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Department for the Economy
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Department for the Economy

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2019

Department for the Economy

Annual Report and Accounts

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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 Annual Report for 2018-19 for the Department for the Economy. 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.

2018-19 was a very challenging year. The Department, and the Northern Ireland Civil Service at large, spent the entirety of the year without a Minister or functioning Assembly – an unprecedented period of political uncertainty which has had, and continues to have, significant consequences for the plans of all Departments. Against this backdrop, we have also continued to face the significant task of preparing for the UK's departure from the European Union. With our departure date now extended, this will continue to form a major aspect of our work programme during the 2019-20 financial year. It was also challenging from a budgetary perspective with internal financial pressures, including pay and price increases having to be absorbed by the Department. The absorption of pay and price increases has now occurred over several years and makes the task of delivering more with less resources even more difficult.

Since the announcement of additional funding for broadband, officials have been developing Project Stratum – which is primarily focused on increasing access in rural communities. Some of the key project milestone achievements include: the completion of a robust Pre-market Engagement Exercise; development and approval in principle of an Outline Business Case; and an Open Market Review which culminated in a State aid public consultation with over 1,000 responses.

Amidst these significant challenges, we have continued in our endeavours to deliver for the people of Northern Ireland. Some major achievements during the year include: the development of a sustainable long-term tariff structure for the non-domestic Renewable Heat Incentive Scheme, which gained Royal Assent at the end of the year; exceeding targets in the number of students graduating from our higher education institutions in Science, Technology, Engineering and Mathematics; and the successful roll-out of the first phase of the Peace4Youth Programme.

In Summer 2018, the Department undertook an Organisational Review to consider a number of legacy issues which remained following the Department for Employment and Learning (DEL)/ Department for Enterprise Trade and Investment (DETI) merger in 2016 and to provide assurance that DfE was structured appropriately to address the many strategic policy challenges facing the Department in the short, medium and long term. Recommendations from this review will be implemented during 2019-20.

Overall, the various achievements and work delivered during the year, of which I have highlighted only a portion above, may be considered all the more commendable in light of the uncertain political context in which we have been working. This uncertainty will continue for at least a portion of 2019-20. I continue to be impressed with the dedication and commitment of staff across the Department and I would like to thank staff for all of their efforts throughout the year.

Noel Lavery

PURPOSE AND ACTIVITIES

Introduction

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

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.

Organisational Structure

To deliver its mission and strategic objectives the Department was structured into five main business areas (Groups) during 2018-19 as follows:

1. Strategic Policy;
2. Skills & Business Development;
3. Infrastructure & Regulation;
4. Higher Education & Investment; and,
5. RHI Taskforce.

Operating under each of these Groups were a number of functionally independent Divisions, as outlined below[1]:

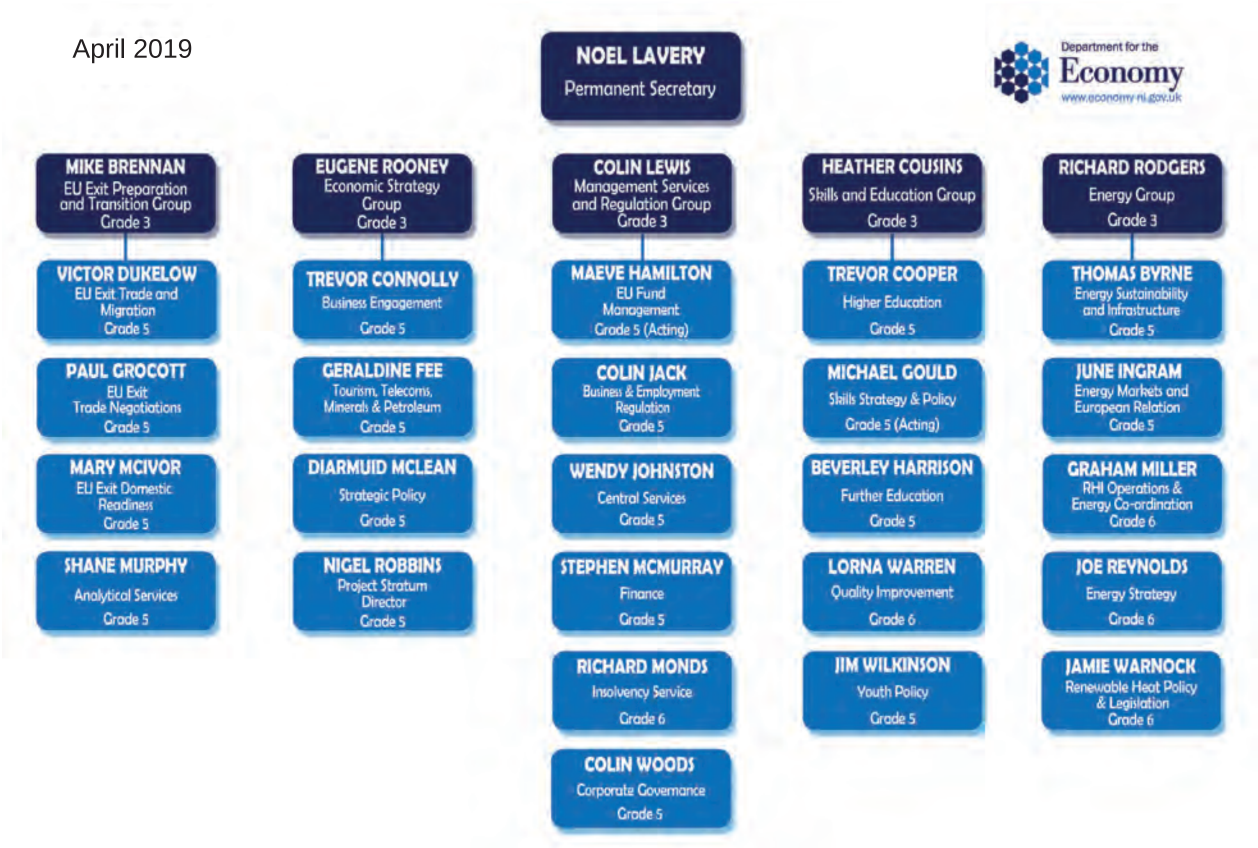
A formal Organisational Review reported to the Departmental Board in November 2018 with recommendations for a number of key areas for change, namely:

- the existing Grade 3 structures, and allocation of responsibilities within these, needed to better reflect strategic priorities and alignment of work priorities with the draft Programme for Government and draft Industrial Strategy;

[1] *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 at 31 March 2019.*

- the need for a dedicated and strong centre to oversee and give direction on matters of corporate governance and to facilitate a consistent approach to common corporate matters;
- the need to rationalise contact points for Sponsor Bodies; and,
- the need to address unnecessary bureaucracy and support delegation of decision making to line managers.

A new structure was agreed in early 2019 and became operational on 1 April 2019. This structure creates simpler lines of responsibility and accountability under five reshaped Grade 3 commands and aligns policy and delivery within business areas to address both DfE priorities and the needs of our Sponsorship Bodies.



The Review also identified the need for 'a dedicated Departmental function' to provide a strong two-way interface with NICS shared services. In response to this, a Business Relationship Manager role has been established within Central Services Division, operational from 15 May 2019. Implementation of the other recommendations is ongoing and will be progressed by relevant business areas within the 2019-20 year.

ECONOMIC CONTEXT

Global Economic Developments

The International Monetary Fund (IMF) expects the global economy to grow by 3.3% in 2019 and 3.6% in 2020, with the Euro Area forecast to grow by 1.3% and 1.5% in 2019 and 2020 respectively.

Northern Ireland Economic Performance

The Northern Ireland economy has continued to show strength in a number of areas in 2018-19 including an improving labour market, a growing economy and strong export performance. However, progress in key indicators has slowed more recently and issues in the labour market such as high long term unemployment and inactivity remain.

Overall labour market conditions have continued to improve over the year. The latest labour market statistics released in April show that the unemployment rate continues to fall, now standing at 3.0% (December to February 2019), lower than the UK average (3.9%) and the second lowest rate among the twelve UK regions. Employment rates have also seen improvement over the year, increasing by 1.8 percentage points (pps) to 71.2%. Furthermore, over the last year economic inactivity has decreased by 1.5 percentage points to 26.6% but remains significantly higher than the UK average (20.7%). Although the number of people claiming unemployment benefit has increased by around 700 over the year to March 2019, it has fallen by over 35,000 from its most recent peak six years ago.

The number of employee jobs continued to increase over the year to December 2018. The total number of employee jobs increased by 1.9% (14,350 jobs) with around 12,860 additional jobs in the private sector and 1,260 in the public sector. At the sectoral level, manufacturing employee jobs increased by 2.5%, construction jobs were up by 2.2%, services jobs were up by 1.7% with jobs in other industries experiencing a contraction of 5.0% over the year.

The latest Northern Ireland Composite Economic Index estimates, that on a rolling annual average basis, Northern Ireland economic output grew by 1.2% in real terms over the year to Q4 2018 compared to the four quarters previously, with growth driven by improvements in the private sector. More specifically, there have been improvements in both the Services and Production sectors (up 1.1pps and 0.1pps respectively). However, this was partially offset by a decrease in the Construction sector (down 0.2pps).

In 2018, the value of goods exported from Northern Ireland (based on HMRC Regional Trade Statistics) was £8.87bn, an increase of 1.9% compared to 2017. The largest markets for our exports continued to be the EU (£5.4bn with £3.2bn of that to the RoI) and the United States (£1.08bn).

Research & Development (R&D) results for 2017, published in November 2018, show that R&D expenditure by Businesses, Higher Education and Government in Northern Ireland was £759.2 million in 2017, an increase of 3.2% in cash terms compared to 2016. Business Expenditure on R&D (BERD), which accounts for some 71.5% of total R&D, was up by 3.6% in 2017 compared to the previous year. In-house BERD is currently equivalent to 1.4% of Gross Value Added (GVA), with Northern Ireland ranking as joint fifth highest performing UK region.

Future Economic Outlook
The International Monetary Fund (IMF) predicts UK growth of 1.2% in 2019 and 1.4% in 2020, but notes the uncertainty around these projections.

Meanwhile, the Office for Budgetary Responsibility (OBR) forecast for the UK economy (released in March 2019) estimates that the economy will grow by 1.2% in 2019, increasing to 1.4% in 2020 and then increasing further to 1.6% over the remaining years of the forecast to 2023.

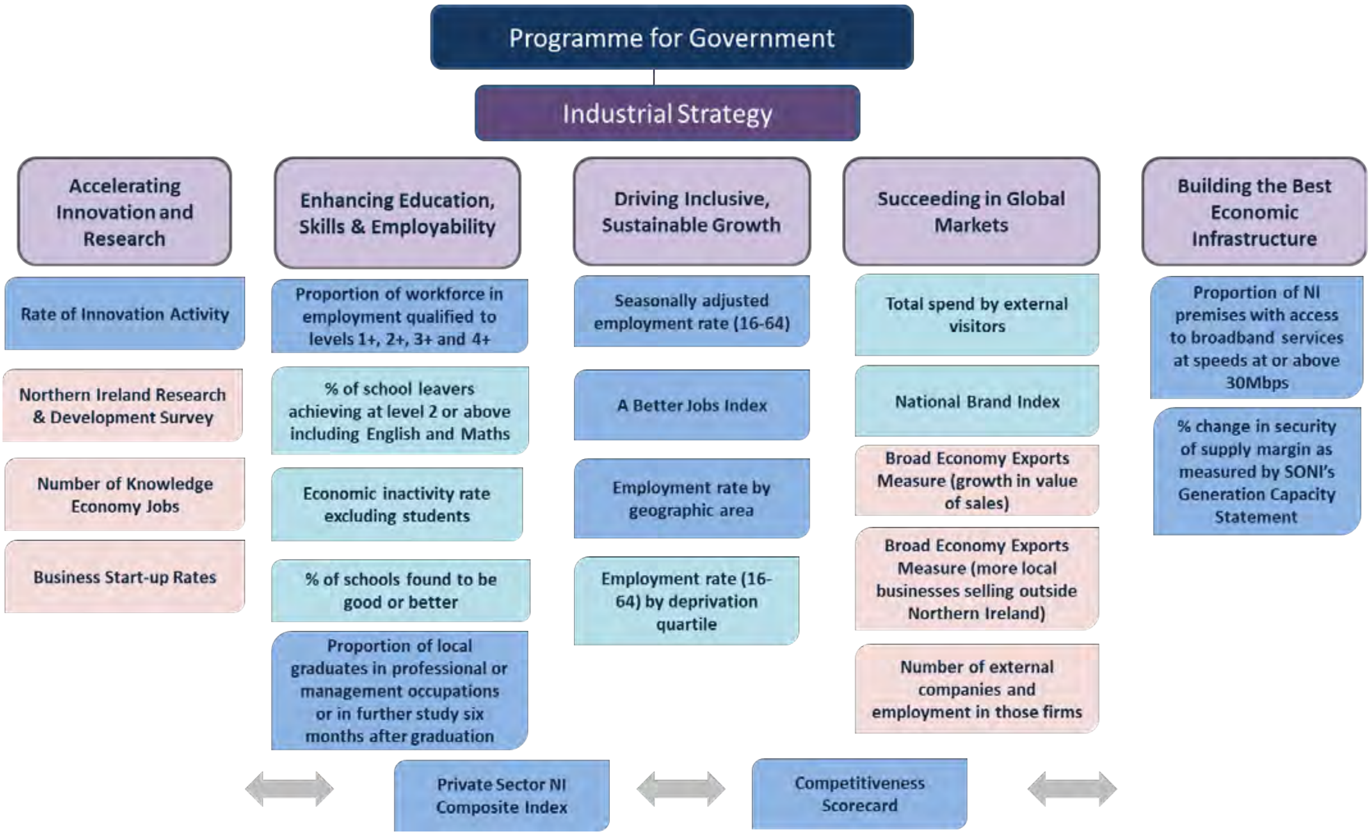
Looking ahead, local independent economic commentators forecast that, on average, the local economy will grow by 1.0% in 2019 and by 1.3% in 2020, with the pace of growth expected to be slower when compared to the UK or the Republic of Ireland.

Key Strategies
The strategic focus of the Department remains the draft Industrial Strategy for Northern Ireland which sets out a vision for 2030 of a globally competitive economy that works for everyone with a focus on the twin goals of increased competitiveness and improved inclusivity.

Underpinning this vision are five Pillars for Growth:

- Accelerating Innovation and Research;
- Enhancing Education, Skills and Employability;
- Driving Inclusive, Sustainable Growth;
- Succeeding in Global Markets; and,
- Building the Best Economic Infrastructure.

The draft Industrial Strategy has been developed within the context of the outcomes framework contained in the draft Programme for Government, and incorporates its economic indicators into its measurement framework alongside a number of wider economic indicators. That measurement framework is outlined below:



Underpinning the Industrial Strategy are a number of other complementary Strategies which the Department continued to work towards implementing in 2018-19, focussing on specific areas of the economy. These included: the Skills Strategy; the Not in Education, Employment, or Training (NEETs) Strategy; the Careers Strategy; the Apprenticeships and Youth Training Strategies; and the Higher and Further Education Strategies.

The Department has also continued to develop a number of other key Strategy documents during the year, including an Energy Strategy and a Tourism Strategy. As outlined in more detail in the Performance Analysis section, work in this regard has been delayed due to ongoing political uncertainties.

The Departmental Business Plan

The 2018-19 DfE Business Plan sets 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, the ongoing absence of a Minister for the duration of the year was a major contributory factor in this regard.

	STRATEGIC OBJECTIVES	No. of actions with Green status	No. of actions with Amber/ Green status	No. of actions with Amber status	No. of actions with Red status
SO 1	Accelerate innovation and research.	10	3	1	0
SO 2	Enhance education, skills and employability.	13	2	0	0
SO 3	Drive inclusive, sustainable growth.	4	0	1	0
SO 4	Succeed in global markets.	2	0	0	1
SO 5	Build the best economic infrastructure.	2	2	1	0
SO 6	Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers.	2	0	2	0
SO 7	Ensure the Department has effective governance and manages its resources, both financial and staff.	12	1	1	1
	Total	45	8	6	2

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:

- Training and skills provision not being relevant for employers' current and future skills requirements;
- Inability to fulfil training guarantee to young people so that those not in employment or education are unable to obtain skills for work;
- Failure to develop a long-term 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;
- Failure to transpose the Clean Energy Package (CEP);
- Inadequate security of electricity supply arrangements;
- Failure of Project Stratum;
- 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 undertake the necessary factual analyses and preparations for the UK's exit from the EU;
- Non-compliance with GDPR/Data Protection legislation by DfE or one of its 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; and,
- Failure to manage the Northern Ireland Renewables Obligation (NIRO) policy in a cost effective manner.

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 2018-19. This will include a detailed overview of performance against the commitments in the Department's 2018-19 Business Plan.

Business Plan Performance

The Department's 2018-19 Business Plan contained sixty one 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 and Industrial Strategy. 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.

Strategic Objective 1 – Accelerate innovation and research

ACTIONS	END YEAR POSITION AT 31 MARCH 2019	RAG Status
1. Run at least 6 new Small Business Research Initiatives (SBRI) including at least one cross border project.	Twelve NI SBRI projects commenced in 2018-19 including two cross border projects - 'Smart Urban Spaces' and 'Last Mile Delivery'.	Green
2. Fund and manage the six Further Education (FE) colleges to deliver in excess of 350 projects in 2018-19 through the InnovateUs programme, enabling small businesses to engage in innovation and development activities.	The six FE colleges have collectively delivered a total of 406 InnovateUs projects in 2018-19.	Green
3. Deliver £3.96m through the NI Higher Education (HE) Innovation Fund.	Total of £3.96m delivered as part of the wider, formula-driven HE Block Grant.	Green
4. Invest up to £2million to NI Universities through the US-Ireland R&D partnership in support of world class research collaborations in the areas of Sensors and Sensor Networks, Nanoscale Science and Engineering, Telecommunications and Energy and Sustainability.	In FY 2018-19, £1.3m has been paid to NI Universities to support 23 active US-Ireland partnership projects.	Green
5. Support Northern Ireland participation in Horizon 2020 in order to maximise drawdown.	DfE funds the university-based Horizon 2020 Northern Ireland Contact Points (NICPs) and has an oversight role in relation to a wider Horizon 2020 NICP network. Permanent Secretary approval has been secured to extend the Department's funding of the University NICPs. NI participants have secured €81.1 million through 253 successful participations in Horizon 2020 to date (figures up to mid-March 2019), of which some €51.2 million has been secured by the two NI universities.	Green
6. Create a new post of Chief Scientific and Technical Adviser (CSTO) to drive science, research and innovation in the economy.	CSTO post form and function was agreed with the NICS board.	Amber Green

7. Pilot new innovative support initiatives for the commercialisation of research.	Work underway with Invest NI and DfE to develop new programme.	**Amber Green**
8. Deliver £46m to the local higher education sector to underpin local research infrastructure and capability.	The Quality Related (QR) Research element of the formula-driven HE Block Grant continues to be paid monthly in accordance with the Grant Letters which issued in October 2018. As the funding is based on Academic rather than financial year, 70% of this funding has been delivered up to the end of March 2019, with the remaining 30% due to be paid by the end of July 2019.	**Green**
9. Deliver up to £1.68m to NI Universities through the Science Foundation Ireland (SFI)-DfE Investigators Programme partnership (2014 and 2015 Calls).	In FY 2018-19, £1.68m has been paid to NI Universities to support the NI element of 14 active SFI-DfE partnership projects.	**Green**
10. Deliver the Connected 4 programme, providing £1.16m funding.	Q1, Q2 & Q3 Progress Reports have been received with Q4 due May 2019. Activities have continued to ramp up and provisional projections from Project Manager indicate that most of the key targets for Year 1 will either be met or nearly achieved, which would be a positive outcome in light of the initial challenges and delays. Similarly, projected spend to end of March 2019 is now projected as £938,230 representing an 81% drawdown against the original annual budget.	**Green**
11. Secure funding from Digital Catapult UK (DCUK) to proceed with next Phase of Digital Catapult NI.	Agreement signed in August 2018 for commencement from 1 September which commits DCUK to a contribution of £200k per year for 3 years, on delivery of agreed KPI's set for DCNI.	**Green**
12. Publish and promote Advanced Manufacturing, Materials and Engineering (AMME) action plan to business, government and academia.	Invest NI secondee in post to take forward AMME work.	**Amber Green**
13. Publish the Matrix Science Technology Engineering and Mathematics (STEM) report and develop action plan.	The women in STEM paper was shared with senior management.	**Amber**

14. Roll out the Further Education Hub Concept to a further four occupational areas covering Life Sciences, Health & Social Care, Construction and one other.	Seven Curriculum Hubs designated. Departmental officials and a seconded Curriculum Development Officer are working with the respective hub Managers on the implementation plans for 2019-20.	**Green**

Strategic Objective 2 – Enhance education, skills and employability

ACTIONS	END YEAR POSITION AT 31 MARCH 2019	RAG Status
15. Promote 833 jobs through the Assured Skills programme of academies and to lead and manage the Skills Focus programme to deliver 1,700 Level 2 (and above) qualifications to meet the skills needs of Small and medium sized enterprises (SMEs).	At 31 March 2019, 2,014 jobs have been promoted through the Assured Skills programme and a total of 2,689 level 2 (and above) qualifications have been delivered through the Skills Focus programme to SMEs.	**Green**
16. Increase the proportion of graduates qualifying from NI Higher Education Institutions (HEIs) with an economically relevant STEM qualification.	In 2017-18, which are the most recently available figures, 23.2% of qualifications gained by students at NI HEIs were in 'Narrow STEM' related subjects - this is a year-on-year increase from a 2008 baseline of 18%.	**Green**
17. Through the FE Sector, engage with over 6,000 businesses to help them innovate, compete and grow.	The original target has now been exceeded with the total number of business engagements reported by colleges to be 9,562. This covers a range of programmes and includes employers whom the sector reskills and upskills as well as TFS, Apprenticeships and HLAs.	**Green**
18. FE Sector will ensure that:- • A minimum of 70% of all Full Time qualifications delivered will be in economically relevant Science, Technology, Engineering, Arts and Mathematics (STEAM) areas. • At least 30% of all Part Time qualifications delivered will be in economically relevant STEAM areas.	2018-19 academic year validated data not yet available, but early projections indicate this action should be achieved.	**Amber Green**

