Northern Ireland Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Update on the Presbyterian Mutual Society Rescue Plan

19 January 2011

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR FINANCE AND PERSONNEL

Update on the Presbyterian Mutual Society Rescue Plan

---

19 January 2011

Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:
Mr Bill Pauley) Department of Finance and Personnel

The Chairperson (Ms J McCann):
I welcome Mr Bill Pauley. Please make an opening statement and then members will ask questions.

Mr Bill Pauley (Department of Finance and Personnel):
Thank you. Department of Finance and Personnel (DFP) provided a paper to the Committee in December 2010. In short, the paper is accurate. As of today, we do not have any additional update or further points to make in respect of the current position, the budgetary implications or DFP responsibilities. I am happy to answer questions about that.

Ms Purvis:

Thanks, Bill. Many of the savers with the Presbyterian Mutual Society (PMS) are elderly people, and I have just been reading that the solution has to be finalised and that it is subject to the agreement of the Executive, the Assembly, the EU and the creditors and members. Do you have a timeline for that process? It seems that it will be pretty long and drawn out.

Mr Pauley:

Much of the detailed work in developing the schemes is being done in the Department of Enterprise, Trade and Investment (DETI), as is the process of securing EU state-aid approval for the loan element of the proposed PMS solution. From DFP’s perspective, the provision that has been made in the Government’s spending review and in our proposed Budget 2010 is for the 2011-12 financial year. We need those payments to be made in that financial year. Everyone hopes that it will not happen at the end of that financial year, but some of the processes involved, including the EU state-aid approval and the Assembly legislating, probably mean that it will not happen in the first quarter. However, soon after that, people will start to see it moving forward to creditors and members of the society.

Ms Purvis:

I take it that the discussions with the EU around state-aid rules are ongoing?

Mr Pauley:

I understand that DETI has sent details of the proposed loan to the European Commission. Initially, the European Commission processes usually involve an informal paper in which people send in their plans before they submit a formal paper. I understand it to be at that first stage, but that is being taken forward by DETI. Just before the Christmas break, the Minister of Enterprise, Trade and Investment said that it was sent to the European Commission in December.

Ms Purvis:

In relation to the £175 million of borrowing from the reinvestment and reform initiative (RRI), a research paper that we received the week before last said that there will be an increase in the interest rate of borrowing from the RRI. It states that in future years the administrator will make both interest and principal repayments on the loan. Who makes the repayments on the loan initially? How will the administrator be able to make those interest repayments in the future?

Mr Pauley:

When the administrator was preparing his business plan, as part of the guidance that we were involved in, we advised him of the National Loan Fund's rate of interest that applied at that time, which was 3·03%. Obviously, the rate at which the Government can borrow can change, potentially, on a daily basis. The fact remains that he prepared his business plan at 3·03%.

The rate that will apply to any loan that we take out will be the rate that applies on the day that it is taken out. I have not checked the rate since before Christmas. At that time, it was 2·2% or 2·3%. The key point is that it was less than the interest rate on which the administrator prepared his business plan. Therefore, as we sit here today, we have some headroom, if you like, between the figure on which the administrator prepared his business plan and the rate that we would get if we were to borrow that money today from the National Loans Fund. However, the figure that will matter will be the figure that is in place on the day that we take out the loan. Obviously, in light of inflation figures that were announced yesterday, people are speculating on the way that rates will go. We cannot be sure exactly what the rate will be on the day that we might take out a loan. However, at this time, some headroom remains with regard to the basis on which his business plan was prepared and the current rate at which we would borrow money from the National Loans Fund.

Ms Purvis:

Initially, when the loan comes out, who is responsible for interest repayments?

Mr Pauley:

DFP will be responsible for making repayments of the loan fund. The loan to the administrator is separate from that. It is envisaged that that money will flow through DETI. The Department will produce a letter-of-offer loan agreement with the administrator that will specify the terms of the loan to him. That agreement will include a requirement for him to pay interest. He will pay that through DETI. His business plan used a rate of 3·03%. The plan showed that, from the income that he receives from some PMS assets, he will be able to make principal and interest repayments in line with our loan requirements so that the income that DETI will receive from him should, at least, cover the interest that we have to pay to the National Loans Fund. Therefore, in overall public expenditure terms, it will be zero or, depending on the rate of the day, a small plus or minus *[Inaudible.]*.

Ms Purvis:

Forgive my ignorance. When was the administrator's business plan finalised?

Mr Pauley:

It was initiated in July 2010. I believe that we got a final copy in September 2010, at which time it was subjected to a due-diligence test prior to the report of the ministerial working group just before the spending review announcement of 20 October 2010. Therefore, we got it around September. Its assumptions were subjected to due-diligence testing in time for decisions that were made by the Government and announced as part of the the spending review on 20 October 2010.

