. In line with the requirements of the FReM, IFRS 17 will be implemented, as interpreted and adapted for the public sector, with effect from 1 April 2023.



In order to comply with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Department must disclose where it has not applied a new IFRS that has been issued but is not yet effective. The Department has carried out a review of the IFRSs in issue but not yet effective, to assess their impact on its accounting policies and treatment. Other than as outlined below, the Department considers that these standards are not relevant or material to its operations.

Standard	Effective	FReM Application	Change & Impact
IFRS 16 Leases	1 January 2019	2021-2022	<p>Change:</p> <p>IFRS 16 Leases replaces IAS 17 Leases and is effective with EU adoption from 1 January 2019. In line with the requirements of the FReM, IFRS 16 will be implemented, as interpreted and adapted for the public sector, with effect from 1 April 2021.</p> <p>The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off balance sheet financing) and a finance lease (on balance sheet financing). The new standard requires recognition of all leases which last over twelve months to be recognised as a finance lease (on balance sheet). This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, with a matching liability. The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised.</p> <p>Impact on the Department:</p> <p>The Department does not anticipate any material effect of bringing on-balance sheet former operating leases through applying the new standard.</p>

## 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. InterTradeIreland** – 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.
- 11. EU Community Initiatives** – payments and associated income under European Peace IV Programmes. The aim of the programme is to promote exchange, knowledge and best practice.

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**12. EU Peace** – payments and associated income under European Peace IV Programmes. This is a unique initiative designed to support peace and reconciliation.

Analysis of the significant movements since 2018-19 is shown in the Performance Analysis section (pages 34-42). The figures shown below include all budget categories, DEL, AME and Non-Budget, together with Non-Supply income and expenditure (SOAS2).

	Gross Expenditure £000	2019-20 Income £000	Net Expenditure £000	2018-19 Net Expenditure £000
<b>Operating Segments</b>				
Economic Development & Infrastructure	58,000	(2,176)	55,824	42,649
Economic Development & Infrastructure – Repayment of assistance in respect of the Presbyterian Mutual Society	56	(1,886)	(1,830)	(2,191)
Invest Northern Ireland & Tourism	200,355	(1)	200,354	119,490
Employment & Skills	348,416	(8,245)	340,171	289,620
Student Support & Higher Education	498,963	(94,074)	404,889	357,000
Tourism Ireland Ltd.	12,509	-	12,509	13,647
InterTradeIreland	3,311	-	3,311	4,469
Representation and Regulatory Services	24,862	(2,920)	21,942	19,250
EU Structural Funds – ERDF Support for Economic Development	801	(480)	321	270
EU Programmes	21,631	(17,458)	4,173	8,863
EU Community Initiatives	7,756	(6,593)	1,163	776
EU Peace	7,472	(6,351)	1,121	871
<b>Total</b>	<b>1,184,132</b>	<b>(140,184)</b>	<b>1,043,948</b>	<b>854,714</b>

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

	2019-20			2018-19	
	Total Net Expenditure £000	Non Supply Income (CFERs) £000	Non Supply Expenditure £000	Total Net Expenditure per SoCNE £000	Total Net Expenditure per SoCNE £000
<b>Operating Segments</b>					
Economic Development & Infrastructure	55,824	(108)	-	55,716	42,644
Economic Development & Infrastructure – Repayment of assistance in respect of the Presbyterian Mutual Society	(1,830)	-	-	(1,830)	(2,191)
Invest Northern Ireland & Tourism	200,354	(19)	-	200,335	119,481
Employment & Skills	340,171	(1)	-	340,170	282,995
Student Support & Higher Education	404,889	(1,571)	-	403,318	352,202
Tourism Ireland Ltd.	12,509	-	-	12,509	13,647
InterTradeIreland	3,311	-	-	3,311	4,469
Representation and Regulatory Services	21,942	(180)	18,542	40,304	25,126
EU Structural Funds – ERDF Support for Economic Development	321	-	-	321	270
EU Programmes	4,173	-	-	4,173	8,863
EU Community Initiatives	1,163	-	-	1,163	776
EU Peace	1,121	-	-	1,121	871
<b>Total</b>	<b>1,043,948</b>	<b>(1,879)</b>	<b>18,542</b>	<b>1,060,611</b>	<b>849,153</b>
<b>Reconciling Items:</b>					
Finance, Corporate Services and Top Management				19,727	22,688
Foreign exchange				1,333	(220)
<b>Total Net Expenditure per SOCNE</b>				<b>1,081,671</b>	<b>871,621</b>

### 3. Other Administration Expenditure

	2019-20 £000	2018-19 £000
Staff Costs <sup>1</sup> :		
Wages and Salaries	25,426	22,407
Social Security Costs	2,501	2,232
Other Pension Costs	7,369	4,922
Goods and Services	6,461	6,900
<b>Non-cash items:</b>		
Notional Accommodation costs (DoF)	4,042	4,006
Other notional costs	5,057	4,775
Minister Salary	11	-
Auditor's remuneration and expenses	90	90
<b>Total</b>	<b><u>50,957</u></b>	<b><u>45,332</u></b>

<sup>1</sup> Further analysis of staff costs is located in the Remuneration and Staff Report on page 81.

During the year, the Department did not purchase any non-audit services from its auditor, the Northern Ireland Audit Office (2018-19: £1,156 in respect of the National Fraud Initiative Exercise).

#### 4. Programme Expenditure

	Note	2019-20 £000	2018-19 £000 (restated)
Staff Costs <sup>1</sup> :			
Wages and Salaries		14,930	14,180
Social Security Costs		1,372	1,344
Other Pension Costs		4,338	3,139
Grants:			
Grant in Aid		486,170	357,243
Capital Grants and subsidies		39,956	11,090
Other Current Grants and subsidies		406,918	424,891
EU Grants		30,882	35,966
Goods and Services		8,782	9,424
Non-voted expenditure	SOAS2	18,542	5,938
<b>Non-cash items:</b>			
Student Loans Fair Value Adjustment	10.1	78,167	22,493
Financial liability and impairments	10.2	(91)	(402)
Borrowing costs (unwinding of discount) on financial liability	10.2, 17	200	320
Depreciation and Amortisation	6,7	153	111
Provision/(release) provided for in year	17	(12,398)	-
Holiday Pay Provision <sup>1</sup>		410	-
Foreign Exchange Unrealised	SOAS2	1,333	-
Investment Revaluation	11	56	(46)
Loss on disposal of property, plant and equipment		4	2
<b>Total</b>		<b><u>1,079,724</u></b>	<b><u>885,693</u></b>

<sup>1</sup> Further analysis of staff costs is located in the Remuneration and Staff Report on page 81.

EU Grants includes staff costs of £1.1m (2018-19: £1.1m) which have been charged to EU Programmes as Technical Assistance.

### Renewable Heat Incentive (RHI) Scheme

The Financial Statements include the following amounts in respect of the Renewable Heat Incentive Scheme (RHI), both Domestic and Non-Domestic:

- Grant expenditure (above) includes RHI expenditure of £6.7m (2018-19: £23.8m), all of which was included in the Statement of Assembly Supply (pages 88 to 97) as Annually Managed Expenditure (AME);
- Goods and services (admin and programme) includes RHI expenditure of £1.1m (2018-19: £3.6m);
- Trade payables at Note 16 includes £13.2m for RHI (2018-19: £18.2m); and,
- Financial Commitments at Note 8.2 includes £90m for RHI (2018-19: £100m).

## 5. Income

### 5.1 Revenue from Contracts with Customers

	2019-20 £000	2018-19 £000 (restated)
Income from Customers	3,247	3,236
<b>Total Income from Contracts</b>	<b>3,247</b>	<b>3,236</b>

Income from contracts is not material to the Department, and includes amounts that will be due to the Consolidated Fund.

### 5.2 Other Operating Income

	2019-20 £000	2018-19 £000 (restated)
EU Income	38,802	49,359
Miscellaneous Grants & Disbursements	4,865	4,468
Other	20	11
<b>Total Other Operating Income</b>	<b>43,687</b>	<b>53,838</b>

Other Income includes the miscellaneous amounts that will be due to the Consolidated Fund.

