
COMMITTEE FOR FINANCE AND PERSONNEL

Report on the Inquiry into the use of Public Private Partnerships

VOLUME 1 — TOGETHER WITH THE MINUTES OF PROCEEDINGS OF THE
COMMITTEE RELATING TO THE REPORT

Ordered by the Committee for Finance and Personnel to be printed on *Tuesday, 26 June 2001*
Report 7/00 to the Northern Ireland Assembly from the Committee for Finance and Personnel

PUBLISHED BY AUTHORITY OF THE NORTHERN IRELAND ASSEMBLY
BELFAST: THE STATIONERY OFFICE
£11.20

COMMITTEE FOR FINANCE AND PERSONNEL

POWERS

The Committee for Finance and Personnel is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of Strand One of the Belfast Agreement and under Standing Order No. 45 of The Northern Ireland Assembly. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and Personnel and has a role in the initiation of legislation.

The Committee has the power to:

- consider and advise on Departmental budgets and annual plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of relevant primary legislation;
- call for persons and papers;
- initiate enquires and make reports;
- consider and advise on matters brought to the Committee by the Minister of Finance and Personnel.

MEMBERSHIP

The Committee has eleven members, including a Chairperson and Deputy Chairperson and a quorum of five members.

The membership of the Committee since its establishment on 29 November 1999 is as follows:

- Mr Francie Molloy (Chairman)
- Mr James Leslie (Deputy Chairman)
- Mr Alex Attwood
- Mr William Bell
- Mr Seamus Close
- Mr Nigel Dodds MP*
- Mr Derek Hussey
- Ms Patricia Lewsley*
- Mr Alex Maskey
- Mr Peter Robinson MP*
- Mr Peter Weir

* Mr Oliver Gibson was replaced by Mr Dodds on 2 October 2000.

* Mr Gardiner Kane was replaced by Mr Robinson on 2 October 2000.

* Mr Donovan Mc Clelland was replaced by Ms Lewsley on 15 January 2001.

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“If we use all the resources in the Northern Ireland block for investment in the conventional procurement manner, we will fail to achieve our goals.”

(Mark Durkan, Minister of Finance and Personnel in evidence to the Committee)

EXECUTIVE SUMMARY

1. Purpose

- 1.1 The Committee for Finance and Personnel undertook an Inquiry into the use of Public Private Partnerships, including private finance initiatives in Northern Ireland in March 2001 with the overall aim of examining:
- ways to finance improvements to address the public sector infrastructure deficit;
 - the performance of PPP projects to date and their effect on users;
 - the degree to which value for money had been achieved and the effects of committing money on a long term basis; and
 - learning from the emerging patterns and trends that indicate whether certain areas and types of projects are more suitable for PPP.
- 1.2 The terms of reference are set out in the 'Background' section on page 9.

2. Approach

- 2.1 The Committee consulted with local and national organisations and interested individuals and received a wide range of views on the benefits and problems associated with PPP. From this information the Committee formed its own views on PPP and agreed the recommendations on how the Minister of Finance and Personnel and the Executive Committee could best take forward infrastructure investment.

3. Conclusions

- 3.1 The Committee concluded that the preferred source of finance is public finance because generally it can be provided at lower interest rates than are available for private finance and it ensures that responsibility for provision of public services remains within the public sector. However, the underlying assumption made by the Committee as a result of its deliberations is that the Treasury is unlikely to meet all of the outstanding financial needs of Northern Ireland from increased public expenditure in the short to medium term. And that other sources of finance, including PPP are likely to play an important role in addressing the infrastructure deficit.
- 3.2 The Committee acknowledges that PPP can be a valuable tool and means of investment when it is used in the right circumstances but care needs to be taken in deciding how, where and when PPP should be used. The Committee believes that the Inquiry's findings and recommendations will help ensure that any decisions on PPP are properly taken after due regard to the public sector's overall investment needs.
- 3.3 The Committee further believes that implementation of the recommendations has the potential to improve the quality of public services and the economic development and skill base of Northern Ireland by accelerating investment in the infrastructure through more effective use of PPP and other methods. While there is a well-planned programme of PPP projects being established in the education sector, Northern Ireland needs to address the investment deficit in other key areas. An investment strategy that establishes a sustained programme and 'deal flow' needs to be developed. This will need effective leadership by the Assembly and Executive and the commitment of key players.
- 3.4 Value for money has to be demonstrated over the life of a project in taking forward any PPP initiative. Clearly establishing value for money over the life of projects will highlight the impact of long term spending commitments on the Programme for Government and the quality of public services. Part of this process must involve much greater openness and public accountability of the decision making process.
- 3.5 The Committee concludes that in approving projects the full long term spending implications for the Executive must be taken into account and made visible.
- 3.6 The Report outlines a number of advantages and disadvantages of PPP and a range of 'good practice' measures that will help determine value for money in any planned programme of investment.

4. Key recommendations

- 4.1 The key recommendations arising from this Inquiry are centred on the need for a strategy and structure for investment to be put in place if the benefits of whatever methods used are to be realised. The Committee's recommendations, which are set out in full in the following 'Recommendations' section, focus on the need to:

Establish an investment strategy

Establish a unified, cross-departmental investment strategy to address how the deficit in the public infrastructure can be best financed and managed. A co-ordinated programme of strategic projects and their methods of finance should support this strategy. The strategy should have the support of all key players, including the private and voluntary sectors and local communities, using a 'social partnership' approach.

Establish Ministerial responsibility

Establish Ministerial responsibility for driving the investment strategy forward. The designated Minister should be responsible for achieving a partnership between, and commonality of approach across departments and public bodies. In undertaking his or her duties the Minister should consider the need for:

- a time-bound working group of representatives from each of the Departments to develop and drive the strategy forward over the coming months and give advice to the Minister.
- The group would initiate work to determine the most appropriate investment and procurement methods to be used, promote a sustainable flow of projects, address methodologies, skills and guidance, and address the need for openness and public accountability and a 'social partnership' approach. The group would appraise outline business cases of projects for inclusion in any investment programme.
- A longer term 'central investment board/procurement body' to assume the activities of the working group in advising the Minister and the public service; and to become a centre of excellence on investment and procurement; and co-ordinate development of methods and advice.

RECOMMENDATIONS

1. The way forward for Northern Ireland

- 1.1 The Committee makes a number of recommendations to the Minister of Finance and Personnel and the Northern Ireland Assembly for their urgent consideration and action. They are based on the evidence presented to the Committee during the Inquiry on how the deficit in investment and improvements to the public service infrastructure can be addressed. The Committee believes that implementation of the recommendations will improve the quality of public services and the economic development of Northern Ireland by accelerating investment in the infrastructure through more effective use of appropriate methods such as PPP, bonds and other means of finance.
- 1.2 The underlying assumption made is that HM Treasury is unlikely to meet all of the outstanding financial needs of Northern Ireland from increased public expenditure in the short to medium term. And that PPP will play an increasingly important role in procurement of services and facilities in the United Kingdom and elsewhere.
- 1.3 The Committee acknowledges that PPP can be a valuable tool and means of investment when it is used in the right circumstances but care needs to be taken in deciding how, where and when PPP should be used. The Committee believes that the following recommendations will ensure that any decisions on PPP are properly taken after due regard to the public sector's overall investment needs.

2. Recommendations

- 2.1 The Committee's recommendations are that the Assembly, through the agencies of the Executive, Office of the First Minister and Deputy First Minister and the Minister of Finance and Personnel, should:
 1. Seek quickly to **establish a unified, service-wide investment strategy** on how the deficit in the Northern Ireland public infrastructure can best be financed and managed. This should be informed by this Report and by the ongoing review of PPP being undertaken by the Office of the First Minister and Deputy First Minister and DFP and by the Programme for Government. This strategy should be supported by:
 - a **co-ordinated programme of strategic projects** and methods of finance that will address the infrastructure deficit through a sustainable programme of investment;
 - further research by the Economic Policy Unit with assistance from the Department of Finance and Personnel on financing mechanisms that can reconcile decisions made on the value for money of schemes against future revenue planning and budgeting for public services; and
 - **the support of all key players**, including the private and voluntary sectors and local communities, using a 'social partnership' approach to achieve that support.
 2. **Designate a specific minister** to be responsible for driving the investment strategy forward and to achieve a partnership and a commonality of approach across Departments and public bodies.
 3. **Establish a time-bound working group** under the authority of the responsible Minister to develop and drive the strategy forward over the coming months. The group should initiate work to:
 - determine the most appropriate of the investment and procurement methods to be used in the short and longer term;
 - promote a sustainable and manageable flow of projects;
 - establish a 'gateway' project review group to undertake initial project appraisal that will make an initial review of outline business cases to establish the order of priority of the project in the strategic programme and the appropriateness of the procurement method.
 - address the methodology for promoting equality, New TSN, and human rights in projects;
 - consider the use of PPP as an instrument for promoting New TSN within the context of the Programme for Government;
 - develop an appropriate skills base in the public sector;
 - disseminate process guidance to include the accounting implications of investment; and
 - address the need for openness and public accountability of decisions on investment, e.g. the sharing of business cases with interested individuals and bodies.

4. Prior to the agreement of a strategy, **departments should consult with the responsible Minister** before committing significant resources to any new PPP projects.
5. **Establish a longer term ‘central investment board/procurement body’** under the authority of the responsible Minister. This body would assume the responsibilities of the gateway project review group proposed at 2.1 (3) above and should:
 - have the capability and capacity to be a centre of excellence for Northern Ireland on methods of investment and procurement, including PPP;
 - co-ordinate the investigation, development and use of PPP and alternative financing and procurement methods across departments and public bodies;
 - advise on the appropriateness and use of the various methods and any consequential policy and statutory changes that might be required;
 - promote the political and social acceptability of the use of the investment methods such as PPP, where value for money can be demonstrated;
 - examine the need for post implementation evaluation and monitoring of the use of PPP and other investment methods across public services. The responsible Minister should consider how the process should be undertaken in the context of the investment strategy and establishing value for money. And commission research into relevant issues such as the socio-economic impact of PPP.
6. **Consider the powers and responsibilities** of the Department of Finance and Personnel, Office of the First Minister and Deputy First Minister, the responsible Minister, the proposed central investment board/procurement body and other Executive departments. This consideration should confirm whether their powers are compatible with the Committee’s recommendations and, if necessary, make recommendations to the responsible Minister that will enable effective management of the programme for investment and enforcement of robust capital expenditure disciplines in project appraisal and financing.

BACKGROUND

1. Aim of the Inquiry

- 1.1 In fulfilling its scrutiny, policy development and consultation role in relation to the Department of Finance and Personnel the Committee for Finance and Personnel undertook an Inquiry into the use of Public Private Partnerships, including Private Finance Initiatives (both hereafter referred to as PPP) in Northern Ireland, Great Britain and the Republic of Ireland.
- 1.2 The Committee sought to understand the extent of the investment deficit in public services and infrastructure in Northern Ireland and to consider the alternative ways of addressing the deficit, taking into account the shortage in funds available through the Northern Ireland Block Grant. The Committee would then make recommendations to the Minister of Finance and Personnel and the Northern Ireland Assembly on the way forward for investment throughout the public sector.
- 1.3 In particular, the Committee wanted to learn from the PPP projects that had been created in Northern Ireland and what they had achieved in terms of capital investment in public services by the private sector and value for money. It also wanted to learn about PPP projects and other innovative schemes being carried out in Great Britain and the Republic of Ireland and elsewhere to provide and improve public services and infrastructure.

2. Terms of Reference

- 2.1 The Committee agreed the following terms of reference for the Inquiry on 6 March 2001:
 - Make recommendations to the Minister of Finance and Personnel and the NI Assembly as to whether Public Private Partnerships (PPP), including Private Finance Initiatives (PFI) should be further implemented throughout the public sector in Northern Ireland and if so how that implementation should proceed. (Ensuring that any such recommendations conform to existing human rights and equality legal standards and policies.).
 - Analyse the extent of any deficit of investment in public sector services provision in Northern Ireland.
 - Summarise and compare the degree to which PPP, including PFI, are currently used to fund projects in the public sector in Northern Ireland, England and Wales, Scotland, the Republic of Ireland and other relevant countries.
 - Compile summaries (using available information) of a representative selection of PPP initiatives including PFI projects implemented throughout the United Kingdom, the Republic of Ireland and other relevant countries, across all the main areas of public service provision, (e.g. education, health, transport, infrastructure and housing) in order to provide the Committee with a balanced perspective of the general experience of such initiatives to date. Each example to include:
 - an outline of the individual project's prescribed objectives;
 - the degree to which each project has met its objectives;
 - an examination of each project's socio-economic impact on the relevant community/(ies) to date.
 - Undertake an analysis (utilising the information provided and written and oral evidence) to include:
 - a discussion of the performance of PPP/PFI projects to date, including, *inter alia*, their effect on customers;
 - the degree to which value for money was achieved and the effects of committing money on a long term basis;
 - an identification of any patterns/trends that emerge which indicate whether certain areas/types of projects are more suitable for PPP, including PFI; and
 - comment on and compare the alternative forms of financing investment in the public sector in Northern Ireland in terms of value for money.

3. Approach

- 3.1 The Committee wrote to the Chairpersons of all the Statutory Committees in the Northern Ireland Assembly and to members of the Executive Committee to announce the launch of its Inquiry in March 2001. The Committee appointed Mr John Plumb, Institute of Public Finance Limited, on 26th February 2001 to act as specialist adviser to the Inquiry.
- 3.2 The Committee identified individuals and organisations that had an involvement or interest in PPP and invited submissions of written evidence. Advertisements, welcoming written evidence from interested parties

not already contacted by the Committee, were placed in newspapers in Northern Ireland, Great Britain and the Republic of Ireland.

3.3 For the purposes of the report those individuals and organisations were categorised as follows:

- (A) - academics
- (CG) - central government (Northern Ireland)
- (GBCG) - central government (Great Britain)
- (GBLG) - local government (Great Britain)
- (L) - legal firms
- (LG) - local government (Northern Ireland)
- (NDPB) - non-departmental public bodies
- (PS) - private sector companies
- (ROI) - Republic of Ireland
- (SDC) - Statutory Departmental Committee
- (U) - trades union organisations

3.4 The Committee issued additional requests for written submissions in response to contacts made following its press release and advertisements. A full list of those contacted is presented in Appendix 3.

3.5 Fifty-six written submissions were received and these are appended to this Report as Appendix 4.

3.6 The Committee travelled to Dublin and London to take oral evidence and receive briefings from individuals and organisations. Evidence sessions were also held in Parliament Buildings, Stormont. Records of the evidence are appended to this Report in Appendix 5.

3.7 Members of the Committee travelled to Halifax and Leeds in Yorkshire and visited sites where PPP projects had provided new accommodation and facilities for health and education provision in the area. The members visited a hospital, a mental health community care unit and a comprehensive school. During those visits the Committee received informal briefing sessions from officials of the NHS Trusts, Leeds City Council, Department of Health's Private Finance Unit and their private sector partners. Records of those briefing sessions are appended to this report in Appendix 6.

3.8 Members of the Committee received informal briefings from Departments and private sector organisations in Parliament Buildings, Stormont and those records are also appended in Appendix 6.

3.9 Twenty-one individuals and organisations also responded but declined to make full written submissions and they are listed in Appendix 7.

3.10 We thank all those who submitted evidence or gave oral evidence for their help in this Inquiry. We would also wish to thank the people we met during our site visits for their hospitality and helpfulness. The Committee regrets that it was unable to fulfil the visits arranged by London Boroughs of Enfield and Harrow. The committee expresses its thanks to the Specialist Advisor for the contribution he has made to the Inquiry.

4. Key Issues

4.1 The Committee found that there is general agreement in Northern Ireland that there is a substantial deficit of investment in the provision of our public services. The Executive in its Programme for Government for 2001-2004 recognised this problem. The Minister of Finance and Personnel in his evidence to the Committee stated that "...the scale of the problems is daunting and the total investment needed in coming years runs into billions of pounds."

4.2 The issues and questions arising from the analysis of the evidence are grouped under three broad headings in the 'Consideration of Evidence and Issues' section of the report:

- Financing Investment.
- Application of PPP as a Procurement Method.
- PPP Projects in Northern Ireland.

4.3 "Financing Investment" covers the alternative forms of finance and procurement that are available, the issues associated with "Fiscal Indicators and Control of Public Expenditure", whether there are administrative or

control arrangements that are particularly relevant to PPP, and how the use of private finance can accelerate investment in public services. Further questions asked are - if PPP is considered “the only game in town”¹ does this lead to distortion of strategic and planning priorities? And is greater clarification of policy required to promulgate changes in how the capital funding of public sector projects is treated?

- 4.4 “Application of PPP as a procurement method” considers some of the factors that help identify whether a scheme is suitable for PPP, and seeks to understand whether PPP procurement of public services using a whole-life costing approach delivers value for money and improved standards. Further areas considered are the public sector comparator and the value placed on the transfer of risk in order to achieve closure of a PPP deal.
- 4.5 “PPP projects in Northern Ireland” looks at the issues that relate more closely to what may be relevant to PPP in Northern Ireland. It examines the performance to date and considers PPP progress in other countries to see what strategic organisational and programming lessons may be learnt. Of further importance are consideration of the social factors, the legal framework and the capacity of the public and private sectors to sustain and deliver projects (in an appropriately structured competitive market) for the economic and social benefit of Northern Ireland.

5. Role of Public Private Partnerships (PPP) / Private Finance Initiative (PFI)

- 5.1 The use of “Private Finance Initiatives” (PFI) was developed in the early 1990s in the United Kingdom by the then Conservative Government. PFI was slow to start and the then Chancellor announced in 1994 that PFI should be considered for any public service project (the “universal testing rule”).
- 5.2 The distinguishing features of PFIs were described by the Audit Commission as “the purchase of a stream of services, and the use of associated capital assets for long periods, often for several decades, and the substantial commitment to pay for these services.”. (Audit Commission, ‘Taking the Initiative’ 1998)
- 5.3 The new Labour Government adopted the system of PFI but made changes to how new projects should operate following reviews in 1997 and 1999. In 1998 the Government introduced a new fiscal framework that emphasised two existing fiscal rules. These were that the Government would borrow only to invest and not to fund current spending and that net public sector debt as a proportion of Gross Domestic Product (GDP) would be held at a “stable and prudent” level, which was defined by the Treasury as being less than 40 per cent².
- 5.4 PFI projects fall within the definition of PPPs, which is a wider term that includes other types of joint venture. PPPs evolved from PFI as a result of Government reviews and are potentially more flexible in structure and form. In practice, the Committee found that the projects and schemes referred to in this Inquiry were PPPs with similar features to PFIs.
- 5.5 PPPs are a key element of the Government’s strategy to deliver high quality, modern, public services. The objective of PPP as a method of procurement is to provide best possible services to the public, irrespective of the agency with operational responsibility for delivery. The principle is that the private sector is able to contribute skills and resources to innovate and create imaginative arrangements for the efficient, effective and economic provision of public services in partnership with the public sector.
- 5.6 PPP procures public services defined by output specifications and normally includes private sector financing of assets and infrastructure. It accelerates the funding of public services provision by the use of private finance. It is essentially additional to public capital expenditure. PPP in its more general form will potentially include a wider variety of partnerships and arrangements. The mix of assets and services procured by a PPP may, therefore, change as the more rigid “PFI” structure falls into disuse.
- 5.7 The Northern Ireland Executive, in its Programme for Government for 2001-2004, committed itself to supporting strategic infrastructure and capital renewal projects, using PPP where appropriate.