Ms Purvis:

Is there any mechanism for review of that business case given the current state of the market and changes and fluctuations in prices? If the administrator's business case is based on a certain market value in order to sell off assets and make repayments, and that changes drastically or something else happens, is the administrator able to review the business case and negotiate with Departments, for example, to increase payments and pay off the loan more quickly or to reduce payments if the assets are not realised?

Mr Pauley:

I think that the simple answer to that is yes. At this minute, no money has changed hands, as everyone is all too aware. As with any new scheme that the Government might bring forward, whether it is for the PMS or anything else, DFP approval is required. It has been approved since the first business plan was prepared last summer and since it was subjected to its due diligence test in October. I anticipate that we will ask DETI for an update of any key assumptions that were made in the business plan as part of its submission to us to seek approval for a new scheme.

Ms Purvis:

Finally, is there ongoing consultation with creditors and members of the PMS to keep them updated as the process comes to final agreement?

Mr Pauley:

DFP is not formally discussing progress with creditors or members of the PMS, but DETI is in discussion with the administrator. The Department has received correspondence from interested parties in the PMS, and we have responded in line with all correspondence, but DFP has no formal communication process with creditors and members. As they communicate with the Department, we speak to them in the same way that we speak to anyone else in that position.

Mr O'Loan:

Thank you for coming to talk to the Committee. It is very important that we get evidence around this issue. At the outset, I will state my broad stance in relation to the matter. I am hopeful that there will be a resolution that will benefit all the different types of savers of the Presbyterian Mutual Society. I have particular sympathy for people who are most vulnerable in society, such as those who have small savings for their latter days. There are other categories of savers, some of whom were speculative. However, there must be a balance, and the scheme must be fair to the whole of our electorate, recognising that it was a closed society that was open only to members of the Presbyterian Church. It also has to represent a proper discharge of public moneys, and there are large public moneys involved: £25 million from the British Government; £25 million from the Northern Ireland Executive; and a large loan of £175 million. There have to be sound protections around the use of that money. That is my perspective.

Given how long this matter has been going on, I find it amazing that so little information has been given to elected representatives of the Assembly. It is now part of the draft Budget, and, very soon, Members of the Assembly will have to make a decision around a final Budget, and this scheme will be one significant element of it. To do that, we are entitled to information, but we do not have that. The paper that the Department provided is not fair to elected Members and does not give us the kind of information that we need and want.

Recent questions for written answer to the Department, including some questions from me, are virtually all prefaced with, "the details of the scheme are not yet finalised." Yet, we are told that a business plan has been written, and an initial request for approval to the EU has been made on the basis of that. A further example relates to the nature of the £25 million from the British Government. Many people have assumed that to be a gift, but a recent answer to me states clearly that it is not a gift and that the British Government expect that to be paid back.

Can you give us the broad architecture of the scheme, the nature of the mutual access fund, as distinct — if it is distinct — from the borrowing of the £175 million? How will that operate?

When money is made available to the administrator to administer a scheme, what will be the nature of the queue for beneficiaries of that? I will come back to the point about the public money. However, in broad terms, how will that money then be used?

Mr Pauley:

The full details of the two separate elements of the proposed solution have not yet been finalised. That makes it difficult to give a precise answer as to how it may operate. However, DFP has been involved and was closely involved with the proposed solution right up to the point at which the ministerial working group reported to the Prime Minister in October 2010. The key features of the scheme are that there would be a £175 million loan to the administrator, which would enable him to provide that money to the creditors of the PMS. That would allow time for PMS assets to recover over an approximate, but not yet definitive, 10-year period, over which, the hope is, the assets of the PMS will recover sufficiently to allow everyone, members and creditors of the society, to get back all resources that they may have in the society. That is the broad premise.

Recognising that that covers a 10-year period, the second element is a mutual access fund to enable smaller members of the Presbyterian Mutual Society to have early and immediate — if next year is immediate — access to their money. That is why the Government, in the spending review, provided £175 million in additional money and made a £25 million contribution to the fund.

As you said in your introduction, the desire was to have a fair and just solution to the Presbyterian Mutual Society's situation, which included, as a consideration of the ministerial working group, fairness to taxpayers and wider society. The Government were anxious that the solution also had to be fair to others who had suffered loss during the downturn of the past few years. Therefore, the proposed solution attempts to have minimum impact on our budgetary situation and the expenditure that we have available within that.

Principal and interest on the £175 million loan will have to be repaid on broadly commercial terms, which is the phrase currently being used. What precisely those commercial terms are will depend on the interest rates that prevail at the time at which the loan is made. We also understand that that will be a requirement of the European Union in making such a loan. As part of state-aid requirements, the loan would be set at a commercial level, otherwise, the difference between the commercial level and the rate applied could be considered aid. However, that is not to say that

that could not be approved.