### 5.3 Finance Income

	Note	2019-20 £000	2018-19 £000 (restated)
Interest Receivable	11	2,076	2,330
<b>Total Finance Income</b>		<b>2,076</b>	<b>2,330</b>

## 6. Property, Plant & Equipment

2019-20

	Land £000	Building £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2019	1,075	1,000	349	50	726	3,200
Additions	-	-	-	2	16	18
Disposals	-	-	-	(4)	(4)	(8)
Revaluations	-	-	-	-	4	4
<b>At 31 March 2020</b>	<b>1,075</b>	<b>1,000</b>	<b>349</b>	<b>48</b>	<b>742</b>	<b>3,214</b>
<b>Depreciation</b>						
At 1 April 2019	-	-	339	45	475	859
Charged in year	-	47	8	2	43	100
Disposals	-	-	-	(4)	(4)	(8)
Revaluations	-	(47)	-	-	2	(45)
<b>At 31 March 2020</b>	<b>-</b>	<b>-</b>	<b>347</b>	<b>43</b>	<b>516</b>	<b>906</b>
<b>Carrying amount at 31 March 2020</b>	<b>1,075</b>	<b>1,000</b>	<b>2</b>	<b>5</b>	<b>226</b>	<b>2,308</b>
<b>Carrying amount at 31 March 2019</b>	<b>1,075</b>	<b>1,000</b>	<b>10</b>	<b>5</b>	<b>251</b>	<b>2,341</b>
<b>Asset financing</b>						
Owned	1,075	1,000	2	5	226	2,308
Finance Leased	-	-	-	-	-	-
<b>Carrying amount at 31 March 2020</b>	<b>1,075</b>	<b>1,000</b>	<b>2</b>	<b>5</b>	<b>226</b>	<b>2,308</b>

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 2020  
 Buildings – Consumer Affairs Building, Newtownbreda, Belfast 31 March 2020

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



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As a result of COVID-19, LPS considers that, as at 31 March 2020, it can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The valuations this year are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to them than would normally be the case.

Included in the above are fully depreciated assets with a valuation of £722,493 (2018-19: £696,305) which are still in use.

**2018-19**

	Land £000	Buildings £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2018	1,075	1,000	349	59	651	3,134
Additions	-	-	-	1	93	94
Disposals	-	-	-	(10)	(26)	(36)
Revaluations	-	-	-	-	8	8
<b>At 31 March 2019</b>	<b>1,075</b>	<b>1,000</b>	<b>349</b>	<b>50</b>	<b>726</b>	<b>3,200</b>
<b>Depreciation</b>						
At 1 April 2018	-	-	331	51	462	844
Charged in year	-	44	8	3	36	91
Disposals	-	-	-	(9)	(25)	(34)
Revaluations	-	(44)	-	-	2	(42)
<b>At 31 March 2019</b>	<b>-</b>	<b>-</b>	<b>339</b>	<b>45</b>	<b>475</b>	<b>859</b>
<b>Carrying amount at 31 March 2019</b>	<b>1,075</b>	<b>1,000</b>	<b>10</b>	<b>5</b>	<b>251</b>	<b>2,341</b>
<b>Carrying amount at 31 March 2018</b>	<b>1,075</b>	<b>1,000</b>	<b>18</b>	<b>8</b>	<b>189</b>	<b>2,290</b>
<b>Asset financing</b>						
Owned	1,075	1,000	10	5	251	2,341
Finance Leased	-	-	-	-	-	-
<b>Carrying amount at 31 March 2019</b>	<b>1,075</b>	<b>1,000</b>	<b>10</b>	<b>5</b>	<b>251</b>	<b>2,341</b>

## 7. Intangible Assets

2019-20

	Software Licence £000	Externally Developed Software £000	Assets under Construction £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2019	8	1,038	832	1,878
Additions	-	57	21	78
Disposals	(8)	(945)	-	(953)
Revaluations	-	18	-	18
Reclassification	-	707	(707)	-
<b>At 31 March 2020</b>	<b>-</b>	<b>875</b>	<b>146</b>	<b>1,021</b>
<b>Amortisation</b>				
At 1 April 2019	8	988	-	996
Charged in year	-	53	-	53
Disposals	(8)	(941)	-	(949)
Revaluations	-	2	-	2
<b>At 31 March 2020</b>	<b>-</b>	<b>102</b>	<b>-</b>	<b>102</b>
<b>Carrying amount at 31 March 2020</b>	<b>-</b>	<b>773</b>	<b>146</b>	<b>919</b>
<b>Carrying amount at 31 March 2019</b>	<b>-</b>	<b>50</b>	<b>832</b>	<b>882</b>
<b>Asset financing</b>				
Owned	-	773	146	919
Finance Leased	-	-	-	-
<b>Carrying amount at 31 March 2020</b>	<b>-</b>	<b>773</b>	<b>146</b>	<b>919</b>

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.

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**2018-19**

	Software Licence £000	Externally Developed Software £000	Assets under Construction £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2018	8	1,006	762	1,776
Additions	-	30	70	100
Disposals	-	-	-	-
Revaluations	-	2	-	2
<b>At 31 March 2019</b>	<b>8</b>	<b>1,038</b>	<b>832</b>	<b>1,878</b>
<b>Amortisation</b>				
At 1 April 2018	8	967	-	975
Charged in year	-	20	-	20
Disposals	-	-	-	-
Revaluations	-	1	-	1
<b>At 31 March 2019</b>	<b>8</b>	<b>988</b>	<b>-</b>	<b>996</b>
<b>Carrying amount at 31 March 2019</b>	<b>-</b>	<b>50</b>	<b>832</b>	<b>882</b>
<b>Carrying amount at 31 March 2018</b>	<b>-</b>	<b>39</b>	<b>762</b>	<b>801</b>
<b>Asset financing</b>				
Owned	-	-	832	832
Finance Leased	-	50	-	50
<b>Carrying amount at 31 March 2019</b>	<b>-</b>	<b>50</b>	<b>832</b>	<b>882</b>

## **8. Capital and Other Commitments**

### **8.1 Capital Commitments**

There were no contracted capital commitments at 31 March 2020 or 31 March 2019 not otherwise included in these financial statements.

### **8.2 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 is included in this definition. The payments to which the Department is committed are as follows:

	2019-20 £000	2018-19 £000
<b>Other</b>		
Not later than one year	607,331	586,286
Later than one year and not later than five years	182,924	95,776
Later than five years	59,268	70,087
<b>Total</b>	<b>849,523</b>	<b>752,149</b>

#### ***Renewable Heat Incentive Scheme***

Included in the commitments figure is an amount of £90m (2018-19: £100m) relating to the Renewable Heat Incentive Scheme, both Domestic and Non-Domestic. New regulations for the Renewable Heat Incentive Scheme were introduced from 1 April 2019.

#### ***Training Programmes***

The Department has awarded contracts to training providers for the delivery of training programmes comprising ApprenticeshipsNI and Training for Success and the associated Disability Support service. The contracts were originally awarded for the delivery of this training provision up to July 2019 and subsequent approval was secured to take up the first one year extension option (extending to 31 July 2020).

In the case of ApprenticeshipsNI, approval has now also been secured to take up the second one year extension option (extending to 31 July 2021). Subject to business case approval which is expected shortly, it is the Department's intention to also take up the second one year extension to Training for Success and Disability Support. As the cost of the delivery will be dependent on demand and any direct knock on effects from the wider COVID-19 pandemic, at this point it is not possible to quantify the cost.

#### ***Tourism***

In 2012, the Department for Enterprise Trade and Investment entered into an agreement with the National Museum of the Royal Navy in relation to HMS Caroline to make the ship available to the public as a visitor and heritage attraction. As such, the Department has financial commitments under this agreement, the extent of which is dependent on performance, and, under the current COVID-19 situation, it is not possible to quantify any future costs.

### 8.3 Commitments under Leases

#### Operating Leases

There were no operating leases for land or buildings at 31 March 2020 or 31 March 2019.

No future minimum lease payments under operating leases are committed to.

### 9. 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, IFRS 7 and IFRS 9 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.

In addition to transactions reflected in these accounts, during the year, the Department has historically transferred budget allocation to The Executive Office in order to facilitate the provision of capital funding financing to the Universities under the Financial Transactions Capital Scheme (FTC). FTC is administered by Strategic Investment Board Limited (SIB) on behalf of The Executive Office. There were no allocations in either the current or previous years under review.

#### Financial Assets at Carrying Value

Student loans are included as loans and receivables, and are measured at fair value (FVTPL). Loans to Catalyst Inc. and Presbyterian Mutual Society, together with trade receivables, cash and cash equivalents are included as loans and receivables, and are measured at fair value initially and subsequently at amortised cost.

	2019-20 £000	2018-19 £000
<b>Fair Value through Profit or Loss</b>		
Student loans	2,707,303	2,542,115
<b>Total</b>	<b>2,707,303</b>	<b>2,542,115</b>

	2019-20 £000	2018-19 £000
<b>Amortised Cost</b>		
Financial assets – Loans	85,041	105,465
Trade receivables	8,910	8,344
Cash and cash equivalents	<u>(3,726)</u>	<u>(3,912)</u>
<b>Total</b>	<b><u>90,225</u></b>	<b><u>109,897</u></b>

### ***Financial Liabilities at Carrying Value***

Trade payables and financial liabilities (debt sale) are measured at fair value initially and subsequently at amortised cost.

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts are considered to be the same as their fair values, due to their short term nature.

### ***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. 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. Note 10 provides more detail, including the potential for impact of COVID-19, and sensitivity analysis.

At a national level, the Government is continuing to seek 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 Department has analysed the contractual terms of student loans, including interest rates, repayment and cancellation policies. The valuation basis of income contingent loans reflects the requirements of IFRS 9 to hold the loans at fair value (FVTPL).

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 10 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 10 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.

The Department 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 as highlighted in Note 10.