19. 40% of regulated enrolments in FE colleges will come from the two most deprived quintiles.	In 2017-18, 44.1% of regulated enrolments were form the two most deprived quintiles. Final validated data for the 2018-19 academic year are not available until Oct/Nov 2019.	**Green**
20. Implement the Apprenticeships and Youth Training Strategies Implementation Programme, including in 2018-19: • supporting circa 450 apprentices at Levels 4 and 5 in conjunction with the Further Education Sector and College of Agriculture, Food and Rural Enterprise (CAFRE); • introducing circa 100 Higher Level Apprenticeship opportunities at Level 6; • supporting circa 5,500 apprentices (programme leavers) to achieve targeted qualifications; and, • supporting circa 4,000 young people (programme leavers) to achieve targeted qualifications.	For academic year 2017-18, there was 5,716 apprenticeship leavers supported to achieve qualifications. Of these, 65% achieved an NVQ Level 2 and 54% achieved an NVQ Level 3. For academic year 2017-18, 3,882 young people left the Training for Success programme. Almost three-quarters (71%) obtained Skills for Your Life qualifications and 62% obtained Skills for Work qualifications. The most recent data published for the Higher Level Apprenticeship steady state Level 4/5 provision is for academic year 2017-18 which showed that 324 participants had enrolled on the programme. 2018-19 published validated figures are not yet available. Early indications, based on those participants moving into their second year of the apprenticeship, and for new enrolments in the 2018-19 academic year, are that the Higher Level Apprenticeship Programme is on track, however published validated figures are not yet available. Higher Level Apprenticeship steady state Level 6 provision commenced in September 2018, validated figures are not yet available, however early indications are that this is on track for achievement.	**Green**

21. Deliver the Careers Strategy ‘Preparing for Success 2015-2020’ action plan for 2018-19, 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.	Target to see 95% of young people has been met for the 2017-18 Academic year. In 2018-19, 12,843 careers guidance interventions were delivered.	**Green**
22. Successful roll-out of Phase 1 of the Peace4Youth Programme to up to 1,875 marginalised 14–24 year olds and subject to satisfactory evaluation of Phase 1, commencement of Phase 2 by the end of March 2019.	Phase 1 successfully rolled out with > 2,000 participants. Highly positive Phase 1 evaluation showing clear progression for young people. Almost 80% of the young people surveyed indicated they were going to progress to education, training, employment or voluntary/community engagement, and almost 90% had gained a qualification in at least one area. European Commission approval granted for Phase 2 of Peace4Youth which will now operate until 2021-22.	**Green**
23. Through the European Social Fund assist: • 550 unemployed people into employment; • Over 600 economically inactive people into employment, education or training; • Over 1,000 NEETs into employment, education or training; and, • Over 450 participants with disabilities into employment, education or training.	Performance figures for the final quarter of 2018-19 show that all targets have been exceeded; • 1,504 unemployed people into employment; • 1,450 economically inactive people into employment, education or training; • Over 2,042 NEETs into employment, education or training; and, • Over 727 participants with disabilities into employment, education or training.	**Green**

24. Undertake a strategic review of the skills landscape to identify the key strategic challenges to be addressed in a new Skills Strategy from 2020.	a) Further stakeholder events were held in Dungannon and Enniskillen. b) The following papers were presented at the Strategic Oversight Group's third meeting on 27 February: an analytical review of the current Skills Strategy, an analysis of the feedback from the five stakeholder events and a draft skills strategy framework. c) Further research on best practice in skills and innovation policy has been commissioned, which will have a focus on international benchmarking, to report in July 2019. d) We are currently exploring options with an internationally recognised organisation to assist in evidence based gathering, international benchmarking and international best practice to develop a skills strategy for implementation in 2020.	**Green**
25. Develop with DE a more strategic joined-up approach for 14-19 year old education and provision in line with a shared vision, and prepare a joint report on the actions to be pursued.	Joint 14/19 Project Team has been fully resourced including secondee from FE Sector in last quarter. Engagement with Project Board and key stakeholders to develop plan of action for consideration and approval of Project Board at May 2019 meeting.	**Green**
26. Progress the eight projects under the FE Means Success Strategy Implementation Programme against the implementation plan for 2018-19.	The FE Means Success Programme continues to remain on track with the exception of Project 4 - Teacher Education. The team responsible for the review of the current Teacher Education is also responsible for FE's Brexit preparations, which has been the priority.	**Amber Green**
27. Undertake research to identify barriers to participation in further education and training specific to those young people at risk of becoming involved in paramilitarism, and identify potential solutions to improve their educational and employment prospects.	The report has been finalised, and an oral update provided to the Independent Reporting Commission. A timeline for publication and communications is being agreed.	**Green**
28. Implement the project target outcomes flowing from the Department's two Higher Education Strategies (Graduating to Success and Access to	As of 31 March 2019, for the Strategy to 2020, forty seven outcomes have been closed. Twenty eight outcomes remain open, of which twenty two are on target,	**Green**

Success) that are planned for implementation during 2018-19.	three are at high risk and three have not been started.	
29. To have an Entry Level/ Level 1 policy in the final stages of completion to inform associated programmes for Entry Level and Level 1 provision, which build social capital, support economic inclusion and provide access to learning and skills development at Level 2 and above.	The draft Entry Level/ Level 1 framework is currently being finalised with a view to consulting with relevant stakeholders during 2019.	**Green**

Strategic Objective 3 – Drive inclusive, sustainable growth

ACTIONS	END YEAR POSITION AT 31 MARCH 2019	RAG Status
30. Support the growth of up to three clusters in new and emerging tech, including Artificial Intelligence (AI) and Immersive Technologies.	Two clusters (in AI, Immersive Technologies) are being supported. Application for support for Cybersecurity cluster being processed by Invest NI.	Green
31. Undertake an initial scoping exercise into the development of an Enterprise Strategy for Northern Ireland.	The Department sits on the Entrepreneurship Forum which is looking at the way forward for entrepreneurship. Two meetings of the Forum have taken place to date.	Green
32. In partnership with DfC and through our engagement in the Local Works programme, support the development of Employability Forums at council level and with other stakeholders, in order to effectively bring about a change in how we better match the supply and demand for work, through the Community Planning process.	The branch continues to be a key partner with DfC in this piece of work. Collaboration is ongoing with local councils in terms of the "Local Works". There has been ongoing engagement with a number of councils and we are at varying stages with each. A new group has now been created in the Causeway & Glen Council Area and we are in discussion with Fermanagh & Omagh Council. An employability and skills framework has been developed through engagement with Belfast City Council.	Green
33. Under the 2014-2020 Operational Programme, delivered through Invest NI, we will monitor performance against profiled targets relating to companies engaged in R&D and SMEs classed as high growth. The Programme Monitoring Committee will be updated as required during the year.	All Programme performance reserve milestones have been met.	Green
34. Produce a draft longer term NI Energy Strategy.	A DP was added to the team from 31 December 2018. Some progress on initial scoping and planning has been made, however the limited staff resource remains a significant constraint on delivering more rapid progress.	Amber

Strategic Objective 4 – Succeed in global markets		
ACTIONS	**END YEAR POSITION AT 31 MARCH 2019**	**RAG Status**
35. Develop and publish a Tourism Strategy to 2030 for Northern Ireland to increase visitor numbers and revenue and to support job creation.	A Tourism Investment Research Study Team to inform full costing and investment required to deliver the Strategy was appointed in March 2019. Further refinement of Draft Tourism strategy in liaison with Tourism NI has continued.	**Red**
36. Commence a review of the 'Export Matters Strategy' in order to take account of any future changes to trading conditions and/or market access developments.	Direct work on strategy refresh has not yet commenced, trade/ internationalisation development work continues in parallel. This will inform the development of a refreshed strategy.	**Green**
37. Through participation in the Interreg funded 'Inside Out' Project: • complete a regional diagnosis of export support initiatives; and, • commence the development of an 'Action Plan' to further develop the NI Export Strategy.	Work is well underway to develop an action plan to reflect the regional learning from the project to date. This will be presented to the lead partner in June 2019.	**Green**

Strategic Objective 5 – Building the best economic infrastructure		
ACTIONS	**END YEAR POSITION AT 31 MARCH 2019**	**RAG Status**
38. Under the 'Gas to the West Project', Dungannon, Coalisland, Cookstown, Omagh, Enniskillen and Derrylin are to be connected during 2018-19, with Magherafelt to be connected in April 2019 to the natural gas network.	The new 78km Gas to the West high pressure gas pipeline between Craigavon and Tullykenneye, near Fivemiletown, has been laid, and is undergoing testing and commissioning. The new intermediate pressure gas pipelines which connect with the high pressure pipeline and provide gas to the 8 specified towns in the Gas to the West project are some 98% complete, with testing and commissioning work ongoing. However all specified towns will not be fully connected to gas until June 2019 at the earliest.	**Amber Green**
39. Commence a procurement process to reduce the gap of 12% of premises currently unable to access a broadband service of at least 30 Mbps using the Confidence and Supply agreement.	Public Open Market Report completed. Draft Invitation to Tender (ITT) documentation underway.	**Amber Green**
40. Take forward the development of a Digital Infrastructure Strategy for Northern Ireland.	MATRIX Panel in process of appointing experts to assist in contributing to the Strategy.	**Green**
41. Fulfil the Department's statutory functions in relation to the second North/ South electricity interconnector.	In February 2019, DfI decided that it was not in the public interest to continue defending the Judicial Review and requested that the Court quash the decision. This means that the application has been returned to DfI for further consideration, allowing Departmental officials to actively progress this application to a stage where it is once again ready for a decision to be made. At the point where a decision is ready to be made, and if there is a continued absence of Ministers, DfI will consider whether to issue a decision in accordance with the powers available to it at that time.	**Amber**
42. Working with BEIS and other key stakeholders, develop a plan to deliver the requirements of the EU Clean Energy Package (CEP).	UK draft National Energy and Climate Plan (NECP) published on 29 January 2019 - includes NI input. Work-streams are currently completing detailed exercises on all 8 CEP files - including	**Green**

	what NI will be required to take forward to comply - this exercise can also inform Future Energy Strategy. DSO have provided CEP reviews/ advice as requested and on time. We are also working closely with Department for Business Energy & Industrial Strategy (DBEIS) to coordinate NI cross sectoral input on No Deal Statutory Instrument (SI) for Governance Regulation.	

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 2019	RAG Status
43. To put in place the necessary legislative, financial and resourcing arrangements to facilitate the introduction of Early Conciliation for employment tribunal claimants and respondents in May 2019.	Further meetings with DSO held and all legislation has been reviewed by DSO and advice received. Some further slippage on final clearance has occurred due to DSO being diverted to EU Exit related activities. Work has continued on the implementation arrangements across the relevant departmental and ALB business areas.	**Amber**
44. Progress communications with BEIS (and stakeholders) on the emerging: - Working Conditions Directive; - Work Life Balance Directive; - Re-cast of the Posted Workers Directive; and, - the outcome of the Taylor Review consultations which are intended to promote flexible working and to protect workers who are involved in atypical working arrangements.	Employment Relations Policy and Legislation branches continue to maintain a watching brief on these issues and are kept advised of developments in a monthly bi-lateral meeting with relevant BEIS colleagues. All draft Directives remain to be agreed/adopted and it is uncertain if they will be transposed as this depends on the UK government's stance post Exit. At present, it does not appear that these Directives will be included in any "backstop" but whether this will be the final position remains to be determined. Planning or risk analysis is difficult without knowing the final detail of a Deal if there is one. DfE continues to liaise with BEIS on the out-workings of its Good Work Plan, which was announced on 17 December 2018. Employment law, however, is devolved in Northern Ireland.	**Green**
45. To set up a project to implement a root and branch review of mutual society legislation in Northern Ireland.	Work has not begun due to the branch having no resource in place to deliver this action.	**Amber**
46. To update and modernise insolvency legislation and regulation in line with developments in England and Wales and ensure effective arrangements are	Exiting the European Union. The UK wide SI - The Insolvency (Amendment) (EU exit) Regulations 2019, No. 146 was made on 30 January 2019 to ensure effective arrangements are in	**Green**

implemented prior to exit from the EU.	place in the event of a No Deal Brexit. The Bill cannot commence its formal introduction until the Assembly is in place.	

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

ACTIONS	END YEAR POSITION AT 31 MARCH 2019	RAG Status
47. Following consultation, introduce longer-term tariff arrangements to support ongoing generation of renewable heat within budget.	This action is complete. A Consultation report and Policy Summary were published in January and February respectively. Business Case approval was received from DoF in February. Legislation to implement the new tariff structure has progressed through House of Commons and House of Lords and received Royal Assent on 26 March 2019.	Green
48. Agree and implement revised administration arrangements with Ofgem for the management and control of the non-domestic RHI Scheme.	Revised arrangements which set out the respective responsibilities of the Department and Ofgem in relation to the administration of the Non-Domestic RHI Scheme were agreed and implemented in November 2018. New KPIs for the delivery of the Conferred Functions and Ancillary Activities are also in the process of being established with Ofgem. In line with the revised arrangements, the new DfE led Service Delivery Board was established in early 2019 and held two meetings in the period to 31 March 2019.	Green
49. Embed effective compliance process through continuation of comprehensive inspection programme. Undertake up to 250 site inspections.	200 site inspections have been issued to the contractor with 178 completed and 200 scheduled to be completed by 12 April. Taskforce currently on track to complete 250 site inspections by end of June 2019. Compliance action is ongoing for five Phase 1 sites which have been retained for compliance decision by the Dept. As of 31 March 2019, twenty one Phase 2 Inspection Reports have been issued to Ofgem for action; of these, one site	Green

	has been revoked and two sites have been closed with no further action.	
50. To deliver on actions identified in the Department's EU General Data Protection Regulation (GDPR) Implementation Plan by 25 May 2018, and to promote compliance throughout the Department thereafter.	Implementation Project now closed and GDPR issues taken forward as normal line of business; work is ongoing to promote compliance throughout Dept. e.g. advice to business areas, review of policies and consideration of R&D issues.	**Green**
51. Develop a final Industrial Strategy, oversee the development of the five Industrial Strategy Pillar Delivery Plans and put in place a monitoring/ reporting process that meets The Executive Office (TEO's) Outcomes Based Accountability (OBA) requirements.	In line with direction set by TEO and its Outcome Delivery Plans, five Industrial Strategy Pillar Plans were developed with actions for 2018-19. Corporate Governance and Planning Branch has put in place a composite monitoring/ reporting system for the Department for the Outcomes Delivery Plans, Pillar Plans and the DfE Business Plan which meets TEO's OBA requirements. The Outcomes Delivery Plan 2018-19 Mid-Year Report was published in December 2018. Work remains ongoing in terms of development of a final Industrial Strategy.	**Amber Green**
52. Finalise a Departmental Equality Scheme in accordance with statutory Section 75 obligations.	A draft equality scheme has been updated and issued for an eight week period of public consultation. A final version to be developed for the consideration of a Minister in 2019-20.	**Amber**
53. Co-ordinate implementation of the aspects of the draft RHI Lessons Learned Action Plan agreed for implementation in 2018-19.	Final update provided in Q3. Phase 1 action plan now closed.	**Green**
54. Ensure that provisional non-ring fenced outturn for each of Capital and Resource is at least 99%, but does not exceed 100%, of the final Budget.	Outturn to the 31 March 2019 is 99.9% of Non Ring-fenced Resource DEL budget utilised, and 99.9% of Conventional Capital budget utilised.	**Green**
55. Coordinate input and analysis on a range of EU Exit issues including contingency plans, Common Frameworks, legislation etc. to ensure	DfE EU Exit Domestic Readiness Division continues to co-ordinate input and analysis on a diverse range of EU	**Green**

delivery of services after Exit by the Department and its ALBs.	Exit issues as per the Business Plan. Contingency plans have been developed and tested for all but the Chemicals work-stream (testing of which is imminent). With regard to legislative coordination, all planned pre-exit Statutory Instruments (SIs) that would ordinarily have been progressed through the Assembly are now laid, with two exceptions (these have been deprioritised as they are not considered to be day one critical). Resources have been directed towards Day 1 critical issues including business readiness, stakeholder engagement and communications activity.	
56. 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 (CTA) and trade related issues.	Programme of analysis and research has been taken forward over the year around migration, the CTA and trade. Continue to work closely with other analysts internally and externally. A substantial volume of publications now available on the EU Exit section of the DfE web-site. Work as required by policy will continue into next year.	**Green**
57. Complete research projects planned for the 2018-19 year in accordance with the timetable agreed at the outset of each project.	Research projects delivered as planned.	**Green**
58. 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 in March 2019.	EU Exit Trade Negotiations Division supported Whitehall in Development and communication of EU Exit Policy on Land Border & Tradeable Services; participated in cross Whitehall working groups on these policy areas.	**Green**
59. Analyse and assess the impact of EU Exit with regard to Migration, the Common Travel Area and related access to skills issues to inform decision makers and maintain progress towards	Continued engagement with Home Office on Immigration White Paper. Permanent Secretary met with Immigration Minister on 27 March 2019. Round tables with DA commenced on	**Green**

achievement of the objectives set out in the draft Industrial Strategy, Economy 2030.	25 March 2019. Further sectoral stakeholder event held with MAC on the Shortage Occupation List on 27 February 2019.	
60. Build the evidence base on NI trade flows beyond the EU to ensure NI trade priorities are considered in the context of a future UK international trade policy.	The Department has continued to engage with the Department for International Trade (DIT) on relevant trade policy issues. The focus over the last quarter has been on no deal preparations, in particular UKG no deal tariff policy and Trade Agreement Continuity. Further engagement has also been had on future Free Trade Agreements and the future role of the Devolved Administrations in the preparation and negotiation process of these.	**Green**
61. Provide strategic oversight for the delivery by the Further Education Colleges of six major capital projects for new campuses and the Systems Technology and Services (STS) IT project.	All capital projects are on track with the exception of the STS project which has been impacted by delays in connectivity and the resignation of the Project Director on medical grounds. As a result the update on STS has been split out from the report on progress on the other projects to more accurately reflect the position. STS The issues set out above have impacted on the ability of the Project to deliver the Learner Management System (LMS) solution by Sept 2019. As a result, the STS Project Board meeting on 15 February 2019 agreed to a postponement of Go-Live until September 2020. An initial trawl within FE has failed to appoint a replacement Project Director and liaison is continuing with SIB to identify other options. Meetings have taken place with IT Assist to drive forward resolution of outstanding connectivity issues. Work continues with Tribal to deliver implementation of solution to revised timescale. In the meantime, work is also ongoing to develop new HR and Finance solutions with planned Go-Live for June 2020.	**Red**

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 and Industrial Strategy. While data for the 2018-19 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.

Strategic Objective - 1 Accelerate Innovation and Research		
Indicator	**Description**	**Performance**
Rate of Innovation Activity	% of companies engaging in innovation activity.	Latest data is 2014-16 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 11th out of the 12 UK regions in 2012-14 to 12th in 2014-16.
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 £759.2 million (m) in 2017. This was an increase of £23.3m (3.2%) in cash terms in NI total R&D expenditure between 2016 and 2017. Specifically, Business R&D spend rose by £18.9m (3.6%), with Higher Education and Government R&D spend increasing by £2.0m (1.0%) and £2.4m (13.2%) respectively.
Knowledge Economy Jobs	Supports direct, indirect and induced jobs locally.	In 2018, NI remained the 2nd 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 3rd fastest growth rate of the UK regions.
Business Start Up rates	The number of new businesses formed in NI.	In 2017, 6,855 new businesses were formed in NI, an increase of 15.5% 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 2017 from the previous year. Level 1 & above - 89% Level 2 & above - 77% Level 3 & above - 62% (+1pp) Level 4 & above - 40% (+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%.
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.	3,590 students in 2017-18 graduated with Narrow STEM qualifications, a decrease of 3.8% relative to the previous academic year. However, this accounted for 23.2% of total qualifiers in 2017-18 compared to 23.1% in 2016-17.

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 2017 relative to 2016. Antrim and Newtownabbey had the highest rate (76.0%) while Derry City and Strabane had the lowest rate (56.8%), compared to an overall NI average of 69.0%.
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 2017 compared to 2016. The employment rate varied from 55.6% in the most deprived quintile to 77.6% in the least deprived quintile.
Seasonally Adjusted Employment Rate (16-64)	Results for seasonally adjusted employment rates for NI.	Rate has not changed substantially (69.3% in 2016 compared to 69.0% in 2017).
Jobs promoted via business start programme	RSI target of jobs promoted via the business start programme.	Over the 2018-19 period, eight of the eleven 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 2017 was £66.6bn, a decrease of 1.7% from 2016.
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 2017, relatively 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 £2.4 billion (10.1%) to £21.4 billion in 2017.
Total External Spend by Visitors	Expenditure by external visitors in Northern Ireland.	Expenditure stood at £657 million in 2017, a 7% increase compared to 2016 (£613m).
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 58.71 in 2018, a decrease of 0.3 from the previous year.
Broad Economy Exports measure	Broad Economy Exports measure for NI.	Exports from NI in 2017 were valued at £10.1 billion, a 4.8% increase from the previous year and an increase of 11% 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 2018, an improvement of 4 percentage points from 2017. This represents a positive change in this indicator of success.

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 Sponsored Bodies, 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 2018 and 31 March 2019 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**
Making and laying of the Gas (Designation of Pipelines) Order (NI) 2019 which designates high pressure sections of new gas pipelines constructed as part of the Gas to the West project for the purposes of the common transmission tariff which is paid by all gas consumers in NI. The Gas to the West project is taking natural gas to 8 towns in the West of NI.	The Gas (Designation of Pipelines) Order (NI) 2019 represents the outworking of "postalisation" policy which aims to support the economic and efficient development of the natural gas industry in NI by adding the cost of constructing and operating high pressure gas pipelines to a "postalised" pot which is recovered from all gas consumers in NI (both business and domestic) over an extended period through a common transmission tariff within gas bills.	"Postalisation" policy will have only a limited impact on rural areas because, generally, it is not economically viable to make natural gas available to consumers outside towns or other larger urbanised areas or settlements. Only areas with identified business gas loads, and/or a sufficiently concentrated centre of population, offer the gas loads required to make the cost of providing major new gas infrastructure commercially feasible. As gas networks costs are recovered via consumers' gas bills, to do otherwise would risk increasing gas bills for all gas consumers in NI to an extent that could make natural gas unaffordable as an energy option for anyone. On this basis, it is not anticipated that the Gas (Designation of Pipelines) Order (NI) 2019, and postalisation policy in general, will have a significant impact on rural areas or offer any real opportunity to meet the energy needs of people in these areas. Some smaller settlements in the West may be connected to the new gas networks over time, e.g. if there is an adjacent business gas load, or if a smaller settlement is close to the route

		of the new gas networks. DfE, in co-operation with the energy industry and regulatory authorities, will continue to seek to maximise other alternative energy options for people living and/ or working in rural areas.
A revision to the Northern Ireland Non-Domestic Renewable Heat Incentive Scheme.	The policy is likely to impact on rural businesses.	The Department has not identified any needs that are specific to rural stakeholders. The Department's chosen option significantly reduces the tariff levels available to participants who own small or medium size biomass boilers. However, it continues to provide a reasonable (target of 12%) rate of return on investment in line with the original Scheme intention and State aid requirements and excludes the significant over compensation already made to participants. Nonetheless, the Department recognises that a small number of installations with very low usage requirements or higher-than-average capital costs could see low rates of return and proposes to introduce a Voluntary Buy-Out payment alongside the new tariff structure, NIRHI Scheme participants will also be able to apply for a voluntary buy-out. The Scheme was suspended to new applications on 29 February 2016. The new policy will therefore only impact upon existing scheme participants, and no specific

		rural needs have been identified in relation to the Scheme participants.
Higher level Apprenticeships Level 4 and 5 delivered by Further Education Colleges and CAFRE Level 6 and 7 delivered by Universities.	Developing a Strategy Adopting a Policy Implementing a Policy, Strategy and Plan Revising a plan Designing a Public Service Delivering a Public Service	The all-inclusive nature of the HLA program has been rolled out throughout Northern Ireland. The Training Providers who provide the 'off the job' training are located in various locations in Northern Ireland and eligible employers can be located anywhere throughout Northern Ireland. This means there is no negative impact on people in rural areas. In fact the current location of FE Colleges and CAFRE in particular, allows employers to find support closer to home, reducing travel for the apprentice, and allowing for a more positive impact on people in rural areas. They can easily access all provision.