6. The future use of PPP in Great Britain

- 6.1 The Government intends to continue to use PPP in Great Britain to help reverse decades of under-investment in public services. The Queen’s Speech on 20 June 2001 did not contain any specific initiatives to give the private sector a greater role in the delivery of public services other than to seek investment and reform in

¹ UNISON Report- *Public Services, Private Finance – Accountability, affordability and the two-tier workforce*, - referred to by Professor Pollock in evidence to the Committee on 17 May 2001

² House of Commons Treasury Committee, Fourth Report, The Private Finance Initiative, March 2000

public services, putting schools and hospitals first. However, the Labour Party's election manifesto '*Ambitions for Britain: Labour's manifesto 2001*' did pledge to renew public services by bringing 'a spirit of enterprise' to public services, and using alternative providers, i.e. private sector providers in areas where the quality of public services are not improving quickly enough.³

- 6.2 The future use of PPP in GB appears to be in key areas. In education, it pledges to build on the partnerships established between the state and private sectors. This might include management of schools.⁴ In higher education, it pledges to develop PPPs.
- 6.3 Media reports at the time of the General Election indicated that in relation to health the Labour Government may embrace forms of private sector management e.g. in hospitals, primary care trusts and GP services such as payroll, administration and IT support.⁵ It may build more hospitals and 20 new treatment centres under a partnership between the NHS and private sector to carry out hip, cataract, hernia and cardiac operations.⁶ Moreover, the manifesto states that it will examine the case for the creation of a PPP with a mortgage lender to make home ownership more affordable for nurses and other staff.
- 6.4 The manifesto further states that PFIs should not be delivered at the expense of the pay and conditions of the staff employed in these schemes. It also states that it will seek ways within PFI management to allow support staff to remain part of the NHS team.
- 6.5 In transport, Labour pledges to invest in railways, roads and local transport and that the delivery of such services will be in partnership with the private sector. Labour specifically states that the Strategic Rail Authority (which was set up to provide strong, strategic direction) will use PPPs to lead the expansion of the train company network. It further pledges increased, long-term investment in the London Underground to underpin a PPP to upgrade the Tube's infrastructure, with operations remaining in the public sector. Labour also pledges to establish bus partnerships between local authorities and private bus companies to improve passenger numbers and service quality.⁷
- 6.6 In the area of energy, Labour pledges to examine further the scope for turning British Nuclear Fuels Limited (BNFL) into a PPP.⁸
- 6.7 Overall, the Government has committed itself to extending the use of PPP across the public services because it believes that private management of publicly funded services is vital if they are to improve.⁹

³ *Ambitions for Britain: Labour's manifesto 2001*, p. 17.

⁴ "Secret Reform Age". *The Guardian*. 16 May 2001, p.1.

⁵ "Blair goes private". *The Guardian*, 17 May 2001 and "Secret Reform Age". *The Guardian*. 16 May 2001, p.1.

⁶ "Private health link-up under attack". *The Guardian*, 17 May 2001.

⁷ Id.

⁸ Id.

⁹ "Treasury looks to private sector". *The Guardian*. 22 May 2001.

CONSIDERATION OF EVIDENCE & ISSUES

FINANCING INVESTMENT

7. Deficit of investment in public services in Northern Ireland

7.1 The principal issue for this Inquiry is:

How does Northern Ireland find more financial support for provision of public services?

7.2 Professor Austin Smyth of the Transport Research Institute, Northern Ireland Centre questions “whether any acknowledged infrastructure deficit can really be made up from public funds.”¹⁰

7.3 The scale of the problem suggests there is unlikely to be a single method of approach and that PPP is likely to be a part of the response¹¹.

7.4 The conclusion of the Construction Employers’ Federation (CEF) is that: “ if we are to achieve a vibrant, thriving and competitive economy in Northern Ireland, we cannot afford to wait until funding is available to pay for the backlog and inadequacies of infrastructure projects. We must encourage and drive the economy forward and PFI is one option to achieve this.”¹²

7.5 The Committee supports the view expressed by many that there are substantial constraints on Northern Ireland investment caused by the allocation of funds under the Barnett formula¹³, the three-year spending cycle, and the relatively widespread public sector provision of public services such as water and sewerage¹⁴.

7.6 The evidence and information provided to the Committee outlined a full range of alternative sources of finance¹⁵, which may lead to other regulatory issues outside the scope of this Inquiry. All forms of finance, except those mechanisms totally funded through third party payments will require public sector funding¹⁶. The lower cost forms of finance are those perceived to have least risk to the lender and the highest guarantees of payment or repayment. This suggests that generally public sector finance is cheaper than private finance¹⁷.

7.7 Professor Glaister of Imperial College London in his evidence summarised the alternatives as using capital or borrowing money to procure public contracts. Borrowing money may be done through bonds or PPP. He suggests the important difference may be the ability of the Treasury and other tiers of Government to control expenditure under the selected mechanism¹⁸.

7.8 PPP has expanded the boundaries of PFI in determining what might be acceptable financing mechanisms, and may include, for example, joint ventures such as that developed by Kirklees Council, who have elected to take an equity stake in the PPP consortium¹⁹. Another variant of this is the Air Traffic Control proposals where the private sector is providing a 46% “not for profit” share of the undertaking²⁰. The European Investment Bank (EIB) suggested that the financing mechanisms being used on the Dudley Hospitals deals are more advanced than would have been feasible 12 months ago²¹.

7.9 The innovation and sophistication of these arrangements includes implementing a two phased approach to the construction and operating stages of the PPP deal, i.e. accepting that refinancing will take place. Refinancing allows a better fit of the financing charges with the PPP risks of the scheme, it being accepted that this is higher in the construction phase before operations and payments for services come on stream.

¹⁰ Professor Austin Smyth, Transport Research Institute, Northern Ireland.

¹¹ Examples are CIPFA, DFP and others, PPP is not seen as appropriate for all investment requirements.

¹² CEF Evidence.

¹³ PricewaterhouseCoopers (PwC) external assessment supports this view and DFP confirmed in its evidence that the allocation to the Northern Ireland budget and executive programme was insufficient to address the infrastructure problems.

¹⁴ Both PwC and the European Investment Bank (EIB) discuss the comparative size of private sector involvement in provision of public services with that in other European countries.

¹⁵ Examples are found in the evidence from Barclays, EIB, Professor Glaister and Government Departments such as DRD.

¹⁶ An example is the privatisation of the Utility sector in England and Wales.

¹⁷ See the evidence from Barclays Bank, CIPFA, Departments, trades unions and PwC.

¹⁸ Professor Glaister Minutes of Evidence 17th May 2001

¹⁹ Major Contractors Group, Barclays, Minutes of Evidence, 17th May 2001

²⁰ Barclays Bank, Minutes of Evidence, 17th May 2001

²¹ EIB Minutes of Evidence, 17th May 2001

- 7.10 The question of which approach to accept and use within a deal is a matter of judgement for the public body in determining how it will achieve best value²².
- 7.11 HM Treasury is investigating refinancing following the National Audit Office (NAO) case studies where the private sector made excessive gains by refinancing the debt once a scheme was in operation²³. Future guidance is expected shortly on the lessons learned and procedures to be recommended for future deals.
- 7.12 An issue in relation to the use of private finance is the examination and analysis of where the added value comes from. Professor Glaister suggests that the source of the value is the risk transferred to the private sector and this provides the incentive to be efficient and provide the service in an integrated way²⁴. DFP expresses a similar view i.e. to select schemes where the private sector can use its skills to achieve a cost advantage²⁵. PPP introduces the whole-life costing approach and that depends on the public sector being able to visualise and specify what is required in order to enter into a balanced long-term contract.
- 7.13 Professor Glaister suggested that the public body has to be able to define and specify what it wants and how much it is willing to pay and the central issue is the ability to specify and enforce contracts²⁶. He argues that when trying to determine the appropriate source of finance and method of procurement, it is important to be clear on the service requirements, otherwise it will be difficult to meet the requirement of the NAO that the “deal must make sense”. A concern expressed about PPP and the use of private finance is that excess profits may be channelled away from public services²⁷. The public body, therefore, must have access to the range of skills and expertise needed to complete and manage a deal if it is to result in clear, well-managed contracts where profits are controlled²⁸.
- 7.14 A considerable amount of the evidence submitted suggests that well-defined and constructed PPP deals will demonstrate value for money²⁹. The critics, such as Unison, argue that the case is not proven because of the longevity of the concession periods. They express concerns about the long-term flexibility and affordability of the services provided³⁰.

8. Alternative methods of financing and procuring improvements in public services

- 8.1 Two models of large-scale joint venture approaches to PPP and its use in opening non-core and core local government services to the private sector are demonstrated in the examples of Lincolnshire County Council and Liverpool City Council³¹. These illustrate both the complexities of packaging service deals that are feasible, but also the need for strong commitment and leadership on both sides of the negotiations³². To conduct this scale of transfer requires close contact with all stakeholders both in Government, trades unions and staff³³.
- 8.2 The concerns expressed are that a PPP deal costs more in the long term³⁴. An additional point made by Professor Pollock of University College London is that the record of the public sector in delivering public services is good and has only been limited by the amount of public funding made available. She states that the answer is to provide more public finance and because it is at a lower cost to the exchequer, this will deliver best value. For Ministers the issue is whether it is realistic to rely solely on the public finance route for investment by negotiating an increase in the Northern Ireland block grant.
- 8.3 The CBI is quite clear in its view of how the delivery of infrastructure and services should be handled “existing procurement has not delivered historically and we believe it will not in the future”³⁵.

²² National Audit Office Minutes of Evidence, 17th May 2001

²³ NAO reports into Fazakerly Prison, and Dartford and Gravesham Hospital

²⁴ Professor Glaister Minutes of Evidence, 17th May 2001

²⁵ DFP, Minutes of Evidence, 10th May 2001

²⁶ Professor Glaister Minutes of Evidence, 17th May 2001

²⁷ UNISON, Minutes of Evidence, 22nd May 2001

²⁸ Professor Glaister Minutes of Evidence, 17th May 2001

²⁹ Examples are in the evidence of NAO, PwC, Business Services Association(BSA), CEF, 4Ps.

³⁰ An example is the view expressed by NAO in its evidence of 17th May 2001 that by “finance now, pay later” there is a risk of paying too much.

³¹ 4Ps evidence, Minutes of Evidence, 17th May 2001

³² Ibid

³³ Ibid

³⁴ Examples of this were given in evidence by trades unions and Departments.

³⁵ CBI (NI) Minutes of Evidence 10th May 2001.

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- 8.4 The Department for Regional Development is exploring an alternative method of financing the delivery of capital asset improvements by the establishment of a “not-for-profit” regional trust with its activities financed by revenue bonds³⁶. Dedicated public sector funding of the public services provided could pay for the revenue bonds. This could include third party revenue derived from, for example, congestion charging, parking levies, water or road charges. DRD recognise that in order to achieve progress against the large deficit in investment it also may require examination of the options for privatisation of parts of the public service. The expectation would be that the costs of finance through the public sector route would be less than employing private finance. Unison suggests that the proposals for a similar investment trust in Scotland will encounter problems³⁷.
- 8.5 The Committee sees a similarity in the PPP model that the Department of Enterprise, Trade and Investment are employing to pump prime regeneration, business enterprise and development in the commercial sector³⁸. A potential disadvantage in comparison to the provision of public services by a private sector operator would seem to be the loss of integration between the providers of the infrastructure and the service operators and this is usually where the value for money of PPP is derived. Further investigation of these issues will be needed to take these alternative structures forward.
- 8.6 In PPP deals it was suggested that finance charges may account for only 30% of the total service payments and, with lower interest rates, that in PPP there is more added value to gain than just financing costs³⁹. The provision of maintenance, refurbishment and renewal activities might remain with the public sector⁴⁰. It was suggested by Calderdale and Huddersfield Health Trust and others⁴¹ that these are often the first areas for targeting cuts in public expenditure and PPP offers protection against such cutbacks.
- 8.7 Although seen as beyond the normal scale of PPP projects, the examples of the Channel Tunnel and the London Underground Limited PPPs were referred to by more than one contributor⁴². These schemes have both involved a mix of central government and private sector arrangements in financing very large infrastructure projects. The arguments for and against the use of PPP and the benefits of bonds for investment were rehearsed with the Committee when members talked to the PPP management team for the London Underground and met with Mr Bob Kiley, Commissioner of Transport for London⁴³.
- 8.8 There is a body of evidence developing across Europe that PPP and related mechanisms are being adopted precisely to accelerate investment. The EIB and PricewaterhouseCoopers (PwC) cite in their evidence examples of the impact that PPP is having in countries such as Portugal and Greece where flagship projects such as the Tagus Bridge and Athens Airport have led to more widespread acceptance of PPP⁴⁴. In France and Scandinavian countries the concepts and use of private finance have been developed over a number of years.
- 8.9 An overview of the evidence from the NHS Trust, EIB and CBI (NI) appears to reinforce this message with specific reference to health, education, water, sewage and waste management⁴⁵. In health, without private finance one new hospital was built every four to five years, under PFI it is 14 to 15 hospitals within three to four years⁴⁶. The Falkirk schools investment might have taken 20 to 30 years without PFI. The CBI (NI) quotes the example of what Scotland has achieved in the water, sewage and waste management arena⁴⁷.
- 8.10 There are mixed views of the time that it takes to develop, procure and deliver an individual scheme⁴⁸. However, there are very clear views that the experience gained should be used to speed up the process⁴⁹.

³⁶ DRD written evidence

³⁷ UNISON Minutes of Evidence 26th April 2001.

³⁸ DETI written evidence

³⁹ Department of Finance, ROI

⁴⁰ PwC

⁴¹ Calderdale and Huddersfield Health Trust, and for example 4Ps and Major Contractors Group(MCG)

⁴² Professor Glaister Minutes of Evidence, 17th May 2001

⁴³ Record of informal briefing, 15 February 2001

⁴⁴ EIB Minutes of Evidence and PwC written evidence.

⁴⁵ Calderdale and Huddersfield Health Trust , EIB and CBI(NI)

⁴⁶ Department of Health Private Finance Unit

⁴⁷ CBI(NI) and PwC

⁴⁸ For example informal briefing by Department of Health Private Finance Unit 2nd May 2001.

⁴⁹ For example BSA and Department of Finance, ROI who believe the issue of the draft project agreement earlier in the process provides a shortcut.

Earlier PPP schemes have been delivered with extended time frames, in part because of the initial learning curve of the contractual process and also because packaging services with assets must draw on and integrate a wider range of expertise. Contractors and client bodies have seen shorter design and construction periods once a deal has reached closure⁵⁰. The Committee recognises that private sector motivation is strong in this phase because the private sector debt is increasing and the service payments will not appear until the service operations are being delivered to specification and performance standards.

- 8.11 There is a proliferation of relatively low value PPP schemes in the local government sector in the rest of the UK⁵¹. This may indicate the level of commitment to use PPP by central government, the guidance and support that is available, the incentive of the credit approval system to gain what is required, and the willingness of public bodies to use the method to improve public services.

9. Fiscal indicators and control of public expenditure

- 9.1 A summary of the recent history of PPP administrative changes, is provided in the evidence of Professor Glaister⁵², PwC and to a lesser extent by others. The “on/off” balance sheet issue is only now material as it affects the level of public borrowing or government debt measured against GDP (<40%) and government fiscal indicators that have a bearing on economic policy⁵³.
- 9.2 An important point made by the trades unions and the Institution of Public Policy Research, is that the Public Sector Borrowing Requirement is no longer used as the most relevant fiscal indicator⁵⁴. The Maastricht Treaty on economic convergence now focuses European governments on the ‘Gross Debt to GDP’ ratio. Unison and NIPSA both advocate use of the ‘General Government Financing Deficit’ (GGFD) as the key fiscal measure⁵⁵.
- 9.3 The UK Government is well within any of these fiscal indicator boundaries at this time⁵⁶.
- 9.4 The issue for them at an economic and financial management level seems to be simply the control of public expenditure and the fiscal policy implications as to how this should be managed. It would seem, therefore, that an attraction of the Credit Control system and the PPP structure is that it provides a set of rules and controls that centralise delivery of value for money and the release of funding commitments. DFP in its evidence was clear that the Treasury exercises control by expenditure not financing⁵⁷.
- 9.5 It is not clear what attitude the UK Government will take to the raising of bond finance (which raises capital and makes it available to public bodies for investment)⁵⁸ by or on behalf of devolved administrations. However, if this is to be a realistic means of raising additional money for investment in public services, a satisfactory arrangement for accounting treatment of such finance will need to be negotiated with the Treasury⁵⁹.
- 9.6 If PPP is promoted as “the only game in town”⁶⁰ then there appear to be risks that schemes will be brought forward out of step with their priority in a strategic programme. The driving and motivational forces to deliver the scheme are then not necessarily aligned to whether or not it is the most appropriate deal. The emphasis instead then can be on the ability to play the administrative rules⁶¹. (See also section below on Strategy, Organisation and Programme).
- 9.7 An example of this issue presented to the Inquiry is in relation to the inclusion of land sales in PPPs and the effect on the capital allocation process under the Barnett formula⁶². The effort required, sometimes having to

⁵⁰ NAO, Minutes of Evidence, 17th May 2001

⁵¹ Details of closed deals across the UK were obtained from Department of Finance and Personnel (NI) and the website www.porch.ccta.gov.uk/treasury/reports.nsf/content1?openview (via www.ogc.gov.uk).

⁵² Professor Glaister Minutes of Evidence, 17th May 2001

⁵³ The Institute of Public Policy Research, *The Private Finance Initiative: Saviour, Villain or Irrelevance*.

⁵⁴ Ibid.

⁵⁵ UNISON & NIPSA, Minutes of Evidence 22nd May 2001.

⁵⁶ PwC, IPPR, UNISON, NIPSA suggest increased public debt will not infringe these targets.

⁵⁷ DFP, Minutes of Evidence 10th May 2001.

⁵⁸ Professor Glaister Minutes of Evidence, 17th May 2001

⁵⁹ Examples of discussion in this area are in the Professor Glaister and PwC, oral submissions.

⁶⁰ UNISON

⁶¹ Professor Glaister Minutes of Evidence, 17th May 2001

⁶² Department of Finance, ROI, Minutes of Evidence, 26th April 2001 stated that under the Barnett formula income from land sales is returned direct to the Exchequer at HM Treasury

negotiate the planning process, suggests this may weaken the financial incentive and potentially distort the ability of the public body to create an appropriate PPP package.

10. Treatment of capital funding.

- 10.1 The Committee inevitably found conflicting messages about the accounting treatment of PPP taken from a wide spectrum of respondents and some appeared to be commenting on former arrangements. The treatment of capital funding and the introduction of resource based accounting has led to a closer relationship between capital and revenue budgeting. In Professor Glaister's view this will lead to a better appreciation and understanding of the state of assets and how much will need to be spent in the future⁶³.
- 10.2 There are still accounting rules in place that should not affect decisions to proceed with PPP projects. However, sound advice was provided by Leeds City Council suggesting the auditors should advise on the ability to gain credits and the capital accounting implications of the deal⁶⁴. The Northern Ireland Audit Office (NIAO) is supportive of this approach and recognises that the ownership of the accounting decisions remains with the public body⁶⁵.