### ***Liquidity Risk***

The Department's net revenue resource requirements (as well as its capital expenditure) are financed by resources voted annually by NI Assembly. 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 2020, with a 10% weakening or strengthening of sterling against the euro, the outturn for the year would have increased by £2.04m or decreased by £2.04m respectively. This movement is attributable to the foreign exchange gains or losses on translation of euro denominated payables.



## 10. Investments - Financial Instruments

### 10.1 Student Loans

	Note	2019-20 £000	2018-19 £000
<b>Total value of loans at 1 April</b>		<b>2,542,115</b>	<b>2,302,930</b>
Adjustment to opening balance		-	(4)
Additional Loan funding	SOAS3	350,191	354,434
Repayments		(106,836)	(92,752)
Effective Interest		-	-
New impairments		-	-
Fair value adjustment		(78,167)	(22,493)
<b>Total value of loans at 31 March</b>		<b>2,707,303</b>	<b>2,542,115</b>

The Student Loans Company Limited issues loans on behalf of the Department for Northern Ireland, the Department for Education in England, the Welsh government and the Scottish Executive. The split of total loans is provided by the Student Loans Company.

Student loans are held at fair value (FVTPL). This involves the value of the loans issued being discounted to net present value using the effective interest rate method. The effective interest rate for student loans is RPI plus 0.7%, which is the HMT discount rate. In 2019-20, the effective interest was 3.42% (2018-19: 4.09%).

As outlined on the Statement of Cash Flows, student loan cash advances for the period were £349.7m (2018-19: £355.5m) and repayments were £105.9m (2018-19: £92.4m).

Student Loans issued during the year comprise Tuition Fee Loans paid directly to the Higher Education Institutions and Maintenance Loans paid directly to students. The total of both loans is repayable by the students. Loans issued can be summarised as follows:

	2019-20 £000	2018-19 £000 (restated)
Tuition Fee Loans payable to Institutions	222,644	222,996
Maintenance Loans payable to students	127,547	131,438
<b>Total</b>	<b>350,191</b>	<b>354,434</b>

### 10.1a Face Value

The face value of the loan book (gross amount owed by students) is made up of the opening face value, plus additions and capitalised interest, less write offs and repayments. The face value of the loan book at 31 March 2020 was £3,875m (31 March 2019: £3,539m).

	<i>Note</i>	2019-20 £000	2018-19 £000
<b>Opening face value of loan book at 1 April</b>		3,539,300	3,229,155
Less: opening balance adjustment		-	(4)
		<b>3,539,300</b>	<b>3,229,151</b>
Additional loan funding	SOAS3	350,191	354,434
Repayments		(106,836)	(92,752)
Capitalised interest		93,000	49,539
Policy write offs		(761)	(1,072)
<b>Closing face value of loan book at 31 March</b>		<b>3,874,894</b>	<b>3,539,300</b>
Closing fair value adjustments at 31 March		(1,167,591)	(997,185)
<b>Carrying value at 31 March</b>		<b>2,707,303</b>	<b>2,542,115</b>

During 2019-20, the Student Loans Company (SLC) and HMRC launched their More Frequent Data Sharing Project (MFDS). The purpose of this project was to provide the Student Loans Company with details of loan repayments collected through HMRC's pay as you earn scheme (PAYE), which means that SLC know exactly how much graduates are repaying each week or month that they are paid. Prior to this this repayments were only shared with SLC on an annual basis after the end of the financial year. With the launch of MFDS, this year the SLC have effectively been able to apply two year's interest to the loan book, resulting in a significant increase in interest applied this year.

In addition the Bank of England reduced its base rate to 0.1% during the financial year, meaning that Northern Ireland borrowers are charged interest at a rate of 1.1%. This is in-line with the "Base Rate Cap" as set out in the relevant legislation, which stipulates that interest will be charged at the lower of RPI or the Bank of England Base rate plus 1%.

### **10.1b Forecasting Model**

The estimates underpinning the fair value adjustments are based on a forecasting model (the Stochastic Earnings Path model, which holds NI borrower 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.

In addition, 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 costs of capital on loans, which is known as the interest subsidy. This reflects the cost to the Government of issuing and holding the loan. The Department increases the subsidy based on a percentage of loans issued in year.

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 2020.

#### **COVID-19 impact on the carrying value of Student Loans**

As a consequence of the current COVID-19 outbreak, there are high levels of uncertainty as to the impact that the outbreak will have on macroeconomic data used in to calculate the carrying value of the student loan book in these accounts. The Department has incorporated the macroeconomic forecast data published by the OBR in line with existing policies and procedures. However, the OBR's current forecasts had been prepared and published before the economic consequences in response to the virus had taken effect. While the OBR has since published a potential scenario for the impact of COVID-19, no substantive forecasts have been published. The consequences for Student Loans is varied depending on the magnitude of the impact and the responses implemented to deal with it. The outcome is likely to be lower incomes which in turn lead to lower repayments, lower interest rates, reduced interest expected to be charged and the resultant decrease in the carrying value of the loan book. With no revised OBR forecasts available at the time of preparing these accounts, it has not been possible to make a reliable estimate of the COVID-19 impact on the carrying value of the loan book.

#### *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 2019-20 other than updated forecasts by the Office for Budget Responsibility (OBR).

### *Key Assumptions used to calculate the Student Loan balance at 31 March 2020*

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 0.93 percentage points, as this is OBR's long-term forecast. The Stochastic Earnings Path model assumes average nominal earnings growth will be in line with long-term OBR forecasts.

### *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 long-term OBR forecasts.

## **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 2019-20 is 2.6%, decreasing to 2.33% in 2021-22 increasing to 2.90% 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.

<b>Impact on carrying value</b>	<b>1% change = £26.6m</b>
Increase by 1%	-2.836%
Decrease by 1%	2.823%

#### *Earnings Growth*

Higher earnings growth will increase repayments. The OBR forecast for 2019-20 average earnings growth is 2.97% rising to 3.83% 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.

<b>Impact on carrying value</b>	<b>1% change = £26.6m</b>
Increase by 1%	3.236%
Decrease by 1%	-3.166%

#### *Bank of England Base Rate*

The OBR forecast for the Bank of England base rate in 2019-20 is 0.72%, rising to 4.10% 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.

<b>Impact on carrying value</b>	<b>1% change = £26.6m</b>
Increase by 1%	20.228%
Decrease by 1%	-18.021%

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 3.83%. Since 2010, the ONS outturn figures for the financial year average of earnings growth have varied between 1.32% and 3.13%.
- The long term OBR assumption for RPI is currently 2.90%. 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 projected to rise to 4.10%. Since 2010, the outturns have varied between 0.25% and 0.75%.

## 10.2 Financial Liabilities

	2019-20 £000	2018-19 £000
<b>Balance at 1 April</b>	<b>2,038</b>	<b>2,789</b>
New Impairment	(91)	(402)
Borrowing costs	41	74
Receipts/(Payments)	(848)	(423)
<b>Balance at 31 March</b>	<b><u>1,140</u></b>	<b><u>2,038</u></b>

### **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 IFRS 9.

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 2025, which is the 25 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.

## 11. Financial Asset Investments

	Presbyterian Mutual Society £000	Share Capital H&W plc £000	Catalyst Inc. (formerly Northern Ireland Science Park) £000	Total £000
<b>Gross amount:</b>				
Balance at 1 April 2019	123,430	4,600	7,035	135,065
Additions	-	-	-	-
Interest charged	1,886	-	190	2,076
Loan Repayment – Principal	(20,500)	-	-	(20,500)
Loan Repayment – Interest	(1,944)	-	-	(1,944)
Revaluation	(56)	-	-	(56)
<b>Balance at 31 March 2020</b>	<b>102,816</b>	<b>4,600</b>	<b>7,225</b>	<b>114,641</b>
<b>Provision:</b>				
Opening Provision at 1 April 2019	(25,000)	(4,600)	-	(29,600)
Provided in year	-	-	-	-
<b>Balance at 31 March 2020</b>	<b>(25,000)</b>	<b>(4,600)</b>	<b>-</b>	<b>(29,600)</b>
<b>Balance at 31 March 2020</b>	<b>77,816</b>	<b>-</b>	<b>7,225</b>	<b>85,041</b>

### 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	17,971	-	-	17,971
Later than one year	59,845	-	7,225	67,070
	<b>77,816</b>	<b>-</b>	<b>7,225</b>	<b>85,041</b>

The Department holds these financial assets in order to collect the contractual cash flows of principal and interest. As a result, in line with IFRS 9, the loans are recorded at amortised cost.

### ***Presbyterian Mutual Society***

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 £175m loan may be recoverable, in full or in part, depending on property market valuations and conditions. As a result of the order of distribution out of PMS' assets agreed by the NI Executive, the interest free loan of £25m is unlikely to be recovered, and has therefore been provided in full.

As per IFRS 9, 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. Under the 2016 Amending and Restatement agreement between the Department and the Joint Supervisors an adjustment to the timing and quantum of cash flows in certain years was agreed. In keeping with this, the Department annually records an adjustment to the fair value of the fixed term loan. In the 2019-20 year the value of the adjustment was (£56)k.