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 2018-19, formal paid membership of the Northern Ireland Cares Programme which is run by Business in the Community (BiTC) allowed the Department to avail of three team volunteering challenges for groups of fifteen staff or more in addition to one carried over from 2017-18. These included a Department wide volunteering opportunity at Mount Stewart National Trust, Greyabbey where volunteers were tasked to improve woodland biodiversity and the red squirrel habitation on the estate. The Staff Engagement Forum visited the WAVE Trauma Centre, Belfast to assist with maintenance of the centre's gardens and other opportunities also included Central Services Division visiting the Camphill Community, Glencraig, Holywood and Insolvency Service visiting Crosskennan Animal Sanctuary in Antrim.

Working with BiTC has also allowed the Department to take part in specific volunteering initiatives such as Time to Read (spending time with school children assisting them with reading skills at an early age) and 'Book Drive' in support of World Book Week (staff kindly donated books for children aged between seven and ten years old – these were distributed to schools taking part in the Time to Read initiative).

The Department also worked with Volunteer NOW, an organisation which brought volunteering challenges to our premises, allowing staff to volunteer in one hour sessions for up to half a day. During the last year staff have participated in these challenges in Netherleigh, Adelaide House and 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.

The findings of audits conducted in Adelaide House and Netherleigh in March 2019 were publicised to all staff via the Intranet as part of a continuing programme to raise awareness of the need to take simple measures to help reduce our energy consumption and energy costs.

Carbon Reduction Commitment (CRC)
The Department continues to contribute to the CRC Energy Efficiency Scheme which is a mandatory UK scheme aimed at improving energy efficiency and reducing carbon dioxide (CO_2) emissions in large public and private sector organisations.

The Department orders and pays for allowances to cover annual CRC emissions in tonnes of carbon dioxide.

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.

								2018-19 £000	2017-18 £000
				Estimate			**Outturn**		**Outturn**
Request for Resources	***Note***	**Gross Expenditure**	**Accruing Resources**	**Net Total**	**Gross Expenditure**	**Accruing Resources**	**Net Total**	**Net Total outturn compared with Estimate: saving/ (excess)**	**Net Total**
A	*SOAS1*	1,073,072	(97,541)	975,531	974,943	(97,541)	877,402	**98,129**	**915,950**
Total resources	*SOAS2*	**1,073,072**	**(97,541)**	**975,531**	**974,943**	**(97,541)**	**877,402**	**98,129**	**915,950**
Non-operating cost Accruing Resources		**-**	**(103,689)**	**(103,689)**	**-**	**(103,689)**	**(103,689)**	**-**	**(95,002)**

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 2018-19 was £877m with an allocation of £976m in the Spring Supplementary Estimates (SSE). The difference of £98m 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 a saving of £69m (£47m DEL and £22m AME); and,
- Grant in aid to the Further Education colleges, which was lower than expected by £19m in total due to the timing of payments on capital projects.

Year on Year Resource Outturn

The trend analysis shown on pages 43 to 46 provides an overview of the expenditure during 2018-19, 2017-18 and 2016-17, with detail included at Annex A.

Resource Outturn for 2018-19 was £877m compared to £916m in 2017-18 which represents a reduction of £39m or 4.2%. This can be summarised as follows:

	Outturn 2018-19 £000	**Outturn 2017-18 £000**	**Movement £000**	**Movement %**
DEL	574,241	634,599	(60,358)	(9.5)
AME	(64,998)	(77,269)	12,271	(15.9)
Non-Budget	368,159	358,620	9,539	2.6
Total	877,402	915,950	(38,548)	(4.2)

Departmental Expenditure Limit (DEL)
Within DEL, £58.6m of the reduction relates to Higher Education and Student Support.

Student Support includes the fair value adjustments to the carrying value of the student loan book, including 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 of the fair value adjustment in 2018-19 was £45m lower than 2017-18 at £115.9m. 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 timing of Learning and Teaching capital projects (£6.8m), demand for the means tested Education and Maintenance Allowance (£1.6m), and maintenance grants and bursaries (£4m).

Annually Managed Expenditure (AME)
The main movement in AME relates to the effective interest rate applied to student loans when recalculating the fair value in the accounts. During the year, this decreased by £7.9m, driven by the value of the loan book and the movement in RPI.

Non-Budget
Total spend for the Non-Budget category increased by £9.5m on 2017-18.

The main component of this category is grant in aid paid to NDPBs in respect of their working capital requirements.

Invest NI's cash requirement was £28m less than last year due to additional receipts from the European Commission in respect of EU programmes and the timing of payments.

Tourism NI's cash requirement was £7m more than last year due to receipts from the European Commission in 2017-18.

NI Screen rose by £14m as the Department now provides the organisation with all working capital previously administered through Invest NI.

Cash paid to Further Education Colleges rose by £15m reflecting changes in activity funded.

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 £11.5m and Non Supply expenditure £5.9m.

Non Supply expenditure represents payments made in relation to the Redundancy Fund. This rose from £4.8m to £5.9m as a result in the level of applications for assistance.

Statement of Financial Position

Student Loans increased by £239.2m to £2,542m. Student Loan movements have included the continued growth in the size of the student loan book, with a further £354m loans issued during the year.

Financial Asset Investments reduced by £13.3m to £105.5m reflecting a repayment made by Presbyterian Mutual Society offset against interest charged.

Receivables decreased by £6.8m largely due to the movement in the supply balance which fell by £9m.

Payables decreased by £20.3m to £82.8m at 31 March 2019. The overdraft reduced by £9.2m (in line with the supply balance receivable), EU Programme advances fell by £21.8m due to offset against claims, and amounts due to the consolidated fund (CFERs) rose by £10.9m.

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 Statement of Comprehensive Net Expenditure. 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 2018-19, 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 £354.4m of new loans in 2018-19. 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.

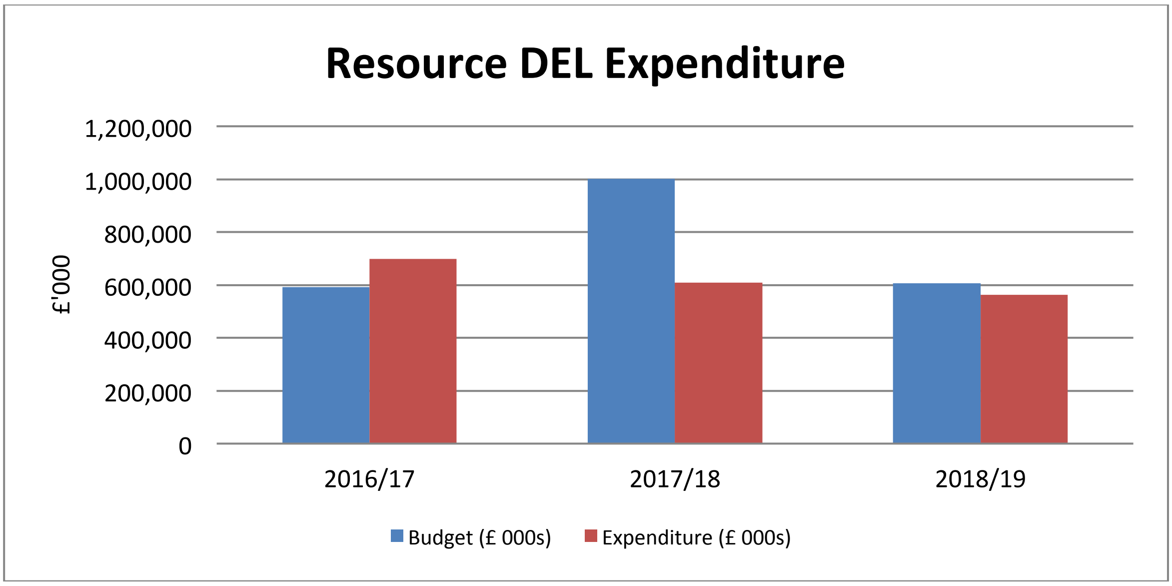
This can lengthen the time period before borrowers trigger repayment criteria and extend the length of time it can take to repay loans, both of which impact on the carrying value of the loans in the accounts. It can also lead to an increase in future credit losses as it increases the likelihood that 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 11 to the Accounts.

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.

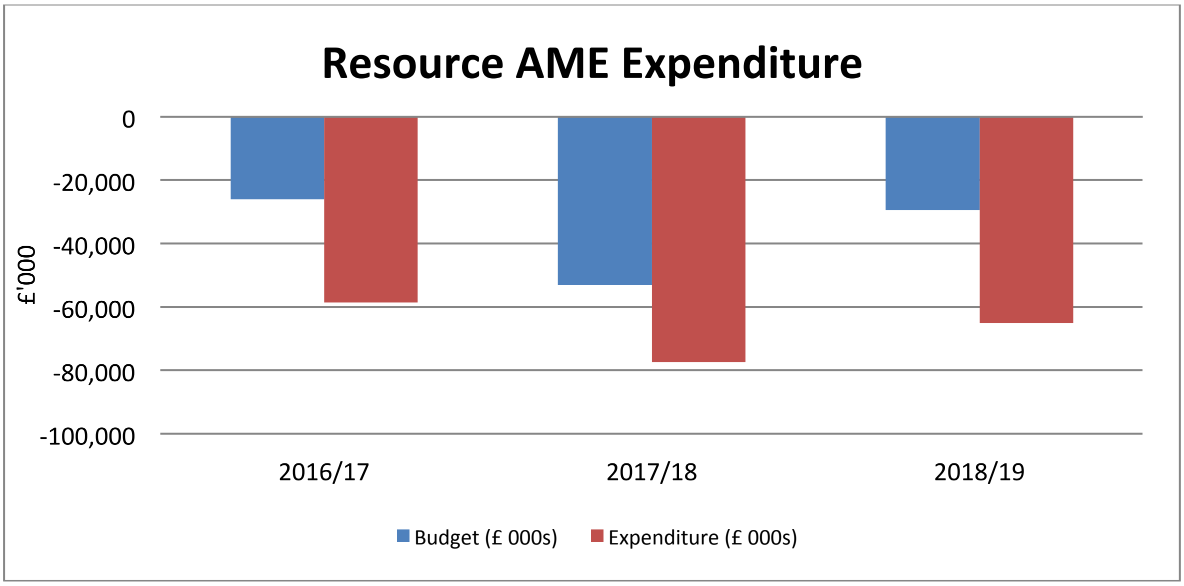
Long Term Expenditure Trends

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 three years. The underlying data can be found in Table 1 in Annex A.

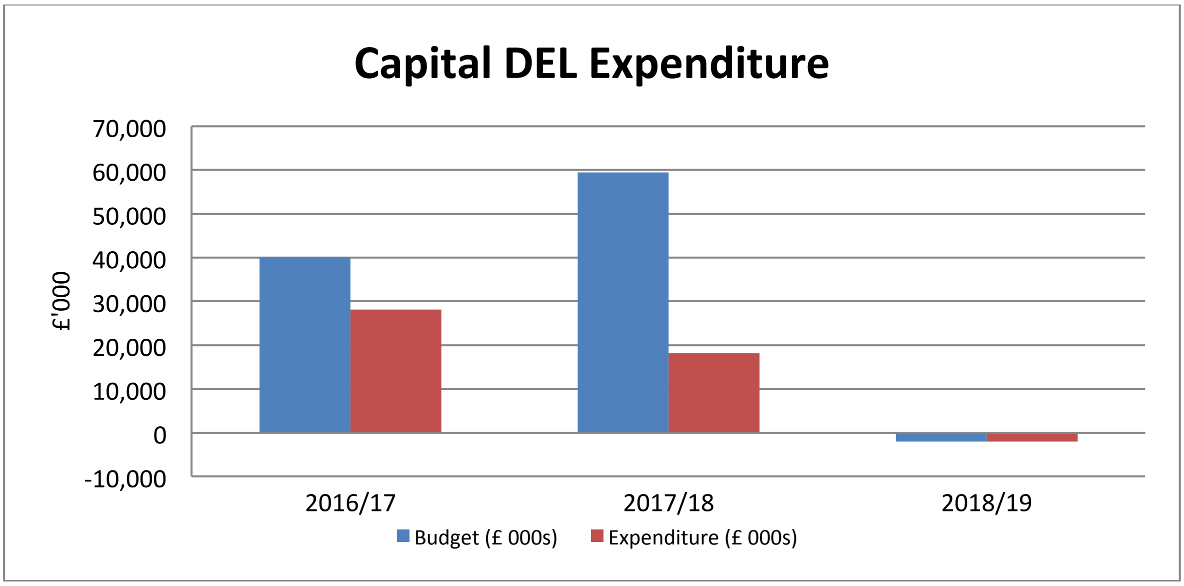


The most significant variations in Resource DEL have arisen in respect of:

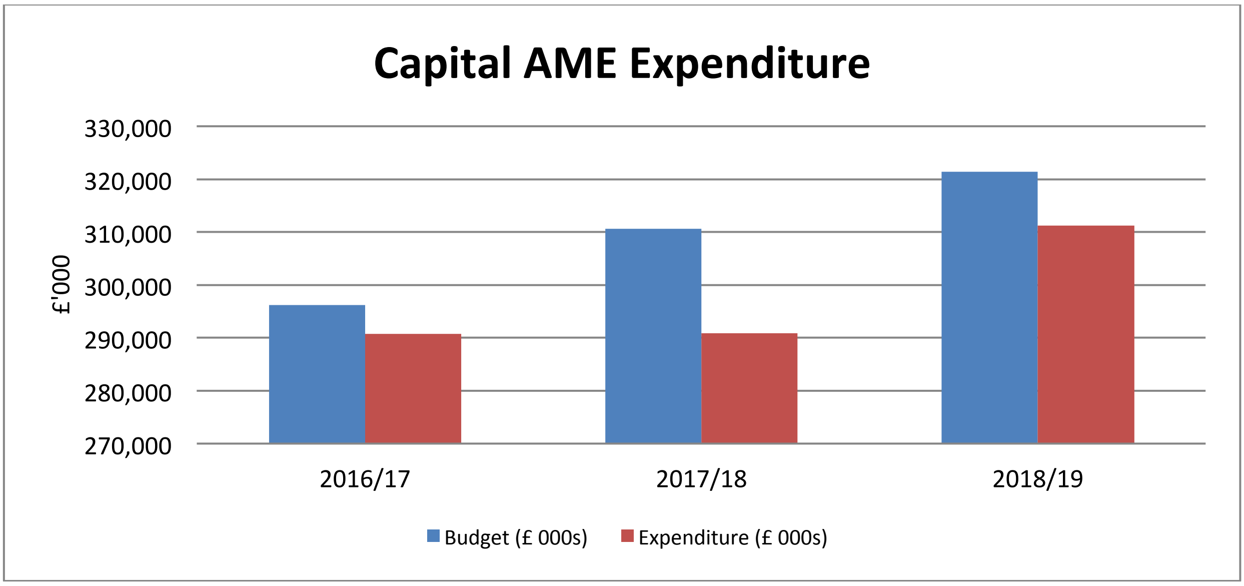
- Reduction in the fair value adjustment to student loans, mainly due to the movements in RPI; and,
- Reduction in the cost of the Renewable Heat Incentive Scheme.



Over the period, resource AME was impacted by the movement in RPI, which directly affected this element of the fair value adjustment to student loans.

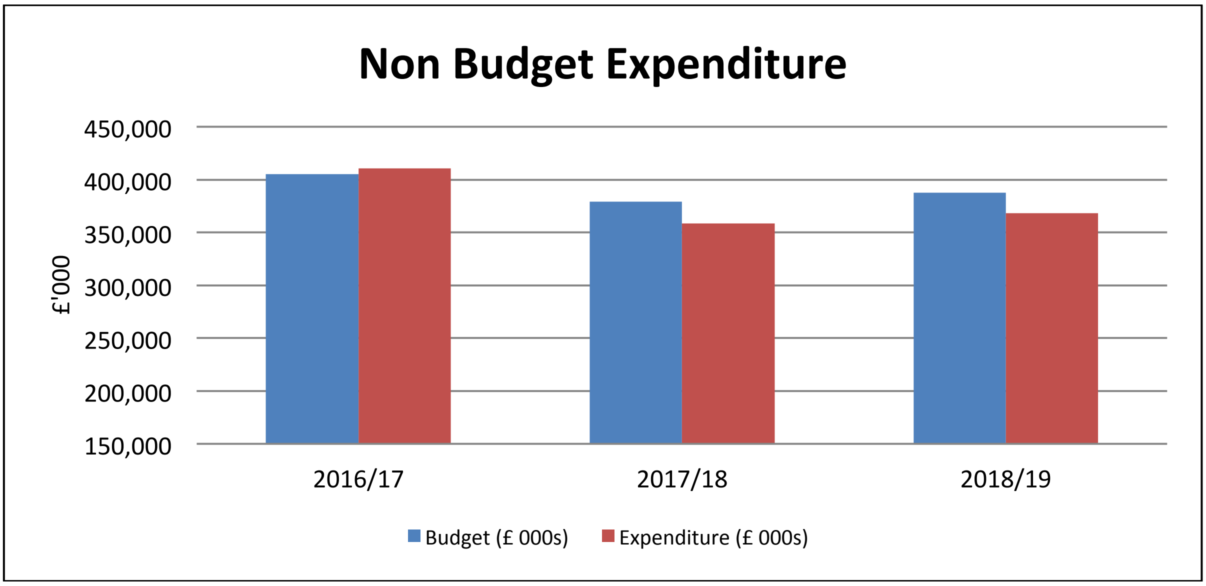


Capital DEL spend mainly comprises capital grants to the Higher Education sector, and varies according to the progress of projects funded. Spend is offset by the receipt from Presbyterian Mutual Society.



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.

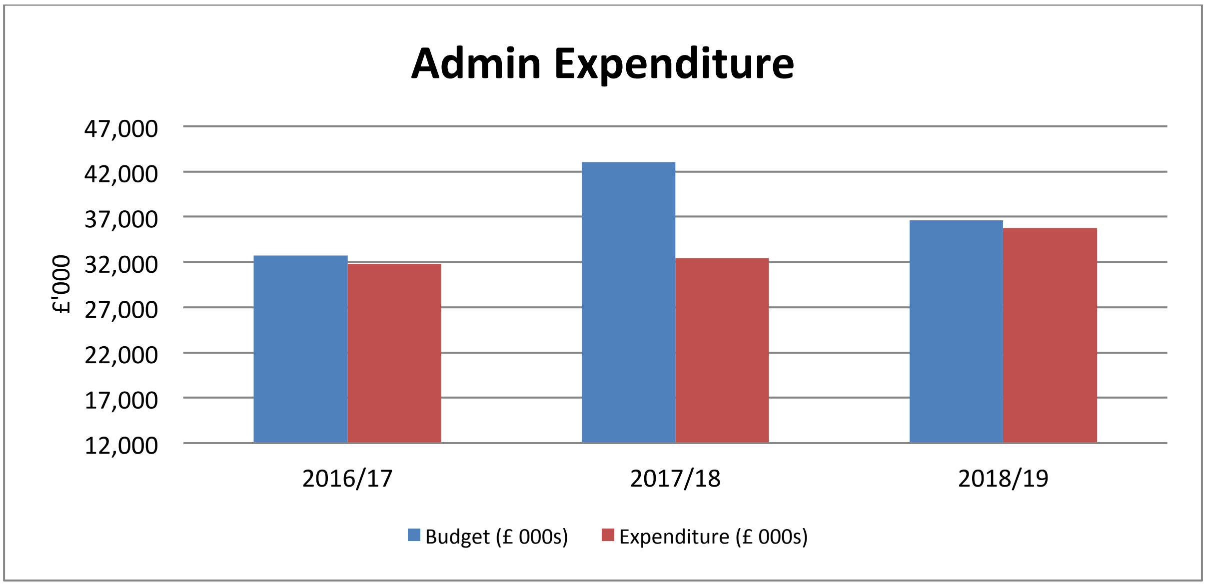
Non-Budget Spend
The following table shows the Non Budget expenditure trends arising over the last three years. The underlying data can be found in Table 2 in Annex A.



Non-Budget Spend mainly reflects movements in respect of Grant in Aid to Non-Departmental Public Bodies, which varies according to their cash requirements.

Departmental Administration Spend

The following tables show the trend in Departmental Administration Spend arising over the last three years. The underlying data can be found in Table 3 in Annex A.



Administration spend remains broadly comparable year on year, with some increases arising as a result of preparations to leave the EU.

Future Developments

Looking ahead, significant areas of activity for the Department in 2019-20 will include the following:

- continued work to inform the shape of, and prepare for, the UK's departure from the European Union;
- continued efforts to implement lessons learned from the Non-Domestic Renewable Heat Incentive Scheme, including responding to the final report of the Inquiry Team which is expected to publish during the year;
- continued work towards inspections at 100% of Non-Domestic Renewable Heat Incentive Scheme sites;
- further development of various key Strategies, including an Energy Strategy, Tourism Strategy, and Skills Strategy;
- further engagement on the NI City Deals;
- further development of a strategic joined-up approach for 14-19 year old education, in cooperation with the Department of Education;
- the award of contract for Project Stratum;
- establish a project management team to provide help and support to Senior Responsible Officers (SROs) and project teams and provide assurance to the Departmental Board; and,
- the continued implantation of the Gas to the West project.