The intention of the mutual access fund, the £25 million contribution from the Government and the £25 million from the Executive is that those amounts would allow early or immediate access to money for smaller members. However, the requirement is that, at the end of the 10-year workout period, those amounts would be repaid prior to any further distribution to members of the society. In that way, the impact on the amount of public expenditure that is available to us is minimised.

The Department has been asked whether that money is a gift, a loan or a donation. In all situations to date, we have called it a contribution. I have not looked up the dictionary definitions of some of those terms. However, it is not a gift, because we hope that the assets will recover sufficiently for the money to be paid back. Indeed, the administrator's business plan shows that that can be achieved if the assets recover sufficiently, and we would, therefore, be able to get that money back, just as everyone else might be able to get all of their money back. In that sense, it is not a gift or a donation.

I do not think that "loan" is the correct word either. Up to now, as far as I am aware, there has been no discussion about an interest rate that is normally part of any loan being applied to either of those £25 million amounts. It is, therefore, not a loan. We have used the word "contribution" to describe it, and the term "repayable grant" is indicative of what is hoped for and intended here.

All of that is designed to enable smaller savers in particular in the Presbyterian Mutual Society to get early access to their money and to allow enough time for the assets to recover so that everyone who has put in to this proposed solution will hopefully get their money returned to them in full. However, that cannot be guaranteed, because we are depending on the recovery of mostly property-based assets. That is uncertain, particularly over a period as long as 10 years.

Mr O'Loan:

I am grateful for that answer, which is helpful and clarifying. However, I endorse my point that that kind of information should have been given to us formally in writing, and I, therefore, ask that that be done.

Before I move to further substantive questions, I have a couple of supplementary questions about that point. You say that there is no suggestion of interest being applied to the two £25 million amounts. However, I think that there ought to be. There ought to be at least the creation of a fund that includes interest so that, at the end of the day, if the assets accumulate in a substantial way, that money can then be returned to the Northern Ireland Executive with interest.

As we know, a court case established that the creditors — those who had large investments in and made loans to the PMS — had first call on any of the PMS's disposable assets following administration, and payment has already been made to them. Is it legally clear that it is possible to separate out the support scheme in such a way that a payout may be made to the shareholders before full payment is made to creditors?

Mr Pauley:

At the end of the 10-year work out of that —

Mr O'Loan:

This is the problem: we do not know the full dynamics. In the first instance, will there be enough money to completely pay the creditors so that this issue disappears? Will there then be some money that can be given to shareholders initially? Is that the nature of it, or does a certain division of money have to be made to creditors and shareholders from the outset?

Mr Pauley:

My understanding is that the £175 million loan is to facilitate the necessary payment to the creditors.

Mr O'Loan:

In its entirety?

Mr Pauley:

In its entirety; that is my understanding. DFP is not working up the detail of the scheme with the administrator or looking at the precise numbers of that at this moment in time, but my understanding is that the £175 million will be sufficient to meet the outstanding moneys owed to the creditors. That will allow the interests that the creditors hold to pass to whoever is administering the loan, whether that is DETI as a Department or someone appointed to do so. If, in the future, the assets recover, the creditors would no longer have that entitlement, because it will have been provided for in the loan put in place by the administrator. It is that that buys the time, and it is subject to the creditors' agreement as well.

Mr O'Loan:

Some might question the fairness of that scheme. The people who had very big investments, some of whom were — crudely — investors, will get reimbursed much more easily than people who may be very dependent on relatively small sums of money. To those people, they may be very considerable sums of money — up to £20,000.

In relation to risk, we are told that, at current property values, if there was a liquidation of the society at this point in time it would be around £123 million — that figure was recently stated — short of what would be needed. You have already said that for the scheme to work it depends on property values rising over the notional 10-year period. What assessment of risk has there been on that? It seems to put public money in considerable jeopardy.

That is my single biggest concern about the scheme from the public interest perspective. Has there been any independent judgement of that? In the past we were used to property prices rising, but we now know that we live in a very different world. I understand that the portfolio consists of good commercial properties, and you might want to comment on that, but, nonetheless, nobody can say that prices will definitely rise to any extent. It is even possible that they might fall. What is the nature of the risk to public money in that matter?

Mr Pauley:

The ministerial working group commissioned KPMG, after a competition, to carry out a due diligence assessment of the administrator's business plan. That due diligence assessment was carried out on a conservative basis, and the hope was that all of the risks would be considered, if not on the upside, in the possible worst-case scenarios of what might happen in that period. That due diligence assessment was able to conclude — at the time it was carried out, which was October — that the loan could be repaid in full over the 10-year period.