### ***Harland and Wolff plc***

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.

### ***Catalyst Inc.***

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 IFRS 9, 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%.

The cash advanced to Catalyst Inc. in 2015-16 and 2016-17 totalled £6.42m. An initial repayment free period was granted as part of the terms of the loan agreement, with actual cash repayments due to commence in 2021-22. The loan is then due to be repaid in twenty equal annual instalments.



### 11.1 Financial Asset Investments (*comparative*)

	Presbyterian Mutual Society £000	Share Capital H&W plc £000	Catalyst Inc. (formerly Northern Ireland Science Park) £000	Total 2018-19 £000
<b>Gross amount:</b>				
Balance at 1 April 2018	136,916	4,600	6,850	148,366
Additions	-	-	-	-
Interest charged	2,144	-	185	2,329
Loan Repayment – Principal	(13,500)	-	-	(13,500)
Loan Repayment – Interest	(2,176)	-	-	(2,176)
Revaluation	46	-	-	46
<b>Balance at 31 March 2019</b>	<b>123,430</b>	<b>4,600</b>	<b>7,035</b>	<b>135,065</b>
<b>Provision:</b>				
Opening Provision at 1 April 2018	(25,000)	(4,600)	-	(29,600)
Provided in year	-	-	-	-
<b>Balance at 31 March 2019</b>	<b>(25,000)</b>	<b>(4,600)</b>	<b>-</b>	<b>(29,600)</b>
<b>Balance at 31 March 2019</b>	<b>98,430</b>	<b>-</b>	<b>7,035</b>	<b>105,465</b>

### 12. 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.

### 13. Investment in Associates

#### Viridian Growth

Viridian Growth is a venture capital fund established in August 2001. This was an investment by the Department, similar to unsecured, interest-free loans, repayable only on termination or liquidation of the funds. The Department had carried a nil value in relation to Viridian to reflect the fully provided for position of no further Departmental recovery due to the terms of the Fund Agreement. The Department has received confirmation that the Investment Fund will be fully wound down with no further benefit accruing to the Department, therefore the reference to Viridian will be removed going forward.

## 14. Cash and Cash Equivalents

	2019-20 £000	2018-19 £000
Balance at 1 April	(3,912)	(13,347)
Net change in cash and cash equivalent balances	186	9,435
<b>Balance at 31 March</b>	<b><u>(3,726)</u></b>	<b><u>(3,912)</u></b>

	Note	2019-20 £000	2018-19 £000
The following balances at 31 March were held at:			
Commercial Banks	17	(4,538)	(4,684)
Mineral and Petroleum Bank Account		811	771
Cash in hand		1	1
<b>Balance at 31 March</b>		<b><u>(3,726)</u></b>	<b><u>(3,912)</u></b>

### Mineral and Petroleum Account

Under the authority of the Minerals (Miscellaneous Provisions) Act (Northern Ireland) 1959 and the Mineral Development Act (Northern Ireland) 1969 all minerals, with certain minor exceptions, are vested in the Department. The transactions arising are reflected in the accounts of the Mineral Account and are not included in these financial statements.

Under the authority of the Petroleum (Production) Act (Northern Ireland) 1964 petroleum rights are vested in the Department. The transactions arising are reflected in the accounts of the Petroleum Account and are not included in these financial statements.

Both of these receipts and payments accounts are audited separately by the Comptroller and Auditor General.

## 15. Trade Receivables, Financial and Other Assets

	2019-20 £000	2018-19 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	8,910	8,344
Deposits and advances	-	415
Other receivables:		
VAT	387	337
EU receivables	27,970	56,489
Due from National Insurance Fund	4,522	1,976
Prepayments and accrued income	3,414	3,803
Amounts due from the Consolidated Fund in respect of supply	4,843	4,759
	<b>50,046</b>	<b>76,123</b>

Trade receivables include the following amounts due to the Consolidated Fund once the debts are collected:

- EU receivables £NIL (2018-19: £6.6m)
- Trade receivables £2.6m (2018-19: £2.6m).

## 16. Trade Payables, Financial and Other Liabilities

	2019-20 £000	2018-19 £000
<b>Amounts falling due within one year:</b>		
Trade payables	10,380	8,360
Accruals and deferred income	48,039	55,202
EU Programme Advances	7,619	-
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:		
Received	307	76
Receivable	-	6,625
Amounts due to the Consolidated Fund in respect of excess Accounts Receivable:		
Received	-	-
Receivable	4,166	7,363
Amounts due to National Insurance Fund	523	443
Bank overdraft	4,538	4,684
	<u>75,572</u>	<u>82,753</u>
<b>Amounts falling due after more than one year:</b>		
Other payables, accruals and deferred income	-	-
<b>Total</b>	<u>75,572</u>	<u>82,753</u>

## 17. Provisions for Liabilities and Charges

	H&W £000	Long Service Award £000	Holiday Pay £000	2019-20 £000
<b>Balance at 1 April 2019</b>	49,916	1,872	-	51,788
Borrowing costs (unwinding of discount)	159	-	-	159
Provided in year	-	-	410	410
Provisions release	(12,398)	-	-	(12,398)
Bad debts previously provided for and written off in the year	-	-	-	-
Provisions utilised in year	(3,400)	(173)	-	(3,573)
<b>Balance at 31 March 2020</b>	<b>34,277</b>	<b>1,699</b>	<b>410</b>	<b>36,386</b>

### Analysis of expected timing of discounted flows

	H&W £000	Long Service Award £000	Holiday Pay £000	2019-20 £000
Not later than one year	3,400	-	-	3,400
Later than one year and not later than five years	19,925	-	-	19,925
Later than five years	10,952	1,699	410	13,061
<b>Balance at 31 March 2020</b>	<b>34,277</b>	<b>1,699</b>	<b>410</b>	<b>36,386</b>

## 17. Provisions for Liabilities and Charges (comparative)

	H&W £000	Long Service Award £000	2018-19 £000
<b>Balance at 1 April 2018</b>	52,670	1,872	54,542
Borrowing costs (unwinding of discount)	246	-	246
Provided in year	-	-	-
Provisions release	-	-	-
Bad debts previously provided for and written off in the year	-	-	-
Provisions utilised in year	(3,000)	-	(3,000)
<b>Balance at 31 March 2019</b>	<b>49,916</b>	<b>1,872</b>	<b>51,788</b>

### 17.1 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 £34.3m, as at 31 March 2020 (2018-19: £49.9m), 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 2019-20 which resulted in a decrease in the overall discounted liability. This was primarily due to a reduction in real terms of legal cases being brought over the past number of years as the pool of claimants by its nature decreases over time. The overall undiscounted liability in relation to the employers' and public liability claims referred to above, based on actuarial advice, amounts to £34m (2018-19: £51m).

## **17.2 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/her other pension benefits.

## **17.3 Holiday Pay**

The Court of Appeal (CoA) judgment from 17 June 2019 (PSNI v Agnew) determined that claims for Holiday Pay shortfall can be taken back to 1998. However, the PSNI has appealed the CoA judgment to the Supreme Court. Due to delays in relation to the Covid-19 situation, it is expected that this will not be heard until 2021 but could result in a decision which either reduces the period of liability or confirms the full period back to 1998. The 2019-20 Holiday Pay provision has been estimated by NICS HR and covers the period from 1998 to 31 March 2020. There are still some very significant elements of uncertainty around this estimate for a number of reasons:

- The appeal to the Supreme Court (as detail above);
- Lack of accessible data for years previous to 2011 and for some groups of staff beyond 2011;
- Ongoing negotiations with Trade Unions;
- A reliable estimate for the pension element is not yet available so this has not been factored into the provision; and
- The provision is gross (inclusive of Employee National Insurance and PAYE) and also includes an uplift of 13.8% for Employer National Insurance Contributions (NI) Taxation issues are still under discussion with HMRC so the position is subject to change.

## **18. Contingent Liabilities**

The Department has the following quantifiable contingent liabilities:

### **a. Litigation Cases**

There are nineteen outstanding cases as at 31 March 2020. The estimated total potential liability is less than £250k.

**b. Renewable Heat Incentive Scheme** There is currently a Judicial review against the introduction of the Northern Ireland (Regional Rates and Energy) (No.2) Act 2019. In addition there is also an appeal against the introduction of the 2017 Regulations which will not be considered until the judgement of the Judicial Review into the 2019 Act is available. The outcome of these cases is uncertain however if they were to be successful then there could be a significant impact. If the applicants were successful in their judicial review of the 2019 regulations, the ultimate outcome is difficult to foresee but it could lead to legislative change, increasing payments to participants. The prospect of complex and prolonged litigation is foreseeable and the ultimate outcome will not be known for some time.

**c. Presbyterian Mutual Society**

As described at Note 11, on 1 August 2011, a 10 year fixed rate loan of £175m at a rate of 2.02% was issued to the Presbyterian Mutual Society Limited (in Administration). This loan may be recoverable, in full or in part, depending on property market valuations in future years.