THE USE OF PPP AS A PROCUREMENT METHOD

11. Applying PPP

- 11.1 In the widest sense it is clear that "there is no good PPP if there is not a good project."⁶⁶ The NAO explains this by pointing out that if a good project is to be procured by a PPP there needs to be an understanding of how PPP gives something different to a conventional approach⁶⁷.
- 11.2 The Committee understands that traditionally the control of investment and capital expenditure has been separated from operating and revenue activity. Investment decisions and commitments to maintenance and renewals have not always been successful at integrating the whole-life cost requirements of public infrastructure⁶⁸. Short-term savings on outlays for renewals and replacements have generally stored up a long term deficit in maintenance funding. Ultimately this leads to a deficit in investment as the assets crumble and fail⁶⁹. An advantage of PPP is that it defines and commits the long-term resource requirements for the provision of public services⁷⁰.
- 11.3 Whole-life costing and the integration of private and public skills under PPP gives rise to a concern as to whether the long-term commitment is sustainable and affordable⁷¹. The mechanisms for delivery have to be sufficiently flexible and adaptable to enable continuous improvement, change, and responsiveness to future demands for quality public services⁷².
- 11.4 Increasingly though, there are examples of smaller, local PPP projects especially in the local government sector where advantage is taken of standardisation in contracts and replication of arrangements⁷³. A cautionary note was sounded by the NAO about some IT projects where "external finance" has not been a feature and the external "due diligence" scrutiny by the Banks has not been necessary. There is now guidance arising from a PAC report to cover these particular cases⁷⁴.
- 11.5 If private finance is the only route to investment then it may be difficult to curtail the commitment to making it work once initiated. The evidence in Northern Ireland and elsewhere shows that the most common reason

⁶³ CIPFA, Professor Glaister Minutes of Evidence, 17th May 2001

⁶⁴ Leeds City Council, informal briefing, 2nd May 2001, see also DoE evidence on use of NIAO as advised by their advisers PwC

⁶⁵ NIAO written evidence.

⁶⁶ Department of Finance, ROI Minutes of Evidence 26 April 2001.

⁶⁷ NAO Minutes of Evidence, 17th May 2001

⁶⁸ CBI (NI) written evidence.

⁶⁹ Professor Glaister Minutes of Evidence, 17th May 2001

⁷⁰ For example DHEFTE, Written Evidence and CBI(NI) Minutes of Evidence, 10th May 2001, Belfast Institute of Further and Higher Education

⁷¹ NIPSA, UNISON evidence.

⁷² DSD for example suggest these factors as necessary for good PPP

⁷³ See 4Ps evidence and Department of the Environment who benefited from the model form provided by the CCTA.

⁷⁴ NAO Minutes of Evidence, 17th May 2001

for the deal breaking down is the relationship with the bidder. The evidence indicates that the principal reasons for this breakdown after a PPP is initiated would appear to be that:

- the PPP has not been sufficiently well prepared;
- opportunities for innovation are limited; and
- bidders withdraw and the situation becomes uncompetitive⁷⁵.

- 11.6 A wider concern raised is the need of the public body to have sufficient and appropriately experienced expertise and advice available to determine the suitability of an initiative for PPP⁷⁶. The public sector comparator (discussed further below) and close scrutiny of the initial outline business case are crucially important in judging whether to follow the PPP route⁷⁷.
- 11.7 Numerous practitioners have advocated that for PPP to be appropriate there should be the opportunity to innovate⁷⁸. The difficulty this creates for independent observers and for the transparency of evaluation is the validity of any comparison that is feasible with alternative procurement routes. The deal that is created by PPP requires an informed understanding of the complex issues and not just an analysis of a financial model⁷⁹.
- 11.8 The debate should focus on “best value” rather than “least cost” and should present the opportunity for the public body to weigh the relative advantages against all criteria including financial criteria⁸⁰. Other criteria may include whether or not the service is regarded as a core service.
- 11.9 Some client bodies in the education and health sectors perceive PPP as a route to enable the focus of management to return to the delivery of education and health care rather than managing the provision of serviced buildings⁸¹. In determining how a PPP deal may be structured, a public body should evaluate the potential for removing responsibility for provision of public ancillary and support services to the private sector through the establishment of effective partnership arrangements.
- 11.10 The Committee was told that for this to happen in an effective and appropriate way the private sector has to be able to manage and deliver those services to higher standards and more efficiently⁸². Private sector companies depend on the quality of their staff to deliver the improved services and this requires good management⁸³. The counter argument from the trades unions’ perspective is that this is done at the expense of the terms and conditions of employment of the workforce. Professor Pollock argues that this could be achieved as effectively in the public sector if sufficient public expenditure is invested in services.

12. Value for money

- 12.1 Value for money is demonstrated by comparison of the privately financed proposal with a public sector comparator and must show robustness to a range of foreseeable changes that might affect the service requirements. The appraisal should include the total costs of PPP and the alternative methods of procurement. Professor Glaister suggests that you might expect to save around 20% of the original cost⁸⁴. This level of PPP saving is supported in other parts of the documentation now in the public domain surrounding PPP. Critics, including Professor Pollock, are not convinced that the public sector comparator model currently contains and reflects an appropriate comparison and are concerned that the comparison can be distorted. The NAO in its evidence to the Committee referred to the experience of the London Underground PPP and the grave doubts that the NAO now had about the established practice of how public sector comparators were undertaken⁸⁵.
- 12.2 It appears that the confidentiality and complexity of deals makes accountability and scrutiny difficult and doubt has been expressed to the Committee about the real knowledge of the full cost of using PPP. To

⁷⁵ For examples see NIPSA, and DRD, Westlink/M1 project, Written evidence

⁷⁶ BSA, Minutes of Evidence, 17th May 2001 in particular expertise in procurement and project management

⁷⁷ Advocated by the Department of Finance, ROI, Minutes of Evidence 26th April 2001

⁷⁸ MCG, CBI(NI), BSA, DFP and others

⁷⁹ National Audit Office Minutes of Evidence, 17th May 2001

⁸⁰ Department of Education, ROI, Evidence 26th April 2001.

⁸¹ Including both the Northern Ireland and ROI, Departments of Education, DE, DHFETE and the NHS

⁸² CBI (NI) written evidence.

⁸³ BSA and CBI (NI).

⁸⁴ Professor Glaister Minutes of Evidence, 17th May 2001

⁸⁵ NAO, Minutes of Evidence, 17th May 2001

determine value for money, the risks transferred and additional benefits delivered such as improved quality need to be given a monetary value. Some of these may not have previously been visible as cash flows and this can contribute to a view of cost escalation and high unitary charges⁸⁶.

- 12.3 Trades unions and others in discussion with the Committee emphasised the crucial importance of the quality and handling of the information in a public sector comparator. This requires high skill levels and experience in areas such as appraisal techniques⁸⁷. Some of the difficulties that arise are due to the lack of transparency to all involved and this may lead to delays or postponement of a PPP scheme.

13. Improved quality of public services

- 13.1 The Committee found that many respondents and witnesses seem convinced that the achievement of a complete package of assets and services will result in improved public services⁸⁸. It is too early to judge with any great surety what benefits will accrue to users, although examples were provided in the hospital (Halifax) and school (Cardinal Heenan School, Leeds) visited and in schools such as the Colfox School in Dorset⁸⁹, that are in the early operational phase. Staff have indicated that they are pleased with their new facilities and service arrangements.
- 13.2 Protagonists of PPP argue that it delivers value for money because it focuses on the quality of the services required⁹⁰. The Committee found significant support from the PPP industry that good PPP deals will add more value because the package of services is more complete and the procurement process demands fuller and better information than other routes (see PwC, CBI, BSA, MCG, CFF, 4Ps, NAO, among others). An alternative view is proposed in the evidence provided by trades unions and other independent commentators. These question, amongst other matters, the length of contract in relation to verification of continuous improvement and the reduced flexibility to meet changing service standards.
- 13.3 The public body has to be able to assess value for money claims for PPP and understand the nature and context of what is achievable compared with the conventional procurement approach. The general view of the NAO, having completed 20 PPP reports and proposed guidance on examining value for money in PPP projects, is that the cases examined by them have demonstrated value for money.
- 13.4 The evidence contains a range of information on individual cases. However, few deals yet can show any long-term effects of using PPP. Public bodies often have been protective of the confidentiality of the details of deals and outside interested parties must then be persuaded that the deal will meet the objectives. Evidence presented by Dr Liz Fawcett of Transport 2000 pointed to the difficulties her organisation has encountered in obtaining detailed information from the Department of Regional Development in connection with transport proposals and a report *'Public Private Partnerships: Outline Business Case'*. This was due to issues of commercial sensitivity and points to the need for general guidance on openness to be clarified.
- 13.5 Sceptics of PPP deals, in pointing out that they will need much longer in operation to prove their value, argue that the philosophy of PPP expects efficiency gains to be made by management of the workforce⁹¹. Professor Glaister referred to the record of the privatisation of the utilities sector in England, which has been very successful in reducing costs because it uses labour more efficiently⁹². Trades unions and others have claimed that staff transfers under PPP can lead to changed terms of reference and a two-tier workforce, i.e. those that substantively retain their former arrangements versus those that are recruited to work alongside them on different and lesser terms.
- 13.6 The private sector in its evidence (CBI, PwC, BSA and others) argues that the workforce is essential to the delivery of those enhanced public services on which their unitary payments depend. The test for the public body entering a PPP deal is to form a judgement as to whether the performance related payment mechanisms provide the right incentives to deliver the services through the period of the contract. And what are the provisions for review and alteration of service requirements?

⁸⁶ NAO, Minutes of Evidence, 17th May 2001

⁸⁷ HM Treasury Green Book

⁸⁸ MCG, EIB, PwC, 4Ps, NAO, CBI (NI).

⁸⁹ Colfox School written evidence from Dorset County Council

⁹⁰ Examples of this are in the submissions from NORTHWIN and DE

⁹¹ Transport Research Institute (NI) written evidence

⁹² Professor Glaister Minutes of Evidence, 17th May 2001

- 13.7 Professor Glaister in his evidence explained that the most important factors at the core of the deal were the output specifications and the ability to enforce the contract.
- 13.8 There is also some evidence from, inter alia, the NHS that making long term judgements beyond say 10-15 years about service requirements and provision is less than certain. The PPP arrangements have therefore to contain appropriate review change mechanisms. This is important also for democratic review and control of continuous improvement and long-term best value delivery of public services.
- 13.9 The other important associated factor to ensure delivery of quality public services is clarity about the specification and enforcement regime. Unison believes that “PFI contracts are extremely weak on specifying outcomes and quality.”
- 13.10 This will link to the performance payment mechanisms. There is a danger that lax arrangements will admit excess profits undermining long term value for money or that too tight a regime will lead to commercial failure of the contractor⁹³.
- 13.11 Improved quality services under PPP depend heavily on placing management of risk with the right party and ensuring the correct balance of motivation to sustain improvements and deliver quality services. This is only achievable if the right relationship of professional management and operational skills is established in the PPP⁹⁴. The partnership has to be flexible enough to include sharing the benefits of any performance gains made under the arrangement⁹⁵.
- 13.12 The focus on the services being provided through the PPP arrangements is perceived by the trades unions to need strategic planning and careful management to avoid having detrimental effects on other public services in the sector⁹⁶.

14. Public Sector Comparator and Discount Rate.

- 14.1 Trades unions and Professor Pollock see the 6% discount rate applied in the public sector comparator as economic sorcery and a means for influencing attainment of value for money⁹⁷. However, public bodies are able and encouraged to use varying rates and apply sensitivity tests to show how a decision on a PPP deal might be influenced by a different rate⁹⁸.
- 14.2 The NAO in their evidence cautioned against too much reliance on numerical/financial analysis in decision making and laid ‘emphasis on the purpose of the public sector comparator as a means of understanding differences, rather than the production of numbers that are compared to each other’. The NAO had found that there was a risk of the analysis appearing more robust than was actually the case and gave an example of a decision having been taken based on a narrow financial margin of £100,000 out of £700 million. However, it believed an effect of its case studies has been to strengthen the disciplines of applying the public sector comparator⁹⁹. HM Treasury, NAO, trades unions and 4Ps all advocate and support increased use of open-book accounting and transparency for PPP¹⁰⁰.

15. Risk transfer

- 15.1 The evidence draws attention to the importance of the transfer of risk or the ‘risk matrix’ (see Department of Finance, ROI) to successful PPP deals. The value for money case will rely heavily on the risk matrix that shows who bears the risk in the contract and what value is placed on it in the financial analysis. The value the private sector puts on any risk may not be the same as the public sector and this needs to be fully explored in negotiations with the preferred bidder.

⁹³ UNISON, written evidence

⁹⁴ For an example see CEF written evidence

⁹⁵ PwC written evidence.

⁹⁶ NIPSA and UNISON.

⁹⁷ UNISON, citing an Audit Commission Report commenting on the example of Cumberland Infirmary

⁹⁸ HM Treasury Green Book for guidance and recommendations on public appraisal of projects and expenditure that includes suggestion of sensitivity testing using variable discount rates

⁹⁹ NAO Minutes of Evidence, 17th May 2001

¹⁰⁰ NAO, trades unions and 4Ps in their evidence support the view. UNISON quote 4Ps guidance expressing the Treasury view on disclosure and consultation that “It is not a question of what should be revealed. It is a question of when everything should be revealed.” See also extract from NHS guidance submitted by HSSCs.

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- 15.2 It may be a debatable point to determine how to assign risk to the party best able to manage it. The contractual clauses must be sufficiently robust if the transfer is to be effective in termination and intervention situations¹⁰¹. An important issue in relation to this debate is accountability and how a concession agreement effectively transfers risk¹⁰². Examples were presented in the evidence of where increased costs have had to be shared, with the public sector being responsible for an apparently disproportionate share¹⁰³. The BSA pointed out that with limited resource financing those who provide private finance in the form of equity investment take some of the risk in a financially meaningful way¹⁰⁴.
- 15.3 The Committee believes that a fundamental matter for the public body to appreciate before it concludes a deal relates to the circumstances under which full responsibility for the provision of services may revert to the public body.¹⁰⁵
- 15.4 The development of a PPP project requires a high level of professional resources to specify its shape and evaluate the scheme's options. A feature of using private finance is that the projects developed are better planned, more complete, avoid phasing and are more diligently appraised¹⁰⁶. The question arises whether the commitment of up-front resources should be at the contractor's risk. And if there are significant profits to be made from the project whether they will cover the initial outlay. These additional developments and project costs must also be included in the value for money analysis. The Committee considers that this initial detailed project planning and its associated costs may be one of the most significant risks that is transferred.

PPP PROJECTS IN NORTHERN IRELAND

16. PPP and Programme for Government

- 16.1 The Programme for Government has set a target date of March 2002 to complete a review of the use of PFI and PPP in the Assembly investment programme¹⁰⁷.

17. Comparison with others and performance to date

- 17.1 The application and use of PPP appears to be less well developed in Northern Ireland than in other parts of the UK¹⁰⁸. The evidence from PwC highlights that between 1995 and 2001 there were 53 projects in Scotland with an average capital value of £34 million. The proposed approach in the Republic of Ireland to 2006 includes 20 identified infrastructure schemes with a minimum project size of £40 million. The 23 schemes in Northern Ireland have averaged only £6 million per project. Table 1 gives details of PPP projects where contracts have been awarded. Table 2 gives PPP projects that are at Tender stage. Table 3 shows possible projects that have been identified as potential PPP projects.

¹⁰¹ DHFETE for example, identify this as a key area in their evidence.

¹⁰² NIPSA and UNISON assemble a significant amount of academic based evidence that refutes and challenges this as having been achieved.

¹⁰³ UNISON supporting evidence discusses case of Carlisle Infirmary and the Passport Agency's IT System (see Private Pie in the Sky, by Professor Allyson Pollock and Neil Vickers).

¹⁰⁴ BSA, Minutes of Evidence, 17th May 2001

¹⁰⁵ NAO Minutes of Evidence, 17th May 2001

¹⁰⁶ Barclays Bank and EIB.

¹⁰⁷ OFMDFM letter to the Committee makes clear the highest level commitment to implementation of the Programme for Government (unpublished).

¹⁰⁸ PwC written evidence.

**TABLE 1:
NORTHERN IRELAND PPP / PFI PROJECTS WITH CONTRACTS AWARDED — POSITION AT MAY 2001**

Department	Agency / Function	Description	Date Contract Awarded	Capital Value (Est £m)
DE	ELB Accrual Accounting etc	New IT systems	Dec '98	3.3
DE	Drumglass School	New school premises	Jun '99	6.0
DE	St Genevieve's High School	New school premises	Aug '00	14.0
DE	Wellington College/ Balmoral High School	New school premises ^{*1}	Oct '00	16.0
DFP	Land Registry	Computerisation ^{*2}	Jul '99	4.0
DHFETE	T&EA	Computerisation	May '98	6.5
DHFETE	NWIFHE	New college premises	Aug '99	7.0
DHFETE	BIFHE	New college premises	Jul '00	19.8
DHSSPS	Holywell Hospital	Computerised energy management system	May '96	0.2
DHSSPS	Craigavon Area Hospital	Computerised energy management system	Feb '98	0.5
DHSSPS	Belfast City Hospital	New renal dialysis building & facilities	Nov '97	3.3
DHSSPS	Antrim Hospital	New renal dialysis building & facilities	Apr '99	2.7
DHSSPS	Daisy Hill Hospital	New renal dialysis facilities	May '98	0.3
DHSSPS	Royal Group of Hospitals	Car park facilities	Oct '96	2.0
DHSSPS	Various Trusts	All equip leases	Jan '98	12.5
DHSSPS	All Trusts	New clinical waste disposal building and services ^{*3}	Jun '98	3.5
DHSSPS	RGH/BCH Link Laboratory	New IT system	Apr '99	1.0
DOE	Planning Service	Computerisation	Dec '97	0.6
DOE	DVTA	Vehicle testing & IT	Mar '01	11.0
DRD	Water Service	Hydro electric scheme	Jun '99	0.9
DRD	Water Service	Sewage treatment works	Apr '99	11.0
DSD	Social Security Agency	Strategic advice & IT operational support	Dec '00	6.5
Total Projects	23^{*1}		Total Est Capital Value	132.6

^{*1} These were two separate projects but awarded to the same private sector partner.

^{*2} Will increase to £9m over a period of contract due to technology refresh.

^{*3} This is a cross border facility and service and £3.5m represents DHSSPS part of the contract.

**TABLE 2:
NORTHERN IRELAND PPP / PFI PROJECTS - OUT TO TENDER — POSITION AT MAY 2001**

Department	Agency / Function	Description	Project Identified	Capital Value (Est £m)
DCAL	Education & Library Boards – Electronic Libraries	Computerisation	1998	20.0
DHSSPS	Altnagelvin Hospital Services Centre	New building - pathology	Jun '98	10.0
DHSSPS	Belfast City Hospital	New building – cancer treatment	Nov '97	48.0
DHSSPS	Health & Personal Social Services	New computer system - patient & client identification	Jun '98	2.9
DHSSPS	Sperrin Lakeland Trust	Refurbishment & equipment – ultra sound & screening room	Aug '00	0.6
DRD	Ulsterbus	New antrim bus station & library		3.0
Total Projects	6		Total Capital Value (Est £m)	84.5

**TABLE 3:
NORTHERN IRELAND – POTENTIAL PPP / PFI PROJECTS — POSITION AT MAY 2001**

Department	Agency / Function	Description	Project Identified	Capital Value (Est £m)
DCAL	Lisburn Library	New library & retail & residential building.	Aug '99	3.2
DE	Bangor Academy & Comber High Schools	New school buildings (2 school bundle)	Mar '01	21.0
DE	Coleraine & Antrim	New school & extension & refurbishment (3 school bundle)	Mar '01	15.0
DE	Strabane & Derry	New school & extensions (3 school bundle)	Mar '01	34.0
DHFETE	BIFHE	New city centre building	Mar '01	30.0
DHFETE	BIFHE & Univ of Ulster	New Springvale campus	Mar '01	70.7
DHFETE	Omagh & East Tyrone Colleges	New colleges and refurbishment	Mar '00	30.0
DHSSPS	Altnagelvin Hospital	New cardiac equipment	Nov '00	0.6
DHSSPS	Causeway Hospital	New x-ray equipment	Nov '00	1.2
DHSSPS	Causeway Hospital	New clinic monitoring system	Nov '00	0.6
DHSSPS	NI Ambulance Service	New vehicles	Jan '97	3.4
DHSSPS	Royal Group of Hospitals	Refurbishment to centralise A&E and Fractures	Nov '00	1.2
DHSSPS	Royal Group of Hospitals	New equipment for new hospital	Nov '00	2.8
Total Projects	13		Total Capital Value (Est £m)	213.7

17.2 The Committee found that a sustained programme of PPP projects has only been developed in the education sector¹⁰⁹. The CEF sees reluctance in some Departments to take forward PPP schemes as a reason for the discontinuity and lack of opportunity in other sectors. The Committee was told by the CEF that if Northern Ireland had 3% of its planned capital investment (a conservative ratio) provided through PPPs, then PPPs to a value of £360 million might be envisaged over three years. This would be in addition to the allocation of funds for capital expenditure within the devolved budget¹¹⁰.