Mr O'Loan:

The private sector would not touch the scheme, even with an offer of governmental support. I have to assume that that was because it thought the risks were too great. That suggests to me that I, as a representative of the public, am being asked to carry a risk that I should worry about.

Do you have any reaction to that?

Mr Pauley:

The report was commissioned by DETI, but we saw the report, as our Minister was on the ministerial working group. The due diligence assessment was carried out by a team in KPMG who were as qualified as anyone we could find to carry out the assessment. Based on the analysis —

Mr O'Loan:

Why would the private sector not touch it?

Mr Pauley:

It is for the private sector to answer that. As far as I am aware, the reasons why people who considered it and turned it down were not specified.

Mr O'Loan:

The first stage of the application process for state-aid approval went to them on 5 or 6 January. Why was it so late? We have been told that it could take many months. What is the likelihood of success? Could it be turned down?

Mr Pauley:

DETI prepared it, so you would have to ask its officials. However, as I understand it, certain details need to be included on whether, and at what point, we are confident that we have the money to make a proposal to the European Union. That is linked to the Budget timetable, but you would have to ask DETI about the detail.

There is always a chance that Europe will turn down a proposal. However, analysis of other situations where state aid has been approved in this situation has been carried out. Although there is nothing exactly similar to the Presbyterian Mutual Society situation, the expectation is that, in time, we will get state-aid approval.

Mr O'Loan:

The Minister of Enterprise, Trade and Investment, Arlene Foster, recently referred to a contribution from the Presbyterian Church of at least £1 million. That opened up the idea that governmental thinking might be that there should be a greater contribution than £1 million, and that is also my view. The Church is closely involved and its duties are considerable, given its links to the governance of the PMS and given that PMS's members are exclusively members of the Church. What is Executive or ministerial thinking on an appropriate contribution from the Church?

Mr Pauley:
The Minister of Enterprise, Trade and Investment is taking that forward. I am not certain of the precise position that she has reached on it.

Mr McKay:
Some of my questions have already been covered. When do you foresee the assistance package being put in place, when and if approval is cleared by the Executive, the Assembly and the EU? Will it happen before the summer? How certain are you of it?

Mr Pauley:
Some things that we have identified as requiring approval before the money can hit the ground can be done in tandem with that. Our expectation is that state-aid approval might take until the summer. Our hope is that we can complete many of the other tasks prior to that. It needs to go to court to get agreement before it can be presented to the creditors and members of the society to allow them to accept a solution. However, I am unsure of the timing. I am also unsure how the administrator will put that to the court, how long it might take to decide, and how long it will take in the processes that are required to arrange it.

I am not aware of the detail of any legislative requirements for giving a certain number of weeks' or days' notice to call such meetings. However, our hope is that we can complete the agreements of which we are in control concurrently with the process of getting EU state-aid approval, which we hope to have by the summer.

Mr McKay:
I appreciate that there is a lack of detail, as Declan said. However, I want to talk about the Executive and the Assembly's contribution of £200 million and, in particular, the £175 million under RRI. Repayments will be principally in interest, but when will the public money for the 10-year loan start to be recouped?

Mr Pauley:

The administrator's business plan was carried out on the basis that he would make principal and interest repayments on a biannual basis. Therefore, he would start paying back money at the end of year 1 and throughout the 10-year period. If we borrowed from the National Loans Fund on an interest-only basis, the interest rate would be higher. The plan was carried out on the basis that principal and interest repayments would be made on a profile basis starting in year 1 and continuing each year to cover that. Our guidance to the administrator was that, for the public expenditure effects in Northern Ireland to be zero, we needed the interest payments that the Executive would make to the National Loans Fund to be covered by the income that we received from him. Therefore, the basis on which this has been constructed is that he will make principal and interest repayments that are at least in line with what we have to make on the loan that would be taken out on RRI.

Mr McKay:

Is there a breakdown of figures for how the £175 million will be repaid in each of those 10 years?

Mr Pauley:

If you put "£175 million 10-year loan" into the National Loans Fund website, you can see what would be required to be repaid on such a loan at the interest rate that prevails on the day on which the loan is taken out. Those numbers can be plus or minus given the interest rate changes because we operate under those. We are watching that as changes occur.

Mr McLaughlin:

We have covered many of the issues of concern. I want to focus on one point: the lack of detail is unacceptable. When we consider the private sector's attitude to becoming involved in any recovery programme or project, and when we take into account issues such as the global economic situation that are completely beyond the control of the Executive, and which, of course, affect the value of the portfolio under discussion, it seems to me that the Assembly is being asked to carry a very high risk, notwithstanding the assurances — vague assurances, given that no detail has been given to back them up — that we can manage the process of principal and interest repayments over the period.