Based on its expiry date, the Joint Supervisors had formulated a plan to maximise realisations on the loan before 30 November 2020. As a result of EU exit and the challenges in the retail market, the most recent forecasts pre COVID-19 by the Joint Supervisors indicate an estimated shortfall of £9.83m however if certain timing contingencies are removed this would reduce the estimated shortfall to £8.12m. The Joint Supervisors have also alluded to potential upsides which may reduce this shortfall further however any potential shortfall is contingent upon the performance of the property market.

However the additional impact of COVID-19 and the UK lockdown has resulted in high levels of uncertainty as to the impact on red book values and market values used to calculate the potential recovery of the Departments loan in the accounts. At the time of preparing these accounts the property market has just reopened. Until the market reopens fully, sales of properties begin to occur, and the market finds its level, it is not possible to make a reliable estimate of the COVID-19 impact on the potential recoverable value of the Departmental loan and the timing of the same.

Overall the planned exit sales strategy has been seriously affected. The Department has taken advice from the Joint Supervisors, the Department's advisors, as well as legal advice, all of which had advised that an extension to the repayment period beyond 30 November 2020 is reasonable given the current circumstances. This information was presented to both DoF and the DfE Minister and both Ministers have advised that they are content that the repayment period is extended. The exact timeframe of the extension cannot be determined at this time but initial thoughts from advisors are for a two to three year period. However, this will be reviewed further once an updated business plan can be produced when markets fully reopen and the market finds its level.



## **19. Financial Guarantees, Indemnities and Letters of Comfort**

Other than those noted below, the Department did not enter into any other quantifiable guarantees, indemnities or did not provide any letters of comfort in 2019-20 or 2018-19. 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 IFRS 9.

### **19.1 Construction and Industry Training Board Northern Ireland (CITB-NI) Pension Scheme**

The Department has entered into a Guarantee Agreement with the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) in respect of Construction and Industry Training Board–Northern Ireland (CITB-NI), an NDPB sponsored by this Department. In the event of the organisation being wound up, the Industrial Training (NI) Order 1984, Section 19 provides for the making of a revocation order in the event of the winding up of an industrial training board (such as CITB-NI).

Section 19 (2) states:

“A revocation order may provide -

(a) for the imposition of a levy on employers in the industry, other than such, if any, as may be exempted by the order, for the purpose of raising the whole or part of any amount by which the assets of the individual training board may be insufficient to meet the liabilities of the board and the expenses of the winding up.”

The Department anticipates that in the event of CITB-NI being wound up, it would be prepared to consider issuing a revocation order in respect of any agreed remaining liabilities. In the event that such a levy was insufficient to extinguish an agreed remaining pension liability, the Department would ultimately be prepared to assume the liability on behalf of CITB.

### **19.2 Tourism Northern Ireland Pension Scheme**

The Department has entered into a Guarantee Agreement with the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) in respect of the Tourism Northern Ireland. The Department has guaranteed any and all obligations in respect of pension liabilities if the NDPB ceases to exist or is otherwise unable to discharge its liabilities under the Local Government Pension Scheme Regulations (Northern Ireland) 2002.

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

## **20. Related Party Transactions**

The Department sponsors the Non-Departmental Public Bodies (NDPBs), Independent Autonomous Bodies (IABs) and North/South Bodies listed in Note 22. 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 North/South Bodies 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 (now Department for Communities); and, the Department of Finance.

Transactions that the Department, has undertaken with Members of the Departmental Board and Departmental Audit Committee or companies/ bodies in which they have an interest were as follows. All transactions are conducted at arm's length and in accordance with departmental financial procedures.

### **Harland and Wolff plc**

A company wholly owned by the Department received £3.4m (2018-19: £3m) to enable it to meet its liabilities. The directors of Harland and Wolff plc are appointed ex-officio. During 2019-20, the directors were Stephen McMurray, Iain McFarlane and Rachel Linton, all of whom were departmental employees.

### **Grace Nesbitt**

Grace Nesbitt is an Independent Member of the ARAC and is also a Director of Access Employment Ltd previously known as Acceptable Enterprises Limited.

During the year, the Department provided funding to Access Employment Limited under the ESF Programme of £150,120 (2018-19: £138,004). At 31 March 2020, the outstanding amount payable was £0 (2018-19: £20,264).

The Minister, has not undertaken any material transactions with the department during the year.

## 21. Third Party Assets

The assets held at the reporting period date to which it was practical to ascribe monetary values comprised. They are set out in the table below:

	31 March 2019 £000	Gross inflows £000	Gross outflows £000	31 March 2020 £000
Insolvency Account	22,370	11,497	(10,228)	23,639
Northern Ireland National Insurance Fund	34,472	16,007	(7,851)	42,628

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.

## 22. Entities within the Departmental Boundary

These financial statements reflect the accounts of the core Department only. Bodies not consolidated in these accounts but for which the Department is responsible for their sponsorship and oversight of are:

Non-Departmental Public Bodies:

- Invest Northern Ireland (Invest NI);
- Northern Ireland Screen (NIS);
- Construction and Industry Training Board–Northern Ireland (CITB-NI);
- Tourism Northern Ireland (Tourism NI);
- Health and Safety Executive for Northern Ireland (HSENI);
- General Consumer Council for Northern Ireland (GCCNI);
- Labour Relations Agency (LRA);

- Stranmillis University College; and,
- the six Further Education (FE) colleges.

Independent Autonomous Bodies:

- Ulster University;
- Queens University Belfast;
- St Mary's University College; and,
- the Open University.

The Department also acts as co-sponsor Department to two North/ South bodies set up under the Belfast Agreement which are also regarded as falling outside the accounting boundary. These are:

- InterTradelreland; and,
- Tourism 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.

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

### **23. Events after the Reporting Period**

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

### **24. COVID 19 Business Support Grant Schemes**

On 11 March 2020, the Chancellor announced during his Spring Budget of 2020 that the Government would introduce measures to help businesses with their business rates bills and to assist with the economic challenges presented by COVID-19. On 18 March 2020, the NI Executive announced measures to support the most vulnerable businesses to assist with the economic challenges presented by COVID-19. A grant of £10,000 for businesses in receipt of small business rate relief and a grant of £25,000 to firms with a rateable value of between £15,000 and £51,000 in the retail, tourism and hospitality sectors were announced.

#### *Small Business Grant Scheme*

Grants of £10,000 to small businesses that already pay reduced rates because of Small Business Rate Relief were launched in 26 March 2020. This is applied automatically to properties with a Total Net Annual Value of £15,000 and below although certain exclusions were applied. The Department worked with Land and Property Services and Invest NI in order to devise the policy and deliver the scheme.

In 2019-20, funding for the payments of £67.7m was provided by the Department in the form of cash-based Grant in Aid which appears as Programme Costs in these accounts, with the payments being administered by Land and Property Service (Department of Finance). Expenditure for the scheme appears on an accruals basis in the accounts of Invest NI.

*Events after the Reporting Period*

Under IAS 10 Events after the Reporting Period, the Department is required to report events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. These can be either adjusting (where conditions existed at the end of the reporting period) or non-adjusting (where these are indicative of conditions that arose after the reporting period).

Similar to the Small Business Grant Scheme launched in March, further funding provided by the Department in 2020-21 has been in the form of cash-based Grant in Aid (in line with FReM and Managing Public Money NI), appearing on an accruals basis in the accounts of Invest NI.

- i. The balance of the grants in respect of the businesses eligible under the scheme launched in March were funded through Grant in Aid in 2020-21, and total approximately £152m. This brings the total across 2019-20 and 2020-21 to approximately £220m.
- ii. On 10 April 2020, funding provision was developed further to include the launch of one-off grants of £10,000 to industrial businesses that were not eligible when the scheme was launched in March, and one-off grants of £25,000 to the retail, tourism and hospitality and leisure sectors which launched on 20 April 2020. Total funding in respect of these schemes is estimated to amount to £25m and £72m respectively.
- iii. The Department has also worked with Invest NI to introduce the Microbusiness Hardship Fund (total budget £40m). The level of Hardship Fund grant is up to £10,000 for businesses which pay business rates on premises and up to £5,000 for those that do not pay business rates. Total funding for the scheme is £40m.

This funding represents non adjusting events after the reporting period for the Department as Grant in Aid is accounted for on a cash basis in line with HMT guidelines, and funding schemes developed and launched in April were not available to recipients during the reporting period.

## 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 (fully provided, see Note 11). 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 2020

	2019-20 £000	2018-19 £000
Turnover	-	-
Administration expenses	-	-
<b>Operating loss</b>	-	-
Interest receivable and similar income	-	-
<b>Profit on ordinary activities before taxation</b>	-	-
Tax on ordinary activities	-	-
<b>Profit for the financial year</b>	-	-

### Statement of Financial Position as at 31 March 2020

	2019-20 £000	2018-19 £000
<b>Current Assets</b>		
Debtors	33,782	48,830
Cash at bank and in hand	543	1,106
	34,325	49,936
<b>Creditors: amounts falling due within one year</b>	(46)	(20)
<b>Net current assets</b>	<b>34,279</b>	<b>49,916</b>
Provisions for liabilities	(34,279)	(49,916)
<b>Net assets</b>	-	-
<b>Capital and reserves</b>		
Called up share capital	10,996	10,996
Profit and loss account	(10,996)	(10,996)
<b>Total shareholders' funds</b>		

### Date of Authorisation for Issue

The Accounting Officer authorised the issue of these financial statements on 11 September 2020.