All of the above matters will be reflected in a draft Business Plan for the year and will be subject to the views and direction of an incoming Minister.

Noel Lavery
Accounting Officer
25 June 2019

OVERVIEW

The Accountability Report comprises the following:

- *Corporate Governance Report*

The purpose of the corporate governance report is to explain the composition and organisation of the DfE's governance structures and how they support the achievement of DfE's objectives.

- *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

Budget Framework

HM Treasury sets the overall budgetary framework for government spending. Budgets are classified as either Annually Managed Expenditure (AME) or Departmental Expenditure Limit (DEL).

AME budgets are volatile or demand-led in a way that the Department cannot control. HM Treasury does not set firm AME budgets in spending reviews, but the Department monitors AME forecasts closely and these are updated annually.

DEL budgets are understood and controllable. HM Treasury sets firm limits for each type of DEL budget. This is done at spending reviews which occur every three to five years. DEL budgets are divided into: resource DEL (RDEL); and capital DEL (CDEL).

The RDEL budget is further split into:

- 'programme' budgets for direct frontline service provision; and,
- 'administration' budgets for the running costs of the Department such as back-office staff, rent and IT.

The CDEL budget is further split into:

- 'financial transactions' for loans given or shares purchased; and,
- 'general capital' for spending on all other assets or investments.

Charging Policy

Our core Department provides only a limited number of services for which it charges fees. The Insolvency Service sets its fees to recover costs. It has a range of fees covering:

- case administration - fees reflect the average costs of administering bankruptcy

cases and compulsory company liquidation cases and also the average cost of completing debt relief orders;
- insolvency practitioner regulation - fees include the cost of authorising and monitoring insolvency practitioners and registering individual voluntary arrangements; and,
- estate accounting - fees reflect the cost of financial transactions on insolvency cases using the Insolvency Service account.

Details of charging policies relating to the Insolvency Service may be found in its respective published accounts.

Departmental Reporting Cycle
The Department's Annual Report and Accounts are audited by the Comptroller and Auditor General of the Northern Ireland Audit Office (NIAO) in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001. He and his staff are wholly independent of the Department and he reports his findings to the Northern Ireland Assembly. Once audited the Department's Annual Report and Accounts are laid in the Northern Ireland Assembly each year. The Department then publishes its Annual Report and Accounts on our website (www.economy-ni.gov.uk).

The Annual Report contains details of the Department's objectives, key outputs and performance and provides detailed textual and financial descriptions of performance against targets. Departmental performance is monitored periodically during the year. In-year monitoring is provided in the form of Spring Estimates which outline what resources are needed for the current year. These are published by The Stationery Office and laid in the Northern Ireland Assembly.

Departmental Accounting Boundary
These Accounts comprise the accounts of the core Department for the Economy, which was established as a Northern Ireland Central Government Department in May 2016 following the restructuring of the number of Northern Ireland Civil Service Departments from twelve to nine.

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

Non-Departmental Public Bodies (NDPBs)
- 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.

Four Autonomous Higher Education Institutions

- 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:

- InterTradeIreland; 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. Further details are contained in the Notes to the Resource Accounts. Information about each of the above entities may be obtained from their separate published Annual Reports and Accounts.

The Minister

The Department has functioned without a Minister for the 2018-19 financial year.

The Northern Ireland (Executive Formation and Exercise of Functions) Act 2018 came into operation on 1 November 2018. It extended the period provided in the Northern Ireland Act 1998 for Northern Ireland Ministers to be appointed until 26 March 2019 (subsequently extended to 25 August 2019). The Act clarifies that a senior officer of a Northern Ireland Department is not prevented from exercising a function of the Department during the period for forming an Executive if they are satisfied that it is in the public interest to do so. In addition, the Act imposed a duty on the Secretary of State to issue guidance specifying how Departmental functions are exercised.

In introducing the Act, the UK Government recognised that, in the absence of a Northern Ireland Executive, there will be some decisions that it should take, such as setting out Departmental budget allocations in legislation. In respect of Departmental decision making, the Act recognises that some decisions should not be taken in the absence of Ministers. NI Departments should therefore first consider the public interest of having locally elected, accountable Ministers taking decisions. Any major policy decisions, such as the initiation of a new policy, programme or scheme, including new major public expenditure commitments, or a major change of an existing policy, programme or scheme, should normally be left for Ministers to decide or agree.

In effect the Act provides the Department with the power to make decisions (which would have previously required Ministerial approval), in the absence of an Executive. Where a Department makes a decision in the absence of a Minister (and that decision falls under the scope of the Act), that decision must be supported by a Public Interest Test.

Fourteen DfE decisions have been published for the period 1 November 2018 to 31 March 2019. 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 can be found on the Parliament website.

Permanent Head of the Department
The Permanent Secretary and Accounting Officer for the Department for the 2018-19 financial year was Mr Noel Lavery.

Departmental Board
The Permanent Secretary was supported in 2018-19 by a Departmental Board comprising both senior Departmental officials (Executive Board Members) and Non-Executive Board Members (NEBMs). Total fees and expenses of £15,660.85 were paid in respect of the Department's NEBMs during 2018-19.

All Board Members for the Department are listed in the table of attendance at the DfE Board Meetings which is set out in the Governance Statement.

Register of Interests
Declaring conflicts of interest is a standing agenda item at all Departmental Board and Departmental Audit and Risk Assurance Committee meetings. In addition, each year an exercise is commissioned to all senior management, including Non-Executive Board Members, reminding them of their responsibilities in regards to declaring interests and prompting them to complete a Declaration of Interests form.

The Department maintains a Register of Interests. One significant conflict of interest was declared by a Deputy Secretary during the 2018-19 year. This was raised with the Permanent Secretary who decided on actions to mitigate any conflicts that may arise. There were no other significant interests currently held by Departmental Board or Audit and Risk Assurance Committee (ARAC) members and/ or key senior staff which may conflict with their management responsibilities. Full details of interests where related party transactions occurred during 2018-19 are given in the Notes to the Accounts.

Information Security
The Department is fully committed to complying with the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 which both came into effect in May 2018. The Department has appointed a Data Protection Officer and has put in place processes to ensure that all employees, contractors, agents, consultants and other parties who have access to personal information held by or on behalf of the Department are aware of their responsibilities. These include a data protection policy, guidance, a data breach management plan and training.

The GDPR requires data controllers to report breaches of personal data to the Information Commissioner's Office (ICO) within 72 hours if they are likely to cause a risk to the rights and freedoms of the data subject. The ICO was notified of one breach during the year. This related to a breach of RHI participant email addresses which occurred on 14 June 2018 when an email was issued to batches of participants in a way that allowed their email address to be visible to all recipients in each batch. The ICO did not take any action as there was unlikely to be damage or detriment to the participants, but advised the

Department of steps to take to mitigate a similar incident reoccurring. Since then, the Department has taken account of the lessons learnt from the breach and issued detailed guidance to all staff on the importance of the 'bcc' field when using personal email addresses.

Reporting of Complaints

The Department received eight customer service complaints during the 2018-19 period. A report on lessons learned is to be provided to senior management and work is underway to develop Customer Service Standards for the Department. The Department values complaints as a means of improving its services and offers a three stage resolution process, each with specific timescales for completion. More information on DfE's Complaints Procedure is available on the DfE website.

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance has directed the Department 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 Permanent Head of the Department for the Economy, Noel Lavery, 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 MEMBER'S REPORT

I joined the Department as non-executive board member in September 2017. It is an honour to have this appointment and I am committed to support the Department to achieve its objectives.

In 2018-19, the Department underwent reform in several areas to improve its governance and organisational structure, so that it can effectively support the Department's challenging and ambitious programme of delivery.

The Board met eleven times in 2018-19 and its agenda over the year included performance and risk, commercial capability, organisational structuring and business planning. One non-executive board member, Claire Hughes, left the Board during 2018-19 and I thank her for her time and commitment to the Department during her term.

The Board Chair led an important Risk Workshop early in the financial year which allowed us to consider the appropriateness of risk appetite and to ensure that the risk management processes are fully aligned to the Department's Key Performance Indicators.

The ARAC continued under my chairmanship. In addition to the overall scrutiny provided by the ARAC, the committee has had a particular focus on addressing the challenges surrounding RHI and also scrutinised the Department's preparation for EU Exit. The ARAC continued to be diligent in reviewing the Department's approach to risk management and financial control.

The Leadership Team continued to meet regularly to consider a wider range of performance, risk and resourcing issues. I am grateful to the Permanent Secretary and his executive team for maintaining these, and the non-executive board member(s) will take a keen interest in making sure that the Department's management structures function effectively.

I have recently completed the Board's annual review of its effectiveness. This year's review demonstrated that many of the changes in the Department are relatively recent and need time to be fully embedded, but I am supportive of the current structure. It provided valuable feedback on the operation of the Board and I will be working with the Chair of the Board to consider improvements designed to ensure that the Board is more effective in setting and overseeing the strategic objectives of the Department.

Non-executive board members are a valuable and relatively scarce resource, and their support and challenge is as important outside of formal committee time as it is in meetings. This includes supporting scrutiny of critical delivery areas and contributing to the oversight of the Department's Sponsored Bodies.

I am also keen to harness the wider non-executive community across our Sponsored Bodies and to this end I have recently set up a network of ARAC chairs, which will complement the existing networks such as the Chief Executives Forum, the NI Public Sector Chairs' Forum and the recently established Forum for Departmental Non-Executive

Board Members. It is envisaged this network will provide an improved line of sight to and from the Department, and allow for sharing of best practice.

To ensure sufficient non-executive capacity to better support the Department, we will be recruiting an additional member. I look forward to working with my fellow non-executive board members and the wider Department to continue to provide effective support, challenge and guidance, and to build on the excellent progress made to improve our governance system.

Full information on membership changes and the roles of committees can be found in the Governance Statement that follows.

Colm McKenna
Non-Executive Director

THE GOVERNANCE STATEMENT

Introduction
The Governance Statement sets out the governance structures, risk management and internal control arrangements for the Department in accordance with guidance issued by the Department of Finance. It applies for the financial year 1 April 2018 to 31 March 2019 and up to the date of approval of the Annual Report and Accounts.

Budget Position and Authority
In the continuing absence of an Executive and a sitting Assembly the Northern Ireland Budget Act 2018 was progressed through Westminster, receiving Royal Assent on 19 July 2018, followed by the Northern Ireland Budget (Anticipation and Adjustments) Act 2019 which received Royal Assent on 15 March 2019. The authorisations, appropriations and limits in these Acts provide the authority for the 2018-19 financial year and a vote on account for the early months of the 2019-20 financial year as if they were Acts of the Northern Ireland Assembly.

Scope of Responsibility
The Department should operate under the direction and control of the Minister for the Economy, who is responsible and answerable to the Assembly for the exercise of the powers on which the administration of the Department depends. He/ 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 Sponsored Bodies.

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 Department functioned without a Minister for the duration of the 2018-19 reporting period, but legislation was introduced during the year to provide clarity on the powers of civil servants in the absence of Ministers.

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

The public bodies for which the Department has oversight responsibility are accountable for ensuring they have robust governance, financial and risk management structures and sound internal control arrangements in place. In order to ensure appropriate governance arrangements are in place, dedicated sponsor teams monitor and provide guidance to these Sponsored Bodies. The Department has written agreements in place with its Sponsored Bodies which set out the respective roles and responsibilities of both parties.

In addition, the Accounting Officer receives formal mid-year and end-year assurance statements from each of the Department’s Sponsored Bodies as well as from each

Director within the Department to confirm that appropriate systems and controls are in place and operate effectively within each organisation and business area respectively. Key issues emanating from those statements are reflected in this Governance Statement.

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

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. In order to fulfil this role, the Board met monthly with the exception of August and December during the 2018-19 financial year. Minutes of all Board meetings 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 Non-Executive Board Members. Membership of the Board during 2018-19 consisted of:

- Permanent Secretary;
- five Deputy Secretaries;
- Central Services and Finance Directors;
- HR Business Partner representative; and,
- Non-Executive Board Members.

The Board met on eleven occasions during 2018-19. Attendance during the year at Board meetings was as follows:

<table>
<tr><th>Board Member</th><th>Role/ Title</th><th>Meetings Attended</th></tr>
<tr><td>Noel Lavery</td><td>Permanent Secretary</td><td>11</td></tr>
<tr><td>Mike Brennan</td><td>Deputy Secretary of Strategic Policy</td><td>8</td></tr>
<tr><td>Heather Cousins</td><td>Deputy Secretary of Higher Education and Investment</td><td>7</td></tr>
<tr><td>Eugene Rooney</td><td>Deputy Secretary of Skills and Business Development</td><td>11</td></tr>
<tr><td>Chris Stewart (left 07/10/2018)</td><td rowspan="2">Deputy Secretary of Infrastructure and Regulation</td><td>4</td></tr>
<tr><td>Colin Lewis (joined 08/10/2018)</td><td>6</td></tr>
<tr><td>Richard Rodgers
(joined 29/11/2018)</td><td>Deputy Secretary of Energy</td><td>5</td></tr>
<tr><td>Stephen McMurray</td><td>Finance Director</td><td>9</td></tr>
</table>

Wendy Johnston	Central Services Director	9
Janine Fullerton *(left 02/10/2018)*	NICS HR Business Partner	4
Lisa Morgan *(joined 25/10/2018)*		6
Claire Hughes *(left 27/06/2018)*	Non-Executive Board Member	2
Colm McKenna	Non-Executive Board Member	9

Other Directors 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 2018-19 financial year were quorate.

During the reporting period key issues/ topics considered by the Board included:
- Finance;
- Performance Management;
- Renewable Heat Incentive;
- EU Exit;
- Departmental Restructuring;
- Risk Management;
- Business Planning;
- Major Project/Programme Monitoring;
- Departmental People Plan; and,
- GDPR.

Quality of Data Used by the Departmental Board
The Departmental Board uses information based on a number of data sources. The standard of information, particularly financial and performance information, presented to the Board is consistently good quality and enables all members to contribute to discussions and decision making.

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 the Department of Finance's Internal Audit Service.

Board Performance and Effectiveness
The Board carried out an internal assessment of its performance in April 2019. This assessment was completed through a detailed evaluation questionnaire which considered the Board's approach to issues such as its contribution to strategy, risk and control, performance management and communication. It also assessed how the Board works together and the Board's responsiveness to external challenges such as the prolonged

absence of a Minister and EU exit. It concluded that Board meetings are well managed and the issues discussed enable the Board to comply with the Corporate Governance Code.

Board dynamics are open and engaging, everyone has the opportunity and is encouraged to contribute to discussions with Non-Executive Board Member representation providing an important challenge and questioning role.

The Board has taken a proactive approach to considering a range of external challenges which arose/ developed during 2018-19, and does not feel that the absence of a Minister has impacted on its work.

The Departmental Audit and Risk Assurance Committee
The Departmental Board has established an ARAC which acts in an advisory capacity and reports to the Departmental Accounting Officer and Board. The ARAC's overall purpose is to assist the Accounting Officer and the Board in fulfilling their corporate governance responsibilities. The ARAC reviews the effectiveness of the risk management framework established by management to identify, assess and manage risk, thereby playing an important role in supporting our ambition to excel in financial and risk management.

The ARAC is chaired by a Non-Executive Board Member. Membership during 2018-19 included four members, two of which are unremunerated External Senior Civil Servants.

During 2018-19, the ARAC met five times (April 2018, May 2018, June 2018, October 2018 and January 2019) with attendance as follows:

ARAC Attendance		
Committee Members	**Role/ Title**	**Meetings Attended**
Colm McKenna	NEBM and Chair	5
Claire Hughes (*left 27/06/2018)*	NEBM	3
Grace Nesbitt	External Senior Civil Servant	5
Anthony Harbinson	External Senior Civil Servant	3

Meetings are also attended by the Permanent Secretary, Deputy Secretaries, Finance Director, Corporate Governance Director, representatives from DfE, Northern Ireland Audit Office (NIAO), and Internal Audit Service (IAS). A quorum for any meeting of the Committee is two members. All Committee meetings during the 2018-19 financial year were quorate.

The key areas focussed on at the ARAC meetings during the 2018-19 financial year were as follows:

- examining and challenging the overall control environment including the risk and governance arrangements to support the Accounting Officer in his stewardship of

departmental resources;
- providing challenge on the EU Exit Programme;
- supporting and challenging 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;
- shaping the approach to a new assurance framework so that the systems and processes are best fit for the Department;
- reviewing and improving the risk management framework; and,
- reviewing information security and counter fraud and whistleblowing practices.

Furthermore, the Chair held a meeting of audit and risk assurance committee chairs from the Department's partner organisations to share knowledge and best practice, and enhance engagement across the DfE Group.

The Board takes assurance from the ARAC Annual Report provided by the ARAC Chair which reports on the above discussions undertaken during the financial year.

Other Organisational Structures
Other organisational structures that contribute to sound corporate governance in the Department are as follows:

Leadership Team
Leadership Team 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. A conscious decision has been made to ensure Leadership Team's remit does not overlap with the role of the Departmental Board and Senior Management Team. Issues considered at Leadership Team include a readout from the previous week's Permanent Secretary Stocktake meeting, Freedom of Information, media and EU Exit.

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 two times during 2018-19.

Senior Management Team
Senior Management Team (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.

A conscious decision has been made that SMT meetings should not cut across the roles of Departmental Board and Leadership Team. Issues considered at SMT include a readout from previous NICS Board, media and finance. Topical issues such as EU Exit and City Deals were also discussed during the reporting period.

SMT meets once per month and met twelve times during 2018-19. It is chaired by the Permanent Secretary and membership comprises the five Deputy Secretaries and Heads of Divisions. The Head of Central Management Branch and the DfE Press Officer are also in attendance.

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 (currently Accounting Officer approval 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.

Fifteen projects exceeding departmental delegations were presented to DfE Casework Committee in 2018-19. Ten cases were presented from sponsored bodies, one case was jointly presented by Invest NI and Business Engagement Division and four cases originated within DfE core. The table below shows the number of projects per Core Division/ Sponsor Body.

Sponsored Body/ Division Name	Type	Caseworks in 2018-19
Invest NI	NDPB	7
Joint Invest NI/ Business Engagement – Employer Skills	Joint	1
Intertrade Ireland	NDPB	2
Labour Relations Agency	NDPB	1
HE Policy & Finance	Core	2
Tourism, Telecoms, Minerals & Petroleum	Core	2
TOTAL		**15**

Six of the above cases were approved by the DfE Accounting Officer in the absence of a Minister and nine were in breach of DoF delegations and were therefore submitted to DoF for approval.

Resourcing Group
The role of the Department's Resourcing Group, in accordance with the DfE Workforce Planning Guide, is to take decisions on the approval of any new or upgraded posts sought by Divisions within DfE, in the context of the overall resources available and Departmental priorities.

Departmental priorities reflect the need to ensure delivery of the commitments given within the Programme for Government, the draft Industrial Strategy and the DfE Corporate and annual Business Plans. The Resourcing Group assess the costs of bids for posts against the resources available. This on occasion means that only the highest priority bids are supported.

The Resourcing Group takes account of the consequential financial implications in-year, across the budget period and beyond in the assessment of affordability. The Resourcing Group 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.

There have been four formal meetings of the Resourcing Group in last financial year (May 2018, August 2018, November 2018 and March 2019).

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 Sponsored Bodies. Departments are required to either comply with the Code or explain any significant departures from it.

During 2018-19, the Department complied with the majority of the principles and supporting provisions set out in this Code. However, one NEBM left during the reporting period resulting in an imbalance of representatives on the Board. The Department are in the process of taking steps to appoint a new NEBM in 2019-20.

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 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.

At the outset of the year, at its April 2018 meeting, the Departmental Board undertook a scheduled review of the Department's Risk Management Framework. This review led to several improvements, including clearer articulation of risk appetite to staff, better defined ownership of corporate risks, and clearer guidance on how and when to escalate risks to the corporate register for the Board's consideration. A fresh risk identification exercise was also carried out to review the Department's key corporate risks and ensure the most strategically important of them were adequately reflected on the corporate risk register.

The corporate risk register was monitored and managed by the Departmental Board on a monthly basis during 2018-19. A comprehensive list of the risks managed during the year is provided in the Performance Report section of this document.

Significant matters of interest during 2018-19

EU Exit
EU Exit-related risks are being 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 DfE EU Exit Programme supports the process of negotiating the UK's decision to leave the EU by providing information and advice to senior NICS officials and UK Government to help secure the best possible outcome for Northern Ireland in matters pertaining to the economy. It has done this through the development and implementation of a suite of Programme work streams and projects.

The Programme is overseen by the Programme Board, which is chaired by the Permanent Secretary with membership consisting of the Deputy Secretaries in the Department. The Programme Board meets every 4-6 weeks. A DfE EU Exit Implementation Group ensures the effective day to day operation and monitoring of all EU Exit Programme-related activities. It meets at least every month, with ad hoc meetings on a weekly or fortnightly basis when necessary.

The Programme Board maintains a comprehensive Risk Register, with ownership for specific risks allocated to the relevant senior managers within the Department. The main risk to the Department in relation to EU Exit is failure to undertake the necessary factual analyses and preparations for the UK's exit from the EU. This could result in the UK Government not being fully informed when making decisions that will impact on NI, limiting the opportunities for economic growth and constraining the ability of Departments and Sponsored Bodies to deliver services**.**

Despite a raft of mitigating measures being taken by the Department, the residual risk remains high. This is, in part, due to continuing uncertainty in the EU Exit negotiations process which has led to an inability on the part of the Department and its Sponsored Bodies to plan for a precise EU Exit scenario.

The Department's preparations for EU Exit have not been carried out in isolation and, in support of the wider arrangements, DfE officials have been working in collaboration with colleagues in other NI Departments, and UK Government. Senior Departmental officials participate in, and provide input to, the EU Exit Preparedness Board and the EU Future Relations Programme (led by The Executive Office, and chaired by the Head of the Civil Service).

The Department will continue planning for EU Exit in 2019-20, assuming an exit date no later than 31 October 2019 on the basis of the extension to Article 50. The DfE EU Exit Programme will be reviewed and revised over the coming months to structure this work.

The Department will continue to monitor and manage EU Exit-related risks through the DfE EU Exit Programme, escalating risks and issues through the Corporate Risk Register, and wider NICS EU Exit management structures as appropriate.