What concerns me is the less than satisfactory input from the Presbyterian Church. The figure of £1 million will resonate in the wider community as a less than satisfactory attempt to meet its responsibilities. Secondly, small savers are at the bottom of the food chain with regard to their being protected. If those two issues were addressed satisfactorily — and let me say, personally, that I would like the matter to be resolved — the public would be more much more prepared to carry that risk at a time when the Executive cannot build schools or carry out work that they want to do in the Health Service. We are being asked not to pose too many questions and to send it through on a nod and a wink.

I want to address the circumstances in which I, personally, would be prepared to say that that is acceptable. I do not speak for anyone else. Many small savers and older people have been dealt a cruel blow, and I am anxious to assist them. The fact that a court has found in favour of the speculators and those who gambled on PMS's performance to give them a hierarchy of interest, if you like, grates with me. We are still dealing with the business plan; when it will be finalised is indeterminate. Unless the issue is dealt with on the basis of fair play to all, it will be extremely difficult to justify.

Mr Pauley:

You commented on the court decision and said that small savers are at the bottom of the food chain. That is the situation in which we find ourselves; it is why the proposed solution has come forward in that way. The DETI Minister and her officials are in discussions on the £1 million.

Mr McLaughlin:

That figure is in your report.

Mr Pauley:

The figure of at least £1 million is in the report. It is known that discussions on that amount are taking place. I want to comment on the suggestion that assurances about the assessment that has been carried out on the administrator's business plan are vague. It was an extremely thorough assessment. It was carried out —

Mr McLaughlin:

Who carried out the assessment?

Mr Pauley:

KPMG.

Mr McLaughlin:

I will not comment on the assessment because I do not know about it; therefore it is vague to me and to the Committee. We have not been told about it. We do not know what the portfolio is or of what it consists, nor do we know whether the projections are based on market recovery. How could we? I see the very real possibility of the Executive being exposed. It could almost be guaranteed that small savers would lose out. That is not an equitable approach.

Notwithstanding that, I am not saying that we defy the court ruling in favour of creditors; I am saying that the entire issue needs to be revisited with regard to the business plan. The plan can address both the requirement of the court judgement and small savers' interests. A more upfront and robust approach is needed from the Presbyterian Church towards its responsibilities, which are evident to many people. That is against the background of the Executive's being forced to accept that they cannot build schools and support public services as they would like. There is trouble ahead with the current trajectory. As one who is prepared to support that and to step up to the line, I am not convinced that I could stand over that package.

Mr Pauley:

The mutual access fund has been put in place to assist small savers. It has been structured in such a way that the smallest of small savers get higher proportions of their money back, although the precise percentages are among the details that have not yet been worked out. However, it will focus on the smaller savers, if that is clear.

Mr McLaughlin:

Where is that clear? Where do I see that? Is it in the report and I am not seeing it?

Mr Pauley:

DFP is not working on that aspect; that work is being done in detail by DETI. We have not seen the proposed nature of the scheme.

Mr McLaughlin:

Will the elected representatives in the Assembly see the detail before they are asked to sign off on the scheme?

Mr Pauley:

It would be for DETI to bring forward through its Minister to the Executive for approval in the way that we have described. The Assembly will have to approve legislation for the scheme and for the loan scheme under the Financial Assistance Act (Northern Ireland) 2009, and we will see the detail at that time.

Mr McLaughlin:

I hope that someone is listening to this and paying attention to a point that I am going to make; others may agree or disagree: the Assembly wants to help — it wants to help small savers in particular — but you need to give us the arguments to justify any decision to approve the proposal. We have not had those today.

Mr Girvan:

Thank you for your presentation, Bill. I am sympathetic to the small investors. You said earlier that the £175 million would cover all creditors; is that correct?

Mr Pauley:

That is my understanding.

Mr Girvan:

If that were the case, as soon as that money is injected into the PMS, could it start a second run on the PMS, with every investor pulling their money out? That would create a difficulty. What mechanism is in place to ensure that a second run on the PMS does not ensue as soon as the cash injection is made?

Mr Pauley:

The proposal would require that the interests of the creditors of the PMS who were in receipt — through the administrator — of the amounts that they held in PMS would transfer either to the Department, if it is DETI, or to the body appointed to administer the loan agreement. If their full interest is dealt with through the £175 million loan, their interest in it would end and their shares in the society would transfer to the body established to administer the loan. At the end of the period they cannot get additional money on top of what their interest is at this moment in time.

Mr Girvan:

I appreciate that they will not get any more than what they have in there as currently held on record. That is not the point. The point is that, as soon as the money is injected into the PMS or the administrator to deliver, whether through the Department or another agency, as soon as it is available they will all grab it or say that they have held on long enough and that they want their money now.