**DEPARTMENT FOR THE ECONOMY**  
**ANNEX A – FINANCIAL DATA**  
**for the year ended 31 March 2020**

**(1) Total Departmental Spend**

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

<b>Table 1.1</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>
<b>Resource DEL</b>				
Economic Development & Infrastructure	35,334	16,020	17,025	16,626
Economic Development & Infrastructure – Repayment of Assistance PMS	(2,482)	(2,298)	(2,144)	(1,886)
Invest NI & Tourism	527	487	(329)	1,160
Employment & Skills	105,811	95,483	92,860	100,241
Student Support & Higher Education	527,776	480,739	431,383	475,726
Tourism Ireland Ltd	156	156	144	222
Intertrade Ireland	138	163	118	156
Representation & Regulatory Services	12,711	8,355	13,221	15,632
EU Structural Funds – ERDF Support	289	295	270	321
EU Programmes	15,108	8,985	8,914	4,176
EU Community Initiative	-	194	777	1,164
EU Peace	-	-	871	1,121
<b>Total Resource DEL</b>	<b>695,368</b>	<b>608,579</b>	<b>563,110</b>	<b>614,659</b>
<i>of which:</i>				
Salaries	46,710	41,724	48,310	55,939
Consultancy	572	398	523	970
Depreciation	115	101	110	153
Support to Higher Education	226,055	225,636	198,888	197,730
Support to Students	89,359	91,084	113,762	112,448
Notional Student Loan Subsidy/ Fair Value Adjustment	210,542	160,966	115,932	163,025
Training Programmes	59,106	60,279	52,218	58,545
Support to Further Education	14,960	14,445	14,855	13,474
Renewable Heat Incentive Scheme	27,077	2,235	824	815
European Programmes	18,788	15,233	10,763	6,458
Other	2,084	(3,522)	6,925	5,102
<b>Resource AME</b>				
Economic Development & Infrastructure	20,046	19,570	23,997	(5,492)
Employment & Skills	(15)	-	-	410
Student Support & Higher Education	(78,655)	(96,840)	(88,968)	(83,337)
<b>Total Resource AME</b>	<b>(58,624)</b>	<b>(77,270)</b>	<b>(64,971)</b>	<b>(88,419)</b>
<i>of which:</i>				
Harland & Wolff Provision	1,839	(2,614)	246	(12,239)
Renewable Heat Incentive Scheme	18,300	22,300	23,798	6,680
Early Retirement	(15)	-	-	-
Holiday Pay	-	-	-	410
Take up/ Revaluation of Debt Sale	(584)	(450)	(329)	(50)
Student Loan Effective Interest/ Fair Value Adjustment	(78,071)	(96,390)	(88,639)	(83,287)
Other	(93)	(116)	(47)	67
<b>Total Resource Budget</b>	<b>636,744</b>	<b>531,309</b>	<b>498,139</b>	<b>526,240</b>

**DEPARTMENT FOR THE ECONOMY**  
**ANNEX A – FINANCIAL DATA**  
**for the year ended 31 March 2020**

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

<b>Table 1.2</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>
<b>Capital DEL</b>				
Economic Development & Infrastructure	7,334	6,772	2,063	32,569
Economic Development & Infrastructure – Repayment of Assistance PMS	(6,064)	(8,000)	(13,500)	(20,500)
Employment & Skills	41	804	(3)	98
Student Support & Higher Education	26,142	18,556	9,331	7,537
Representation & Regulatory Services	553	61	169	78
EU Structural Funds – ERDF Support	39	47	-	-
EU Programmes	130	-	(51)	-
<b>Total Capital DEL</b>	<b>28,175</b>	<b>18,240</b>	<b>(1,991)</b>	<b>19,782</b>
<i>of which:</i>				
Broadband Stimulation	2,661	5,639	-	-
Presbyterian Mutual Society	(6,064)	(8,000)	(13,500)	(20,500)
Learning and Teaching for HE Sector	16,965	13,029	6,259	4,269
University Funding	7,879	3,302	3,310	2,968
Catalyst Inc.	3,844	-	185	190
FE IT System	602	1,080	-	-
BIS Receipt	(1,330)	(1,330)	(1,307)	(1,330)
Student Loans Company	2,140	3,283	1,069	1,605
Capitalised Salaries	796	1,190	411	407
Research & Development	-	-	1,442	1,999
Gas to the West	-	-	-	30,000
Other	682	47	140	174
<b>Capital AME</b>				
Economic Development & Infrastructure	(180)	(38)	(26)	-
Student Support & Higher Education	290,952	290,915	311,221	336,355
<b>Total Capital AME</b>	<b>290,772</b>	<b>290,877</b>	<b>311,195</b>	<b>336,355</b>
<i>of which:</i>				
Renewable Heat Incentive Scheme	(180)	(38)	(26)	-
Student Loan Issued	331,616	345,503	354,434	350,191
Student Loan Receipts	(70,307)	(89,999)	(92,752)	(106,836)
Student Loan Capitalised Interest	29,643	35,411	49,539	93,000
<b>Total Capital Budget</b>	<b>318,947</b>	<b>309,117</b>	<b>309,204</b>	<b>356,137</b>
<b>Total Departmental Spending</b>	<b>955,691</b>	<b>840,426</b>	<b>807,343</b>	<b>882,377</b>
<i>of which:</i>				
Total DEL	723,543	626,819	561,119	634,441
Total AME	232,148	213,607	246,224	247,936



## Non-Budget

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

<b>Table 2</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>
Grant in aid	402,275	350,010	359,288	488,236
Notionals	8,423	8,610	8,871	9,200
<b>Total Non-Budget</b>	<b>410,698</b>	<b>358,620</b>	<b>368,159</b>	<b>497,436</b>
<i>of which:</i>				
Invest NI	166,802	123,616	96,000	175,751
Tourism NI	23,960	17,000	23,819	23,601
Tourism Ireland	12,194	12,568	13,503	12,287
FE Colleges	181,640	180,967	193,705	247,246
NI Screen	-	-	14,582	14,859
Other	26,102	24,469	26,550	23,692

The table below shows the reconciliation between the tables above and SOAS1.

	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>
<b>SOAS1 Analysis of NET Resource</b>				
<b>Outturn by Function</b>				
Request for Resources A	725,243	634,599	574,241	654,658
Annual Managed Expenditure	(58,804)	(77,269)	(64,998)	(88,419)
Non-Budget	410,698	358,620	368,159	497,436
	<b>1,077,137</b>	<b>915,950</b>	<b>877,402</b>	<b>1,063,675</b>
<b>Tables Above</b>				
Resource DEL	695,368	608,579	563,110	614,659
Capital DEL	28,175	18,240	(1,991)	19,782
Resource AME	(58,624)	(77,270)	(64,971)	(88,419)
Capital AME	290,772	290,877	311,195	336,355
Non-Budget	410,698	358,620	368,159	497,436
	<b>1,366,389</b>	<b>1,199,046</b>	<b>1,175,502</b>	<b>1,379,813</b>
Reconciling Items	289,252	283,096	298,100	316,138

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

**(2) Departmental Administration Spend**

<b>Table 3</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>
Economic Development & Infrastructure	5,884	7,895	10,326	14,255
Invest NI & Tourism	466	487	536	660
Employment and Skills	21,606	20,277	21,136	22,464
Student Support & Higher Education	2,252	2,325	2,209	2,430
Tourism Ireland Ltd	156	156	144	222
Intertradelreland	138	163	118	156
Representation & Regulatory Services	1,278	1,132	1,277	1,568
<b>Total Admin</b>	<b>31,780</b>	<b>32,435</b>	<b>35,746</b>	<b>41,755</b>
<i>of which:</i>				
Salaries	26,463	27,244	29,561	35,286
Consultancy	371	363	505	944
Other	4,946	4,828	5,680	5,525

## **Introduction**

1. In each of the past four years, I have reported on significant concerns surrounding the operation of the non-domestic Renewable Heat Incentive (RHI) scheme. Each of my reports attached to the Department for the Economy's (the Department) Resource accounts have outlined significant weaknesses in the scheme and set out the ongoing actions proposed by the Department to address these weaknesses.
2. My initial report in June 2016 was followed by seven evidence sessions of the Public Accounts Committee between September 2016 and January 2017. The Renewable Heat Incentive Inquiry was then established to carry out an in-depth investigation of the operation of the scheme and published its report on 13 March 2020, making a number of recommendations to be taken forward. I have been asked to monitor and review progress in how these recommendations are being implemented and will report back to the Assembly in due course.
3. My report below provides an update on:
  - the running of the scheme including costs and inspections;
  - why I have again decided to qualify my regularity audit opinion; and
  - the future of the scheme.
4. I have also qualified my regularity audit opinion on payments to North/South Bodies and the Small Business Grant Scheme (established in March 2020 in response to the Covid-19 pandemic) and my report provides further details in relation to these matters. In addition, I also provide an update on the loan due from the Presbyterian Mutual Society and why the Department has incurred an additional £1.4 million of costs in 2019-20 relating to HMS Caroline.