Renewable Heat Incentive
During 2018-19, the Renewable Heat Incentive (RHI) Taskforce has focused on three strategic areas in the Non-Domestic Scheme, namely:

- implementation of a long term payment structure;
- performance management of the Office of Gas and Electricity Markets (Ofgem) in delivery of the Scheme; and,
- undertaking a programme of inspections and compliance for Scheme participants.

The key risk faced was 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. The project was directed by a Board which met on a regular basis, chaired by the Permanent Secretary.

The Board comprised senior officials alongside experts from a range of disciplines. An Oversight Board, chaired by the former DfE Permanent Secretary, has also continued to operate as an independent advisor to the Project Board and is composed of senior officials from other NICS Departments.

To promote effective governance:

- escalation arrangements have been established so that problems and issues are drawn to the attention of the Board and decisions are communicated to the team in a timely fashion;
- risks and issues are identified and incorporated in a Risk Register and Issues Log;
- a template for Highlight reports is used for Board meetings to ensure consistency and that they are fit for purpose;
- business case approvals have been obtained where required; and,
- a Programme Management Office (PMO) was in place to support the work-streams and Board.

During 2018-19, payments totalling approximately £169k were made to five Energy Service Companies (ESCOs) who were accredited for 110 installations onto the Domestic RHI Scheme. These accreditations contravene Regulation 17(1) of the Domestic Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2014, which stipulates that only a “person (that) owns or occupies the property to which the plant provides heat” could apply for accreditation. Therefore the payments made to the ESCOs under the scheme are irregular.

Both the Domestic and Non-Domestic schemes remain suspended to new applications. Interim Regulations (and associated State aid approval) were made on 28 March 2018 which extended the tariffs under the 2017 RHI Regulations until 31 March 2019. The Northern Ireland (Regional Rates and Energy) (No. 2) Bill, which amended the tariff structure and added voluntary buy-out arrangements received Royal assent on 26 March 2019. 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 are being taken to address the issues identified.

Revised governance arrangements, which define the basis of how the Department manages the relationship with its delivery partner Ofgem, were signed on 21 November 2018. A new DfE led Service Delivery Board has been established, which formally oversees Ofgem performance. Supporting governance documentation, including a Terms of Reference, Risk Register and Key Performance Indicators, has been created.

In 2019-20, the biggest risk faced by the Taskforce will be posed by the legal challenge to the 2019 Act of Parliament, as well as the ongoing appeal to the 2017 Regulations.

Reports published during the year in relation to RHI are:

i. NIRHI Biomass Tariff Review Final Report – 22 May 2018.
ii. The Future of the Northern Ireland Non-Domestic Renewable Heat Incentive Scheme Consultation Document – 4 June 2018.
iii. Consultation Report on The Future of the Northern Ireland Non-Domestic Renewable Heat Incentive Scheme – 31 January 2019.
iv. The Future of the Northern Ireland Non-Domestic Renewable Heat Incentive Scheme Policy Summary – 26 February 2019.

The Public Inquiry into the Non-Domestic Renewable Heat Incentive Scheme heard Closing Oral Submissions in December 2018. The Inquiry's report is expected to be published in the coming months. The Department recognises that the Inquiry's Report will undoubtedly contain criticism of the Department and is committed to responding positively to the Inquiry's findings and recommendations. The Department has already made a number of improvements in response to issues identified during the course of the Inquiry. Actions taken include issuing staff with updated guidance on handling allegations raised by whistleblowers, introducing a formal handover process and revising the risk management processes.

The issues arising from the Non Domestic RHI Scheme have highlighted a number of wider lessons for the NICS at large. These were first captured in a draft RHI Lessons Learned Action Plan, the first phase of which predated the commencement of the RHI Inquiry and was drawn to a close during 2018-19. A second phase Action Plan, informed by the Inquiry's oral evidence, is currently being implemented and includes actions relating to:

- Record keeping and knowledge transfer;
- Effectiveness of formal controls;
- Having the appropriate skills mix;
- Communication and collaboration;
- Leadership Challenges;
- Relationships; and,
- Handling of whistleblowing concerns.

A third phase of RHI Lessons Learned is expected to follow the publication of the Inquiry's final report during 2019-20. Responding to that report in an effective way will be a key priority for the Department.

Northern Ireland Renewables Obligation

The Northern Ireland Renewables Obligation (NIRO) was introduced on 1 April 2005 to encourage increased electricity consumption from indigenous renewable sources to reduce the use of imported fossil fuels. There are over 23,500 accredited generators, and risks have been identified with a very small minority of generators. This is a result of concerns raised by an anonymous whistleblower and the NIAO about the usefulness of electricity generated by the off-grid stations and media allegations relating to Anaerobic Digestion (AD).

Risks are being managed through the NIRO Assurance and Risk Management Steering Group, which was set up in May 2017, comprising officials from DfE, the Northern Ireland Utility Regulator and Ofgem, to consider the end to end risks of the NIRO (including off-grid concerns).

During 2018-19, a comprehensive risk register was completed and Internal Audits were completed in all three organisations to reinforce the work carried out by the Steering Group and to provide an independent opinion on the adequacy and effectiveness of risk management, control and governance.

The Steering Group has produced a final report on the work undertaken to date and the key findings are that:

- The NIRO does not have the same vulnerabilities as RHI for a number of reasons, including the fact that the scheme is now closed, the scale of any potential for gaming is much smaller, no public expenditure is involved, and there is limited scope for electricity to be used in a non-purposeful manner; and,
- All three internal audits returned a satisfactory rating in relation to the risk management, control and governance of the NIRO. There are six recommendations being taken forward by DfE as a result.

However, the report also found there are two key areas of ongoing concern relating to allegations made about off-grid and AD stations. The Steering Group has been taking forward a comprehensive work programme to seek to address these issues as described below:

Off-grid stations - The Steering Group has been investigating the concerns raised by the whistleblower and the NIAO. No evidence on any wrongdoing or fraud has been found to date, and a comprehensive information gathering and risk assessment exercise has been undertaken focused on 10 stations identified as highest risk. Legal advice has been sought on the legal authority of the Department and/ or the UR to take action if required.

AD stations - DfE officials have been working in collaboration with other NI Departments and Agencies on these issues. Independent site visits arranged by Ofgem immediately disproved the allegation about “phantom plants”. Ofgem continues to work on the allegation about pairs of sites operating in close proximity. The information gathered to date suggests that any need to reclassify two separate plants as one is likely to be very limited.

DfE is also working with DfI, NIEA and UR, through a Task & Finish Group, to consider all AD plants and all stations accredited to the NIRO using biogas from AD to generate electricity, to understand what planning permissions and waste management consents are required for each. If it is found that generators are operating without the appropriate consents, this exercise will then allow the relevant authority (i.e. district councils or NIEA) to take appropriate action.

Looking ahead, a key issue in 2019-20 will be successfully closing the investigations into off-grid and AD stations. The NIAO has announced its intention to undertake its own fact finding review into the NIRO in 2019, and the Steering Group will provide its own report on the outcome of the investigations and work with the NIAO as required.

The Steering Group has also undertaken to commission external consultants to complete an independent post closure evaluation of the NIRO during 2019-20 which will consider, among other things, value for money for the consumer and rates of return received by accredited NIRO generators. The outcome of this work will provide additional mitigation to the ongoing NIRO risks.

Key Control Issues Identified through the Assurance Reporting Process

A key source of assurance when drafting this Governance Statement is the year end assurance statements obtained from Sponsored Bodies 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. These assurance statements also require business areas to report any significant issues or control weaknesses identified during the year.

In addition to the issues identified with EU Exit, RHI and NIRO already drawn out in detail previously in this Governance Statement, the main control issues facing the Department during the reporting period as highlighted in the assurance statements were:

- HMS Caroline – Work in the Department is progressing to put in place long term operating arrangements and structures in order to meet Departmental obligations on the project and mitigate risks.

- Student Loans – There is a risk that the Department cannot adequately control potential overspends in relation to the impairment of student loans. These impairments are intrinsically linked to Office for Borrowing Requirement (OBR) forecasts of Retail Price Index (RPI). There will always be a residual risk that OBR will update their forecasts and the Department will have to revalue the loan book accordingly. More information on this matter can be found under the Sensitivity Analysis section in the Student Loan Note to the Accounts.

- Ulster University’s Greater Belfast Project - The Department is anticipating a revised business case for the additional funding requirement for the project which we will assess and update the ARAC in due course.

- FE College Governance – The Department engaged with two FE Colleges over the period on addressing governance and management issues that have arisen and will continue to do so to ensure they are addressed satisfactorily in accordance with DfE guidance and policy.

- Equality screenings – Several programmes of expenditure within the Department did not carry out equality screening during policy development. The business area has been advised to conduct these retrospectively to ensure full compliance with their statutory obligation under Section 75 of the Northern Ireland Act 1998.

- Sponsored Body Board – The Department is currently monitoring the membership of a number of DfE Sponsored Bodies Boards. The ongoing absence of Ministers and the implications for replenishing Board membership continues to put at risk the ability of Sponsored Bodies Boards to work effectively.

- Tourism Ireland Funding Ratio - Funding from the Republic of Ireland has disproportionately increased as the Irish Government seeks to address industry concerns and the impact of the UK's exit from the European Union, whereas funding from NI has been flat-lined for a number of years due to the absence of local Ministers and the North South Ministerial Council (NSMC). This has distorted agreed funding ratios between jurisdictions, but this issue cannot be addressed at this time due to the absence of Ministers and the Executive. DoF and The Executive Office (TEO) have been advised of the concerns.

- North/ South Bodies Business Plans - In the absence of a DfE Minister it was not possible to secure NSMC approval of 2018 and 2019 Business Plans for InterTradeIreland and Tourism Ireland. 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.

- European Social Fund (ESF) Approvals - As agreed with the former Minister, the ESF Managing Authority undertook a final open call for projects under Priorities 1 and 2 of the NI ESF Programme (2014-2020). Sixty-nine projects, operational since April 2018, were selected against criteria approved by the Programme Monitoring Committee and followed the process required by the European Commission (EC). In order to ensure compliance with both EC and DfE procedures, the ESF Managing Authority has submitted a number of individual projects receiving over £1m of DfE support to the Accounting Officer for endorsement in the absence of a Minister. The assurances provided to the Accounting Officer in support of these projects covered Value for Money and the projects ability to deliver EC targets upon which funding is predicated. There is no issue in terms of regularity as these projects all fall under DfE delegations.

- GCCNI Chief Executive – During 2018-19, the Department was made aware of an issue in relation to the starting salary for the current Chief Executive Officer of GCCNI dating back to 2015. The appointment was made and salary determined, in good faith and in line with the NICS HR Handbook. However due to a misunderstanding of requirements, DoF approval of the salary was not gained which contravenes the GCCNI's governing legislation (General Consumer Council (NI) Order 1984). Therefore related expenditure from 1 July 2015 to 31 July 2016 totalling £12,258 is irregular and unlawful.

Where internal control issues have been identified, appropriate steps have been identified to remedy the situation.

Note there were no submissions in relation to retrospective approvals made to DoF seeking retrospective approval in the 2018-19 financial year.

Internal Audit

Annual Opinion
The Annual Opinion provided by the Head of Internal Audit states that the Department for the Economy has established and maintained limited risk management, control and governance processes during 2018-19.

Basis for Overall Opinion
A limited overall audit opinion was provided by Internal Audit in 2017-18. In considering the opinion for 2018-19, the Head of Internal Audit 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 2018-19 provide a positive perspective with the majority of audit assignments receiving satisfactory audit opinions, fourteen out of seventeen reports issued. In particular, Internal Audit noted the results of audits undertaken in respect of projects funded under European Programmes. Satisfactory audit opinions were provided in respect of the ESF Managing Authority, both the ERDF and ESF Certifying Authority.

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. Internal Audit also notes the progress made during 2018-19 in implementing the recommendations of Internal Audit's consulting review of Sponsor Control and in particular the development of a Sponsor Control Manual to inform the work of Sponsor Teams, the follow-up of these recommendations will be completed in 2019-20.

In addition, Internal Audit notes that the Department of Finance's Internal Audit Service has provided its in-year Assurance Report and Opinion on Enterprise Shared Services. Enterprise Shared Services has received an overall satisfactory audit opinion. At the time of writing an end year Assurance has not been received.

However, in forming an overall opinion as Head of Internal Audit, I have also given consideration to the three Limited opinions issued during 2018-19, one of which EMA is currently in draft awaiting management response. The current position in respect of the other two reports is set out in the table below:

Assignment	Number of Recommendations	Current position
Financial Difficulties scheme	3 priority 1 recommendations 3 priority 2 recommendations	One priority 1 recommendations has been implemented and the scheme has been suspended awaiting the outcome of Review of Financial Support Scheme in GB and possible re-instatement of NI Scheme. This audit will be followed up as part of 2019/20 audit programme.
EU projects of a common interest	1 priority 1 recommendation	Energy Division have developed and documented a proportionate and suitably comprehensive DfE specific system of control to provide for effective management, reporting, and monitoring of Departmental activities in relation to EU Projects of Common Interest. This audit will be followed up as part of 2019/20 audit programme.

While these audit opinions are of concern they do not, however, reflect a systemic issue of governance in the Department. Indeed, I note that the extensive audit of Corporate Governance completed in 2018-19 on the Department received a satisfactory overall opinion.

The two most important issues that impact on the Overall Audit Opinion still remain the Non-Domestic and Domestic Renewable Heat Incentive (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 were scheduled for 2018-19 but at management's request these were rescheduled for 2019-20. Until such time as the opinions on these two systems can be raised to satisfactory, I consider it prudent to reflect this in the Overall Opinion of the Department.

Conclusion
As Head of Internal Audit, I note the progress made in the Department in devising revised structures for programme and project management and reshaping of the Casework Committee process. I also note that the majority of Internal Audit Opinions issued in 2018-19 provided a satisfactory opinion. Where limited opinions were issued I am content that these do not reflect a systemic issue in the Department. However, given the reputation and financial risks arising from the Renewable Heat Incentive Scheme I consider that the overall limited opinion provided in previous years should remain in place.

Fraud Reporting
At 1 April 2018, seventeen ongoing fraud cases were brought forward from previous years.

During 2018-19, there were forty cases of suspected fraud reported to the Department, seven 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 twenty two suspected fraud cases, Tourism NI reported two and Invest NI six cases. Of the remaining three cases, one was reported by the Labour Relations Agency and two by business areas within the Department.

In total, forty two 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. In line with appropriate guidance, all cases of fraud during the year have been reported to DoF and NIAO. Fifteen cases were ongoing at 31 March 2019.

Whistleblowing
At 1 April 2018, there were fifteen open whistleblowing cases brought forward from previous years.

During 2018-19, the Department received twenty one whistleblowing allegations, one of which was in relation to the RHI Scheme and was referred to Ofgem for investigation. Further and Higher Education Divisions reported a total of ten whistleblowing allegations and Invest NI four allegations. Of the remaining six referrals, two were reported by the Health & Safety Executive and four by business areas within the Department.

In total, seventeen cases were actioned and closed during the year. Any recommendations made are being implemented and policies and procedures updated. A further five cases have been referred to be actioned under the Fraud Response Plan, therefore have been moved to the Departmental Fraud Register. Investigations into fourteen whistleblowing allegations were ongoing at 31 March 2019.

From 1 April 2019, the Department has assigned a dedicated resource to the management of fraud and whistleblowing cases. A review of policies and processes is underway, and a new recording and management system is being implemented. This will help improve the Department’s oversight and control of all reported cases.

Public Accounts Committee Issues

There have been no PAC hearings since the dissolution of the NI Assembly. There are a small number of minor outstanding actions from reports on the NI Events Company and the Bytel project dating back to 2015. The Department are required to report back to the PAC on actions which have been taken and will write to the PAC with full details of its findings once the Committee has been re-established.

Ministerial Directions

There were no Ministerial directions given during the 2018-19 financial year.

REMUNERATION REPORT

Remuneration Policy

The pay remit 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 has set the 2018-19 NI public sector pay policy in line with the overarching HMT parameters and in a manner consistent with the approach taken by the previous Finance minister in 2016-17. The pay award for SCS staff for 2018-19 has been finalised but not yet paid.

The pay of senior civil servants (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.

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

There was no Minister was in place during 2018-19 and 2017-18.

Remuneration and pension entitlements – Officials (audited information)

Officials	**2018-19**			**2017-18**		
	Salary £000	**Pension benefits* (to nearest £1000)**	**Total £000**	**Salary £000**	**Pension benefits* (to nearest £1000)**	**Total £000**
Noel Lavery *Permanent Secretary* *01/04/2018 – 31/03/2019 &* *19/02/2018 – 31/03/2018*	120-125	38,000	160-165	10-15 (115-120 full year equivalent)	1,000	10-15
Andrew McCormick *Permanent Secretary* *01/04/2017 – 18/02/2018*	-	-	-	110-115 (125-130 full year equivalent)	39,000	150-155
Heather Cousins *Deputy Secretary*	95-100	23,000	120-125	90-95	10,000	100-105
Eugene Rooney *Deputy Secretary*	90-95	19,000	110-115	85-90	1,000	90-95
Chris Stewart *Deputy Secretary* *01/04/2018 – 07/10/2018 &* *01/04/2017 – 31/03/2018*	45-50 (90-95 full year equivalent)	24,000	70-75	85-90	4,000	90-95
Michael Brennan *Deputy Secretary* *01/04/2018 – 31/03/2019 &* *08/05/2017 – 31/03/2018*	90-95	37,000	130-135	80-85 (85-90 full year equivalent)	3,000	85-90
Colin Lewis *Deputy Secretary* *08/10/2018 – 31/03/2019*	50-55 (100-105 full year equivalent)	2,000	50-55	-	-	-
Richard Rodgers** *Deputy Secretary* *29/11/2018 – 31/03/2019*	35-40 (90-95 full year equivalent)	-	35-40	-	-	-
Diarmuid McLean *Acting Deputy Secretary* *01/04/2017 – 07/05/2017*	-	-	-	5-10 (85-90 full year equivalent)	14,000	20-25

Officials (continued)	**2018-19**			**2017-18**		
	Salary £000	**Pension benefits* (to nearest £1000)**	**Total £000**	**Salary £000**	**Pension benefits* (to nearest £1000)**	**Total £000**
Wendy Johnston *Assistant Secretary* *01/04/2018 – 31/03/2019 &* *22/02/2018 – 31/03/2018*	50-55 (80-85 full year equivalent)	10,000	60-65	5-10 (75-80 full year equivalent)	14,000	15-20
Stephen McMurray *Assistant Secretary* *01/04/2018 – 31/03/2019 &* *03/01/2018 – 31/03/2018*	75-80	19,000	95-100	15-20 (70-75 full year equivalent)	-	15-20
Andrea Quail *Acting Assistant Secretary* *03/07/2017 – 30/09/2017*	-	-	-	15-20 (65-70 full year equivalent)	20,000	35-40
Ronan Murtagh *Acting Assistant Secretary* *01/10/2017 – 02/01/2018 &* *01/04/2017 – 02/07/2017*	-	-	-	35-40 (65-70 full year equivalent)	39,000	70-75
Colm McKenna *Non-Executive Director* *01/04/2018 – 31/03/2019 &* *14/09/2017 – 31/03/2018*	5-10	-	5-10	5-10	-	5-10
Claire Hughes *Non-Executive Director* *01/04/2018 – 27/06/2018 &* *01/04/2017 – 31/03/2018*	0-5	-	0-5	5-10	-	5-10
David Beck *Non-Executive Director* *01/04/2017 – 30/06/2017*	-	-	-	0-5	-	0-5
Lisa Morgan*** *Non-Executive Director* *25/10/2018 – 31/03/2019*	-	-	-	-	-	-
*Janine Fullerton**** *Non-Executive Director* *01/04/2018 – 02/10/2018* *03/04/2017 – 31/03/2018*	-	-	-	-	-	-

**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 Director 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 Director is employed by Department of Finance and, as such, is paid by that Department.*

Non-Executive Directors are remunerated on a per diem basis.
None of the above received benefits in kind in 2018-19 or 2017-18.

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 on 26 January 2017. An Executive was not formed following the 2 March 2017 election, and from this date Ministers ceased to hold office. As a consequence, no Minister has been in place in the Department during 2018-19 and 2017-18.

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 2018-19 and 2017-18.

Fair Pay Disclosures (Audited Information)

	2018-19	2017-18
Band of Highest Paid Director's Total Remuneration* (£000)	120-125	115-120
Median Total Remuneration (£)	29,752	28,642
Ratio	4.12	4.10

**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 2018-19 was £120,000-125,000 (2017-18: £115,000-120,000). This was 4.12 times (2017-18: 4.10 times) the median remuneration of the workforce, which was £29,752 (2017-18: £28,642).

The movement in the ratio between 2018-19 and 2017-18 is primarily attributable to an increase in the band of the highest paid director's total remuneration and the Department's median total remuneration.

In 2018-19, two individuals (2017-18: six individuals) received remuneration in excess of the highest paid director.

Remuneration ranged from £17,352 to £117,969 (2017-18: £17,352 to £127,819), based on pay scales as at 31 March 2019.

Pension Entitlements - Minister

There was no Minister in place during 2018-19 and 2017-18.

Pension Entitlements – Officials (Audited Information)

	Accrued pension at pension age as at 31/03/2019 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/2019 £000	CETV at 31/03/2018 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £000
Noel Lavery *Permanent Secretary* *01/04/2018 – 31/03/2019 &* *19/02/2018 – 31/03/2018*	40-45 Plus lump sum of 20-25	0-2.5 Plus lump sum of (0-2.5)	852	742	39	-
Heather Cousins *Deputy Secretary*	20-25 Plus lump sum of 70-75	0-2.5 Plus lump sum of (2.5-5.0)	544	473	22	-
Eugene Rooney *Deputy Secretary*	45-50 Plus lump sum of 135-140	2.5-5.0 Plus lump sum of (7.5-10.0)	1,086	947	21	-
Chris Stewart *Deputy Secretary* *01/04/2018 – 07/10/2018 &* *01/04/2017 – 31/03/2018*	35-40 Plus lump sum of 105-110	0-2.5 Plus lump sum of (2.5-5.0)	737	685	22	-
Michael Brennan *Deputy Secretary* *01/04/2018 – 31/03/2019 &* *08/05/2017 – 31/03/2018*	35-40 Plus lump sum of 100-105	0-2.5 Plus lump sum of (0-2.5)	746	656	25	-
Colin Lewis *Deputy Secretary* *08/10/2018 – 31/03/2019*	30-35 Plus lump sum of 100-105	0-2.5 Plus lump sum of (0-2.5)	805	773	3	-
Richard Rodgers* *Deputy Secretary* *29/11/2018 – 31/03/2019*	-	-	-	-	-	-
Wendy Johnston *Assistant Secretary* *01/04/2018 – 31/03/2019 &* *22/02/2018 – 31/03/2018*	0-5.0 Plus lump sum of 5.0-10.0	0-2.5 Plus lump sum of (0-2.5)	63	51	4	-
Stephen McMurray *Assistant Secretary* *01/04/2018 – 31/03/2019 &* *03/01/2018 – 31/03/2018*	20-25 Plus lump sum of 70-75	0-2.5 Plus lump sum of (2.5-5.0)	587	536	20	-

**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.*

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 2018 was 2.4% and HM Treasury has announced that public service pensions will be increased accordingly from April 2019.