The other point that I would like to see more detail on is the payback on interest. Primarily, we are dealing with property, which will not necessarily all be offloaded; much of it will receive rental income over time. Perhaps there is more detail in the business plan, but we do not have that information here. It would probably be of comfort to members if they could see a revenue base that would allow them to make the payments to the body that has lent to them.

There is also a further £50 million, which is made up of two blocks of £25 million. If the £175 million covers all creditors, what is the further £50 million for?

Mr Pauley:

It is for members, typically those who had under £20,000 invested in the society.

Mr Girvan:

Therefore, the total cover is not £175 million; it is £225 million.

Mr Pauley:

It is £225 million in total, but that will not provide for all the amounts available in the society; there needs to be a recovery in the assets for that to happen. The administrator’s business plan anticipates a revenue stream that includes rent from commercial properties that are part of the society’s assets and repayments of other loans that the society has made and that people are making throughout that. Therefore, one element of the income comes from the commercial assets that the society owns, and another comes from the loans that the society has made to its members and creditors being repaid over the period, in line with the profile on which they originally made mortgages or other loans. Therefore, the administrator has an income flow.

In December, the administrator produced his normal six-monthly report, which shows the income that he has received in the past six months against what was in his business plan, which was prepared last summer, and roughly in line with what was expected or at that level of income. The court requires him to produce that on a six-monthly basis, and he has done so.

Mr McNarry:
Many listening to this will be hoping that there will be no more setbacks; it seems to be dragging on. I declare an interest as a proud Presbyterian. I am not a PMS saver, but, like most people around the table and in the Assembly, I, too, have heard from many savers who are totally devastated and still unsure of the way forward, despite all the nice words.

The Government have dealt with the casino playing that we witnessed from the banks; however, I personally feel aggrieved by the manner in which they have dealt with the banks. I feel that I am paying for those who played with my money and lost it. I am anxious about that. Many people might get overexcited, as they did when they gambled with other people's money, and we need to be able to tell society that that culture is over. I hope that we can take steps in that direction.

Has the moral case for savers been secured to the extent that it now outweighs any legal impediment that might be put in the way of doing what is right by savers? Will the outcome and the direction in which your report seems to be heading be fully contained in the current Budget process, which is what we are interested in? If not, how will it be dealt with? Does it require to be separately resolved in the Executive and then in the Assembly?

In other words, I am reasonably comfortable that the Assembly can deal with it where it sits at the moment; however, if it is incomplete and is not addressed in the Budget process, it may be extracted and put into something else and more time will be lost.

Will the Executive be responsible for the risk that may be in the scheme or will the administrator be responsible? How is the administrator to be made accountable to those who are lending the money? How will he be made accountable over the 10-year period that we hope the fund will see us all through? `

Finally, will the Executive be entitled to — or will your Department request that the Executive should — have influence over the distribution of the moneys to be paid back? Anybody who has been hit by this is hit; if you are damaged, you are damaged. I am not saying that anybody can afford it. Some high rollers took a risk, but — as has been said often before — many people thought that they were supporting a Presbyterian activity and put small savings into the society, which they can ill afford to lose.

I would like clarity on the distribution. Who rolls out the numbers and decides that if a person has a certain amount of money, they might get it at such and such a date, and if they have twice or three times that amount, they might get it at such and such a date. The scheme could go haywire unless there is something agreed and some consent form from the savers themselves. It is wrong to say that someone who has £5,000 invested in the society is not hurting every bit as much as someone who may have £50,000 or £100,000. What it tells me is that the person who put £5,000 in could only really afford to put that amount in, and the person who put the big money in could afford that. I am anxious to know about the distribution. You can add that to the list of things that I have spoken about.

Mr Pauley:

You began with the moral case. Ministers who have been working on the issue have accepted that the words most often used are that a fair and just solution to the PMS situation is there. We are working under the direction of those Ministers, and I am clear that the desire for that fair and just solution exists. That is what we are trying to achieve.

Can it be achieved in the current Budget process? Budget 2010 proposes that the Executive make a £25 million contribution to the mutual access fund, and the Budget, when agreed, needs to include that element. The Government have made provision for the £175 million loan and their £25 million contribution to it. Those amounts are in for 2011-12, and we believe that the necessary agreements that we have listed can be in place in that financial year.

Mr McNarry:

If I may interrupt, we are taking a major position. You are saying that, within the budget process and the enabling of that process through the Assembly, the money will be there.

Mr Pauley:

That budget process will put in place the £200 million that the Government have given to the Executive and the £25 million. The intention is for all those payments to be made in 2011-12.

We no longer have end-year flexibility (EYF) arrangements, and the provision is being sought for 2011-12.