## **Non-Domestic Renewable Heat Incentive (RHI) Scheme**

### **Total costs in 2019-20**

5. In order to reduce costs of the scheme, the Department imposed significant changes to the tariff paid from 1 April 2017 to all users of the scheme. Legislation was passed through Westminster to extend this revised tariff rate to 31 March 2019. Further substantial reduction in RHI tariffs from 1 April 2019 have significantly reduced the cost of the scheme in 2019-20 to £6.7 million, well below the Annual Managed Expenditure (AME) budget available by £22.2 million.

**Table 1: Annual costs of the RHI scheme**

	2016-17 £million	2017-18 £million	2018-19 £million	2019-20 £million
Annual cost of non-domestic RHI scheme	42	21.7	21.1	3.8
Annual cost of domestic RHI scheme	3	2.8	2.7	2.9
Annual cost of both RHI schemes	45	24.5	23.8	6.7
Costs covered through NI share of UK RHI budget Annually Managed Expenditure (AME)	18	22.3	25.7	28.9
<b>Costs met from the NI Executive Departmental Expenditure Limit (DEL)</b>	<b>27</b>	<b>2.2</b>	-	-
<b>Unused AME budget for RHI</b>	-	-	1.9	22.2

**Source: Department**

6. I asked the Department to comment on this underspend and how it intends to utilise this budget. The Department told me that the tariff payments, as implemented by the 2019 Regulations, were in line with State aid requirements. AME allocations are demand lead and any unutilised budget cannot be allocated elsewhere as these must be returned to HM Treasury. It is not uncommon for AME underspends to occur across Government. The NI Executive's "New Decade, New Approach" agreement commits to closure of RHI and replacement with a new scheme. The Department is currently developing an Energy Strategy for Northern Ireland which will include policy to support the achievement of the UK Government's legislated target of net-zero carbon by 2050. Possible incentives for green energy, including renewable heat, are part of the consideration in the process of developing the new Energy Strategy.
7. The significant amendments to the tariffs from 1 April 2017 appears to have been a key factor in a substantial reduction in the overall heat generated under non-domestic RHI since 2016-17. The trend of the significant reduction in both heat output produced and the corresponding RHI payments has continued again in 2019-20 as outlined in Tables 2 and 3 below.

**Table 2: Heat Output produced in MWh for all applicants**

Sector	Number of installations	2016-17 MWh	2017-18 MWh	2018-19 MWh	2019-20 MWh
Agriculture	1,114	425,470	288,110	240,340	186,661
Forestry/ wood	186	79,935	42,572	35,485	29,280
Other	828	178,177	125,620	106,655	89,665
<b>Total</b>	<b>2,128</b>	<b>683,582</b>	<b>456,302</b>	<b>382,480</b>	<b>305,607</b>

Source: Department *Based on meter readings to May 2020*

**Table 3: Non – domestic RHI payments for all applicants**

Sector	Number of installations	2016-17 £million	2017-18 £million	2018-19 £million	2019-20 £million
Agriculture	1,114	26.8	12.9	12.8	2.2
Forestry / wood	186	4.7	1.6	1.5	0.4
Other	828	10.5	7.2	6.8	1.2
<b>Total</b>	<b>2,128</b>	<b>42.0</b>	<b>21.7</b>	<b>21.1</b>	<b>3.8</b>

Source: Department

8. I asked the Department to comment on this continued reduction in heat output and corresponding reduction in payments and the Department told me that the introduction of the tiered tariff on 1 April 2017 was a key control which significantly reduced the incentive to overproduce heat for the purpose of inflating the RHI payment. The current level of heat generated is now more in line with what was envisaged by the Department at the outset of the Scheme. In addition, the Department advised that many scheme participants can demonstrate different reasons for the change in the level of heat generated. Such reasons include better energy efficiency; a corresponding decrease in production; changes made to production methods; or a supplementing of the level of heat produced, using non-biomass sources.

### Inspections

9. I have previously reported on the need to take appropriate action where problems have been identified as a result of the inspections carried out by the Department. As at 31 March 2020, almost 750 sites (almost 70 per cent of installations) had been subject to a site visit or desk audit. Whilst progress has been made in carrying out these reviews, issues are still being identified such as the overproduction of heat and failure to provide accurate information regarding the heat use.
10. I acknowledge that Covid-19 has caused the site inspections to stop for the foreseeable future and I asked the Department if it is still on course to complete the programme of site inspections and desk reviews before the end of June 2021.

11. The Department told me the Inspection and Review Strategy for 2020-21 sets out how the 100% programme of inspections will be finalised through the completion of site visits, desk reviews or Ofgem business as usual (BAU) audits on all of the Non-domestic RHI installations not subject to inspection or desk review to date. The Department also told me that the Inspection and Review Strategy also outlines how, due to the commitment within the NDNA agreement concerning the future of the scheme, it is intended to have the whole process of inspections and compliance completed by the end of March 2021. To achieve this reduced timeframe, the Department plans to complete a site inspection or desk review on the remaining 238 sites (approx. 332 installations) within Phase 2 (year three) for review by the Compliance team by autumn 2020. Furthermore, it is planned all cases will be processed by Compliance and issued to Ofgem by 31 December 2020. Where instances of suspected misuse or fraud are detected, these will either be retained by the RHI Taskforce Compliance Team, or referred to Ofgem to investigate and take enforcement action, as appropriate, in line with the Scheme Regulations.
12. In order to meet this challenging target, the Department told me it is adopting a flexible approach to resourcing whereby administration teams are allocating staff to different areas within the work stream as required. Regular engagement with Ofgem and closer monitoring of Ofgem's performance in line with agreed KPIs is being undertaken with the view to having all compliance/enforcement action completed for all remaining cases by 31 March 2021.

### **Judicial Review – RHI regulations**

13. As set out in note 18 to the accounts, there is currently a Judicial Review against the introduction of the 2019 amended RHI regulations and an appeal against the introduction of the 2017 Regulations. It is likely that these legal cases will continue for some time.

### **Overpayments**

14. Incorrect tariffs (due to rounding of annual inflationary uplifts) were applied to a number of the RHI technologies since April 2019, resulting in a total amount of £40,000 being overpaid to some applicants. On the basis that the recipients could not be expected to know that they were being over paid and that any attempt to recoup the over payments would not be cost effective, the Department has sought and been granted approval from the Department of Finance to write off this overpayment.

### **Future of the Scheme**

15. I note the recent comments made by the NI Affairs Committee in the setting of future tariffs and that the Department recently published an independent report on hardship associated with RHI participation which will be considered as options are developed for the future of the scheme. In addition, consultation on the recent tariff review closed on 26 May 2020 with the Department currently analysing the responses.

16. In light of the return of the NI Executive and the commitment within “New Decade, New Approach” to close the scheme, the Department has told me it is considering options on the future of the RHI Scheme, taking account of the key issues including legal risk, State aid, value for money, affordability and the impact on participants. I shall continue to monitor this situation.

### **Qualified audit opinion**

17. 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.
18. I have qualified my audit opinion again this year for the same reasons as the last four years:
- ongoing weaknesses in controls in the non-domestic RHI scheme; and
  - expenditure incurred without the necessary approvals in place.
19. While costs have again reduced in 2019-20 because of the introduction of the revised tariff in 2019, I was still 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 issues are still being identified as part of the ongoing inspection process.
20. I have also qualified my regularity audit opinion because of a lack of required approvals being received by the Department in relation to a 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 (DfE was previously known as 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.
21. 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 2019-20 in relation to these 788 applications amounted to £0.74 million (£8.1 million in 2018-19) 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. To date, the Department has not formally sought specific retrospective approval for these 788 applications, but will consider it following the implementation of the long term tariff structure.

### **Payments to North South bodies**

22. I have again qualified my regularity opinion in relation to expenditure in 2019-20 of £12.3 million to Tourism Ireland Limited and £3.2 million to InterTradelreland (total of £15.5 million (2018-19 - £18 million)). Whilst a Minister was in post from January 2020, it was not possible to secure North South Ministerial Council (NSMC) approval for the 2019 and 2020 Business Plans for these two North/South bodies. While DoF has agreed that these payments are legal in the absence of approved Business Plans, I have decided to qualify my regularity opinion as the expenditure has been incurred without the necessary approvals in place.

### **Small Business Grant Scheme**

23. In response to the unprecedented and significant impact of the Covid-19 crisis on the Northern Ireland economy and on businesses and their employees, the Small Business Grant Scheme was launched by the Department on 26 March 2020. This was an NI Executive initiative to provide one-off emergency grants of £10,000 to small businesses to help mitigate the potential threat of business closures.