¹⁰⁹ DE.

¹¹⁰ CEF written submission.

- 17.3 The lack of activity in some sectors in PPP development in Northern Ireland appears to be confirmed by a review of the table provided by PwC on international development of PPP. This review leans heavily towards the road and water sectors, where tolls and water charges often provide a direct revenue stream for the concession¹¹¹.
- 17.4 In Northern Ireland the public sector provision of water, sewage treatment and roads is higher than in other countries. The Department of Regional Development states that there is “considerable scope for private sector involvement in water, sewage, roads, and public transport”¹¹².
- 17.5 The Committee sees this as an important factor when looking to the future. The fact that the public sector has been deprived of investment for so long makes it difficult to have confidence that the appropriate skills will be present to take forward a programme with the scale of investment required. Some of the key skills identified for taking forward major projects relate to project management, negotiation, commercial expertise and financial appraisal of schemes¹¹³.
- 17.6 The Department of Health, Social Services and Public Safety (DHSS&PS) in its informal presentation to the Committee considered that the long-term cash flow requirements of PPP was a major obstacle to taking forward a new hospital as a PPP project. The PPP schemes in the health sector have been directed at the provision of equipment, facilities and services such as renal units¹¹⁴. The Department of Health in Great Britain gave a counter view of the benefits of PPP and spoke of the overall improvement in health service standards following the building of a new hospital under PPP¹¹⁵.
- 17.7 In the housing sector it appears that the Northern Ireland Housing Executive is aware of the possibilities as to how PPP schemes may be developed and as a report has just been published¹¹⁶. Housing projects may include refurbishment and repair and are likely to be relatively low value PPPs¹¹⁷. This follows the lead set in England and Wales where eight pathfinder PPP projects are being taken forward¹¹⁸.
- 17.8 A fundamental issue for the Committee is the need for political and social acceptability of PPP due to the high level of public sector involvement in the delivery of services¹¹⁹. The evidence in the Irish Republic is that they are seeking to overcome this through the Social Partnerships approach and this appears to have engaged commitment from the trades unions¹²⁰. The key message is that users, local communities and the workforce need to be convinced of the economic benefits and improved public services that are achievable with appropriate and informed co-operation of the private sector¹²¹.

18. Strategy, organisation and programme of PPP

- 18.1 The long term cost of a PPP deal raises the affordability of a project and is a matter of judgement for the public body in assessing value for money, risk transfer and the quality of the services being provided¹²². The evidence suggests widespread acceptance of support for the feasibility and achievement of this combination of factors¹²³. The long-term commitment needed for a PPP contract requires the support of long term strategic policies. This is an important strategic planning issue. An example of this in the NHS is the way that PFIs in hospitals have driven the Department of Health into a review of bed numbers and clinical care policies¹²⁴. Another part of the NHS management of this potential “silting up” issue is to set a ceiling at the

¹¹¹ The PwC evidence to the Inquiry based on research for the European Commission suggests that the introduction of competition leads to cost savings; in public transport of between 10% and 20%, in the road sector of between 10% and 20%, and projects in water and sewage typically save 10% to 40%.

¹¹² DRD informal briefing and written submission

¹¹³ NORTHWIN and CBI(NI).

¹¹⁴ DHSSPS informal briefing 10th May 2001

¹¹⁵ DoH informal briefing 3rd May 2001.

¹¹⁶ Northern Ireland Housing Executive written submission.

¹¹⁷ Northern Ireland Housing Executive written submission

¹¹⁸ 4Ps evidence and report published in 1998 by LGA on the potential for PPP in the social housing sector

¹¹⁹ DRD recognises the need for political and social acceptability of the PPP process, in its written evidence.

¹²⁰ Evidence given by Irish Government and trades unions on 26th April 2001.

¹²¹ CBI(NI) and CEF Minutes of Evidence.

¹²² DHSSPS informal evidence 10th May 2001

¹²³ NAO, CBI(NI), MCG, CEF and BSA

¹²⁴ NHS, UNISON, and

2% level of future revenue flows for the service as a whole¹²⁵. Concerns about “silting up” of revenue were also an issue for Education and Library Boards¹²⁶.

- 18.2 One of the consequences identified for using private finance and the whole-life costing approach to public services is that the PPP scheme has the potential to impact severely on the wider programme of service delivery (See Professor Pollock’s discussion about bed numbers in NHS hospitals)¹²⁷. Closing the affordability gap for PPP may reduce the availability of funds to pay for other service areas, including labour and building costs¹²⁸. A particular concern of the trades unions is that this will erode the flexibility to employ and reward staff in areas excluded from the PPP arrangements¹²⁹.
- 18.3 The Committee regards this as a key strategic point and an area that must be addressed in any development of PPP projects in Northern Ireland. The Economic Planning Unit (OFM&DFM) is advised to carry out further research to find mechanisms for reconciling local value for money decisions on schemes with future revenue planning and budgeting for services. Not all of the values used in making a judgement of a project may become manifest in cash flows - that is a feature of transferring risk.
- 18.4 In the rest of the UK, good practice as outlined to the Inquiry by 4Ps is the peer and committee review, or ‘gateway’ process¹³⁰, in the early stages of a project. This can determine whether the scheme is likely to deliver value for money as a PPP¹³¹. The independence of an external examination from experienced practitioners may also help to reduce any nugatory time spent on promoting schemes under PPP that will not work¹³².
- 18.5 One of the key success factors identified by much of the evidence is the need for leadership and commitment from the top i.e. political and government¹³³. It appears that responsibility for policy and scheme development in Northern Ireland has been devolved to individual Departments¹³⁴. As has been stated above this appears to have worked successfully in education where the pathfinder pilots have led to the establishment of a deal flow¹³⁵. The impact in other areas has been hesitant.
- 18.6 The Department of Finance and Personnel has been used as a source of guidance and help, principally acting later in the process to confirm acceptance of the proposed PPP deal. The view of the Committee is that the expertise and skills in PPP development, negotiation and delivery of deals has been diffuse and variable. In general, it is less than what is needed to develop the kind of large-scale investment programme that is appropriate to the needs of Northern Ireland¹³⁶.
- 18.7 The Northern Ireland Executive has a range of policies and initiatives that set out the current approach to using PPP to increase investment¹³⁷. The Committee welcomes the efforts being made to stimulate investment and the importance of developing standards and methods of Government procurement. The Committee expects that this Report will contribute to that work.
- 18.8 PwC has recommended to the Inquiry that a Minister should have designated responsibility for driving the PPP initiative forward in Northern Ireland¹³⁸. This would become particularly important if major strategic PPP initiatives are proposed that require a ‘joined-up Government’ approach to tackling different departmental objectives in areas such as transport and social inclusion.

¹²⁵ DoH PFU informal briefing, 3rd May 2001. The 2% is to cover the capital charge and depreciation elements of the unitary payments, not the direct service costs of, for example, catering or laundry.

¹²⁶ Western Education and Library Board written submission.

¹²⁷ Professor Pollock, Minutes of Evidence, 17th May 2001, and in UNISON evidence which refers to other publications by Prof. Pollock.

¹²⁸ Examples of this view are given by DHSSPS in informal evidence 10th May 2001, and Transport 2000 in the context of public transport. Within the NHS the capital charge may be used to close the affordability gap where the deal is “off balance sheet”, see the DoH PFU informal briefing, 2nd May 2001.

¹²⁹ NASUWT (NI), and Irish National Teacher’s Association

¹³⁰ Office of Government Commerce website provides detail of the gateway process launched by Central Government in 2001

¹³¹ 4Ps Minutes of Evidence, 17th May 2001

¹³² CEF written evidence suggests “good planning and development will help”

¹³³ For example PwC and CBI (NI).

¹³⁴ Examples of this are provided in Departmental evidence

¹³⁵ DE and DFP evidence.

¹³⁶ Numerous passing comments in the oral evidence for example NORTHWIN, CBI (NI)

¹³⁷ Programme for Government 2001-2004.

¹³⁸ PwC written evidence

- 18.9 A strategic programme that identifies several high priority schemes to be taken forward under PPP should be considered by the Executive. In determining what schemes may be included in a strategic investment programme, research of feasible PPP structures and discussions with all parties is advised to determine the services needed and assess the likely market response. Risks that should be appraised and considered in the Northern Ireland context may include those associated with civil unrest and subsequent service disruption. It is conceivable that the assessment of these risks may prohibit some schemes, for example a rail project, from the programme due to difficulty in demonstrating value for money.
- 18.10 The Committee supports the need for more effective leadership to develop greater continuity and volume of investment¹³⁹.

19. Social factors

- 19.1 The evidence submitted on the social implications of PPP projects was limited largely to concerns about workforce and employment issues. Trades unions are critical of PPP and see it as a threat based on expectations of job cuts and weakening terms and conditions of employment¹⁴⁰. Conversely, employers see PPP as stimulating markets and the economy and many client bodies see it as an opportunity to deliver higher standards of service to the benefit of communities¹⁴¹. The Committee acknowledges the evidence and welcomes the commitment of the CBI and major companies to workforce rights issues¹⁴². A further perspective that may need to be considered is that an equality issue may arise between recipients of PPP and non-PPP services when improved public services are delivered under PPP¹⁴³.
- 19.2 The Committee welcomed the universal acceptance that the New Targeting Social Needs (New TSN) initiative should be included in the framework of PPP projects¹⁴⁴. Professor Austin Smyth believes considerable attention will be needed in this important area and it might contribute to arguments for a Northern Ireland “not for profit” infrastructure company¹⁴⁵.
- 19.3 The Committee considers that this is potentially a difficult issue when addressing local elements of a PPP scheme where for example, the bundling of schools or services is necessary if the benefit of economy of scale is to be gained¹⁴⁶. The Republic of Ireland is addressing this issue through the Social Partnership policy working at different levels of public sector administration¹⁴⁷.
- 19.4 Since October 2000 when the Human Rights Act became effective, PPP practitioners have been considering and reviewing its implications¹⁴⁸. The legal obligations placed on all providers of public services including private sector operators have yet to be fully assessed globally or on individual projects.¹⁴⁹ Responsibility and liability implications may, therefore, lead to cost increases on some PPP projects. Guidance is likely to be forthcoming later this year. The Committee was informed that this was being accommodated in one education project as it came up to closure¹⁵⁰.
- 19.5 An issue being investigated in Great Britain, and of concern to trades unions, is the creation of a two-tier workforce¹⁵¹. A two-tier workforce occurs if colleagues find themselves employed to do similar work on different terms and conditions. The evidence suggests the private sector has every reason to value its employees and develop their skills and career paths¹⁵². The trades unions suggest that this means a balance has to be struck in not removing all public sector employees to the private sector¹⁵³.

¹³⁹ CBI (NI)

¹⁴⁰ NIPSA and UNISON.

¹⁴¹ Belfast Institute of Further and Higher Education which sees improved educational attainment as an outcome, and DCAL which sees the economic advantage of the earlier construction and operation of new facilities as promoting cultural and learning opportunities in communities, see written evidence and example of Antrim Library.

¹⁴² UNISON Minutes of Evidence 22nd May 2001.

¹⁴³ Professors Broadbent and Laughlin and Dr Gill, written evidence

¹⁴⁴ DSD and other Government departments

¹⁴⁵ Transport Research Institute, written evidence

¹⁴⁶ Western Education and Library Board in its written evidence sees the bundling of small schools to create an attractive PPP package as being wrong.

¹⁴⁷ ROI, Minutes of Evidence, 26th April 2001

¹⁴⁸ PFI Bulletin October 2000

¹⁴⁹ Ibid

¹⁵⁰ Leeds City Council informal briefing, 2nd May 2001

¹⁵¹ Professor Pollock and UNISON, NIPSA.

- 19.6 Professor Pollock, in the context of the NHS, saw an important differentiation between private and public provision of services as being the ability to pool and share risk¹⁵⁴. Historically public sector employees have also experienced benefits of economies of scale in their terms and conditions. The Committee sees this as not just applying to PPP but also to other mechanisms for privatisation of public services. A related matter was the protection of pension arrangements under TUPE.
- 19.7 Of concern to the Committee was the loss to communities of school playing fields in order to reduce public sector costs and facilitate closure of PPP schemes. Evidence of playing fields being lost as part of releasing surplus land and achieving value for money was given in the Northern Ireland pathfinder schools projects¹⁵⁵.
- 19.8 The Committee found that improved guidance issued since 1998 by the then Treasury Task Force and also the Department of Health advocates and reinforces messages from earlier PFI schemes about involving stakeholders in the consultation process¹⁵⁶. Pimlico School in London has been an infamous embarrassment to Westminster City Council, in part due to the lack of timely consultation and openness with parents and governors¹⁵⁷. The Committee understands and endorses strongly the importance of equality assessments and New TSN to any future development and management of PPP and emphasised the community and employment perspectives. Professors Broadbent and Laughlin and Dr Gill, in evidence to the Committee¹⁵⁸, pointed to the need to take into account the extent of any unease amongst communities that are asked to accept PPP type developments and the danger of local services managers losing the support of the communities they seek to serve.

20. Legal framework

- 20.1 The Committee considered that an important overriding issue in PPP projects is to identify where ultimate responsibility for service provision lies and when it must revert to the public body¹⁵⁹. Legal advice on the procurement of services by PPP does not and should not denote an abdication of responsibility by the public sector¹⁶⁰. What is true for legal advice is also true for the public service as a whole¹⁶¹. This cautions public bodies that whatever the clauses in the agreement if the contract is dissolved then the body will be expected to provide the services. The Committee considers that a public body should take this into account in valuing the alternative routes for procurement of services.
- 20.2 The particular areas found to have caused problems in Northern Ireland legislation were set out fully in the evidence of L'Estrange and Brett. The Business Tenancies Act has led to a licensing arrangement for property based PPPs. DFP believes this has been practically dealt with, although delays arose in pathfinder projects. PPP in Northern Ireland where deals have depended on sales of surplus land to reduce unitary payments have also had to be dealt with exceptionally¹⁶².
- 20.3 One of the concerns that was encountered in the education pathfinder projects was the power of the relatively small education and library boards and/or individual schools and colleges to enter into concession deals lasting for up to 30 years¹⁶³. The parent Department has been able to support these arrangements with assurance letters that the banks have been able to accept and close deals with the autonomous bodies.
- 20.4 In order to take account of these factors it would seem prudent that the equality of opportunity aspect of Section 75 of the Northern Ireland Act, 1998 will lead to inclusion of equality impact assessments of the delivery of public services in general. PPP schemes are unlikely to be exempt from this developing area, as

¹⁵² For example BSA and CBI(NI)

¹⁵³ NIPSA and UNISON

¹⁵⁴ Professor Pollock, Minutes of Evidence, 17th May 2001

¹⁵⁵ DES, RoI cited examples of bidders calling for inclusion of playing fields into deals but explained that the Department was not interested because "it was an education project; we were not in it for the money". DES saw this as a cautionary tale for better consultation and management with stakeholders, and justification for their Social Partnership approach. Concern about land release and the need for public scrutiny of such proposals was also expressed in NATFHE evidence.

¹⁵⁶ Examples advocating greater transparency are in the evidence from trades unions on behalf of their members, for example INTU, NATFHE etc.

¹⁵⁷ A further equally well-publicised example is Kidderminster Hospital, where the outcome has resulted in formation of a political party and the election of a Westminster MP, June 2001.

¹⁵⁸ Professor Jane Broadbent, Dr Jas Gill, Professor Richard Laughlin, written evidence to the Inquiry

¹⁵⁹ NIPSA

¹⁶⁰ L'Estrange and Brett evidence.

¹⁶¹ Professor Glaister Minutes of Evidence, 17th May 2001, and L'Estrange and Brett

¹⁶² For example land acquisition and planning difficulties were encountered at Kinnegar Sewage Treatment Works, DRD written evidence

¹⁶³ Ibid and DE, DHSSPS and DFP

the private sector's role does not displace a public body's responsibility. In fact, the private sector may be expected to adopt suitable workforce policies and practice in new and existing projects.

- 20.5 The Committee noted the advice from the Department of Regional Development that primary legislation would be required to take forward a PPP approach to public transport¹⁶⁴.

21. Private sector capacity, sustainability of competition and expertise

- 21.1 The Committee agreed that, given the scale of the deficit, an important issue for the development of public services in Northern Ireland using PPP would be the impact on both private and public sector resources of an accelerated programme of investment.

- 21.2 Effectively a PPP project provides not just the private finance but also a range of skills that may not be readily available in the public sector¹⁶⁵. This is especially true where the public sector has widespread devolved responsibility and is accountable for capital expenditure and infrastructure development. Smaller public bodies rarely have large asset based resources and have to seek professional project management, negotiation and commercial skills from a parent department or from external sources¹⁶⁶.

- 21.3 Another complication appears if the advice is to bundle schools or projects to make a large enough package to attract the right level of competition. The Committee accepts two tensions may arise, firstly the local community interest associated with a single part of the larger package and secondly the economic threat to the smaller local contractor who might normally be expected to do the work. A similar arrangement in the Republic of Ireland has led to linking five schools located in very different places. The larger external contractor provides the finance and operational management and employs smaller local or regional building contractors to carry out each local piece of construction¹⁶⁷.

- 21.4 The Committee met and took evidence from private sector contractor groups during the Inquiry and they confirm that Northern Ireland would be an attractive market if there was a more developed and predictable deal flow¹⁶⁸. This would enable better development of links and alliances, and lead to better value deals¹⁶⁹. From the client viewpoint the ability must exist to sustain competition through negotiations to achieve best value for money at closure¹⁷⁰. EIB evidence supports this view and suggests that the attraction of larger outside contractors can strengthen the local economy¹⁷¹. EIB summarise the competitive sustainability requirement of PPP as "Getting the financial markets to compete and people to innovate is what it is about", and to achieve this requires the common approach of a central working group to drive the process, administration and to share experience¹⁷².

- 21.5 Evidence from the larger contractors and facilities management companies indicates that PPP projects with a value of £10 million would be the minimum size that would attract them. While some companies have suggested that deals in the order of £25 million to £50 million would be needed before they would make a bid. Deals of this size would encourage greater competition from the private sector. Companies have indicated that this is due in part to the very high cost of the bidding process.

22. Overview of case summaries

- 22.1 The Inquiry's fourth term of reference called for summaries (using available information) of a representative selection of PPP initiatives, including PFI projects to be compiled. The intended overall purpose of the case summaries was to provide the Committee with a balanced perspective of the experience of PPP initiatives to date.

- 22.2 Work was undertaken to compile case summaries in accordance with the fourth term of reference. The areas selected for the case summaries included education, health, waste management and sewerage, street lighting and housing. Their selection was based on their relevancy to the Northern Ireland situation, i.e. the fact that

¹⁶⁴ DRD, and PwC written evidence

¹⁶⁵ For example L'Estrange & Brett, PwC etc and DSD experience of PPP with EDS Ltd, written evidence

¹⁶⁶ 4Ps, Minutes of Evidence, Minutes of Evidence, 17th May 2001

¹⁶⁷ Department of Education and Science, ROI, Minutes of Evidence, 26th April 2001

¹⁶⁸ MCG, CEF, CBI(NI), BSA, PwC as well as the CIF, Dept of Finance, IBEC, ICTU (Minutes of Evidence, 26th April) see consistent deal flow as important.

