

Enterprise Ireland Supplement to Audit Report

Exit Strategy for Investments

Enterprise Ireland and its predecessors (Forbairt and the IDA), have, since 1988, taken holdings in client companies as one element of financial support to clients. Such holdings are taken with the objective of achieving a balance between repayable and non repayable financial support. This approach is driven by the Agency's developmental role and does not have, as its objective, the construction of a balanced investment portfolio with clearly identified performance criteria or investment objectives. The shares of these companies are not usually listed on a recognised stock exchange at the time the investment is made, but may become so as the company develops. The scale of investment activity has grown over the years.

In the past, decisions to dispose of or realise investments were in the main led by client requests.

History of the Value of Listed Investments held by Enterprise Ireland and its predecessors at 31 December 1998

31 December 1996	31 December 1997	22 July 1998	31 December 1998	28 May 1999
£5,840,723	£27,531,861	£60,906,026	£53,677,153	£34,466,042

In September 1997 the Board of Forbairt, as part of an overall review of strategy, initiated a review into Forbairt's investment policy. In December 1997 the Board agreed on an investment policy subject to further work being done with a view to determining an exit strategy for investments.

Given that the need for an exit policy for investments was identified by the Board in September 1997 and in light of the material diminution in the values of listed investments held by Enterprise Ireland I asked the Chief Executive

- (a) to outline why an exit strategy has not yet been finally approved and implemented
- (b) whether the Departments of Enterprise, Trade and Employment and Finance had approved the implementation of an exit strategy
- (c) when it was expected that the process of formulating an exit strategy will be completed.

In response to my enquiries, the Chief Executive set out the background to and progress on the formulation of an exit strategy as follows.

In response to the Board's direction, in January 1998 Forbairt commissioned an independent consultant to review its investment portfolio. In March 1998 the consultant's report was considered by the Board which recommended that

- Forbairt should adopt a differentiated approach between listed and unlisted investments
- subject to the outcome of discussions with the Department of Enterprise, Trade and Employment, a specific exit policy should be developed for each listed investment
- a proactive policy be implemented for the ongoing management of the unlisted securities.

Discussions with the Department of Enterprise, Trade and Employment were overtaken by the process of dissolving Forbairt and establishing Enterprise Ireland under a new policy mandate set out in "Enterprise Ireland - Policy Statement". As a matter of priority the Enterprise Ireland Board initiated work on a 3 year business plan to achieve the objectives set for it by government. In September 1998 the Board asked to be briefed on investment policy.

At its October 1998 meeting, the Board considered a report on the investment portfolio. This document again raised points which had been endorsed by the Forbairt Board in March 1998, relating to the question of formulating policy on an investment exit strategy. In particular that

- there was a need for a coherent exit strategy for investments
- there was no fundamentally strong case for holding Stock Market listed investments in the long term provided that realisations
 - ▶ did not offend market rules
 - ▶ did not cause turbulence in the market
 - ▶ were discussed in advance with clients
- Enterprise Ireland would not normally, for a number of reasons, seek to dispose of its unlisted holdings.

This document was noted by the Board which endorsed the general approach to disinvestment, subject to discussions with the Department of Enterprise, Trade and Employment. The discussion document also noted that the Department of Finance would have an input into the decision on the exit strategy.

Since the Forbairt Board had initiated a review of exit strategy in September 1997 discussions have taken place with the Department of Enterprise, Trade and Employment on a regular basis. These discussions continued in the context of the establishment of Enterprise Ireland. The discussions included consideration of the issue of how any funds, realised through the implementation of an exit strategy might be treated together with technical issues in relation to the funding (in part) of the investments by the EU.

A further discussion document was brought to the Board in May 1999 which again set out the

exit strategy options and further that prudence suggested that a targeted level of gains per annum should be harvested.

On 26 May 1999 the Department of Enterprise, Trade and Employment agreed with the strategy and general direction proposed by the Enterprise Ireland Board and, based on that agreement, a revised document, for immediate submission to the Department of Finance is being prepared.

The Accounting Officer of the Department of Enterprise, Trade and Employment informed me that disposal of any monies realised will be agreed with the Department of Finance and will take account of any obligations for recycling of funds which may arise from certain EU co-funded investments and that it is intended to put in place an enhanced reporting arrangement with Enterprise Ireland to monitor the operation of any approved realisation programme.

A handwritten signature in black ink, appearing to be 'John Purcell', with a large circular flourish at the end.

John Purcell

Comptroller and Auditor General

30 June 1999