Mr McNarry:

We will not go into EYF.

Mr Pauley:

I raise that only in the context that the public expenditure (PE) planning process that we are undertaking has put that money in 2011-12.

Mr McNarry:

That is a key comment. That gives direction and timing, so that people may be able to say, “We’re on”.

Mr Pauley:

That provision is proposed in our budget process for 2011-12.

You talked about the loan and the risk to that. I am not personally working on the conditions of the loan to the administrator. That is happening in DETI. However, there will be conditions whereby he will have to report to the Department on performance against the repayment of the principal and interest elements of the loan and where he is or is not with that. As well as looking at the current year, I am absolutely certain that that will include an assessment of the roll-out of that into future years, to ensure that the loan can be repaid into the future with the applied conditions.

Mr McNarry:

I wonder whether, somewhere down the line, we could get sight of the conditions pertaining to the loan. Would that also tell us about the administrator’s role? Is he being paid out of that £175 million?

Mr Pauley:

Whoever is put in place to administer the £175 million —

Mr McNarry:

He or she then.

Mr Pauley:

He or she; the administrator or another could potentially be appointed to administer the loan.

Mr McNarry:

Will they be paid out of the money that is being given primarily for the savers?

Mr Pauley:

There will be an administration charge. The business plan that the administrator prepared last summer looked at all the costs, benefits and cash flow of what would be needed over the 10-year period, and that included a need to manage the assets and to continue to ensure that they provide the maximum revenue possible over the period.

Mr McNarry:

Do you have any idea what that charge or cost is likely to be over the 10 years?

Mr Pauley:

The administrator has published the amounts that he has charged so far.

Mr McNarry:

I know that he has.

Mr Pauley:

I have not seen what he is proposing or discussing with DETI under whatever arrangements are now in place for the detailed management of the loan into the future.

The Chairperson:

A figure of £1 million has been mentioned for the administrator's fee.

Mr Pauley:

He has charged for his work so far. However, he has published those charges. Currently, as an administrator, he is required by the court to publish a six-monthly report. He does that.

Mr McNarry:

Having come through what we have come through, and seem to still be going through on water and charges — I do not want to get into that — I do not want to compromise, delay or stand in the way of getting this within the budget process, because that is where it is going to be sealed. I hope that the information that our sister Committee for Enterprise, Trade and Investment may have on these things will come through. I am happy enough to leave it at that.

Mr Pauley:

Your other point was about the distribution of moneys in the scheme. The options that are being looked at indicate that the smallest savers, rather than the larger elements, will receive a higher proportion of their savings from the mutual access fund. Many different permutations of that can be put forward. How far you can go with people getting high percentages and perhaps all their money back at the smallest end and people who have more savings getting a lower percentage depends on the total amount in the mutual access fund.

Mr McNarry:

It is based on the money that is available to do that, and that is very important. I am mindful that some of my colleagues queried various aspects of it, such as the risks and the details. However, I hope that the Assembly decides that it will to take the issue forward as part of the Budget process, because that is the responsible thing for us to do. It would address the moral argument and the legal process that has been gone through. That is where it has taken us.

No one will be happy about this if they are a saver, but when it gets down to the nitty-gritty of distribution, as you said, someone might get a higher percentage and a bit more money, or the smaller savers might get in first, but there will be a queue. I would be uncomfortable if this institution were involved in that. I do not think that that is part of our job. Our job is to see that the funds are there. However, I would not want to just leave it at that, because the additional part of our duty is to be sure that the distribution is fair, because it involves our constituents. I would like you to address that and to tell me your thoughts on that. Will it be thought about after we secure everything and go to distribution?

Mr Pauley:

It is being thought about now and being looked at in detail. My understanding is that there are

Excel spreadsheets of many permutations of different amounts of money from the mutual access fund, including whether or not the church contributes £1 million or more and the different elements of it and percentages for different amounts of money, with different conditions and provisions made. There could be thousands of permutations, but certain elements are looking at what is fair and what is the best way to use whatever resources are available in the mutual access fund to focus on the smaller savers.

Will the Assembly get to see that? To get a solution, legislation will be required for two schemes that DETI will have to bring forward. One will be the loan scheme that will be given to the administrator, and that will allow the Assembly to look at the detail of what is proposed for that loan. The other, the mutual access scheme, will have to be brought forward, which will allow the Assembly to look at the detail of it. The details are not finalised yet, but they must be brought to the Assembly to get the necessary legal cover to make the schemes.

You talked about whether creditors and members of the society would agree. The court will have to agree to the PMS solution, because it is currently in the hands of the court. The legal requirement is also that the PMS creditors and members agree to the proposed solution. Those agreements are needed, or it cannot happen.