Employee contribution rates for all members for the period covering 1 April 2019 to 31 March 2020 are as follows:

Scheme Year 1 April 2019 to 31 March 2020

Annualised Rate of Pensionable Earnings (Salary Bands)		**Contribution rates** – All members
From	**To**	**From 1 April 2019 to 31 March 2020**
£0	£23,500.99	4.6%
£23,501.00	£54,500.99	5.45%
£54,501.00	£150,000.99	7.35%
£150,001.00 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 at the website https://www.finance-ni.gov.uk/topics/working-northern-ireland-civil-service/civil-service-pensions-ni.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and, from 2003-04, the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the NICS pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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 2018-19.

Staff Report

Staff Costs (Audited Information)

				2018-19 £000	2017-18 £000
	Permanently employed staff*	**Others**	**Minister****	**Total**	**Total**
Wages and salaries	36,337	346	-	36,683	34,723
Social security costs	3,574	2	-	3,576	3,348
Other pension costs	8,061	-	-	8,061	3,352
Sub Total	**47,972**	**348**	**-**	**48,320**	**41,423**
Less recoveries in respect of outward secondments	(96)	-	-	(96)	(135)
Total net costs***	**47,876**	**348**	**-**	**48,224**	**41,288**

Of which:	**Charged to Administration**	**Charged to Programme**	**Total**
Core Department	**29,561**	**18,663**	**48,224**
Total net costs	**29,561**	**18,663**	**48,224**

***** *There were no staff costs incurred in respect of the Department's Special Adviser in 2018-19 and 2017-18.*
*** No Minister was in place during 2018-19 or 2017-18.*
******* *Of the total, no staff costs have been charged to capital in 2018-19 (2017-18: £nil).*
Excluded from the total is £1,070,413 (2017-18: £1,381,537) which has been charged to EU Programmes as Technical Assistance.

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 2012 scheme valuation was completed by GAD in February 2015. The outcome of this valuation was used to set the level of contributions for employers from 1 April 2015 to 31 March 2019.

For 2018-19, employers' contributions of £8,061k were payable to the NICS pension arrangements (2017-18: £3,352k) at one of three rates in the range 20.8% to 26.3% (2017-18: 20.8% to 26.3%) of pensionable pay, based on salary bands.

Work was completed on the 2016 valuation, based on the position as at 31 March 2016. The outcome of this scheme valuation informed employer contribution rates for 2019-20. Employer contribution rates payable will range from 28.7% to 34.2% 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% pa 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 £14,490.38 (2017-18: £3,583.93) 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% (2017-18: 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 £785.74, 0.5% of pensionable pay (2017-18: £249.51, 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.

Four persons (2017-18: four persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £19,316 (2017-18: £4,793).

Average number of persons employed (Audited Information)

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

					2018-19 Number	2017-18 Number *Restated*
Activity	**Permanent Staff***	**Others**	**Minister**	**Special advisers**	**Total**	**Total**
1	1,102	13	-	-	1,115	1,079
Staff engaged on capital projects	-	-	-	-	-	-
Total	**1,102**	**13**	**-**	**-**	**1,115**	**1,079**

**Includes 98 Permanent Staff in respect of Health and Safety Executive for Northern Ireland (HSENI) (2017-18: 103).*

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.

O'Brien v Ministry of Justice

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

In 2017-18, the accrual for these costs (£4.3m) was removed from Other Pension Costs as costs will be borne through future pension contributions, which resulted in a corresponding one-off reduction to total pension costs.

Attendance Management

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

The projected outturn at 31 March 2019 is 9.8 days (31 March 2018: 9.8 days).

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

			2018-19	2017-18
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Total number of exit packages by cost band**
£10,000 - £25,000	-	2	2	-
£25,000 - £50,000	-	-	-	2
Total number of exit packages	**-**	**2**	**2**	**2**
Total resource cost/ £000	**-**	**37**	**37**	**76**

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

Staff Composition

The table below provides a breakdown of the number of persons employed by the Department as at 31 March 2019, 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 2019			As at 31 March 2018		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Directors	5	1	6	4	1	5
Senior Managers	20	8	28	17	6	23
Employees	475	691	1,166	461	661	1,122
Total*	**500**	**700**	**1,200**	**482**	**668**	**1,150**

**Includes 54 Male, 56 Female, 107 Total, in respect of Health and Safety Executive NI (HSENI) (2017-18: 53 Male, 60 Female, 113 Total).*
Note - the above table includes staff temporarily promoted to Senior Civil Servant grades.

Off-Payroll Engagements

	Year ended 31 March 2019	**Year ended 31 March 2018**
Table 1: Off- Payroll Engagements		
Number of off-payroll engagements at 1 April	8	7
Number of new off-payroll engagements:		
Those caught by IR35	-	-
Those not caught by IR35	33	7
Number of engagements which have come onto the payroll	-	-
Number of engagements which have come to an end	(18)	(6)
Number of off-payroll engagements at 31 March	**23**	**8**
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.	-	-
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.	11	11

The Department had no 'off-payroll' engagements at a cost of over £58,200 per annum in place during 31 March 2019.

Consultancy and Temporary Staff

During the year to 31 March 2019, the Department spent £303,923 on external consultancy (31 March 2018: £451,177), and £336,172 on temporary staff (31 March 2018: £348,595).

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 2019. Salary ranges represent full-time equivalent rates.

Pay range	Number of SCS staff within ranges as at 31 March 2019	Number of SCS staff within ranges as at 31 March 2018
£115,000 - £120,000	1	1
£100,000 - £105,000	1	-
£95,000 - £100,000	1	-
£90,000 - £95,000	3	1
£85,000 - £90,000	-	3
£75,000 - £80,000	9	2
£70,000 - £75,000	9	10
£65,000 - £70,000	-	4
Total	**24**	**21**

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 chairs of NICS recruitment panels. The NICS also has mandatory unconscious bias training for all staff.

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

The NICS has an active network of Diversity Champions and has appointed one of its' Deputy Secretaries as the NICS Diversity Lead for Disability. The NICS has an active 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 staff feel valued. The NICS promotes a number of schemes for disabled staff, including a successful 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.

The NICS Centre for Applied Learning (CAL) 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 International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires the Department for the Economy to prepare a Statement of Assembly Supply (SOAS) and supporting notes to show resource outturn against the Supply Estimate presented to the Assembly, in respect of each Request for Resources.

Summary of Resource Outturn 2018-19

								2018-19 £000	2017-18 £000
				Estimate			Outturn		Outturn
Request for Resources	*Note*	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
A	*SOAS1*	1,073,072	(97,541)	975,531	974,943	(97,541)	877,402	**98,129**	**915,950**
Total resources	*SOAS2*	**1,073,072**	**(97,541)**	**975,531**	**974,943**	**(97,541)**	**877,402**	**98,129**	**915,950**
Non-operating cost Accruing Resources		**-**	**(103,689)**	**(103,689)**	**-**	**(103,689)**	**(103,689)**	**-**	**(95,002)**

Net cash requirement 2018-19

				2018-19 £000	2017-18 £000
	Note	Estimate	Outturn	Net total outturn compared with Estimate: Outturn saving/ (excess)	Outturn
Net cash requirement	*SOAS3*	**1,204,147**	**1,114,086**	**90,061**	**1,126,003**

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).

		2018-19 £000 Forecast		2018-19 £000 Outturn	
	Note	Income	*Receipts*	Income	*Receipts*
Total	*SOAS4*	**-**	**-**	**14,064**	***3,075***

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

The notes on pages 107 to 152 form part of these accounts.

SOAS1 ANALYSIS OF NET RESOURCE OUTTURN BY FUNCTION

									2018-19 £000	2017-18 £000
						Outturn			Estimate	
	Admin	Other current	Grants	Gross resource expenditure	Accruing Resources	Net Total	Net Total	Net Total outturn compared with Estimate	Net Total outturn compared with Estimate, adjusted for virements	Prior-year outturn
Request for Resources A:										
To promote a competitive, sustainable and inclusive economy through investment in skills, economic infrastructure, research and innovation, and business development										
Economic Development & Infrastructure	10,346	6,952	1,810	19,108	(230)	18,878	19,533	655	647	22,549
Economic Development & Infrastructure – Repayment of Assistance in respect of the Presbyterian Mutual Society	-	-	-	-	(2,144)	(2,144)	(2,177)	(33)	(33)	(2,298)
Invest Northern Ireland and Tourism	538	961	-	1,499	(1,828)	(329)	(1,244)	(915)	-	487
Employment & Skills	21,136	6,814	71,858	99,808	(6,949)	92,859	93,755	896	306	96,292
Student Support & Higher Education	2,209	115,994	325,047	443,250	(2,536)	440,714	482,821	42,107	42,120	499,294
Tourism Ireland Ltd	144	-	-	144	-	144	152	8	8	156
InterTradeIreland	118	-	-	118	-	118	118	-	-	163
Representation & Regulatory Services	1,277	14,917	172	16,366	(3,145)	13,221	13,136	(85)	(85)	8,431
EU Structural Funds – ERDF Support for Economic Development	-	-	708	708	(438)	270	340	70	54	343
EU Programmes	-	59	35,055	35,114	(26,251)	8,863	9,240	377	63	8,845
EU Community Initiative	-	-	5,119	5,119	(4,343)	776	908	132	132	194
EU Peace	-	-	5,807	5,807	(4,936)	871	998	127	127	143
Total	35,768	145,697	445,576	627,041	(52,800)	574,241	617,580	43,339	43,339	634,599

									2018-19 £000	2017-18 £000
						Outturn			Estimate	
	Admin	Other current	Grants	Gross resource expenditure	Accruing Resources	Net Total	Net Total	Net Total outturn compared with Estimate	Net Total outturn compared with Estimate, adjusted for virements	Prior-year outturn
Annually Managed Expenditure:										
Provisions	-	246	-	246	-	246	5,246	5,000	5,000	(2,614)
NI Renewable Heat Incentive	-	-	23,771	23,771	-	23,771	25,682	1,911	1,911	22,300
Student Support	-	(44,227)	-	(44,227)	(44,741)	(88,968)	(60,466)	28,502	28,502	(96,839)
Revaluations	-	(47)	-	(47)	-	(47)	76	123	123	(116)
Total	-	(44,028)	23,771	(20,257)	(44,741)	(64,998)	(29,462)	35,536	35,536	(77,269)
Non-Budget:										
Invest NI	-	-	96,000	96,000	-	96,000	96,000	-	-	123,616
Northern Ireland Tourist Board	-	-	23,819	23,819	-	23,819	23,962	143	143	17,000
General Consumer Council for Northern Ireland	-	-	1,349	1,349	-	1,349	1,349	-	-	1,315
Health and Safety Executive NI	-	-	912	912	-	912	1,037	125	125	776
Tourism Ireland Ltd	-	-	13,503	13,503	-	13,503	13,534	31	31	12,568
InterTradeIreland	-	-	4,351	4,351	-	4,351	4,427	76	76	2,985
Teachers' Premature Retirement – on-going liabilities	-	2,045	-	2,045	-	2,045	2,050	5	5	2,003
Construction Industry Training Board	-	-	-	-	-	-	1	1	1	-
Labour Relations Agency	-	-	3,768	3,768	-	3,768	3,768	-	-	4,217
Further Education Colleges	-	-	193,705	193,705	-	193,705	212,219	18,514	18,514	178,963
Higher Education Colleges	-	-	5,254	5,254	-	5,254	5,484	230	230	5,518
Northern Ireland Screen	-	-	14,582	14,582	-	14,582	14,582	-	-	1,049
Notional Charges	8,871	-	-	8,871	-	8,871	9,000	129	129	8,610
Total Non-Budget	8,871	2,045	357,243	368,159	-	368,159	387,413	19,254	19,254	358,620
Resource Outturn	**44,639**	**103,714**	**826,590**	**974,943**	**(97,541)**	**877,402**	**975,531**	**98,129**	**98,129**	**915,950**

Explanation of the variation between Estimate and Outturn (2018-19)

After virement, the most significant variances were as follows:

(1) DEL
- Outturn was £43.3m lower than the SSE position, mainly because fair value adjustments to student loans were lower than forecast, as a result of demand for new loan products being lower than anticipated together with the impact of updated OBR economic forecasts.

(2) AME
- Outturn was £35.5m lower than the SSE position due to the changes to this component of student loan fair value adjustments during the year and the contingency retained in respect of potential provision.

(3) Non-Budget
- Outturn was lower by £19.2m due to the timing of cash based grant in aid requirements of NDPBs.

SOAS2 Reconciliation of Outturn to Net Operating Expenditure

				2018-19 £000	2017-18 £000
	Note	**Outturn**	**Supply Estimate**	**Outturn compared with Estimate**	**Outturn**
Net Resource Outturn	*SOAS1*	877,402	975,531	98,129	915,950
Non-supply income (CFERs)	*SOAS4*	(11,499)	-	11,499	(130)
Foreign Exchange		(220)	-	220	-
Non-supply expenditure:					
Redundancy Fund Payments	*4*	5,938	6,200	262	4,823
Net Operating Expenditure in Statement of Comprehensive Net Expenditure		**871,621**	**981,731**	**110,110**	**920,643**

SOAS3 Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Resource Outturn	*SOAS2*	975,531	877,402	98,129
Capital				
Acquisition of property, plant and equipment	*6,7*	344	194	150
Investments – Student Loans funding	*11.1*	411,552	354,434	57,118
Non-operating Accruing Resources				
Student loan repayments applied	*11.1*	(90,187)	(90,187)	-
PMS Loan repayment		(13,500)	(13,500)	-
PMS Loan Repayment Interest		-	(2,176)	2,176
Accruals to cash adjustments				
Adjustments to remove non-cash items:	*3,4*			
Depreciation and Amortisation		-	(111)	111
Revaluation of Investment		-	46	(46)
Foreign Exchange		-	-	-
(Profit)/loss on sale of assets		-	(2)	2
Use of provisions & financial liabilities	*11.2, 18*	(1,571)	3,424	(4,995)
Notionals		(9,000)	(8,871)	(129)
Prior Period Adjustments		-	-	-
Other non-cash items		(136,022)	(24,879)	(111,143)
Changes in working capital other than cash				
Increase/(decrease) Receivables		20,000	(3,718)	23,718
Increase/(decrease) Financial Investment		-	-	-
(Increase)/decrease Payables		47,000	22,250	24,750
Changes in payables falling due after more than one year	*17*	-	-	-
New provisions, and adjustments to previous provisions		-	-	-
Foreign Exchange		-	(220)	220
Excess cash receipts surrenderable to the consolidated fund	*SOAS4*	-	-	-
Net cash requirement		**1,204,147**	**1,114,086**	**90,061**

The main reasons for the net cash requirement being lower than anticipated relate to demand for student loans being lower than anticipated, together with the assumptions made in respect of timing of receipts and payments.

SOAS4 Income payable to the Consolidated Fund

SOAS4.1 Analysis of income payable to the Consolidated Fund

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

	Note	Forecast 2018-19 £000		Outturn 2018-19 £000	
		Income	*Receipts*	Income	*Receipts*
Operating income and receipts – excess Accruing Resources		-	-	4,798	-
Other operating income and receipts not classified as Accruing Resources		-	-	6,701	*76*
		-	-	11,499	*76*
Non-operating income and receipts – excess Accruing Resources	*SOAS6*	-	-	2,565	*2,999*
Total income payable to the Consolidated Fund		**-**	**-**	**14,064**	***3,075***

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

	Note	2018-19 £000	2017-18 £000
Operating income	*5*	59,404	129,592
Adjustments for transactions between RfRs		-	-
Gross Income	*5*	59,404	129,592
Income authorised to be Accruing Resources		(97,541)	(68,482)
Income in gross sub-head netted off spend in SoCNE		49,636	-
Income netted off in gross sub-head grossed up in SoCNE		-	(60,980)
Operating income payable to the Consolidated Fund	*SOAS4.1*	**11,499**	**130**

SOAS6 Non-operating income – Excess Accruing Resources

	2018-19 £000	2017-18 £000
Student Loan repayments	2,565	2,999
Non-operating income – Excess Accruing Resources	**2,565**	**2,999**

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 2019, 98% of invoices from suppliers were paid within the timescale noted above (31 March 2018: 97%). 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 2019, 95% of invoices from suppliers were paid within this timescale (31 March 2018: 93%).

The following link to the Account NI website discloses Northern Ireland Departments' performance both in terms of paying invoices within 30 days and 10 days: https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/NICS%20Prompt%20Payment%20Table%20for%202018-2019_March19.pdf.

HM Treasury Cost Allocation

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

i. Losses and Special Payments (Audited Information)

Losses Statement

	2018-19	2017-18
Total number of losses	601	834
Total value of losses (£000)	466	595
Cash losses	2	2
Claims abandoned	599	832
Administrative write-offs	-	-

Special Payments

	2018-19	2017-18
Total number of special payments	3	1
Total value of special payments (£000)	13	-

There were no cases over £250,000 in 2018-19 or 2017-18.

ii. Fees and Charges (Audited Information)

	Income £000	Full Cost £000	2018-19 (Surplus) /Deficit £000	Income £000	Full Cost £000	2017-18 (Surplus) /Deficit £000
Insolvency Account	(2,754)	4,040	1,286	(3,477)	4,306	829

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

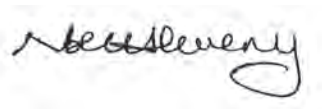
iii. Remote Contingent Liabilities (Audited Information)

In July 2018, the UK Government announced an extension of its guarantee of EU-funded projects after the UK has left the EU. The guarantee was originally announced in 2016. The guarantee now covers the following:

a. The full Multiannual Financial Framework allocation for structural and investment funds over the 2014-20 funding period, with payments to beneficiaries made up to the end of 2023;
b. The payment of awards where UK organisations successfully bid directly to the European Commission on a competitive basis for EU funding projects while we remain in the EU (e.g. before Exit day), for the lifetime of the project;

c. The payment of awards where UK organisations successfully bid directly to the European Commission on a competitive basis to participate as a 3rd country after Exit, and until the end of 2020, for the lifetime of the project; and,
d. The current level of agricultural funding under CAP Pillar 1 until 31 December 2020.

The financial settlement was agreed in principle by both the UK and EU, as set out in the draft Withdrawal Agreement of 25 November 2018. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified in the case of no deal, and UK organisations are unable to access EU funding. As a result, and due to the EU funding the Department for the Economy provides, an unquantifiable contingent liability is disclosed.



Noel Lavery
Accounting Officer
25 June 2019

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 2019 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 2019 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.

Qualified opinion on regularity

In my opinion, except for the expenditure on the non-domestic Renewable Heat Incentive (RHI) scheme, Tourism Ireland Limited and InterTradeIreland 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 2019 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 £21.1 million had been applied for the purposes intended by the NI Assembly.

Included within this expenditure is an amount of £8.1 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 £8.1 million expenditure incurred on them in 2018-19 is irregular. Consequently, my regularity opinion has been qualified in respect of this expenditure, as the expenditure does not conform to the authorities which govern it.

In addition, due to the absence of a DfE Minister it was not possible to secure North South Ministerial Council (NSMC) approval for the 2018 and 2019 Business Plans for Tourism Ireland Limited and InterTradeIreland. 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 2018-19 of £13.6 million to Tourism Ireland Limited and £4.4 million to InterTradeIreland is irregular until the NSMC approves the Business Plans. My regularity opinion has also been qualified in respect of this expenditure as the expenditure has been incurred without the necessary approvals in place.

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.

Emphasis of matter – Uncertainties inherent in the valuation of student loans

Without qualifying my opinion, I draw attention to the disclosures made in the Performance Report, the Governance Statement and notes 1.9.1, 1.22, 10 and 11 to the financial statements concerning the uncertainties inherent in the valuation of student loans. As set out in these disclosures and notes, given the long term nature for the recovery of loans, the number and volatility of the assumptions underpinning their valuation, a considerable degree of uncertainty remains over the recoverable amounts of the loans issued. Significant changes to the valuation could occur as a result of subsequent information and events which are different from the current assumptions adopted by the Department. My opinion is not modified in this respect.

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. 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.

Kieran J Donnelly

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

27 June 2019

STATEMENT OF COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2019

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

	Note	2018-19 £000	2017-18 £000
Other Operating Income	*5*	(57,074)	(127,114)
Total Operating Income		**(57,074)**	**(127,114)**
Staff costs	*3,4*	48,224	41,288
Purchase of Goods & Services	*3,4*	16,324	13,492
Depreciation and impairment charges	*4*	111	111
Provision Expense	*4*	320	(2,495)
Other Operating Expenditure	*3,4*	866,046	997,839
Total Operating Expenditure		**931,025**	**1,050,235**
Net Operating Expenditure		**873,951**	**923,121**
Finance Income	*5*	(2,330)	(2,478)
Net Expenditure for the year		**871,621**	**920,643**
Other Comprehensive Net Expenditure			
Items that will not be reclassified to net operating expenditure:			
Net (gain)/loss on revaluation of Property, Plant and Equipment/Intangibles		(50)	(50)
Comprehensive Net Expenditure for the year		**871,571**	**920,593**

The notes on pages 107 to 152 form part of these accounts.

DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION
as at 31 March 2019

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

	Note	2019 £000	2018 £000
Non-current assets:			
Property, plant and equipment	*6*	2,341	2,290
Intangible assets	*7*	882	801
Financial assets – Student loans	*11.1*	2,542,115	2,302,930
Financial assets – Other	*12*	89,718	103,019
Total non-current assets		2,635,056	2,409,040
Current assets:			
Trade and other receivables	*16*	76,123	82,897
Financial assets	*12*	15,747	15,747
Cash and cash equivalents	*15*	772	572
Total current assets		92,642	99,216
Total assets		2,727,698	2,508,256
Current liabilities:			
Trade and other payables	*17*	(82,753)	(103,063)
Provisions	*18*	(3,000)	(3,000)
Total current liabilities		(85,753)	(106,063)
Total Assets less Current Liabilities		2,641,945	2,402,193
Non-current liabilities:			
Provisions	*18*	(48,788)	(51,542)
Other payables	*17*	-	-
Financial liabilities	*11.2*	(2,038)	(2,789)
Total non-current liabilities		(50,826)	(54,331)
Total assets less total liabilities		**2,591,119**	**2,347,862**
Taxpayers' equity & other reserves:			
General fund		2,589,537	2,346,291
Revaluation reserve		1,582	1,571
Total equity		**2,591,119**	**2,347,862**

Signed

Noel Lavery
Accounting Officer
25 June 2019

The notes on pages 107 to 152 form part of these accounts.