¹⁶⁹ MCG, Minutes of Evidence, , 17th May 2001

¹⁷⁰ Treasury Guidance and NAO reports confirm the importance of this issue.

¹⁷¹ EIB Minutes of Evidence, 17th May 2001, cites experience in Spain , Portugal and Greece.

¹⁷² EIB, Minutes of Evidence, 17th May 2001

apparent investment deficits in these areas potentially make them probable candidates for PPPs. Moreover, the selection of the individual PPP initiatives in each area was based on its relevancy to Northern Ireland in terms of size, i.e. the scale of the project as reflected in its capital value.

- 22.3 For a number of reasons, however, it became evident that there would be difficulty in fully complying with the prescribed term of reference. First, the available information was limited, particularly in terms of assessing the degree to which projects had met their objectives as well as assessing its socio-economic impact on the relevant communities. These limitations appear to arise from the fact that individual project information is not readily available to the public. Typically, it must be obtained from those responsible for the project. Their control over the flow of project information consequently makes it difficult to assess whether a balanced view is being given, as they may overstate positive aspects of particular projects as well as understate negative aspects. It, therefore, is difficult to meaningfully scrutinise such information.
- 22.4 Moreover, project information does not appear to be kept in a uniform manner. This leads to inconsistent findings, making comparisons difficult, if not impossible. Finally, there appears to be an absence of research on the socio-economic impact of individual projects on relevant communities.

FINDINGS

FINANCING INVESTMENT

23. Deficit of investment in public services in Northern Ireland

- 23.1 The Committee derived the following findings from consideration and analysis of the written evidence submitted, against the information requested¹⁷³.
- 23.2 Members found that there is common agreement in Northern Ireland that there has been a serious lack of investment in public services and infrastructure in Northern Ireland over the last 30 years.¹⁷⁴ Such persistent under-investment has resulted in a substantial investment deficit across a variety of key areas: including health, education, housing, and public sector infrastructure. The Minister of Finance and Personnel in his evidence to the Committee stated that "...the scale of the problems is daunting and the total investment needed in coming years runs into billions of pounds." He went on to say that: "The crumbling fabric of schools, inadequate health facilities, key water and sewerage projects, public transport and problems with vital road links all require early action".
- 23.3 The Northern Ireland Executive's Programme for Government for 2001 to 2004 echoes the problem of investment deficit and identifies priority areas for action throughout Northern Ireland's public services and infrastructure.
- 23.4 Unfortunately there appears to be a lack of research measuring the investment deficit in Northern Ireland. Research commissioned by the Committee highlighted potential areas, as identified in the Programme for Government, where investment is needed.¹⁷⁵ These are similar to those in a report produced by the Confederation of British Industry (Northern Ireland) (CBI NI) in December 2000.¹⁷⁶ This provides one of the most reliable, non-governmental estimations of the Northern Ireland's infrastructure investment deficit in key areas. Its report states as follows:
- Health — £250 million immediately
 - Education — £500 million immediately
 - Housing — £100 million over the next three years
 - Infrastructure:
 - Water — £3 billion over next 20 years
 - Roads — £700 million over next 10 years
 - Public Transport — £300 million over next 10 years
- 23.5 The question therefore arises as to how this substantial investment deficit of several billion pounds will be redressed. This issue is considered in "Financing Investment".

24. Alternative methods of financing and procuring improvements in public services

- 24.1 The Committee received a wide range of suggestions on financing alternatives from bodies in all sectors. The list contained:
- traditional forms of public finance, for example loans and grants;
 - variants of PPP, such as leasing, Design Build Finance (DBF), Design Build Finance Operate (DBFO) and joint ventures;
 - "not for profit" companies; and
 - approaches to privatisation of the services through outsourcing, franchising and contracting out.
- 24.2 The evidence presented to the Committee confirmed that the preferred source of finance is public finance because it is provided as a grant or as a loan at generally lower interest rates than are available for private finance¹⁷⁷. Many respondents identified public loans through capital and revenue bonds¹⁷⁸ as a method for

¹⁷³ The findings are derived from the material submitted and examples are given of supporting evidence.

¹⁷⁴ There are a number of factors that form the bases of this serious lack of investment, including, the inadequacies of the "Barnett Formula", which is used by Central Government to allocate public expenditure to devolved administrations in Northern Ireland, Scotland and Wales.

¹⁷⁵ See Appendix 1 Research and Information Services paper.

¹⁷⁶ Confederation of British Industry Northern Ireland. "Addressing Northern Ireland's Infrastructure Deficit", Paper NI 10 00, December 2000. CBI(NI) highlighted other areas with infrastructure investment deficits, e.g. telecommunications.

raising finance that should be considered as an alternative to PPP if public finance was not available. See also the Section on 'Alternative methods of financing and procuring improvements in public services'.

- 24.3 In the public sector, access to the finance and the profile of funds provision is subject to policy, regulations and administrative rules¹⁷⁹. In bankable projects, funding of the private financing payments and repayments can be structured to ensure a project is affordable and fits with medium to long term public expenditure requirements. In the case of PPP this is a part of the negotiation and evaluation of the benefits of the deal.

25. Fiscal Indicators and control of public expenditure and treatment of capital funding

- 25.1 In practice, although accounting treatment of Public Sector Borrowing and funding of schemes has changed¹⁸⁰, there are credit benefits under PPP that increase public bodies funding powers. Changes in the accounting treatment of capital expenditure, accruals accounting and charging for assets are improving the integration of capital and revenue financial planning as it affects delivery of public services, and in particular the acquisition and maintenance of assets¹⁸¹.
- 25.2 The Committee found that a number of public bodies were re-evaluating their role and responsibility in managing publicly owned properties and assets. These bodies are questioning whether property and asset management should be a core activity for the public service.
- 25.3 PPP offers a procurement method that adds to the short-term resources for investment in infrastructure and excludes private sector financing from the public sector capital budgeting. This can reduce immediate demand on public expenditure and smooth expenditure over a longer period. There is considerable evidence from the number of deals that have now been completed across the UK¹⁸², that the regulatory and accounting criteria can be fulfilled and that in those circumstances PPP will contribute to accelerating financing of investment in public services¹⁸³.

THE USE OF PPP AS A PROCUREMENT METHOD

26. Application of PPP as a procurement method

- 26.1 PPP has to demonstrate value for money¹⁸⁴. The whole-life costing approach provides incentives for all parties to develop fuller and more complete output specifications with mechanisms for continuous improvement and flexibility in service delivery, compatible with the service requirements, demand forecasts and the period of the contract.
- 26.2 The allocation under a PPP of specific responsibilities and the risks associated with their delivery provides the opportunity for using the best of both private and public sector skills to improve public services¹⁸⁵. Ultimate accountability for delivery of the services under the PPP deal must rest with the public body¹⁸⁶. The private sector entity accepts risks and responsibility for efficient operations management. Private sector provision of PPP services releases the client from the secondary and time consuming facilities management responsibilities and allows the client to focus on core service activities¹⁸⁷. Evidence in the education field identified this as both a key benefit of PPP and a problem when developing a PPP project.¹⁸⁸

¹⁷⁷ CIPFA and DFP.

¹⁷⁸ The arguments are discussed in the Paper by Professor Stephen Glaister, *Transport Policy, Control and Value for Money: The Next Way?* and by Professor Austin Smyth of the Transport Research Institute, Northern Ireland

¹⁷⁹ Professor Glaister Minutes of Evidence, 17th May 2001

¹⁸⁰ CIPFA and 4Ps, DFP.

¹⁸¹ Professor Glaister Minutes of Evidence, 17th May 2001

¹⁸² National Audit Office reports support attainment of value for money in PFI/ PPP deals whereas UNISON casts strong doubts on the realism of the Public Sector Comparator information.

¹⁸³ EIB, Minutes of Evidence, 17th May 2001, believe this is a major factor in PPP being adapted and taken forward in many European countries. See also Department of Finance, ROI, 26th April 2001.

¹⁸⁴ HM Treasury Guidance is widely accepted in the written evidence as being the basis for using PPP for procurement of public services. This is supported by CIPFA and others as the basis for using PPP as a method of procurement.

¹⁸⁵ CBI (NI), CEF, Department of Finance (ROI).

¹⁸⁶ L'Estrange and Brett written evidence

¹⁸⁷ Examples are DE, DHFETE, Belfast Institute of Higher and Further Education,

27. Value for Money and Risk Transfer

- 27.1 The PPP process has been applied to a wide range and scope of public services provision¹⁸⁹. To achieve maximum value for money smaller schemes especially depend on previous experience, standardisation of procedures and contracts¹⁹⁰.
- 27.2 PPP is only recommended where value for money can be demonstrated taking account of whole-life costs and improved quality of public services¹⁹¹. The Committee found that the evidence submitted appeared to confirm that risk transfer is an essential measure for the evaluation and demonstration of added value in PPP procurement.

28. Benefits, disadvantages and success factors of PPP

- 28.1 The Committee sought to understand the benefits and the disadvantages of PPP and then establish the success factors needed for good PPPs. The summary below highlights the key benefit, disadvantages and success factors identified through the evidence presented to the Inquiry.
- 28.2 There was a widespread consistency of endorsement and compatibility with all the guidance, case studies and audit reports available in the public domain. The issues associated with these findings are included within the Consideration of Evidence and Issues. They are at the centre of the challenge as to whether PPP is an appropriate procurement method for meeting public service requirements.

Benefits

- 28.3 The benefits of PPP include:
- accelerated speed of delivery of long-term capital programme, employing and delivering more services and resources, smoothing expenditure on capital;
 - the employment of a wider skill base (managerial, commercial, creative skills) introduces innovative approaches to the mix, extent and quality of the public services that are provided, incorporating more advanced technology where appropriate;
 - a whole-life costing approach overcomes the short-termism of conventional procurement and delivers improved value for money, integrating capital and revenue financial planning;
 - a clear and firm commitment to a long-term spending programme, with guaranteed long term level of maintenance and facilities;
 - design, build, finance and operate (DBFO) schemes encourages the private contractor to use better quality materials, etc. in a facility in the knowledge that they will have to maintain it and provide a defined level of service throughout the life of a contract;
 - focused project/service management and delivery, leads to better and more complete planning and implementation, avoiding phased and fragmented investment, shortens overall time scales to create the total service plan and provision;
 - the transfer and allocation of risk to those best able to manage it;
 - allows management to focus on core business (e.g. education and health care services) and thus the potential to raise standards in areas important to the public; and
 - exploitation of the full value of the assets, introducing third party revenues.

Disadvantages

- 28.4 The disadvantages and potential dangers of PPP that need to be taken into account include:
- length of commitment goes beyond a realistic period when details of services can be accurately defined or measured;
 - strategic flexibility is reduced, limiting the ability and capacity to redirect services, divert and manipulate budgets and funds;

¹⁸⁸ The benefits of the transfer of responsibilities were found during the Committee's visit to Cardinal Heenan School, Leeds. The submission from St Genevieve's High School, Belfast highlighted the resources a School Principal must commit to the development of a PPP project, which can be to the detriment of education provision.

¹⁸⁹ DETR, OGC, DFP, and others lists of PPP deals to date

¹⁹⁰ Department of Health

¹⁹¹ CIPFA.

- workforce terms and conditions of employment are expected by trades unions to change and lead potentially to a two-tier workforce situation;
- risks and resources are measured and confined largely to one defined and specified service area. This limits the ability to share and pool risks and resources across the wider public service.
- risks reverting back to the public sector if the private provider fails and the need for contingency plans to be put in place;
- private sector derives profit from use of its finance and resources out of public funds. This suggests that if public sector motivation, incentives and management were better balanced more could be achieved from public services through the public sector. However the evidence seems to be that this doesn't work.
- public sector must develop substantial qualified and experienced in-house personnel to construct, specify, appraise and negotiate a value for money PPP, or must rely on external consultancy support;
- lack of expertise can put public bodies at a severe disadvantage, for example incorrect use of the public sector comparator may lead to the wrong decisions being reached on value for money; poor contract negotiations that result in the public body not sharing the full benefits of any re-financing of a deal;
- high cost of bidding process to the private sector;
- greater financial stake and management role in service provision by private sector, for example in hospital management, may have an impact on clinical/service freedoms.

Success factors

- 28.5 The key success factors are identifiable and an increasing amount of guidance is now available to support PPP procurement. The Committee found that the key factors for success include:
- a clear vision of the scope and output specification of the services required (Statement of Service Requirement);
 - the opportunity for innovation and continuous improvement in quality and mix of services to be provided;
 - demonstrable value for money and affordability against the public sector comparator for the whole-life of the project;
 - genuine and appropriate transfer of risk to the private sector;
 - realistic expectations of the technology, the potential benefits to be achieved, appropriate mechanisms for change, and the sharing of additional or surplus gains;
 - sustainable market for competitive supply of services through the bidding process, and assessment of long term capacity for service delivery; and
 - commitment and leadership, supported by appropriately experienced and dedicated expert teams to drive the project through the process, including establishment of an active partnership with all parties.

PPP PROJECTS IN NORTHERN IRELAND

29. Use of PPP in Northern Ireland

- 29.1 The United Kingdom generally is much more advanced in the application and use of PPP than other countries, particularly in the form and structure of what is and likely to be suitable for PPP in Northern Ireland¹⁹².

30. Comparison with others

- 30.1 PPP based on the UK model is being used increasingly across Europe to improve delivery and quality of public services by mobilising private sector finance and skills.
- 30.2 Other European countries, Portugal, Spain, Netherlands and Greece have adopted the UK's approach to PPP schemes. They are extensively applying the lessons learnt, and are now moving forward with their own structures for developing, and using private/ public sector partnerships to accelerate investment in public services, and to achieve better whole-life value in the provision and use of infrastructure¹⁹³.

¹⁹² PwC

¹⁹³ EIB and PwC

30.3 Northern Ireland has a higher level of public sector involvement in delivery of public services than other countries¹⁹⁴.

31. Performance to date

31.1 PPP has been applied in most sectors of the Northern Ireland public service¹⁹⁵.

31.2 Northern Ireland has followed the set procedures of HM Treasury guidance and implemented initial schemes in various departments through ‘pathfinder’ projects. In education and IT these have contributed to the development of best practice in the UK¹⁹⁶.

31.3 In Northern Ireland it is too early for post-closure evaluation reports of deals to be available in order to determine performance and value for money. There are however now more than 20 reports from the UK National Audit Office showing how to achieve sound, robust deals and deliver value for money.

32. Strategy, organisation and programme

32.1 Countries initiating and adopting PPP approaches across Europe have almost all established centres of excellence, and expertise in the Government administration to promote, advise on and co-ordinate project development and progress.

32.2 The existing organisational structure and commitment to include PPP projects in departmental programmes has been managed under devolved responsibility using DFP and wider UK guidance to support departmental project teams.

33. Social factors

33.1 Social impacts of PPP projects were difficult to evaluate as deals are only just beginning to come on stream. NAO reports will increasingly include these aspects as part of the post-contract evaluation¹⁹⁷.

33.2 The Inquiry found a lack of knowledge of PPP in the wider public sector and antagonism from trades unions¹⁹⁸. Detractors perceive PPP as a route to privatisation and delivery of excess profits to the private sector. There is also concern about the impact on terms and conditions of employment and pension rights of public service employees.

33.3 The Committee noted that, in some instances, the experience of privatisation in some hospitals and schools had had a negative impact on people’s perceptions of these schemes, which need not necessarily be applicable to PPP projects.

33.4 Social inclusion can be promoted in PPP schemes by removing structural boundaries across sectors such as health and social care, and education. For example, the integration of leisure, arts and library facilities in projects¹⁹⁹.

33.5 New Targeted Social Needs (TSN) policies were recognised as being important for future investment schemes and provision of public services²⁰⁰.

34. Legal framework

34.1 The legislative matters²⁰¹ affecting PPP deals to date were identified as:

- Business Tenancies Order 1996 and the need to issue Licences;
- “ultra vires” powers of Councils; and
- Criminal Damage Compensation Scheme.

¹⁹⁴ EIB, Minutes of Evidence, 17th May 2001

¹⁹⁵ See list of PPP schemes at section 17 of this Report.

¹⁹⁶ Northern Ireland’s reputation in PPP is most widely recognised in Education, where the Department through its pathfinder pilot projects has widely shared its experiences with others in order to develop and learn. The Land Registers NI in partnership with Syntegra (BT) was awarded “IT Winner” in the UK PFI Awards 2000.

¹⁹⁷ NAO, Minutes of Evidence, 17th May 2001

¹⁹⁸ NIPSA and UNISON.

¹⁹⁹ An example is the provision of a library at Antrim, see DCAL written evidence

²⁰⁰ See examples of references in public sector evidence. Professors Broadbent and Loughlin and Dr Gill in their written evidence suggest local interests and prioritisation of strategic need are perhaps more important than the source of finance.

²⁰¹ L’Estrange & Brett, informal briefing 10th May 2001

34.2 Future schemes will be expected to incorporate Section 75 of NI Act 1998, equality in the delivery of public services²⁰².

34.3 The Human Rights Act October 2000 and its implications that are just being assessed by the PPP Industry²⁰³.

35. Private sector capacity, sustainability of competition and expertise

35.1 The private sector has the capacity to respond and contribute to an increased and more sustained level of PPP deals than exists at present²⁰⁴. The wider PPP market in the UK and Europe has created subsidiary operating companies specialising in provision of PPP public services²⁰⁵.

35.2 The capacity of the local economy to sustain the skills and expertise for PPP projects, leads to concern about for example the domino effect of contractor failure due to over-commitment and the recourse position of the public sector, as a supplier of last resort²⁰⁶.

35.3 There is a lack of resident PPP expertise in the public service. In particular, the commercial knowledge and skills to negotiate deals,²⁰⁷ legal advice,²⁰⁸ and in certain areas, suitable suppliers for specialist equipment.

35.4 An example of the limitations of the capacity and ability of the local private sector to compete with external providers has been the immaturity of the facilities management industry in NI²⁰⁹.

36. Overview of case summaries and evaluation and monitoring of projects

36.1 The Inquiry's fourth term of reference called for summaries (using available information) of a representative selection of PPP initiatives, including PFI projects to be compiled. Work completed on the case summaries revealed the need for:

- consideration of what further information was needed to assist the post-implementation evaluation and monitoring of projects in the context of the investment strategy and how it should be undertaken;
- greater access to individual project information;
- such information to be kept in a more uniform and structured manner;
- bodies such as the NIAO to expand their work into compiling case studies on PPP and other projects;
- research to be commissioned to assess the socio-economic impact of individual projects on relevant communities.

²⁰² DSD assessment was that no mitigating action was required

²⁰³ PFI Intelligence Bulletin, October 2000

²⁰⁴ MCG, Jarvis, BSA.

²⁰⁵ EIB and PwC.

²⁰⁶ NIPSA written evidence

²⁰⁷ CBI(NI), MCG, CCMS and BSA

²⁰⁸ L'Estrange & Brett, informal briefing, 10th May 2001.

²⁰⁹ CBI(NI).

CONCLUSIONS

FINANCING INVESTMENT

37. Deficit of investment

- 37.1 The Committee concluded that there is a consensus of opinion within Northern Ireland regarding the deficit of investment over the years in the infrastructure, assets and facilities that are needed to provide the public with quality public services.
- 37.2 The Executive's Programme for Government, 2001-2004 begins to describe the extent of the deficit and the tasks needed to address that deficit across the public services.
- 37.3 The Committee's conclusions are as follows.

