# DFE-194599

Department of
Enterprise, Trade and Investment
www.detini.gov.uk

**FROM:** **Trevor Cooper**

**DATE:** **5 December 2011**

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**TO:** **1. Andrew Crawford**
**2. Arlene Foster MLA**

**JANUARY MONITORING 2011/12 – SUPPLEMENTARY INFORMATION**

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|---|---|
| **Issue:** | To provide details of additional adjustments to be addressed as part of January Monitoring. |
| **Timing:** | **URGENT**. January Monitoring is being conducted in two stages, with returns for the first stage due with DFP by Wednesday 7 December along with the AME forecasting return. Returns for the second stage are due with DFP by Tuesday 3 January. As the ETI Committee's final meeting prior to recess is Thursday 15 December, we committed that, if possible we would provide it with written briefing on both stages of Monitoring by Monday 12 December. |
| **Need for referral to the Executive:** | Executive approval is required for in-year monitoring rounds. DFP is in the lead. |
| **Presentational Issues:** | There will likely be media interest in the reduced requirements presented by the Department. |
| **Freedom of Information:** | It may be possible to claim exemption for this submission as policy under consideration. |
| **Programme for Government /PSA Implications:** | None identified at this stage. |
| **Financial Implications:** | The additional adjustments include a £25m reclassification from Capital to Capital Grant, £25m Departmental AME budget for the revaluation of the PMS Mutual Access Fund repayable loan and a reduction in Non Cash DEL budget of £0.61m. |
| **Legislation Implications:** | Not Applicable. |
| **Statutory Equality:** | High-level Impact Assessments have been completed for all in-year monitoring proposals. |

**Recommendation:** a) That you consider the information below and confirm that you are content that we include the matters set out in this minute in the DETI submission to DFP.

b) That you also confirm that you are content for this material to be used to prepare briefing for the ETI Committee on both stages of January monitoring, and submit written briefing on Monday 12 December.

**<u>Background</u>**

1. We submitted details of DETI's proposed adjustments for January Monitoring to you on Wednesday 20 November, and indicated that separate briefing on further adjustments to PMS and Annually Managed Expenditure (AME) budgets would be provided.

**<u>PMS</u>**

**Reclassification**

2. The Budget 2010 outcome contained additional financial provision for the resolution of the PMS issue. This comprised an increase in RRI borrowing of £175 million and the allocation of £25 million current expenditure, both on a one-off basis. To top these sums up to the amounts needed to deliver the package developed by the Ministerial Working Group, the NI Executive agreed to commit £25 million from current expenditure in 2011/12, to be recouped as part of the approved PMS Scheme workout in later years.

3. Initially Capital budget cover was secured from DFP for the £175m loan, with the £50m Mutual Access Fund (MAF) classified as Resource by DFP. As part of October Monitoring, the £50m MAF was reclassified as Capital.

4. Following further legal advice, it has been determined that, while the NI Executive's contribution of £25m should remain categorised as a loan as there is an obligation on PMS to repay this amount, the HM Treasury contribution of £25m should be re-classified as a Capital Grant as it is not repayable. This switch from Capital to Capital Grant requires DFP (but not Executive) approval.

**Annually Managed Expenditure**

5. In relation to the carrying value of the loan of £200m (ie the £175m loan and the £25m NI Executive loan referred to above), information contained in the latest KPMG due diligence report suggests that the £25m loan should be revalued down/provided against in full.

6. As a result a £25m adjustment is required to the Departmental AME budget to revalue the £200m loan introduced to its estimated fair value of £175m. This would result in the loan being carried in the Departments Accounts at a value of £175m at this point in time. The value will of course be subject to annual review and could be subject to movement depending on how the property markets in which the Society invested perform in future years as the Administrators effect an orderly disposal of these property assets.

## Further Annually Managed Expenditure (AME) Adjustments

### *Invest NI Provisions*

7. Invest NI holds AME budget cover for a number of provisions, including provisions relating to loans and shares held with client companies. Invest NI carries out an annual review of all companies with which it has loans and shares, and the realisable value of these may be subject to revaluation if the client company valuation decreases, with a charge made against the AME budget.

8. Following discussions with DFP, it has now been established that any permanent diminution in the value of loans and shares in the event of company closures should also be charged to AME budgets, whereas previously budget cover was held in Non Cash DEL. This has resulted in a £0.61m reduction in the Non Cash DEL budget. Invest NI considers that the existing AME budget cover does not require further adjustment.

### *Exchange Rate gains/losses*

9. We are currently in discussion with DFP around the appropriate budgetary treatment of exchange rate gains and losses. It may be necessary to provide further briefing on this issue.

## Recommendation

10. That you note the above and, if content, confirm that DETI can present these additional proposals to DFP and the ETI Committee for the January monitoring and AME forecasting exercises. Please note that we are scheduled to provide written briefing on January monitoring for the ETI committee by 12 December.

11. I would be happy to discuss.

Trevor Cooper

**TREVOR COOPER**

cc David Sterling
Colin Lewis
David Thomson
Alastair Ross, MLA, Assembly Private Secretary
Bernie Brankin
Philip Angus
David Beck