STATEMENT OF CASH FLOWS
for the year ended 31 March 2019

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

	Note	2018-19 £000	2017-18 £000
Cash flows from operating activities			
Net operating expenditure	*SOAS2*	(871,621)	(920,643)
Adjustments for non-cash transactions	*3,4,5*	29,019	67,639
(Increase)/Decrease in trade and other receivables	*16*	6,774	(13,654)
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure	*16*	(8,571)	469
Increase/(Decrease) in trade and other payables	*17*	(11,075)	(24,659)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	*17*	(10,750)	11,086
Use of provisions	*11.2,18*	(3,423)	(3,477)
Net cash inflow/(outflow) from operating activities	*SOAS3*	**(869,647)**	**(883,239)**
Cash flows from investing activities			
Purchase of non-financial assets	*6*	(91)	(109)
Proceeds from disposal of non-financial assets		-	3
Repayment of Loans - principal	*12*	13,500	8,000
Repayment of Loans - interest	*12*	2,176	2,409
Student Loan Funding	*11.1*	(355,501)	(345,641)
Student Loan Repayments	*11.1*	92,442	89,411
Net cash inflow/(outflow) from investing activities		**(247,474)**	**(245,927)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		1,109,327	1,111,994
From the Consolidated Fund (Supply) – prior year		14,009	15,429
Net financing from the National Insurance Fund		6,349	3,507
Net financing		**1,129,685**	**1,130,930**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**12,564**	**1,764**
Payments of amounts due to the Consolidated Fund		(3,129)	(14,079)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**9,435**	**(12,315)**
Cash and cash equivalents at the beginning of the period	*15*	**(13,347)**	**(1,032)**
Cash and cash equivalents at the end of the period	*15*	**(3,912)**	**(13,347)**

The notes on pages 107 to 152 form part of these accounts.

DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for the year ended 31 March 2019

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

	Note	General Fund £000	Revaluation Reserve £000	Taxpayers' Equity £000
Balance at 31 March 2017		**2,130,587**	**1,558**	**2,132,145**
Net Assembly Funding		1,111,994	-	1,111,994
National Insurance Fund		4,826	-	4,826
Supply (payable)/receivable adjustment	*16*	14,009	-	14,009
CFERs payable to the Consolidated Fund	*17*	(3,129)	-	(3,129)
Comprehensive Net Expenditure for the Year	*SOAS2*	(920,643)	50	(920,593)
Notional costs	*3*	8,512	-	8,512
Auditor's remuneration	*3*	98	-	98
Other reserves movements including transfers		37	(37)	-
Balance at 31 March 2018		**2,346,291**	**1,571**	**2,347,862**
Net Assembly Funding		1,109,327	-	1,109,327
National Insurance Fund		5,935	-	5,935
Supply (payable)/receivable adjustment	*16*	4,759	-	4,759
CFERs payable to the Consolidated Fund	*17*	(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)	-
Balance at 31 March 2019		**2,589,537**	**1,582**	**2,591,119**

The notes on pages 107 to 152 form part of these accounts.

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2018-19 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 89 to 95 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 Investments

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

1.6 Investment in Associates

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

1.7 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, and interest receivable. It includes not only the Department's accruing resources, but also any income payable to the Consolidated Fund.

(b) Other Operating Income includes income received from the European Union in support of departmental activities.

Where material, these are shown separately at Note 5. Income is stated net of Value Added Tax (VAT).

1.8 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.

1.9 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: £18,330, and from 1 April 2019 the threshold will be £18,935) 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 Statement of Comprehensive Net Expenditure. 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 through the Statement of Comprehensive Net Expenditure.

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

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

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

1.16 ***Provisions***

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

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

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 10 and Note 11.

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 2020-21, the accounting boundary for Departments will change and there will also be an impact on Departments around the disclosure requirements under IFRS 12. Arm’s Length Bodies apply IFRS in full and their consolidation boundary may change as a result of the new Standards.

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	2020-2021	Change: 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 2020. 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. Impact on the Department: The Department does not anticipate any material effect of bringing on-balance sheet former operating leases through applying the new standard.

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.

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 2017-18 is shown in the Performance Analysis section (page 39-46). The figures shown below include all budget categories, DEL, AME and Non-Budget, together with Non-Supply income and expenditure (SOAS2).

	2018-19			2017-18
	Gross Expenditure £000	Income £000	Net Expenditure £000	Net Expenditure £000
Operating Segments				
Economic Development & Infrastructure	42,879	(230)	42,649	44,849
Economic Development & Infrastructure – Repayment of assistance in respect of the Presbyterian Mutual Society	(47)	(2,144)	(2,191)	(2,414)
Invest Northern Ireland & Tourism	119,490	-	119,490	141,103
Employment & Skills	296,569	(6,949)	289,620	262,153
Student Support & Higher Education	404,277	(47,277)	357,000	407,973
Tourism Ireland Ltd.	13,647	-	13,647	12,724
InterTradeIreland	4,469	-	4,469	3,148
Representation and Regulatory Services	22,395	(3,145)	19,250	14,739
EU Structural Funds – ERDF Support for Economic Development	708	(438)	270	343
EU Programmes	35,114	(26,251)	8,863	8,845
EU Community Initiatives	5,119	(4,343)	776	194
EU Peace	5,807	(4,936)	871	143
Total	**950,427**	**(95,713)**	**854,714**	**893,800**

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

	2018-19				2017-18
	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
Operating Segments					
Economic Development & Infrastructure	42,649	(5)	-	42,644	44,806
Economic Development & Infrastructure – Repayment of assistance in respect of the Presbyterian Mutual Society	(2,191)	-	-	(2,191)	(2,414)
Invest Northern Ireland & Tourism	119,490	(9)	-	119,481	141,097
Employment & Skills	289,620	(6,625)	-	282,995	262,148
Student Support & Higher Education	357,000	(4,798)	-	352,202	407,973
Tourism Ireland Ltd.	13,647	-	-	13,647	12,724
InterTradeIreland	4,469	-	-	4,469	3,148
Representation and Regulatory Services	19,250	(62)	5,938	25,126	19,486
EU Structural Funds – ERDF Support for Economic Development	270	-	-	270	343
EU Programmes	8,863	-	-	8,863	8,845
EU Community Initiatives	776	-	-	776	194
EU Peace	871	-	-	871	143
Total	**854,714**	**(11,499)**	**5,938**	**849,153**	**898,493**
Reconciling Items:					
Finance, Corporate Services and Top Management				22,688	22,150
Foreign exchange				(220)	-
Total Net Expenditure per SOCNE				**871,621**	**920,643**

3. Other Administration Expenditure

	2018-19 £000	2017-18 £000
Staff Costs[1]:		
Wages and Salaries	22,407	20,660
Social Security Costs	2,232	2,040
Other Pension Costs	4,922	4,544
Goods and Services	6,900	5,191
Non-cash items:		
Notional Accommodation costs (DoF)	4,006	4,255
Other notional costs	4,775	4,257
Auditors' remuneration and expenses	90	98
Total	**45,332**	**41,045**

[1] *Further analysis of staff costs is located in the Remuneration and Staff Report on page 82.*

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

- National Fraud Initiative Exercise £1,156 (2017-18: £nil).

4. Programme Expenditure

	Note	2018-19 £000	2017-18 £000
Staff Costs[1]:			
Wages and Salaries		14,180	13,928
Social Security Costs		1,344	1,308
Other Pension Costs		3,139	(1,192)
Current Grants		793,224	808,164
EU Grants		35,966	15,960
Goods and Services		9,424	8,301
Non-voted expenditure	*SOAS2*	5,938	4,823
Non-cash items:			
Student Loans Fair Value Adjustment	*11.1*	22,493	-
Financial liability and impairments	*11.1, 11.2*	(402)	160,397
Borrowing costs (unwinding of discount) on financial liability	*11.2, 18*	320	505
Depreciation and Amortisation	*6,7*	111	111
Provision/(release) provided for in year	*18*	-	(3,000)
Investment Revaluation	*12*	(46)	(116)
Profit on disposal of property, plant and equipment		-	(3)
Loss on disposal of property, plant and equipment		2	4
Total		**885,693**	**1,009,190**

[1] *Further analysis of staff costs is located in the Remuneration and Staff Report on page 82.*

Grants includes staff costs of £1.1m (2017-18: £1.4m) 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 £23.8m (2017-18: £24.5m). This amount includes DEL spend of £nil (2017-18: £2.2m) and AME spend £23.8m (2017-18: £22.3m) as included in the Statement of Assembly Supply (pages 89 to 95);

- Goods and services (admin and programme) includes RHI expenditure of £3.6m (2017-18: £3m);
- Trade payables at Note 17 includes £18.2m for RHI (2017-18: £14.8m); and,
- Financial Commitments at Note 9.2 includes £100m for RHI (2017-18: £25.7m).

5. Income

	Note	2018-19 £000	2017-18 £000
Administration		-	4
Programme		1,729	2,279
Student Loan – Effective Interest		-	96,391
Science Research Investment Fund		1,307	1,330
Insolvency Service & Fees and Charges		2,813	3,544
Other Services Fees and Charges		29	61
Co-funded ALB income (NI Screen (from Department for Communities))		1,826	-
Invest NI CFER		9	7
Rents		2	2
Interest Receivable	*12*	2,330	2,478
EU		49,359	23,496
Total		**59,404**	**129,592**

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

- Administration income £nil (2017-18: £4k);
- Programme income £4k (2017-18: £43k);
- Insolvency Fees and Charges £58k (2017-18: £68k);
- Other Service Fees and Charges £5k (2017-18: £8k); and,
- Invest NI £9k (2017-18: £7k).

The Department does not derive any material income from contractual arrangements as set out in IFRS 15.

Income had previously included effective interest on student loans as these were carried at amortised cost under IAS 39. Under IFRS 9, student loans are now carried at fair value through the Statement of Comprehensive Net Expenditure. All movements are now reflected in the fair value adjustment at Note 4.

6. Property, Plant & Equipment

2018-19

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

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 2019
Buildings – Consumer Affairs Building, Newtownbreda, Belfast	31 March 2019

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

Included in the above are fully depreciated assets with a valuation of £696,305 (2017-18: £719,301) which are still in use.

2017-18

	Land £000	Buildings £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000	Total £000
Cost or valuation						
At 1 April 2017	**1,075**	**1,000**	**346**	**92**	**663**	**3,176**
Additions	-	-	22	5	39	66
Disposals	-	-	(19)	(42)	(56)	(117)
Revaluations	-	-	-	4	5	9
At 31 March 2018	**1,075**	**1,000**	**349**	**59**	**651**	**3,134**
Depreciation						
At 1 April 2017	**-**	**-**	**338**	**90**	**481**	**909**
Charged in year	-	43	14	2	30	89
Disposals	-	-	(19)	(42)	(52)	(113)
Revaluations	-	(43)	(2)	1	3	(41)
At 31 March 2018	**-**	**-**	**331**	**51**	**462**	**844**
Carrying amount at 31 March 2018	**1,075**	**1,000**	**18**	**8**	**189**	**2,290**
Carrying amount at 31 March 2017	**1,075**	**1,000**	**8**	**2**	**182**	**2,267**
Asset financing						
Owned	1,075	1,000	18	8	189	2,290
Finance Leased	-	-	-	-	-	**-**
Carrying amount at 31 March 2018	**1,075**	**1,000**	**18**	**8**	**189**	**2,290**

7. Intangible Assets

2018-19

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

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.

2017-18

	Software Licence £000	Externally Developed Software £000	Assets under Construction £000	Total £000
Cost or valuation				
At 1 April 2017	**8**	**1,002**	**701**	**1,711**
Additions	-	-	61	61
Disposals	-	-	-	-
Revaluations	-	4	-	4
At 31 March 2018	**8**	**1,006**	**762**	**1,776**
Amortisation				
At 1 April 2017	**7**	**945**	**-**	**952**
Charged in year	1	21	-	22
Disposals	-	-	-	-
Revaluations	-	1	-	1
At 31 March 2018	**8**	**967**	**-**	**975**
Carrying amount at 31 March 2018	**-**	**39**	**762**	**801**
Carrying amount at 31 March 2017	**1**	**57**	**701**	**759**
Asset financing				
Owned	-	-	762	762
Finance Leased	-	39	-	39
Carrying amount at 31 March 2018	**-**	**39**	**762**	**801**

8. Impairments

	2018-19 £000	2017-18 £000
Charged direct to the Statement of Comprehensive Net Expenditure	-	-
Taken through the Revaluation Reserve	-	-
Total	**-**	**-**

9. Capital and Other Commitments

9.1 Capital Commitments

There were no contracted capital commitments at 31 March 2019 or 31 March 2018 not otherwise included in these financial statements.

9.2 Other Financial Commitments

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

	2018-19 £000	2017-18 £000
Other		
Not later than one year	586,286	600,047
Later than one year and not later than five years	95,776	227,611
Later than five years	70,087	926
Total	**752,149**	**828,584**

Renewable Heat Incentive Scheme
Included in the commitments figure is an amount of £100m (2017-18: £25.7m) 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, Training for Success and Disability Support. The contracts have been awarded for the delivery of this training provision up to July 2019, with approval secured to take up the first one year extension option (extending to 31 July 2020). As the cost of the delivery will be dependent on demand, at this point it is not possible to quantify the cost.

Tourism
In 2012, the Department for Enterprise Trade and Investment entered into a 25 year agreement with a third party operator in relation to a visitor and heritage attraction to fund any shortfalls should they arise. As any liability would be dependent on performance, at this point it is not possible to quantify any cost.

9.3 Commitments under Leases

Operating Leases

There were no operating leases for land or buildings at 31 March 2019 or 31 March 2018.

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

	2018-19 £000	2017-18 £000
Other		
Not later than one year	-	4
Later than one year and not later than five years	-	-
Later than five years	-	-
Total	-	4

10. Investments - Financial Instruments

Financial Instruments

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

The Department measures and presents financial instruments in accordance with IAS 32, 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 transfers 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.

No financing was provided by the Department in 2018-19, but in 2017-18, £8m was provided by SIB as a loan to Queens University Belfast (QUB) in respect of the Consolidation of Biological Sciences project. The contractual loan agreement is between QUB and SIB who have accounted for this transaction in their accounts.

Financial Assets at Carrying Value

Student loans are included as loans and receivables, and are measured at fair value through the Statement of Comprehensive Net Expenditure. 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.

	2018-19 £000	2017-18 £000
Fair value through the Statement of Comprehensive Net Expenditure		
Student loans	2,542,115	-
Total	**2,542,115**	**-**

	2018-19 £000	2017-18 £000
Amortised Cost		
Student Loans	-	2,302,930
Financial assets – Loans	105,465	118,766
Trade receivables	8,344	7,931
Cash and cash equivalents	(3,912)	(13,347)
Total	**109,897**	**2,416,280**

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.

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 through the Statement of Comprehensive Net Expenditure.

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

Credit Risk

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

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

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.

Liquidity Risk

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

Foreign Currency Risk

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

At 31 March 2019, with a 10% weakening or strengthening of sterling against the euro, the outturn for the year would have increased by £4.75m or decreased by £4.75m respectively. This movement is attributable to the foreign exchange gains or losses on translation of euro denominated payables.

11. Investments - Financial Instruments

11.1 Student Loans

	Note	2018-19 £000	2017-18 £000
Total value of loans at 1 April		**2,302,930**	**2,112,002**
Adjustment to opening balance		(4)	-
Additional Loan funding	*SOAS3*	354,434	345,502
Repayments		(92,752)	(89,999)
Effective Interest		-	96,391
New impairments		-	(160,966)
Fair value adjustment		(22,493)	-
Total value of loans at 31 March		**2,542,115**	**2,302,930**

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 through the Statement of Comprehensive Net Expenditure (previously amortised cost under IAS 39). 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 2018-19, the effective interest was 4.09% (2017-18: 4.71%).

As outlined on the Statement of Cash Flows, student loan cash advances for the period were £355.5m (2017-18: £345.6m) and repayments were £92.4m (2017-18: £89.4m).

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:

	2018-19 £000	2017-18 £000
Tuition Fee Loans payable to Institutions	212,902	207,166
Maintenance Loans payable to students	141,532	138,336
Total	**354,434**	**345,502**

11.1a 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 2019 was £3,539m (31 March 2018: £3,229m).

	Note	2018-19 £000	2017-18 £000 (restated)
Opening face value of loan book at 1 April		3,229,155	2,939,064
Less: opening balance adjustment		(4)	-
		3,229,151	**2,939,064**
Additional loan funding	*SOAS3*	354,434	345,502
Repayments		(92,752)	(89,999)
Capitalised interest		49,539	35,411
Policy write offs		(1,072)	(823)
Closing face value of loan book at 31 March		**3,539,300**	**3,229,155**
Closing fair value adjustments/impairments at 31 March		(997,185)	(926,225)
Carrying value at 31 March		**2,542,115**	**2,302,930**

11.1b 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 2019.

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 2018-19 other than updated forecasts by the Office for Budget Responsibility (OBR).

Key Assumptions used to calculate the Student Loan balance at 31 March 2019

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

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

Discount Rate

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

Graduate Earnings and Employment

The Stochastic Earnings Path model (adapted for Northern Ireland) assumes future real earnings growth (net of RPI inflation) to be 1.3 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 2018-19 is 2.72%, decreasing to 3.07% in 2021-22 decreasing to 3.00% over the long term. The table below shows the relative percentage changes in RPI that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £24.8m
Increase by 1%	-2.735%
Decrease by 1%	2.808%

Earnings Growth

Higher earnings growth will increase repayments. The OBR forecast for 2018-19 average earnings growth is 3.21% rising to 4.30% in the long term. The table below shows the relative percentage changes in earnings growth that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £24.8m
Increase by 1%	3.284%
Decrease by 1%	-3.166%

Bank of England Base Rate

The OBR forecast for the Bank of England base rate in 2018-19 is 0.50%, rising to an average of 3.84% in the long term. The table below shows the relative percentage changes in the Bank of England base rate that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £24.8m
Increase by 1%	18.982%
Decrease by 1%	-16.053%

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

- The long term OBR assumption for earnings growth is currently 4.30%. Since 2010, the ONS outturn figures for the financial year average of earnings growth have varied between 1.32% and 2.48%.
- The long term OBR assumption for RPI is currently 3.00%. Since 2010, the ONS outturn figures for March RPI have varied between 0.90% and 5.30%.
- The long term OBR assumption for base rates is currently an average of 3.84%. Since 2010, the outturns have all been either 0.25% or 0.50%.

11.2 Financial Liabilities

	2018-19 £000	2017-18 £000
Balance at 1 April	**2,789**	**3,660**
New Impairment	(402)	(569)
Borrowing costs	74	119
Receipts/ (Payments)	(423)	(421)
Balance at 31 March	**2,038**	**2,789**

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.

12. Financial Asset Investments

	Presbyterian Mutual Society £000	Share Capital H&W plc £000	Catalyst Inc. (formerly Northern Ireland Science Park) £000	Total £000
Gross amount:				
Balance at 1 April 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
Balance at 31 March 2019	**123,430**	**4,600**	**7,035**	**135,065**
Provision:				
Opening Provision at 1 April 2018	(25,000)	(4,600)	-	(29,600)
Provided in year	-	-	-	-
Balance at 31 March 2019	**(25,000)**	**(4,600)**	**-**	**(29,600)**
Balance at 31 March 2019	**98,430**	**-**	**7,035**	**105,465**

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	15,747	-	-	15,747
Later than one year	82,683	-	7,035	89,718
	98,430	**-**	**7,035**	**105,465**

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). This loan may be recoverable, in full or in part, depending on property market valuations in future years.

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.

DfE retains flexibility, as required, to manage loan repayments to ensure full repayment of the fixed term loan taking into consideration potential movements pertaining to the property market. While anticipating full repayment of the fixed term loan, DfE has agreed with the Joint Supervisors an amendment to the timing and quantum of cash flows in certain years. This has resulted in an adjustment to the fair value of the fixed term loan of £0.046m in the current year.

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.

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 totals £6.42m. An initial repayment free period was granted as part of the terms of the loan agreement, with actual cash repayments not due to commence until 2020-21. The loan is then due to be repaid in twenty equal annual instalments.

12.1 Financial Asset Investments *(comparative)*

	Presbyterian Mutual Society £000	Share Capital H&W plc £000	Catalyst Inc. (formerly Northern Ireland Science Park) £000	Total 2017-18 £000
Gross amount:				
Balance at 1 April 2017	144,911	4,600	6,670	156,181
Additions	-	-	-	-
Interest charged	2,298	-	180	2,478
Loan Repayment – Principal	(8,000)	-	-	(8,000)
Loan Repayment – Interest	(2,409)	-	-	(2,409)
Revaluation	116	-	-	116
Balance at 31 March 2018	**136,916**	**4,600**	**6,850**	**148,366**
Provision:				
Opening Provision at 1 April 2017	(25,000)	(4,600)	-	(29,600)
Provided in year	-	-	-	-
Balance at 31 March 2018	**(25,000)**	**(4,600)**	**-**	**(29,600)**
Balance at 31 March 2018	**111,916**	**-**	**6,850**	**118,766**

13. Investment in Associates

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

	2018-19 £000	2017-18 £000
Balance at 31 March	3,340	3,340
Provision at 31 March	(3,340)	(3,340)
Net Balance at 31 March	-	-

14. Investments and Loans in other Public Sector Bodies

Student Loans Company Limited

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

15. Cash and Cash Equivalents

	2018-19 £000	2017-18 £000
Balance at 1 April	(13,347)	(1,032)
Net change in cash and cash equivalent balances	9,435	(12,315)
Balance at 31 March	**(3,912)**	**(13,347)**

	Note	2018-19 £000	2017-18 £000
The following balances at 31 March were held at:			
Commercial Banks	*17*	(4,684)	(13,919)
Mineral and Petroleum Bank Account		771	571
Cash in hand		1	1
Balance at 31 March		**(3,912)**	**(13,347)**

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.