38. Financing investment

- 38.1 The preferred source of finance is public finance. It can be provided as a grant or as a loan at generally lower interest rates than are available for private finance. Other options such as increased public capital expenditure budgets, and public loans through capital and revenue backed bond finance, require longer to develop and negotiate with HM Treasury.
- 38.2 PPP has a part to play in addressing the Northern Ireland deficit in investment. Other means of financing and procurement will also be necessary.
- 38.3 A pragmatic approach is to recognise the benefits of a mixed economy and determine that the use of private finance through either PPP or other deals can increase and accelerate the response to the deficit situation. For this to be effective, the deal has to be structured to ensure that private sector financing is excluded from public sector capital budgeting.
- 38.4 This can increase short-term resources for implementation of improvements to public services, reduce immediate demand on public sector finances and smooth public expenditure over the longer term.
- 38.5 Public bodies will have to examine the affordability of any PPP deal, taking account of other demands on public resources and capital and the added value of the improved public services. A structured whole-life cost approach to PPP does allow the integration of capital and revenue financial planning and alignment of strategic plans for the provision of quality public services. There is, however, a need for further research into financing mechanisms that can reconcile decisions made on the value for money of schemes against future revenue planning and budgeting for services.
- 38.6 Financing the investment effectively will need a service-wide investment strategy that is based on the priorities set out in the Programme for Government. It should ensure that the deficit is tackled in a structured and manageable way and establish a programme of strategic projects and methods of finance that can be sustained by the public and private sectors.

THE USE OF PPP AS A PROCUREMENT METHOD

39. The application of PPP as a procurement method

- 39.1 The PPP procurement method has to be able to demonstrate value for money. If it does not then alternative forms of procurement are preferable.
- 39.2 The whole-life costing approach provides incentives for all parties to develop fuller and more complete output specifications with mechanisms for continuous improvement and flexibility in service delivery, compatible with the service requirements, demand forecasts and the period of the contract.
- 39.3 Under PPP the allocation of specific responsibilities and the risks associated with service delivery provides the opportunity to use the best of both private and public sector skills to improve public services. Ultimate accountability for delivery of public service under the PPP deal must rest with the public body.
- 39.4 Under PPP the provision of services by the private sector releases the client owner to focus on core activities such as health and education provision.

- 39.5 There are no simple rules for guidance in the application of PPP in relation to monetary value, service sector or type of project. The length of time for PPP procurement and its complexity suggests that larger value projects are more likely to deliver value for money. However, PPP can also deliver value for money in smaller projects where standardisation has been possible.
- 39.6 Major strategic and larger projects make it easier to justify and support the high bid costs and the costs of the specialist expertise and advice required to make a good PPP deal. There is, however, no guarantee a PPP option will provide best value for money, irrespective of the time and resources expended in developing the deal.
- 39.7 It is an important part of any PPP scheme appraisal to match the appraisal of the scheme and co-ordination of the service output specification with the wider sector strategy. Given the high level investment of time and resources by both the public and private sectors there is substantial incentive to initially evaluate schemes against an outline business case.
- 39.8 There are many cases where, for one reason or another, a deal cannot be agreed. This leads to considerable emphasis on the following of good practice and the application of relevant experience. The evidence and the benefits and success factors identified in the Inquiry provide guidance on how make sure that a good PPP scheme is achievable.

40. Benefits, disadvantages and success factors of PPP

- 40.1 The Committee concluded that, while there are benefits there are also disadvantages and dangers that must be taken into account when considering PPP. If these are taken into account when considering the success factors of good PPPs they will contribute to the effectiveness of PPP and greater value for money. PPP will then contribute to a more comprehensive approach to strategic management of assets and services. The factors are identified and summarised in the 'Findings' Section above.

PPP PROJECTS IN NORTHERN IRELAND

41. Use of PPP in Northern Ireland

- 41.1 Northern Ireland is behind the rest of the United Kingdom and a number of other European countries in implementing a co-ordinated programme of PPP projects and has only a structured programme with any continuity of deal flow in education.
- 41.2 Progress has been disappointing in public transport, water and sewage, and roads sectors when compared with performance in other countries across Europe.
- 41.3 Effective leadership is needed to develop greater continuity and volume of PPP activity, to improve public sector credibility and stimulate private sector interest. Implementation of an increased PPP programme requires central co-ordination, guidance, expertise and a 'gateway' project review process for initial project review.
- 41.4 The present policies and initiatives to use PPP to increase investment, to stimulate an increase in the appropriate use of the private sector, and the importance of developing the standards and methods of Government procurement are endorsed and welcomed. The findings and evidence of this Inquiry will contribute to the work of these groups.
- 41.5 Closing the affordability gap is one of the most important strategic points and areas for close attention in any development and closure of PPP project deals. Value for money may be demonstrated by added value to quality of service and transfer of risks that is not always manifest in cash flows.
- 41.6 Future development of PPP in Northern Ireland should incorporate targeting social need, equality, and human rights assessments for communities, public service users and employees, and private sector operators.
- 41.7 The market capacity and capability for sustainable implementation of PPP exists and will draw in interest from outside of Northern Ireland for larger projects. An increased level of activity would have economic benefits for business in Northern Ireland.
- 41.8 The skill base in Northern Ireland, both in the public and private sectors will require training and development to respond to an increase in activity level and to appreciate and understand the complexities of PPP projects. Particular areas identified include project management, financial appraisal, contract negotiation, and risk assessment.

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- 41.9 There is widespread support from all parties that if PPP projects are taken forward there should be more effective consultation among stakeholders and transparency of the decision making process to ensure that projects meet the needs of users and achieve value for money.
- 41.10 The high volume of public sector involvement in the delivery of public sector services in Northern Ireland requires political and social acceptability of the PPP process. The key message is that communities, users and the workforce need to be convinced of the objectives of the PPP and the benefits and improved public services that are achievable.
- 41.11 The establishment of a “not for profit” trust for infrastructure investment in Northern Ireland will require significant further development. It is unlikely therefore to be able to meet the needs in the short term and may not meet the complete service requirements that can be delivered by PPP procurement.

42. The way forward

- 42.1 There is a need for a unified, service-wide investment strategy that will address the deficit in infrastructure and services, based on the priorities set out in the Programme for Government. It should ensure that the deficit is tackled in a structured and manageable way and establish a programme of strategic projects and methods of finance that can be sustained by the public and private sectors.
- 42.2 This strategy will need a partnership and a commonality of approach across Departments and public bodies, and the support of other key players such as the private and voluntary sectors and communities if it is to succeed. The ‘Social Partnership’ approach to PPP that has been adopted in the Republic of Ireland was seen as a helpful model to achieve that support.
- 42.3 Political and service level commitment is needed to drive the strategy forward. This can be achieved by designation of a specific Minister with responsibility for creating and implementing the strategy under the authority of the Executive Committee.
- 42.4 The task is urgent and it is important that progress should be made as soon as possible. The responsible Minister therefore needs to establish a short-term working group that is time bound. The working group should comprise senior representatives from each Department, such as senior finance officers.
- 42.5 The working group would initiate work to examine and determine the most appropriate investment and procurement methods to be used in the short and longer term and promote a sustainable and manageable flow of projects.
- 42.6 Projects would be submitted by Departments and appraised by a ‘gateway’ or project review group within the working group. It would undertake an initial review of outline business cases to establish the order of priority of the project in the strategic programme (based on the requirements of the investment strategy) and the appropriateness of the procurement method. There would be a resource issue that will need to be addressed in undertaking this task.
- 42.7 The working group would also initiate work to address issues such as the methodology for promoting equality, New TSN and human rights within projects, the development of a public sector skill base, guidance on processes, accounting implications and value for money, and the need for openness and public accountability.
- 42.8 In the longer term there is a need for a ‘central investment board/procurement body’ under the authority of the responsible Minister. It would take over the role of the working group and will need the capability and capacity to act as a centre of excellence in methods of investment and procurement, including PPP.
- 42.9 The body would co-ordinate the investigation, development and use of PPP as well as alternative financing and procurement methods across Departments and public bodies. And it would advise on the appropriateness and use of the various methods and any consequential policy and statutory changes that might be required. This would include promoting the political and social acceptability of the use of the investment methods such as PPP, where value for money can be demonstrated.
- 42.10 The Executive needs to consider the powers and responsibilities of the responsible minister, the Department of Finance and Personnel, the proposed central investment body/procurement body and other government departments. This consideration should confirm whether their powers are compatible with the Committee’s recommendations and, if necessary, make recommendations to the responsible minister that will enable effective management of the programme for investment and enforcement of robust capital expenditure disciplines in project appraisal and financing.

43. Overview of case summaries and evaluation and monitoring of projects

- 43.1 The Inquiry's fourth term of reference called for summaries (using available information) of a representative selection of PPP initiatives, including PFI projects to be compiled in order to provide the Committee with a balanced perspective of the general experience of such initiatives to date. The Committee concluded that further research was needed in this area.
- 43.2 The responsible Minister therefore needs to consider how post-implementation evaluation and monitoring of the use of PPP and other methods should be undertaken, in the context of the investment strategy.
- 43.3 As part of this process the proposed central investment board/procurement body should examine the need to build up a case history of the use of PPP and other investment methods in Northern Ireland. And the role that a body such as the NIAO might play in this process. The case history could support regular reviews and post-implementation evaluation and monitoring of schemes.
- 43.4 Some of the issues that need to be considered are:
- value for money achieved by PPP and other methods across the public service areas;
 - greater access to individual project information;
 - such information to be kept in a more uniform and structured manner across bodies;
 - bodies such as the NIAO to expand their work into compiling case studies on projects; and
 - commissioning research to assess the socio-economic impact of individual projects on relevant communities.

**ANALYSIS OF THE DEFICIT OF INVESTMENT
IN PUBLIC SECTOR SERVICES PROVISION
IN NORTHERN IRELAND**

BRIEFING PAPER
PUBLIC PRIVATE PARTNERSHIPS INQUIRY
TERM OF REFERENCE NO 2
ANALYSIS OF THE DEFICIT OF INVESTMENT IN
PUBLIC SECTOR SERVICES PROVISION IN NORTHERN IRELAND

INTRODUCTION

1. The purpose of this briefing paper is to provide details of areas within the public sector in Northern Ireland that have been identified as suffering from a deficit of investment.
2. The briefing paper highlights the first Northern Ireland Assembly Budget to identify where the Government is allocating funds. It then considers such Budget allocations to identify significant levels of under-investment that arise for Northern Ireland Departments.
3. To supplement the budget information, the briefing paper proceeds with an inexhaustive list of issues that arise from the Programme for Government, which was published by the Northern Ireland Executive in February 2001. The issues highlight the wide variety of areas requiring attention by the public sector: such areas include many that will seek additional funding in future.
4. Looking beyond the Government's ideas about under-investment in the public sector, the paper highlights areas identified in a report entitled "Addressing Northern Ireland's Infrastructure Deficit" which was produced by the Confederation of British Industry (CBI) in Northern Ireland in December 2000.
5. It should be noted that the information presently provided may be supplemented at a later date with further information received through the written and oral evidence received during the Committee's consultation process and from the Northern Ireland Departments. The briefing therefore should be used as a useful starting point in this Inquiry.

The briefing paper is divided into the following sections:

1. The first Northern Ireland Assembly Budget
2. Departments
3. Northern Ireland Executive, Programme for Government, February 2001
4. Confederation of British Industry "Addressing Northern Ireland's Infrastructure Deficit"
5. Conclusion.

1. THE FIRST NORTHERN IRELAND ASSEMBLY BUDGET

The first budget prepared by the Northern Ireland Executive was presented in draft form to the Northern Ireland Assembly on 17 October 2000 by Mark Durkan, MLA, Minister of Finance and Personnel. A total of £5,838.6 million was allocated across the eleven Northern Ireland Departments for 2001/02. This showed an increase of 7.3% on the total budget for 2000/01. In addition, an allocation was included for the running of the Northern Ireland Assembly.

The additional funding for Northern Ireland Departments is to be raised through an increase in the business and domestic rates levels for Northern Ireland.

The additional resources allocated to each of the Departments were largely welcomed, however, it was also noted that these additional funds would only begin to address some of the major areas of past under-funding.

On 12 December 2000, the Minister, announced minor revisions to the draft Budget, following consultation with Assembly Committees and other relevant groups. As a result, an additional £22.9m was allocated across the Departments. The overall Departmental total for 2001/02 is now £5,734.8m, a 7.8% increase in allocations to Departments on the current year. The additional funding was allocated as follows:

- Health, Social Services and Public Safety (£7m);
- Higher and Further Education, Training and Employment (£6.5m);
- Regional Development (£2.8m);
- Agriculture and Rural Development (£2m);
- Enterprise, Trade and Investment (£1.9m);
- Social Development (£1.3m); Education (£0.8m);
- Finance and Personnel (£0.5m);
- Office of First Minister and Deputy First Minister (£0.4m); and
- Environment (£0.1m).

Culture, Arts and Leisure's budget was reduced by £0.3m, resulting in an overall increase in its budget of £5.1m on the previous year.

2. DEPARTMENTS

This section considers:

- (i) Departments with major deficits in investment;
- (ii) Other Departments, with lesser deficits in investment; and
- (iii) Other Bodies that receive funding from the Northern Ireland Budget.

(i) Departments with major deficits in investment

In Northern Ireland, the Departments responsible for the areas of health (Department of Health, Social Services and Public Safety), education (Department for Education), and the infrastructure, including transport, water and sewerage (Department for Regional Development), include the main areas where significant investment is currently required.

Department of Health, Social Services and Public Safety

The largest budget allocation was for the Department of Health, Social Services and Public Safety (DHSSPS), with a budget for 2001/02 of £2,283.7m, an increase on the previous year of £153.8m. Much of the additional funding would be channelled towards relieving winter pressures at hospitals and reducing waiting lists. The Minister of Health, Social Services and Public Safety, Bairbre De Brun, MLA, stated that this would "go some way to reducing the historic funding deficit from which health and social services have suffered." She further stated, "While I welcome the increased amount to be spent on health and personal social services next year, I have to confess that it falls short of the sum I believe is needed to transform the service."¹

¹ Belfast Telegraph, 17 October 2000, p.11.

Department for Education

The Department for Education (DE) was allocated an additional £88.2m, bringing its total budget for 2001/02 to £1,331.7m. This figure includes the following: £9m to address deficiencies in the schools estate, to improve disabled access and to remove a number of temporary classrooms.

Martin McGuinness, MLA, the Minister of Education, stated: "Since taking up my post as Education Minister, I have been concerned about the legacy of under-funding which has left serious deficiencies in accommodation across the schools estate. All our children deserve the best we can provide in terms of good, modern and safe schools and I have visited many schools to see myself the conditions. This project will require huge resources and while the extra money announced today will not meet all our needs, it is, however, a step in the right direction and is to be welcomed."² Moreover, earlier in the year, the Minister stated that £750m would be required to tackle the financial crisis facing the schools estate.³

A spokesperson from the National Association of Head Teachers stated, "Some of our schools are in a deplorable state. It is inappropriate that in this day and age children being educated in these facilities. It is also inappropriate that temporary buildings put up 25 years ago are still being used as permanent classrooms. We need a whole new rebuilding programme"⁴

Department for Regional Development

The Department for Regional Development (DRD) received £460m, an increase of £42.6m on the previous year, bringing its total budget to £460m for 2001/02. This figure includes the following: £14.5m was specifically allocated towards water and sewerage services; £3m was set aside to upgrade the bus and rail ticketing system⁵; £20m for the rail network, towards improving safety and quality standards in the existing stock, and also the procurement of new stock.⁶

However, Gregory Campbell, Minister of Regional Development, stated that £3 billion was needed over the next 20 years to upgrade the outdated water service infrastructure in order to meet European Union quality directives. Hence, the additional £14.5m was seen as a modest, but significant beginning.

The Minister further noted that there were also huge deficiencies in the infrastructure of public transport and roads.⁷ He stated, "With almost 15,000 miles of road network to maintain and develop the current budget will simply be inadequate to tackle the backlog of structural maintenance. Indeed an additional £2 billion will be required for both roads and public transport over the next 10 years to provide a modern and efficient transportation system."⁸

(ii) Other Departments with deficits in public funding

Whilst the Departments outlined above account for the major deficits in public funding, other Departments also received additional funding for 2001/02 to upgrade areas within their statutory remit, where there remain deficits in public funding. These include areas such as further and higher education (Department of Higher and Further Education Training and Employment), housing (Department for Social Development), public libraries and museums (Department of Culture, Arts and Leisure), and waste disposal and air quality (Department of the Environment).

Department of Higher and Further Education Training and Employment

The Department of Higher and Further Education, Training and Employment (DHFETE) received an additional £30.4m, bringing its budget for 2001/01 to £543.6m. Dr Sean Farren, MLA, Minister for Higher and Further Education Training and Employment, said, "It is unfortunate that the Barnett Formula, which

² The Department for Education, News Release, 17 October 2000, Martin McGuinness welcomes increase of 7% for Education budget. ()

³ Belfast Telegraph, 17 October 2000, p.11.

⁴ Belfast Telegraph, 17 October 2000, p.11.

⁵ Belfast Telegraph, 18 October 2000, p.4.

⁶ This followed the report by the Railways Task Force, which put forward a number of options for the future of the railway system in Northern Ireland. The option recommended by Regional Development Committee at the Northern Ireland Assembly involved expenditure of £105 million over a three year period to provide funding for 25 new train sets to replace redundant rolling stock and also to re-lay tracks on the Bangor and Whitehead lines.

⁷ Belfast Telegraph, 17 October 2000, p.10.

⁸ DRD News Release, 17 October 2000, Campbell welcomes increase in DRD budget but cautious that challenges lie ahead. ()

is used to determine the whole Northern Ireland Budget allocation has not delivered sufficient resources to allow the Executive Committee to match all of the increases in expenditure announced in England.”⁹

Professor Patrick Murphy, Director of Belfast Institute of Higher and Further Education, whilst welcoming the increased budget, stated “further education is funded at just a fraction of the rate of the universities and if we want to train the workforce for the future we will have to invest significantly more in further education. A student in further education is funded at about a third of the rate of a similar student doing the same course.”¹⁰

Department for Social Development

The Department for Social Development (DSD) received an additional £27.4m bringing its budget for 2001/02 to £413.1m. This amount excluded expenditure on Social Security benefits. Maurice Morrow, MLA, Minister for Social Development, advised that this funding would provide an additional £3.5m for adaptations to dwellings for disabled people and £2.2m towards housing schemes for travellers. In addition, £16m was allocated for the welfare reform and modernisation programme to enable more efficient and effective delivery of all social security benefits.¹¹

Department of Culture, Arts and Leisure

The Department of Culture, Arts and Leisure (DCAL) received an additional £5.4m bringing its total budget for 2001/02 to £70.7.¹² Michael McGimpsey, MLA, Minister of Culture Arts and Leisure, stated, “These are significant increases which will go some way to redressing the years of neglect which this part of the United Kingdom has suffered under direct rule.”

Department of the Environment

The Department of the Environment (DOE) received an additional £12.6m, bringing its total budget for 2001/02 to £100.2m. Sam Foster, MLA, Minister of the Environment, welcomed the 14% increase, stating that it could make a real difference to the services provided by the Department. He also stated that it would go to address historical under-funding in areas such as waste disposal and air quality, and would help Northern Ireland meet its obligations in meeting new European Union standards in these areas.¹³

Department of Agriculture and Rural Development

The Department of Agriculture and Rural Development (DARD) received an increase of £26.7m, bringing its budget for 2001/02 to £190.9m, with a Beef Quality Initiative and training for farmers. These measures are aimed at enhancing competitiveness in the industry.¹⁴

Department of Enterprise Trade and Investment

The Department of Enterprise Trade and Investment (DETI) received a small increase in budget of £2.6m, bringing its budget for 2001/02 to £258.9m. However, additional EU funding would increase its total budget beyond £300m. This budget increase also had to be viewed in the light of falling unemployment in Northern Ireland, and would continue to provide support to attract inward investment and support indigenous companies.¹⁵

Department of Finance and Personnel (DFP)

DFP received an increase in its budget of £7.3m, bringing its total budget for 2001/02 to £112.7m.¹⁶

⁹ DHFETE News Release, 17 October 2000, “Farren welcomes Budget Statement”. ()

¹⁰ Belfast Telegraph, 17 October 2000, p.10.