24. The scheme is one of three schemes that are focused on supporting various types of businesses during the impact of Covid-19 – the other two schemes being: the Business Support Grant for the Retail, Hospitality, Tourism and Leisure Sectors and the Micro-Business Hardship Fund. Payments on the Small Business Grant Scheme occur in both the 2019-20 and 2020-21 financial years. In 2019-20, funding for payments of £67.7 million was provided by the Department in the form of cash-based Grant in Aid which appears as Programme Costs in its 2019-20 accounts, with the payments being administered by Land and Property Service (LPS). Expenditure of £220 million for the total scheme appears on an accruals basis in Invest NI's 2019-20 accounts. Payments on the other two schemes occur in the 2020-21 year only and are not considered here.

25. The scheme was required to be designed and delivered by the Department and LPS at a rapid pace and it was in recognition of these particular circumstances that it was subject to a Direction from the Economy Minister. As part of the submission to the Economy Minister, the Department highlighted a number of risks due to the nature of the scheme and the pace with which it was being delivered.



26. In order to deliver this emergency grant, the Department agreed a Memorandum of Understanding (MoU) with Invest NI and the Department of Finance (DoF) / LPS. Under the terms of the MoU:
- Invest NI's limited responsibility was to record the full estimated costs of the grant scheme on an accruals basis in 2019-20 budgets and accounts. Essentially, as Invest NI has the authority to provide grant funding to businesses, the Department acted as an agent for Invest NI to make the payments. Invest NI was not directly involved in determining the amounts payable or making the payments to the organisations;
  - The Department assumed responsibility on behalf of the Executive for the scheme, including any potential error, fraud or losses arising from the administration of the scheme; and
  - DoF (via LPS) was responsible for the identification and checking of eligible businesses and making the payments to those businesses. LPS's data on ratepayers was used to determine who was eligible to receive the grant, however, I note that this was not the normal intended purpose of the LPS information. This brought some risk, but was a pragmatic approach in the absence of any better information.
27. As part of their review of the scheme, LPS identified ineligible payments totalling £3.74 million. As part of my audit, on a sample basis, my staff reviewed the payments made by LPS in respect of the total scheme and identified ineligible payments, some of which were already included in LPS's list of ineligible payments (identified through internal control procedures) and one which was initially not included. The ineligible payments identified by my staff, if extrapolated across the total scheme, indicates the potential of up to £13.5 million ineligible payments, which I consider to be material in the context of the scheme payments. As payments by the Department for the scheme are split across two financial years, £4.2 million of this £13.5 million relates to 2019-20 and the remainder relates to the 2020-21 financial year.
28. One of the conditions of entitlement to the scheme was that businesses had to be trading at 15 March 2020. My staff identified errors where businesses were not trading from that particular property on which the grant was eligible and were therefore not entitled to receive the grant, despite in most cases completing an on line declaration. The Department told me that one assumption was that a 'live occupancy' for rating purposes indicated that a business was trading from the address, the assumption being that a business would not willingly pay full occupied rates for premises it was not occupying. The businesses had not therefore identified this fact to LPS at the point at which the grant payments were issued. I also note that LPS has identified other types of error that they are currently reviewing, such as landlords receiving payment instead of the tenant and duplicate payments made.

29. As these payments have been paid to participants who were not eligible under the Scheme, they are irregular and as the Department is responsible for the scheme, I have qualified my regularity opinion as the expenditure does not conform to the authorities which govern it. This qualification also applies to Invest NI who were responsible for recording the costs of the scheme and I shall consider what implications this has on my audit of LPS financial statements in due course.
30. I also note that DfE is currently working on a recovery process, with assistance from LPS, to clawback any grant that was paid to those not eligible. At the time of this report, 374 payments were being reviewed for possible recovery. I asked the Department for an update on the recovery of these payments and it told me that to date 62 payments have been recovered, 60 repaid in full, and 2 partial repayments.
31. Given the risks involved in setting up this scheme so quickly in exceptional times, I asked the Department what controls and procedures it had in place to ensure expenditure on the scheme was eligible and whether any lessons had been learned in administering this scheme. The Department told me a memorandum of understanding was signed between DfE and DoF/LPS on 22 April 2020. LPS informed the Department that a master dataset of all eligible ratepayers was created, which embedded a comprehensive set of validations and controls for managing ratepayer and property data and IDs, portal data, applicant bank account, and e-mail validations and controls. In addition, eligibility criteria was developed by DfE, and corresponding grant processing and review procedures were put in place by LPS. The Department is currently in the process of developing a lessons learned report covering the three business grant schemes.
32. The Department is commissioning research on the impact of its Covid-19 interventions in order to provide useful information on judging the impact and value for money of this scheme along with the Business Support Grant for the Retail, Hospitality, Tourism and Leisure Sectors and the Micro-Business Hardship Fund. I look forward to the outcome of this work and I will review the other two schemes as part of my 2020-21 audit at which point I may report further.

### **Presbyterian Mutual Society**

33. The Presbyterian Mutual Society (PMS) went into administration at the height of the financial crisis in 2008. In total £225m of loans were made by the former Department of Enterprise (DETI) to bail out PMS. Of this amount, £50 million, is at the end of the list of creditor priorities and is unlikely to be repaid. The remaining £175 million is being repaid through annual instalments over 10 years and the original agreement outlined that this was due to be settled in full by November 2020, facilitated through the sale of the PMS loan book, WIP and Investment property assets. The investment property assets mainly consist of retail sites and offices predominantly located in the north of England and in Scotland.

34. At 31 March 2020, the total amount to be repaid is £78 million, however, I note the impact of Covid-19 has resulted in the planned exit sales strategy being seriously affected and that the Department is reviewing options, one of which may include a possible extension to the loan facility. I note that the Department is working closely with the Joint Supervisors and its advisors to establish the best way forward to ensure full recovery of the loan and notes 11 and 18 in the accounts refer to this. I have also included an emphasis of matter paragraph in my audit certificate in relation to this matter. I shall continue to closely monitor progress and may report on this matter in the future.

### **HMS Caroline**

35. HMS Caroline is the last survivor of the First World War British Grand Fleet and of the Battle of Jutland and has been docked in Belfast since the 1920's. In October 2012 it was announced that the ship would remain in Belfast following the signing of a legal agreement with National Museum of the Royal Navy (NMRN), which outlined that DETI would be responsible to repair and maintain the ship.
36. The restoration of HMS Caroline was originally intended to be delivered by 31 May 2016 to coincide with the Centenary of the Battle of Jutland. While the Ship was ready to stage the Centenary Event, the project experienced a number of significant challenges:
- agreeing and finalising lease arrangements between the Belfast Harbour Commissioners and the Northern Ireland Science Park. The issues with the leases were eventually resolved in November/December 2016 (almost two years later than originally anticipated); and
  - changes in scope, which resulted in the project costs increasing by £4.3 million from the original estimated capital cost of the restoration of £14.4 million to £18.7million.
37. Heritage Lottery Funding of £14.2 million has been secured to deliver the project and Tourism NI agreed to fund the remaining £4.5 million, which included £1.4 million directly attributable to delays in the project.
38. The project has taken two years longer to deliver than was initially expected, mainly due to the difficulties in securing the lease arrangements which took substantially longer than expected. HMS Caroline first opened to the public on 1 June 2016 and in October 2016, it was moved from Alexandra Dock to Harland & Wolff's ship repair dock for further restoration works. In July 2017, HMS Caroline re-opened to the public and following all major works completed, the official opening of HMS Caroline took place in April 2018. However, the Ship closed on 17 March 2020 due to Covid-19 restrictions.

39. The legal agreement signed in 2012, outlined that DfE should take all reasonable and proper care of the ship and procure that the ship is made available for access by the public. Should the agreement be terminated the Department is responsible for the costs of transporting the ship to Portsmouth. A further operating agreement was signed in 2017 which set out the operating arrangements. This expired on 30 June 2020. In 2016, it was agreed that an endowment fund be created to ensure the long term financial viability of HMS Caroline.
40. Whilst an endowment fund was considered, it never materialised due to the complex nature of such a fund. The key financial responsibility is that the Department is liable to fund any shortfalls should they arise in line with the agreements and with a deficit being incurred earlier than anticipated, mainly due to lower visitor numbers, the Department has incurred an additional £1.4 million of costs up to 2019-20.
41. A permanent Operator solution needs to be found for the ship. NMRN are currently operating the ship in an interim arrangement, however, I note the Department's comments in its Governance Statement and its intention to develop a revised operating agreement to include more robust controls, KPIs and funding mechanisms and I will continue to monitor progress on this issue.

### **Conclusion**

42. The Department continues to address issues arising from my previous reports on the non-domestic RHI scheme, but significant challenges remain in finalising the inspection process and closing the scheme in a cost effective way. I will continue to monitor the results of the ongoing inspection process and any further actions taken by the Department to address the concerns I have previously raised.

43. I shall also continue to monitor how the Department addresses the other issues highlighted in my report concerning payments to the North/South Bodies, the Small Business Grant Scheme, Presbyterian Mutual Society and HMS Caroline.

*Kieran J Donnelly*

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**Comptroller and Auditor General**  
**11 September 2020**

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