16. Trade Receivables, Financial and Other Assets

	2018-19 £000	2017-18 £000
Amounts falling due within one year:		
Trade receivables	8,344	7,931
Deposits and advances	415	-
Other receivables:		
VAT	337	290
EU receivables	56,489	55,188
Due from National Insurance Fund	1,976	2,633
Prepayments and accrued income	3,803	2,846
Amounts due from the Consolidated Fund in respect of supply	4,759	14,009
	76,123	**82,897**

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

- EU receivables £6.6m (2017-18: £nil)
- Trade receivables £2.6m (2017-18: £3m)

17. Trade Payables, Financial and Other Liabilities

	2018-19 £000	2017-18 £000
Amounts falling due within one year:		
Trade payables	8,360	3,423
Accruals and deferred income	55,202	60,057
EU Programme Advances	-	21,846
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:		
received	76	130
receivable	6,625	-
Amounts due to the Consolidated Fund in respect of excess Accounts Receivable:		
received	-	-
receivable	7,363	2,999
Amounts due to National Insurance Fund	443	689
Bank overdraft	4,684	13,919
	82,753	**103,063**
Amounts falling due after more than one year:		
Other payables, accruals and deferred income	-	-
Total	**82,753**	**103,063**

18. Provisions for Liabilities and Charges

	H&W £000	Long Service Award £000	2018-19 £000
Balance at 1 April 2018	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)
Balance at 31 March 2019	**49,916**	**1,872**	**51,788**

Analysis of expected timing of discounted flows

	H&W £000	Long Service Award £000	2018-19 £000
Not later than one year	3,000	-	3,000
Later than one year and not later than five years	30,987	-	30,987
Later than five years	15,929	1,872	17,801
Balance at 31 March 2019	**49,916**	**1,872**	**51,788**

18. Provisions for Liabilities and Charges *(comparative)*

	H&W £000	Early Departure Costs £000	Long Service Award £000	2017-18 £000
Balance at 1 April 2017	58,284	8	1,920	60,212
Borrowing costs (unwinding of discount)	386	-	-	386
Provided in year	-	-	-	-
Provisions release	(3,000)	-	-	(3,000)
Bad debts previously provided for and written off in the year	-	-	-	-
Provisions utilised in year	(3,000)	(8)	(48)	(3,056)
Balance at 31 March 2018	**52,670**	**-**	**1,872**	**54,542**

18.1 Harland and Wolff plc

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

The provision reflects the Department's potential liability to meet claims against Harland and Wolff plc in respect of employers' and public liability arising from the collapse of the company's insurer, Chester Street Insurance Holdings Ltd, which went into liquidation on 10 January 2001. This provision is based on actuarial advice and includes known claims, largely in relation asbestos related illnesses of former employees of Harland and Wolff plc, together with unreported claims which may be expected to crystallise over a significant number of years. The amount £49.9m, as at 31 March 2019 (2017-18: £53m), represents the total estimated liability discounted back to today's prices. The accuracy of the provision is subject to a considerable number of uncertainties including future mortality rates, emergence of new diseases, improvements in medical treatments, and the outcome of future legal cases. An updated actuarial review outlining projected future cash flows was completed during 2016-17 which resulted in a moderate increase in the overall discounted liability. This was primarily due to an update in the rates used to discount future cash flows, the basis of which is disclosed in Note 1.16, which more than offset reductions in estimated future cash flows.

The overall undiscounted liability in relation to the employers' and public liability claims referred to above, based on actuarial advice, amounts to £51m (2017-18: £54m).

18.2 Early Departure Costs

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

The scheme was closed to new entrants in April 2014, as a result of changes to the Civil Service Compensation Scheme (NI). No further provision required.

18.3 Long Service Award

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

19. Contingent Liabilities

The Department has the following quantifiable contingent liabilities:

a. Litigation Cases

There are thirty-six outstanding cases as at 31 March 2019. The estimated total potential liability is less than £250k.

On 17 June 2019 the Court of Appeal ruled in respect of Northern Ireland Industrial Tribunal’s November 2018 decision on cases taken against the PSNI on backdated Holiday Pay. It is recognised that the final detail remains to be determined by the Industrial Tribunal who will be guided by the Court of Appeal’s Judgement.

This is an extremely rare and complex case with a significant number of issues that still need to be resolved, including further legal advice with regards to the Judgement; the scope; timescales; process of appeals and engagement with Trade Unions. The legal issues arising from this judgment and the implications for the Northern Ireland Civil Service (NICS) and wider public sector will need further consideration. The Department of Finance (DoF) is leading a piece of work across the NICS, reviewing the implications for each of the major staffing groups across the public sector.

Until there is further clarity when this work has concluded, and based on the inherent uncertainties in the final decision that will be made, a reliable estimate cannot be provided at this stage.

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 appeal of the 2017 regulations was to result in those regulations being set aside then the potential cost of this is estimated to be in the region of £19m (£8m 2018-19, £11m 2017-18). The prospect of complex and prolonged litigation is foreseeable.

c. Future Redundancy Payments

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

d. Presbyterian Mutual Society

As described at Note 12, 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. Current valuations by the Joint Supervisors indicate there may be a potential shortfall of £2.75m if the majority of the properties are sold as intended in 2020-21. Our independent insolvency advisors indicate potential upsides identified may reduce this potential shortfall to between £0.1m and £0.2m. Any potential shortfall is contingent upon the performance of the property market in the remaining period of the loan. The Department considers that this shortfall is unlikely to arise and therefore it is appropriate to disclose this as a contingent liability.

20. Financial Guarantees, Indemnities and Letters of Comfort

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.

The Department did not enter into any quantifiable guarantees, indemnities or did not provide any letters of comfort in 2018-19 or 2017-18. 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.

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

21. Related Party Transactions

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

In addition, the Department, its NDPBs, IABs and CBBs have undertaken a number of material transactions with other Government Departments and other central Government bodies. Most of these transactions have been with the Department of Education, the former Social Security Agency (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 £3m to enable it to meet its liabilities. The directors of Harland and Wolff plc are appointed ex-officio. During 2018-19, the directors were Stephen McMurray, Iain McFarlane and Terry Coyne, all of whom were departmental employees.

Grace Nesbitt

Grace Nesbitt is an Independent Member of the Departmental Audit Committee and is also a Director of Access Employment Ltd previously known as Acceptable Enterprises Limited. During the year, the Department provided funding to Acceptable Enterprises Limited under the ESF Programme of £138,004 (2017-18: £108,517). At 31 March 2019, the outstanding amount payable was £20,264 (2017-18: £26,591).

In addition, in 2017-18, the following related party transactions also took place:

Claire Hughes

Claire Hughes was a Non-Executive Director of the Department who, during 2017-18, received £697 of grant funding under the Domestic Renewable Heat Incentive Scheme. At 31 March 2018, the outstanding amount payable was £697.

Ciaran Doran

Mr Doran was Director of European Fund Management Division during 2017-18. Mr Doran’s brother, Brian Doran, is Chief Executive of Southern Regional College (SRC). SRC is a Non-Departmental Public Body of the Department as outlined above, and also received funding for the delivery of other programmes. During 2017-18, the Department provided total funding of £32,672,535 to SRC. At 31 March 2018, the outstanding amount payable was £521,594.

22. 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 2018 £000	Gross inflows £000	Gross outflows £000	31 March 2019 £000
Insolvency Account	22,281	10,747	(10,658)	22,370
Northern Ireland National Insurance Fund	29,180	6,581	(1,289)	34,472

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

Insolvency Account

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

Northern Ireland National Insurance Fund

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

23. Entities within the Departmental Boundary

These 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:

- InterTradeIreland; 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.

24. Events after the Reporting Period

The Northern Ireland (Regional Rates and Energy) (No.2) Act 2019 received Royal Assent on 26 March 2019. The Act provides for the implementation of a long-term tariff structure for the Non-Domestic Renewable Heat Incentive Scheme. The Act also makes provision for DfE to operate voluntary buy-out arrangements under which participants can apply to receive a “buy-out” payment in respect of an accredited RHI installation. The Act came into effect on 1 April 2019.

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

25. Harland and Wolff plc

Harland and Wolff plc is wholly owned by the Department.

The Department holds all 10,996,082 shares of H&W plc which were purchased in September 1989 at a cost of £4.6m (fully provided, see Note 12). 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 2019

	2018-19 £000	2017-18 £000
Turnover	-	-
Administration expenses	-	-
Operating loss	-	-
Interest receivable and similar income	-	-
Profit on ordinary activities before taxation	-	-
Tax on ordinary activities	-	-
Profit for the financial year	-	-

Statement of Financial Position as at 31 March 2019

	2018-19 £000	2017-18 £000
Current Assets		
Debtors	48,830	50,646
Cash at bank and in hand	1,106	2,062
	49,936	52,708
Creditors: amounts falling due within one year	(20)	(22)
Net current assets	**49,916**	**52,686**
Provisions for liabilities	(49,916)	(52,686)
Net assets	-	-
Capital and reserves		
Called up share capital	10,996	10,996
Profit and loss account	(10,996)	(10,996)
Total shareholders' funds	-	-

Date of Authorisation for Issue

The Accounting Officer authorised the issue of these financial statements on 27 June 2019.

(1) Total Departmental Spend

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

Table 1.1

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

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

Table 1.2

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

(2) Non-Budget

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

Table 2

	2016-17 £000 Outturn	2017-18 £000 Outturn	2018-19 £000 Outturn
Grant in aid	402,275	350,010	359,288
Notionals	8,423	8,610	8,871
Total Non-Budget	**410,698**	**358,620**	**368,159**
of which:			
Invest NI	166,802	123,616	96,000
Tourism NI	23,960	17,000	23,819
Tourism Ireland	12,194	12,568	13,503
FE Colleges	181.640	180,967	193,705
NI Screen	-	-	14,582
Other	26,102	24,469	26,550

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

	2016-17 £000 Outturn	2017-18 £000 Outturn	2018-19 £000 Outturn
SOAS1 Analysis of NET Resource			
Outturn by Function			
Request for Resources A	725,243	634,599	574,241
Annual Managed Expenditure	(58,804)	(77,269)	(64,998)
Non-Budget	410,698	358,620	368,159
	1,077,137	**915,950**	**877,402**
Tables Above			
Resource DEL	695,368	608,579	563,110
Capital DEL	28,175	18,240	(1,991)
Resource AME	(58,624)	(77,270)	(64,971)
Capital AME	290,772	290,877	311,195
Non-Budget	410,698	358,620	368,159
	1,366,389	**1,199,046**	**1,175,502**
Reconciling Items	289,252	283,096	298,100

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

(3) Departmental Administration Spend

Table 3

	2016-17 £000 Outturn	2017-18 £000 Outturn	2018-19 £000 Outturn
Economic Development & Infrastructure	5,883	7,895	10,326
Invest NI & Tourism	469	487	536
Employment and Skills	21,606	20,277	21,136
Student Support & Higher Education	2,251	2,325	2,209
Tourism Ireland Ltd	156	156	144
Intertrade Ireland	138	163	118
Representation & Regulatory Services	1,278	1,132	1,277
Total Admin	**31,781**	**32,435**	**35,746**
of which:			
Salaries	26,644	27,244	29,561
Consultancy	371	363	505
Other	4,766	4,828	5,680

Introduction

1 In each of the past three 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's 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 is likely to report later this year.

3 My report below provides an update on:

- how actions taken by the Department have reduced the total costs of the scheme;
- how the reduction in tariff rates from 1 April 2017 has affected the behaviour of applicants on the scheme;
- actions taken by the Department to increase the number of inspections and deal with any enforcement action; and
- why I have again decided to qualify my regularity audit opinion.

Total costs in 2018-19

4 In order to protect the Northern Ireland block budget and to bring the scheme back within the allocated budget, 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. Table 1 below compares the tariff rates payable for a typical 99kW boiler accredited onto the scheme before 18 November 2015.

Table 1: Change in tariff rates

	Original tariff rate up to 31 March 2017	**Revised tariff rate 1 April 2017 to 31 March 2018**	**Revised tariff rate 1 April 2018 to 31 March 2019**	**Current tariff rate from 1 April 2019**
Heat generated per kWh **up to** 1,314 hours (15 per cent of total hours in the year)	6.4 p/kWh	6.7 p/kWh	7.0 p/kWh	1.7 p/kWh
Heat generated per kWh **over** 1,314 hours	6.4 p/kWh	1.5 p/kWh	1.6 p/kWh	0 p/kWh
Maximum kWh payable	Unlimited	400,000 kWh*	400,000 kWh*	N/A

Source: Department
Based on rates payable for a 99kW boiler accredited before 18 November 2015
***400,000kWh equates to a 99kW boiler operating approximately 11 hours each day of the year**

5 The implementation of the rates after 2017 have significantly reduced the cost of the scheme to the extent that in 2018-19 the annual cost of RHI was less than the share of the UK budget available by £1.9 million.

Table 2: Annual costs of the RHI scheme

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

Source: Department

6 The further significant reduction in RHI tariffs from 1 April 2019 will further significantly reduce the cost of RHI, well below the Annually Managed Expenditure (AME) budget available. I asked the Department to comment on this underspend and whether it intends to introduce any new Renewable Energy schemes in the future to help utilise this budget. The Department told me that work to consider the required support for renewable energy, in general, is being considered as part of the development of the new draft Energy Strategy for Northern Ireland during the next 18 months.

Change in behaviour of applicants

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. This reduction may suggest that in some cases, heat produced before April 2017 was not actually required for business purposes but rather some of it may have been produced only with a view to increasing RHI payments.

8 I reported last year on the significant reduction in both heat output produced and the corresponding RHI payments and this trend has continued again in 2018-19 as outlined in Tables 3 and 4 below. This reduction is particularly marked in the forestry/wood sector which would typically have been engaged in generating heat for wood drying.

Table 3: Heat Output produced in MWh for all applicants

Sector	Number of installations	2016-17	2017-18	2018-19
		MWh	MWh	MWh
Agriculture	1,114	425,470	288,110	240,340
Forestry/ wood	186	79,935	42,572	35,485
Other	828	178,177	125,620	106,655
Total	**2,128**	**683,582**	**456,302**	**382,480**

Source: Department ***Based on meter readings to May 2019***

Table 4: Non – domestic RHI payments for all applicants

Sector	Number of installations	2016-17	2017-18	2018-19
		£million	£million	£million
Agriculture	1,114	26.8	12.9	12.8
Forestry / wood	186	4.7	1.6	1.5
Other	828	10.5	7.2	6.8
Total	**2,128**	**42.0**	**21.7**	**21.1**

Source: Department

9 I asked the Department to comment on the apparent changes in behaviour shown following the new tiered rate and cap on heat output imposed from 1 April 2017. The Department told me that the introduction of the tiered tariff to all applicants had significantly reduced the incentive to produce unnecessary heat. Before the changes in 2017 the incentive paid for each kWh of heat generated was higher than the cost of production whereas after 1 April 2017, once the applicant reached the top of Tier 1, the incentive paid reduced to significantly below the cost of production.

Inspections

10 I reported last year that the Department had appointed inspectors to complete 250 site inspections in 2018-19, selected on a risk assessment basis. As well as this the Department had undertaken to complete a series of desk reviews of sites assessed as low risk.

11 Since then the Department has conducted its full risk assessment based on a number of criteria such as heat generation statistics, existence of a previous heating system, number of installations and the date installed. Based on this it was able to produce a list of installations in risk order which was then used to create a list of the first 250 sites to be inspected based on the highest risk.

12 The first site inspections commenced in July 2018 and consisted of a technical examination to ensure that the information initially provided to Ofgem when the installation was accredited was the same as the actual configuration and that it was complying with regulations. In addition there was analytic and other desk based work carried out to support ongoing eligibility and in particular to examine if the heat generated since installation is reasonable for the purpose stated by the applicant.

13 The Department has also used its own team to carry out desk based work on those installations which it assessed to be of a lower risk. This was intended to cover 200 sites in the first year.

14 As at 31 May 2019, 231 of the highest risk sites had been visited for the technical inspection. The Department expects site visits for all of its initial list of 250 to have been completed by the end of June 2019. In addition to this all of the 200 desk reviews on the least risky sites are well progressed.

15 The results of the site visits are added to the desk based analysis for consideration by the Department's compliance team. In some cases these are also passed on to Ofgem for further consideration.

16 One of the main compliance issues that has been identified has been an apparent over production of heat prior to the introduction of the tiered tariff in April 2017. As I reported before, the rate for most applicants before that date incentivised them to generate as much heat as possible, even if it was not required, as the rate of subsidy was higher than the cost of fuel. Once the new tariff was implemented, the incentive to generate heat that was greater than needed disappeared and in many cases the heat actually generated reduced substantially, as set out in tables 3 and 4 above.

17 The generation of heat only for the purpose of earning RHI payments is a breach of scheme rules and therefore the Department has agreed a process with Ofgem of identifying these cases. The outcome for these cases could range from no action (where the applicant provides more information to support the change in heat use) to revocation from the scheme and a clawback of payments already made.

18 Other compliance issues include:

- Inability of some participants to provide required information such as maintenance records or incomplete fuel records;
- Inaccurately reported meter readings;
- Errors in heat loss assessments submitted by the applicant;
- Undeclared carbon trust loans[1]; and
- Lack of evidence of appropriate planning permission or building control approval.

19 Of the 231 site visits that had been completed, the Department has told me that it is working its way through its assessment of them and that this assessment can take several months. At this stage its experience has been that around 80 per cent of cases it looks at have potentially serious compliance issues, mainly in relation to past over production of heat. Of these the Department expects that it will be able to resolve most cases through discussion and other actions short of revocation although it estimates that around 10 per cent will enter the Department's revocation process with potential clawback of grant already paid. Only 3 have so far been revoked from the scheme as a result of the latest inspection process, but the Department has told me that it expects this to increase over the coming months.

20 The Department has also told me that its intention is to complete the programme of site inspections and desk reviews before the end of June 2021. I am pleased

[1] Carbon Trust Loan is an interest free loan between £3,000 and £400,000 to businesses in Northern Ireland, investing in energy-saving projects, supported by Invest Northern Ireland. The loan is repayable within four years.

that progress is now being made in carrying out the reviews, but would point out that the key measure of success will not be in simply carrying out the reviews, but in the ability to take action where problems are identified. I asked the Department to comment on its plans to follow up on issues raised by its inspection process. The Department told me that due to the range and complexity of issues being identified and the need to treat participants in a consistent and proportionate manner, a suite of detailed approaches have been developed to support evidence based decision-making on compliance issues, capable of withstanding legal scrutiny.

Future tariffs

21 Independent experts employed by the Department carried out extensive reviews of the tariffs and concluded that the reduced tariffs were still over generous and further changes to the scheme were required to comply with State Aid rules and an agreed rate of return of 12 per cent per annum. Following a public consultation in 2018, engagement with the European Commission and the completion of a business case approved by the Department of Finance, legislation was passed through Westminster agreeing the preferred option for the future of the scheme, which included:

- A new tariff structure (see Table 1) for all small and medium sized biomass boilers to apply from 1 April 2019 for the remainder of the scheme which the Department has calculated to give a rate of return of 12 per cent in line with the adopted State Aid decisions;
- The new tariff structure will result in the subsidy paid to the owner of each individual boiler on the scheme receiving a maximum of approximately £2,000 for a 99kW boiler or £4,000 for a 199kW boiler each year for the remainder of the scheme; and
- The introduction of a voluntary buy-out opportunity for participants on the scheme that wish to avail of it. This provides a one-off payment equivalent to a 20 year, 12 per cent rate of return which is in line with the initial intent of the scheme, less any payments received to date.

22 The Northern Ireland Affairs Committee is currently conducting a short inquiry into the new tariff structure and its report will be published in due course.

Judicial Review – RHI regulations

23 As set out in note 19 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. If the appeal against the 2017 regulations was to be successful then this could result in an additional cost to the Department of around £19 million for the two years of 2017-18 and 2018-19. However on the basis of their legal advice the Department are anticipating that the case will be successfully defended. It is likely that these legal cases will continue for some time.

Qualified audit opinion

24 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.

25 I have qualified my audit opinion again this year for the same reasons as the last three years:

- ongoing weaknesses in controls in the non-domestic RHI scheme; and
- expenditure incurred without the necessary approvals in place.

26 While costs have again reduced in 2018-19 because of the introduction of the revised tariff in 2017, 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.

27 I have also qualified my regularity audit opinion because of a lack of required approvals being received by the Department in relation to a significant proportion of the spending on the non-domestic RHI scheme. At the commencement of the scheme in November 2012, the Department of Finance and Personnel (DFP – now the Department of Finance (DoF)) had given approval for expenditure under the scheme up to 31 March 2015. DETI (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.

28 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 2018-19 in relation to these 788 applications amounted to £8.1 million (£7.9 million in 2017-18) 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.

29 The above irregular expenditure incurred on the non-domestic RHI scheme in 2018-19 of £8.1 million represents 38 per cent of the total expenditure incurred on the non-domestic RHI scheme of £21.1 million in 2018-19. It is likely that a similar proportion of the non-domestic RHI expenditure will continue to be irregular each year until 2037-38 when the scheme closes unless the Department is able to obtain retrospective approval from DoF. To date, the Department has not formally sought retrospective approval for these 788 applications, but will consider it following the implementation of the long term tariff structure.

Payments to North South bodies

30 I have also qualified my regularity opinion in relation to expenditure in 2018-19 of £13.6 million to Tourism Ireland Limited and £4.4 million to InterTradeIreland (total of £18 million) as due to absence of a DfE Minister, it was not possible to secure North South Ministerial Council (NSMC) approval for the 2018 and 2019 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.

Presbyterian Mutual Society

31 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 is due to be settled in full by November 2020.

32 Joint Supervisors (who are licensed Insolvency Practitioners) manage the affairs, of the Society. The property investment portfolio consists of 14 sites of retail and office properties predominantly located in the north of England and in Scotland. At 31 March 2019, the total amount to be repaid is £98 million and final settlement of the loan due in November 2020) is dependent on the 14 properties being sold. Independent insolvency advisors employed by the Department to assess the Joint Supervisors' plans have indicated that they expect the loan to be repaid in full, however, given their strategy of selling these properties by November 2020, there is no certainty over the total repayment of the loan until these sales have taken place. I note the Department's disclosure in relation to this loan at notes 12 and 19 to the accounts and I shall continue to closely monitor progress and may report on this matter in the future.

Conclusion

33 The Department continues to address issues arising from my previous reports on the non-domestic RHI scheme, but significant challenges remain. I welcome the fact that the inspection process has now got substantially underway although the proof of success in this work will be the extent to which proper enforcement action can be taken, in line with the Scheme regulations, where serious issues are identified.

34 Whilst recognising that progress has been made on the non-domestic RHI scheme, I continue to have concerns about the operation of this scheme. 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.

Kieran J Donnelly

KJ Donnelly
Comptroller and Auditor General
27 June 2019

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