Mr McNarry:
I am raising it because clear protection is required for the people involved and also in the interests of fairness. I am also mindful — as we all are — that a deal was brought to us and concluded on Civil Service equal pay and we thought that that was over. We now find that 1,000 people seem to be excluded from it, and they seem to have legitimate rights.

The reason why I am being cautious about this scheme is that, when we actually do have it, we must be very clear that no one is excluded, because those who now feel grievances over Civil Service back pay feel as bad as many of those savers who found themselves in their current position. Because of that instance I cannot actually be sure, but I hope that with this scheme, given the number and type of people involved, no one will be excluded and everybody will feel that their position has been addressed. I am sure you will give me that assurance.

Mr Pauley:
Every effort will be made. There are many permutations, and many of those throw up an

anomaly some time in the middle by their nature or because of the change in the thresholds right at the threshold points. That happens on any such piece of work. However, people are working towards a fair and just solution.

Mr McNarry:

Thank you.

The Chairperson:

Thanks very much, Bill. You have heard the concerns of members of the Committee. During the debate in the Assembly on the issue, serious concerns were raised. You spoke about a just solution. Constituents and others, particularly people who put their life savings into the fund, have written to members. What we are hearing today is that there has to be a just solution.

You mentioned the Executive's £25 million contribution to the mutual access fund. We heard evidence from businesses and church leaders when the banks had public money injected into them to enable the building up of the economy. It turned out that that did not cascade down to small businesses and others who needed that money to keep going and keep people in employment. I would like to think that, in particular, the £25 million contribution from the Executive will ensure or in some way guarantee that the smaller savers, especially elderly people who invested their life savings will be top of the list and not bottom of the list when they try to get their money back again.

We would like some sort of guarantee to be written in for those savers who invested and abided by the guidelines of the society and only invested what they believed was being invested. They were not speculating with their savings; they were saving up for their retirement and old age. Members are saying that those people should be at the top of the list and not bottom of the list when the moneys are given out again.

I want to mention two other things. You referred to the Executive's £25 million contribution, and said that it was not a gift or a loan. Can we have some clarity on exactly what that is? It is public money from the block grant. Will that be given back to the Executive in the longer term? Someone also mentioned the administrator's fee. I know that the figure of £1 million has been bandied around. Could we have some clarity on whether that is the fee that the administrator will charge and where that money will come from?

I really would like some clarity on whether the just solution will include the smaller savers, who we have talked about here and on the Floor of the Assembly, and ensure that they get their money back. They did nothing wrong.

Mr Pauley:

On your point about whether the £25 million was a gift or a loan, the basis on which we are working falls out of the work of the ministerial working groups, and the basis on which the coalition Government gave their contribution to the mutual access fund is that, at the end of the workout period, the mutual access fund would be repaid prior to any further distribution to members. Therefore, the money is certainly repayable at the end of the period, if the assets recover sufficiently to enable that to happen.

People have talked about risk. I repeat that, although the administrator's business plan and our due diligence work shows that the money will be able to be repaid, there is an acknowledgement that, should those assets not recover, it may not be repaid. If the money to do that is not there, it may not be repaid. However, I do not want to give the impression that either the administrator's plan or our due diligence work made any suggestion that the loan element would not be repaid.

The money is not a gift, in that we expect it to be repaid. The money is not a donation, in that we expect it to be repaid. However, at the moment, I do not think that the word "loan" is right either, because of the proposal in the ministerial working group report. I have heard some comments that interest should be applied to that money, which is something that can be considered. However, for me, nothing is a loan unless interest is being charged on it.

I know that there is some confusion. I have answered Assembly questions about the issue and had correspondence from some PMS members seeking clarification of that point. That is why the words are being used as they are at the minute. Although there is frustration that all the details are not yet worked out, when the details are fully known, we will know exactly the correct word to use to describe the contributions.

As an administrator of the court, the current administrator is able to make charges in line with the way in which he has been appointed to act by the court. My DETI colleagues are looking at the loan arrangements that will be made with the administrator and, I am sure, will consider the need for any administration charges for the eventual outcome and the detail of how that is managed to take into account everyone's concerns. Those concerns are that we ensure that administration costs are kept to the minimum necessary to secure what needs to be done for the assets to recover and be managed in a way in which we expect and require them to so that a solution can be secured.

The mutual access fund is being put in place specifically for smaller savers who the court decided could not be viewed in exactly the same way as the creditors of the society. The fund is focused on the smaller savers. The work that is being done on the delivery of the mutual access fund will, as I have intimated, focus on the smallest of those smaller savers to come up with a mechanism that enables those people to immediately get back higher proportions of the funds that they have in the society in any eventual solution.

The Chairperson:
Thank you very much for coming along.