¹¹ DSD News Release, 17 October 2000, “Extra £27m for Social Development”. ()

¹² An extra £1m would be allocated to continue and expand the programme of safety improvements at sports grounds. An additional £1m was also allocated to allow for modest capital works at public libraries and museums. DCAL News Release, 17 October 2000, “Michael McGimpsey welcomes increased resources.” ()

¹³ Belfast Telegraph, 17 October 2000, p.10.

¹⁴ DARD News Release, 18 October 2000, “Minister outlines new aid package for farmers at Assembly Committee Meeting.” ()

¹⁵ Belfast Telegraph, 18 October 2000, p.4.

¹⁶ Belfast Telegraph, 17 October 2000, p.10.

(iii) Other Bodies

Office of the First Minister and the Deputy First Minister (OFMDFM)

OFMDFM received an increase in its budget of £1.4m, bringing its total budget for 2001/02 to £28.8m.¹⁷

Northern Ireland Assembly (NIA)

The NIA received an increase in its budget of £1m, bringing its total budget for 2001/02 to £38.8m.¹⁸

3. NORTHERN IRELAND EXECUTIVE, PROGRAMME FOR GOVERNMENT, FEBRUARY 2001

The Northern Ireland Executive published its Programme for Government in February 2001, which sets out its priorities for the period April 2001 to March 2004.

The Executive's agreed mission for the three-year period is:

“To make a difference to the lives of our people, enabling them to grow as a peaceful, fair and inclusive community. We will in particular seek to work together to combat poverty and social exclusion and to improve health; to untap the creative potential of our community by investing in the education and skills of our people; and, through renewed infrastructure and innovative policies, secure the basis for a balanced, competitive and innovative, knowledge based, fast-growing and sustainable economy. We will pursue these objectives in a way that respects the natural and built heritage that we hold in trust for future generations. We will seek to develop our relationships, working on a North/South, East/West and international levels. We will work together to develop the new democratic structures and efficient, accountable public services.”¹⁹

A number of issues arise from the Programme for Government. The following list is not exhaustive, however, it identifies those issues that appear relevant to highlighting a deficit in public service investment.²⁰

1. The need to provide for the rising cost of healthcare. (p.6)
2. The need to provide for an anticipated 250,000 new households over the next 25 years. (p.6)
3. The need to extend accessibility, choice and excellence throughout our education system. (p.7)
4. The need to protect land, air and water quality ... A good quality built and natural environment is also key to our economy. (p.7)
5. The need to meet miscellaneous housing targets. (p.21)
6. The need to ensure that housing, social security, education and training programmes and social services are properly co-ordinated. (p.18)
7. The need to use public funds to maintain an average rate of £3 private sector funding for every £1 of public expenditure on capital projects receiving Urban Development grant aid. (p.23)
8. The need to address hospital waiting lists. Northern Ireland has a higher proportion (18%) of patients on hospital waiting lists for 12 months or longer. (p.28)
9. The need to address community health and social care support. There are some 4,000 people waiting for community health and social care support, and demographic changes will place increasing pressure on resources. (p.30)
10. The need to continue to work to reduce waiting lists and to ensure improved capacity to meet winter pressures by increasing high dependency beds, implementing a range of new management arrangements and recruiting additional nurses and other front-line staff. (p.34)
11. The need to address the shortage of university places. Too many of our young people are leaving the region because of the shortage of university places. (p.40)

¹⁷ Belfast Telegraph, 17 October 2000, p.10.

¹⁸ Belfast Telegraph, 17 October 2000, p.10.

¹⁹ Northern Ireland Executive, Programme for Government, February 2001, p.8-9.

²⁰ Please note: Page references refer to page numbers within the Northern Ireland Executive, Programme for Government, February 2001

12. The need to address the backlog of maintenance of school buildings. By March 2004, reduce the backlog of high priority maintenance work for schools by 30% and of major works by 45%; and reduce by 15% the number of temporary classrooms in schools. (p.43)
13. The need to enhance university research. From 2001/02 working with the private sector, enhance university research through the Support Program for University Research (SPUR) initiative and secure an increase in annual research expenditure of up to £10m. (p.45)
14. The need to address the deficiencies in infrastructure. In recent years we have become acutely aware of deficiencies in the roads, public transport, energy telecommunications and water and sewerage infrastructure. (p.50)
15. The need for a regional development strategy that will provide an important planning framework for tackling deficiencies in our infrastructure and helping the overall development of our economy. (p.50)
16. The need to create the right conditions for growth, which are affected by fiscal policy and by the institutional and legal framework within which finance is available. (p.50)
17. The need to assist the modernisation of the agriculture industry and to promote other sources of income generation in the rural economy. (p.51)
18. The need to address access to public services, such as schools, hospitals and transport in rural areas. (p.51)
19. The need to undertake a programme of roads structural maintenance based on good practice treatments. We need to address the significant backlog in roads maintenance that has built up over recent years. The programme will target specifically the non-motorway and non-trunk route network, which accounts for approximately 94% of the network. (p.52)
20. The need to undertake high priority maintenance work on large bridges, including the Craigavon Bridge, to ensure that key routes are kept open. (p.52)
21. The need to assist Translink to replace annually 25 buses and coaches that have exceeded their useful service age. (p.52)
22. The need to support the operation of rural community transport partnerships. (p.53)
23. The need, by Summer 2001, to work with southern counterparts, to appraise any private sector proposals received for North/South gas interconnection and gas supply to the North West. (p.54)
24. The need by September 2001, to seek to secure NIE/ESB agreement on action to address the conclusions of a joint feasibility study into further interconnection between the [electricity] networks. (p.54)
25. The need to work together to regenerate the rural economy. (p.60)
26. The need for a process of 'rural proofing' to ensure the rural dimension is routinely considered as part of the making and implementation of policy. (p.61)
27. The need, by 2005, to achieve 80% compliance with waste water treatment works discharge standards set by the Environment and Heritage Service. (p.63)
28. The need to implement a strategy for securing a programme of high profile international sporting and cultural events to Northern Ireland, attracting 2 world class events and 4-6 major international events annually. (p.71)
29. The need to press for a fair allocation of UK public expenditure to Northern Ireland. The Barnett formula that is used to determine our levels of public expenditure fails to address our needs and will result in lower public expenditure growth in Northern Ireland than in England, Scotland and Wales. (p.72)
30. The need to develop the actions for e-government, which will provide the foundation to co-ordinate the delivery of government services electronically. (p.74)
31. The need to manage the provision of integrated network services which will provide cost-effective telecommunication services for departments. (p.74)
32. The need for significant investment, in particular in areas of the infrastructure, as the resources available from the taxpayer are finite. (p.76)

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33. The need, by March 2002, to have reviewed the opportunities for the use of private finance in all major service provisions/infrastructure projects to increase investment and provide innovation and value for money solutions through PPP/PFI. (p.77)

4. THE CONFEDERATION OF BRITISH INDUSTRY: ‘ADDRESSING NORTHERN IRELAND’S INFRASTRUCTURE DEFICIT’

The Confederation of British Industry (CBI) in Northern Ireland recently examined Northern Ireland’s infrastructure deficit in a paper entitled ‘Addressing Northern Ireland’s Infrastructure Deficit’.²¹

The areas highlighted within its paper reinforce the comments made by Ministers and others in relation to health, education and regional development in Northern Ireland.

In its introduction to this paper, the CBI states that:

“The new Northern Ireland Assembly faces difficult decisions regarding Public Expenditure priorities. The challenges are immense following several years of major under-investment in key infrastructure and services and insufficient drive to achieve value for money. The recent Budget announcement for 2001/02 shows a modest increase in capital spending of around 7.8% - clearly inadequate and indeed lower than the overall growth in public expenditure of 8.1%. There is an urgent need to address this situation and develop a strategy for delivering a radical improvement in infrastructure provision over the next five years.”

The CBI identified five areas where significant investment is required:

- **Transport infrastructure** – the development of strategic road network and maintenance of the existing roads. The CBI states that a £100m backlog exists and that additional investment of around £600m may be required over the next decade.
- **Public transport services** – the investment in this area has fallen far short of Great Britain and European Union averages. The CBI estimates a £300m programme over the next ten years. It notes that the Railway’s Task Force had recommended a short-term investment programme of £100m to replace and upgrade ageing rolling stock and lines.
- **Water and Sewerage services** – The CBI described compliance with water treatment discharge standards as ‘abysmal’ with current levels running at 80%. It states that £2.5 billion is required over the next two decades to address this problem.
- **Education infrastructure** – CBI estimates a backlog of £500m, and additional requirements in higher and further education.
- **Health services** – major investment is also required in this area, and the CBI states that the Health Minister suggests that £250m investment would be required in one year alone.

The CBI also highlights other areas necessitating increased public expenditure, for example the implementation of a world-class telecommunications infrastructure.

In conclusion, the CBI states that there must be an objective criteria used to rank the spending priorities identified by the Northern Ireland Assembly. It suggests the use of criteria to facilitate the process that include an assessment of contributions to:

- Enhancing competitiveness;
- Enhancing quality of life; and
- Enhancing quality of life.

It should also be noted that the CBI did not consider new Targeting Social Need (NTSN)²² in its criteria. Any criteria adopted must include consideration of NTSN and the statutory duties included within Section 75 of the Northern Ireland Act.

Finally, the CBI suggests a number of steps that may be taken to address the infrastructure deficit:²³

²¹ CBI Northern Ireland, Paper NI 10 00, “Addressing Northern Ireland’s Infrastructure Deficit”, December 2000.

²² Targeting Social Need (TSN): Through New TSN the government aims to tackle social need and social exclusion in Northern Ireland by targeting its efforts and available resources on people, groups and areas in greatest social need. New TSN targets social need objectively, wherever it is found, and does not favour, or discriminate against, any section of the community. (p.5, Vision into Practice: The first New TSN annual Report, 1999)

- Improving the efficiency and effectiveness of public expenditure;
- Commitment to the potential that PFI/PPPs can bring;
- Review of financial arrangements across a range of public bodies;
- Raise finance from the sale of under-utilised resources – Landbank and Property;
- Creating a Northern Ireland Development Bond;
- Contributions from developers;
- Taxes and regional rates;
- Maximise opportunities from European Funding;
- Other ideas;
- Seek a one-off additional public expenditure boost from the [United Kingdom] Treasury.

5. CONCLUSION

The first budget produced by the Northern Ireland Executive has been widely welcomed, with an overall departmental total for 2001/02 at £5,734.8m, a 7.8% increase on allocations to Departments in 2000/01.

However, it is also accepted that the lack of investment over the years has led to a number of areas having a significant deficit in investment. The Departmental Ministers and the Confederation of British Industry appear to be in agreement over the major areas where additional funding is required. These include health services; the education infrastructure; water and sewerage services; transport infrastructure; and public transport services. The Northern Ireland Executive's Programme for Government also highlights many areas within the responsibility of Departments where investment will be required over the coming years.

The allocation of United Kingdom public expenditure to Northern Ireland is determined through the Barnett Formula, which has resulted in lower public expenditure growth in Northern Ireland than in England, Scotland or Wales.

This year, additional funding for Northern Ireland Departments is being raised through an increase in the business and domestic rates levels. It is clear that sufficient funding to address the deficits highlighted cannot be found from this source alone, and that alternative solutions must be sought. The CBI, in its paper, suggests a number of routes, including consideration of Public Private Partnerships or Private Finance Initiatives.

MALACHY FINNEGAN

Researcher

16 March 2001

²³ CBI Northern Ireland, Paper NI 10 00, "Addressing Northern Ireland's Infrastructure Deficit", December 2000, p.2.

**MINUTES OF PROCEEDINGS OF THE
COMMITTEE RELATING TO THE REPORT**

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**THIRTY SIXTH MEETING
TUESDAY, 9 JANUARY 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Billy Bell
Mr Seamus Close
Mr Nigel Dodds
Mr Derek Hussey
Mr Alex Maskey
Mr Peter Weir

Apologies: None

In attendance: Mr Martin Wilson (Committee Clerk)
Mr Peter Hughes (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

5. Private Finance Initiative / Private Public Partnerships

- 5.1 The Committee deliberated on the arrangements for undertaking an inquiry into the use of Private Finance Initiative / Private Public Partnerships in funding public services in Northern Ireland.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**THIRTY SEVENTH MEETING
TUESDAY, 16 JANUARY 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)
Mr Alex Attwood
Mr Billy Bell
Mr Seamus Close
Mr Nigel Dodds
Mr Derek Hussey
Ms Patricia Lewsley
Mr Alex Maskey
Mr Peter Robinson MP
Mr Peter Weir

Apologies: Mr James Leslie (Deputy Chairman)

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

8. Private Finance Initiative / Private Public Partnerships

- 8.1 The Committee deliberated on the draft terms of reference for the inquiry into Private Finance Initiative / Public Private Partnership.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**THIRTY EIGHTH MEETING
TUESDAY, 23 JANUARY 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)
Mr Alex Attwood
Mr Billy Bell
Mr Seamus Close
Mr Nigel Dodds
Mr Derek Hussey
Ms Patricia Lewsley
Mr Alex Maskey
Mr Peter Robinson MP
Mr Peter Weir

Apologies: Mr James Leslie (Deputy Chairman)

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

7. Private Finance Initiative / Private Public Partnerships

7.1 The Committee deliberated on the appointment of a specialist adviser for the inquiry into Private Finance Initiative / Public Private Partnership.

Resolved: The Committee agreed that further advisors should be sought from the Republic of Ireland and CV's obtained from the list already drawn up.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**THIRTY NINTH MEETING
TUESDAY, 30 JANUARY 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr James Leslie (Deputy Chairperson)
Mr Alex Attwood
Mr Billy Bell
Mr Seamus Close
Mr Nigel Dodds
Mr Derek Hussey
Ms Patricia Lewsley
Mr Alex Maskey
Mr Peter Robinson MP
Mr Peter Weir

Apologies: Mr Francie Molloy (Chairperson)

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

7. Private Finance Initiative / Private Public Partnerships

7.1 The Committee deliberated on the arrangements for appointing a specialist adviser for the inquiry into Private Finance Initiative / Public Private Partnership.

Resolved: That the Committee would visit London to hold selection interviews, meet with members of HM Treasury Select Committee and meet the team handling PFI/PPP matters for the London Underground.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FORTY THIRD MEETING
THURSDAY 22 FEBRUARY 2001
COMMITTEE ROOM 21, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairperson)
Mr James Leslie (Deputy Chairperson)
Ms Patricia Lewsley
Mr Alex Maskey
Mr Peter Robinson MP
Mr Peter Weir

Apologies: Mr W Bell and Mr S Close

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

3. PFI/PPP

3.1 The Committee deliberated on the appointment of a specialist adviser to their inquiry.

Resolved: The Clerk to provide details for appointing specialist advisers to the Assembly Committees and Westminster Committees.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FORTY FOURTH MEETING
MONDAY, 26 FEBRUARY 2001
COMMITTEE ROOM 152, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairperson)
Mr James Leslie (Deputy Chairperson)
Mr William Bell
Mr Seamus Close
Mr Nigel Dodds
Mr Derek Hussey
Mr Alex Maskey
Mr Peter Robinson MP
Mr Peter Weir

Apologies: None

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

1. PPP/PFI Inquiry

- 1.1. The Clerk set out the result of various questions raised by members during the meeting on 22 February 2001. The Clerk advised Members that the Chairman, Deputy Chairman and other Members had re-considered the draft Terms of Reference for the Inquiry following the previous meeting. These had been revised to re-allocate some of the research work to the Assembly's Research Service. The Clerk to the House Of Commons Treasury Committee had considered the draft Terms of Reference and draft terms of contract. He suggested that this project was entirely different to the usual Westminster style inquiry which took the form of a post-facto examination of an issue or policy that had become a matter for concern. This inquiry is effectively a research project and the usual manner of employing specialist advisers did not necessarily apply. The House of Commons had exceptional arrangements to employ consultants at close to commercial rates for such research projects. The Treasury Committee Clerk expressed the opinion that, in the light of the proposed Terms of Reference and the input expected from the Specialist adviser, cumulative payment for 20 days input from the Specialist adviser would be a reasonable starting point.
- 1.2. The Clerk also confirmed that he had spoken to the Chief Administration Officer who had confirmed that the Assembly Commission was to examine and consider the question of procuring specialist advice on rates similar to those achieved by the House of Commons. However, as yet no such arrangements existed. In view of the significance of this project and in the light of the comments of the Clerk to the Treasury Committee, the Chief Administration Officer was content to confirm his approval to the proposed contract with Mr Plumb. He also confirmed that the anticipated total cost of the proposed contract would not create financial difficulties for the DFP Committee, or any other committee, in seeking to commission work with specialist advisers.
- 1.3. The Clerk advised the Committee that he had discussed the matter further with a senior member of the Assembly Research Service who had also concurred with the suggestion that 20 days input from the Specialist adviser would seem to be appropriate. However, the number of days needed would also be dependant upon the number of memoranda received and upon the number of witnesses to be seen during the oral evidence sessions. He had also suggested that Mr Plumb should be asked to provide the Committee with a Research Proposal setting out how he intends to take the project forward. Finally, the Clerk indicated that he had spoken to the Deputy Secretary in DFP who had confirmed that this project would not conflict with any work ongoing within the Department. Indeed, the Department would consider this project to be a useful exercise in informing the use of PFI/PPP in Northern Ireland.

1.4. The Committee deliberated on the appointment of a specialist adviser to their inquiry.

Resolved: The Committee agreed to the draft Terms of Reference of the inquiry presented by the Principal Clerk.

Resolved: The Committee agreed to commission Mr John Plumb as its specialist adviser.

Resolved: The Committee agreed to commission Mr Plumb for 20 days.

Resolved: The Committee agreed to consider any extension to the number of days of Mr Plumb's commission on the merits of the extension.

FRANCIE MOLLOY

Chairman

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FORTY FIFTH MEETING
TUESDAY 27 FEBRUARY 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairperson)
Mr James Leslie (Deputy Chairperson)
Mr Billy Bell
Mr N Dodds
Mr D Hussey
Ms Patricia Lewsley
Mr Peter Weir

Apologies: Mr Peter Robinson MP

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

2. PFI/PPP

2.1.1. The Clerk briefed the Committee on his discussions with the prospective specialist adviser and confirmed that he would attend the Committee's next meeting.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FORTY SIXTH MEETING
TUESDAY 6 MARCH 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairperson)
Mr James Leslie (Deputy Chairperson)
Mr Alex Attwood
Mr Seamus Close
Mr Billy Bell
Mr N Dodds
Mr D Hussey
Mr Alex Maskey
Mr Peter Weir

Apologies: Ms Patricia Lewsley

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

3. PPP

3.1.1. The Committee deliberated on the issues surrounding the selection of a specialist adviser.

Mr John Plumb attended the meeting at 2.55 p.m.

3.1.2. Mr John Plumb, the Committee's specialist adviser addressed the Committee to describe his opinion of 3 phases to the Inquiry.

3.1.3. The Committee deliberated on Mr Plumb's commission.

Resolved: That the Committee would commission Mr Plumb as a specialist adviser.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FORTY SEVENTH MEETING
TUESDAY 13 MARCH 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairperson)
Mr James Leslie (Deputy Chairperson)
Mr Alex Attwood
Mr Seamus Close
Mr Nigel Dodds
Ms Patricia Lewsley
Mr Peter Weir

Apologies: Mr Billy Bell and Mr Alex Maskey

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

3. PPP

Resolved: The Committee agreed the estimated cost of the Public Notice advertising the Inquiry and the newspapers in which notices would be placed.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FORTY NINTH MEETING
TUESDAY 27 MARCH 2001
ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairperson)
Mr James Leslie (Deputy Chairperson)
Mr Billy Bell
Mr Seamus Close
Mr Nigel Dodds
Mr Derek Hussey
Mr Peter Robinson MP
Mr Peter Weir

Apologies: Ms Patricia Lewsley

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

7. PPP Inquiry

- 7.1 The Committee considered an indicative timetable for the Inquiry including proposals for visits to take evidence. Members concluded that the time table would require revision should a General Election be scheduled for early May.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FIFTIETH MEETING
TUESDAY 3 APRIL 2001
ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairperson)
Mr James Leslie (Deputy Chairperson)
Mr Billy Bell
Mr Seamus Close
Mr Derek Hussey
Mr Alex Maskey
Mr Peter Weir

Apologies: Ms Patricia Lewsley

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

3. PPP Inquiry

3.1.1 The Committee received briefing and questions provided by its specialist adviser for use during evidence sessions and the indicative timetable presented by the Clerk for visits to sites and evidence sessions.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FIFTY SECOND MEETING
TUESDAY, 24 APRIL 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Alex Attwood
Mr Billy Bell
Mr Seamus Close
Mr Nigel Dodds
Mr Derek Hussey
Mr Alex Maskey
Mr Peter Weir

Apologies:

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Ms Edel Gillen (Executive Support)
Ms Sharon Bowman (Administrative Support)

3. PPP Inquiry

- 3.1 The Clerk briefed the Committee on the forthcoming visits to Dublin, Leeds and London. It was emphasised that a quorum would be required for each visit. The Committee agreed and noted the schedule of the visits.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FIFTY THIRD MEETING
TUESDAY, 1 MAY 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

- Present:** Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Alex Attwood
Mr Nigel Dodds
Ms Patricia Lewsley
Mr Alex Maskey
Mr Peter Weir
- Apologies:** Mr Billy Bell
Mr Seamus Close
Mr Peter Robinson
- In attendance:** Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mrs Margaret Miskelly (Clerk)
Ms Edel Gillen (Executive Support)
Mr Jonathan Briggs (Administrative Support)

4 PPP Inquiry

- 4.1 The Specialist Adviser briefed the Committee on the Inquiry. Matters were discussed regarding forthcoming visits and Evidence Sessions. Members were provided with an up to date list of all the organisations invited to give submissions and those who had responded. The Committee agreed that members would be happy to receive copies of submissions by email and hard copies if requested.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FIFTY FOURTH MEETING
TUESDAY, 08 MAY 2001
SENATE CHAMBER, PARLIAMENT BUILDINGS**

- Present:** Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Seamus Close
Ms Patricia Lewsley
Mr Peter Weir
- Apologies:** Mr Billy Bell
- In attendance:** Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mrs Margaret Miskelly (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Mr Jonathan Briggs (Administrative Support)

4. PPP Inquiry

- 3.1 The Committee Clerk briefed members on the forthcoming Evidence Sessions and the visit to London. He explained that the visit to London was a three day visit however the schedule could be rearranged and the visit completed in two days.

Resolved The Committee agreed that two days would suffice.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FIFTY FIFTH MEETING
TUESDAY, 15 MAY 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

- Present:** Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Alex Attwood
Mr Alex Maskey
Mr Peter Weir
- Apologies:** Mr Billy Bell
Mr Nigel Dodds
Mr Derek Hussey
Ms Patricia Lewsley
Mr Peter Robinson
- In attendance:** Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mrs Margaret Miskelly (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Mr Jonathan Briggs (Administrative Support)

4 PPP Inquiry

The Committee Clerk briefed members on the forthcoming visit to London. He explained that due to quorum difficulties last Friday, evidence sessions with Unison and NIPSA would be re scheduled for next Tuesday 22 May at 2pm. and Transport 2000 on 29th May. The Chairman stressed the need for a quorum.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FIFTY SEVENTH MEETING
TUESDAY, 29 MAY 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

- Present:** Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Seamus Close
Mr Alex Maskey
Ms Patricia Lewsley
Mr Peter Weir
- Apologies:** Mr Billy Bell
Mr Nigel Dodds
Mr Peter Robinson
- In attendance:** Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mrs Margaret Miskelly (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Edel Gillen (Executive Support)
Mr Jonathan Briggs (Administrative Support)

5. Inquiries

5.1 PPP Evidence Session – Construction Employers Federation

- 5.2 Representatives from the Construction Employers Federation were questioned by members on their written submission to the PPP Inquiry.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FIFTY EIGHTH MEETING
TUESDAY, 14 JUNE 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Alex Attwood
Mr Billy Bell
Mr Seamus Close
Mr Derek Hussey
Mr Alex Maskey
Ms Patricia Lewsley
Mr Peter Weir

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mrs Margaret Miskelly (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Sharon Bowman (Executive Support)
Mr Jonathan Briggs (Administrative Support)
Mr Brendan O Neill (Administrative Support)

The Chairman declared the meeting open at 2.16 p.m. The meeting was held in public session

4 PPP Inquiry

4.1.1 The Clerk presented the Draft Report for the Inquiry to the Committee and explained the time schedule required by the Committee to consider and amend the drafts in order to publish the Report before the Assembly's summer recess.

Resolved: The Committee agreed to meet on Tuesday 19 June 2001 and Thursday 21 June 2001 to give further consideration to the report.

Ms Lewsley attended the meeting at 2.29 p.m.,

4.1.3 The Clerk explained how parts of the Report could be produced on a CD ROM rather than in hard copy version as a pilot for future production of Assembly committee reports.

Resolved: The Committee agreed to production of its Report on CD ROM.

4.1.5 The Clerk advised the Committee of the number of days worked by the Specialist Adviser on the Inquiry and the need to seek an extension due to the volume and content of the written and oral evidence provided to the Committee and his contribution to drafting the Report. The Committee had agreed at its meeting on 26 February 2001 to consider an extension beyond 20 days.

Resolved: The Committee agreed to an extension beyond 20 days subject to its consideration of the draft Report presented.

Mr Leslie attended the meeting at 2.35 p.m., Mr Hussey attended at 2.38 p.m.

Resolved: The Committee agreed to confirm on Tuesday 19 June 2001 if the Specialist Adviser should be requested to attend its meeting on Thursday 21 June 2001 for consultation on the Report.

Mr Attwood attended at 2.40 p.m.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**FIFTY NINTH MEETING
TUESDAY, 19 JUNE 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Alex Attwood
Mr Billy Bell
Mr Seamus Close
Mr Derek Hussey
Mr Alex Maskey
Ms Patricia Lewsley
Mr Peter Weir

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mrs Margaret Miskelly (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Sharon Bowman (Executive Support)
Mr Jonathan Briggs (Administrative Support)
Mr Brendan O'Neill (Administrative Support)

The Chairman declared the meeting open at 2.38 p.m. The meeting began in public session

3. Minutes of Evidence

3.1 The Committee agreed the following sets of Minutes of Evidence made in relation to the Committee's Inquiry into the use of Public Private Partnerships;

26 April 2001	Department of Finance (Republic of Ireland)
26 April 2001	Department of Education and Science (Republic of Ireland) Department of Finance (Republic of Ireland) Department of Public Enterprise (Republic of Ireland)
26 April 2001	Department of Finance (Republic of Ireland) Construction Industry Federation Irish Business & Employers' Confederation Irish Congress of Trade Unions
10 May 2001	Department for Social Development
10 May 2001	Confederation of British Industry
10 May 2001	Department of Finance and Personnel
17 May 2001	Barclays Bank
17 May 2001	Business Services Association
17 May 2001	Major Contractors Group
17 May 2001	Imperial College London University College London
17 May 2001	Public Private Partnerships Programme (4Ps)
22 May 2001	Northern Ireland Public Service Alliance (NIPSA)

Mr Hussey attended the meeting at 2.41 p.m. Mr Attwood attended at 2.45 p.m. Ms Lewsley attended at 2.48 p.m. Mr Maskey attended the meeting at 2.55 p.m, Mr Attwood left the meeting at 3.27 p.m. Mr Bell left the meeting at 4.05 p.m. The public session of the meeting was closed.

9. Public Private Partnerships Inquiry

9.2 The Committee considered the first draft of its report as presented by the Clerk

Ms Lewsley left the meeting at 4.44 p.m.

9.3 The Committee considered the draft report and agreed a number of changes to the text.

Resolved: That the Committee's specialist adviser attend the Committee's next consideration of the report on Thursday 21 June 2001.

The Chairman declared the meeting closed at 5.02p.m.

FRANCIE MOLLOY

Chairman

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS**

**SIXTIETH MEETING
THURSDAY, 21 JUNE 2001
COMMITTEE ROOM 135, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Seamus Close
Mr Alex Maskey
Ms Patricia Lewsley
Mr Peter Robinson MP
Mr Peter Weir

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mr Joe Sloan (Assistant Clerk)
Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting open at 3.03 p.m. The meeting was held in closed session

10. Apologies

10.1 None

11. Minutes of Proceedings

Resolved: The Committee agreed the Minutes of Proceedings for 19 June 2001.

12. Minutes of Evidence

12.1 The Committee agreed the following sets of Minutes of Evidence made in relation to the Committee's Inquiry into the use of Public Private Partnerships;

17 May 2001	National Audit Office
22 May 2001	Transport 2000
22 May 2001	UNISON
29 May 2001	Construction Employers Federation

Mr Weir attended at 3.11 p.m.

5. Public Private Partnerships Inquiry

5.1 The Committee considered the second draft of its report as presented by the Clerk

5.2 The Committee considered the draft report.

5.3 The Committee's specialist adviser attended the meeting and responded to a range of points raised by Members.

Mr Robinson left the meeting at 3.33 p.m.. Mr Weir left the meeting at 4.15 p.m.

5.4 The Committee agreed a number of amendments to the report and asked that a final draft be circulated to members on Friday 22 June 2001.

The Chairman declared the meeting closed at 5.20p.m.

**FRANCIE MOLLOY
Chairman**

[Extract]

**COMMITTEE FOR FINANCE AND PERSONNEL
MINUTES OF PROCEEDINGS (UNAPPROVED)**

**SIXTY FIRST MEETING
TUESDAY, 26 JUNE 2001
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)
Mr James Leslie (Deputy Chairman)
Mr Alex Attwood
Mr Seamus Close
Mr Nigel Dodds MP
Mr Derek Hussey
Ms Patricia Lewsley
Mr Peter Weir

In attendance: Mr Martin Wilson (Principal Clerk)
Mr Peter Hughes (Clerk)
Mrs Margaret Miskelly (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Sharon Bowman (Executive Support)
Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting open at 2.40 p.m. The meeting began in open session

Mr Dodds attended the meeting at 3.40 p.m., Ms Lewsley attended at 3.40 p.m and Mr Hussey attended at 3.46 p.m.

Mr Dodds left the meeting at 4.03 p.m

Ms Lewsley left the meeting at 4.50 p.m. The meeting went into closed session.

8. Public Private Partnerships Inquiry

8.1 The Committee considered a motion to the Assembly:

Resolved: The Committee agreed the motion “That the Assembly takes note of the Report prepared by the Committee for Finance and Personnel following its Inquiry into the use of Public Private Partnerships”.

8.2 The Committee considered the draft report.

8.3 The Committee deliberated.

Resolved: The Committee agreed its report into the use of Public Private Partnerships.

Resolved: The Committee ordered the draft report to be printed.

The Chairman declared the meeting closed at 5.10p.m.

**FRANCIE MOLLOY
Chairman**

[Extract]

**LIST OF INDIVIDUALS AND ORGANISATIONS CONTACTED
BY THE COMMITTEE IN RELATION TO ITS INQUIRY INTO
THE USE OF PUBLIC PRIVATE PARTNERSHIPS**

Category	Individual / Organisation
A	Finbarr Bradley
A	Chartered Institute of Public Finance and Accountancy (CIPFA)
A	Gren Folwell
A	Health Policy and Health Services Research
A	IBI Corporate Finance
A	ICSTM
A	Industrial Society
A	Institute for Public Policy Research
A	Sean Boyle King's Fund, London School of Economics
A	London School of Economics
A	Des Mc Conaghy
A	Paul Munim
A	Sheffield Hallam University
A	Transport Research Institute NI
A	Transport 2000
A	David Heald, University of Aberdeen
A	Professors Jane Broadbent, Richard Laughlin
A	University of Manchester
CG	Office of the First Minister
CG	Office of the Deputy First Minister
CG	Department of Agriculture
CG	Department of Culture, Arts and Leisure
CG	Department of Education
CG	Department for the Environment
CG	Department of Enterprise Trade and Investment
CG	Department of Finance and Personnel
CG	Department of Health Social Services
CG	Department of Higher & Further Education, Training & Employment
CG	Department for Regional Development
CG	Department for Social Development
CG	NI Audit Office
GBCG	4 Ps
GBCG	Audit Commission
GBCG	Department of Education and Employment
GBCG	Department of the Environment and the Regions
GBCG	HM Treasury
GBCG	National Assembly for Wales
GBCG	National Audit Office
GBCG	NHS Executive
GBCG	Office of Government Commerce
GBCG	Scottish Executive
GBCG	Scottish Parliament
GBLG	Dorset County Council

Category	Individual / Organisation
GBLG	Glasgow City Council
GBLG	Leeds City Council
GBLG	Local Government Association
GBLG	London Borough of Camden
GBLG	London Borough of Enfield
GBLG	London Borough of Harrow
GBLG	London Borough of Hillingdon
GBLG	London Borough of Islington
GBLG	London Underground
GBLG	Nottinghamshire County Council
GBLG	Transport for London
GBLG	Westminster City Council
L	L'Estrange and Brett
L	Mc Cann, Fitzgerald
LG	Antrim Borough
LG	Ards Borough Council
LG	Armagh Borough Council
LG	Ballymena Borough Council
LG	Ballymoney Council
LG	Banbridge Council
LG	Belfast City Council
LG	Carrickfergus Council
LG	Castlereagh Council
LG	Coleraine Council
LG	Cookstown Council
LG	Craigavon Council
LG	Derry City Council
LG	Dungannon District Council
LG	Down Council
LG	Fermanagh Council
LG	Larne Council
LG	Limavady Council
LG	Lisburn Council
LG	Magherafelt Council
LG	Moyle Council
LG	Newry and Mourne Council
LG	Newtownabbey Council
LG	North Down Council
LG	Omagh Council
LG	Strabane Council
NDPB	Altnagelvin Hospitals HSS Trust
NDPB	Armagh & Dungannon HSS Trust
NDPB	Balmoral High School
NDPB	Belfast City Hospital Trust

Category	Individual / Organisation
NDPB	Belfast Education & Library Board
NDPB	Belfast Institute of Further & Higher Education
NDPB	Carlisle Hospitals NHS Trust
NDPB	Causeway HSS Trust
NDPB	Council for Catholic Maintained Schools
NDPB	Craigavon Area Hospital;Group HSS Trust
NDPB	Craigavon & Banbridge Community HSS Trust
NDPB	Dartford & Gravesham NHS Trust
NDPB	Down & Lisburn HSS Trust
NDPB	Drainage Council for Northern Ireland
NDPB	Drumglass High School
NDPB	Eastern HSS Board
NDPB	Eastern HSS Council
NDPB	Foyle HSS Trust
NDPB	General Consumer Council for Northern Ireland
NDPB	Greenpark HSS Trust
NDPB	Hereford Hospitals NHS Trust
NDPB	Homefirst Community Trust
NDPB	Industrial Development Board for Northern Ireland
NDPB	Laganside Corporation
NDPB	Mater Infirmorum Hospital HSS Trust
NDPB	Newry & Mourne HSS Trust
NDPB	Northern HSS Board
NDPB	Northern HSS Council
NDPB	Northern Ireland Ambulance Service HSS Trust
NDPB	Northern Ireland Economic Council
NDPB	Northern Ireland Fishery Harbour Authority
NDPB	Northern Ireland Housing Executive
NDPB	Northern Ireland Museums Council
NDPB	Northern Ireland Sports Council
NDPB	Northern Ireland Transport Holding Company
NDPB	Northern Ireland Water Council
NDPB	North East Education & Library Board
NDPB	North West Institute of Further & Higher Education
NDPB	North & West Belfast HSS Trust
NDPB	Royal Group of Hospitals HSS Trust
NDPB	St Geneveive's High School
NDPB	South East Education & Library Board
NDPB	Southern HSS Board
NDPB	Southern HSS Council
NDPB	South & East Belfast HSS Trust
NDPB	Sperrin Lakeland HSS Trust
NDPB	United Hospitals Trust
NDPB	Ulster Community & Hospitals HSS Trust

Category	Individual / Organisation
NDPB	Wellington College
NDPB	Western Education & Library Board
NDPB	Worcester Royal Infirmary NHS Trust
NDPB	Western HSS Board
NDPB	Western HSS Council
PS	Accord Plc
PS	Alfred Mc Alpine Plc
PS	Amec Plc
PS	Amey Plc
PS	WS Atkins
PS	Babtie Group
PS	Balfour Beatty Plc
PS	Bank of Scotland
PS	Barclays Bank
PS	Brown & Root
PS	British Telecom NI
PS	Business Services Association
PS	Carillion Plc
PS	Compass Group Plc
PS	Confederation of British Industry (NI)
PS	Construction Employers Federation
PS	Arthur Cox (NI)
PS	Croydon Tramlink
PS	Deloitte & Touche
PS	Dresdner Kleinwort Benson
PS	EDS
PS	Ernst & Young
PS	European Investment Bank
PS	HBG Construction
PS	Hyder Plc
PS	ICR Mobility Ltd
PS	Initial Public Sector Personnel
PS	Innisfree Ltd
PS	Jarvis Plc
PS	KPMG
PS	John Laing Plc
PS	London Electricity Plc
PS	Manchester Metrolink
PS	Major Contractors Group
PS	Mc Grigor Mc Donald
PS	Morrison Construction
PS	John Mowlem & Co Plc
PS	Nomura
PS	Northwin Consortium

Category	Individual / Organisation
PS	Partnerships UK Plc
PS	Patterson Kempster & Shortall, Chartered Quantity Surveyors
PS	PricewaterhouseCoopers (Global)
PS	PricewaterhouseCoopers (NI)
PS	Taylor Woodrow
PS	Translink
PS	Siemens Plc
PS	Sodexo Ltd
PS	SX3
ROI	Department of the Environment & Local Government
ROI	Department of Finance
ROI	Fergus O'Brien
SDC	Committee for Agriculture & Rural Development
SDC	Committee of the Centre
SDC	Committee for Culture Arts & Leisure
SDC	Committee for Education
SDC	Committee for Enterprise Trade & Investment
SDC	Committee for Environment
SDC	Committee for Health & Social Services & Public Safety
SDC	Committee for Higher & Further Education, Training & Employment
SDC	Committee for Regional Development
SDC	Committee for Social Development
U	Amalgamation of Transport & General Workers' Unions
U	Irish Congress of Trade Unions
U	Irish National Teachers Organisation
U	National Association of Teachers in Further & Higher Education
U	National Association of Schoolmasters, Union of Women Teachers
U	Northern Ireland Public Service Alliance
U	UNISON

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Printed in Northern Ireland by The Stationery Office Limited
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ISBN 0-33-960068-3

